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report.

455,390,699	SHARES OF COMMON STOCK
40,326,290	SHARES OF CLASS A STOCK
536,837,131	SHARES OF CLASS B STOCK

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

Please send copies of notices and communications from the Securities and Exchange Commission to:

Ross Kaufman  
Greenberg, Traurig LLP  
Met Life Building  
200 Park Avenue New York, NY 10166

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INTRODUCTION

Unless otherwise specified, all references in this annual report to:

- o "U.S. dollars," "\$" or "US\$" are to United States dollars;
- o "reais," "real" or "R\$" are to Brazilian reais, the official currency of Brazil;
- o "Brazilian government" are to the federal government of the Federative Republic of Brazil;
- o "consolidated financial statements" are to the Consolidated Financial Statements of Aracruz Celulose S.A. at December 31, 2002 and 2003 and the corresponding Report of Independent Accountants;
- o the "Company," "Aracruz," "we," "us" and "our" are to Aracruz Celulose S.A. and its consolidated subsidiaries (unless the context otherwise requires);
- o "our preferred shares" and "our common shares" are to our authorized and outstanding preferred stock and common stock, respectively;
- o "Class A Stock" and "Class B Stock" are to our non-voting preferred stock class A (acoes preferenciais classe A) and non-voting preferred stock class B (acoes preferenciais classe B), respectively, which together are referred to as the Preferred Shares; and
- o "tons" are to metric tons of 1,000 kilograms each.

As used in this annual report, one hectare equals approximately 2.471 acres, one kilogram equals approximately 2.2 pounds and one kilometer equals approximately 0.621 miles.

Unless otherwise indicated,

- o all references in this annual report to percentages, tons and U.S. dollar or real amounts of pulp are to "market pulp"; and
- o amounts in reais stated at a particular date and followed by U.S. dollar

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equivalents have been converted using the reais to U.S. dollars commercial selling rate in effect on such date.

### FORWARD-LOOKING STATEMENTS

This annual report contains statements which constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believe," "expect," "may," "are expected to," "will," "will allow," "will continue," "will likely result," "should," "would be," "seek," "approximately," "intend," "plan," "project," "estimate" or "anticipate," or similar expressions or the negative thereof or other variations thereof of comparable terminology, or by discussions of strategy, plans or intentions. In addition, all information included herein with respect to future operations, financial condition, financial performance or other financial or statistical matters constitute forward-looking statements. Those forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may not be realized. Such statements appear in a number of places in this annual report, including, without limitation, the information set forth under the headings "Item 3D. Risk Factors," "Item 4B. Business Overview" and "Item 5. Operating and Financial Review and Prospects," and include statements regarding our intent, belief or current expectations or those of our directors or our executive officers with respect to:

- o general economic, political and business conditions, both in Brazil and in our principal export markets,

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- o the declaration or payment of dividends,
- o our direction and future operation,
- o the implementation of our principal operating strategies, including our potential participation in acquisition or joint venture transactions or other investment opportunities,
- o the implementation of our financing strategy and capital expenditure plans,
- o the development of solid wood products, or
- o the factors or trends affecting the pulp and paper market (including its cyclical nature and our financial condition or results of operations).

Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward-looking statements, as a result of various factors. We do not undertake, and specifically disclaim, any obligation to update any forward-looking statements, which speak only as of the date hereof.

We make statements in this annual report about our competitive position and market share in, and the market size of, the pulp industry. We have made these statements on the basis of statistics and other information from third-party sources that we believe are reliable. We derive this third-party information principally from reports published by the International Pulp Statistical Committee, which includes the American Forest Paper Association, the Canadian Pulp & Paper Association, the Finnish Forest Industry Federation and the

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Brazilian Pulp and Paper Association, or Bracelpa, and reports published by Hawkins Wright Ltd., or Hawkins Wright. Although we have no reason to believe that any of this information or these reports are inaccurate in any material respect, we have not independently verified the competitive position, market share, market size or market growth data provided by third parties or by industry or general publications.

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### PART I

#### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

#### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

#### ITEM 3. KEY INFORMATION

##### A. SELECTED FINANCIAL DATA

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. Because we exported around 98% of our production in 2003 and operate in an industry that uses the U.S. dollar as its currency of reference, our management believes that the U.S. dollar is the most appropriate currency in which to present our financial statements. Accordingly, we decided to present our primary U.S. GAAP financial statements in U.S. dollars beginning in 1994. For this purpose, amounts in Brazilian currency for all periods presented have been remeasured into U.S. dollars in accordance with the methodology set forth in Statement of Financial Accounting Standards No. 52, or SFAS 52.

During 1997, the 36-month cumulative rate of inflation in Brazil fell below the 100% threshold, and our management determined the Brazilian economy to have ceased being a highly inflationary economy as of the fourth quarter of 1997. Accordingly, our management reevaluated our economic profile and our operations and determined that the U.S. dollar should remain as our functional currency, in accordance with the criteria established by SFAS 52. Our transition from a highly inflationary environment to a non-highly inflationary accounting environment as of and from January 1, 1998, had no financial reporting effect on our results of operations and financial position, because our reporting currency (which has been, since 1994, the U.S. dollar) was also our functional currency under highly inflationary conditions according to SFAS 52.

Pursuant to SFAS 52 as it applies to us, inventories, property, plant and equipment, accumulated depreciation and stockholders' equity are remeasured at historical rates of exchange, and other assets and liabilities denominated in reais are remeasured at period-end rates. Export sales invoiced in currencies other than the U.S. dollar are remeasured at the applicable exchange rate on the date of sale. Cost of sales, depreciation and other expenses relating to assets remeasured at historical exchange rates are calculated based on the U.S. dollar values of such assets, and other statement of operations accounts are remeasured at the rate prevailing on the date of the charge or credit to income.

In our 1999, 2000, 2001, 2002 and 2003 financial statements, gains or losses resulting from the remeasurement of the financial statements and from

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foreign currency transactions have been reported in the consolidated statement of operations as single line items. The financial information presented below for the period ended December 31, 1998 has been reclassified to reflect such remeasurement. Previously, such gains or losses were allocated to the statements of operations line items to which they relate. These allocations have no effect on net income or loss.

We publish our financial statements in Brazil in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, which differs in certain significant respects from U.S. GAAP. The principal differences between Brazilian GAAP and U.S. GAAP, as applied to us, are related to disclosure requirements. In addition, for all financial statements prepared for any period ended after January 1, 1996, Law No. 9,249/95 abolished the requirement that companies apply monetary correction to their financial statements, which was previously required by Law No. 6,404 of December 15, 1976, as amended, or the Brazilian corporate law. Accordingly, our Brazilian GAAP financial statements at and for the years ended 1999, 2000, 2001, 2002 and 2003 are not adjusted to account for the effects of inflation. Our taxes and dividends are determined on the basis of Brazilian GAAP financial statements.

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During the first quarter of 2001, in an effort to conform our reporting practices to those commonly used in the industry, we changed the classification of freight costs in the statement of income. As a result of this change, ocean freight and insurance charges, which had previously been classified as a reduction to export sales of eucalyptus pulp, together with inland freight charges, previously classified as selling expenses, are now classified as a component of cost of sales. Additionally, certain administrative expenses were identified as indirectly related to the production process and, beginning January 1, 2001, classified as a component of cost of sales. Historical information herein with respect to 1999 and 2000 was reclassified accordingly. Therefore, some information may differ from the condensed financial statements published elsewhere.

The following table presents our selected financial data as of the dates and for each of the periods indicated. Our U.S. GAAP financial statements as of December 31, 2001, 2002 and 2003 appear elsewhere herein, together with the report of PricewaterhouseCoopers Auditores Independentes, Rio de Janeiro, Brazil, independent accountants. The selected financial information at December 31, 1999 and 2000 has been derived from our U.S. GAAP financial statements, not included in this annual report. The selected financial data should be read in conjunction with "Item 5. Operating and Financial Review and Prospects."

	FOR THE YEAR ENDED DECEMBER 31,			
	1999	2000	2001	2002
STATEMENT OF OPERATIONS DATA	(thousands of U.S. dollars, except number of shares and			
OPERATING REVENUES				
Sales of eucalyptus pulp				
Domestic	\$33,796	\$43,601	\$23,579	\$17,12



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Class A Stock	40,979	40,903	40,651	40,39
Class B Stock	553,279	552,889	536,512	536,76
Common Stock	454,908	454,908	454,908	454,90
	-----	-----	-----	-----
Total	1,049,166	1,048,700	1,032,071	1,032,07
	=====	=====	=====	=====

(1) Holders of Class B Stock have no dividend preference. Holders of Class A Stock are entitled to an annual preferential dividend.

(2) Including the dividend declared on March 25, 1999 and paid on April 22, 1999.

(3) Including the dividend declared on April 05, 2000 and paid on April 30, 2000.

(4) Including the dividend declared on March 30, 2001 and paid on April 12, 2001.

(5) Including the dividend declared on April 30, 2002 and paid on May 13, 2002.

(6) Including the dividend declared on April 29, 2003 and paid on May 15, 2003.

(7) Including the dividend declared on April 29, 2004 and paid on May 14, 2004.

	AT DECEMBER 31,			
	1999	2000	2001	200
	-----	-----	-----	-----
	(thousands of U.S. dollars)			
BALANCE SHEET DATA				
Cash and cash equivalents	\$312,590	\$ 18,091	\$ 20,125	\$ 25,
Other current assets	190,889	261,815	215,199	250,
Debt securities available-for-sale	189,480	323,032	405,493	248,
Property, plant and equipment, net	1,702,747	1,664,322	1,913,191	2,000,
Investment in affiliated company	-	79,698	80,893	87,
Other assets	205,297	107,500	143,296	87,
	-----	-----	-----	-----
TOTAL ASSETS	\$2,601,003	\$2,454,458	\$2,778,197	\$2,698,
	=====	=====	=====	=====
Short-term debt	473,652	272,042	325,855	182,
Other current liabilities	40,174	55,035	99,425	55,
Long-term debt	392,354	278,873	537,183	611,
Other long-term liabilities	41,511	75,387	78,004	88,
Stockholders' equity	1,653,312	1,773,121	1,737,730	1,760,
	-----	-----	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$2,601,003	\$2,454,458	\$2,778,197	\$2,698,
	=====	=====	=====	=====

EXCHANGE RATES



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The purchase and sale of foreign currency in Brazil is subject to governmental control. There are two foreign exchange markets in Brazil that are subject to regulation by the Central Bank of Brazil, or the Central Bank, both of which operate at free floating rates:

- o the free rate foreign exchange market, also known as the commercial market; and
- o the "floating" rate foreign exchange market.

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In 1999, the Central Bank unified the operational limits applicable to both markets. However, each market continues to be governed by specific regulations. Most trade and financial foreign exchange transactions are carried out on the commercial market. These transactions include the purchase or sale of Class B Stock or the payment of the dividends or interest with respect to Class B Stock. Foreign currencies may only be purchased through a Brazilian bank authorized to operate in these markets. In both markets, rates are freely negotiated but may be strongly influenced by Central Bank intervention.

From March 1995 through January 1999, the Central Bank allowed 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, on January 13, 1999, the Central Bank widened the foreign exchange rate band. Because the pressure on the real did not ease, on January 15, 1999, the Central Bank allowed the real to float freely. On May 28, 2004, the commercial selling rate was R\$3.0961 per US\$1.00. We cannot assure you that the real will not appreciate or depreciate substantially in the near future.

The following table shows the commercial selling rate for U.S. dollars for the periods and dates indicated.

YEAR ENDED DECEMBER 31,	EXCHANGE RATE OF R\$ PER US\$		
	LOW	HIGH	AVERAGE (1)
1999.....	1.2078	2.1647	1.8158
2000.....	1.7234	1.9847	1.8295
2001.....	1.9357	2.8007	2.3420
2002.....	2.2709	3.9552	2.9309
2003.....	2.8219	3.6623	3.0715

Source: Central Bank, PTAX. PTAX is the average of the exchange rates negotiated in the commercial market.  
 (1) Represents the average of the exchange rates (PTAX) on the last day of each month during the period.

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MONTH ENDED	EXCHANGE RATE LOW
December 31, 2003.....	2.8883
January 31, 2004.....	2.8022
February 28, 2004.....	2.9042
March 31, 2004.....	2.8752
April 30, 2004.....	2.8743
May 31, 2004.....	2.8743

Source: Central Bank, PTAX. PTAX is the average of the exchange rates negotiated in the commercial market.

We pay cash dividends and make other cash distributions with respect to the Class B Stock in reais. Accordingly, exchange rate fluctuations may affect the U.S. dollar amounts received by holders of ADSs on conversion by the depository of our ADSs, or the Depository, of such distributions into U.S. dollars for payment to holders of ADSs. Fluctuations in the exchange rate between the real and the U.S. dollar may also affect the U.S. dollar equivalent of the real price of the Class B Stock on the Brazilian stock exchange. For additional information, see "Item 10D. Exchange Controls." For information on dividends, see "Item 8A. Consolidated Statements and Other Financial Information--Dividend Policy and Dividends."

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

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C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

RISK FACTORS RELATING TO BRAZIL

BRAZILIAN POLITICAL AND ECONOMIC CONDITIONS HAVE A DIRECT IMPACT ON OUR BUSINESS AND THE MARKET PRICE OF OUR PREFERRED SHARES AND ADSS.

The Brazilian economy has been characterized by volatile economic cycles. In addition, the Brazilian government frequently, and occasionally drastically, intervenes in the Brazilian economy. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil's economy. For example, the Brazilian government has the authority, when a serious imbalance in Brazil's balance of payments occurs, to impose restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil, and on the conversion of Brazilian currency into foreign currencies. The Company's business, financial condition and results of operations may be adversely affected by changes in policy including tariffs, exchange controls and other matters, as well as factors such as:

- o currency fluctuations,

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

Rapid changes in Brazilian political and economic conditions that have already occurred and that might continue will require the Company's continued emphasis on assessing the risks associated with its activities and adjusting its business and operating strategy. Future developments in Brazilian government policies or in the Brazilian economy, over which the Company has no control, may reduce demand for the Company's products in Brazil, and adversely affect the Company's business, financial condition and results of operations.

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 following 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 and the continued devaluation of the real. Although the new government has not yet departed in any material way from previous policies, it is premature to determine what policies might be implemented, whether these policies will be effective, how these policies might impact us and how investors and the capital markets will react to them. 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.

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EXCHANGE RATE INSTABILITY MAY ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND THE MARKET PRICE OF OUR PREFERRED SHARES AND ADSS.

Because a portion of our revenues and a significant portion of our assets are denominated in reais and we have U.S. dollar-denominated debt and other liabilities, we may be adversely affected by any future devaluations of the real against the U.S. dollar. The Brazilian currency has been devalued periodically during the last four decades. See "--Selected Financial Data--Exchange Rates."

Our cash operating expenses are substantially denominated in reais and will generally decrease, as expressed in U.S. dollars, as a result of any devaluation of the real. If the rate of Brazilian inflation increases more rapidly than the rate of appreciation of the U.S. dollar against the real, then, as expressed in U.S. dollars, our operating expenses may increase and, assuming constant U.S. dollar sales prices, our profit margins may decrease. As expressed in reais, any significant devaluation of the real may produce exchange losses on unhedged debt denominated in foreign currencies.

The real devalued against the U.S. dollar by 9.3% in 2000. During 2001, the real experienced a period of significant devaluation, due in part to the economic and political uncertainties in Argentina, the global economic slowdown

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and the energy crisis in Brazil. In 2001, the depreciation of the real relative to the U.S. dollar totaled 18.7%. In 2002, the depreciation of the real relative to the U.S. dollar totaled 52%, due in part to the continued economic and political uncertainties in emerging markets and the global economic slowdown. In 2003, the appreciation of the Real relative to the U.S. dollar was 18.2%. From January 1, 2004 through March 31, 2004, the Real depreciated 0.7%.

The Central Bank has intervened occasionally to control unstable movements in the foreign exchange rate. At the present time, it is not possible to predict whether the Central Bank will continue to let the real float freely. Accordingly, it is not possible to predict what impact the Brazilian government's exchange rate policies may have on us. We cannot assure you that the Brazilian government will not in the future impose a band within which the real/U.S. dollar exchange rate could fluctuate or set a fixed exchange rate, and what impact such an event might have on our operations.

Devaluations of the real relative to the U.S. dollar also create additional inflationary pressures in Brazil that may negatively affect us. They generally curtail access to foreign financial markets and may require government intervention, including recessionary governmental policies. See "--Inflation and certain governmental measures to combat inflation may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets." Devaluations also reduce the U.S. dollar value of distributions and dividends on the ADSs and the market price of our preferred shares and ADSs.

In addition, political and economic uncertainty resulting from the new president elected in October 2002 may have an adverse effect on the Brazilian financial and capital markets, including the foreign exchange market. See "--Brazilian political and economic conditions have a direct impact on our business and the market price of our preferred shares and ADSs."

INFLATION AND CERTAIN GOVERNMENTAL MEASURES TO COMBAT INFLATION MAY CONTRIBUTE SIGNIFICANTLY TO ECONOMIC UNCERTAINTY IN BRAZIL AND TO HEIGHTENED VOLATILITY IN THE BRAZILIAN SECURITIES MARKETS.

Brazil has historically experienced extremely high rates of inflation. Inflation itself, as well as certain governmental measures to combat inflation and public speculation about possible future measures, has in the past had significant negative effects on the Brazilian economy. Our cash operating expenses are substantially denominated in reais and tend to increase with Brazilian inflation because our suppliers and providers generally increase prices to reflect the depreciation of the value of the currency. As expressed in U.S. dollars, however, these increases are typically offset at least in part by the effect of the appreciation of the U.S. dollar against the real. If the rate of Brazilian inflation increases more rapidly than the rate of appreciation of the U.S. dollar, then, as expressed in U.S. dollars, our operating expenses may increase and, assuming constant U.S. dollar sales prices, our profit margins may decrease. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, our costs of real-denominated debt may increase. See "Item 5. Operating and Financial Review and Prospects--Brazilian Economic Environment."

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WE MAY BE IMPACTED BY GOVERNMENTAL ACTIONS AFFECTING THE BRAZILIAN MARKETS AND ECONOMY.

The Brazilian government has exercised and continues to exercise

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substantial influence over many aspects of the private sector. The Brazilian government owns or controls many companies, including some of the largest in Brazil. For example, Banco Nacional de Desenvolvimento Economico e Social - BNDES, which is owned by the Brazilian government, indirectly owned approximately 12.5% of our common stock as of December 31, 2003 and has, through a subsidiary, advanced approximately 19% of our total consolidated indebtedness as of such date. See "Item 7B. Related Party Transactions."

DEVELOPMENTS IN OTHER EMERGING MARKETS MAY ADVERSELY AFFECT THE MARKET PRICE OF OUR PREFERRED SHARES AND ADSS.

The Brazilian securities markets are, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions are different in each country, investors' reaction to developments in one country can have an effect on the securities of issuers in other countries, including Brazil. 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.

Developments in the international financial markets, in the future, especially in Latin America, may adversely affect the Company's financial condition and its ability to raise capital when needed. There can be no assurance that the Brazilian securities markets will not continue to be affected negatively by events elsewhere, especially in emerging markets, or that such events will not adversely affect the value of the Company's preferred shares or ADS.

RISKS RELATING TO OUR PREFERRED SHARES AND ADSS

EXCHANGE CONTROLS AND RESTRICTIONS ON REMITTANCES ABROAD MAY ADVERSELY AFFECT HOLDERS OF ADSS.

You may be adversely affected by the imposition of restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and the conversion of reais into foreign currencies. The Brazilian government imposed remittance restrictions for a number of months in 1989 and early 1990. These restrictions would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of our preferred shares into U.S. dollars and remitting the U.S. dollars abroad. We cannot ensure that the Brazilian government will not take similar measures in the future. See "Item 10D. Exchange Controls." Holders of the ADSs could be adversely affected by delays in, or a refusal to grant, any required Brazilian governmental approval for conversion of real payments and remittances abroad in respect of the shares of Class B Stock underlying the ADSs. In such case, the Depositary will hold the reais it cannot convert for the account of the ADS holders who have not been paid.

EXCHANGING ADSS FOR THE UNDERLYING CLASS B STOCK MAY HAVE UNFAVORABLE CONSEQUENCES.

The Brazilian custodian for our Class B Stock, or the Custodian, must obtain an electronic certificate of registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds related thereto. If you decide to exchange your ADSs for the underlying Class B Stock, you will be entitled to continue to rely--for five business days from the date of the exchange--on the ADS Depositary's electronic certificate of registration. Thereafter, you may not be able to obtain and remit U.S. dollars abroad upon the disposition of the Class B Stock, or distributions relating to the Class B Stock, unless you obtain your own electronic certificate of registration pursuant to Resolution No. 2,689, of January 26, 2000, of the National Monetary

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Council, known as Resolution 2,689, which entitles foreign investors to buy and sell on the Sao Paulo stock exchange. If you do not obtain a certificate of registration under Resolution 2,689, you may not be able to obtain and remit abroad U.S. dollars or other foreign currencies upon the disposition of Class B Stock or distributions with respect thereto, and you will generally be subject to less favorable tax treatment on gains with respect to the Class B Stock. If you attempt to obtain your own electronic certificate of registration, you may incur expenses or suffer significant delays in the application process. Obtaining an electronic certificate of registration involves generating significant documentation, including completing and filing various electronic forms with the Central Bank and the Comissao de Valores Mobiliarios, or the CVM. These expenses or delays could adversely impact your ability to remit dividends or distributions relating to

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the Class B Stock or the return of your capital outside of Brazil in a timely manner. If you decide to exchange your Class B Stock back into ADSs once you have registered your investment in the Class B Stock, you may deposit your Class B Stock with the Custodian and rely on the Depositary's certificate of registration, subject to certain conditions. See "Item 10D. Exchange Controls." We cannot assure you that the Depositary's certificate of registration or any certificate of foreign capital registration obtained by you may not be affected by future legislative or other regulatory changes, or that additional Brazilian restrictions applicable to you, the disposition of the underlying Class B Stock or the repatriation of the proceeds from disposition could not be imposed in the future.

THE RELATIVE VOLATILITY AND ILLIQUIDITY OF THE BRAZILIAN SECURITIES MARKETS MAY ADVERSELY AFFECT HOLDERS OF ADSS.

Investments in securities, such as the Class B Stock or the ADSs, of issuers from emerging market countries including Brazil involve a higher degree of risk than investing in securities of issuers from more developed countries.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. These features may substantially limit holders' ability to sell the preferred shares underlying the ADSs at a price and time at which holders wish to do so. The Sao Paulo Stock Exchange (Bolsa de Valores de Sao Paulo), or BOVESPA, the main Brazilian stock exchange, had a market capitalization of approximately US\$234 billion as of December 31, 2003, and an average monthly trading volume of approximately US\$271.9 million in 2003. In comparison, the NYSE had a market capitalization of US\$16.8 trillion as of December 31, 2003, and an average monthly trading volume of approximately US\$38.5 billion for 2003.

There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 49.8% of the aggregate market capitalization of BOVESPA as of December 31, 2003. The top ten stocks in terms of trading volume accounted for approximately 53.5% of all shares traded on BOVESPA.

BECAUSE WE ARE SUBJECT TO SPECIFIC RULES AND REGULATIONS AS A BRAZILIAN COMPANY, HOLDERS OF OUR ADSS HAVE FEWER AND LESS WELL DEFINED SHAREHOLDERS' RIGHTS THAN INVESTORS IN U.S. COMPANIES.

Our corporate affairs are governed by our by-laws and the Brazilian corporate law, which differ from the legal principles that would apply if we

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were incorporated in a jurisdiction in the United States, such as Delaware or New York, or in certain other jurisdictions outside Brazil. In addition, your rights or the rights of holders of the preferred shares under the Brazilian corporate law to protect your interests relative to actions taken by our board of directors or the holders of common shares may be fewer and less well defined than under the laws of other jurisdictions outside Brazil.

Although Brazilian law imposes restrictions on insider trading and price manipulation, the Brazilian securities markets are not as highly regulated and supervised as the securities markets in the United States or certain other jurisdictions. For example, certain provisions of the U.S. Sarbanes-Oxley Act of 2002 that apply to U.S. companies do not apply to us. In addition, rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well developed and enforced in Brazil than in the United States, potentially disadvantaging holders of our preferred shares and ADSs. When compared to Delaware general corporation law, the Brazilian corporate law and practice have less detailed and less well established rules and judicial precedents relating to the review of management decisions under duty of care and duty of loyalty standards in the context of corporate restructurings, transactions with related parties and sale-of-business transactions. In addition, shareholders must hold 5% of the outstanding share capital of a corporation to have the necessary standing to bring shareholders' derivative suits. Shareholders ordinarily do not have standing to bring a class action.

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

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### YOU MAY NOT BE ABLE TO EXERCISE PREEMPTIVE RIGHTS.

You may not be able to exercise the preemptive rights relating to the Class B Stock underlying the ADSs unless a registration statement under 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 with respect to the shares relating to these preemptive rights, and we cannot assure investors that we will file any such registration statement. Unless we file a registration statement or an exemption from registration applies, investors may receive only the net proceeds from the sale of their preemptive rights by the Depositary, or if the preemptive rights cannot be sold, they will be allowed to lapse.

We are incorporated under the laws of Brazil. All of our directors and executive officers, and the experts named in this annual report, reside outside the U.S. Substantially all of our assets, and our directors' and officers' assets and such experts' assets are located outside the U.S. As a result, it may not be possible for investors to effect service of process within the U.S. upon us or our directors, executive officers or such experts, or to enforce against them or us, judgments obtained in U.S. courts based upon the civil liability provisions of the federal securities laws of the U.S. In addition, we have been advised by our Brazilian counsel, that there is doubt that the courts of Brazil will enforce against us, our officers, directors and experts named herein, judgments obtained in the U.S. based upon the civil liability provisions of the federal securities laws of the U.S. or will enter judgments in original actions brought in Brazilian courts based upon the federal securities laws of the U.S.

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### RISK FACTORS RELATING TO ARACRUZ AND THE PULP INDUSTRY

THE MARKET PRICES FOR OUR PRODUCTS ARE CYCLICAL.

The prices we are able to obtain for our pulp depend on prevailing world prices for market pulp. Worldwide pulp prices have historically been cyclical, subject to significant fluctuations over short periods of time, due to a number of factors, including:

- o worldwide demand for pulp products,
- o worldwide production capacity,
- o the strategies adopted by major pulp producers, and
- o the availability of substitutes for our products.

All of these factors are beyond our control. After reaching a peak in the middle of 1995, market pulp prices continued to fall through the first quarter of 1999, due primarily to a significant drop in demand, although market prices began to increase beginning in the second quarter of 1999 and continued to increase through the second half of 1999 and early 2000. In the second half of 2000, market prices of pulp were flat for the whole period. Weak demand and excess inventories in the hands of pulp producers caused eucalyptus pulp list prices to fall at the end of March 2001. Market conditions remained difficult through 2002, with Europe being the most challenging market. In 2002 the average list price of BEKP in North America decreased 8% compared to the average list price in 2001; this was primarily due to the slowdown in the growth of the major economies which began in 2001 that continued to negatively impact the global demand for paper throughout 2002. Global product availability was limited due to pulp production curtailments as a result of inventory adjustments, maintenance and bad weather conditions in the Northern Hemisphere. At the same time, pulp demand remained relatively stable in the majority of the markets, except in Asia and especially in China, where demand was above levels of the previous year. Consequently, global pulp inventories were driven down to below the historic level. In 2003, shipments of BEKP increased the most when compared to other grades. From January to November, deliveries grew 14%, mainly to Asia and Western Europe. This compares with relatively flat shipments of northern hardwood and a 9% decline in southern hardwood. Over the course of the fourth quarter, an increase of approximately 300,000 tons in the aggregate stocks (5.5 million tons at the end of December) put pressure on pulp prices, resulting in a \$10 - \$20/ton erosion of list prices in December. In 2003 the

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average list price for BEKP was US\$ 511/t. After slipping in January 2004, world market pulp prices recovered since February 2004, mainly driven by stronger demand in Asia and especially in China. At the same time, pulp supply has been at a normal level for hardwood and tighter for softwood. Consequently, global pulp producers' inventories remained within the normal range. This scenario has allowed for prices to increase in all markets. Eucalyptus pulp prices for April 2004 were adjusted to US\$ 565/t in the USA, US\$ 550 in Europe and US\$ 530 in Asia. It is possible that market prices for pulp will decline in the future, or that there will not be sufficient demand for the Company's products to enable it to operate its production facilities in an economical manner.

The Company has long term supply contracts with various customers and no assurance can be given that the prices for pulp or paper will stabilize or not



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decline further in the future, or that demand for the Company's products will not decline in the future. As a result, no assurance can be given that the Company will be able to operate its production facilities in a profitable manner in the future. The Company's results of operations would be materially adversely affected if the price of its product were to decline significantly. See also "Item 4B. Business Overview--Market Overview."

WE FACE SIGNIFICANT COMPETITION, WHICH MAY ADVERSELY AFFECT OUR MARKET SHARE.

The pulp industry is highly competitive. In the international pulp markets, we compete with larger competitors that have greater financial strength, higher production capacities and access to cheaper sources of wood.

In addition, most markets are served by several suppliers, often from different countries. Many factors influence our competitive position, including plant efficiencies and operating rates in relation to our competitors, and the availability, quality and cost of wood, energy, chemicals and labor. To the extent that pulp from other hardwoods can be substituted for the more expensive bleached eucalyptus kraft market pulp, we also compete with producers in the broader segment of the pulp market. Some of our competitors in this market have greater financial, marketing and other resources, larger customer bases and greater breadth of product offerings than we do. If we are unable to remain competitive with these producers in the future, our market share may be adversely affected. See "Item 4B. Business Overview--Competition."

WE MAY BE ADVERSELY AFFECTED BY THE IMPOSITION AND ENFORCEMENT OF MORE STRINGENT ENVIRONMENTAL REGULATIONS THAT WOULD REQUIRE US TO SPEND ADDITIONAL FUNDS.

The Company is subject to stringent environmental laws and regulations in Brazil on the national, state and local levels. Changes in environmental laws and regulations or changes in the policy of enforcement of existing environmental laws and regulations could adversely affect it. The Company's operations are supervised by governmental agencies that are responsible for the implementation of pollution control laws and policies. These agencies could take action against the Company if it failed to comply with applicable environmental regulations. These actions could include the imposition of fines and revocation of licenses and concessions.

Although changes in laws and regulations apply only prospectively under Brazilian law, it is possible that the relevant legislatures and/or governmental agencies will impose additional regulations or seek a more stringent interpretation of existing laws and regulations that would require the Company to spend additional funds on environmental matters or limit the Company's ability to operate as it currently does. In addition, such actions by such governmental bodies could impose additional costs to be borne by the Company when it renews existing licenses or applies for new ones.

ACTIONS BY STATE LEGISLATURE MAY ADVERSELY AFFECT OUR OPERATIONS.

In September 2001, the legislature of the State of Espirito Santo, where we own approximately 140,000 hectares of forest and other land, passed a law temporarily restricting the plantation of eucalyptus forests for purposes of pulp production within the state. In June 2002, this law was declared to be unconstitutional by a provisional decision of the Brazilian Federal Supreme Court, and injunctive relief was granted in response to suits brought by the National Confederation of Industry and by the National Brazilian Confederation of Agriculture and Cattle Raising. The Company believes that such provisional decision will be upheld by the court's definitive decision on the merits. However, there can be no assurance that such definitive decision will be favorable to the Company or that similar laws will not be enacted that would

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impose a limitation or restriction on plantation of eucalyptus or that would affect our licenses or permits.

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On March 13, 2002, the Espirito Santo legislative assembly created an investigating commission (Comissao Parlamentar de Inquerito) to investigate the legality of our permits and the acquisition of our properties from the date we began our operations in Espirito Santo. As the procedures in the investigation were not concluded within the prescribed time period for such a type of investigation, the commission was terminated without issuing a final report. The Company is confident that it has obtained all necessary permits and that all our property was legally acquired strictly in accordance with all laws and regulations. However, we cannot be certain that a governmental entity will not initiate similar or other investigations in the future that would cause us to incur significant expense and divert management's attention.

In May 2003 the Human Rights Commission of the Brazilian House of Representatives ("Camara dos Deputados") created a Working Group to discuss the alleged violation of economic, social, cultural and environmental rights in the eucalyptus plantations in the State of Espirito Santo. Among other issues, several complaints involving the Company were discussed. Representatives of the Company participated in a Public Hearing and presented to the Commission extensive reports, information, evidence, technical studies and governmental and judicial decisions that demonstrate that the complaints were unjustified. The Working Group was terminated without issuing a final report. However, the Company cannot be certain that a governmental entity will not initiate similar or other investigations in the future that would cause the Company to incur significant expense and divert management's attention.

IF WE ARE UNABLE TO MANAGE POTENTIAL PROBLEMS AND RISKS RELATED TO ACQUISITIONS AND ALLIANCES, OUR BUSINESS AND GROWTH PROSPECTS MAY SUFFER. SOME OF OUR COMPETITORS MAY BE BETTER POSITIONED TO ACQUIRE OTHER PULP AND PAPER BUSINESSES.

- o The Company, as part of its business strategy, recently made a major acquisition by purchasing Riocell and may acquire other businesses in Brazil or elsewhere. In addition, the Company has made a significant joint venture investment in Veracel and may enter into other similar arrangements or alliances with third parties. Our management is unable to predict whether or when any prospective acquisitions or alliances will occur, or the likelihood of a material transaction being completed on favorable terms and conditions. Our ability to continue to expand successfully through acquisitions or alliances depends on many factors, including our ability to identify acquisitions and negotiate, finance and close transactions. Acquisitions and similar joint ventures or other arrangements have significant risks: we could fail to successfully integrate the operations, services and products of any acquired company;
- o we could fail to select the best partners or fail to effectively plan and manage any alliance strategy;
- o the acquisitions could increase our costs;
- o our management's attention could be diverted from other business concerns; and

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- o we could lose key employees of the acquired company.

Our failure to integrate any new businesses or manage our investment in Veracel or any new alliances successfully could adversely affect our business and financial performance. Furthermore, the world pulp industry is undergoing consolidation, and many companies compete for acquisition and alliance opportunities in our industry. Some of our competitors have greater financial and other resources than we do. This may reduce the likelihood that we will be successful in completing acquisitions and alliances necessary for the expansion of our business or cause such acquisition or alliances to be possible only on less favorable terms. In addition, any major acquisition we consider may be subject to regulatory approval. We may not be successful in obtaining required regulatory approvals on a timely basis or at all.

WE ARE CONTROLLED BY A FEW SHAREHOLDERS.

Approximately 96.5% of our voting stock is owned by four principal shareholders, who have the ability to control the election of our board of directors and our direction and future operations, including decisions regarding acquisitions and other business opportunities, the declaration of dividends in excess of the requirements under our by-laws and Brazilian corporate law, and the issuance of additional shares and other securities. See "Item 7A. Major Shareholders."

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VARIOUS OTHER RISKS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL RESULTS.

Our operations are subject to various other risks that affect our forests and manufacturing processes, including fire, port closings, disease and factory explosions. To date, the Company's experience with such hazards has not had a material adverse effect on the Company. However, in the future, such hazards could have a negative effect on the Company's financial results.

#### ITEM 4. INFORMATION ON ARACRUZ

##### A. HISTORY AND DEVELOPMENT OF ARACRUZ

We conduct our operations under our legal and commercial name, Aracruz Celulose S.A. We are a corporation (sociedade anonima), with unlimited duration, organized under the laws of the Federative Republic of Brazil. As a Brazilian corporation, we operate under the provisions of the Brazilian corporate law. Our headquarters and mill are located at Rodovia Aracruz - Barra do Riacho, kilometer 25, Municipality of Aracruz, State of Espirito Santo, Brazil, and its telephone number is 55-27-3270-2122. Our principal office is located at Rua Lauro Muller, 116, 40th floor, 22299-900 Rio de Janeiro, State of Rio de Janeiro, Brazil, and its telephone number is 55-21-3820-8111. Our agent for service of process in the United States is CT Corporation, 111 Eighth Avenue, New York, NY 10011. We maintain an Internet website at [www.aracruz.com.br](http://www.aracruz.com.br). Information contained on our website is not part of this annual report.

Aracruz Florestal S.A., or AFSA, our predecessor, was incorporated in 1967, for an unlimited duration, to plant eucalyptus forests. AFSA became a subsidiary of Aracruz in 1972 when Aracruz was incorporated, and on July 20, 1993, AFSA was merged into Aracruz.

We commenced pulp production operations in September 1978 with a nominal production capacity of approximately 400,000 tons of pulp per year. In early 1991, we completed an expansion plan, known as the 1991 Expansion Project, which

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increased the mill's nominal capacity (i.e., the production capacity for which the mill was designed) to approximately 1,025,000 tons per year. In 1994, we increased our effective production capacity to 1,070,000 tons through system upgrades and productivity gains. From October 1995 to December 1998, we implemented the Modernization Project, which increased the mill's nominal capacity to 1,240,000 tons per year, as well as our production efficiency.

In 1997, as part of our strategy for diversification into other forest businesses, we acquired all ownership interests of Gutchess International Inc. in Tecflor Industrial S.A. (currently known as Aracruz Produtos de Madeira S.A., or APM), a joint venture between Gutchess International Inc. and us created in 1997 for the production of solid wood products. See "--Business Overview--Aracruz Produtos de Madeira."

In June 2000, our board of directors approved the expansion of the nominal production capacity of our facilities by 700,000 tons per year, known as the Fiberline C Expansion Project. The Fiberline C Expansion Project involves the addition of a new pulp line and certain other modifications to existing equipment at the mill in order to further improve our cost-effectiveness. Construction began in the second semester of 2000, and the plant began operations at the end of May 2002, reaching full capacity this year. See "--Business Overview--Fiberline C Expansion Project." The new production volume resulting from the Fiberline C Expansion Project required an increase in the Company's forest base of approximately 72,000 hectares of eucalyptus plantations. To meet this demand, in June 2000, the Company acquired Terra Plana, with assets comprised of 19,000 hectares of land appropriate for planting eucalyptus trees. From July 2000 through December 31, 2001, the Company acquired approximately 44,000 additional hectares of land in a number of separate transactions. Additionally, in September 2002, Bahia Sul and the Company signed, jointly with Companhia Vale do Rio Doce and its wholly owned subsidiary, Florestas Rio Doce S/A, a contract for the acquisition of equal stakes by Bahia Sul and the Company of forest assets comprising approximately 40,000 hectares of lands and eucalyptus-planted forests. The Company also entered into a three-year wood supply contract for with Veracel to provide a total of up to 3.85 million cubic meters wood for the Fiberline C Expansion Project until the new plantations reach harvesting time.

On October 10, 2000, we acquired a 45% stake in Veracel, a joint venture to grow eucalyptus trees on plantations and to build a pulp mill. On January 31, 2003, the Company acquired an additional 5% stake in Veracel, bringing its total

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stake to 50%. The remaining 50% interest in Veracel is owned by Stora Enso OYJ ("STORA ENSO"). Veracel, currently in the pre-operational stage, grows eucalyptus on plantations in the State of Bahia, which has diversified the sources of the Company's supply of wood for the Mill. This equity investment in Veracel achieved two objectives: (i) a guaranteed supply of wood for the Fiberline C Expansion Project during the first three years of the new production unit's operation and (ii) the opportunity to expand the Company's business in the future from another operational base in Bahia that can potentially replicate its accomplishments in the State of Espirito Santo. In May 2003, the Company and its joint venture partner decided to invest an additional US\$940 million in Veracel to build a 900,000-ton capacity mill (the "VERACEL MILL") for the production of BEKP in the State of Bahia. Construction of the Veracel Mill was started at the beginning of the second half of 2003, and completion is scheduled for 2005. As of March 31, 2004, a total of US\$717 million has been committed to the project. See "--Business Overview--Acquisition of Veracel" and Note 4 to the consolidated financial statements.

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On October 3, 2001, Votorantim Celulose e Papel S.A., or VCP, one of our competitors, acquired the 28% stake holding of our common stock from Mondi Brazil Limited. See "Item 7A. Major Shareholders."

On May 30, 2003, the Company acquired all of the capital stock of Riocell S.A. ("RIOCELL"), a major producer of BEKP, from Klabin S.A. for an adjusted purchase price of US\$567 million. Riocell owned and operated a mill (the "RIOCELL MILL") with a capacity of approximately 400,000 tons per annum and owned approximately 40,000 hectares of eucalyptus plantations. See " Business -- Guaiba Unit".

### CAPITAL EXPENDITURES

The Company's capital expenditures for 2003, 2002 and 2001 were US\$118.7 million, US\$260.7 million and US\$421.5 million , respectively.

The table below sets forth a breakdown of our most significant capital expenditures for the periods indicated:

	FOR THE YEARS ENDED DECEMBER	
	2003	2002
	(IN US\$ MILLIONS)	
Fiberline C Expansion Project.....	US\$55.8	US\$ 185.3
Silviculture and other forestry investments.....	41.4	39.5
Forests (includes land purchase).....	10.1	15.4
Improvements/industrial investments.....	3,2	9.4
Acquisition of equity participation in Veracel.....		--
Other.....	8.2	10.8
	-----	-----
Total.....	US\$118.7	US\$ 260.7

The US\$160.8 million decrease in capital expenditures in 2002 compared to 2001 and the US\$283.1 million increase in capital expenditures in 2001 compared to 2000 were primarily due to investments in the Fiberline C Expansion Project.

During the year 2003, we invested approximately US\$118.7 million, of which US\$55.8 million was devoted to the Fiberline C Expansion Project, US\$3.2 million was devoted to ongoing industrial investments, US\$51.5 million was devoted to silviculture and other forestry investments and US\$8.2 million was devoted to other projects.

During 2004, the Company expects to invest approximately US\$210 million, of which US\$115 million is expected to be invested in the Veracel Project and US\$95 million relates to industrial, forestry and other investments.

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### GENERAL

We are the world's largest producer of bleached hardwood kraft market pulp. We produce eucalyptus pulp, which is a high-quality variety of hardwood pulp used by paper manufacturers to produce a wide range of products, including premium tissue, printing and writing papers, liquid packaging board and specialty papers. Eucalyptus pulp's distinguishing characteristics are its softness, opacity and suitability for printing. "Market pulp" is the pulp sold to producers of paper products, as opposed to pulp produced by an integrated paper producer, for use in paper production facilities. "Kraft" pulp is pulp produced in a chemical process using sulphate.

During 2003, we produced approximately 2,250,000 tons of BEKP, a 36% increase from 2002 when we had produced approximately 1,656,000 tons of BEKP, which was a 30% decrease as compared to 2001 when it had produced approximately 1,272,000 tons of bleached eucalyptus pulp. Pulp sales for 2003 were approximately 2,149,000 tons, a 36% increase as compared to 1,585,000 in 2002, which had represented a 22% increase when compared to 2000 pulp sales of 1,301,000 tons. Export pulp sales in 2003 were approximately 98% of total sales. Export pulp sales for the year 2002 were approximately 98% of total sales. See "--Markets and Customers" and "--Competition."

Our volume and price of pulp sales during 2003 were higher than in 2002. Our average list price increased by approximately 9% in 2003 compared with the average in 2002.

In December 1999, we moved our headquarters from Rio de Janeiro to the municipality of Aracruz, in the Brazilian coastal state of Espirito Santo, where our production facilities are located. We continue to maintain executive offices in Rio de Janeiro for our financing, administrative and trading activities. Our production facilities consist of a eucalyptus pulp mill, or the Mill, which has three production units, each with two bleaching, drying and baling lines. The Mill's third production unit began production in May 2002. See "--Fiberline C Expansion Project."

Also in December 1999, we sold our electrochemical plant that services the Mill to the chemicals operating group of Canadian Occidental Petroleum Ltd., a Canadian-based global oil and gas and chemical company, for approximately US\$61 million. See "--Raw Materials--Chemicals."

We own approximately 405,700 hectares of forest and other land in the States of Espirito Santo, Bahia, Minag Gerais and Rio Grande do Sul, of which over 247,000 hectares are planted with eucalyptus forests. The Mill is located approximately 1.5 kilometers from the port facilities at Barra do Riacho, which are 51% owned by us. See "--History and Development of Aracruz" above.

We believe that we are one of the lowest-cost producers of bleached kraft market pulp in the world. Our low production costs relative to some of our competitors are due to a number of factors, including:

- o economies of scale,
- o advanced forestry techniques in managing the planting processes,
- o growing and harvesting of our trees,
- o the comparatively short harvest cycle of our trees, and
- o lower energy and chemical costs.

During 2003, we were able to meet almost 63% of our wood fiber requirements from our own eucalyptus forests. Climate and soil conditions in Brazil enable us

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to harvest our eucalyptus trees in only seven years after plantation, while harvest cycles for other types of hardwood trees in the southern United States, Canada and Scandinavia can range from 25 to 70 years. Harvest cycles for our principal non-Brazilian competitors in the eucalyptus pulp market, which are located in Spain, Portugal and Chile, are approximately eight to ten years. See "--Raw Materials--Wood" and "--Competition."

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We internally produce approximately 98% of our electrical energy requirements, mainly from by-products of our pulp production process, and recycle the greater part of the chemicals used at the Mill. See "--Raw Materials--Energy."

### BUSINESS STRATEGY

The key elements of our mission statement are:

- o pursuing a growing position among the best global producers of forest products, concentrating in market segments of significant size and capable of adding value to us,
- o generating strong returns to our shareholders,
- o leveraging our competence in renewable forestry uses,
- o developing products that add value to our customers while concentrating on our core business as a pulp producer, and
- o creating development opportunities for our employees in order to retain our employees.

The following ongoing projects implement our business strategy:

- o Economies of scale resulting from new capacity increases. The commencement of the operation of the Fiberline C Expansion Project at the end of May 2002 increased our nominal production capacity to over 2,000,000 tons per year in the middle of 2002. The Fiberline C Expansion Project relies on our technology advances and benefits from our existing overhead and management structure, which has absorbed the new activity without significant additional fixed costs. These enhancements will enable us to reduce pulp costs and improve quality levels in the new production unit. ". In addition, the Company's board of directors in 2000 approved the acquisition of Veracel.
- o Improvements in forestry technology using advanced genetic techniques, which will result in an increase in the forest yield.
- o Optimization of transportation logistics. Transportation of wood to the Mill comprises a large portion of the cost of our pulp production. Improve in transportation logistics and costs are a priority for the Company. At the end of 2002, we improved the logistics of our rail transportation. We also launched our Multimodal Transportation Systems--Maritime and Rail--, the main objective of which is to enhance logistics and further integrate our Mill-Port-Forest system. See "--Transportation."
- o Redesign of management processes with the support of state-of-the-art information technology in order to improve efficiency and reduce costs. In 2001, we implemented new modules of the company-wide SAP R/3

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enterprise system that controls, simplifies and integrates our business processes. We are currently using virtually all the modules supplied by SAP, both in the pulp mill and the sawmill operations. Recently, we have selected the mySAP.com(R) platform to improve connectivity with customers and suppliers.

- o Increase of competitiveness. The competitiveness of our business operations, combined with our significant cash generation capabilities, has led us to evaluate from time to time various future strategic alternatives, including further increase of current pulp operations either through acquisitions or expansion of existing capacity, and/or further acquisitions of additional forests.

### FIBERLINE C EXPANSION PROJECT

The Fiberline C, our third pulp operational unit, began operations at the end of May 2002, after being completed in 17 months (two months ahead of schedule) at a lower cost than originally budgeted.

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With nominal capacity of 700,000 tons per year as of December 31, 2003, the cost of the new line was US\$522.5 million. The volume of production during year 2003 by the Fiberline C totaled 712,000 tons. In September 2003, the facility reached a monthly production record of 67,884 tons.

We entered into several supply contracts in connection with the Fiberline C Expansion Project. Under those supply contracts, the suppliers were required to provide products and services, installation and civil construction. Payments under the supply contracts are made upon the completion of milestones specified in each of the supply contracts, and the obligations of the suppliers thereunder are guaranteed by performance bonds, in each case in the amount of 10% of the contract price, issued by either a major financial institution or an insurance company.

The new production volume resulting from the Fiberline C Expansion Project requires an increase in our forest base of approximately 72,000 hectares of eucalyptus plantations. For this reason, between June 2000 and December 2003, we acquired approximately 67,000 hectares of net land through separate transactions. Additionally, in September 2002, Bahia Sul and we signed, jointly with Companhia Vale do Rio Doce and its wholly owned subsidiary, Florestas Rio Doce S/A, a contract for the acquisition of equal stakes by Bahia Sul and us of forestry assets comprising approximately 40,000 hectares of gross lands that include around 28,000 hectares of eucalyptus-planted forests. By the end of 2003, the Company owned approximately 63,000 hectares of eucalyptus plantation by using these acquired lands.

In order to meet the expected increase in production arising from the Fiberline C Expansion Project, we built a port facility in Caravelas, State of Bahia, and expanded our port facility in Barra do Riacho, State of Espirito Santo.

### ACQUISITION OF VERACEL

On October 10, 2000, we entered into two stock purchase and sale agreements pursuant to which we acquired a 45% stake in Veracel, a joint venture between Stora Enso OYJ and Odebrecht to grow and manage eucalyptus plantations and to build a pulp mill. One agreement, for the amount of approximately US\$72 million, was entered between the Company and Odebrecht for the acquisition of 40% of the total outstanding capital stock of Veracel. The other agreement, for the amount



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of approximately US\$9 million, was entered between the Company and Stora Enso Treasury Amsterdam B.V. for the acquisition of an additional 5% of the total outstanding capital stock of Veracel. On January 31, 2003, Odebrecht sold its 10% stake in Veracel to Stora Enso OYJ and us. We acquired shares representing 5% of the total outstanding capital stock of Veracel for US\$9.7 million. This equity investment in Veracel achieved two objectives: (i) a guaranteed supply of wood for the Fiberline C Expansion Project during the first three years of the new production unit's operation and (ii) the opportunity to grow our business in the future from another operational base in Bahia that can potentially replicate our accomplishments in the State of Espirito Santo.

Under both stock purchase and sale agreements, we have agreed to indemnify the relevant counterparty for certain liabilities and/or damages which such counterparty may incur as a result of a breach by us of the representations and warranties or a default by us under a covenant under those agreements.

We have also entered into a three-year wood supply contract for a total of up to 3.85 million cubic meters with Veracel, providing wood for the Fiberline C Expansion Project until the new plantations reach harvesting time.

In May 2003, Stora Enso and we approved the construction of Veracel's pulp mill for the production of bleached eucalyptus kraft market pulp in Eunapolis, in the State of Bahia. The mill will have a nominal capacity of 900,000 tons per year, and the overall investment is budgeted at US\$1.24 billion, of which US\$717 million has already been committed.

The Veracel Project has obtained commitments for long-term direct funding from development banks in the amount of approximately US\$650 million, being US\$500 million from BNDES and US\$150 million from the European Investment Bank (EIB) and the Nordic Investment Bank (NIB). During the first quarter of 2004, BNDES made its initial disbursement of US\$59.7 million. The funding of the Veracel Project is expected to consist of 45% equity and 55% loans from Brazilian and international development agencies. The Company is a several guarantor of 50% of the indebtedness incurred by Veracel, including indebtedness in connection with the financing of the Veracel Project. Stora Enso is a several guarantor of the other 50% of such indebtedness. At March 31, 2004 the outstanding amount of such indebtedness guaranteed by the Company was approximately US\$63.5 million.

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The construction of the mill was started at the beginning of the second half of 2003, and it is expected to be concluded within two years. Based on current figures, about 39% of the total construction has already been completed. The project is being carried out under an EPC (Engineering, Procurement and Construction) concept and requires the prior implementation of a qualification program to enable the local workforce to take part in the construction of the pulp mill. The equipment and services necessary for the project are being contracted mostly from Brazilian suppliers.

In connection with the acquisition of the 45% equity participation in Veracel, on October 10, 2000, we, Stora Enso and Odebrecht, together known as the Veracel Shareholders, and Veracel entered into a shareholders' agreement, or the Original Veracel Shareholders' Agreement, which sets forth, among other things, certain agreements among the parties with respect to the management and operation of Veracel and the transfer of the common shares of Veracel. The Original Veracel Shareholders' Agreement has a term of 20 years from its date and can be automatically extended for successive 20-year terms thereafter unless

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notice is given by any party to the Original Veracel Shareholders' Agreement. The Original Veracel Shareholders' Agreement will terminate automatically if the ownership by any of the Veracel Shareholders of common shares of Veracel exceeds 50%. The Original Veracel Shareholders' Agreement provides that Veracel will at all times during its term have a board of directors comprised of five members, of which (i) two will be elected from individuals appointed by Stora Enso, (ii) two will be elected from individuals appointed by us and (iii) one will be elected from individuals appointed by Odebrecht. The directors elected by us (acting jointly) and the directors elected by Stora Enso (acting jointly) will each have the right, without any action by any other directors, to request the removal of any incumbent officer of Veracel. The Original Veracel Shareholders' Agreement also provides that neither we nor Stora Enso may transfer (which includes the creation of liens) any of their respective common shares of Veracel other than (i) prior to the decision to build Veracel's pulp mill, or the Implementation Decision, and (ii) if the Implementation Decision is made, after the second anniversary of the start-up of Veracel's pulp mill. We each have a right of first refusal if the other party wishes to transfer all of its common shares of Veracel before the Implementation Decision. Under the Original Veracel Shareholders' Agreement, Odebrecht may not transfer any of its common shares of Veracel other than (i) on or prior to December 31, 2002, if there has been no Implementation Decision, (ii) following the Implementation Decision, (iii) after the start-up date of Veracel's pulp mill (if it is built) or (iv) after the second anniversary of the start-up of Veracel's pulp mill (if it is built), provided that, in the case of the conditions described in (i), (ii) and (iii), Odebrecht will have the right to transfer all of its common shares of Veracel to the other shareholders of Veracel, for different prices, in accordance with the terms set forth in the Veracel Shareholders' Agreement. Any of the Veracel Shareholders may transfer its common shares of Veracel to an affiliate, subject to certain limitations, or with the prior written consent of each of the other Veracel Shareholders. The Original Veracel Shareholders' Agreement also requires that each person or entity who acquires shares of Veracel pursuant to the provisions thereof become a party to such agreement. The Original Veracel Shareholders' Agreement provides that, under certain circumstances, the Veracel Shareholders may be required to make capital contributions to Veracel, on a pro rata basis. The Original Veracel Shareholders' Agreement also provides that we, so long as neither we nor any of our subsidiaries is a shareholder of Veracel, shall not acquire (or caused to be acquired) any interest in real property in Veracel. The same covenant applies to Veracel with respect to real property in our core area.

In connection with the further acquisition by us and by Stora Enso, on equal basis, of the stake then held by Odebrecht in Veracel on January 31, 2003 and as a consequence of the Implementation Decision adopted by the remaining shareholders, the Original Veracel Shareholders' Agreement was amended. According to the amended agreement, or the Veracel Shareholders' Agreement, the board of directors of Veracel is to be comprised of four members, of whom two will be elected from individuals appointed by Stora Enso, and two will be elected from individuals appointed by us. The Original Veracel Shareholders' Agreement provides that if any of the shareholders, known as the Defaulting Shareholder, fails to comply with any of its obligations regarding Veracel's funding needs in connection with the business plan, the Investment Plan and Capital Contributions, the other shareholder (the Calling Shareholder) shall have the right to require the Defaulting Shareholder to transfer all (but not less than all) of its shares to the Calling Shareholder at a discounted market value calculated according to the provisions of the Original Veracel Shareholders' Agreement. The Original Veracel Shareholders' Agreement governs the management and operation of Veracel.

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### GUAIBA UNIT

On June 30, 2003 the Company announced that it had acquired Riocell S.A. ("RIOCELL") from Klabin S.A., which operated the Riocell Mill situated in Guaiba, Rio Grande do Sul, in the south of Brazil, for an adjusted purchase price of US\$567 million. As a consequence, Riocell was included in the Financial Information of the Company at and for the year ended December 31, 2003 included herein. On January 7, 2004, Riocell was merged into the Company and the Riocell Mill and related forestry assets are now operated as the Guaiba Unit of the Company.

The nominal production capacity of the Guaiba Unit is approximately 400,000 tons of bleached eucalyptus market pulp and 40,000 tons of printing and writing paper, equipped with advanced environmental protection resources. The Guaiba Unit has approximately 63,700 hectares of forest and other land and 7,000 hectares of plantations are kept in association with third parties. The average distance of the wood supply to the mill is approximately 85 kilometers. Since paper production is not its core business, the Company is working on feasibility studies related to the possible divestiture of the paper machinery at the Guaiba Unit.

### ARACRUZ PRODUTOS DE MADEIRA

As part of our earlier strategy of diversification into other forest product businesses, we established a joint venture with the Gutchess International group of the United States in 1997 to create a new company, Tecflor Industrial S.A., for the production of solid wood products. In 1998, we acquired all ownership interests of Gutchess International Inc. in Tecflor Industrial S.A., now called Aracruz Produtos de Madeira S.A., or APM, which then became our wholly owned subsidiary. APM's high-tech hardwood lumber sawmill, which is located in the State of Bahia, was commissioned in the first quarter of 1999 and started sales during the third quarter of 1999. APM manufactures and markets Lyptus(R), a new concept renewable, high-grade hardwood lumber produced using eucalyptus trees, computer-optimized sawing technology and advanced drying and finishing processes. The sawmill has a nominal production capacity of 37,500 cubic meters per year. As of March 31, 2004, APM had nominated 11 sales representatives in major furniture markets in Brazil and was supplying an industrial customer base of of nearly 150 manufacturers.

Having consolidated the production process and trained its workforce during the preceding two years, in 2001 APM sought to expand the presence of its Lyptus(R) brand of high-quality sawn wood in domestic and international markets while ensuring that its quality standards were maintained. In 2001, APM established a commercial partnership with the U.S.-based Weyerhaeuser Co., or Weyco, one of the largest forestry companies in the world, for the exclusive distribution of Lyptus(R) in the North American markets. This new partnership arrangement gave APM access to over 70 Weyco points of sale in the U.S. and Canada, increasing the presence of Lyptus(R) in one of the largest markets in the world for high-quality hardwood. The first shipments to Weyco took place in the months of May and August 2001. Another initiative that advanced the internationalization of APM was its affiliation with the International Wood Products Association at the beginning of 2002.

We have expanded the 2001 agreement with Weyco of the U.S. to extend sales of Lyptus(R) to the European and Asian markets, thus assuring the presence of the product in over 100 points of distribution in those regions.

The initial impact of this agreement was to increase Lyptus(R) sawn wood exports from 4.2% in 2001 to 10.6% in 2002, in addition to 47,223m<sup>2</sup> of Lyptus(R) flooring. In 2002, 15% of total production was exported. In 2003, 23.5% of total

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production was exported.

Consistent with the strategies set forth above, we have been seeking to divest our interest in APM, since it is outside our core business.

### MARKET OVERVIEW

#### GENERAL

Wood pulp is the principal raw material used in manufacturing paper and paperboard. Whether or not a specific type of wood pulp is suitable for a particular end-use depends on the type of wood used to make the pulp, as well as the

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process used to transform the wood into pulp. Hardwood pulp is produced using hardwood trees, such as oak, eucalyptus, aspen, birch and acacia trees. Hardwood pulp has short fibers and is generally better suited for manufacturing coated and uncoated printing and writing papers, tissue and specialty papers. Softwood pulp is produced using softwood trees, such as pines. It has long fibers and is generally used to add strength to the paper. We do not produce softwood pulp.

The pulp manufacturing process also can determine a pulp's suitability for particular end-uses. Chemical pulp refers to pulp made using chemical processes to dissolve the lignin and other organic materials holding the wood fibers together. Among the various chemical processes, the most common is the "kraft" process, which is used by us to produce our pulp. The kraft process helps to maintain the inherent strength of the wood fibers and thus produces a pulp especially well suited for manufacturing printing and writing papers, specialty papers and tissue papers. Pulp producers may sell their pulp in the worldwide market or use it internally to manufacture various types of papers.

Bleached pulp is used for a variety of purposes, including printing and writing papers, specialty papers and tissues. Unbleached pulp, which is brown in color, is used in the production of wrapping papers, corrugated containers and other paper and cardboard transportation materials.

As a result of the variety of wood types and processes used to produce pulp, which have evolved significantly over time, the pulp market has become increasingly specialized in terms of technical characteristics. Many of the physical and chemical properties most valued by printing and writing paper manufacturers and other bleached pulp consumers, such as opacity and brightness, are exhibited by hardwood and, particularly, eucalyptus pulp. In addition, the increasing specialization of paper manufacturers has resulted in many such manufacturers developing their own customized mix of pulp inputs, also known as furnish, for use in their paper manufacturing. Furthermore, as more paper manufacturers have come to appreciate the technical characteristics of hardwood pulp and to rely on a significant hardwood pulp component in their furnish, the market for hardwood pulp has grown more rapidly than the market for softwood pulp. Within the hardwood segment, bleached eucalyptus kraft market pulp has demonstrated the highest annual rate of growth in demand from 1993 to 2003. Over the same ten-year period, the annual rate of growth in demand for bleached eucalyptus pulp was estimated at 5.7%, while the annual rate of growth in demand for hardwood pulp during the same period was estimated at 5.0% and the market for softwood for the same period was estimated at a 2.6% annual rate.

Eucalyptus is only one of many types of hardwood used to make pulp.

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Eucalyptus trees generally grow straight and have few branches. This allows for dense growth, easy harvesting and less need for pruning. Since 1980, eucalyptus kraft market pulp has steadily increased as a percentage of the total worldwide production of bleached hardwood kraft market pulp (from 29% in 1980 to approximately 50% in 2003) primarily due to its high quality, and because of properties, such as its softness, opacity and printability.

### INTERNATIONAL MARKETS

From 1992 to 2003, the worldwide production capacity of bleached hardwood kraft market pulp is estimated to have grown an average of approximately 4.8% per year, from 13.2 million tons to 21.4 million tons. The start-up of new or expanded production facilities has increased the total worldwide capacity for bleached hardwood kraft market pulp by approximately 3.3 million tons from 2000 to 2003. Worldwide demand for bleached hardwood kraft market pulp is strongly influenced by the demand for paper and board products, which correlates to world GDP growth. Demand for bleached hardwood kraft market pulp has grown in recent years, increasing from 11.5 million tons in 1992 to 18.9 million tons in 2003. Consumption of market pulp is concentrated mainly in Europe, North America and Asia. In 2001, demand for bleached hardwood kraft market pulp amounted to approximately 7.1 million tons in Europe, 2.6 million tons in North America and 6.4 million tons in Asia, 42%, 16% and 38%, respectively, of the world's total demand. In 2002, demand for bleached hardwood kraft market pulp amounted to approximately 7.9 million tons in Europe, 2.8 million tons in North America and 6.6 million tons in Asia, 44%, 15% and 36%, respectively, of the world's total demand. In 2001, we supplied approximately 475,000 tons or 7% of the total European demand, approximately 480,000 tons or 18% of the total North American demand, and approximately 306,000 tons, or 5%, of the total Asian demand. In 2002, we supplied approximately 637,000 tons, or 8%, of the total European demand, approximately 623,000 tons or 23% of the total North American demand, and approximately 280,000 tons, or 4%, of the total Asian demand. In 2003, we supplied approximately 765,000 tons or 9% of the total European demand, approximately 690,000 tons or 26% of the total North American demand, and approximately 470,000 tons or 7% of the total Asian demand.

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The market pulp industry is highly competitive and is also sensitive to changes in industry capacity, producer inventories and cyclical changes in the world's economies, all of which may significantly affect pulp prices and thereby our profitability. The price of pulp generally increases as economies expand around the world. Strong demand during most of the 1980s caused the market price per ton of bleached eucalyptus kraft market pulp delivered in the United States by us to peak in 1989 at US\$775 per ton. A global recessionary environment and a substantial increase in worldwide pulp supply during the early 1990s led to a sharp decline in the prices of market pulp, reaching US\$410 per ton in December 1993, the lowest price level since 1983. Prices began to increase in the second quarter of 1999 through the second half of 1999. In 1999, the average F.O.B. price per ton of bleached eucalyptus kraft market pulp delivered in the United States was US\$479, an increase of approximately 4% as compared to 1998. In 2000, prices continued increasing during the first half of the year, led mainly by the strong demand in Europe.

However, in the second half of 2000, prices remained stable. The average F.O.B. price per ton of bleached eucalyptus kraft market pulp delivered in the United States was US\$618, an increase of approximately 29% as compared to 1999.

While the Company's volume of pulp sales during 2002 was higher than in

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2001 or 2000, the price of pulp declined throughout 2002. The Company's average list price decreased 2.2% in 2002 compared with the average in 2001, primarily due to the slowdown in the growth of the major economies, which began in 2001 and continued to negatively impact the global demand for paper throughout 2002.

The high level of the world pulp inventories witnessed at the beginning of the year caused prices to fall to their lowest levels by the end of the first quarter of 2002. From then on, the recovery in demand, coupled with expectations of renewed growth in the world economy during the second half of 2002 and underpinned by improved control over supply, prompted consecutive increases in the price of eucalyptus pulp, which reached US\$510 per ton delivered to the United States in the third quarter of 2002.

Despite the satisfactory performance of the main consumer markets, high quality tissue and printing and writing papers, the price of pulp still was depressed throughout 2003. Considering these factors, the average list price of eucalyptus pulp in 2003 was US\$511 per ton.

The following chart shows, for the periods indicated, average annual prices for BEKP produced by us as compared to northern hardwood (NBHK) and southern hardwood (SBHK) prices:

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[OBJECT OMITTED]

Sources: For all eucalyptus pulp prices and for 2000 southern and northern hardwood pulp prices, the Company's databank; for 2001 northern and southern hardwood pulp prices, Hawkins Wright 2001; for 1988-99 southern and northern hardwood pulp prices, Hawkins Wright, November 2000. For 2002, 2003 and First Quarter 2004 eucalyptus prices, the Company's databank, and for hardwood and softwood pulp prices, Hawkins Wright, December 2002 and 2003.

### DOMESTIC MARKET

In 2003, we supplied approximately 36,000 tons of the aggregate domestic demand for bleached eucalyptus kraft market pulp, compared to 27,000 tons in 2002. In the first quarter of 2004, the Company supplied 5,903 tons of the aggregate domestic demand for BEKP, compared to 7,592 tons supplied for the same period in 2003. Demand for bleached hardwood kraft market pulp in Brazil decreased from 530,740 tons in 1998 to 511,760 tons in 1999, due to the adverse economic situation in Brazil during most of 1999. See "Item 5. Operating and Financial Review and Prospects--Brazilian Economic Environment." However, in 2000, the Brazilian economic scenario improved and the demand for bleached hardwood kraft market pulp reached 517,000 tons, an increase of 1% compared to 1999. In 2001, the demand for bleached hardwood kraft market pulp reached 489,000 tons, a 5% decrease compared to 2000, primarily due to the energy rationing in Brazil, which had a negative impact on paper production. In 2002, the demand for bleached hardwood kraft market pulp reached 512,000 tons, a 5% increase compared to 2001, primarily due to the paper production growth, mainly on the tissue segment (8.4%). In 2003 demand grew by 2% compared to 2002, reaching 520,579 tons, reflecting an increase in the tissue and printing and writing segments.

The six largest Brazilian producers of bleached hardwood kraft market pulp are:

- o Aracruz Celulose S.A.,

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- o Votorantim Celulose e Papel S.A,
- o Celulose Nipo-Brasileira S.A., or Cenibra,

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- o Bahia Sul Celulose S.A.,
- o Jari Celulose S.A., and
- o Lwarcel Celulose e Papel

Together the six largest Brazilian producers accounted for 77% of total domestic sales in 2003, with us accounting for 7% of total domestic sales. In the first two months of 2004, the six largest Brazilian producers accounted for 43% of the total domestic sales, with us accounting for 4%. Our domestic sales volume of bleached hardwood kraft market pulp was 2% of its total sales volume in 2002 and 2003 as compared to 3% in 2001, and for the first quarter of 2004 its domestic sales volume of bleached hardwood kraft market pulp was 1% as compared to 2% in the same period in 2002, as a result of our increase in sales in international markets and other producers increasing their own share of the Brazilian market. See "--Competition." Although domestic pulp prices are affected to a certain degree by general economic conditions in Brazil, domestic pulp prices have been, and are expected to continue to be, correlated with international pulp prices.

### EUCALYPTUS FORESTS

At December 31, 2003, we owned approximately 405,700 hectares of forest and other land in the Brazilian States of Espirito Santo, Bahia, Minas Gerais and Rio Grande do Sul,, of which over 247,000 hectares are planted with eucalyptus forests. The average distance from our forest areas currently in use to the Mill site is 207 kilometers. See "--Raw Materials--Wood." Because of the cost of transportation, the average distance from the forest to the Mill has an important effect on our cost structure, and we have sought to reduce the distance in various ways, including by accelerating the substitution of cloned trees with higher productivity near the Mill, as discussed in "--Raw Materials--Wood." We are always evaluating opportunities for acquiring land with forest in the State of Espirito Santo that is close to the Mill in order to reduce the distance, and the associated costs, of hauling wood between the forest and the Mill as well as any system of logistics that could reduce the cost of transportation, such as transportation by barges using our port facility in the state of Bahia. See "--Business Strategy". Of the 405,700 hectares owned by us, approximately 247,000 hectares are currently used for the planting of trees to supply pulp production and solid wood production, approximately 128,000 hectares are reserved for preservation, approximately 17,300 hectares have been used in the construction of roads and the remainder is used for research and development and other activities. Brazilian law requires that 20% of our land, at any given time, either remain uncultivated with eucalyptus trees or planted with indigenous species.

Throughout 2003, one of our principal objectives was to establish partnerships with farmers, known as the Forestry Partners Program, for the establishment of new plantations to ensure the future supply of wood for Fiberline C. During 2003, we established approximately 14,500 additional hectares of eucalyptus plantation through this program. In 2001, we consolidated our seedling production technology at our nursery, producing gains in our

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productivity. A typical plantation of ours grows 42 cubic meters of pulpwood per hectare per year. A typical eucalyptus tree grows an average of approximately three inches per week and will grow to a height of 90 feet in seven years, at which point it is harvested.

We pioneered the use of cloned seedlings from rooted cuttings, a method also known as vegetative propagation, to carry out large-scale planting of eucalyptus trees. Our method of cloning results in trees whose fibers are extremely homogeneous, which we believe results in a more streamlined industrial process and higher-quality pulp. Today, approximately 89% of our eucalyptus forests are grown from this type of seedling. Rather than growing from seeds, clones are the "offspring" of asexual propagation. By means of this type of generation, the descendant receives the entire genetic code of the original tree. Accordingly, the risk of disease and pests can be lessened by choosing parent trees better adapted to the region. Other benefits of vegetative propagation include significantly less bark per cubic meter of wood and "self-pruning" trees with fewer branches.

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### RAW MATERIALS

#### WOOD

We rely exclusively on eucalyptus trees to meet our pulp wood requirements. Eucalyptus is a short-fibered hardwood that grows back from the stump after being cut, with each tree capable of regenerating twice. Eucalyptus trees are among the fastest growing trees in the world. Climate and soil conditions in Brazil allow for approximately seven-year eucalyptus tree harvest rotations as compared to eight to ten-year harvest rotations in Spain, Portugal and Chile. As part of our growth strategy, we have sought to eliminate the need for external sources of wood and to maximize both the yield and quality of fiber grown on our timberlands through advanced forestry and tree-cloning techniques.

In 2003, we supplied most of our 7.4 million cubic meter wood requirements from our own eucalyptus forests in the State of Espirito Santo and in the southernmost region of the State of Bahia. During the same period, we also purchased 2.7 million cubic meters of wood, which is equivalent to 37% of our wood consumption, of which approximately 623,000 cubic meters were purchased through the Forestry Partners Program, compared to 905,000 cubic meters in 2002.

Through the development of cloned trees selected on the basis of certain characteristics, the Company was able to reduce its wood consumption per ton of pulp produced from 4.5 solid cubic meters in 1985 to 3.9 solid cubic meters in 2003. The optimal time to harvest the Company's trees is approximately seven years from the time of planting.

#### ENERGY

Reducing our need for outside sources of energy and chemicals is an important component of our low-cost production strategy. In 2002 and 2003, approximately 97% and 98% of our electrical energy needs were met by burning by-products generated from the pulp production process compared with 79% in 1999. The remainder of our energy needs were met through purchases of electricity, fuel oil and natural gas from third sources.

#### CHEMICALS



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We use several chemicals in the pulp bleaching process. Until December 1999, we maintained and operated an electrochemical plant on the same site as the Mill to produce some of the chemicals used in the pulp bleaching process, specifically chlorine, caustic soda and sodium chlorate.

On December 16, 1999, we entered into a series of transactions with Canadianoxy Chemicals Ltd. for the transfer of our electrochemical plant to a subsidiary of Nexen Inc., or Nexen, a Canadian company formerly known as Canadian Occidental Petroleum, for approximately US\$61 million. Nexen, with head offices in Calgary, Canada, is a major producer of sodium chlorate. Its principal shareholder is Occidental Petroleum Corporation, which owns approximately 80% of its share capital. The transfer closed on December 17, 1999. The sale of the electrochemical plant, located adjacent to the Mill, is part of our strategy to concentrate on our core business, transferring the production of chemicals to a specialized producer. We built the plant during the construction of the pulp mill in 1979. We subsequently expanded the plant in 1991. At the time of the sale, the electrochemical plant had the capacity to produce approximately 36,000 tons per year of sodium chlorate, 36,000 tons per year of caustic soda and 32,000 tons per year of chlorine. The plant also produces hydrochloric acid and sodium hypochlorite (liquid bleach).

Under the terms of the purchase agreement, we have agreed to indemnify Nexen for certain liabilities relating to: (i) the manufacturing of electrochemical products prior to the sale, (ii) any legal proceedings that relate to the manufacture of the electrochemical products in which the basis of the claim occurred prior to the sale and (iii) any misrepresentation by us in connection with the purchase agreement. Our indemnity obligations expire, with respect to tax, labor, product liability and environmental matters, upon the passage of the relevant statute of limitations and, with respect to other matters, three years from the closing of the sale. As part of the sale of the electrochemical plant, we and two subsidiaries of Nexen entered into a successively renewable contract for the reciprocal supply of raw materials, services and products over a 25-year period. The agreement obligates us to provide a continuous supply of raw materials, primarily water and steam, to the electrochemical plant, and the plant to provide bleaching chemicals to us, at competitive prices. The agreement

includes clauses of performance incentives, such as sharing of productivity gains, preference prices and "take-or-pay" obligations pursuant to which we are committed to purchase from the electrochemical plant a volume of chemical products projected for six years from the date of the agreement. If, in a given year, we purchase volumes of chemical products in excess of the minimum agreed to volume, our obligations to purchase may be reduced in subsequent years. For the take-or-pay quantities, we will pay unit prices which equal cost plus a margin as determined in the contract. See Note 2 of the consolidated financial statements. The agreement also may not be assigned by a party without the consent of the other party and includes provisions relating to: (i) the extension of the agreement for an additional 10-year period upon the agreement of both parties not less than two years prior to the expiration of the initial 25-year term, (ii) the suspension of service by each party, (iii) the termination of service and (iv) the termination of the agreement by a party upon 18 months' notice that such party intends to permanently cease operation at its facility. In the event of termination of the agreement or a proposed sale by Nexen, the agreement provides that we have the right of first negotiation for the acquisition of the electrochemical plant. As a result of the sale, we no longer have responsibility for the electrochemical plant and, accordingly, any interruption of the operations of the electrochemical plant could require us to

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seek alternative sources in the market for certain chemicals essential to our production of pulp.

To date, there has been one temporary shutdown of the plant during which we met our chlorine and caustic soda production requirements through purchases in the open market.

### WATER

Large amounts of water are required in the pulp production process and in the cultivation of seedlings. Water is primarily provided by several rivers, which feed into a 35 million cubic meter reservoir on the Mill site. The reservoir holds enough water to supply the Mill's needs for a five-year period in the event of a drought (based on statistical information regarding periods of very low rainfall). Wastewater undergoes a two-stage purification treatment process before it flows into the ocean.

Beginning in the latter half of 1998, the State of Espirito Santo experienced a severe drought which reduced our water supply and caused us to pursue alternative long-term sources of water to meet our current operating needs as well as any foreseeable expansion plans. As a result, in May 1999, we, together with the municipal governments of Aracruz and Linhares, a neighboring city, began a project to obtain water from the Rio Doce river through a system of canals and rivers which in turn feed into our reservoir. The project was completed in June 1999 and now provides water for the industrial and chemical districts of the Municipality of Aracruz as well as for irrigation of agricultural activities in the northern region of the State of Espirito Santo. During 2000 and the beginning of 2001, we made the necessary adjustments in the Mill to receive the water supply from Rio Doce. The project was approved by federal, state and local authorities. Despite the low average rainfall during 2003, the use of water from the Rio Doce river enabled us to obtain all of our water supply requirements.

### THE MILL

Our principal pulp mill, located in the State of Espirito Santo, is the largest bleached hardwood kraft market pulp production facility in the world. From 1991 to 1998, we successfully increased the Mill's nominal capacity from 1,025,000 tons of pulp per year to 1,240,000 tons of pulp per year. The Mill's third production unit, known as the Fiberline C Expansion Project, began production in May 2002, increasing the production capacity of the Mill to approximately 2,000,000 tons of pulp per year. The Company's total production in 2003 was 2,250,000 tons (comprising the Mill and the Guaiba Unit) (1,656,000 tons in 2002), representing approximately 10% of the total worldwide bleached hardwood kraft market pulp production capacity. In the first quarter of 2004, the Company's pulp production was 628,000 tons, compared to 497,000 tons in the same period last year.

Due to the successful implementation of the Modernization Project in 1999, the Mill now has a nominal production capacity of approximately 1,240,000 tons of pulp per year. In 1994, we increased our effective production capacity to 1,070,000 tons through system upgrades and productivity gains. From 1995 to 1999, we invested in the Modernization Project, increasing the nominal production capacity of the Mill to 1,240,000 tons of pulp per year. Our total production in 2002 was 1,656,000 tons (1,272,000 tons in 2001), representing approximately 8% of the total worldwide bleached hardwood kraft market pulp production capacity.

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The production facility in the State of Espirito Santo consists of large receiving yards for the logs, debarking, chipping and digesting equipment, packaging and warehousing facilities capable of holding 80,000 tons of pulp and a fully computerized control system that continuously monitors the entire production process. The Mill's pulp systems have five steam turbines, and generators that provide a continuous power supply for that system. Fuel for the generation of steam is mainly provided by waste products from the pulp production process. External backup power supplies are also available on site. A tree nursery capable of producing approximately 43 million seedlings per year and a research facility are located nearby as well. The electrochemical plant, which was transferred in December 1999 to Nexen and that provides most of the chemicals used in the pulp bleaching process, is located within the boundaries of the production facility. For a discussion of the sale of our electrochemical plant to Nexen, see "--Raw Materials--Chemicals."

In May 2002, the Fiberline C Expansion Project commenced operation adding a new pulp line and certain other modifications to the existing equipment at the Mill. See "--Fiberline C Expansion Project."

### PULP PRODUCTION

When operating at full capacity, the Mill can process over 23,000 solid cubic meters of timber each day. The logs are either debarked in the forest or debarked at the Mill using tumbling drums and then cut into chips, which are transferred by conveyors system to the digesters where they are mixed with chemicals and heated under pressure. During this chemical cooking process, the lignin and cellulose are separated. Once removed, the lignin is used as fuel to produce steam and electrical energy for the milling process. The used chemicals are removed at various stages of the production process and recycled within the plant. The cellulose fibers are then washed, bleached using bleaching chemicals (which are produced on site), filtered, pressed and dried. The dried pulp is then cut into sheets, packed into bales and transported by truck to domestic destinations and to the port at Barra do Riacho, located approximately 1.8 kilometers from the Mill, for shipments abroad. See "--Transportation."

We have produced four types of pulp:

- o Standard Pulp;
- o ECF Pulp; and
- o ACF Pulp.

Standard Pulp is pulp bleached with regular levels of chlorine. Standard Pulp is in high demand in North America and Asia. Although most of the production is represented by ECF Pulp and ACF Pulp, the production of Standard Pulp is still relevant because there is high demand for such pulp. During 2003, we produced approximately 79,536 tons of Standard Pulp, as compared to 203,848 in 2002, and 284,678 tons in 2001. In the first quarter of 2004, the Company produced 11,516 tons of Standard Pulp, as compared to 38,784 tons and 73,690 tons in the same period of 2003 and 2002, respectively. ECF Pulp, or Elemental Chlorine Free Pulp, is pulp bleached with lower levels of chlorine. ECF Pulp is in high demand in Europe, where our customers have preferred pulp that is bleached with little or no chlorine due to the environmental concerns relating to the pulp production process, particularly the bleaching process (although recently we have detected a shift in environmental concerns away from the bleaching process to forestry management and efficient control). We first produced ECF Pulp in November 1990. During the period from 1991 to 1994, we equipped the Mill so that it would have the capacity to produce enough ECF Pulp to meet the growing demand for ECF Pulp. From 1993 to 1997, we produced 75% ECF

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pulp. Commencing in 1998, with the completion of the Modernization Project, we were to produce 100% ECF pulp. See "--The Mill." During 2003, approximately 92% of our production, or 2,078,284 tons, was comprised of ECF Pulp as compared to 1,372,172 tons during 2002 and 926,356 tons during 2001. In the first quarter of 2004 we produced 610,405 tons of ECF Pulp, as compared to 433,864 tons and 221,352 tons in the same period of 2003 and 2002, respectively.

ACF Pulp, or Aracruz Chlorine Free Pulp, was developed by us with lower levels of Organo Halogens (OX) than ECF pulp. ACF pulp is sold primarily in the European market. We have produced ACF since 1998. During 2003, approximately 4% of our production, or 91,744 tons, was comprised of ACF Pulp as compared to 80,028 tons

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during 2002 and 60,578 tons during 2001. In the first quarter of 2004, the Company produced 6,004 tons of ACF Pulp, as compared to 24,210 tons and 24,048 tons in the same period of 2003 and 2002, respectively.

### TRANSPORTATION

Wood from our three forest areas is transported by truck (owned by independent contractors) to the Mill site for processing into pulp. The distance from our main forest areas in Espirito Santo and the State of Bahia to the Mill site ranges from one to 340 kilometers with an average distance of 207 kilometers for wood currently in use.

Our pulp produced for export is transported from the Mill to the port of Barra do Riacho, which is located approximately 1.5 kilometers from the Mill site. This port is used almost exclusively to hold and load pulp and provides us with convenient access to ocean transport vessels. The port is a modern facility that currently has the capacity to handle approximately 2,900,000 tons of pulp per year. The port includes a warehouse capable of holding approximately 140,000 tons of pulp.

We own 51% of Portocel, the company that operates the port of Barra do Riacho. The remaining 49% of Portocel is owned by Cenibra, another pulp manufacturer and one of our competitors. We do not own any ships for transportation of our pulp.

In 2003 and 2002, approximately 98% of our sales were shipped from the port, as compared to 97% in 2001. The remaining 2% of our sales were transported to the domestic market by truck.

Our integrated, coastal wood shipment project was completed in December 2002. It involves a system of sea-going barges and tugboats and two port terminals that link the extreme south of Bahia to the north of Espirito Santo. The port complex of Portocel, adjacent to the Mill, is to begin receiving wood from plantations in southern Bahia via an alternative transportation system that is more efficient than truck-based highway shipments. Another improvement to our wood transportation operations was the construction and start-up of a nearly 4km-long rail spur used for unloading wood shipments directly at the Mill's yard. The first phase of the operation between Caravelas and Portocel, with annual capacity for transporting 1.7 million cubic meters of wood, began at the end of 2002.

### MARKETS AND CUSTOMERS



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been in line with our production capacity; however, we cannot guarantee that such balance between demand and production capacity will happen in the future. We believe that the loss of either of our two largest customers could have a material adverse effect on our results of operations. We have long-term sales contracts with some of our customers, including several of our largest customers. These contracts generally provide for sales of specified amounts of pulp at prices announced from time to time by us, which are in line with the prevailing market prices for pulp sold to customers in the geographic area of the purchaser under the contract. Early termination is provided for in the contracts in the event of a material breach, the insolvency of one of the parties or force majeure events of extended duration. Certain sales contracts include provisions that permit us to reduce the quantities to be shipped if sales to the purchaser and our affiliates would exceed a specified percentage of our annual production capacity.

We have sought to diversify our sales among different market segments, such as consumer products (for example, tissue paper), specialty papers and high quality printing and writing papers. Producers of these products, as opposed to producers of commodity papers, value the consistency of our pulp as well as the reliability of our service.

The following table shows the breakdown by end uses of our pulp production in 1999, 2000, 2001, 2002 and 2003.

	YEAR ENDED DECEMBER 31,			
	1999	2000	2001	2002
Tissue.....	48%	51%	51%	57%
Printing, and Writing Paper.....	27	28	28	29
Specialty Papers(1).....	22	19	20	13
Cartonboard.....	3	2	1	1
	100%	100%	100%	100%

(1) Includes liquid packaging board, carbonless paper, base paper for laminated paper and coated wood-free specialties.

COMPETITION

While we compete with other producers of bleached hardwood kraft market pulp, our most direct competitors are other producers of eucalyptus pulp due to the special characteristics of this fiber. To a lesser degree, all producers of hardwood pulp compete with producers of softwood pulp and with other raw materials, such as recycled paper.

Competition is based primarily on quality (particularly consistency of product), service, price and reliability. We and other Brazilian eucalyptus pulp

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producers have significant cost advantages over producers in other regions. See "--Raw Materials--Wood." We, however, do not generally compete on the basis of price alone. Instead, we emphasize quality, reliability and stable long-term relationships with customers.

If demand for recycled paper increases in the future, demand for pulp could be adversely affected. While no assurance can be given, we believe that increases in demand for recycled paper would not materially affect our results of operations, at least in the near future, because (i) it is more costly to produce recycled paper using current technology due to the high costs of sorting out wastes and de-inking the recycled fiber, and (ii) customers are predominantly manufacturers of higher-quality paper products such as premium tissue paper, coated papers and specialty papers, which are less likely to use recycled fibers for their products.

### BLEACHED EUCALYPTUS KRAFT MARKET PULP

We are the largest producer and exporter of bleached eucalyptus kraft market pulp in the world. Our main competitors in this market are located in Brazil, Portugal, Chile and Spain and are listed by country (without any priority as to order) in the following table:

#### PRODUCER

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Cenibra.....
Bahia Sul Celulose S.A.....
Jari Celulose S.A.....
Votorantim Celulose e Papel S.A.....
Empresa de Celulose e Papel de Portugal SGPS, S.A. (Portucel).....
Celulose Beira Industrial S.A.....
CMPC Papeles S.A.....
Celulosa Arauco y Constitucion SA.....
Empresa Nacional de Celulosas S.A.....
Grupo Rottneros (Miranda mill).....

Management estimates that the five major producers of bleached eucalyptus kraft market pulp in the world (i.e., Aracruz, Cenibra, Empresa Nacional de Celulosas S.A., Portucel, and Votorantim Celulose e Papel S.A) currently account for 63% of the total world production capacity of bleached eucalyptus kraft market pulp. Management estimates that in 2003, we accounted for 26% of the world production capacity of bleached eucalyptus kraft market pulp, 5% of the world production capacity of chemical market pulp and 11% of the world production capacity of bleached hardwood kraft market pulp.

### BLEACHED HARDWOOD KRAFT MARKET PULP

To the extent that pulp from other hardwoods can be substituted for the slightly more expensive bleached eucalyptus kraft pulp, we also compete with producers of pulp from other hardwoods. Such competition is based more on cost and less on quality or suitability of the pulp for use in higher quality paper products. Although bleached hardwood kraft market pulp is produced in most regions of the world, the dominant producers are located in North America, Latin America, Western Europe and the Scandinavian countries (Finland, Norway and Sweden), which in 2003 are estimated to have accounted for 69% in the aggregate, and 23%, 25%, 13% and 8%, respectively, of the world's total bleached hardwood kraft market pulp production capacity. Producers in the United States sold

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approximately , 2,802,000 tons during 2001, 2,527,000 tons during 2002, and 2,347,000 during 2003 while Brazilian producers sold approximately 3,663,000 tons, 3,927,000 tons and 4,767,000 respectively, in such periods. Several of our competitors in this market are larger than we are and may have greater economic and other resources than we do.

Worldwide production capacity for bleached hardwood kraft market pulp grew approximately 4.77% per year from 1993 to 2003, totaling 21.4 million tons, and is expected to grow at an annual rate of 4.1% during the period of 2003 to 2007 (or approximately 4.2 million tons in total during this period). Approximately 64% of this growth in capacity is expected to occur in Latin America, where bleached eucalyptus kraft market pulp capacity is expected to grow from approximately 5.3 million tons in 2003 to approximately 8.5 million tons in 2007. Mixed tropical hardwood market pulp

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capacity in Indonesia is expected to increase from 3.21 million tons in 2003 to 3.5 million tons in 2007, accounting for 5% of the total increase in the world bleached kraft pulp market. Worldwide demand for bleached hardwood kraft market pulp is expected to grow by 4.1% per year from 2004 through 2007, adding 5.6 million tons to the current demand.

### ENVIRONMENTAL AND OTHER REGULATORY MATTERS

Our mill and forestry operations are subject to federal, state and local laws, regulations and permit requirements relating to the protection of the environment. Law No. 6,938, dated August 31, 1981 established strict liability for environmental damage, mechanisms for enforcement of environmental standards and licensing requirements for activities that are effectively or potentially damaging to the environment. Environmental laws and regulations also govern the conduct of forest operations and the protection of Brazilian fauna and flora. A violation of environmental laws and regulations may result in fines and penalties which may be material. Law No. 9,605, dated February 12, 1998 provides that individuals or entities whose conduct or activities cause harm to the environment are subject to criminal and administrative sanctions and are liable for any costs to repair the damages resulting from such harm. Criminal sanctions for individuals and entities that commit environmental crimes range from fines to imprisonment (individuals) or dissolution (legal entities). In addition, Law No. 9,605 also establishes that the corporate structure of a company may be disregarded if the structure impedes the recovery for harm caused to the environment. We are not aware of any successful assertion of claims against shareholders under this provision of Law No. 9,605.

The State of Espirito Santo requires local manufacturing concerns to obtain various permits including operating permits for manufacturing facilities. Pursuant to state law, state authorities are empowered to regulate a company's operations by prescribing company-specific environmental standards in such company's operating permit. On February 10, 1998, the State of Espirito Santo issued to us a two-year operating permit, which was renewed for an additional five years commencing on February 10, 2000. The operating permit requires that we maintain certain emissions, effluent and waste disposal standards. Beginning in March 1997, we became subject to an environmental audit every three years. The audit is conducted by subcontracted auditors, approved by the Environmental Secretary of the State of Espirito Santo, or SEAMA. The audit was not carried out in 2000, since SEAMA has not published the result of the 1997 audit. The 2000 audit was conducted in June 2001. Our forestry activities are regulated by the Brazilian federal government and the governments of the States of Espirito Santo, Minas Gerais and Bahia. Our operating permit for our forest operations in



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Espirito Santo was renewed for a six-year period commencing on March 4, 1998. In order to meet the increasing wood requirements resulting from the Fiberline C Expansion Project, we purchased 126,971 hectares of land in the Brazilian States of Bahia, Minas Gerais and Espirito Santo. These areas are sufficient to permit the Company to plant 64,934 of the 72,000 additional hectares that it needs for Fiberline C. Since 2000, the Company has obtained from the environmental state agencies from those three states, 18 implementation and operational permits for implanting 258 projects accounting for 56,741 hectares of eucalyptus plantations. The remaining area is going to have operational permits during 2004.

We also entered into contracts with farmers in the State of Espirito Santo, Minas Gerais and Bahia pursuant to which the farmers have agreed to grow trees for sale to us. See "--Raw Materials--Wood."

Plantings may be undertaken only pursuant to a plan presented to and approved by the appropriate governmental authorities. In accordance with federal law, at least 20% of our landholdings, at any given time, must be preserved uncultivated or planted with indigenous species. We currently exceed this requirement, since such land accounts for approximately 31% of our total landholdings.

In September 2001, the legislature of the State of Espirito Santo, where we own approximately 164,400 hectares of forest and other land, passed a law temporarily restricting the plantation of eucalyptus forests for purposes of pulp production within that State. This law was declared to be unconstitutional by a provisional decision of the Brazilian Supreme Federal Court and injunctive relief was granted in response to suits brought by the National Confederation of Industry and by the National Confederations of Acquisitions and Cattle Raising. The Company believes that such provisional decision will be upheld by the court's definitive decision on the merits. However, there can be no assurance that such definitive decision will be favorable to the Company nor that other similar laws will not be enacted that would impose a limitation or restriction on plantation of eucalyptus or that would affect our licenses or permits.

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On March 13, 2002 the State of Espirito Santo legislative assembly created an investigating commission (Comissao Parlamentar de Inquerito) to investigate the legality of our permits and the acquisition of our properties since we began operating in the State of Espirito Santo. As the investigative procedures were not concluded within the prescribed term for such type of investigation, the commission was terminated without issuing a conclusive report. We are confident that all our permits and acquisition documents are strictly in accordance with all laws and regulations.

We believe that we are in compliance in all material respects with all applicable environmental regulations. In addition, environmental considerations are fundamental to our development of new technologies. Our integrated pest management relies on biological control of pests and diseases. Soil and plant nutrients are continuously monitored to guarantee an adequate balance. At the Mill, methods for the evaluation of environmental effects of effluents on receiving detriments have been developed and used. The origins of pulp and effluent toxicity have been studied, considering all possible sources, from the raw material (wood) to bleaching effluents. In addition, environmental quality is considered in the development of new technologies and products. Pulp products are continuously evaluated in terms of their possible effects on the quality of effluents in our customers' paper machines as well.

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The State of Espirito Santo renewed our operating permit for the Forestry Partners Program for the six-year period beginning in June 1998. See "--Raw Materials--Wood."

In 1996, the State of Bahia granted us a permit for the location of our new sawmill, APM. In 1998, the State of Bahia granted an operating permit for APM, valid until August 2003. In June 2003, the State of Bahia renewed APM's operating permit, valid until June 2007. See "--Business Strategy."

As part of the licensing process in connection with the Fiberline C Expansion Project, we contracted independent consultants to prepare the required environmental impact assessment reports. Those reports were discussed in public hearings (two in Bahia and one in Espirito Santo) in 2000 as well as during six public meetings with communities in both states. There was ample discussion at each meeting of the environmental and social questions involved. The results of the discussions were taken into consideration by the government regulatory agencies in their technical analyses and their subsequent approval of the permits.

During 2002, supplemental environmental licenses were obtained for Fiberline C Expansion Project relating to our industrial installations, our own plantations and those of the Forestry Partners Program and the wood transportation system via seagoing barges.

We also obtained 258 licenses for forest plantations, of which 52 were installation licenses issued by the Espirito Santo Agriculture, Cattle-Raising and Forest Protection Institute (IDAF), 199 were projects incorporated in installation licenses issued by the Bahia Environmental Resources Center (CRA-BA) and two projects approved for operating licenses by the Minas Gerais State Forestry Institute (IEF-MG).

In addition, the following licenses were obtained in 2003:

- o Operating Licenses: administrative ruling CRA 2732;
- o Simplified Permit for bark landfill: issued by Caravelas Municipality, administrative rule 131; and
- o Operation License for eucalyptus plantations in Minas Gerais State: administrative rule IEF 131.

In December 2003, the Bureau Veritas Quality International ("BVQI") recommended CERFLOR certification of 95,300 hectares covering all of the Company's own plantations in the State of Bahia. CERFLOR is the Brazilian System of Forest Certification. We initiated this certification process in August 2003, including pre-audit, initial audit and a certification audits. For this process more than 3,000 of Companys employees were trained. The certification audit was publicized through local radio stations and newspapers as well as the sending out of letters to more than 600 persons or entities. Five public meetings were held in respect of the Certification, with the presence of more than 300 persons.

The CERFLOR Certification Plan for plantations in Espirito Santo is expected to be prepared and approved in 2004.

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All of the Company's own plantation areas in the State of Rio Grande do Sul (Guaiba Unit) are certified by the Forestry Stewardship Council (FSC), totaling 66,700 hectares.

### INSURANCE

We believe that our insurance coverage of our production facilities and forests is in line with Brazilian market and international pulp industry standards.

In 2003, the Company received the Highly Protected Risk (HPR) seal of approval from FM Global. The certification, which is renowned worldwide in the field of insurance, attests to the Company's low risk of interruption of its operations as result of an industrial accident. The Company is the first Brazilian company to earn the certificate from FM Global, the world's largest property risk insurance company and leader in the field of risk management and loss prevention.

### C. ORGANIZATIONAL STRUCTURE

#### SIGNIFICANT SUBSIDIARIES

Our operations are conducted by Aracruz Celulose S.A., as the controlling and principal operating company. The following table sets forth the significant subsidiaries owned directly or indirectly by us and our ownership interest in each of them as of December 31, 2003:

	AS OF D ----- TOTAL CAPIT ----- (IN PERCENTA
Portocel Terminal Especializado de Barra do Riacho S.A.(1).....	51%
Mucuri Agroflorestral S.A.(1).....	100%
Aracruz Trading S.A.(2).....	100%
Aracruz Celulose (USA), Inc.(3).....	100%
Aracruz (Europe) S.A.(4).....	100%
Aracruz Produtos de Madeira S.A. (formerly named Tecflor Industrial S.A.)(1)...	100%
Veracel Celulose S.A.(1).....	50%
Terra Plana Agropecuaria Ltda.(1)*.....	100%

\* In the process of being dissolved.

(1) Incorporated in Brazil.

(2) Incorporated in the Republic of Panama.

(3) Incorporated in the United States under the laws of the State of Delaware.

(4) Incorporated in Switzerland.

### D. PROPERTY, PLANT AND EQUIPMENT

In December 1999, we moved our headquarters from Rio de Janeiro to the City of Aracruz in the Brazilian coastal State of Espirito Santo, where our production facilities are located. We maintain offices in Rio de Janeiro for our financing, administrative and trading activities.

Our principal production facilities consist of a eucalyptus pulp mill

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located in Aracruz that has three production units, each with three production lines. When operating at full capacity, the Mill can process over 23,000 solid cubic meters of timber each day.

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As of December 31, 2003, we had an aggregate principal amount outstanding of approximately US\$263.3 million under certain loans granted to us by BNDES, which loans are secured by liens on our industrial site in the Municipality of Aracruz. See "Item 7B. Related Party Transactions."

We own approximately 405,700 hectares of land in the Brazilian States of Espirito Santo, Bahia, Minas Gerais and Rio Grande do Sul, of which approximately 247,000 are planted eucalyptus forests. The pulp mill is located approximately 1.5 kilometers from the port facilities at Barra do Riacho, which are 51% owned by us. See "--Business Overview--Eucalyptus Forests."

We own, through APM (our wholly owned subsidiary), a hardwood lumber sawmill which is located in the State of Bahia.

ITEM 5. SEE "--ENVIRONMENTAL AND OTHER REGULATORY MATTERS" FOR THE ENVIRONMENTAL RULES AND REGULATIONS AFFECTING OUR OPERATIONS. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with our consolidated financial statements, including the respective notes thereto, included elsewhere in this annual report, and in conjunction with the discussion of the method of presentation of financial information under Item 3. As from the 1999 financial statements, gains or losses resulting from the remeasurement of the financial statements and from foreign currency transactions have been reported in the consolidated statement of operations as single-line items. The financial information presented herein has been reclassified to reflect such remeasurement. Previously, such gains or losses were allocated to the statements of operations line items to which they relate. These allocations have no effect on net income or loss.

### OVERVIEW

We are the world's largest producer of bleached hardwood kraft market pulp. During 2003, we produced approximately 2,250,000 tons of bleached eucalyptus pulp, a 36% increase from 2002 when we had produced approximately 1,656,000 tons of bleached eucalyptus pulp, and a 30.2% increase as compared to 2001 when we had produced approximately 1,272,000 tons of bleached eucalyptus pulp. In 2003, eucalyptus accounted for approximately 41% of the total worldwide production capacity of bleached hardwood kraft market pulp. In each of 2003 and 2002, sales to customers located outside Brazil, especially in North America, western Europe and Asia, accounted for approximately 98% of the Company's sales volume.

Pulp sales for 2003 were approximately 2,149,000 tons, a 36% increase as compared to 1,585,000 in 2002, which had represented a 22% increase when compared to 2000 pulp sales of 1,301,000 tons. In 2003, the Company sold US\$1,003.1 million of eucalyptus pulp compared to US\$669 million in 2002 and US\$574 million in 2001.

The Company's volume and price of pulp sales during 2003 were higher than in 2002. The Company's average list price increased by approximately 9% in 2003 compared with the average in 2002.

The primary factors affecting our results of operations are:

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- o prevailing world market prices for pulp;
- o the amount of pulp produced and sold by us;
- o our costs of production, which principally consist of the costs of materials (primarily wood and chemicals), labor and depreciation; and
- o the relationship between the real, the currency in which substantially all of our cash operating expenses (i.e., operating expenses other than depreciation and amortization of property, plant and equipment) are incurred, and foreign currencies, principally the U.S. dollar, in which more than 90% of our sales are made. See "--Brazilian Economic Environment--Effects of Inflation and Currency Exchange Fluctuations."

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The prices that we are able to obtain for our pulp depend upon prevailing world market prices, which historically have been cyclical, with prices subject to significant fluctuations over relatively short periods of time. See "Item 4B. Business Overview--Market Overview--International Markets."

We believe that we are one of the lowest cost producers of bleached kraft market pulp in the world. Our relatively low production costs are due to economies of scale, advanced forestry techniques, a comparatively short regional harvest rotation and low energy and chemical costs. See "Item 4B. Business Overview--General."

### RECENTLY ISSUE ACCOUNTING PRONOUNCEMENTS UNDER U.S. GAAP

The FASB has recently issued (i) Interpretation No. 46 ("FIN 46") - Consolidation of Variable Interest Entities in January 2003, (ii) SFAS No. 145 - Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections ("SFAS 145") in April 2002 and (iii) SFAS No. 146 - Accounting for Costs Associated with Exit or Disposal Activities ("SFAS 146") in July 2002.

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. Under FIN 46, entities are required to be consolidated by interposes that lack majority voting interest when equity investors of those entities have significant capital risk, the obligation to absorb expected losses, or the right to receive expected returns. Entities identified with these characteristics are called variable interest entities and the interest that enterprises have in these entities are called variable interests. These interests may derive from certain guarantees, leases, loans or other arrangements that result in risks and rewards, which finance the variable interest entities, despite the voting interest in the entities.

The interpretation requires that if a business enterprise has a controlling financial interest in a variable entity, the assets, liabilities and results of the activities of the variable interest entity must be included in the consolidated financial statements with those of the business enterprise. This interpretation applies immediately to variable interest entities created after January 31, 2003. For variable interest entities created before February 1, 2003, FIN 46 must be adopted in the first reporting period beginning after June 15, 2003. We are evaluating the impact of this interpretation on our financial condition, results of operations and cash flows.

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There have been no variable interest entities created after January 31, 2003 in which we have an interest. We are reviewing our financial arrangements entered into before February 1, 2003 to identify any that might qualify as variable interest entities. There is a reasonable possibility that certain project finance arrangements in which we have an interest might be variable interest entities. These arrangements involve operating entities and the other investors are third parties independent from the corporation. Our share of commitments and debt obligations as well as fixed asset contributions of these entities is included in our consolidated balance sheet. The variable interests arise primarily because of certain guarantees extended by the corporation to the arrangements. These guarantees are disclosed in note 9 to our consolidated financial statements.

SFAS 145 addresses how to report gains or losses resulting from the early extinguishment of debt. Under current accounting rules, any gains or losses are reported on early extinguishment of debt as extraordinary items. SFAS 145 requires an evaluation of whether the debt extinguishment is truly extraordinary in nature. If the debt is routinely being extinguished early, the gain or loss would be included in income from continuing operations. This statement became effective for us in 2003. Adoption of SFAS 145 did not have a significant impact on our financial condition, results of operations and cash flows.

SFAS 146 requires recognition of costs associated with exit or disposal activities when they are incurred rather than when an exit or disposal plan occurs. Examples of costs covered by this guidance include lease termination costs, employee severance costs that are associated with a restructuring, discontinued operations, plant closings or other exit or disposal activities. The provisions of this statement are effective for fiscal years beginning after December 31, 2002 and will impact any exit or disposal activities initiated after January 1, 2003. Adoption of SFAS 146 did not have a significant impact on our financial condition, results of operations and cash flows.

### DISCUSSION OF CRITICAL ACCOUNTING POLICIES

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In connection with the preparation of the financial statements included in this annual report, we have relied on variables and assumptions 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 of matters that are inherently uncertain on the carrying value of our assets and liabilities. Actual results may differ from those estimated under different variables, assumptions or conditions. Note 1 of the Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. In order to provide an understanding about how management forms its judgments about future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different variables and conditions, we have included below a brief discussion of the more significant accounting policies and methods used by us.

#### GENERAL

The financial statements were prepared in accordance with U.S. GAAP, which in certain respects differ from the accounting principles we apply when preparing financial statements in accordance with Brazilian GAAP.

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We have reported in U.S. dollars since 1994 when the US 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 N(0) 52 "Foreign Currency Translation" ("SFAS 52"). The Board of Directors and management have historically considered the U.S. dollar as our functional currency as this has been, and remains in our opinion, the currency in which we principally operate as well as being our primary unit of economic measure. Accordingly, our management has concluded that our functional currency is and will continue to be the U.S. dollar.

### DEFERRED TAXES

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We regularly review the deferred tax assets for recoverability and establish a valuation allowance, as required, based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. Although the 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 deferred tax asset considered realizable could, however, be reduced if estimates of future taxable income during the tax loss carryforwards period are reduced.

### LEGAL CONTINGENCIES

We are currently involved in certain legal proceedings. As discussed in note 16 to our financial statements, we have accrued our estimate of the probable costs for the resolution of these claims. This estimate has been developed in consultation with outside legal counsel handling our defense in these matters and is based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. We do not believe these proceedings will have a material adverse effect on our financial position. It is possible, however, that future results of operations could be materially affected by changes in our assumptions and the effectiveness of our strategies with respect to these proceedings.

### BRAZILIAN ECONOMIC ENVIRONMENT

The Brazilian economy has been characterized by frequent and occasionally drastic intervention by the Brazilian government and volatile economic cycles. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil's economy. For example, the Brazilian government has the authority, when a serious imbalance in Brazil's balance of payment occurs, to impose restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil, and on the conversion of Brazilian currency into foreign currencies. Furthermore, in late September 1999, a court in the state of Minas Gerais ruled that the representatives of the board of directors of the minority foreign private partners of Companhia Energetica de Minas Gerais, a privatized electric

utility in that state, could no longer have veto power over corporate actions. Also in late September 1999, Brazil's Federal Supreme Court ruled that pension taxes on retired federal employees and pensioners, as well as the

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increase of pension taxes charged to active employees, are unconstitutional. Changes in monetary, taxation, credit, tariff and other policies could adversely affect our business, as could inflation, currency and interest rate fluctuations, social instability and other political, economic or diplomatic developments, as well as the Brazilian government's response to such developments.

Rapid changes in Brazilian political and economic conditions that have already occurred and that might continue will require continued emphasis on assessing the risks associated with our activities and adjusting our business and operating strategy. Future developments in Brazilian government policies, including changes in the current policy and incentives adopted for financing the export of Brazilian goods, or in the Brazilian economy, over which we have no control, may materially adversely affect our business. See "Item 3D. Risk Factors--Risk Factors Relating to Brazil."

Brazilian economic conditions may be affected negatively by events elsewhere, especially in emerging markets. For instance, the Argentine government's default on certain of its debt obligations, the devaluation of the Argentine peso and the terrorist attacks of September 11, 2001 present causes for concern relating to Brazil's economic stability. Instability in the Brazilian financial markets caused by developments in the international financial markets may adversely affect our financial condition and, specifically, our ability to raise capital when needed and the market price of the preferred shares and ADSs. See "Item 3D. Risk Factors--Risk Factors Relating to Brazil."

The Tax reform recently approved by the Brazilian government has resulted so far in Law No. 10.833/03, extending to Brazil's Social Security Financing Contribution (Contribuicao para o Financiamento da Seguridade Social - "COFINS") the "non-cumulative regime" already mandatory since 2002 for contributions made to Social Integration Program (Programa de Integracao Social e de Formacao do Patrimonio do Servidor Publico "PIS/PASEP"), as per Law No. 10.637/02. Law No. 10.833/03 also provided an increase in the tax rate for COFINS now at 7.6% on revenues of Brazilian companies (the rate was formerly 3%). Although the tax is not assessed on export transactions, the Company may have a higher tax burden for the fiscal year ending in 2004.

### EFFECTS OF INFLATION AND CURRENCY EXCHANGE FLUCTUATIONS

Until July 1994, Brazil had for many years experienced high and generally unpredictable rates of inflation and steady devaluation of its currency relative to the U.S. dollar. The following table sets forth Brazilian inflation as measured by the Indice Geral de Preco-Mercado, the General Market Price Index or IGP-M, and the devaluation of Brazilian currency against the U.S. dollar for the periods shown:

	1999	2000	2001
Inflation (General Market Price Index)	20.1%	9.8%	10.4%
Devaluation (R\$ v. US\$)	48.0%	9.3%	18.7%

Inflation and exchange rate variations have had, and may continue to have, substantial effects on our financial condition and results of operations.

Inflation and exchange rate variations significantly affect our operating expenses. Our cash operating expenses (i.e., operating expenses other than depreciation and amortization of property, plant and equipment) are



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substantially all in reais and tend to increase with inflation in Brazil. As expressed in U.S. dollars, however, these increases are typically offset at least in part by the effect of devaluation of the Real against the U.S. dollar. If the rate of inflation increases more rapidly than the rate of devaluation, then, as expressed in U.S. dollars, our operating expenses increase and (assuming constant sales prices) our profit margins decrease. If the rate of devaluation exceeds the rate of inflation, then, as expressed in U.S. dollars, our operating expenses decrease, and our profit margins increase. In 2001 and 2002, after eliminating nonrecurring expenses, our operating expenses, as expressed in U.S. dollars, decreased because the rate of the devaluation of the real exceeded the rate of Brazilian inflation. In 2003, selling and distribution expenses were US\$38.6 million, 37% higher than in 2002, due primarily to higher sales volume. Administrative expenses were US\$22.8 million, US\$0.5 million lower than in 2002, and other operating expenses were US\$42 million, compared with US\$54.1 million in 2002. In 2003, our operating expenses, as expressed in U.S. dollars, decreased mainly due to a lower provision for loss on

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credit of ICMS, partially offset by a higher provision for fines on tax contingencies. ICMS is the Brazilian value added tax.

Inflation and exchange rate variations affect our monetary assets and liabilities denominated in reais. The value of such assets and liabilities as expressed in U.S. dollars declines when the real devalues against the U.S. dollar and increases when the real appreciates. In addition, many financial instruments denominated in reais are indexed for inflation. In periods of devaluation of the real, we report (a) a remeasurement loss on real-denominated monetary assets, which is offset, at least in part, by monetary indexation of real-denominated financial instruments and (b) a remeasurement gain on real-denominated monetary liabilities, which is offset, at least in part, by the monetary indexation of real-denominated financial instruments.

We have adopted a conservative policy of having most of our financial assets denominated in U.S. dollars. At December 31, 2003, approximately 83% of our cash and cash equivalents and marketable securities were invested in Real denominated deposits and financial assets. See "--Liquidity and Capital Resources--Financial Strategy."

### A. OPERATING RESULTS

#### RESULTS OF OPERATIONS

##### YEAR ENDED DECEMBER 31, 2003 COMPARED WITH YEAR ENDED DECEMBER 31, 2002

Net operating revenues in 2003 were US\$1,003.1 million, compared to US\$669.0 million in 2002. The US\$334.1 million increase was primarily due to a US\$235.7 million increase in pulp sales volume and US\$76.3 million increase in the average prices of pulp. In 2003, total cost of pulp and sawn wood sales was US\$592.6 million, compared to US\$468.9 million in 2002. This increase was mainly due to a US\$162.6 million increase in the sales volumes, offset by a US\$50.3 million decrease in production costs. Production costs per ton in 2003 were US\$226, compared to US\$238 in 2002. Cash production cost in 2003 was US\$144 per ton as against US\$138 per 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 expenses were US\$38.6 million in 2003, compared to US\$28.2 million in 2002, mainly due to higher sales volume.

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Administrative expenses were US\$22.8 million, compared to US\$22.3 million in 2002, mainly due to the local currency appreciation against the dollar.

Other operating expenses, net, totaled US\$42.0 million in 2003, compared to US\$54.1 million in 2002, mainly due to a lower provision of US\$21.9 million for loss of the ICMS tax credit, partially offset by a higher provision for fines on tax contingencies of US\$8.9 million.

Financial income in 2003 was US\$43.0 million, compared to US\$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 expense was US\$108.2 million in 2003, compared with US\$82.0 million in 2002, mainly due to (i) an increase of US\$17.9 million in interest financing, (ii) an increase of US\$7.3 million in provision for PIS/COFINS and CPMF taxes, and (iii) an increase of US\$7.4 million for interest on fiscal contingencies provisions.

Currency re-measurement resulted in a net gain of US\$42.0, compared with US\$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 totaled US\$129.1 million in 2003, compared with income tax credit of US\$15.6 million in 2002. 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.

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As a result of all of the above-described factors, net income in 2003 totaled US\$148.1 million, compared to US\$111.9 million in 2002.

YEAR ENDED DECEMBER 31, 2002 COMPARED WITH YEAR ENDED DECEMBER 31, 2001

Net operating revenues in 2002 were US\$669.0 million, compared to US\$574.4 million in 2001. The US\$94.6 million increase was primarily due to a US\$124.2 million increase in pulp sales volume, partially offset by a decrease in the average prices of pulp, which lower pulp prices, corresponding to US\$32.1 million.

In 2002, total cost of pulp and sawn wood sales was US\$468.9 million, compared to US\$420.6 million in 2001. This increase was mainly due to a US\$89.5 million increase in the sales volumes, offset by a US\$43.1 million decrease in production costs. Production costs per ton in 2002 were US\$238, compared to US\$268 in 2001. This decrease was due to (i) a US\$138 million decrease in cash costs, (ii) a decrease in real-denominated costs due to the devaluation of the real, and (iii) a decrease in the consumption of chemicals. This decrease was partially offset by an US\$11 per ton increase in the costs of wood purchased from Veracel.

Selling expenses were US\$28.2 million in 2002, compared to US\$23.3 million in 2001. This increase was mainly due to the increase in distribution costs.

Administrative expenses in 2002 totaled US\$22.3 million, compared to US\$22.0 million in 2001. This increase was mainly due to higher costs of services.

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Other operating expenses, net, totaled US\$54.1 million in 2002, compared to US\$25.6 million in 2001. This increase was mainly due to a US\$34.3 million increase in provision for loss of the ICMS tax (VAT) credit, partially offset by a US\$5.9 million decrease in the write-off of fixed assets.

Financial income in 2002 totaled US\$61.6 million as compared to US\$54.7 million in 2001. This increase was mainly due to a higher yield on investments made in reais, partially offset by lower average returns on cash.

Financial expense was US\$82.0 million in 2002 compared to US\$70.2 million in 2001. This increase was mainly due to (i) a US\$2.0 million increase in interest financing, (ii) a US\$1.1 million increase in the CPMF contribution and a US\$2.4 million increase in the provision for PIS and COFINS in cash investments, and (iii) a US\$5.4 million decrease on the capitalization of interest charges relating to the Fiberline C Expansion Project.

Loss (gain) on currency remeasurement, net, reflects the fluctuations in the exchange rate of reais to U.S. dollars and resulted in a gain of US\$14.9 million in 2002, compared to a net loss of US\$18.0 million in 2001. This difference was due to a decrease in our liabilities indexed to reais and by the devaluation of the real against the U.S. dollar (15.7% in 2001 as compared to 34.3% in 2002).

Income tax benefit totaled US\$15.6 million in 2002 compared to an income tax expense of US\$32.7 million in 2001. This difference was mainly due to the change from taxable profit in 2001 as compared to a tax loss in 2002 (tax effect of US\$82.0 million), partially offset by an increase in the taxable profits generated by our offshore subsidiaries (tax effect of US\$28.9 million).

Net income in 2002 totaled US\$111.9 million, compared to US\$18.1 million in 2001.

### B. LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2003, we had total debt outstanding of US\$1,371.5 million, an increase of 72.8% over total debt outstanding at December 31, 2002 of US\$793.8 million. This increase in 2003 was primarily due to the second tranche of the securitization program in the amount of US\$ 650.0 million. At March 31, 2004, the Company's total debt outstanding decreased to US\$1,312.3 million, primarily due to the reduction of trade financing in the form of export sale advances, or ACC, and discounted export account receivables, or ACE.

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The breakdown of our total debt outstanding at December 31, 2003 and December 31, 2002 is set forth in the table below:

	AT DECEMBER 31,	
	2002	2003
	(millions of U.S. dollars)	
SHORT-TERM DEBT		
Current portion of long-term debt		
Local currency	27.3	41.1
Foreign currency	140.0	226.6
Short-term debt instruments		
Local currency	3.3	1.1
Foreign currency (ACC/ACE)	7.5	117.2

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Accrued finance charges		
Local currency	0.3	0.9
Foreign currency	4.3	5.2
	-----	-----
Subtotal	182.7	392.1
LONG-TERM DEBT		
Local currency	163.9	169.8
Foreign currency	447.2	809.6
	-----	-----
Subtotal	611.1	979.4
	-----	-----
TOTAL DEBT	793.8	1,371.5
	-----	-----

At December 31, 2003, our outstanding debt in local currency totaled US\$213.0 million and was comprised primarily of loan agreements with Banco Nacional de Desenvolvimento Economico e Social--BNDES. BNDES is a major shareholder of the Company.

At December 31, 2003, the Company's principal outstanding debt was approximately US\$771.4 million based on fixed interest rates, US\$336.3 million based on Libor, US\$46.7 million based on a basket of currencies and US\$211.0 million based on TJLP.

At December 31, 2003, our long-term debt maturities were as follows:

	MATURING IN				
	2005	2006	2007	2008	2009 AND BEYOND
Long-term debt					
(in millions of US\$)	123.3	216.3	266.9	160.7	212.2

At December 31, 2003, we had cash, cash equivalents and debt securities available for sale of US\$352.3 million, an increase of US\$78.4 million from US\$273.9 million at December 31, 2002. The equivalent of US\$289.1 million was invested in local currency instruments and US\$63.2 million was invested abroad, mostly in U.S. dollar time deposits with leading financial institutions. At March 31, 2004, the Company had cash, cash equivalents and time deposits of US\$355.6 million.

Net debt reached US\$519.9 million at December 31, 2002 as compared to US\$437.4 million at December 31, 2001. The increase was mainly due to capital expenditures of US\$260.7 million, and dividends of US\$73.8 million, paid to shareholders partly offset by cash generated from operations.

Net debt reached US\$437.4 million at December 31, 2001 as compared to US\$209.8 million at December 31, 2000. This significant increase in gross debt was a result of the increase of the capital expenditures in 2001 relating to Fiberline C Expansion Project, totaling US\$355.8 million in 2001. The net debt

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increase of US\$227.6 million was mainly due to capital expenditures of US\$421.5 million and dividends of US\$63.2 million paid to shareholders.

Our short-term debt consists primarily of trade financing in the form of export sales advances, or ACC, discounted export accounts receivables, or ACE, and prepayments for exports and Euro-commercial paper borrowings, all denominated in foreign currency. ACC and ACE are forms of financing available from Brazilian financial institutions or Brazilian branches of foreign financial institutions at a fixed rate with a maturity of up to 360 days prior to shipment of pulp for export, in the case of ACC, and with a maturity of up to 180 days after shipment of pulp for export, in the case of ACE. Prepayments for exports are a form of financing available from importers or foreign financial institutions at a fixed rate with maturity of either up to 180 days or more than one year, in each case prior to the shipment. As of December 31, 2003, the outstanding principal amount of such short-term trade financing was US\$117.8 million at an average annual interest rate of 1.7% and an average month-end balance of US\$181.1 million during 2003. As of December 31, 2002, the outstanding amount of such short-term trade financing was US\$7.5 million at an average annual interest rate of 4.7% and an average month-end balance of US\$24.6 million during 2002. The Company's long-term debt consists primarily of U.S. dollar-denominated debt issued outside Brazil in the amount of US\$984.0 million at December 31, 2003 and loans from BNDES, one of the Company's principal shareholders, denominated in Reais and in foreign currencies. At December 31, 2003, the Company had loans from BNDES with an aggregate principal amount outstanding of R\$765.7 million (US\$263.3 million) (as compared to R\$925.9 million (US\$265.2 million) at December 31, 2002), which represented approximately 19% of the Company's total indebtedness at such date. At December 31, 2003, of the total aggregate principal amount of the BNDES debt, US\$211.0 million was denominated in Reais and adjusted by the Taxa de Juros de Longo Prazo (the Long-term Interest Rate or "TJLP"), US\$5.6 million was U.S. dollar-denominated and US\$46.7 million was adjusted by a currency basket. On June 13, 2001, the Company entered into an 8-year loan agreement with BNDES for an aggregate principal amount of R\$666.3 million (US\$230.6 million at the exchange rate of R\$2.8892 per US\$1.00 at December 31, 2003) with maturities from 2003 to 2009 and annual interest rates ranging from 7.8% to 11.4%. The Company had outstanding indebtedness under this agreement of US\$246.5 million at December 31, 2003. The loan is divided into three tranches. A portion of the debt incurred by the Company under the above-mentioned loan is subject to interest equal to the TJLP plus 1.8% or 3.3% per annum, as applicable, and another portion is subject to interest equal to 3.3% per annum over the interest rate published quarterly by BNDES. The proceeds of this loan were used principally to finance the Fiberline C Expansion Project. The Company's obligations under this agreement are secured by liens on the Company's industrial site at the Municipality of Aracruz.

In February 1995, the Company completed the first tranche, totaling US\$50 million, of a transaction pursuant to which Trading securitized existing and future accounts receivable payable by certain customers. The securitization was limited to an aggregate principal amount of US\$200 million, and the second and third tranches for the remaining US\$150 million were completed in July 1995. During 1997, US\$38 million of the five-year certificates relating to the third tranche were fully redeemed. As of December 31, 2001, there was US\$13.2 million outstanding under the securitization. The outstanding amount due under the securitization was prepaid on March 31, 2002.

On January 30, 2002, Arcel Finance Limited issued 5.984% Senior Secured Notes due 2009, in the amount of US\$250 million; on August 6, 2003 it issued its US\$400 million of its 7.048% Senior Secured Notes due September 1, 2011 and further, on April 30, 2004, a new tranche of 6.361% Senior Secured Notes due May 1, 2012 in the total amount of US\$175,000,000 was issued, as part of a new program for the issuance of collateralized debt securities. Subsequent to the offer and sale of those notes, additional series of notes may be issued,

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provided that certain conditions are met. We unconditionally and irrevocably guaranteed all obligations of Aracruz Trading and Aracruz Trading Hungary under the notes. The notes rank pari passu in priority of payment (subject to mandatorily preferred debts under applicable laws) with all of our other present and future unsecured and unsubordinated obligations. The first tranche has a financial guaranty insurance policy by a financial guaranty insurance company guaranteeing the timely payments of interest on and scheduled principal of the first tranche of notes.

We agreed, among other things:

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- o that at least 80% of our export sales of bleached eucalyptus kraft market pulp in the most recent four calendar quarters of certain dates must be made to Aracruz Trading S.A.;
- o to limitations on our winding-up or dissolution or possible future mergers and our consolidation for as long as the notes are outstanding; and
- o to perform certain acts in the event of bankruptcy of Aracruz Trading S.A. or Aracruz Trading Hungary Limited, including the replacement of Aracruz Trading S.A. or Aracruz Trading Hungary Limited, as the case may be, for another company .

The Company is a several guarantor of 50% of the indebtedness incurred by Veracel in connection with the financing of the Veracel Project. Stora Enso is a several guarantor of the other 50% of such indebtedness. At March 31, 2004 the outstanding amount of such indebtedness guaranteed by the Company was approximately US\$63.5 million. As of December 31, 2003, the Company had no off-balance sheet arrangements that have, or are reasonably likely to have, a material effect on its financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

### CAPITAL EXPENDITURES

The Company's capital expenditures for 2003, 2002 and 2001 were US\$118.7 million, US\$260.7 million and US\$421.5 million , respectively.

During the year 2003, the Company invested approximately US\$118.7 million, of which US\$55.8 million was devoted to the Fiberline C Expansion Project, US\$3.2 million was devoted to ongoing industrial investments, US\$51.5 million was devoted to silviculture and other forestry investments and US\$8.2 million was devoted to other projects.

During 2004, the Company expects to invest approximately US\$210 million, of which US\$115 million is expected to be invested in the Veracel Project and US\$95 million relates to industrial, forestry and other investments. See "Item 4--Information on Aracruz--History and Development of Aracruz--Capital Expenditures."

### FINANCIAL STRATEGY

Because the Company operates internationally, it is exposed to market risks from changes in foreign exchange and interest rates. To protect against these market risks, the Company from time to time enters into forward foreign exchange contracts and interest-rate swap agreements. The Company may be exposed to

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counterparty credit risk in the event of nonperformance by the counterparties to the forward exchange-rate contracts and the interest-rate-swap agreements. The Company believes that an event of nonperformance by its counterparties is unlikely to occur due to the Company's credit risk policies.

In the past, a major element of our financial strategy was to take advantage of the interest rate differential available in Brazil only to exporting companies. Funds obtained through lower cost trade financing were invested, together with cash flow from operations, in Brazilian financial instruments at a generally higher yield. Our ability to generate profits from this arbitraging activity has been reduced as a result of the declining interest rates in Brazil as well as from the change in our financial strategy in 1997. Since August 1997, most of our financial investments were denominated in U.S. dollars to minimize currency risk exposure.

The issuance of the Notes under the securitization program for collateralized debt securities in 2002 and 2003 is part of the Company's current financial strategy, which includes increasing the average maturity of its debt. Brazilian companies have limited sources of long-term debt financing denominated in Reais, and we do not intend to incur short-term debt denominated in Reais due to the higher associated costs. At December 31, 2003, 85% of the Company's total indebtedness was denominated in foreign currencies, as compared to 75% at the end of 2002. Although the Company's access to debt financing denominated in foreign currencies, beyond pre-export and receivables financing, may also be

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limited, the Company believes that it has access to a sufficient number of financing sources to meet its needs without resorting to expensive short-term Real-denominated financing.

Our guidelines for our financial investments are as follows:

- o investments in fixed income obligations of the Brazilian government have no limit;
- o investments in banks in Brazil are subject to the following requirements:
  - o the bank must have a minimum rating of "A-" or equivalent from rating agencies; and
  - o the maximum investment per bank is limited to the lesser of (i) US\$100 million, and (ii) 15% of the bank's net worth (the net worth limit does not apply to wholly owned local subsidiaries of foreign banks having an international rating equivalent to at least "A-" from rating agencies);
- o investments in banks abroad:
  - o for investments up to 180-day maturity, the bank must have a minimum rating equivalent to "BBB" in the international scale from rating agencies;
  - o for investments above 180-day maturity, the bank must have a minimum rating equivalent to "A-" in the international scale from rating agencies.

DIVIDENDS

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Subject to certain exceptions, we are required, according to our by-laws and under Brazilian corporate law, to pay a minimum annual dividend equal to 25% of our Adjusted Net Income. In addition, we may pay interim dividends either based on our net income for any period within our fiscal year or from retained earnings or certain other revenue reserves established in prior years. See "Item 8A. Consolidated Statements and Other Financial Information--Dividends."

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

During 2001, 2002 and 2003, our research and development expenditures totaled approximately US\$4.0 million, US\$3.8 million and US\$3.8 million, respectively. The Company believes that its research and development activities are an important part of its ongoing effort to maintain its competitiveness. The Company strives to develop high quality forests, with high productivity at minimum cost, in specific ecosystems, and to produce the highest quality wood pulp with minimum environmental impact. This strategy has enabled the Company to obtain productivity gains and reduce overall production costs, while supplying the market with improved products and reinforcing the Company's long-term relationships with key customers.

The main objective of the Aracruz Research and Technology Center is to add value to the overall business. With activities ranging from the seedling nursery to final product development, we achieved important results in 2003. We made further progress in the genetic enhancement of the Aracruz Eucalyptus. Of particular note was the obtaining of a new generation of superior trees to be planted on an operational scale from 2004. The results showed that the new trees offer potential for a higher productivity per hectare than those currently planted, adding value in terms of fiber quality to attend the market demands. Furthermore, Aracruz is a member of the Eucalyptus Genome Consortium (Genolyptus), with the aim of obtaining additional tools and products to speed up the results of our tree improvement program.

The development of forest management techniques that insure the high performance of the Company's plantations continues to be one of the Company's priorities. As part of the Company's activities in the "Brazil Eucalyptus Potential Productivity" consortium, a number of parameters that influence the biological process of productivity and sustainability of eucalyptus plantations are being measured.

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Work on the Aracruz Watershed Project continued during 2003. The project consists of long-term studies to evaluate the forest sustainability of the Company's production. Conducted in partnership with renowned research institutes and universities in Brazil and abroad, the project integrates studies based on the systematic monitoring of the principal environmental components - climate, soil, water resources, biodiversity - and the analysis of their inter-relationships. This approach has brought about wide-ranging results with practical applications as well as generated a database that has allowed continuous enhancement of the Company's forestry management procedures, thus helping minimize the impact of its activities on the environment.

The results indicate that - after successive eucalyptus planting cycles - the Company's practices assure the maintenance or improvement of the natural condition of the soil as well as making an effective contribution to the preservation of biodiversity and water resources. The project associated with additional monitoring in different ecosystems, is allowing the use of



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process-based models to predict forest growth. A system was developed and implemented that will more precisely evaluate outbreaks of pest and diseases, leading to more effective control measures and reducing the risk of a loss of productivity.

As with pulp, advances were also made in forestry operations for solid wood products. In 2003, the Company continued to conduct studies focusing on a new concept of forestry management for the growing of large trees.

The development of new types of fibers in line with the commercial objectives and needs of our customers continued to be one of the priorities of our research and technology team. The results indicate that we are nearing important strategic advances that will result in improved wood quality and enhanced environmental performance.

### D. TREND INFORMATION

The trends that influence our sales and production and inventory levels are primarily the patterns of pulp purchases by paper producers in the United States, Europe and Asia and the level of pulp inventory held by pulp producers worldwide.

For 2004, it is expected that there will be an increase in supply in the bleached hardwood kraft market pulp segment as a result of new facilities coming online in the market.

### 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 board of executive officers.

Set forth below are the names and positions at June 15, 2004 and brief biographical descriptions of our directors and officers:

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#### BOARD OF DIRECTORS

NAME	AGE
Carlos Alberto Vieira.....	70
Ernane Galveas.....	81
Acyr Frederico Horta Barbosa Pinto da Luz	68
Luiz Aranha Correa do Lago	53
Eliezer Batista da Silva.....	80
Haakon Lorentzen.....	49
Jose Roberto Ermirio de Moraes.....	47
Leon Chant Dakessian.....	50
Nelson Koichi Shimada	51
Sandra Meira Starling	60

#### EXECUTIVE OFFICERS

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NAME	AGE
Carlos Augusto Lira Aguiar.....	58
Joao Felipe Carsalade.....	49
Walter Lidio Nunes.....	55
Isac Roffe Zagury.....	52
.....	

### BIOGRAPHICAL INFORMATION

CARLOS ALBERTO VIEIRA. Since April 29, 2004 Mr. Vieira has been the Chairman of our Board of Directors , of which he had been a member since April 15, 1988. He is also President of the board of directors of Banco Safra S.A., Safra Leasing S.A. Arrendamento Mercantil, Agropecuaria Potrillo S.A., and Pastoral Agropecuaria Couto Magalhaes S.A. He is also an officer of Safra Seguradora S.A.

ERNANE GALVEAS. Mr. Galveas has been a Director since April 29, 1994. He has also been a member of the Technical Committee of the Brazilian Association of Commerce since 1975 and, since 1988 he has been the Economic Counsel for the Presidency of that Committee. Mr. Galveas has been the President of the Managing Committee of the Brazilian Association for Economic Studies Promotion since 1988, and was the Minister of Finance of Brazil during the period from January 1980 to March 1985, and President of the Central Bank twice. He was also our chief financial officer during the period from 1974 to 1978 and Executive Vice President in 1979.

ACYR FREDERICO HORTA BARBOSA PINTO DA LUZ. Mr. Luz has been a Director of the Company since April 29, 2003. He is also a lawyer in Rio de Janeiro.

LUIZ ARANHA CORREA DO LAGO. Mr. Correa do Lago was an alternate member of our Board of Directors from April 1998 to April 2004, when he was elected member of the board. He has been the Planning Director of Lorentzen Empreendimentos S/A since 1988. He also held office as Capital Markets Director of the Central Bank of Brazil from 1987 to 1988.

ELIEZER BATISTA DA SILVA. Mr. Batista da Silva has been a Director since June 28, 1996. He was also Chairman of Rio Doce Internacional. In 1992, he served as the Brazilian Government's Secretary for Strategic Affairs. From 1979 to 1986, he was Chairman of Companhia Vale do Rio Doce and also the President of its board of directors. He was the President of Mineracoes Brasileiras Reunidas S.A. (Caemi Group) from 1964 to 1968, and Minister of Mines and Energy from 1962 to 1964. His first term as Chairman of Companhia Vale do Rio Doce was from 1961 to 1962.

HAAKON LORENTZEN. Mr. Lorentzen has been a Director since April 29, 1991 and is the son of Mr. Erling Lorentzen, formerly our Chairman. He is the Executive Vice President of Lorentzen Empreendimentos S.A., as well as Chairman of Carbo Industrial S.A., Carbo Derivados S.A. and Provida ASA.

JOSE ROBERTO ERMIRIO DE MORAES. Mr. Moraes has been a Director since April 18, 2002. He is also the Chairman of VCP, of which he was the Chief Executive Officer until April 2002.

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LEON CHANT DAKESSIAN. Mr. Dakessian has been a Director since April 18, 2002. He has also been the Corporate Planning Director of Votorantim group since August 1998. Prior to joining Votorantim, he worked for Bunge Group from 1984 to 1998 in strategic planning, business development and corporate treasury areas.

NELSON KOICHI SHIMADA. Mr. Shimada has been working for Votorantim Group since 1989. At present, he is a Vice President of VBC and Votorantim Internacional.

SANDRA MEIRA STARLING. Ms. Starling has been a Director of the Company since April 29, 2003. She is also Executive Secretary of the Department of Labor and Jobs since January 2003. She was previously Director of Research and Extension of the Pontifical Catholic University of Minas Gerais and a professor in the Department of Sociology and Anthropology of the University of Philosophy and Humanities and in the Department of Private Rights at the Federal University of Minas Gerais.

CARLOS AUGUSTO LIRA AGUIAR. Mr. Aguiar became President on April 17, 1998. He has been an Officer since October 25, 1985 and he was a Vice President from April 1993 to April 17, 1998. Due to the resignation of Mr. Armando da Silva Figueira as President, effective at February 11, 1993, Mr. Aguiar was also the Acting President from such date until November 16, 1993. Since 1981, Mr. Aguiar has held various managerial positions with our operations department. JOAO FELIPE CARSA LADE. Mr. Carsalade has been an Officer since September 6, 1993. Since 1976, Mr. Carsalade has held various managerial positions with our commercial department.

WALTER LIDIO NUNES. Mr. Nunes has been an Officer since May 27, 1998. Since 1977, Mr. Nunes has held various managerial positions with our industrial department.

ISAC ROFFE ZAGURY. Mr. Zagury was elected a member of our board of executive officers on June 6, 2003. Prior to that, he worked for 26 years at BNDES in various positions. Since 2000, he was acting as an officer of BNDES.

### FISCAL COMMITTEE

Although we are not required under the Brazilian corporate law to maintain a permanent fiscal committee (conselho fiscal), our by-laws were amended in April 2004 to establish that such corporate body shall be maintained on a regular basis. Under the Brazilian corporate law, the Conselho Fiscal, or fiscal committee, is a corporate body independent of management. A Conselho Fiscal is not equivalent to, or comparable with, a U.S. audit committee. Our fiscal committee is composed of three members, as required by the Brazilian corporate law, and three alternates. Two members of the fiscal committee represent the controlling shareholders, and one represents the minority shareholders' interests. The members of the fiscal committee are elected for one-year terms, but can be reelected. The primary responsibility of the fiscal committee is to review management's activities and the financial statements, and to report its findings to the shareholders. Under the Brazilian corporate law, the fiscal committee may not contain members that (i) are on the board of directors, (ii) are on the board of executive officers, (iii) are employed by us or a controlled company, and (iv) are spouses or relatives of our management, up to the third degree. In addition, the Brazilian corporate law requires that the fiscal committee members receive as remuneration at least 10% of the average amount paid to each executive officer. The Brazilian corporate law requires a fiscal committee to have a minimum of three and a maximum of five members.

At the annual shareholders' meeting held on April 29, 2004, our shareholders decided to appoint, for the fiscal year ending on December 31, 2004, the members of our fiscal committee and their respective alternates as set

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forth below:

Name	Position
-----	-----
Wagner Braz.....	Member
Sheila Periard Henrique Silva.....	Alternate
Fernando Octavio Martins Alves.....	Member
Jorge Juliano de Oliveira.....	Alternate

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Luiz Antonio Perdigao.....	Member
Luiz Coelho Repis.....	Alternate

We do not currently have an audit committee. We do, however, expect to have by July 31, 2005 an audit committee with all of the attributions, including independence, required by Sarbanes-Oxley Act, relevant U.S. regulations and the corporate governance rules of the New York Securities Exchange or to avail ourselves of permitted exemptions.

### B. COMPENSATION

For the year ended December 31, 2003, the aggregate compensation of all of our directors and officers was approximately US\$1.8 million, which includes bonuses in the aggregate amount of US\$0.3 million. In addition, for 2003, we paid an aggregate of approximately US\$0.08 million into our pension plan on behalf of our directors and officers. For the year ended December 31, 2002, the aggregate compensation of all of our directors and officers was approximately US\$2.0 million, which includes bonuses in the aggregate amount of US\$0.6 million. In addition, for 2002, we paid an aggregate of approximately US\$0.07 million into our pension plan on behalf of our directors and officers.

### C. BOARD PRACTICES

Our board of directors (i.e., Conselho de Administracao), which may consist of no fewer than nine and no more than twelve members (each, a director), is responsible for, among other things, establishing our general business policies. Our board of directors is currently comprised of ten members and ten alternates, who were elected for a term of three years by the shareholders at the annual shareholders' meeting held on April 29, 2004. The term of office of the current board of directors will end on the date of the ordinary shareholders' meeting to take place in 2007. Our by-laws provide that, in the absence of a director, an alternate director may attend board meetings. We have no service contracts with our directors providing for benefits upon termination of employment.

Our board of executive officers (i.e., Diretoria), which may consist of no fewer than two and no more than eight officers (each, an officer), is responsible for our day-to-day management. The executive officers are elected by the board of directors for a term of three years. The term of office of each officer will end on July 24, 2006.

### REMUNERATION COMMITTEE

We have an ad hoc remuneration committee, formed by three members, the purpose of which is to decide on various matters regarding the compensation of our officers and directors. The current members of the remuneration committee are Luiz Aranha Correa do Lago, Isaac Selim Sutton and Mauricio Luis Luchetti. The members of the remuneration committee do not receive compensation.

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### BOARD PRACTICES

Under Brazilian corporate law, the members of the board of directors must be shareholders of the company. There is no requirement as to the number of shares an individual must own in order to act as a member of the board of directors.

According to Brazilian corporate law, officers and directors of a company are prohibited from voting on or acting in matters in which their interests conflict with those of the company.

Our by-laws provide that the shareholders are responsible for determining the global annual remuneration of the members of our management bodies. Our board of directors is responsible for dividing such remuneration among the members of the management. There are no specific provisions regarding a directors' power to vote its compensation in the absence of an independent quorum.

With respect to the borrowing powers of the board of directors, the approval of the board of directors is necessary to issue commercial paper, but any other financing arrangements may be entered into by us upon the joint signatures of:

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- o two officers;
- o one officer and one attorney-in-fact; and
- o two attorneys-in fact.

There are no age limit requirements for retirement of the members of our board of directors. There are no provisions in our by-laws regarding reelection of directors in staggered intervals.

### D. EMPLOYEES

We employed a total of 2,145 people at December 31, 2003, compared to 1,601 people at December 31, 2002. For the years ended December 31, 2002 and 2001, 76% of our workforce were directly involved in the production process, 4% were engaged in research and development and 20% were administrative employees. As of December 31, 2003, 61% of our employees were employed at the Mill site in Aracruz, 22% were employed at the Guaiba Unit, 2% were employed at the offices in Rio de Janeiro and 15% were employed at the offices in Bahia.

All of our employees are subject to collective bargaining agreements with seven unions. Each collective bargaining agreement is renegotiated annually in November. The agreements currently in effect will expire in October 2004.

In December 1994, the Executive Branch of the Brazilian government issued a provisional measure, which was converted into Law No. 10,101 of December 19, 2000 giving employees the right to receive a bonus based on certain operating results of their employer, as such right is contemplated in the Brazilian Constitution. The law provides that each company and its employees shall agree on the details of such bonus, including the calculation of the amount of the bonus and the applicable payment periods. Pursuant to such legislation, since 1995 the Company and its employees' labor unions have negotiated the terms of two different bonus plans on an annual basis, one for the Company's management

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and another for non-management employees, which plans meet the requirements of the provisional measure. Any bonus to be paid under either of the plans is based on the Company reaching certain operating targets and financial results. The total amount paid by the Company under these bonus plans for 2003 amounted to US\$5.2 million. We provide certain social benefits to our employees, including funds to operate a school. We contribute, jointly with the employees, to an employee pension fund, most of the trustees of which are also our officers.

### E. SHARE OWNERSHIP

As of December 31, 2003, the members of our board of directors and our officers, on an individual basis and as a group, beneficially owned less than one percent of any class of our stock. None of the members of our board of directors or our officers holds any options to purchase our common shares or preferred shares. See "Item 7A. Major Shareholders."

The following table lists the amount of shares held directly by each individual member of our board of directors or executive officer and their representative percentage relative to the total outstanding shares as of May 30, 2004:

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	NUMBER OF COMMON SHARES -----	NUMBER OF PREFERRED SHARES -----	TOTAL -----
<b>BOARD OF DIRECTORS</b>			
Carlos Alberto Vieira.....	1,000	-	1,000
Ernane Galveas.....	91	-	91
Acyr Frederico Pinto da Luz	205,321	103,000	308,321
Luiz Aranha Correa do Lago	8	-	8
Eliezer Batista da Silva.....	13	-	13
Haakon Lorentzen.....	10	-	10
Jose Roberto Ermirio de Moraes.....	-	1	1
Leon Chant Dakessian.....	-	1	1
Nelson Koichi Shimada	-	1	1
Sandra Meira Starling	-	1	1
<b>EXECUTIVE OFFICERS</b>			
Carlos Augusto Lira Aguiar.....	-	10,599	10,599
Joao Felipe Carsalade.....	-	-	-
Walter Lidio Nunes.....	-	-	-
Isac Roffe Zagury.....	-	-	-
<b>Total.....</b>	<b>206,443</b>	<b>113,603</b>	<b>320,046</b>

### ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

#### A. MAJOR SHAREHOLDERS

Of the three classes of our capital stock outstanding, only our common stock, without par value, has voting rights. Approximately 96.5% of our common stock is owned by the following four principal shareholders, or the Principal Shareholders: Arapar S.A. (a company associated with Erling Sven Lorentzen, the

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Chairman of our board of directors until April 2004), S.O.D.E.P.A.--Sociedade de Empreendimentos, Publicidade e Participacao S.A., or SODEPA (an affiliate of Banco Safra S.A.), Newark Financial Inc. (a British Virgin Islands company wholly owned by VCP) and BNDES Participacoes S.A.--BNDESPAR (an affiliate of our principal bank lender, Banco Nacional de Desenvolvimento Economico e Social--BNDES, a development bank wholly owned by the Brazilian government). The Principal Shareholders have the ability to control the election of the members of our board of directors and the direction and future of our operations, including decisions regarding acquisitions and other business opportunities, the declaration of dividends in excess of the required amounts as set forth under our by-laws and Brazilian corporate law, and the issuance of securities. See "--Shareholders' Agreement."

On October 3, 2001, we were informed that, on that date, Mondi Brazil Limited, or Mondi, a subsidiary of Anglo American Corporation of South Africa Limited entered into a share purchase and sale agreement with VCP, one of our competitors. See "Item 4B. Business Overview--Competition." Under the share purchase and sale agreement, VCP agreed, through a wholly owned subsidiary incorporated in the British Virgin Islands, to acquire from Mondi 127,506,457 shares of our common stock, representing 28% of our voting capital and 12.3% of the total capital stock, excluding treasury stock, for US\$370 million. The transfer of the shares occurred on November 1, 2001, on which date the VCP subsidiary agreed to be bound by the existing Shareholders' Agreement, which expires in 2008. Mondi had purchased its participation from a former shareholder, Souza Cruz S.A., on June 13, 1996.

The following table sets forth the amount and percentage ownership at March 31, 2004 of each shareholder known to us to own more than 5% of each class of our capital stock and our officers and directors as a group:

	SHARE OWNERSHIP AT MARCH 31, 2004			
	COMMON STOCK		CLASS A STOCK(1)	
	SHARES	%	SHARES	%
	(in millions of shares, except percentage)			
Newark Finance Inc.(2)	127.5	28.0%	--	0.0%
Arapar S.A.(3)(4)	127.5	28.0	--	0.0
Sociedade de Empreendimentos, Publicidade e Participacao S.A.(5)	127.5	28.0	27.7	72.8
BNDES Participacoes S.A.(6)	56.9	12.5	10.0	26.3
Others	16.0	3.5	0.4	0.9
Total	455.4	100.0%	38.1	100.0%

Source: Banco Itau S.A.

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(1) Each share of acoes preferenciais classe A of the Company ("CLASS A STOCK") may be converted into one share of acoes preferenciais classe B of the Company ("CLASS B STOCK") at any time at the holder's option. Shares of Class B Stock are not convertible into shares of Class A Stock.

(2) Newark Finance Inc. purchased its Common Stock from Mondi Brazil Limited on November 1, 2001.

(3) Lorentzen Empreendimentos S.A. owns indirectly approximately 44.7% of Arapar S.A. Lorentzen Empreendimentos S.A. is indirectly controlled by Erling Sven Lorentzen, Chairman of the Company's board of directors. Haakon Lorentzen, also a member of the Company's board of directors, owns indirectly 2.6% of the stock of Lorentzen Empreendimentos S.A.

(4) Den Norske Bank ASA owns indirectly approximately 23.3% of Arapar S.A. Den Norske Bank ASA has agreed to finance the Company's acquisition of certain equipment. See "Certain Transactions With Related Parties -- Other Matters."

(5) Albatroz S.A., previously a shareholder, was merged into Safra Holding S.A. in January 1995, which in turn was merged into SODEPA in March 1996. On April 22, 2004 127,506,457 shares of Common Stock held by SODEPA were transferred to its affiliate Arainvest Participacoes S.A.

(6) A wholly owned subsidiary of BNDES.

### SHAREHOLDERS' AGREEMENT

The Principal Shareholders are parties to a Shareholders' Agreement, dated January 22, 1988, as amended on June 30, 1989, or the Original Shareholders' Agreement. While we are a signatory to the Original Shareholders' Agreement, our sole obligation under the agreement is to administer compliance by the Principal Shareholders in accordance with the terms of the Original Shareholders' Agreement. The Original Shareholders' Agreement relates only to our common stock. The Original Shareholders' Agreement provides that the Principal Shareholders will be entitled to elect directors of our board of directors in proportion to their respective interests in our voting stock, except that each Principal Shareholder is ensured the right to elect at least one director so long as such Principal Shareholder retains 5% or more of our voting stock. Such right is not transferable without the unanimous consent of the other parties to the Original Shareholders' Agreement. In addition, the Original Shareholders' Agreement provides that the maximum number of shares of common stock to be held by any Principal Shareholder may not exceed 28% of the total outstanding shares of common stock. Furthermore, the Original Shareholders' Agreement provides that the Principal Shareholders may sell, encumber or otherwise transfer their rights in our voting stock to any third party as long as the beneficial ownership of 51% or more of such stock is retained by Brazilian nationals. Brazilian nationals are defined as (a) individual residents who are domiciled in Brazil, (b) corporate instrumentalities of the Brazilian government or subdivisions thereof or (c) corporate entities whose headquarters are in, and are incorporated in, Brazil and which, directly or indirectly, are controlled by persons referred to in (a) or (b) above. The Original Shareholders' Agreement also requires that each person or entity who acquires shares of common stock from any of the Principal Shareholders become a party to such agreement. The Original Shareholders' Agreement will expire in 2008.



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between, on one side, Arapar S/A and Lorentzen Empreendimentos S/A, collectively Grupo Lorentzen, and, on the other side, SODEPA (the "NEW SHAREHOLDERS' AGREEMENT"). Each of the Parties holds approximately 28% of Aracruz' voting shares.

Notwithstanding the Original Shareholders' Agreement dated January 22, 1988, which will be in force and effect until May 11, 2008, the New Shareholders Agreement executed in February 2003, which will be in force for 16 years from the date of its execution, governs the exercise of Grupo Lorentzen and SODEPA's ownership rights, establishing rules related to (i) the sale of its shares (in force during the term of the Original Agreement), (ii) the preferential rights to purchase such shares, and (iii) the right to a tag along sale. The exercise of voting rights by Grupo Lorentzen and SODEPA will continue to be in force upon the expiration of the Original agreements.

### B. RELATED PARTY TRANSACTIONS

#### BNDES LOAN AGREEMENTS

BNDES is our principal lender. As of December 31, 2003, we had outstanding loans with BNDES with an aggregate principal amount outstanding of approximately R\$765.7 million (equivalent to US\$263.3 million) (the "BNDES DEBT"), which represented approximately 19% of our total indebtedness. The interest payable by us on the real-denominated debt is equal to the TJLP, plus 1.8% to 4% per annum. The TJLP is determined based on a mix of the long-term local and foreign debt instruments issued by the government. The rate is reset quarterly. The debt that is denominated in, or indexed to, foreign currencies is corrected by changes in the exchange rate, plus interest of 2.33% to 10.41% per annum. Approximately 94% of the BNDES Debt was incurred in connection with the Fiberline C Expansion Project. At March 31, 2004, the outstanding principal balance of the Company's BNDES debt was approximately R\$714.9 million (equivalent to approximately US\$245.8 million), representing approximately 19% of the Company's total indebtedness.

One of the financing arrangements that we have entered into with BNDES extends a credit line to us of up to US\$205.0 million for use principally in connection with the Modernization Project (US\$0.7 million outstanding as of March 31, 2004). See "Item 4A. History and Development of Aracruz--Capital Expenditures."

The BNDES debt is secured by liens on our industrial site at the Municipality of Aracruz. Certain of the Principal Shareholders have provided BNDES with assurances that we will meet the debt-to-equity and liquidity ratios contained in one of the BNDES Debt loan agreements and agreed that, in the event such ratios are not maintained, they will contribute to us as capital any amount they would otherwise have been entitled to receive as dividends. We believe that the BNDES debt is on terms comparable to those offered by BNDES to unaffiliated third parties in similar financings. Because BNDES was organized by the Brazilian government in large part to support development of businesses within Brazil, loans made by BNDES, including the BNDES debt, are typically on terms more favorable to the borrower than would be available from non-governmental lending institutions. See Note 12 of the consolidated financial statements.

#### OTHER MATTERS

On June 14, 1996, we entered into a buyer's credit agreement with Den Norske Bank ASA, an indirect shareholder of Arapar S.A., pursuant to which Den Norske Bank ASA has agreed to provide approximately US\$8.4 million to us to finance the acquisition of certain equipment and related services in connection with the Modernization Project. As of March 31, 2004 approximately US\$0.6 million was outstanding under this agreement.

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On January 1, 1998, Companhia de Navegacao Norsul, or Norsul, a company indirectly controlled by Mr. Erling Sven Lorentzen, the former chairman of our board of directors and a shareholder of Arapar S.A., one of the Principal Shareholders, entered into a contract with us expiring on December 31, 2002 pursuant to which Norsul ships pulp for us to the United States and Northern Europe. For Northern Europe, Norsul has a joint service agreement with Gearbulk Pool Ltd. In 2002 and 2003, Norsul shipped approximately 396,000 and 460,000 tons of pulp to us, representing approximately 24% and 22% of our export sales, respectively. In January 2004, Norsul sold its ocean freight division (Open Hatch division) to Gearbulk, transferring all its agreement rights to Gearbulk.

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On December 19, 2000, Norsul entered into an agreement with us which established the terms and conditions to implement the investments and operations of a project to ship wood logs from the port of Caravelas, in the south of the State of Bahia, to the Portocel Barra do Riacho Specialized Terminal. According to this agreement, we will reimburse Norsul for the costs incurred on the acquisition of ships and other direct costs. In addition to the cost reimbursement, we will pay to Norsul a monthly administration fee of US\$34,000. This agreement has a term of 20 years, starting on the issuance date of the first shipment's notice of readiness.

### C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See "Item 3A. Selected Financial Data" and "Item 19. Exhibits."

### EXPORT SALES

During 2003, we produced approximately 2,250,000 tons of bleached eucalyptus pulp. Sales to customers outside Brazil, especially in North America, Western Europe and Asia, accounted for approximately 98% of our total sales volume. During 2002, we produced approximately 1.656,000 tons of bleached eucalyptus pulp. Pulp sales in 2002 were approximately 1,585,000 tons, of which 98% were export sales. See "Item 4B. Business Overview--General."

### LEGAL PROCEEDINGS

We are party to a number of legal actions arising from our normal business activities. Although the amount of any liability that could arise with respect to these actions cannot be accurately predicted, in our opinion, except as described below, such actions, if decided adversely, would not, individually or in the aggregate, have a material adverse effect on our financial condition.

As a part of our ongoing operations, we have been the defendant in a number of lawsuits brought by our employees and their labor unions. Among these, some suits claimed additional compensation for alleged hazardous work conditions. In 1995, we received an unfavorable decision with respect to the first of these claims to be decided. We have established what we consider to be an adequate reserve on our books to cover these claims. In December 2001, we and our employees and their union settled two of the six claims for an amount of US\$6.7 million, which amount has been paid by us in January 2002. Accordingly, we reduced proportionately the reserve we have established with respect to these

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claims. We are also a party to approximately 662 other legal actions relating primarily to labor claims by former employees. In 2003, we have recorded additional provisions in the amount of approximately US\$1.5 million and have also deposited approximately US\$1.2 million in judicial deposits with respect to such actions.

In October 1993, the Brazilian Federal Prosecutor brought a suit against us, the State of Espirito Santo and IBAMA (the Brazilian environmental protection agency) to halt all activities of the Forestry Partners Program, and to seek damages on the grounds that the program did not follow certain prescribed environmental procedures. We have been allowed, pursuant to an interim judicial decision, to continue the program with respect to areas other than native forest and areas cultivated with other plantings. In May 2000, the federal local court promulgated a Term of Settlement signed by and among the parties involved, extinguishing this suit and keeping in full effect the terms of the Forestry Partners Program. Such Term of Settlement is still in effect and being complied with by the Company.

In January 1997, the National Indian Foundation, or FUNAI, the Brazilian government agency responsible for Indian affairs, instituted an administrative proceeding to force us to relinquish 13,000 hectares of our property to enlarge neighboring Indian reservations encompassing the Indian communities of Pau Brasil, Caieiras Velhas and Comboios. In

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January 1997, we filed a response and related documents with FUNAI stating that we are a good-faith owner since we had legally acquired such land from the former owners based on proper documentation. In March 1998, the Ministry of Justice issued Edicts Nos. 193, 194 and 195, which provided solely for the enlargement of the Indian reservation by 2,571 hectares of land belonging to us. In April and June 1998, we signed two Terms of Settlement with the Indian communities of Pau Brasil, Caieiras Velhas and Comboios that settled the administrative proceeding and in which: (i) the Indians recognized the legitimacy of Edicts Nos. 193, 194 and 195 and (ii) we committed to a financial aid program for social, agricultural, educational, shelter and health projects, in an amount of approximately R\$13.5 million (US\$5.8 million on December 31, 2001), over a 20-year period. The financial aid program is subject to the performance by the Indian communities of the following main obligations: (a) the formation of an association to receive the funds; (b) the delivery to us of a proposed allocation of funds approved by two representatives of each Indian village, by the association's board, by FUNAI and by the Brazilian Federal Prosecutor, or BFP; (c) the use of the funds exclusively in projects which guarantee the subsistence of all members of the communities, such use of the funds to be monitored by a commission formed by FUNAI and Indian community members not affiliated with the Association's board and to be reviewed by FUNAI and the BFP; (d) the observance of agreed boundaries; and (e) the guarantee of our right to use the existing roads in the enlarged areas object of the reservation. If the Indian communities breach any of their obligations, we will be released of our obligations under the Terms of Settlement. As of December 31, 2003, we advanced approximately R\$6.8 million (US\$3.3 million), in accordance with the Terms of Settlement. For additional information, see Note 16 to our consolidated financial statements.

In March 1997, we received assessment notices from the Brazilian Social Security Institute (Instituto Nacional de Seguridade Socia--INSS) demanding payment of social contributions over housing allowances paid to certain employees. We brought several lawsuits before local federal courts contesting such assessment notices and, at December 31, 2003, we have placed approximately

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US\$5.9 million in an escrow account to guarantee the payment of such social contributions in the event we lose these lawsuits. These suits are still pending.

We are contesting in local federal courts changes in the rates and rules for the calculation of certain social contributions (Programa de Integracao Social--PIS and Contribuicao para Financiamento da Seguridade Social-- COFINS) determined by Law No. 9,718/98. Our provision with respect to such legal actions equaled approximately US\$43.4 million as of December 31, 2003. We believe this provision is sufficient to cover any possible losses in connection with this action.

On March 13, 2002 the Espirito Santo legislative assembly created an investigating commission (Comissao Parlamentar de Inquerito) to investigate the legality of our permits and the acquisition of our properties from the date we began operating in Espirito Santo. As the investigative procedures were not concluded within the prescribed term for such sort of investigation, the commission was terminated without issuing a conclusive report. We are confident that all our permits have been legally obtained and acquisition documents are strictly in accordance with all laws and regulations.

In May 2003 the Human Rights Commission of the Brazilian House of Representatives ("Camara dos Deputados") created a Working Group to discuss the alleged violation of economic, social, cultural and environmental rights in the eucalyptus plantations in the State of Espirito Santo. Among other issues, several complaints involving the Company were discussed. Representatives of the Company participated in a Public Hearing and presented to the Commission extensive reports, information, evidences, technical studies, governmental and judicial decisions that demonstrate that the complaints were unjustified. The Working Group was terminated without issuing any report against the Company or any of its affiliates.

The Company's operations are located within the geographic area of the Agencia de Desenvolvimento do Nordeste (Northeast Development Agency, or "ADENE") and the pulp and paper sector is considered by the Brazilian Federal Government as a priority for the development of such geographic area. Accordingly, during 2002, the Company applied for and was awarded the right to a reduction in income taxes payable on its operating profits. The tax benefit was authorized by ADENE and subsequently confirmed by the Revenue Service in December 2002. On January 9, 2004, the Company was notified by ADENE of its decision to cancel the fiscal benefits to which the Company had been entitled. Such decision resulted from a reexamination by the legal department of the Regional Integration Ministry, which 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 counsel, the Company's management believes that such decision is not correct. Also, based on the advice of external legal counsel, management believes that ADENE's decision should not affect the benefits already recorded during 2003 as they were duly recognized under the then-existing authorization. Accordingly, management has not recorded any provisions for the benefits recognized during the year ended December 31, 2003. In addition, the Company has filed a lawsuit in federal courts challenging the legality of such reversal. In a preliminary decision, the effects of the tax benefit revocation have been suspended. After being notified of the court decision, ADENE cancelled its own

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tax benefit revocation and started an administrative procedure to examine the matter, during which the Company will have the opportunity to present its arguments. Based on counsel's opinions, the Company believes that its right to the tax benefit already used will be upheld, either by an administrative or court decision. However, there is no assurance that the tax benefit will be updated or made available in the future.

### DIVIDEND POLICY AND DIVIDENDS

#### GENERAL

Under Brazilian corporate law, we are required to hold an annual shareholders' meeting by April 30 of each year. At that meeting, our financial statements for the previous year and the proposal for distribution of dividends are submitted for shareholder approval. Accordingly, dividends for each fiscal year ending December 31 may be declared by April 30 of the subsequent year. Dividends are to be paid within 60 days from the date declared, unless otherwise resolved at the annual shareholders' meeting at which they were declared. In any event, declared dividends must be paid before the following December 31. Dividends relating to prior years in excess of those required to be paid by law may be declared and paid at any time by decision of the board of directors. The board of directors may also elect to pay interim dividends either:

- o based on our net income for any period within our fiscal year; or
- o from our retained earnings or certain other revenue reserves established in prior years.

Holders of Class A Stock are entitled to an annual preferential dividend equal to a minimum of 6% of the capital attributable to the Class A Stock to be paid from annual adjusted net income. In the event dividends in excess of those paid to the holders of Class A Stock are distributed, holders of common stock and Class B Stock share ratably in such excess up to an amount equal to the Class A Stock preferential dividend. Any dividends thereafter remaining for distribution are shared ratably by all holders of Class A Stock, Class B Stock and common stock. The Class B Stock holders are entitled to receive dividends at least ten percent higher than the amount per share paid to holders of common stock. We adopt the same standards for payment of dividends for the Class A Stock holders. See "--Dividend Preferences."

#### CALCULATION OF ADJUSTED NET INCOME

Brazilian corporate law requires that 5% of a company's annual net income be appropriated to a legal reserve fund, until the amount of such fund reaches an amount equal to 20% of the capital of such company, as recorded in its statutory accounting records. For purposes of calculating such amount, Brazilian corporate law provides that the "capital" of a company is equal to the aggregate paid-in capital upon the subscription of such company's capital stock, plus the amount of annual increases to such amount due to monetary corrections for inflation. The amount of our legal reserve as of December 31, 2003 was approximately R\$169.9million (equivalent to US\$58.8million), or 9.2% of our capital.

Brazilian corporate law allows for three additional appropriations of net income, each of which must be approved by the holders of common stock. First, a portion of net income may be appropriated to a reserve for anticipated losses which are deemed probable in future years. Conversely, any amount so reserved in prior years must be returned to net income in the fiscal year in which the reason for such reserve ceases to exist or in which the loss takes place. Second, net income may be appropriated to an unrealized income reserve for future income to be realized from:

- o inflationary income;

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- o increases in the net worth of affiliated companies; and
- o income from term sales to be received in subsequent fiscal years.

Third, net income may be appropriated for discretionary purposes, ratified by the shareholders for business expansion and other capital projects, the amount of which is based on an approved capital budget presented by management. After completion of the projects, a 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 retained earnings a cash dividend may then be paid.

Brazilian legislation requires that the calculation of the amount of a company's net income available for dividend distributions to its shareholders be determined on the basis of financial statements prepared in accordance with Brazilian GAAP using the corporate law method. Such net income of a company may not be the same as that determined by the currency of constant purchasing power method. Through 1995 our net income was the same under both Brazilian methods, but differed from that determined in accordance with U.S. GAAP. For all financial statements prepared for any period ended after January 1, 1996, Law No. 9,249/95 has abolished the requirement that companies apply monetary correction to their financial statements. Although the actual amount of dividends as remeasured into U.S. dollars is contained in the consolidated financial statements, investors will be unable to use U.S. GAAP financial information made available by us to calculate such dividends.

#### PAYMENT OF DIVIDENDS

Under Brazilian corporate law and in accordance with our by-laws, we are required to allocate at least 25% of our adjusted net income for each fiscal year to the payment of dividends, or the Mandatory Dividend. However, Brazilian corporate law provides that a public company is not required to pay the Mandatory Dividend in any year if the management of such company communicates to its shareholders at its annual shareholders' meeting that the payment of such dividend would be detrimental to the company based on its financial situation and if, within five days of the annual shareholders' meeting, the company forwards to the CVM an explanation for the nonpayment of the dividend. Adjusted net income that is not so distributed and is not absorbed by losses in subsequent years must be paid in dividends as soon as the financial condition of the company permits.

Proposals to declare and pay dividends in excess of the statutory minimum are generally made at the recommendation of the board of directors and require approval by the vote of holders of common stock. Our board of directors has adopted a policy pursuant to which any such proposal will be dependent upon our results of operations, financial condition, cash requirements for our business, future prospects and other factors deemed relevant by the board of directors. There can be no assurance that there will be any adjusted net income or that dividends in excess of the statutory minimum will be paid nor is there any legal or other requirement to such effect. In the event that the board of directors elects to pay interim dividends in any year, such interim dividends will count toward the calculation of the Mandatory Dividend for such year. Generally, dividends are payable to persons who are shareholders of record on the date on which dividends are declared. We are not required by law to monetarily correct

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dividends for inflation occurring during the period from the date such dividends are declared to the date they are paid.

As a general requirement, shareholders who are not residents of Brazil must be registered with the Central Bank in order to have dividends, sales proceeds or other amounts with respect to their shares remitted outside of Brazil. The shares of Class B Stock underlying the ADSs will be held in Brazil by the Custodian, as agent for the Depositary, which will be the registered owner of such shares on the records of the Transfer Agent. Payments of cash dividends and distributions, if any, will be made in reais to the Custodian on behalf of the Depositary, which will exchange the reais for U.S. dollars and will deliver the U.S. dollars to the Depositary for distribution to the ADR holders. In the event that the Custodian is unable to immediately convert the reais received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADRs may be adversely affected if the real devalues against the U.S. dollar before such dividends are converted and remitted. Devaluation of the real will reduce the value in U.S. dollars of distributions and dividends on the Class B Stock and may reduce the value of the Class B Stock and the ADSs. There can be no assurance that the real will not devalue relative to the U.S. dollar, as in the past, that the real will not fluctuate significantly relative to the U.S. dollar or that any such depreciation or fluctuations will not adversely affect the value of the Class B Stock or ADSs or any

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distributions and dividends thereon. Dividends in respect of shares of our Class B Stock paid to holders who are not Brazilian residents, including holders of ADSs, are not subject to Brazilian withholding tax. See "Item 10E. Taxation--Brazilian Tax Considerations."

### HISTORY OF DIVIDEND PAYMENTS

The following table sets forth the dividends paid by us to holders of our capital stock since 1998. The exchange rates used to convert dividends in reais into U.S. dollars were the rates in effect on the related payment dates.

YEAR	COMMON STOCK	CLASS A STOCK	CLASS B
		(in U.S. dollars per share)	
1999 (1) .....	0.01	0.06	0.02
2000 (2) .....	0.05	0.06	0.06
2001 (3) .....	0.06	0.06	0.06
2002 (4) .....	0.07	0.08	0.08
2003 (5) .....	0.10	0.11	0.11
2004 (6) .....	0.10	0.11	0.11

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- (1) Including dividend declared on March 25, 1999 and paid on April 22, 1999.
  - (2) Including dividend declared on April 5, 2000 and paid on April 30, 2000.
  - (3) Including dividend declared on March 30, 2001 and paid on April 12, 2001.
  - (4) Including dividend declared on April 30, 2002 and paid on May 9, 2002.
  - (5) Including dividend declared on April 29, 2003 and paid on May 15, 2003.
  - (6) Including dividend declared on April 29, 2004 and paid on May 21, 2004.

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### DIVIDEND PREFERENCES

Depending on the amount of our annual adjusted net income, holders of our Class A Stock are entitled to an annual minimum preferential dividend equal to 6% of the capital attributable to its class of shares. For the purpose of calculating the preferential dividend, the capital attributable to the Class A Stock is equal to the amount paid for such stock upon subscription therefor, plus the amount of annual increases in such amount due to any capital increase and/or to monetary correction for inflation. In the event dividends are not paid for three consecutive years, holders of all classes of preferred shares, including Class A and Class B Stock, will be entitled to voting rights.

In the event that dividends in excess of those paid to the holders of Class A Stock are distributed, holders of common stock and Class B Stock share ratably in such excess up to an amount equal to the Class A minimum preferential dividend. Any dividends thereafter remaining for distribution are shared ratably by all holders of Class A Stock, Class B Stock and common stock. Payment of the Mandatory Dividend is subject to the Class A Stock minimum preferential dividend.

On June 5, 1997, the Brazilian Congress enacted Law No. 9,457 of May 5, 1997, amending the Brazilian corporate law, to grant holders of preferred stock that do not carry a right to a fixed or minimum dividend a statutory right to receive dividends in an amount per share of at least ten percent higher than the amount per share paid to holders of common stock. The Class B Stock underlying the ADSs is entitled to such higher dividend distributions.

### B. SIGNIFICANT CHANGES

No significant change has occurred since the date of the annual financial statements included in this Annual Report.

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## ITEM 9. THE OFFER AND LISTING

### A. OFFER AND LISTING DETAILS

The principal non-United States market for our Class B Stock is the Bolsa de Valores de Sao Paulo, or the Sao Paulo Stock Exchange. In the United States, the Class B Stock trades in the form of ADSs, which are evidenced by American Depositary Receipts, or ADRs, issued by Morgan Guaranty Trust Company of New York, our Depositary, each currently representing ten shares of Class B Stock. The ADSs are listed on the New York Stock Exchange, or the NYSE, under the symbol "ARA." In December 1999, we established a non-sponsored depositary receipt program, representing our Class B Stock, to list and trade such stock on the Latin-American Securities Market, or Latibex, managed jointly by the Madrid Stock Exchange of Spain. The program depositary is Servicio de Compensacion y Liquidacion, S.A., in Spain, and the custodian is Companhia Brasileira de Liquidacao e Custodia. Trading of the depositary receipts on the Latibex started on December 1, 1999.

### MARKET PRICE INFORMATION

The table below sets forth for the periods indicated the high and low closing sales prices for (i) the Class B Stock on the Sao Paulo Stock Exchange and (ii) the ADSs on the NYSE. Prices on the Sao Paulo Stock Exchange are determined independently on each exchange and need not have occurred on the same



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date. Such high and low sales prices have been restated in reais of constant purchasing power based on inflation until December 31, 2003 as measured by the Índice Nacional de Precos ao Consumidor, the National Consumer Price Index, or INPC. See "Item 10D. Exchange Controls" for information with respect to exchange rates applicable during the periods set forth below.

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	NOMINAL REAIS PER		U.S. DOLLARS PER
	SHARE OF CLASS B STOCK		
	SAO PAULO STOCK EXCHANGE		
	High	Low	
1999:			
Annual.....	R\$5.89	R\$1.24	US\$26.25
2000:			
Annual.....	R\$5.88	R\$2.76	US\$27.13
2001:			
Annual.....	R\$5.83	R\$3.11	US\$20.07
2002:			
Annual.....	R\$7.18	R\$4.62	US\$22.74
2003:			
First Quarter.....	R\$7.25	R\$6.36	US\$21.00
Second Quarter.....	R\$6.60	R\$5.43	US\$21.80
Third Quarter.....	R\$8.45	R\$6.00	US\$29.10
Fourth Quarter.....	R\$10.42	R\$7.51	US\$35.89
Annual.....	R\$10.42	R\$5.43	US\$35.89
Share price for the most recent six months:			
December 2003.....	R\$10.42	R\$8.05	US\$35.89
January 2004.....	R\$10.50	R\$8.73	US\$37.30
February 2004.....	R\$10.11	R\$9.13	US\$36.15
March 2004.....	R\$10.63	R\$9.71	US\$38.25
April 2004.....	R\$10.84	R\$9.16	US\$39.22
May 2004.....	R\$10.27	R\$9.01	US\$31.86

(1) All information on a per ADS basis for the indicated period has been adjusted to reflect the ADS Ratio Change, pursuant to which each ADS represents ten shares of Class B Stock.

The closing sales price for the Class B Stock on the Sao Paulo Stock Exchange as of the close of business on December 31, 2003 was R\$10.60 per share, which is equivalent to US\$36.69 per ADS, translated at a rate of R\$2.8892 per

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US\$1.00, the commercial market selling rate for such day. The closing sales price for the ADSs on the NYSE as of the close of business on December 31, 2003 was US\$35.04 per ADS. On May 28, 2004, the last reported closing sale price for the Class B Stock on the Sao Paulo Stock Exchange was R\$10.00 per share, equivalent to US\$31.72 per ADS translated at the exchange rate of R\$3.1524 per US\$1.00, the commercial market selling rate on such date.

As of December 31, 2003, an aggregate of 352,744,932 shares of Class B Stock, or an aggregate of approximately 65.6% of the outstanding Class B Stock, was held in the form of ADSs. As of June 15, 2004, there were approximately \_\_\_ U.S. beneficial owners of the ADSs (based on their addresses only), representing approximately 60.5% of the total Class B shares. (REINV)

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To take advantage of the market price of our stock, we engaged in a stock buy-back program in 2000 and 2002 which were subject to the limitations set forth in the Brazilian corporate law and CVM regulations. The total number of shares of Class B Stock bought back by us under those programs was 17,095,000 shares and 1,374,000 shares, respectively, for a total cost of approximately US\$22.7 million and US\$2.1 million, respectively. We have not bought back any shares during 2003.

### B. PLAN OF DISTRIBUTION

Not applicable.

### C. MARKETS

#### TRADING ON THE BRAZILIAN STOCK EXCHANGES

On January 27, 2000, a protocol was signed in order to merge the nine Brazilian stock exchanges. According to the protocol, private equity and debt will be traded only on the Sao Paulo Stock Exchange, which is the only remaining Brazilian stock exchange at present. Brazilian federal, state and municipal public debt are only traded on, and privatization auctions are carried out at, the Rio de Janeiro Exchange. The protocol became effective on May 31, 2000.

Trading on the Sao Paulo Stock Exchange by nonresidents of Brazil is subject to limitations under Brazilian foreign investment and tax legislation and limited to member brokerage firms and a limited number of authorized non members. The CVM and the Sao Paulo Stock Exchange have discretionary authority to suspend trading in shares of any issuer. Securities listed on the Sao Paulo Stock Exchange may be traded on the over-the-counter market under limited circumstances.

Trading on the Sao Paulo Stock Exchange settles three business days after the trade date. Delivery of and payment for securities is made through separate clearinghouses for each exchange, which maintains accounts for member brokerage firms. The seller is ordinarily required to deliver the securities to the exchange on the second business day following the trade date. The clearinghouse for the Sao Paulo Stock Exchange is the CBLC--Companhia Brasileira de Liquidacao e Custodia.

In order to better control volatility, the Sao Paulo Stock Exchange has adopted a "circuit breaker" system pursuant to which trading sessions may be suspended for a period of 30 minutes to one hour whenever our indices fall below the limit of 10% as compared to the index registered in the previous trading

session.

As of December 31, 2003, the Sao Paulo Stock Exchange had an aggregate market capitalization of approximately US\$234 billion and an average monthly trading volume of approximately US\$271.9 billion for the year 2003. In comparison, the NYSE had a market capitalization of approximately US\$16.8 trillion as of December 31, 2003. Although any of the outstanding shares of a listed company may trade on the Sao Paulo Stock Exchange, in most cases less than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, by governmental entities or by one principal shareholder. As of December 31, 2003, we accounted for approximately 1.65% of the market capitalization of all listed companies on the Sao Paulo Stock Exchange.

There is a significantly large concentration in the Brazilian securities markets. As of December 31, 2003, the five most actively traded shares represented approximately 38.7% of the total volume of shares traded on the Sao Paulo Stock Exchange.

#### REGULATION OF BRAZILIAN SECURITIES MARKETS

Brazilian securities markets are regulated by the CVM, which has regulatory authority over stock exchanges and the securities markets in Brazil and by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions.

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Under Brazilian corporate law, a corporation is either public (*companhia aberta*), such as us, or closely held (*companhia fechada*). All public companies, including us, are registered with the CVM and are subject to reporting requirements. Our stock trades on the Sao Paulo Stock Exchange, but may be traded privately, subject to limitations.

We have the option to request that trading of our securities on the Sao Paulo Stock Exchange be suspended in anticipation of a material announcement. Trading may also be suspended by the Sao Paulo Stock Exchange or the CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to the inquiries of the CVM or the Sao Paulo Stock Exchange.

Brazilian securities law and Brazilian corporate law provide for, among other things, disclosure requirements, restrictions on insider trading and price manipulation and protection of minority shareholders. However, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or securities markets in other jurisdictions.

The Custodian for the Class B Stock and the Depositary for the ADRs must obtain an electronic certificate of registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds thereto. In the event that a holder of ADRs exchanges ADRs for Class B Stock, the holder will be entitled to continue to rely on the Depositary's electronic certificate of registration for five business days after the exchange. Thereafter, the holder may not be able to obtain and remit U.S. dollars abroad upon the disposition of the Class B Stock, or distributions relating to the Class B Stock, unless the holder obtains a new certificate of registration with the Central Bank.

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### D. SELLING SHAREHOLDERS

Not applicable.

### E. DILUTION

Not applicable.

### F. EXPENSES OF THE ISSUE

Not applicable.

## ITEM 10. ADDITIONAL INFORMATION

### A. SHARE CAPITAL

Not applicable.

### B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Set forth below is certain information concerning our capital stock and a brief summary of certain significant provisions of our by-laws and Brazilian corporate law. This description does not purport to be complete and is qualified by reference to our by-laws and to Brazilian corporate law.

#### CORPORATE PURPOSES

We are a Brazilian corporation (sociedade por acoes), enrolled with the National Registry of Legal Entities of the Finance Ministry (CNPJ) under No. 42.157.511/0001-61 and registered with the State Enterprise's Registrar (NIRE) under No. 32300025897. Our corporate purposes, as set forth in Article 2 of our by-laws, are to: (i) engage in forestry and reforestation activities; (ii) industrialize and trade forestry products; (iii) explore renewable sources of energy; and (iv) engage in industrial and commercial activities, as well as agricultural and rural activities in general. In order to meet our corporate purposes, we may (i) participate in other business enterprises, subject to the approval by our board of

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directors; and (ii) engage in any activity and perform any services, directly or indirectly related to our principal activities, including import and export.

#### CAPITAL STOCK AND DIVIDEND POLICY

According to our by-laws, we have one class of common stock and two classes of preferred stock, the Class A Stock and the Class B Stock.

Depending on the amount of our annual adjusted net income, holders of Class A Stock are entitled to a minimum annual preferential dividend equal to 6% of the capital attributable to this class of shares. For the purpose of calculating the preferential dividend, the capital attributable to the Class A Stock is equal to the amount paid for such stock upon subscription thereof, plus the amount of annual increases in such amount due to any capital increase and/or to monetary correction for inflation. Brazilian corporate law provides that non-voting or restricted voting shares (such as the Preferred Shares) acquire unrestricted voting rights beginning when a company has failed for three consecutive fiscal years (or for any shorter period set forth in a company's constituent documents) to pay any fixed or minimum dividend to which such shares

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are entitled and continuing until payment thereof is made. Our by-laws do not set forth any such shorter period. Shareholders have a three-year period, counted from the date in which we have made available the dividend, to claim such dividends.

In the event that dividends in excess of those paid to the holders of Class A Stock are distributed, holders of common stock and Class B Stock share ratably in such excess up to an amount equal to the Class A minimum preferential dividend. Any dividends thereafter remaining for distribution are shared ratably by all holders of Class A Stock, Class B Stock and common stock. Payment of the mandatory dividend is subject to the Class A Stock minimum preferential dividend.

Under Brazilian corporate law, holders of preferred stock without the right to a fixed or minimum dividend have the right to receive dividends in an amount per share at least ten percent higher than the amount per share paid to holders of voting stock. Holders of Class B Stock have been receiving such higher dividend distributions. Our by-laws have been amended accordingly. See "Item 8A. Consolidated Statements and Other Financial Information--Dividends."

### WINDING UP

A general shareholders' meeting may authorize us to use our reserves or profits in the redemption or sinking of our shares, determining the applicable conditions and procedures. There are no sinking fund provisions in our by-laws.

According to our by-laws, in the event of winding up, the holders of Class A Stock and Class B Stock will have priority over the holders of common stock on the distribution of our remaining assets.

Under Brazilian corporate law, amortization consists of a distribution that anticipates payments that a shareholder would be entitled to receive in the event of a corporation's liquidation. The amortization may be made in full or partially and may comprise one or all of the classes of the company's shares. Amortizations will be made without decrease of the corporation's capital stock. If the redemption or amortization does not comprise all of the shares of a relevant class of stock, the shares to be redeemed or amortized will be chosen through draws to be made by the company. In the event of liquidation of the company, the amortized shares will only receive distributions after the non-amortized shares have received amounts equivalent to those previously received by the amortized shares.

### SHAREHOLDERS' MEETINGS

Under Brazilian corporate law, at a general meeting of shareholders convened and held in accordance with such law and the company's by-laws, the shareholders are empowered to decide all matters relating to the company's purposes and to pass such resolutions as they deem necessary for its protection.

Pursuant to Brazilian corporate law, shareholders voting at a general shareholders' meeting have the power, among others, to:

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- o amend the company's by-laws;
- o elect or dismiss members of the board of directors (and members of the audit committee) at any time;

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- o receive the yearly accounts by management and accept or reject management's financial statements, including the allocation of net profits and the distributable amount for payment of the mandatory dividend and allocation to the various reserve accounts;
- o authorize the issuance of debentures;
- o suspend the rights of a shareholder;
- o accept or reject the valuation of assets contributed by a shareholder in consideration for issuance of capital stock;
- o authorize the issuance of founders' shares;
- o pass resolutions to reorganize the legal form of, merge, consolidate or split the company, to dissolve and liquidate the company, to elect and dismiss the liquidators and to examine their accounts; and
- o authorize management to declare the company insolvent and to request a concordata (a procedure involving protection from creditors similar in nature to reorganization under the U.S. Bankruptcy Code).

A general shareholders' meeting of a publicly held company such as us is convened by publishing a notice, no later than fifteen days prior to the scheduled meeting date and no less than three times. We publish such notice in the following newspapers: A Gazeta (from Vitoria), Gazeta Mercanti--Edicao Sao Paulo and Diario Oficial do Espirito Santo. This notice must contain the agenda for the meeting and, in the case of an amendment to our by-laws, an indication of the subject matter.

A general shareholders' meeting may be held if shareholders representing at least one-quarter of the voting capital are present. If no such quorum is present, notice must again be given in the same manner as described above, and a meeting may then be convened without any specific quorum requirement, subject to the minimum quorum and voting requirements for certain matters, as set forth in the company's by-laws. A shareholder without a right to vote may attend a general shareholders' meeting and take part in the discussion of matters submitted for consideration.

Except as otherwise provided by law, resolutions of a general shareholders' meeting are passed by a simple majority vote, abstentions not being taken into account. Under Brazilian corporate law, the approval of shareholders representing at least half of the issued and outstanding voting shares is required for the types of action described below (as well as, in the case of clause (a), a majority of issued and outstanding shares of the affected class): (a) changing a priority, preference, right, privilege or condition of redemption or amortization of any class of Preferred Shares or creating any class of non-voting Preferred Shares that has a priority, preference, right, condition or redemption or amortization superior to an existing class of shares, such as the Preferred Shares; (b) creating founders' shares; (c) changing the Mandatory Dividend; (d) changing the corporate purposes; (e) merging, consolidating or splitting the company; (f) dissolving or liquidating the company; and (g) participating in a centralized group of companies as defined under Brazilian corporate law.

Whenever the shares of any class of capital stock are entitled to vote, each share is entitled to one vote.

A shareholder may be represented at a general shareholders' meeting by an attorney-in-fact appointed not more than one year before the meeting, who must be a shareholder, a company officer or a lawyer. For a public company, such as the company, the attorney-in-fact may also be a financial institution.

LIMITATIONS ON SHARE OWNERSHIP

Under Brazilian law there are no limitations on the ownership by non-residents or foreign shareholders of securities of a Brazilian corporation, provided that foreign investments will be registered with the Central Bank and/or the CVM, as the case may be.

There are no legal limitations on the rights of non-residents or foreign shareholders to exercise their voting rights as shareholders of Brazilian corporations.

There are no provisions in the company's by-laws with respect to disclosure of share ownership. Notwithstanding, Brazilian corporate law states that the corporations will provide information regarding their share registry book and share transfer book to any person, provided that such information is necessary to protect any rights or clarify situations involving interests of: (i) the requiring person; (ii) a shareholder; or (iii) the securities market.

CHANGES IN CONTROL, MERGERS, ACQUISITIONS, SPIN-OFFS

There are no provisions in the company's by-laws that would have the effect of delaying, deferring or preventing a change in control of the company or that would operate with respect to a merger, acquisition or corporate restructuring involving the company or its subsidiaries. Notwithstanding the foregoing, Brazilian corporate law provides that the affirmative vote of at least 50% of the voting shareholders is necessary to approve a merger, spin-off or dissolution of a corporation.

C. MATERIAL CONTRACTS

At December 31, 2003, we did not have any material contracts.

D. EXCHANGE CONTROLS

There are no restrictions on ownership of our common stock or Class B Stock by individuals or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of common stock or Class B Stock into foreign currency and to remit such amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation which generally requires, among other things, obtaining an electronic registration at the Central Bank.

According to Resolution No. 2,689 of January 26, 2000 of the National Monetary Council, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that some requirements are fulfilled. Resolution No. 2,689 defines a foreign investor as any individual, legal entity, mutual fund or other collective investment entity, domiciled or headquartered abroad.

Pursuant to Resolution No. 2,689, foreign investors must:

- o appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment;
- o complete the appropriate foreign investor registration form;

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- o register as a foreign investor with the CVM; and
- o register the foreign investment with the Central Bank.

Securities and other financial assets held by foreign investors pursuant to Resolution No. 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or organized over-the-counter markets licensed by the CVM.

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Investors under Resolution No. 2,689 who are not resident in a tax haven (i.e., a country that does not impose income tax or where the maximum income tax rate is lower than 20%) are entitled to favorable tax treatment. See "--Brazilian Tax Considerations."

Resolution No. 1,927 of the National Monetary Council, which is the restated and amended Annex V to Resolution No. 1,289 of the National Monetary Council, or the Annex V Regulations, provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. An application was filed to have the ADSs approved under Annex V Regulations by the Central Bank and the CVM, and final approval was received before the offering of the Preferred Shares underlying the ADSs.

### E. TAXATION

The following summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposition of Class B Stock or ADSs, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase Class B Stock or ADSs. Prospective purchasers of Class B Stock or ADSs should consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of Class B Stock or ADSs, including, in particular, the effect of any state, local or other national tax laws.

The summary is based upon the tax laws of Brazil and the United States and regulations thereunder as in effect on the date hereof, which are subject to change (possibly with retroactive effect). This summary is also based upon the representations of the Depositary and on the assumption that each obligation in the Deposit Agreement and any documents relating to the ADRs will be performed in accordance with its terms.

Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. Holders of Class B Stock or ADSs. Prospective purchasers of Class B Stock or ADSs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Class B Stock or ADSs in their particular circumstances.

### BRAZILIAN TAX CONSIDERATIONS

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of Class B Stock or ADSs by a holder that is not domiciled in Brazil for Brazilian taxation purposes



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and, in the case of a holder of Class B Stock, who has an investment in foreign currency registered at the Central Bank (a "Foreign Holder"). This summary does not specifically address all of the Brazilian tax considerations applicable to any particular Foreign Holder. Each Foreign Holder should consult his own tax adviser concerning the Brazilian tax consequences of an investment in Class B Stock or ADSs. Any change in such law may change the consequences described below.

### REGISTERED CAPITAL

The amount of an investment in Class B Stock must be registered by the Foreign Holder of such Class B Stock (or by the Custodian in the case of Class B Stock held by the Depositary) with the Brazilian Central Bank as "Registered Capital" in order to allow remittances outside Brazil of foreign currency acquired with the proceeds of distributions on, and amounts obtained from dispositions of, such Class B Stock. The Registered Capital for each share of Class B Stock issued to the Depositary will be equal to its issue price in U.S. dollars. The Registered Capital for a share of Class B Stock that is withdrawn upon surrender of an ADS will be the U.S. dollar equivalent of (i) the average price of a share of Class B Stock on the Sao Paulo Stock Exchange on the day of withdrawal or (ii) if no such shares were traded on that day, their average price on the Sao Paulo Stock Exchange in the 15 trading sessions immediately preceding such withdrawal. The U.S. dollar value of the Class B Stock is determined on the basis of the average price of the Commercial Market rate for U.S. dollars in effect on the date the Class B Stock is withdrawn or, at the Foreign Holder's option, the sale rate quoted for U.S. dollars by the Central Bank Information System on such date (or, if the average price of the Class B Stock is determined under clause (ii) of the preceding sentence, the average of such quoted sale rates on the same 15 dates used to determine the average price of the Class B Stock).

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### TAXATION ON DISTRIBUTIONS

Withholding Income Tax (Imposto de Renda na Fonte). Dividends paid with respect to income earned since January 1996 are not subject to Brazilian withholding income tax under Brazilian tax law. However, dividends paid with respect to income earned until December 31, 1995 are subject to withholding income tax at rates ranging from 15% to 25%, according to the tax legislation applicable to each corresponding year. The rate of such tax may be reduced under certain circumstances by a tax treaty (at least with respect to shares not held by the Depositary). However, there is no tax treaty between the United States and Brazil, and the only existing tax treaty that reduces the rate of withholding income tax to less than 15% is that between Brazil and Japan, which reduces the rate of withholding income tax to 12.5%.

In the case of dividends paid to foreign investors resident in countries where the maximum income tax rate is lower than 20%, such dividends may be subject to Brazilian withholding income tax at a rate of 25%.

### TAXATION ON GAINS

Gains on the Disposition of ADSs. Gains obtained outside Brazil by a Foreign Holder on the disposition to another Foreign Holder of ADSs representing Class B Stock are not subject to Brazilian tax.

Deposits and Withdrawals of Class B Stock in Exchange for ADSs. A Foreign

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Holder may deposit or withdraw Class B Stock in exchange for ADSs without incurring Brazilian tax. On receipt of the underlying Class B Stock, the Foreign Holder will be entitled to register the U.S. dollar value of such shares with the Brazilian Central Bank as described above in "Registered Capital" and will be subject to the rules on Taxation on Distributions and Taxation of Gains applicable to the Class B Stock, discussed herein. Such rules generally are less favorable to Foreign Holders than the rules applicable to ADSs. In addition, such Foreign Holder may experience delays in effecting such registration, which may delay remittances abroad. Such delay may adversely affect the amount in U.S. dollars received by the Foreign Holder. See "Item 3D. Risk Factors--Risks Relating to our Preferred Shares and ADSs--Exchanging ADSs for the underlying Class B Stock may have unfavorable consequences."

Gains on the Disposition of Class B Stock. Foreign Holders have been subject to Withholding Income Tax (i) at a rate of 15% on gains obtained on sales or exchanges to, or with, a resident in Brazil and (ii) at a rate of 20% on gains obtained on sales or exchanges that occur in Brazil (e.g., on a Brazilian stock exchange). According to Law No 10,833, dated December 2003, as of February 2004, Foreign Holders are subject to withholding income tax in Brazil on capital gains obtained on sales of Class B shares, regardless of where and to whom such sales take place. The gain obtained as a result of a transaction on a Brazilian stock exchange is the difference between the amount in Brazilian currency obtained on the sale or exchange and the acquisition cost, without any correction for inflation, of the Class B Stock sold. The gain obtained as a result of a transaction outside of a Brazilian stock exchange will be calculated based on the Registered Capital for the Class B Stock sold. Reductions in the rate of Withholding Income Tax provided for in tax treaties do not apply to the Withholding Income Tax on such gains. The tax on gains is collected out of the proceeds of a sale or exchange by the stock exchange in the case of sales effected through a Brazilian stock exchange and, in other cases, by the purchaser.

### TAXATION ON INCOME OBTAINED ABROAD

Prior to January 1, 1996, Brazilian tax laws taxed earnings related to the activities performed within Brazil by Brazilian companies, branches of foreign companies and nonresidents in general. Since January 1, 1996, profits, capital gains and other income obtained abroad by a Brazilian company, or by its foreign branches or subsidiaries or by foreign companies controlled by or affiliated with such company, must be added in the determination of such Brazilian company's profits and, therefore, taxed in Brazil when distributed or otherwise made available to the Brazilian shareholders. Provisionary Measure No. 2,158 enacted in July 27, 2001 determined that profits obtained abroad by a foreign branch or subsidiary of a Brazilian company must be taxed in Brazil at the same time of the yearly distribution of such profits. Therefore, accumulated profits accounted until December 31, 2001 will be taxed at the end of the following fiscal period. After January 2002, such profits will be taxed at the end of each fiscal period.

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### STAMP AND EXCISE TAXES

There are no stamp, transfer, estate, gift or other similar taxes in Brazil applicable to the Class B Stock or to the ADSs.

### UNITED STATES TAX CONSIDERATIONS

As used below, a "US holder" is a beneficial owner of a Preferred Share or

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Preferred ADR that is, for US federal income tax purposes, (i) a citizen or resident alien individual of the United States, (ii) a corporation (or an entity treated as a corporation) organized under the law of the United States, any State thereof or the District of Columbia, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) the trust was in existence on August 20, 1996 and properly elected to continue to be treated as a United States person. For purposes of this discussion, a "non-US holder" is a beneficial owner of a Preferred Share or Preferred ADR that is (i) a nonresident alien individual, (ii) a corporation (or an entity treated as a corporation) created or organized in or under the law of a country other than the United States or a political subdivision thereof or (c) an estate or trust that is not a US Holder.

In general, for US federal income tax purposes, the owner of a Preferred ADR will be treated as the owner of the Preferred Share represented by the Preferred ADR, and a deposit or withdrawal of a Preferred Share in exchange for a Preferred ADR will not be a taxable transaction for US federal income tax purposes.

### TAXATION OF DIVIDENDS

US holders. In general, subject to the passive foreign investment company rules discussed below, a distribution on a Preferred Share or Preferred ADR (including for this purpose a distribution of interest on capital stock) will constitute a dividend for US federal income tax purposes to the extent made from the company's current or accumulated earnings and profits as determined under US federal income tax principles. If a distribution exceeds the company's current and accumulated earnings and profits, it will be treated as a non-taxable reduction of basis to the extent of the US holder's tax basis in the Preferred Share or Preferred ADR on which it is paid, and to the extent it exceeds that basis it will be treated as capital gain. For purposes of this discussion, the term "dividend" means a distribution that constitutes a dividend for US federal income tax purposes.

The gross amount of any dividend on a Preferred Share or Preferred ADR (which will include the amount of any Brazilian taxes withheld) will be subject to US federal income tax as foreign source dividend income. The amount of a dividend paid in Brazilian currency will be its value in US dollars based on the prevailing spot market exchange rate in effect on the day the US holder receives the dividend or, in the case of a dividend received in respect of a Preferred ADR, on the date the Depositary receives it, whether or not the dividend is converted into US dollars. Any gain or loss realized on a conversion or other disposition of the Brazilian currency generally will be treated as US source ordinary income or loss. Any Brazilian withholding tax will be treated as a foreign income tax eligible for credit against a US holder's US federal income tax liability, subject to generally applicable limitations under US federal income tax law. For purposes of computing those limitations separately for specific categories of income, a dividend generally will constitute foreign source "passive income" or, in the case of certain holders, "financial services income." A foreign tax credit may not be allowed for withholding tax imposed in respect of certain short-term or hedged positions in a Preferred Share or Preferred ADR. Alternatively, any Brazilian withholding tax may be taken as a deduction against taxable income. A dividend will not be eligible for the corporate dividends received deduction.

Subject to certain exceptions for short-term and hedged positions, a dividend an individual receives on a Preferred ADR before January 1, 2009 will be subject to a maximum tax rate of 15% if the dividend is a "qualified dividend." A dividend on a Preferred ADR will be a qualified dividend if (i) the Preferred ADRs are

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readily tradable on an established securities market in the United States, and (ii) the company was not, in the year prior to the year the dividend was paid, and is not, in the year the dividend is paid, a passive foreign investment company ("PFIC"), foreign personal holding company ("FPHC") or foreign investment company ("FIC"). The Preferred ADRs are listed on the New York Stock Exchange and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on existing guidance, it is not entirely clear whether a dividend on a Preferred Share will be treated as a qualified

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dividend, because the Preferred Shares themselves are not listed on a US exchange. Based on the company's audited financial statements and relevant market and shareholder data, the company believes it was not a PFIC, FPHC or FIC for US federal income tax purposes for its 2003 taxable year. In addition, based on the company's audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the company does not anticipate becoming a PFIC, FPHC or FIC for its 2004 taxable year. The US Treasury has announced its intention to promulgate rules pursuant to which holders of stock of non-US corporations, and intermediaries through whom such stock is held, will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because those procedures have not yet been issued, it is not clear whether the company will be able to comply with them. Special limitations on foreign tax credits apply to dividends subject to the reduced rate of tax. Holders of Preferred ADRs and Preferred Shares should consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

Non-US holders. A dividend paid to a non-US holder on a Preferred Share or Preferred ADR will not be subject to US federal income tax unless the dividend is effectively connected with the conduct of trade or business by the non-US holder within the United States (and is attributable to a permanent establishment or fixed base the non-US holder maintains in the United States if an applicable income tax treaty so requires as a condition for the non-US holder to be subject to US taxation on a net income basis on income from the Preferred Share or Preferred ADR). A non-US holder generally will be subject to tax on an effectively connected dividend in the same manner as a US Holder. A corporate non-US holder may also be subject under certain circumstances to an additional "branch profits tax," the rate of which may be reduced pursuant to an applicable income tax treaty.

### TAXATION OF CAPITAL GAINS

US holders. Subject to the passive foreign investment company rules discussed below, on a sale or other taxable disposition of a Preferred Share or Preferred ADR, a US holder will recognize capital gain or loss in an amount equal to the difference between the US holder's adjusted basis in the Preferred Share or Preferred ADR and the amount realized on the sale or other disposition, each determined in US dollars. Any gain a US holder recognizes generally will be US source income for US foreign tax credit purposes, and, subject to certain exceptions, any loss generally will be a US source loss. If a Brazilian tax is withheld on a sale or other disposition of a Preferred Share, the amount realized will include the gross amount of the proceeds of that sale or disposition before deduction of the Brazilian tax. The generally applicable limitations under US federal income tax law on crediting foreign income taxes may preclude a US holder from obtaining a foreign tax credit for any Brazilian

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tax withheld on a sale of a Preferred Share.

In general, any adjusted net capital gain of an individual in a taxable year ending before January 1, 2009 is subject to a maximum tax rate of 15%. In later years, the maximum tax rate on the net capital gain of an individual will be 20%. The deductibility of capital losses is subject to limitations.

Non-US holders. A non-US holder will not be subject to US federal income tax on gain recognized on a sale or other disposition of a Preferred Share or Preferred ADR unless (i) the gain is effectively connected with the conduct of trade or business by the non-US holder within the United States (and is attributable to a permanent establishment or fixed base the non-US holder maintains in the United States if an applicable income tax treaty so requires as a condition for the non-US holder to be subject to US taxation on a net income basis on income from the Preferred Share or Preferred ADR), or (ii) in the case of a non-US holder who is an individual, the holder is present in the United States for 183 or more days in the taxable year of the sale or other disposition and certain other conditions apply. Any effectively connected gain of a corporate non-US holder may also be subject under certain circumstances to an additional "branch profits tax," the rate of which may be reduced pursuant to an applicable income tax treaty.

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### PASSIVE FOREIGN INVESTMENT COMPANY RULES

A special set of US federal income tax rules applies to a foreign corporation that is a PFIC for US federal income tax purposes. As noted above, based on the company's audited financial statements and relevant market and shareholder data, the company believes it was not a PFIC for US federal income tax purposes for its 2003 taxable year. In addition, based on the company's audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the company does not anticipate becoming a PFIC for its 2004 taxable year.

In general, a foreign corporation is a PFIC if at least 75% of its gross income for the taxable year is passive income or if at least 50% of its assets for the taxable year produce passive income or are held for the production of passive income. In general, passive income for this purpose means, with certain designated exceptions, dividends, interest, rents, royalties (other than certain rents and royalties derived in the active conduct of trade or business), annuities, net gains from dispositions of certain assets, net foreign currency gains, income equivalent to interest, income from notional principal contracts and payments in lieu of dividends. The determination of whether a foreign corporation is a PFIC is a factual determination made annually and is therefore subject to change. Subject to certain exceptions, once stock in a foreign corporation is stock in a PFIC in the hands of a particular shareholder that is a United States person, it remains stock in a PFIC in the hands of that shareholder.

If the company is treated as a PFIC, contrary to the tax consequences described in "US Federal Income Tax Considerations--Taxation of Dividends" and "--US Federal Income Tax Considerations--Taxation of Capital Gains" above, a US holder that does not make an election described in the succeeding two paragraphs would be subject to special rules with respect to (i) any gain realized on a sale or other disposition of a Preferred Share or Preferred ADR and (ii) any "excess

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distribution" by the company to the US holder (generally, any distribution during a taxable year in which distributions to the US holder on the Preferred Share or Preferred ADR exceed 125% of the average annual taxable distributions the US holder received on the Preferred Share or Preferred ADR during the preceding three taxable years or, if shorter, the US holder's holding period for the Preferred Share or Preferred ADR). Under those rules, (i) the gain or excess distribution would be allocated ratably over the US holder's holding period for the Preferred Share or Preferred ADR, (ii) the amount allocated to the taxable year in which the gain or excess distribution is realized would be taxable as ordinary income and (iii) the amount allocated to each prior year, with certain exceptions, would be subject to tax at the highest tax rate in effect for that year, and the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year. A US holder who owns a Preferred Share or Preferred ADR during any year the company is a PFIC must file Internal Revenue Service Form 8621.

The special PFIC rules described above will not apply to a US holder if the US holder makes a timely election to treat the company as a "qualified electing fund" ("QEF") in the first taxable year in which the US holder owns a Preferred Share or Preferred ADR and if the company complies with certain reporting requirements. Instead, a shareholder of a QEF generally is currently taxable on a pro rata share of the company's ordinary earnings and net capital gain as ordinary income and long-term capital gain, respectively. Neither that ordinary income nor any actual dividend from the company would qualify for the 15% maximum tax rate on dividends described above if the company is a PFIC in the taxable year the ordinary income is realized or the dividend is paid or in the preceding taxable year. The company has not yet determined whether, if it were a PFIC, it would make the computations necessary to supply US holders with the information needed to report income and gain pursuant to a QEF election. It is, therefore, possible that US holders would not be able to make or retain that election in any year the company is a PFIC. Although a QEF election generally cannot be revoked, if a US holder made a timely QEF election for the first taxable year it owned a Preferred Share or Preferred ADR and the company is a PFIC (or is treated as having done so pursuant to any of certain elections), the QEF election will not apply during any later taxable year in which the company does not satisfy the tests to be a PFIC. If a QEF election is not made in that first taxable year, an election in a later year generally will require the payment of tax and interest, and in certain circumstances the election may cease to be available at a later date.

In lieu of a QEF election, a US holder of stock in a PFIC that is considered marketable stock could elect to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the stock and the US holder's adjusted basis in the stock.

Losses would be allowed only to the extent of net mark-to-market gain previously included in income by the US holder under the election for prior taxable years. A US holder's adjusted basis in the Ordinary Shares or ADS will be adjusted to reflect the amounts included or deducted with respect to the mark-to-market election. If the mark-to-market election were made, the rules set forth in the second preceding paragraph would not apply for periods covered by the election. A mark-to-market election will not apply during any later taxable year in which the company does not satisfy the tests to be a PFIC. In general, the ADRs will be marketable if ADRs are traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. However, there is no certainty that the Ordinary Shares will be considered "marketable stock" for these purposes

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unless and until the Internal Revenue Service designates the BOVESPA as having rules adequate to carry out the purposes of the PFIC rules. There can be no assurance that the Internal Revenue Service will make such a designation.

### INFORMATION REPORTING AND BACKUP WITHHOLDING

Dividends paid on, and proceeds from the sale or other disposition of, a Preferred Share or Preferred ADR to a US holder generally may be subject to information reporting requirements and may be subject to backup withholding at the rate of 28% unless the US holder provides an accurate taxpayer identification number or otherwise establishes an exemption. The amount of any backup withholding collected from a payment to a US holder will be allowed as a credit against the US holder's US federal income tax liability and may entitle the US holder to a refund, provided certain required information is furnished to the Internal Revenue Service.

A non-US holder generally will be exempt from these information reporting requirements and backup withholding tax but may be required to comply with certain certification and identification procedures in order to establish its eligibility for exemption.

#### F. DIVIDENDS AND PAYING AGENTS

Not applicable.

#### G. STATEMENTS BY EXPERTS

Not applicable.

#### H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, pursuant to which we file reports and other information with the Commission. These materials, including this annual report and the accompanying exhibits, may be inspected and copied at the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the materials may be obtained from the Public Reference Room of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. In addition, material we filed can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005, on which our ADSs are listed.

We also file electronically financial statements and other periodic reports with the CVM. The CVM website is [www.cvm.gov.br](http://www.cvm.gov.br).

Copies of our annual reports on Form 20-F and documents referred to in this annual report and our by-laws will be available for inspection upon request at our principal office at Rua Lauro Muller, 116, 40th floor, 22299-900 Rio de Janeiro, State of Rio de Janeiro, Brazil, or at our website: [www.aracruz.com.br](http://www.aracruz.com.br). Information contained in our website is not part of this annual report.

The Company has, in compliance with New York Stock Exchange Corporate Governance Rule 303A.11, provided on its website a summary of how corporate governance practices differ from those followed by U.S. domestic companies under the New York Stock Exchange listing standards, at [www.aracruz.com.br](http://www.aracruz.com.br).

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### I. SUBSIDIARY INFORMATION

Not required.

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

As an exporter, we consider the U.S. dollar as our operating currency. We are exposed to various market risks, particularly the variation of the U.S. dollar against the real and interest rate variation (fixed, floating and U.S. dollar-indexed).

We hold, on a weekly basis or more frequently if necessary, Treasury Cash Committee meetings where macroeconomic issues are discussed for our implications on financial matters. During such meetings future steps are also decided in accordance with the directives set by the board of directors and with corporate policies.

We have guaranteed debt with BNDES loans and secured debt related to our securitization program. See "Item 5. Liquidity and Capital Resources" and "Item 7B. Related Party Transactions--BNDES Loan Agreements."

#### EXCHANGE RATE SENSITIVITY

We were substantially protected against our exposition to exchange rate fluctuations on a balance sheet basis against local currency risk at the end of 2003 according to U.S. GAAP rules.

The table below sets forth the assets and liabilities for the year 2003 in terms of currency denomination:

	TOTAL YEAR ENDED DECEMBER 31, 2003	DENOMINATION REAL-DENOMINATED
		(in US\$ million)
Assets:.....	3,454.4	368.8
Current Assets.....	742.7	348.0
Long-Term Assets.....	58.8	20.8
Permanent Assets.....	2,652.9	0.0
Liabilities:.....	3,454.4	470.3
Current Liabilities.....	513.7	148.8
Long-Term Liabilities.....	1,139.7	321.5
Stockholders' Equity.....	1,801.0	0.0

As a result of our exposure to exchange rate fluctuation, the gain and loss on currency translations at the end of 2003 (after the local currency devaluation) was a net gain of US\$41.9 million.

Having our revenues 98% U.S. dollar-denominated and our costs and expenses almost entirely local currency denominated, we highly benefit from local currency devaluation on an ongoing basis, significantly improving our margins and cash generation. See "Item 5A. Operating Results."



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### INTEREST RATE SENSITIVITY AND SENSITIVITY TO INFLATION RATES

As of December 31, 2003, approximately 15.5% of our total indebtedness was real-denominated, which consisted of loans bearing interest at variable rates. The principal amounts of such loans are also indexed to inflation. In times of high inflation, the TJLP is generally higher, i.e., the nominal rates include an inflation factor. In 2003, the TJLP ranged from 11% to 12% for the year. In 2002, the TJLP ranged from 9.5% to 10%. The interest payable by us on the real-denominated debt is equal to the TJLP, plus 1.8% to 3.75% per annum. See "Item 5B. Liquidity and Capital Resources" and "Item 7B. Related Party Transactions--BNDES Loan Agreements."

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As of December 31, 2003, we had outstanding loans with BNDES with an aggregate amount of approximately R\$760.7 million (equivalent to US\$263.3 million at the year end's exchange rate), mainly denominated in reais.

As measured by the General Market Price Index, the inflation rate for 2002 was 25.3%. However, as a result of the evaluation of the real, inflation in 2003 decreased to 8.7%. See "Item 5. Operating and Financial Review and Prospects--Brazilian Economic Environment."

Set forth in the table below are our currency and interest rate exposures, on financial debt outstanding for the years 2004 through 2011.

DENOMINATION	INTEREST RATE	2004	2005	2006	2007	2008-2011
Local currency	TJLP (1).....	42.2	38.3	38.4	38.4	54.6
	Foreign currency basket (2).	8.5	8.3	8.3	8.3	13.2
Foreign currency	Fixed.....	161.8	73	115.8	115.8	305.0
	LIBOR.....	173.5	3.7	53.8	104.5	0.0
Total per year.....		386.0	123.3	216.3	267.0	372.8

(1) Long-Term Interest Rate.

(2) Basket of foreign currencies, including U.S. dollars, Japanese yen and European currencies.

### COMMODITY PRICE SENSITIVITY

We are exposed to commodity price risks through the fluctuation of pulp prices. We do not utilize derivative financial instruments to manage any remaining exposure to fluctuations in commodity prices. However, we seek to minimize these risks through efficient operating and inventory management procedures.

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

Not applicable.

### PART II.

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

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None.

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

None.

### ITEM 15. CONTROLS AND PROCEDURES

Our chief executive officer and our acting chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in the U.S. Securities Exchange Act of 1934 under Rule 13a-14(c)) have concluded that our disclosure controls and procedures were effective to ensure that material information relating to us was made known to them by others within our company, particularly during the period in which this annual report and accounts were being prepared. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon and as of the date of our evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

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#### B. MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Not applicable.

#### C. ATTESTATION REPORT OF THE REGISTERED PUBLIC ACCOUNTING FIRM

Not applicable.

#### D. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no significant changes in our internal controls or in other factors that could significantly affect these controls and procedures subsequent to the date our chief executive officer and our chief financial officer completed their evaluation, nor were there any significant deficiencies or material weaknesses in our internal controls and procedures requiring corrective actions.

### ITEM 16.

#### A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors of the Company has determined that Mr. Ernane Galveas is an audit committee financial expert within the meaning of the Sarbanes-Oxley and related regulations. We do not yet have an audit committee that is fully in compliance with the requirements of Sarbanes-Oxley, but we expect to be fully compliant by the required deadline of July 31, 2005.

#### B. CODE OF ETHICS

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We have adopted a Code of Ethics (called "Codigo de Conduta") that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller. The English version of the Code is attached as exhibit 11.01 of this Annual Report and can be downloaded at our website ([www.aracruz.com.br](http://www.aracruz.com.br)). Additionally, any person, upon request, can ask for a hard copy or electronic file of such Code.

### C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

#### AUDIT AND NON-AUDIT FEES

The following table sets forth the fees billed to us by our Registered Public Accounting Firm, Pricewaterhouse Coopers Auditores Independentes during the fiscal years ended December 31, 2002 and 2003:

	2002 (IN US\$)	2003 (IN US\$)
Audit services fees	245,037	149,597
Other accounting services fees	114,026	64,766
Non-audit services fees	284,263	--
TOTAL	643,326	214,363

Audit fees in the above table are the aggregate fees billed by Pricewaterhouse Coopers Auditores Independentes in connection with the audit of our annual financial statements and review of the Company's quarterly financial information.

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Audit-related fees in the above table are the aggregate fees billed by Pricewaterhouse Coopers Auditores Independentes for providing assistance in documenting internal control policies and procedures over financial reporting.

Tax fees in the above table are fees billed by Pricewaterhouse Coopers Auditores Independentes for tax compliance and tax advice.

Due to the mandatory rotation of audit firms as determined by Brazilian Securities Commission - CVM to public companies in Brazil, the Company has appointed Deloitte Touche Tohmatsu as its Registered Public Accounting Firm as from the fiscal year 2004.

#### AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

The Company's Board of Directors has established pre-approval and procedures for the engagement of its Registered Public Accounting Firm for audit and non-audit services.

The Board of Directors reviews the scope of the services to be provided, before their commencement, in order to ensure that there are no independence issues and the services are not prohibited services as defined by Sarbanes-Oxley Act of 2002.

#### D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

#### E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

PART III.

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

The following financial statements are filed as part of this annual report, together with the report of the independent accountants.

Report of PricewaterhouseCoopers Auditores Independentes.....	
Consolidated balance sheets at December 31, 2003 and 2002.....	
Consolidated statements of income for each of the three years in the period ended December 31, 2003.....	
Consolidated statements of cash flows for each of the three years in the period ended December 31, 2003.....	
Consolidated statements of changes in stockholders' equity for each of the three years in the period ended December 31, 2003.....	
Notes to consolidated financial statements.....	

ITEM 19. EXHIBITS

- 1.1 English translation of the Company's by-laws (estatuto social).
- 2.1 The total amount of long-term debt of the Company authorized under any instrument does not exceed 10% of the total assets of the Company and its subsidiaries, on a consolidated basis. The Company undertakes to furnish to the SEC all other instruments relating to long-term debt of the Company and its subsidiaries upon request by the SEC.
- 4.1 Term of Adhesion to the Company's Shareholders' Agreement by Mondi Brazil Limited, Inc., dated June 13, 1996 (free translation into English), incorporated herein by reference to the Company's annual report dated April 16, 2002.
- 4.2 Term of Adhesion to the Company's Shareholders' Agreement by Newark Financial, Inc., dated November 1, 2001 (free translation into English), incorporated herein by reference to the Company's annual report dated April 16, 2002.

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- 4.3 Amended Shareholders' Agreement, dated February 5, 2003, entered into among Arapar S.A. and Lorentzen Empreendimentos S.A. and Sodepa - Sociedade de Empreendimentos, Publicidade e Participacoes S.A. (free translation into English)
- 4.4 Master Indenture among Arcel Finance Limited, as Issuer, Aracruz Trading S.A., as provider of the Company Guarantee, Lasalle Bank National Association, as Collection Agent, The Bank of New York, as Trustee, Registrar, Transfer Agent and Principal Paying Agent and The Bank of New York, London Branch, as London Paying Agent, dated as of February 6, 2002, incorporated herein by reference to the Company's annual report dated April 16, 2002.
- 6.1 See Note 1(o) to the Company's financial statements for information explaining how earnings per share information was calculated.
- 8.1 See Item 4B of this annual report for information regarding the Company's subsidiaries.
- 12.1 Certifications by Chief Executive Officer and Chief Financial Officer required by Item 15.
- 13.1 Certifications by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ARACRUZ CELULOSE S.A.

By: /s/Carlos Augusto Lira Aguiar

-----  
Name: Carlos Augusto Lira Aguiar  
Title: Chief Executive Officer

By: /s/ Isac Roffe Zagury

-----  
Name: Isac Roffe Zagury  
Title: Chief Financial Officer

Date: June 25, 2004

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ARACRUZ CELULOSE S.A.  
CONSOLIDATED FINANCIAL STATEMENTS AT  
DECEMBER 31, 2002 AND 2003 AND  
REPORT OF INDEPENDENT AUDITORS

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REPORT OF INDEPENDENT AUDITORS

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

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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 Agencia 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  
Auditores Independentes

Vitoria, Brazil  
January 12, 2004

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ARACRUZ CELULOSE S.A.

CONSOLIDATED BALANCE SHEETS  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  
(EXCEPT NUMBER OF SHARES)

	DECEMBER 31,		
	2002	2003	
ASSETS			LIABILITIES AND STOCKHOLDERS' EQUITY
Current assets			Current liabilities
Cash and cash equivalents	25,474	66,284	Suppliers
Time deposits	248,455	285,991	Payroll and related charges

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Accounts receivable, net			Income and other taxes
Related party	2,781	3,174	Current portion of long-term de
Other	130,308	219,874	Related party
Inventories, net	81,553	131,486	Other
Deferred income tax, net	8,653	13,181	Short-term borrowings - export
			financing and other
Recoverable income and other	25,985	20,464	Accrued finance charges
taxes			
Prepaid expenses and other			Other accruals
current assets	1,207	2,280	
	-----	-----	
	524,416	742,734	
	-----	-----	
Property, plant and equipment, net	2,000,071	2,270,369	Long-term liabilities
	-----	-----	
Investment in affiliated company	70,943	174,257	Long-term debt
Goodwill	16,026	208,061	Related party
	-----	-----	Other
			Tax assessments and litigation
Other assets			contingencies
			Deferred income tax, net
Advances to suppliers	28,229	38,197	Suppliers
Deposits for tax assessments	10,605	14,319	Other
Deferred income tax, net	361		
Recoverable income and other	45,170	1,548	Commitments and contingencies (Note
taxes			
Other	2,993	4,948	
	-----	-----	
	87,358	59,012	Minority interest
	-----	-----	

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ARACRUZ CELULOSE S.A.

CONSOLIDATED BALANCE SHEETS  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  
(EXCEPT NUMBER OF SHARES)

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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

    Class B - 2002 - 536,837,131 shares; 2003

-

539,026,251 shares



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Common stock - 2002 and 2003 - 455,390,699 shares		29
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		(
		-----
Total share capital		90
Appropriated retained earnings		11
Unappropriated retained earnings		73
		-----
		1,76
		-----
		2,69
		-----
-----	-----	
2,698,814	3,454,433	2,69
=====	=====	=====

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

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ARACRUZ CELULOSE S.A.

CONSOLIDATED STATEMENTS OF INCOME  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  
(EXCEPT NUMBER OF SHARES AND PER-SHARE AMOUNTS)

	YE	
	-----	
	2001	
	-----	
OPERATING REVENUES		
Sales of eucalyptus pulp		
Domestic	23,579	17
Export	583,365	700
	-----	-----
Sales taxes and other deductions	606,944	717
	(32,589)	(48
	-----	-----
Net operating revenues	574,355	668
	-----	-----
OPERATING COSTS AND EXPENSES		

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Cost of sales	420,606	468
Selling	23,253	28
Administrative	22,012	22
Provision for loss on ICMS credit	10,754	45
Other, net	14,807	8
	-----	-----
	491,432	573
	-----	-----
OPERATING INCOME	82,923	95
	-----	-----
NON-OPERATING (INCOME) EXPENSES		
Equity in results of affiliated company	(1,195)	(6
Financial income	(54,749)	(61
Financial expenses	70,215	82
Loss (gain) on currency remeasurement, net	18,029	(14
Other, net	(171)	
	-----	-----
	32,129	
	-----	-----
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	50,794	96
	-----	-----
INCOME TAX EXPENSE (BENEFIT)		
Current	35,722	(23
Deferred	(2,992)	8
	-----	-----
	32,730	(15
	-----	-----
MINORITY INTEREST IN LOSSES (EARNINGS) OF SUBSIDIARY	43	
	-----	-----
NET INCOME FOR THE YEAR	18,107	111
	=====	=====

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

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ARACRUZ CELULOSE S.A.

CONSOLIDATED STATEMENTS OF INCOME  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  
(EXCEPT NUMBER OF SHARES AND PER-SHARE AMOUNTS)

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	2001	2000
BASIC AND DILUTED EARNINGS PER SHARE		
Class A preferred stock	0.05	0.05
Class B preferred stock	0.02	0.02
Common stock	0.01	0.01
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING (THOUSANDS)		
Class A preferred stock	40,651	40,300
Class B preferred stock	536,512	536,700
Common stock	454,908	454,900

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

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ARACRUZ CELULOSE S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	18,107	111,000
Adjustments to reconcile net income to cash provided by operating activities:		
Non-cash items		
Depreciation and depletion	162,567	171,000
Equity in results of affiliated company	(1,195)	(6,000)
Deferred income tax	(2,992)	8,000
Loss (gain) on currency remeasurement	18,029	(14,000)
Loss on sale of equipment	8,883	1,000
Other		(1,000)
Decrease (increase) in assets		
Accounts receivable, net	(5,122)	(50,000)
Inventories, net	13,552	(11,000)
Interest receivable on time deposits	4,792	54,000
Recoverable income taxes	(27,025)	10,000
Other	5,019	6,000
Increase (decrease) in liabilities		

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Suppliers	27,977	10
Payroll and related charges	(353)	(1)
Income and other taxes and litigation contingencies	31,382	(3)
Accrued finance charges	5,825	(9)
Other	714	1
	-----	-----
Net cash provided by operating activities	260,160	276
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Time deposits	(92,279)	27
Proceeds from sale of equipment	392	1
Investments in affiliate	(5,137)	
Acquisition of Riocell (net of cash received)		
Additions to property, plant and equipment	(416,353)	(260)
	-----	-----
Net cash used in investing activities	(513,377)	(231)
	-----	-----

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ARACRUZ CELULOSE S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS

	YEAR	
	2001	2002
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term debt, net	(15,224)	(78,789)
Long-term debt		
Issuances		
Related parties	160,889	112,199
Other	280,374	250,000
Repayments		
Related parties	(53,214)	(43,309)
Other	(54,945)	(203,756)
Treasury stock acquired		(2,175)
Dividends paid	(63,169)	(73,765)
	-----	-----
Net cash provided by (used in) financing activities	254,711	(39,595)
	-----	-----

EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND

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cash equivalents	540	225
Increase in cash and cash equivalents	2,034	5,349
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,091	20,125
CASH AND CASH EQUIVALENTS, END OF YEAR	20,125	25,474
SUPPLEMENTARY CASH FLOW INFORMATION		
Financial charges paid	49,258	60,412
Income taxes paid, including escrow deposits for tax assessments	66	140
Withholding income tax on financial income	34,020	1,404

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

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ARACRUZ CELULOSE S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  
(EXCEPT NUMBER OF SHARES AND PER-SHARE AMOUNTS)

	2001		2002		YEAR END
	SHARES	U.S.\$	SHARES	U.S.\$	SHA
SHARE CAPITAL					
Preferred stock - Class A					
Balance, January 1	40,929,550	33,455	40,479,797	33,087	40,3
Treasury stock cancelled			(35,301)		
Conversion to Class B stock	(449,753)	(368)	(118,206)	(97)	(2,1
Balance, December 31	40,479,797	33,087	40,326,290	32,990	38,1
Preferred stock - Class B					
Balance, January 1	581,599,464	581,041	582,049,217	581,409	536,8
Treasury stock cancelled			(45,330,292)		

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Conversion from Class A stock	449,753	368	118,206	97	2,1
Balance, December 31	582,049,217	581,409	536,837,131	581,506	539,0
Common stock					
Balance, January 1 and December 31	455,390,699	297,265	455,390,699	297,265	455,3
Treasury stock					
Balance, January 1	(45,848,707)	(57,807)	(45,848,707)	(57,807)	(1,8
Treasury stock cancelled			45,365,593	57,697	
Treasury stock acquired			(1,374,000)	(2,175)	
Balance, December 31	(45,848,707)	(57,807)	(1,857,114)	(2,285)	(1,8
Total share capital	1,032,071,006	853,954	1,030,697,006	909,476	1,030,6

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ARACRUZ CELULOSE S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  
(EXCEPT NUMBER OF SHARES AND PER-SHARE AMOUNTS)

	2001		2002	
	Shares	U.S.\$	Shares	U.S.\$
Balance brought forward	1,032,071,006	853,954	1,030,697,006	909,476
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				

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Balance, December 31		-----		-----
Investments reserve				
Balance, January 1		282,475		242,121
Treasury stock cancelled				(57,697)
Transfer from (to) unappropriated retained earnings		(40,354)		(102,904)
		-----		-----
Balance, December 31		242,121		81,520
		-----		-----
Legal reserve				
Balance, January 1		57,775		52,985
Transfer from (to) unappropriated retained earnings		(4,790)		(17,332)
		-----		-----
Balance, December 31		52,985		35,653
		-----		-----
Total appropriated retained earnings		295,106		117,173
		-----		-----
Balance carried forward	1,032,071,006	1,159,980	1,030,697,006	1,026,649
	-----	-----	-----	-----

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ARACRUZ CELULOSE S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  
(EXCEPT NUMBER OF SHARES AND PER-SHARE AMOUNTS)

	2001		2002	
	Shares	U.S.\$	Shares	U.S.\$
	-----	-----	-----	-----
BALANCE BROUGHT FORWARD	1,032,071,006	1,159,980	1,030,697,006	1,026,649
	-----	-----	-----	-----
UNAPPROPRIATED RETAINED EARNINGS				
Balance, January 1		577,822		577,750
Net income for the year		18,107		111,913
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				

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Class B preferred stock and U.S.\$ 0.09 to common stock)	(63,323)		(75,985)
Transfer from (to) reserves	45,144		120,236
	-----		-----
Balance, December 31	577,750		733,914
	-----		-----
TOTAL STOCKHOLDERS' EQUITY	1,032,071,006	1,737,730	1,030,697,006
	=====	=====	=====
COMPREHENSIVE INCOME IS COMPRISED AS FOLLOWS:			
Net income for the year		18,107	111,913
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

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ARACRUZ CELULOSE S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  
(UNLESS OTHERWISE STATED)

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 N(0) 52 - "Foreign Currency Translation" ("SFAS 52"). The Board of Directors and management



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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 U.S.\$ 42.0 million (U.S.\$ 14.9 million gain in 2002 and U.S.\$ 18.0 million loss in 2001). The exchange rates at December 31, 2003, 2002 and 2001 were, respectively: U.S.\$ 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.

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ARACRUZ CELULOSE S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  
(UNLESS OTHERWISE STATED)

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(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.

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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.

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ARACRUZ CELULOSE S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  
(UNLESS OTHERWISE STATED)

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### (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.

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ARACRUZ CELULOSE S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  
(UNLESS OTHERWISE STATED)

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(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.

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ARACRUZ CELULOSE S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  
(UNLESS OTHERWISE STATED)

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(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

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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.

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### (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

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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 Parana 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.

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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

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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.

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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

3 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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The Financial Accounting Standards Board ("FASB"), recently issued the following pronouncements:

SFAS N(0) 147 - "Accounting for Acquisitions of Certain Financial Institutions".

SFAS N(0) 148 - "Accounting for Stock-Based Compensation".

SFAS N(0) 149 - "Amendment of SFAS 133".

SFAS N(0) 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.

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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%
	=====

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

	YEAR ENDED DECEMBER	
	2001	2002
Income before income taxes and minority interest	50,794	96,276
Federal income tax and social contribution at statutory rates	17,270	32,734
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)
Depreciation on difference in asset basis	21,083	40,746
Valuation allowance (reversal)		
Operations outside Brazil	(2,474)	
Reversal of income tax and social contribution related to "plano verao"		
Fiscal incentive - income tax (*)		
Other permanent items	982	607
Income tax expense (benefit) in the consolidated statements of income	32,730	(15,573 )

(\*) The Company's operations are located within the geographic area of the Agencia 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



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rate, as from 2003 through 2012;

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- (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.

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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 U.S.\$ 92,010 and a valuation allowance in the same amount.

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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.

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

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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 U.S.\$ 8,111 (2002 - U.S.\$ 3,512)	29,488	34,272
	81,553	131,486

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9 PROPERTY, PLANT AND EQUIPMENT

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	DECEMBER 31, 2013		
	COST	ACCUMULATED DEPRECIATION	
Land	206,211		
Timber resources	523,122	352,690	
Buildings, improvements and installations	472,799	282,835	
Equipment	1,812,318	868,242	
Information technology equipment	47,753	30,872	
Other	143,510	109,957	
	3,205,713	1,644,596	1,000,000
Construction in progress	352,074		
Total	3,557,787	1,644,596	1,000,000

	DECEMBER 31, 2012		
	COST	ACCUMULATED DEPRECIATION	
Land	295,364		
Timber resources	341,054	75,087	
Buildings, improvements and installations	563,872	326,633	
Equipment	2,606,971	1,193,750	1,000,000
Information technology equipment	55,926	41,303	
Other	153,481	125,653	
	4,016,667	1,762,425	2,000,000
Construction in progress	16,127		
Total	4,032,794	1,762,425	2,000,000

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FIBERLINE C - EXPANSION PROJECT

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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 Espirito 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 Sao Mateus, in the State of Espirito 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.

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#### 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