

2002



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// Report of Independent Accountants

January 31, 2003

To the Board of Directors and Shareholders
Votorantim Celulose e Papel S.A.

In our opinion, the accompanying balance sheet and the related statements of income, of changes in shareholders' equity and of cash flows, present fairly, in all material respects, the financial position of Votorantim Celulose e Papel S.A. (the "Company") at December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit provides a reasonable basis for our opinion.



The consolidated financial statements of the Company as of December 31, 2001, and for the years ended December 31, 2001 and 2000 were audited by other accountants whose report, dated January 28, 2002, expressed an unqualified opinion on those statements.

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Rogério P. Calderón Peres
Sócio
Contador CRC 1SP149374/O-2

Marcelo Orlando
Diretor
Contador CRC 1SP217518/O-7

// Consolidated Balance Sheet at December 31

Expressed in millions of U.S. dollars, except number of shares

Assets	2002	2001
Current assets		
Cash and cash equivalents	90	172
Held-to-maturity investments	31	87
Trade accounts receivable, net	136	171
Inventories	55	60
Deferred income tax		3
Recoverable taxes	17	9
Other	9	6
	338	508
Investment in affiliates	218	216
Goodwill	19	155
Property, plant and equipment, net	907	1,100
Other assets		
Held-to-maturity investments	289	277
Unrealized gains from cross currency interest rate swaps	93	41
Deferred income tax	16	
Other	38	24
	436	342
	1,918	2,321

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



Liabilities and shareholders' equity	2002	2001
Current liabilities		
Trade payables	54	57
Short-term debt	66	69
Current portion of long-term debt	249	389
Payroll, profit sharing and related charges	9	12
Income taxes	6	3
Dividends payable		40
Other	16	14
	400	584
Long-term liabilities		
Long-term debt	724	584
Deferred income tax		34
Accrued liabilities for legal proceedings	27	12
	751	630
Commitments and contingencies (Note 14)		
Shareholders' equity		
Preferred shares, no par value, 56,000,000,000 shares authorized, 17,182,209,232 shares issued at December 31, 2002 and 2001	553	553
Common shares, no par value, 28,000,000,000 shares authorized, 21,140,490,321 shares issued at December 31, 2002 and 2001	767	767
Additional paid-in capital	24	23
Treasury shares, at cost, 2002 - 144,300,000 shares; 2001 - 235,400,000	(4)	(6)
Net unrealized loss on available-for-sale securities of investee	(1)	
Accumulated other comprehensive deficit		
Appropriated retained earnings	31	27
Unappropriated retained earnings	584	518
Cumulative translation adjustment	(1,187)	(775)
	767	1,107
	1,918	2,321

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

// Consolidated Statement of Income

Expressed in millions of U.S. dollars, except number of shares

	2002	2001	2000
Net operating revenue			
Domestic sales (net of sales taxes: 2002 - US\$ 109; 2001 - US\$ 99 and 2000 - US\$ 92)	410	443	537
Export sales (including related party sales: 2002 - US\$ 119; 2001 - US\$ 194 and 2000 - US\$ 196)	199	211	237
	609	654	774
Operating costs and expenses			
Cost of sales	329	344	371
Selling and marketing	58	56	58
General and administrative	30	32	33
Other operating expenses (income), net	15	5	(2)
	432	437	460
Operating profit	177	217	314
Non-operating income (expense)			
Financial income	73	71	94
Financial expense	(59)	(39)	(65)
Foreign exchange loss, net	(11)	(8)	(14)
	3	24	15
Income before taxes on income and cumulative effect of accounting change and equity in affiliates	180	241	329
Current income tax expense	(24)	(40)	(56)
Deferred income tax benefit (expense)	34	(19)	(24)
Income before cumulative effect of accounting change and equity in affiliates	190	182	249
Equity loss of investee	(121)		
Cumulative effect of accounting change, net of tax (Note 2(o))		10	
Net income	69	192	249

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



// Condensed Consolidated Interim Statement of Income

Expressed in millions of U.S. dollars, except number of shares

	2002	2001	2000
Net income applicable to preferred shares	32	90	116
Net income applicable to common shares	37	102	133
Net income	69	192	249
Basic earnings per 500 shares - in U.S. dollars			
Preferred	0.96	2.65	3.45
Common	0.87	2.41	3.13
Basic earnings per 1000 shares - in U.S. dollars			
Preferred	1.91	5.31	6.89
Common	1.74	4.83	6.27
Weighted average number of shares outstanding (thousand)			
Preferred	17,021,387	16,946,809	16,867,058
Common	21,140,490	21,140,490	21,140,490

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

// Consolidated Statements of Cash Flow

Expressed in millions of U.S. dollars, except number of shares

	2002	2001	2000
Cash flows from operating activities			
Net income	69	192	249
Adjustments to reconcile net income to cash provided by operating activities			
Unrealized foreign exchange losses, net	11	8	14
Equity loss in investees, net of dividends	(15)		
Goodwill impairment in investee	136		
Deferred income tax	(34)	19	24
Depreciation and depletion	51	52	63
Cumulative effect of accounting change, net of tax		(10)	
Loss on disposal of property, plant and equipment	17	4	2
(Increase) decrease in assets and liabilities			
Trade accounts receivable	28	(35)	(8)
Inventories	(16)	(8)	(11)
Other assets	(43)	(10)	29
Liabilities	(19)	22	19
Net cash provided by operating activities	185	234	381
Cash flows from investing activities			
Maturities (purchases) of held-to-maturity investments	49	(325)	155
Acquisition of equity investees		(370)	
Dividends received	8		
Acquisition of property, plant and equipment	(317)	(309)	(125)
Proceeds from disposals of property, plant and equipment		2	5
Repayment of loans to related parties			66
Net cash (used in) provided by investing activities	(260)	(1,002)	101
Cash flows from financing activities			
Short-term debt	(13)	13	(4)
Long-term debt			
Issuances	991	787	187
Repayments	(910)	(238)	(329)
Proceeds from sales of treasury shares	2		26
Dividends paid	(34)	(37)	(23)
Net cash provided by (used in) financing activities	36	525	(143)
Effect of exchange rate changes on cash and cash equivalents	(43)	(74)	(26)
Net increase (decrease) in cash and cash equivalents	(82)	(317)	313
Cash and cash equivalents at beginning of year	172	489	176
Cash and cash equivalents at end of year	90	172	489

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



// Consolidated Statements of Changes in Shareholders' Equity

Expressed in millions of U.S. dollars, except number of shares

	2002	2001	2000
Preferred stock			
At beginning and end of year	553	553	553
Common stock			
At beginning and end of year	767	767	767
Additional paid-in-capital			
At beginning of year	23	23	5
Gain on sale of treasury stock	1		18
At end of year	24	23	23
Treasury stock			
At beginning of year	(6)	(6)	(14)
Preferred stock acquired (2000 - 235,400,000)			(6)
Preferred stock sold (2002 - 91,100,000; 2000 - 1,137,582,405)	2		14
At end of year	(4)	(6)	(6)
Net unrealized loss on available-for-sale securities of equity investee			
Transferred from appropriated retained earnings	(1)		
Appropriated retained earnings			
At beginning of year	27	19	9
Transferred to available for sale reserve	(1)		
Transferred from unappropriated retained earnings	5	8	10
At end of year	31	27	19
Unappropriated retained earnings			
At beginning of year	518	374	188
Net income	69	192	249
Transferred to appropriated retained earnings	(3)	(8)	(10)
Dividends			
Preferred		(19)	(23)
Common		(21)	(30)
At end of year	584	518	374
Accumulated other comprehensive loss - Cumulative translation adjustments			
At beginning of year	(775)	(596)	(489)
Loss for the year	(412)	(179)	(107)
At end of year	(1,187)	(775)	(596)
Shareholders' equity at end of year	767	1,107	1,134
Comprehensive income (loss)			
Net income	69	192	249
Loss in equity investee on available-for-sale securities	(1)		
Translation adjustments	(412)	(179)	(107)
Comprehensive income (loss)	(344)	13	142

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

// Notes to the Consolidated Financial Statements

Expressed in millions of U.S. dollars, unless otherwise stated

// 1. Operations

Votorantim Celulose e Papel S.A. (the "Company", "VCP" or "we") is a limited liability company constituted in accordance with the laws of the Federative Republic of Brazil and headquartered in the state of São Paulo.

We produce eucalyptus pulp which we use in our own integrated paper manufacturing facilities or, to a lesser extent, sell in the domestic and foreign markets. We also have forestry operations which produce the pulp wood required for our production. Our business has experienced, and is likely to continue to experience, cycles relating to available industry capacity and general industry economic conditions. Our sales (volumes and prices) are effected by such conditions which are beyond our control.

We are a member of the Votorantim Group, which has other interests in Brazil and abroad, principally in cement, metallurgy, agribusiness, chemicals and financial services. Our immediate parent company is Votocel Filmes Flexíveis Ltda., which is directly controlled by S.A. Indústrias Votorantim, and which in turn is ultimately controlled by Hejoassu Administração Ltda. ("Hejoassu"). Hejoassu is controlled by the Ermirio de Moraes Family.

In April 2000 we made our initial public offering of our American Depositary Shares. Each American Depositary Share represents 500 of our preferred shares. We sold 2,047,648 American Depositary Shares, and certain of our shareholders sold 5,872,352 American Depositary Shares. The U.S. underwriters offered 6,336,000 American Depositary Shares in the United States and Canada, and the international managers offered 1,584,000 American Depositary Shares outside the United States and Canada. In addition, the Brazilian underwriters offered 440,000,000 preferred shares in Brazil. Our preferred shares are traded on the São Paulo Stock Exchange and the other Brazilian stock exchanges under the symbol "VCPA4." Our American Depositary Shares are traded on the New York Stock Exchange under the symbol "VCP."

// 2. Significant Accounting Policies

a) Basis of presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), which differ in certain respects from the accounting principles applied by the Company in its financial statements prepared in accordance with accounting principles generally accepted in Brazil as filed with the *Comissão de Valores Mobiliários* (Brazilian Securities Commission or "CVM"), or for other statutory purposes in Brazil.

b) Translation of financial statements

We transact the majority of our business in Brazilian *reais* (R\$) and, therefore, have adopted the Brazilian *real* as the functional currency and have selected the United States dollar as our reporting currency. The U.S. dollar amounts for all years presented have been translated from *reais* amounts in accordance with the criteria set forth in Statement of Financial Accounting



Standards ("SFAS") 52, "Foreign Currency Translation". Assets and liabilities are translated from the functional currency to the reporting currency using the official exchange rates reported by the Brazilian Central Bank at the balance sheet date (December 31, 2002 - US\$ 1.00 : R\$ 3.5333; December 31, 2001 - US\$ 1.00 : R\$ 2.3204; December 31, 2000 - US\$ 1.00 : R\$ 1.9554).

Revenue, expenses and gains and losses are translated from the functional currency to the reporting currency using the monthly weighted-average exchange rates for the year. Capital accounts are recorded at historical exchange rates. Translation gains and losses are recorded in the Cumulative Translation Adjustment account ("CTA") in shareholders' equity.

In 2002, we incorporated VCP Overseas Holding KFT, a wholly owned subsidiary located in Hungary. In 2001, we incorporated Newark Financial Inc., a wholly owned subsidiary located in the British Virgin Islands. Both foreign subsidiaries transact the majority of their activities in U.S. dollars and accordingly, have elected such currency as their functional currency.

c) Principles of consolidation

Our consolidated financial statements include the accounts of VCP and our directly and indirectly controlled subsidiaries: VCP Exportações e Participações S.A, VCP Florestal Ltda, St. Helen Holding III B.V., Normus Empreendimentos e Participações Ltda., Newark Financial Inc. and VCP Overseas Holding KFT, all of which are wholly owned. Significant intercompany accounts and transactions have been eliminated in the consolidation. The 12.35% owned equity investee, Aracruz Celulose S.A. ("Aracruz"), which we acquired during 2001 (Note 4) and our 50 percent owned equity investee, Voto - Votorantim Overseas Trading Operations N.V. ("Voto") are accounted for on the equity method.

d) Cash and cash equivalents

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

e) Held-to-maturity investments

We consider our debt securities as held-to-maturity when we intend and have the ability to hold the securities to maturity. Held-to-maturity securities are carried at cost plus accrued income which is included in financial income in the statement of income.

f) Inventories

Inventories, including timber, are stated at average acquisition or production cost, which is lower than market.

g) Property, plant and equipment

Property, plant and equipment are stated at cost of acquisition or construction, including interest during the construction period. Expenditures which materially extend the useful lives of the existing facilities and equipment are capitalized. We depreciate property, plant and equipment costs using the straight-line method at rates we judge to be compatible with the useful lives, principally 25 years for plant and equipment, 10 years for furniture and fixtures and five years for vehicles. Depletion of forests is computed on the unit-of-production method, based on the volume of timber harvested in each period. Software costs capitalized are amortized on a straight-line basis over five years.

Forest development costs, primarily project implementation costs (preparation of soil, planting, pest control and clearing, etc.) and on-going maintenance costs are capitalized as incurred. As a result of improvements in forest management techniques, including genetic improvement in trees, beginning in 2001 we now harvest and replant our forests approximately every seven years and capitalized costs are expensed at the time of each harvest. Previously, costs were deferred based on a formula which reflected the accumulation of costs over a 21-year cycle which included three harvests.

We review our property, plant and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable on the basis of undiscounted future cash flows. The reviews are carried out at the lowest level of groups of assets to which we are able to attribute identifiable future cash flows. Asset groups are forestry projects or production facilities for paper and pulp. We adjust the net book value of the underlying assets if the sum of the expected future cash flows is less than book value. These reviews to date have not indicated the need to recognize any impairment losses and have been performed following the criteria in SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets".

h) Income taxes

We account for income taxes in accordance with SFAS 109, "Accounting for Income Taxes".

i) Revenues and expenses

We recognize revenue and associated costs of sales at the time our products are delivered to our customers or when title and associated risks pass to our customers. Revenue is recorded net of sales returns of US\$ 7 in each of 2002, 2001 and 2000. Our customers that purchase on credit agree to payment terms that effectively include finance charges. The finance charge on each sale is the difference between the amount the customer agrees to pay at the due date and the cash sale price. The finance charges are recognized over the payment period and are included in financial income.

Research and development expenses are charged to expense as incurred and totaled approximately US\$ 1 in each of 2002, 2001 and 2000. Start-up expenses of new facilities and restructuring charges are also directly expensed.

Shipping and handling costs are charged to selling and marketing expenses and totaled approximately US\$ 29, US\$ 27 and US\$ 28 in 2002, 2001 and 2000, respectively.

j) Comprehensive income (loss)

We report comprehensive income (loss) in accordance with SFAS 130, "Reporting Comprehensive Income", and have elected to present this in the Statement of changes in shareholders' equity. In our case, comprehensive income (loss) comprises the results of our operations and the translation adjustments included in the CTA component of shareholders' equity.

k) Earnings per share

In conformity with SFAS 128, "Earnings per Share", we have presented earnings per share for each class of shares, taking into account that the preferred shares are entitled to a dividend 10% greater than that paid to the common shares. The computation has been made as if the net income for each period will be fully distributed. Earnings may be capitalized or otherwise appropriated, consequently such earnings would no longer be available as dividends. Therefore, there is no assurance



that preferred shareholders will receive a 10% premium on undistributed earnings. We also may pay dividends through interest attributed to capital in accordance with our by-laws. The unit of 1,000 shares is used because this is the basis for quotation and trading on the Brazilian stock exchanges. We have also presented earnings per 500 shares because this unit reflects the number of preferred shares represented by one of our American Depository Shares.

l) Use of estimates

In order to prepare our financial statements in conformity with generally accepted accounting principles we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses for the years. Such estimates include the selection of useful lives of property, plant and equipment, provisions for impairments and for contingent liabilities, and other similar evaluations. Actual results could differ from our estimates.

m) Employee benefits and other related matters

In March 2000 we launched a defined contribution plan which provides pension and post-retirement benefits (Note 20). We also contribute to the Government pension, welfare and redundancy plans on behalf of our employees and these contributions are expensed as incurred. Most of our employees are members of unions, with which we enter into collective-bargaining arrangements annually. The liability for future compensation for employee vacations is accrued as earned.

n) Environmental matters

Our production facilities and forestry operations are subject to a number of environmental risks which we seek to mitigate by strict operating procedures and investments in pollution control equipment and systems. Ongoing environmental compliance expenditures are expensed as incurred and new equipment and systems are capitalized. We believe that no provision for losses related to environmental matters is currently required based on prevailing laws and regulations in Brazil.

o) Accounting for Derivative Instruments and Hedging Activities

As of January 1, 2001, we adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", and its amendments.

As a result of the adoption of SFAS 133, we recognize our cross currency interest rate swap agreements on the balance sheet at fair value and adjustments to fair value are recorded through income. Prior to adoption of SFAS 133, we recognized our cross currency interest rate swap contracts on the balance sheet at contract value and adjustments to contract value were recorded through income. We recorded the accounting change as a cumulative effect of an accounting principle. The adoption of SFAS 133, resulted in a cumulative effect of accounting change of US\$ 10, net of applicable tax expense of US\$ 4, which resulted in a gain in the consolidated statement of income for the year ended December 31, 2001.

p) Reclassifications

Certain reclassifications have been made to the financial information as of December 31, 2001, and for the years ended December 31, 2001 and 2000, in order to make it consistent with the presentation of the information as of and for the year ended December 31, 2002. There was no effect on net income and comprehensive income for 2001 as a result of the reclassifications.

// 3. Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board ("FASB"), recently issued a number of Statements of Financial Accounting Standards ("SFAS"); management estimates that once adopted these statements will not have a material impact on the financial position and results of operations of the Company.

- SFAS N° 143 - "Accounting for Asset Retirement Obligations", requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost should be allocated to expense using a systematic and rational method. SFAS 143 is effective for fiscal years beginning after September 15, 2002.
- SFAS N° 145 - "Extinguishment of Debt", addresses financial accounting and reporting for extinguishment of debt. SFAS 145 is effective for fiscal years beginning after May 15, 2002.
- SFAS N° 146 - "Accounting for Costs Associated with Exit or Disposal Activities", establishes the financial accounting and reporting for costs associated with exit or disposal activities. SFAS 146 is effective for fiscal years initiated after December 31, 2002.

// 4. Acquisition of Investee

On October 3, 2001, Newark Financial Inc., signed a Share Purchase and Sale Agreement to acquire 127,506,457 common shares of Aracruz, representing 28.00% of the voting share capital and 12.35% of equity share capital of Aracruz, for US\$ 370. The transfer of the shares occurred on November 1, 2001 when we became a member of the controlling group of Aracruz, together with the Lorentzen and Safra Group, (each member owning 28% of the voting shares and with three seats on the board of directors), and BNDES Participações S.A. (with 12.5% of the voting shares and one seat on the board of directors). This transaction is subject to final approval by the Brazilian anti-trust authorities and we believe such approval will be provided. The excess of the cost of our investment in Aracruz over our portion of the underlying fair value of the net assets amounted to US\$ 155.

Aracruz's summarized financial position at December 31 is as follows:

	2002	2001
Current assets	524	641
Property, plant, and equipment, investments in affiliated company and other assets	2,174	2,137
Current liabilities	239	425
Long-term debt (long-term portion)	611	537
Total equity	1,761	1,738

Dividends received from Aracruz during 2002, totaled US\$ 8.

SFAS N° 142, "Goodwill and Other Intangible Assets", requires that goodwill as well as other intangible assets with indefinite lives no longer be amortized but be tested annually for impairment. Consistent with SFAS N° 142 and Accounting Principles Board Opinion N° 18, "The Equity Method of Accounting for Investment in Common Stock", the Company reduced the carrying value of its investments in Aracruz to quoted market value at December 31, 2002.

A goodwill impairment provision was determined based on the market price of US\$ 18.56 for the Aracruz ADRs on December 31, 2002, of US\$ 136 (gross of deferred income tax effects of US\$ 46) was charged directly to income ("Equity loss of investee"). The deferred tax effect is included in "Deferred income tax benefit".



// 5. Income Taxes

Income taxes in Brazil include federal income tax and social contribution. The composite statutory tax rate was 34% for 2002, 2001 and 2000.

a) Income tax reconciliation

The statutory rate applied to income before taxes is reconciled to income tax expense as follows:

	2002	2001	2000
Income before income taxes	180	241	329
Income tax expense at statutory tax rate	61	82	112
Reconciliation of statutory to effective rate			
Effect of REFIS election (below)	(25)	(23)	
Deferred tax on impairment in Aracruz	(46)		
Interest attributed to capital			(19)
Goodwill tax amortization			(11)
Other			(2)
Income tax expense (benefit)	(10)	59	80

Consistent with our enrollment in the Program of Tax Recovery (REFIS), we may elect annually for each year between 2001 and 2005 to calculate and pay our income taxes either based on the provisions of REFIS (tax determined based on a percentage of net sales for the year plus adjusted financial income and other income). Both basis are determined on the companies' statutory records. For 2002 and 2001 Votorantim Celulose e Papel S.A. (parent company) elected to calculate and pay income taxes based on the provisions of REFIS, whereas its subsidiaries are assessed based on adjusted pretax income.

b) Analysis of deferred tax balances

	2002	2001
Deferred tax assets		
Tax loss carryforwards (primarily, VCP Exportadora e Participações S.A.)	17	
Preoperating costs capitalized for tax and other		2
Tax effects on impairment of investee (Note 4)	46	
Other provisions	4	1
Total deferred tax assets	67	3
Deferred tax liabilities		
Cross currency interest swap contracts	(36)	(3)
Property, plant and equipment	(15)	(31)
	(51)	(34)
Net deferred tax assets (liabilities)	16	(31)

// 6. Held-to-maturity Investments

	2002		2001
	Book Value	Gross unrealized gains (losses)	Estimated fair value
In reais			
Debentures	24	3	24
In U.S. dollars			
Time deposits	8		8
Brazilian Public Bonds	288	(37)	214
Total	320	(34)	246
In reais			
Bank Certificate of Deposits	55	1	55
Debentures	39	5	39
In U.S. dollars			
Brazilian Public Bonds	270	12	274
Total	364	18	368

	2002
	Book Value
	Estimated fair value
Maturity periods	
Due in less than one year	25
Due in one to three years	147
Due after five years	74
	320
	246

// 7. Trade Accounts Receivable

	2002	2001
Export receivables, denominated in U.S. dollars	67	77
Domestic receivables	74	98
Allowance for doubtful accounts	(5)	(4)
	136	171

As at and for the years ended December 31, 2002, 2001 and 2000, except for our related party Votorantrade N.V. (Note 12), no other single customer or group represented more than 10% of our consolidated trade accounts receivable balance or consolidated sales.

// 8. Inventories

	2002	2001
Finished products	24	21
Work in process	4	5
Raw materials and supplies	24	30
Imports in transit and other	3	4
	55	60



// 9. Property, Plant and Equipment

	2002	2001
Land	30	44
Buildings	74	97
Machinery, equipment and installations	664	766
Forests	113	210
Other	96	62
Construction in progress	122	229
	1,099	1,408
Accumulated depreciation and depletion	(192)	(308)
	907	1,100

Interest capitalized on construction in progress in each of the periods was: 2002 - US\$ 41; 2001 - US\$ 11 and 2000 - US\$ 5.

// 10. Short-term Debt

Short-term debt represents commitments under recourse provisions to honor export receivables transferred to banks accounted for as secured borrowings (ACEs), bearing an annual average interest rate of approximately 5.7% at December 31, 2002 (2001 - 6.1 %). Historically, we have not incurred significant losses in connection with such recourse provisions.

// 11. Long-term Debt

	Interest rate at December 31, 2002 - % p.a.	2002	2001
In U.S. dollars			
Syndicated bank loan	LIBOR + 1.95	380	353
Bank loan	LIBOR + 5.00	200	
Export credits (pre-payment)	LIBOR + 1.64	151	151
Export credits (ACCs)	5.73	113	145
Import credits	4.20	13	18
International Finance Corporation			1
Related party			
Voto loan			200
Votorantrade N.V. loan			11
In reais			
Banco Nacional de Desenvolvimento Econômico e Social ("BNDES")	TJLP + 3.0 to 3.5	116	94
		973	973
Less: current portion		(249)	(389)
Long-term portion		724	584

Note: The LIBOR (London Interbank Offered Rate) at December 31, 2002 was 1.44% per annum.

The TJLP (Taxa de Juros de Longo Prazo), a long-term interest rate reset quarterly by the Brazilian Central Bank, at December 31, 2002 was 11% per annum.

a) Voto loan

In December 1996, Voto received a US\$ 300 bridge loan from ING Barings, of which US\$ 150 was advanced to us at that time. In June 1997, Voto issued US\$ 400, 8.5% notes due 2005 ("Voto Notes"), jointly and severally guaranteed by us and Cimento Rio Branco S.A., a subsidiary of S.A. Indústrias Votorantim ("SAIV"), members of the Votorantim Group (collectively the "Guarantors"). The bridge loan was paid in full with the proceeds of this issue and an additional US\$ 50 was transferred to us. Voto charged us an interest rate on the US\$ 200 intercompany loan identical to that

which it pays to the holders of the Voto Notes. The remaining balance of US\$ 200 of the Voto Notes was transferred to SAIV.

In connection with our guarantee of the Voto Notes we are subject to covenants, primarily relating to the maintenance of a certain level of net borrowing (debt less our cash equivalents and held-to-maturity investments).

Voto has no operations and its only significant liability is the 8.5% US\$ 400 Notes and its only significant asset is the 8.5% US\$ 400 loan receivable from us and SAIV. Current assets and current liabilities were less than US\$ 1 at December 31, 2002 and 2001. Shareholders' equity and was net income were less than US\$ 1 at December 31, 2002, 2001 and 2000 and for the years then ended.

Under the Voto Notes indenture, each holder of the notes could require Voto to repurchase, in whole or in part, the notes on June 27, 2002 at a repurchase price of 99.5% of the principal amount plus accrued and unpaid interest. Also, under the Voto Notes indenture, Voto could upon notice repurchase the notes from holders, in whole but not in part, on June 27, 2002 at a repurchase price of 99.5% of the principal amount plus accrued and unpaid interest. In either case, Voto could procure any other person to purchase the notes that are subject to its repurchase.

In June 2002, our wholly-owned subsidiary St. Helen Holding III B.V., located in Curaçao, exercised the call option and purchased the US\$ 200 notes. Funds used for the acquisition of these notes were raised through a bank loan, maturing in 2005. The discount obtained by St. Helen Holding III of US\$ 1 on the purchase of the Voto Notes has been deferred to be recognized over the term of the loan. The remaining balance of US\$ 200 was repurchased by a wholly owned subsidiary of SAIV.

b) Syndicated bank loan

In October 2001, Newark Financial Inc. obtained a bridge loan of US\$ 370 to finance the acquisition of our interest in Aracruz. On May 23, 2002, VCP Trading N.V. and VCP North America Inc., two wholly owned subsidiaries of Newark Financial Inc., entered into a US\$ 380 credit agreement with a syndicate of banks. All of the proceeds from the credit agreement were advanced to Newark Financial Inc. (US\$ 304 by VCP Trading and US\$ 76 million by VCP North America). Newark Financial Inc. used the proceeds from these advances to pay in full the bridge loan and to make certain payments in connection with the credit agreement. The obligations of VCP Trading N.V. and VCP North America Inc. under the credit agreement are guaranteed directly or indirectly by Newark Financial Inc., VCP Exportadora e Participações S.A. and us. The loans under the credit agreement are secured by liens on certain collateral, including receivables from customers for the sales of certain products arising under agreements entered among Newark Financial Inc., VCP Trading N.V. and VCP North America Inc.

As a guarantor under the credit agreement, we are subject to a number of material covenants including, among others: limitations on our ability to incur debt; limitations on the existence of liens on our properties; limitations on transactions with related parties, which generally must be on terms no less favorable than those that could be obtained in a comparable arm's-length transaction; and maintenance of certain financial ratios.

c) Other guarantees

The BNDES loans are secured by property, plant and equipment and a lien on certain land and personal guarantees of an owner of Hejoassu, our ultimate parent company. The IFC loan is secured by liens on certain of our properties. The carrying amount of our assets securing these loans was approximately US\$ 241 at December 31, 2002.



d) Long-term debt maturities

At December 31, 2002, long-term debt maturities are as follows:

2004	267
2005	346
2006	62
2007	19
2008	19
Thereafter	11
	724

// 12. Related Parties

Balances and transactions with related parties are as follows:

	Nature and business purpose of transactions	2002	2001
Cash, cash equivalents and held-to-maturity investments			
Votorantim Group company	Surplus cash funds invested with Group financial institutions		
Banco Votorantim S.A.		320	354
Votorantim Finanças S.A.		18	38
Draft II Participações S.A.		6	14
Trade accounts receivable			
Votorantim Group company	Sales to trading company		
Votorantrade N.V.		60	69
Unrealized gains from cross currency interest rate swaps			
Votorantim Group company	Arising from swap contract transactions in which the Group financial institution acts as counter-party		
Banco Votorantim S.A.		86	41
Long-term loans from related parties			
Votorantim Group company	Loans from related parties		
Voto			200
Votorantrade N.V.			11
Parent of a significant shareholder - BNDES		116	94

The above cash equivalent, held-to-maturity investments and loans earn interest at market rates.

Revenue, income and expenses from transactions with related parties were as follows:

	2002	2001	2000
Export sales revenue	119	194	196
Financial income	248	71	76
Financial expenses			24

Export sales revenue primarily relates to sales made to Votorantrade N.V.; financial income arises from loans made to related parties and investments made in Banco Votorantim S.A.; and financial expenses represent charges on intercompany loans from related parties.

// 13. Financial Instruments and Derivatives

We primarily use cross currency interest rate swap contracts and Brazilian Public bonds indexed to the U.S. dollar to hedge our U.S. dollar denominated debt. By entering into these contracts or purchasing Brazilian Public bonds, we partially protect ourselves from the effects of unfavorable exchange movements. Accordingly, if the *real* devalues against the U.S. dollar and results in a foreign exchange loss, we are at least in part protected by an offsetting gain from the swap contracts.

We used the following methods and assumptions in estimating the fair value disclosures of our financial instruments:

- Cash and cash equivalents: the carrying amounts reported in our balance sheet for cash and cash equivalents approximate their fair values.
- Held-to-maturity investments: the carrying amounts reported in our balance sheet for held-to-maturity investments approximate their fair value.
- Long-and short-term debt: the carrying amounts of our short-term debt approximate their fair values. The fair values of our long-term debt were estimated based on available quoted rates for loans of substantially similar terms and maturities.

The fair values of our cross currency interest rate swap contracts were estimated based on quoted market prices of comparable contracts. At December 31, 2002 and 2001 the notional amounts of our outstanding cross currency interest rate swap contracts were US\$ 255 and US\$ 253, respectively and their fair values were US\$ 93 and US\$ 32, respectively. In 2000, we recognized these swap contracts on the balance sheet at contract value and adjustments to contract value were recorded through income. In 2001, upon the adoption of SFAS 133, we recognized these swap contracts on the balance sheet at fair value and adjustments to fair value were recorded through income. The actual cash settlement on the contracts occur at times specified in each agreement. We do not terminate any of our contracts prior to maturity.

The carrying amounts and fair values of our financial instruments at December 31 were as follows:

	2002		2001	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	90	90	172	173
Held-to-maturity investments	320	246	364	368
Unrealized gains from cross currency interest rate swaps	93	118	41	41
Short-term debt	66	57	69	69
Long-term debt	973	948	973	972

// 14. Commitments and Contingencies

We are party to certain legal proceedings in Brazil arising in the normal course of business, and have made provisions when we believe that we can reasonably estimate probable losses. In connection with some of these proceedings we have made deposits (included in 'Other noncurrent assets - other') which will only be released to us upon a judgment in our favor. The position of such provisions for tax and other litigation and deposits is as follows:



	2002		2001	
	Deposits	Provisions	Deposits	Provisions
Tax-related	10	19	2	4
Civil-related		5		4
Labor-related	2	3	2	4
	12	27	4	12

The activity in our provision account for 2002, 2001 and 2000 was as follows:

	2002	2001	2000
At beginning of year	12	13	17
Translation adjustment	(4)	(2)	(1)
Provisions for new legal proceedings	19	2	
Amounts paid to settle litigation		(1)	(3)
At end of year	27	12	13

a) Tax-related

In 1996, we filed a judicial claim to assure our right to the deductibility of inflation-indexed (an uplift of 70%) depreciation arising from a government economic stabilization program in January 1989. We obtained a favorable decision enabling the partial deduction of up to 43% of this uplift. Based on advice from our legal counsel, we accrued US\$ 3 relating to this claim.

In 1999, we filed a lawsuit challenging the 1% increase in the COFINS tax rate (from 2% to 3%), a tax on revenues. Although we have obtain a legal injunction, based on advice from our legal counsel and reflecting rulings by the Federal Supreme Court during 2002, we accrued US\$ 7 relating to this claim.

During 2002, we filed a lawsuit challenging the inclusion of the ICMS (Value-added Sales Tax) in the computation basis for the COFINS tax, relating the period from 1996 to 2002, as well as our deductibility of recoverable ICMS originated from raw material used for tax exempt paper products. We accrued and deposited US\$ 8 relating to this claim.

b) Other unprovided possible losses

VCP is party to a substantial number of other legal proceedings in the normal course of its business involving possible risk of loss, in addition to the lawsuits and administrative proceedings discussed above.

Management does not believe that such legal proceedings will, individually or in the aggregate, have a material adverse effect on our business, results of operations or financial condition, and therefore, no provisions have been recorded based on management's assessment of the probability of loss.

These possible losses, at December 31, are as follows:

	2002	2001
Tax-related	9	2
Civil-related	5	
Labor-related	5	
Total	19	2

c) Sale of investee

On December 29, 1999, we sold our 51% interest in Indústria de Papel de Salto Ltda. to Arjo Wiggins Participações e Comércio Ltda. Under the terms of the sale, we have indemnified the purchaser against certain losses in excess of amounts recorded limited to R\$ 22 million (approximately US\$ 6 million) until 2005. No amounts have been paid under this indemnification and we believe such amounts ultimately paid, if any, will not be significant.

d) Commitments

We do not maintain insurance for our forests; rather, our policy is to self-insure against fire, disease and other risks to our forests. We have taken measures to mitigate these risks, but any losses from damage outside of our control would be for our own account.

In addition to the credit agreement with a syndicate of banks (Note 11) we are the guarantor of an equipment loan made to Votocel Filmes Flexíveis Ltda. (a Votorantim company) which presents a balance of US\$ 8 at December 31, 2002.

At December 31, 2002 and 2001, VCP has loans totaling US\$ 200 that are guaranteed by other companies of the Votorantim Group.

We provide guarantees to banks, not in excess of 180 days, which finance sales to certain of our selected customers. We recognize revenue on these sales at the time our products are delivered which is the time we transfer title to our customers. Under the vendor program we are the secondary obligor to the bank and monitor the amount due from the customer to the bank. We periodically review the adequacy of our allowance for estimated losses and adjust our allowance accordingly. At December 31, 2002, customer guarantees provided by us totaled US\$ 38 (US\$ 61 at December 31, 2001). Our guarantees are usually secured by the personal guarantee of the customer's owner.

We lease forest land under operating leases from other companies of the Votorantim Group as a source for raw material for our products. The leases, most of which commenced in 1991, are typically for a term of 21 years. Lease payments, equal to 30% of the market value of the timber harvested on the property, are payable after each harvest. We guarantee to the lessor a minimum harvest payment. Payments under these operating leases were approximately US\$ 1 in each of 2002, 2001 and 2000.

We have long-term sales contracts with certain of our customers. These contracts generally provide for sales of specified volumes of pulp at market prices. Early termination is provided for in the event of, among other things, a material breach, the insolvency of one of the parties or force majeure events of extended duration. One sales contract includes provisions that permit us to terminate the contract or reduce the quantities shipped if sales to the purchaser would exceed a specified percentage of our annual production capacity. These contracts, which began in 1999, represent approximately 51% of our current annual pulp production. The contracts expire from 2002 to 2005.

We have commitments for capital expenditures amounted to US\$ 110 at December 31, 2002.

We have long-term "Take-or-Pay" contracts with suppliers of chemical products for periods from 10 to 15 years. The contractual obligations in connection with such contracts are US\$ 38 per year.



// 15. Segment Information

a) Segment information

The following information about segments is based upon information used by our senior management to assess the performance of our operating segments and decide on the allocation of resources. This approach is required by SFAS 131, "Disclosure about Segments of an Enterprise and Related Information", and has been applied for all periods presented. Our paper and pulp operations are based solely in Brazil. Intersegment revenues are accounted for at amounts which approximate those that would be obtained in a sale to third parties.

The accounting policies underlying the financial information provided for the segments are based on Brazilian accounting principles used for statutory purposes. We evaluate segment performance information generated from the statutory accounting records. The local currency information related to statement of income data has been translated to U.S. dollars, for convenience purposes, at the average rate of each year presented. The information as at the balance sheet dates has been translated at the respective year-end exchange rates.

	2002	2001	2000
Revenue			
Revenue from external customers			
Pulp	129	143	207
Paper	480	511	567
Total revenue from external customers	609	654	774
Intersegment sales of pulp to paper segment	158	183	228
Total revenue before intersegment sales eliminations	767	837	1,002
Depreciation and depletion expense			
Pulp	46	48	58
Paper	19	21	23
Total depreciation and depletion expense allocated to segments per accounting principles generally accepted in Brazil	65	69	81
Reconciling items to US GAAP			
Pulp	(10)	(12)	(13)
Paper	(4)	(5)	(5)
Total depreciation and depletion expense – US GAAP	51	52	63

There are certain differences between the methodologies we use to determine the operating profit shown in the following table and operating profit reported in our US GAAP statement of income. For segment reporting purposes we defer start-up costs of new facilities and amortize them against operating profit over the subsequent 10 years. We allocate depreciation to segments based on property, plant and equipment amounts which have been indexed for inflation, rather than the historical real amounts. Also, we depreciated our machinery, equipment and installations over 10 years up to December 31, 1996 and over 25 years thereafter. These differences are reconciled as follows:

	2002	2001	2000
Segment operating profit			
Pulp	88	115	212
Paper	82	72	62
Total segment operating profit per accounting principles generally accepted in Brazil	170	187	274
Reconciling items to US GAAP			
Difference in depreciation and amortization expense			
Pulp	10	12	13
Paper	4	5	5
Start-up costs			
Pulp	(4)	(3)	(1)
Paper	(2)	(1)	(2)
Other adjustments			
Pulp	(1)	4	14
Paper	(2)	13	11
Total pulp	93	128	238
Total paper	84	89	76
Total operating profit – US GAAP	177	217	314
Financial income	73	71	94
Financial expenses	(59)	(39)	(65)
Foreign exchange losses, net	(11)	(8)	(14)
Income before income tax and equity income of investees and cumulative effect of accounting change	180	241	329
Segment assets			
Pulp	576	683	585
Paper	284	385	362
Total segment assets per accounting principles generally accepted in Brazil	860	1,068	947
Reconciling items to US GAAP			
Pulp	29	22	34
Paper	18	10	16
Total pulp	605	705	619
Total paper	302	395	378
Total property, plant and equipment – US GAAP	907	1,100	997
Corporate assets – US GAAP			
Cash and cash equivalents	90	172	489
Held-to-maturity investments	320	364	17
Trade accounts receivable	136	171	159
Equity investees (pulp)	237	371	
Other corporate assets	228	143	128
Total assets – US GAAP	1,918	2,321	1,790
Capital expenditures			
Pulp	229	217	72
Paper	71	81	48
Total segment capital expenditures per accounting principles generally accepted in Brazil	300	298	120
Reconciling items to US GAAP			
Capitalized interest			
Pulp	14	8	4
Paper	2	3	1
Total capitalized interest	16	11	5
Total pulp	243	225	76
Total paper	73	84	49
Total capital expenditures – US GAAP	316	309	125



b) Export sales by region

The following table includes our sales made directly to unaffiliated customers (the final customers) as well as our sales made to Votorantrade N.V. and related parties (also a member of the Votorantim Group) to the final customers.

	2002		2001		2000	
	Paper	Pulp	Paper	Pulp	Paper	Pulp
North America	40	38	37	47	18	51
Europe	28	44	26	45	37	77
Middle East and Asia	6	14	4	15	5	19
Africa	5		2			
South America, other than Brazil	24		35		30	
	103	96	104	107	90	147

// 16. Shareholders' Equity

Our by-laws require that we pay a mandatory dividend to our common and preferred shareholders of at least 25% of our annual net distributable income determined in accordance with Brazilian Corporate Law. Preferred shareholders are entitled to receive a dividend per share 10% higher than common shareholders. In 2001, 2000 and 1999 we paid dividends in excess of the mandatory amount.

The preferred shareholders may not vote at shareholders meetings but have the right to receive priority in repayment of their capital, in the case of liquidation.

In accordance with the Brazilian Corporate Law and our by-laws we are required to make annual appropriations to certain reserves (Appropriated retained earnings). These comprise mainly (a) 5% of the net income in our statutory accounts which must be transferred to a legal reserve until such reserve reaches 20% of our share capital and (b) appropriation of an amount equal to income tax rebates available for investments in certain underdeveloped regions of Brazil to an investment incentive reserve. The legal and investment incentives reserves cannot be used to distribute dividends to our shareholders.

Brazilian law permits the payment of dividends only in *reais*, limited to the unappropriated retained earnings in our financial statements prepared in accordance with Brazilian Corporate Law.

The devaluation of the *real* impacts the amount available for distribution when measured in U.S. dollars. Amounts reported as available for distribution in our statutory accounting records prepared under accounting principles set forth under Brazilian Corporate Law will decrease or increase when measured in U.S. dollars as the *real* depreciates or appreciates, respectively, against the U.S. dollar. The devaluation of the *real* results in net foreign exchange losses which are included in the statement of income determined under accounting principles set forth under Brazilian corporate law and which reduces the amount of unappropriated earnings available for distribution. At December 31, 2002, we had unappropriated retained earnings of R\$ 949 million (R\$ 777 million in 2001) in our statutory books, equivalent, at the exchange rate at December 31, 2002, to US\$ 269 (US\$ 335 in 2001). As required by Brazilian Corporate Law, the statutory books present retained earnings net of a provision for a dividend which has not yet been declared by the shareholders, equivalent to US\$ 27. This provision has not been deducted from shareholders' equity reported under US GAAP.

Dividends paid per thousand shares in U.S. dollars were as follows:

	2002	2001	2000
Preferred	0.91	1.02	0.65
Common	0.83	0.93	0.59

Brazilian corporations are permitted to attribute interest on shareholders' equity similar to dividends declared, which is deductible for income tax purposes if the corporation opts to use the method of calculating the income tax based on pre-tax income. We elected to pay such interest to our shareholders on December 31, 2000, and accrued the amount with a direct charge to shareholders' equity. The distribution to the shareholders is subject to withholding income tax generally at the rate of 15%.

// 17. Concentration of Credit Risk

We are potentially subject to credit risk with respect to our cash equivalents, held-to-maturity investments, guarantees provided to banks which finance our customers, and derivative contracts. We limit our risk associated with cash equivalents and held-to-maturity investments by placing our investments with Banco Votorantim S.A. and other highly rated financial institutions and we only take out derivative contracts with financially sound counter-parties. With respect to trade receivables and guarantees, provided to banks financing our customers, we perform initial and ongoing credit evaluations of our customers and, when deemed necessary, obtain collateral or letters of credit to protect our interests. Additionally, most of our export sales to the US and Europe are secured by letters of credit. We establish an allowance for doubtful accounts against receivables we believe will not be fully collected. The provision for doubtful accounts was US\$ 4 at December 31, 2002 and US\$ 1 at December 31, 2001.

// 18. Supplemental Cash Flow Information

	2002	2001	2000
Cash Paid during the year for			
Income tax paid	19	34	39
Interest paid	54	38	57
Non-cash transactions			
Trade payable – Fixed assets	4	10	

// 19. Financial Income and Financial Expense

	2002	2001	2000
Financial income			
Interest income on cash equivalents	39	41	43
Held-to-maturity investments			
Realized gains	5		17
Unrealized gains	16	16	12
Interest income on credit sales	1	1	2
Other	12	13	20
	73	71	94
Financial expenses			
Interest and charges on <i>real</i> debt	6	6	11
Interest and charges on U.S. dollar debt	50	30	49
Other	3	3	5
	59	39	65



// 20. Defined Contribution Plan

In March 2000 we began co-sponsoring a multi-employer defined contribution plan of the Votorantim Group which is available to all of our employees. For employees below a certain income level we will match the employee's contribution limited to 1.5% of the employee's compensation. For employees above that income level we will match the employee's contribution up to 6% of the employee's compensation. At our option we may also make additional contributions. Our contributions will vest in varying percentages depending on the employee's years of service and will fully vest upon the employee's retirement, death or disability, provided the employee has at least one year of service. Our contribution was US\$ 1 in 2002 and 2001.





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