



# ARACRUZ *results*

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**NYSE**

São Paulo - October 6, 2006.

## Highlights of the third quarter 2006

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(NY time). To join us, please dial:

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The call will also be web cast on Aracruz's  
website: [www.aracruz.com.br/ir](http://www.aracruz.com.br/ir)



- ✓ Aracruz again chosen for Dow Jones Global Sustainability Index (DJSI World) 2007. "This is the first time that the DJSI World has had only one company representing our sector, which makes our achievement even more noteworthy", says Isac Zagury, Aracruz's CFO.
- ✓ Veracel's pulp production in the last twelve months totaled 962,000 MT, 7% above the nominal capacity, having only started-up in May of last year. Aracruz owns a 50% controlling stake in Veracel.
- ✓ Fitch Ratings gives additional upgrade, to BBB in foreign currency, which is now on a par with the local currency rating.
- ✓ Pulp sales<sup>2</sup> of 747,000 MT were, respectively, 21% and 3% higher than in the 3Q05 and 2Q06. The increase, in comparison to the same period of last year, was mainly due to additional volume coming from Veracel.
- ✓ Pulp sales<sup>2</sup> in the last twelve months reached 3.0 million MT.
- ✓ Record net revenue of \$432 million, up 32% on the 3Q05 and 7% on the 2Q06.
- ✓ Record Adjusted EBITDA<sup>1</sup>, including 50% of Veracel and before hedging gains, of \$212 million, up 27% on the 3Q05 and up 9% on the 2Q06. The adjusted EBITDA in the last twelve months was \$780 million, excluding the benefit of hedging.
- ✓ Net income totaled \$143 million, a new record, equivalent to \$1.4 per ADR, compared to \$72 million in the 3Q05 and \$106 million in the 2Q06, an increase of 99% and 35%, respectively.
- ✓ Additional Interest on Stockholders' Equity (ISE), amounting to R\$ 80 million (approximately US\$ 37 million), was declared for the 2006 base year.

Aracruz – Summary		Unit of Measure	3Q06	2Q06	3Q05	3Q06 vs. 2Q06	3Q06 vs. 3Q05	YTD06	YTD05	LTM
Net revenue	\$ million		432.0	402.0	324.9	7%	32%	1,223.4	946.8	1,621.9
Adjusted EBITDA (including Veracel) <sup>1</sup>	\$ million		212.1	195.5	166.9	9%	27%	593.9	499.6	780.2
Adjusted EBITDA margin (including Veracel) <sup>1</sup>	Percentage		49.1%	48.6%	51.4%	-	(2p.p.)	48.5%	52.8%	48.1%
Net Income	\$ million		143.2	105.9	72.0	35%	99%	328.3	198.8	470.6
Earnings per ADR	\$ per ADR		1.39	1.03	0.70	35%	99%	3.19	1.93	4.57
Adjusted pulp sales volume <sup>2</sup>	'000 Tons		747	722	620	3%	21%	2,214	1,828	2,991
Paper sales volume	'000 Tons		15	14	15	8%	-	42	43	54
Pulp production volume (including Veracel)	'000 Tons		753	793	688	(5%)	10%	2,312	2,027	3,071
Net debt	\$ million		690.7	687.5	755.4	-	(9%)	-	-	-
Net debt (including Veracel)	\$ million		1,108.5	1,115.4	1,156.4	(1%)	(4%)	-	-	-

<sup>1</sup> Adjusted because we do not consider other non-cash items, and it is also different to the SEC standard definition (see reconciliation to Net Income on page 24). – <sup>2</sup> Aracruz sales plus 50% of Veracel's sales to non-affiliated parties (see breakdown on page 5). – LTM = last twelve months.

Aracruz Celulose S.A. (NYSE: ARA) presents its consolidated third quarter 2006 results, according to US GAAP and stated in US dollars. The company uses the equity method of accounting for Veracel Celulose S.A., in which it owns a 50% stake.

## CFO's comment

"This quarter, revenues were up 32% and 7%, respectively, compared to the 3Q05 and 2Q06, due to higher pulp sales volume (up 21% on the 3Q05 and up 3% on the 2Q06) and higher pulp prices (up 11% on the 3Q05 and up 4% on the 2Q06). This reflects the positive market conditions discussed in the following section of this release, which makes us confident about achieving the pulp sales target for 2006, set at the end of last year, of around 3.0 million MT.

Despite the improvement in prices, the Adjusted EBITDA margin was stable in relation to the 2Q06, because of the higher cash cost, before hedging gains, resulting mainly from the annual maintenance downtime at Barra do Riacho, our largest facility, and also because of an increase in administrative expenses, which have just peaked, due mainly to an advertising campaign. When comparing the 3Q06 cash cost, before hedging gains, to the same period of last year, the main impact came from the appreciation of the real against the dollar. We predict that "administrative expenses" will start to decline in the next quarter, returning in the 1Q07 to a level similar to that of the 2Q06. For the 4Q06, assuming a stable currency, cash cost is also expected to improve, due to a greater dilution of fixed cost and lower specific consumption following the restarting of the Barra do Riacho plant, although there will be annual maintenance downtime at the Guaíba Unit (430 thousand MT per annum) in early October/06.

When we look at the figures for the last twelve months (LTM), we can see continuous growth. For example, the adjusted EBITDA, before hedging gains, and net income totaled \$780 million (LTM2Q06 - \$735 million) and \$471 million (LTM2Q06 - \$399 million), respectively, which are both record figures. This is mainly the result of higher sales prices. Production volume over the LTM has also been strong, with total output at 3,071,000 MT of pulp, of which 2,590,000 MT is produced internally (Barra do Riacho and Guaíba Units) and 481,000 MT comes from our 50% stake in Veracel. It is worth noting that Veracel, which only started-up in May last year, is already running 7% above its annual nominal capacity of 900,000 MT (100%) and the expectation for further ahead in time is even better.

On the financial side, we are proceeding with our liability management, to improve the debt profile, according to our target, having extended the average debt maturity by 21%, from 48 months in the 2Q06 to 58 months at the end of the 3Q06, including 50% of the Veracel debt. We have maintained our cash flow hedge, but now at a lower level, with a \$289 million short position in dollars at the end of the third quarter, which generated a positive impact in the quarter of \$8.6 million. Since early last year, protecting ourselves against appreciation of the real against the dollar has proven to be the correct strategy, providing a positive accumulated result for the company of \$103 million (FY2005–YTD2006). Furthermore, during the quarter, the company's foreign currency rating was upgraded by FITCH Ratings, from BBB- to BBB, which is an indication that our commitment and action towards improving our financial figures has been recognized.

The company declared interest on equity (IOE) in September/06, amounting to a total of R\$80 million. So far this year, IOE has been declared on a quarterly basis.

I am pleased to confirm that Aracruz Celulose has once again been chosen for the Dow Jones Sustainability Index (DJSI World 2007), and this time round we are the only company representing our sector in the global index. Our ongoing challenge will be to further improve the company's sustainability."

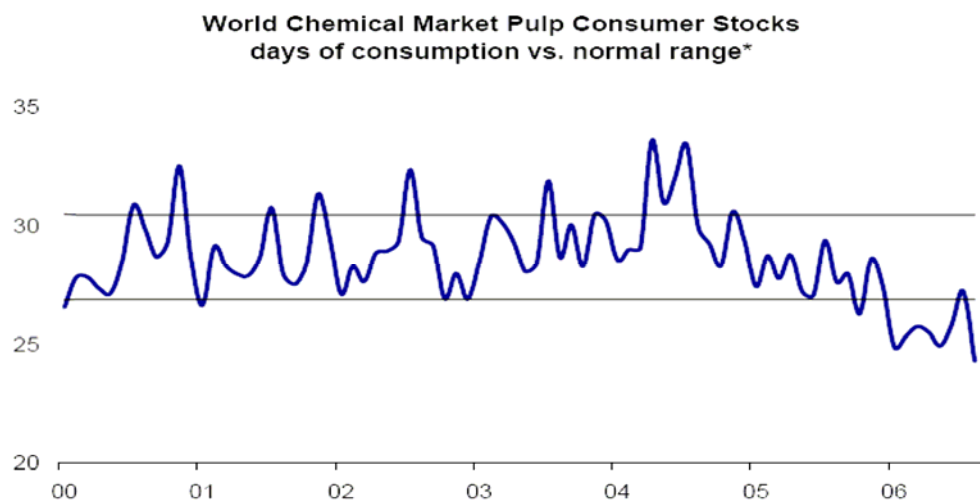
## Global Pulp Market Update

World economic growth continued positive through the third quarter, despite signs of a slowdown in the United States, thus maintaining a healthy environment for the pulp and paper industry.

The pattern of Printing and Writing paper demand in Europe has been similar, but more positive, to that of North America this year, with demand for coated woodfree increasing around 3%, underpinning the recently announced price increases. In China, the pace of growth of Paper & Board production continues to be strong, showing an increase of 23% over 2005. In the tissue segment, apparent consumption in the United States, which is a benchmark for this market, increased by 2.1% in the third quarter, with prices averaging around 4.0% above the 2005 level.

Through the third quarter, pulp inventories available from pulp mill closures earlier in the year were practically all consumed in paper production. Also, as in the previous year, North and South American mills concentrated their planned maintenance downtime in the third quarter. On the demand side, every year, by the end of the third quarter, pulp buyers are in the beginning of a strong seasonal paper demand surge and have therefore increased their pulp purchases. As a result of the combination of healthy demand and short term supply constraints, the tightness in the market persisted through the third quarter.

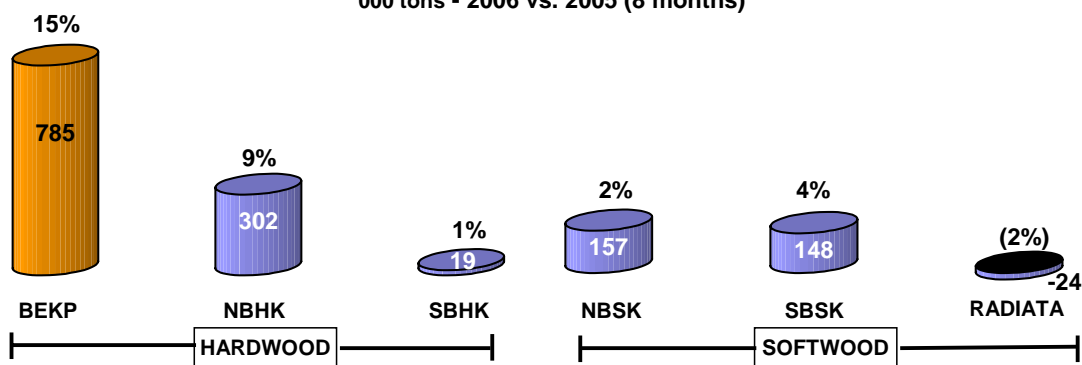
The availability of market pulp is tight throughout the distribution chain. At the end of August, world producers' inventories closed at 31 days of supply, which is within the normal range, but on the consumer side, world pulp inventories are **at their lowest level in the last ten years, of around 24 days.**



Source: PPPC

Market pulp demand to August increased by 5.4%, or 1.3 million tons, year-on-year. Eucalyptus demand continues to show the strongest growth (15%) among all grades, as shown in the graph below. Eucalyptus demand to August increased by 348,000 tons in Western Europe, by 271,000 tons in China and by 77,000 tons in North America, according to the World-19 figures from the PPPC.

### Net increase in market pulp grades '000 tons - 2006 vs. 2005 (8 months)



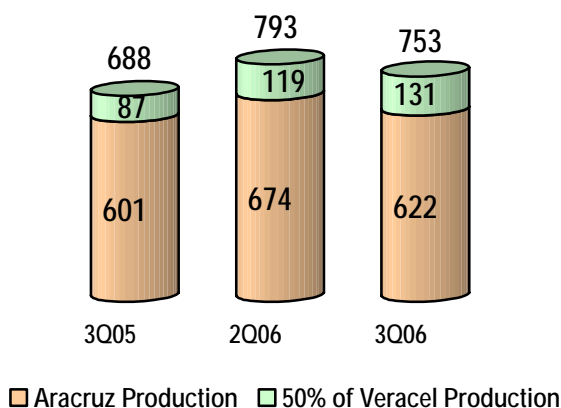
In the next couple months, an acceleration is expected in paper demand, driven by the busiest period of the year for publication paper. This, coupled with constraints on the supply side, both from maintenance downtime, which should record the year's second highest volume in October, and from additional closures, could more than offset the scaling up of new supply coming from South America in the next couple months, most probably resulting in a tight market.

## Production and Sales

**Aracruz pulp production**, without the 50% of Veracel, totaled 622,000 tons in the third quarter of 2006, compared to 674,000 tons in the 2Q06 and 601,000 tons in the 3Q05. The Barra do Riacho Unit, the company's largest, with nominal annual capacity of 2.1 million MT, had a 10-day maintenance downtime in August, thus recording lower output in relation to the 2Q06. The same occurred in the 3Q05.

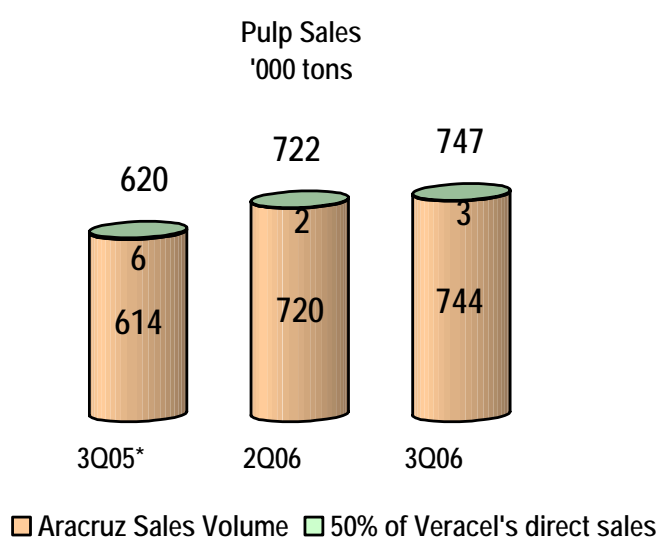
In the third quarter, **Veracel Celulose S.A.** (50% owned by Aracruz) produced a record total output of 261,000 tons of pulp, of which 127,000 tons were sold to Aracruz.

### Pulp Production Volume '000 tons



At the Guaíba unit, **paper production** in the quarter totaled 15,000 tons, consuming approximately 12,000 tons of the pulp produced. Paper inventories were at 1,000 tons at the end of September 2006, while **paper sales** in the third quarter of 2006 also totaled 15,000 tons.

**Aracruz pulp sales** totaled 747,000 tons in the third quarter, with 620,000 tons of the pulp being produced internally, at the Barra do Riacho and Guaíba Units, and 124,000 tons being supplied by Veracel and resold in the market by Aracruz, plus an additional 3,000 tons of direct sales by Veracel to non-related parties (representing 50% of Veracel's total direct sales). This sales volume was 21% higher than that for the same period of last year, mainly due to the increased capacity provided by Veracel, and was up 3% in comparison with the 2Q06.



At the end of September, **inventories** at Aracruz were at 461,000 tons, compared to 467,000 tons at the end of June 2006. The inventory level at Veracel, at the end of September 2006, represented an additional 2 days of production for Aracruz.

Pulp sales distribution by region	3Q06	2Q06	3Q05	3Q06 vs. 2Q06	3Q06 vs. 3Q05	LTM
Europe	36%	42%	45%	-6 p.p.	-9 p.p.	39%
North America	34%	33%	36%	1 p.p.	-2 p.p.	33%
Asia	27%	23%	17%	4 p.p.	10 p.p.	26%
Brazil	2%	2%	2%	-	-	2%
Rest of Latin America	1%	-	-	1 p.p.	1 p.p.	-

\*LTM = Last Twelve Months

## Income Statement 3Q06



Eucalyptus pulp international list prices by region (US\$/t) - 2006

	Oct.	Sept	Ago.	July	June	May	April	March	Feb.	Jan.
North America	695	695	695	695	675	675	655	655	655	635
Europe	660	660	660	660	640	640	620	620	620	600
Asia	630	630	630	610	610	590	590	560	560	550

**Total net operating revenue** came to \$432.0 million, \$107.1 million and \$30 million higher, respectively, than in the 3Q05 and the 2Q06.

**Net paper operating revenue** amounted to \$13.3 million in the quarter, \$0.9 million higher than in the same period of 2005 and \$1.4 million higher than in the 2Q06.

**Net pulp operating revenue** during the quarter amounted to \$418.7 million, compared to \$312.5 million in the same period of last year. Revenue increased mainly as a result of the 21% higher sales volume and 11% higher prices. When compared to the 2Q06, revenue of \$390.1 million, the \$28.6 million increase was due to 4% higher pulp prices and 3% higher sales volume.

The **total cost of sales** was \$261.2 million in the third quarter of 2006, compared to \$184.5 million in the same period of the previous year, mainly due to the 21% higher pulp sales volume and pulp purchased from Veracel (which is offset by the cash generated at Veracel – Aracruz 50% stake). When compared to the total of \$248.7 million in the second quarter, the increase was due to the higher sales volume (3%) and cost of sales per ton (2%).

Cost of goods sold – breakdown	3Q06	2Q06	3Q05
Pulp Produced	64.5%	65.4%	76.7%
Pulp Purchased	17.0%	16.1%	6.2%
Inland and ocean freight plus insurance	15.1%	15.3%	13.1%
Paper produced	3.4%	3.2%	4.0%

Note: "Pulp purchased" refers to pulp produced by Veracel, transferred to Aracruz and subsequently resold by Aracruz to the final customer.

The **Aracruz pulp production cost** in the quarter was \$279/ton, compared to \$250/ton in the same period of 2005. The combined **pulp cash production cost** of the Barra do Riacho and Guaíba Units (net of depreciation and depletion) in the quarter was \$200/ton, compared to \$168/ton in the same period of 2005 and \$184/ton in the second quarter of 2006 (see table below). When supplemented by Veracel's figures, the pulp cash production cost in the 3Q06 was \$191/ton.

Note: The information provided in this paragraph does **not** include hedging gains against currency appreciation.

Aracruz - weighted average cash production cost	-	(US\$ per ton)	2Q06	3Q06
Barra do Riacho and Guaíba Units , plus 50% of Veracel			178	191



Cash Production Cost (Barra do Riacho and Guaíba Units, combined) - 3Q06 vs. 2Q06		US\$ per ton
2Q06		184
Exchange rate impact		2
Wood cost - mainly relating to transportation cost		3
Fixed cost dilution- lower volume due to the annual maintenance downtime at the BRU		4
Raw materials - higher consumption mainly related to the annual maintenance downtime at the BRU		4
Higher cost of raw materials		2
Other		1
3Q06		200

Note: 1) not including Veracel figures; and 2) see reconciliation to GAAP figures on page 23.

Cash Production Cost (Barra do Riacho and Guaíba Units, combined) - 3Q06 vs. 3Q05		US\$ per ton
3Q05		168
Wood cost - mainly relating to transportation cost		9
Brazilian currency appreciation against the US dollar		11
Higher maintenance cost		7
Higher cost of raw materials		5
Lower specific consumption of raw materials		(1)
Other		1
3Q06		200

Note: 1) not including Veracel figures; and 2) see reconciliation to GAAP figures on page 23.

Exchange Rate (R\$ / US\$)	3Q06	2Q06	3Q05	3Q06 vs. 2Q06	3Q06 vs. 3Q05
Closing	2.1742	2.1643	2.2222	0.5%	-2.2%
Average	2.1709	2.1879	2.3434	-0.8%	-7.4%

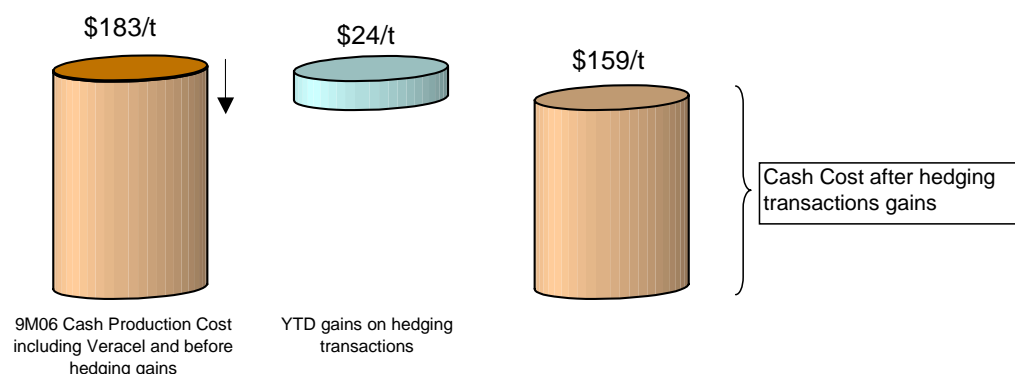
Source: - Brazilian Central Bank (PTAX800).

Approximately 75% of the company's cash production cost is presently correlated to the local currency (real - R\$).

**As a protective measure**, in the third quarter of 2006, the cash flow currency exposure hedge was maintained. At the end of the quarter, the hedged amount, a short position in dollars, totaled \$289 million, which represented approximately 5 months of cash flow exposure to the local currency (real).

The results of such positions have been recorded as financial income. These contracts do not qualify for hedge accounting under USGAAP.

The hedging transaction results (dollar futures contracts) accumulated in the first nine months of 2006 showed a gain of \$73 million and would be equivalent to approximately \$24/ton, if divided by the targeted volume for 2006 production and sales, of approximately 3 million tons of pulp (including volumes from Veracel). **It is important to mention that this is not a guarantee of future performance.**



**Sales and distribution expenses** came to \$17.8 million, in line with the figure for the 2Q06 and \$1.6 million higher than in the same period of 2005, mainly due to the 21% higher sales volume, partially offset by the geographical sales mix and the improved results from Portocel, a private port facility owned by Aracruz (51%).

**Administrative expenses** were \$19.2 million, \$10.5 million and \$8.0 million higher, respectively, than in the 3Q05 and the 2Q06, mainly due to approximately \$7.0 million of extraordinary expenses, basically related to the advertising campaign. The administrative expenses have peaked and should start to reduce in the next quarter, returning in the 1Q07 to a similar level to that of the 2Q06.

The result for **other net operating expenses** in the quarter was a net expense of \$5.1 million, compared to an income of \$4.4 million in the same period of last year, mainly due to the reversal of a \$10.1 million provision for losses on ICMS credits, in the third quarter of 2005. The figure was in line with that of the second quarter of 2006.

The sum of the **financial and currency re-measurement results** in the quarter showed a net credit of \$1.9 million, compared to a net credit of \$18.1 million in the same period of last year and a net expense of \$17.7 million in the second quarter of 2006 (see table below).

(US\$ million)	3Q06	2Q06	3Q05
<b>Financial Expenses</b>	<b>38.3</b>	<b>36.7</b>	<b>30.4</b>
Interest on financing	24.0	20.6	25.4
Miscellaneous (CPMF, interest on fiscal contingency provisions and other)	14.3	16.1	5.0
<b>Financial Income</b>	<b>(39.8)</b>	<b>(21.1)</b>	<b>(38.0)</b>
<b>Currency re-measurement - (gain)/loss</b>	<b>(0.4)</b>	<b>2.1</b>	<b>(10.5)</b>
<b>Total</b>	<b>(1.9)</b>	<b>17.7</b>	<b>(18.1)</b>

The "Interest on Financing" results in the third quarter were lower than in the same period of last year, mainly due to the liability management, which involved refinancing part of the debt, reducing its cost and improving the maturity profile. The figure was up in relation to the 2Q06, mainly due to the higher average debt balance.



The "Financial Income" in the quarter was \$18.7 million higher than in the 2Q06, mainly due to a higher average cash balance and better results on our hedging transactions (dollar futures contracts), with a gain of \$8.6 million in the quarter (the 2Q06 showed a gain of \$2.7 million and in the 3Q05 there was a gain of \$11.6 million). So far this year, the accumulated hedging result shows a gain of approximately \$73.4 million.

Based on the closing exchange rates, the Brazilian currency depreciated against the US dollar by 0.5% during the third quarter, compared to appreciation of 0.4% in the 2Q06 and 5.5% in the 3Q05. The closing exchange rate on September 30, 2006 was R\$2.1742 per US dollar.

The **equity result** showed a gain of \$5.7 million, with \$5.8 million from Veracel and a loss of \$0.1 million from Aracruz Produtos de Madeira S.A. (see the **Veracel Information** section for more details).

**Income tax and social contribution** accruals in the third quarter amounted to a credit of \$7.1 million, compared to a credit of \$6.7 million in the 2Q06 and an expense of \$43.3 million in the same period of 2005 when the BR GAAP exchange rate gains and the absence of interest on equity impacted on the figures. The declaration of interest on equity, amounting to R\$80 million, equivalent to approximately \$37 million, and the stabilization of the exchange rate in the 3Q06, contributed to the reduced tax provision in comparison to the 3Q05. For the current year, to date, the company has registered an effective income tax and social contribution rate of approximately 13%.

Since 2005, the company has treated income tax and social contribution payments on the cash basis, instead of on the accrual basis, which allows the company to defer payments on Brazilian GAAP (BR GAAP) currency variations.

A statement of the deferred income tax, broken down to show the Brazilian GAAP currency variation impact, and current taxes is provided below.

(US\$ million)	3Q06	2Q06	3Q05
<b>INCOME TAX &amp; SOCIAL CONTRIBUTION</b>	<b>(7.1)</b>	<b>(6.7)</b>	<b>43.3</b>
Deferred income tax	6.5	(8.9)	47.1
BR GAAP exchange rate impact	(1.5)	(5.5)	22.5
Other	8.0	(3.4)	24.6
<b>Current income tax</b>	<b>(13.6)</b>	<b>2.2</b>	<b>(3.8)</b>
Non-cash impact	(13.6)	2.2	(3.8)

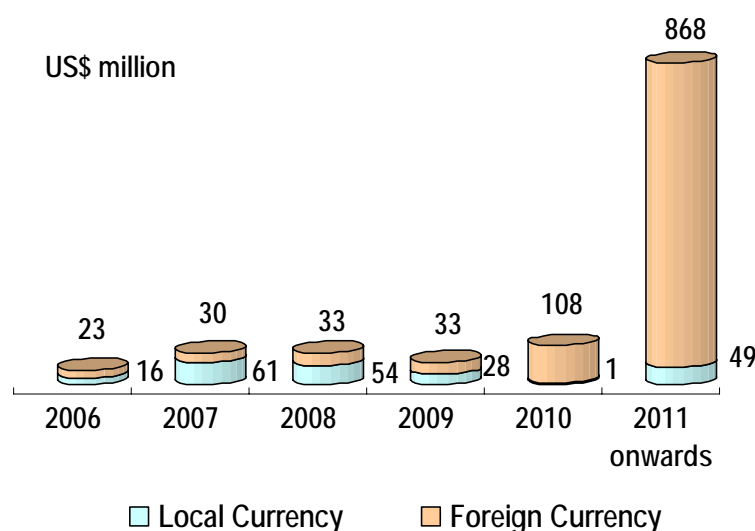
At the end of the third quarter, the net balance of deferred taxes payable, deriving from the BR GAAP exchange rate impact, amounted to \$66 million (2Q06: \$67 million). These should become payable in accordance with foreign debt repayments up to 2016, if not reversed by future BR GAAP foreign currency variations.

## Debt and Cash Structure

The company's **gross debt** amounted to \$1,303.7 million at the end of September 2006, \$3.2 million higher than at the end of June 2006 and \$90.4 million lower than at the end of September 2005.

(US\$ million)	September 30, 2006	June 30, 2006	September 30, 2005
<b>SHORT-TERM DEBT</b>	<b>107.7</b>	<b>139.5</b>	<b>334.8</b>
Current portion of long-term debt	87.1	121.1	231.2
Short term debt instruments	4.6	4.6	92.8
Accrued financial charges	16.0	13.8	10.8
<b>LONG-TERM DEBT</b>	<b>1,196.0</b>	<b>1,161.0</b>	<b>1,059.3</b>
<b>TOTAL DEBT</b>	<b>1,303.7</b>	<b>1,300.5</b>	<b>1,394.1</b>
Cash, cash equivalent and investments	613.0	613.0	638.7
<b>NET DEBT OF ARACRUZ</b>	<b>690.7</b>	<b>687.5</b>	<b>755.4</b>
<b>50% OF VERACEL'S NET DEBT</b>	<b>417.8</b>	<b>427.9</b>	<b>401.0</b>
<b>NET DEBT INCLUDING 50% OF VERACEL</b>	<b>1,108.5</b>	<b>1,115.4</b>	<b>1,156.4</b>

The local currency debt corresponds basically to long-term BNDES (Brazilian Development Bank) loans. The debt maturity profile, as at September 30, 2006, not including Veracel's figures, was as follows:



At the end of the third quarter of 2006, short term debt, including Veracel figures, represented 8% of the total, compared to 10% at the end of the second quarter of 2006. With regard to the liquidity target, which aims for cash investments to equal at least twelve months of future debt amortization, in September 2006 this ratio was at a very comfortable level.

In the third quarter the management made progress in improving the debt maturity profile, including 50% of Veracel's figure, extending it to 58 months at the end of the 3Q06, from 48 months at the end of the previous quarter, while focusing on a target of approximately 72 months (6 years).

Credit ratios, including 50% of Veracel's figures	3Q06	2Q06	1Q06	4Q05	3Q05
Net Debt / Adjusted EBITDA (LTM)	1.4x	1.5x	1.5x	1.7x	1.8x
Gross Debt / Adjusted EBITDA (LTM)	2.2x	2.3x	2.2x	2.5x	2.8x
Gross Debt / Total Capital (gross debt plus equity)	45%	46%	44%	47%	49%
Net debt / Total Capital (net debt plus equity)	34%	36%	35%	37%	38%
Cash / Short Term Debt	4.3x	3.7x	3.4x	1.9x	1.8x
Gross debt average maturity – (months)	58	48	48	40	35

Without the Veracel's figures, the credit ratios would be considerably better. For example, the ratios of net debt and gross debt to total capital would be 25% and 38%, respectively, at the end of the 3Q06.

Debt structure (not including Veracel's figures)	Principal (US\$ million)	% of total	Average interest rate	Remaining average life (months)
Floating rate (spread over Libor - % p.a.)	888	69%	0.69%	74
Trade Financing	884	69%	0.69%	74
Import Financing	4	0%	0.39%	5
Floating rate (% p.a.)	289	22%		39
BNDES - Local currency	207	16%	TJLP <sup>(2)</sup> + 3.46%	35
Export Credit Notes - Local currency <sup>(4)</sup>	48	4%	100% CDI <sup>(3)</sup>	57
BNDES - Foreign currency (currency basket)	34	2%	( <sup>(1)</sup> ) + 2.97%	37
Fixed rate (% p.a.) - Securitization	111	9%	6.36%	34
Total	1,288	100%		58

<sup>(1)</sup> BNDES's interest rate for foreign currency contracts; <sup>(2)</sup> Brazilian long-term interest rate; <sup>(3)</sup> Interbank Deposit Certificate rate;

<sup>(4)</sup> Swapped into dollars plus 5.985% p.a.

**Cash, cash equivalent and investments**, at the end of the quarter, totaled \$613.0 million, of which \$574.0 million was invested in local currency instruments and \$39.0 million was invested in US dollar time deposits.

**Net debt** (gross debt less cash holdings) amounted to \$690.7 million at the end of the quarter, \$3.2 million higher than at the end of the previous quarter, mainly due to \$80.8 million of capital expenditure, \$24.5 million of capital increase in affiliated companies and \$33.8 million of Interest on Stockholders' Equity, partially offset by positive operating cash generation.

## EBITDA Analysis

### Adjusted EBITDA comparison 3Q06 vs. 3Q05 (not including cash flow hedging results)

The third quarter 2006 adjusted EBITDA, including 50% of Veracel, before other non-cash charges and hedging gains, totaled \$212.1 million, compared to \$166.9 million in the same period of last year, mainly as a consequence of 11% higher net pulp prices and 21% higher sales volume, partially offset by the negative impact of the higher cash production cost (see details on page 7), higher cost of logistics and higher general and administrative expenses, resulting in an adjusted margin of 49% in the second quarter (51% in the 3Q05).

### Adjusted EBITDA comparison 3Q06 vs. 2Q06 (not including cash flow hedging results)

When compared against the 2Q06 figure, the **third quarter 2006 adjusted EBITDA** of \$212.1 million, including 50% of Veracel and before other non-cash charges and hedging gains, was up \$16.6 million. This was mainly due to 4% higher average net pulp prices and 3% higher pulp sales volume, partially offset by a 4% higher cash cost per ton of goods sold and higher administrative expenses.

**Adjusted EBITDA for the first nine months of 2006, including hedging gains**, would be \$647 million, representing a 53% margin, if a proportional hedging gain of \$24/ton, based on nine months of pulp sales volume, was taken into consideration.

### Capital Expenditure - Realized

Capital expenditure and investment were as follows:

(US\$ million)	3Q06	YTD06
Silviculture	32.8	76.1
On-going industrial investment	7.2	13.7
Forest and land purchases	14.7	50.8
Other forestry investments	3.3	16.3
Barra do Riacho and Guaíba Unit optimization	22.2	29.0
Miscellaneous projects	0.6	12.4
<b>Total Capital Expenditure</b>	<b>80.8</b>	<b>198.3</b>
Aracruz capital increase in affiliated companies	24.5	24.5
<b>Total Capital Expenditure and Investment</b>	<b>105.3</b>	<b>222.8</b>

### Capital Expenditure - Forecast

The capital expenditure forecast also shows 50% of Veracel's figures, as follows:

(US\$ million)	4Q06E	2007E	2008E	2009E
• Barra do Riacho Unit optimization	34	135	-	-
• Regular investments (Barra do Riacho and Guaíba) - including silviculture, mill maintenance and corporate investments	39	125	125	125
<b>Sub-total - (Aracruz only)</b>	<b>73</b>	<b>260</b>	<b>125</b>	<b>125</b>
• 50% of the regular investment to be made by Veracel (Aracruz's stake)	9	20	18	18
<b>Total - including Aracruz's stake in Veracel</b>	<b>82</b>	<b>280</b>	<b>143</b>	<b>143</b>

## Veracel Information

### Veracel's pulp production volume showing strong performance

Veracel's production volume in the last twelve months amounted to a total of 962,000 MT of pulp, 7% above the annual nominal capacity of 900,000 MT.

These results show that the project is attaining important levels of efficiency. The marginal efficiency and production increases help to improve the results of the company, adding value and accelerating the return on the investment.

Veracel **pulp production** totaled a record **261,000 tons** in the third quarter of 2006. At the end of September, **inventory** stood at 68,000 tons of pulp.

Veracel **pulp sales** reached 277,000 tons in the third quarter, of which 127,000 tons went to Aracruz, 143,000 tons went to the other controlling shareholder and 7,000 tons, exceptionally, went to non-related parties.

### VERACEL CELULOSE S.A. BALANCE SHEET (expressed in millions of US dollars)

ASSETS	Sep.30, 2006	Jun.30, 2006	Sep.30, 2005	LIABILITIES	Sep.30, 2006	Jun.30, 2006	Sep.30, 2005
Current assets	145.3	113.8	106.2	Current liabilities	145.0	124.1	91.9
Cash investments	0.8	0.8	0.7	Short-term debt	111.6	91.8	45.7
Other current assets	144.5	113.0	105.5	Other accruals	33.4	32.3	46.2
Long term assets	120.0	140.8	80.6	Long-term liabilities	746.1	783.5	764.7
Other long term assets	120.0	140.8	80.6	Long-term debt	724.7	764.8	757.0
Permanent assets	1,225.0	1,191.5	1,180.2	Other long-term liabilities	21.4	18.7	7.7
				Stockholders' equity	599.2	538.5	510.4
TOTAL	1,490.3	1,446.1	1,367.0	TOTAL	1,490.3	1,446.1	1,367.0

### VERACEL'S TOTAL DEBT MATURITY, AS AT SEPTEMBER 30, 2006

(US\$ million)	Local Currency	Foreign Currency	Total Debt	%
2006	13.0	5.1	18.1	2.2%
2007	70.0	48.9	118.9	14.2%
2008	70.0	50.9	120.9	14.4%
2009	69.8	50.7	120.5	14.4%
2010	64.5	50.8	115.3	13.8%
2011 onwards	180.5	162.1	342.6	41.0%
Total	467.8	368.5	836.3	100%

Aracruz is a several guarantor of 50% of the indebtedness incurred by Veracel, and Stora Enso is the several guarantor of the other 50% of such indebtedness.

## VERACEL CELULOSE S.A. STATEMENTS OF OPERATIONS

(Expressed in millions of US dollars)

Income statement	3Q 06	2Q 06	3Q 05
<b>Gross operating income</b>	<b>35.7</b>	<b>26.1</b>	<b>1.2</b>
Sales expenses	4.6	3.1	(0.3)
Administrative expenses	3.5	4.0	6.2
Other, net	0.9	0.9	2.8
<b>Operating income</b>	<b>26.7</b>	<b>18.1</b>	<b>(7.5)</b>
Financial income	(0.2)	0.1	(0.5)
Financial expenses	20.8	20.5	17.2
Loss (gain) on currency re-measurement, net	(7.3)	1.6	24.5
Other, net	(0.2)	-	0.1
<b>Income before income taxes</b>	<b>13.6</b>	<b>(4.1)</b>	<b>(48.8)</b>
Income tax expense (benefit)	1.9	(3.0)	(3.0)
<b>Net income</b>	<b>11.7</b>	<b>(1.1)</b>	<b>(45.8)</b>

## VERACEL CELULOSE S.A. - STATEMENTS OF CASH FLOW

(Expressed in millions of US dollars)

Statement of cash flow	3Q 06	2Q 06	3Q 05
<b>Cash flow from operating activities</b>			
Net income (loss)	11.7	(1.1)	(45.8)
Adjustments to reconcile net income to net cash provided by operating activities	13.9	21.1	40.5
(Increase) decrease in assets	(11.3)	(0.6)	(47.1)
Increase (decrease) in liabilities	1.5	10.2	(6.8)
<b>Net cash provided by operating activities</b>	<b>15.8</b>	<b>29.6</b>	<b>(59.2)</b>
<b>Cash flow from investments</b>			
Additions to property, plant and equipment	(53.8)	(29.7)	(63.5)
Other	0.4	-	0.1
<b>Net cash (used in) investments</b>	<b>(53.4)</b>	<b>(29.7)</b>	<b>(63.4)</b>
<b>Cash flow from financing</b>			
Short-term and long-term debt, net	(11.5)	-	68.7
Capital increase	49.0	-	41.0
<b>Net cash provided by (used in) financing</b>	<b>37.5</b>	<b>-</b>	<b>109.7</b>
Effects of exchange rate changes on cash and cash equivalents	0.1	0.4	(0.8)
Increase (decrease) in cash and cash equivalent	-	0.3	(13.7)
<b>Cash and cash equivalent, beginning of period</b>	<b>0.8</b>	<b>0.5</b>	<b>14.4</b>
<b>Cash and cash equivalent, end of period</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>

#### EBITDA of VERACEL (expressed in millions of US dollars)

(US\$ million)	3Q 06	2Q 06	3Q 05
Net income (loss)	11.7	(1.1)	(45.8)
Financial income	(0.2)	0.1	(0.5)
Financial expenses	20.8	20.5	17.2
Income tax	1.9	(3.0)	(3.0)
Loss (gain) on currency re-measurement, net	(7.3)	1.6	24.5
Other	(0.2)	-	0.1
<b>Operating income</b>	<b>26.7</b>	<b>18.1</b>	<b>(7.5)</b>
Depreciation and depletion in the results	23.3	17.7	11.1
<b>EBITDA</b>	<b>50.0</b>	<b>35.8</b>	<b>3.6</b>
Non-cash charges	-	0.1	2.9
<b>Adjusted total EBITDA</b>	<b>50.0</b>	<b>35.9</b>	<b>6.5</b>

#### Veracel's capital expenditure forecast:

(US\$ million)	4Q2006E	2007E	2008E	2009E
Regular investments	18	40	36	36

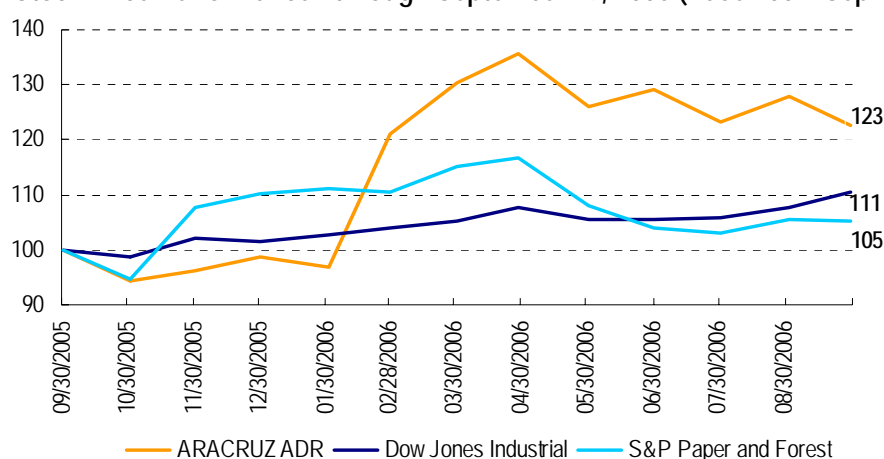
The output of the new plant has been and will be sold in its entirety to the controlling shareholders, in the same proportion as their shareholdings (50% each). Although, on a quarterly basis, some mismatches may occur, in the long run these should balance out. Aracruz re-sells the pulp to its customer base and Stora uses its share for its own consumption.

The mill is considered to be state of the art in pulp manufacturing, making use of the most modern equipment, facilities, construction methods and environmental control systems.

Veracel, located in the state of Bahia, in Brazil, is jointly-controlled by Aracruz (50%) and Stora Enso OYJ (50%) and both shareholders must together approve all significant ordinary course of business actions, in accordance with contractual arrangements.

From September 30, 2005 to September 30, 2006, Aracruz's ADR price increased by 23%, from \$40.58 to \$49.77. In the same period, the Dow Jones Industrial Average index increased by 11% and the S&P Paper and Forest index increased by 5%.

#### Stock Price Performance - through September 29, 2006 (Base 100 = Sep. 30, 2005)





Stock information	September 30, 2006
Total number of shares outstanding	1,030,587,806
Common shares	454,907,585
Preferred shares	575,680,221
ADR Ratio	1 ADR = 10 preferred shares
Market capitalization	\$5.1 billion
Average daily trading volume – 2006 YTD (Bovespa and NYSE)*	\$27 million

\*Source: Bloomberg

## Dividends/ Interest on Stockholders' Equity

Up to the end of the third quarter of 2006, a total amount of R\$243 million had been declared as Interest on Stockholders' Equity, in anticipation of the annual dividend for the fiscal year 2006, with R\$80 million declared on September 19<sup>th</sup>, R\$74 million on June 20<sup>th</sup> and R\$89 million on March 23<sup>rd</sup>.

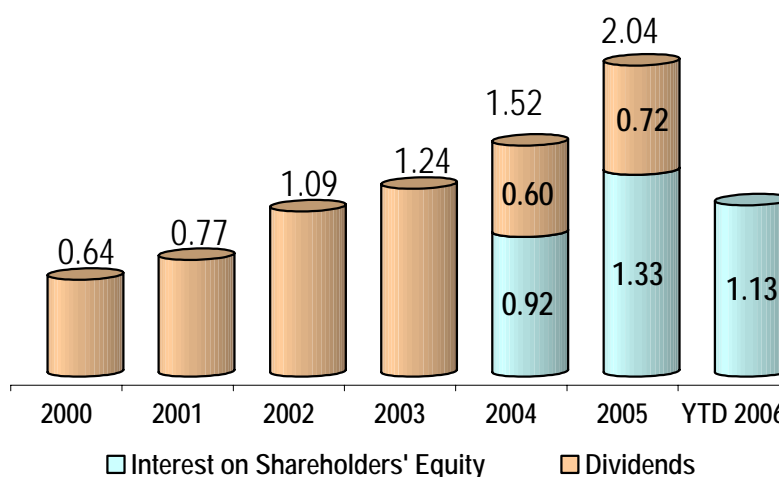
The potential amount that could still be declared, up to the end of December 2006, is governed by article 9 of Law nº 9.249/95.

Declaration Date	Fiscal Year of Reference	Dividends and Interest (1)	EX-DATE	Gross Amount (R\$ thousand)	Gross Amount per ADR (US\$)	Initial Payment Date
Sep. 19, 2006	2006(*)	INTEREST <sup>(1)</sup>	Sep. 27, 2006	80,000	0.38	Oct. 17, 2006
Jun. 20, 2006	2006(*)	INTEREST <sup>(1)</sup>	Jun. 28, 2006	74,000	0.33	Jul. 20, 2006
Apr. 28, 2006	2005	DIVIDENDS	May 3, 2006	150,000	0.72	May 11, 2006
Mar. 23, 2005	2006(*)	INTEREST <sup>(1)</sup>	Mar. 30, 2006	89,000	0.42	Apr. 20, 2006
Dec.20, 2005	2005(*)	INTEREST <sup>(1)</sup>	Dec.28, 2005	168,800	0.72	Jan.13, 2006
Jun.20, 2005	2005(*)	INTEREST <sup>(1)</sup>	Jun.28, 2005	28,000	0.12	Jul.13, 2005
May 19, 2005	2005(*)	INTEREST <sup>(1)</sup>	May 25, 2005	42,900	0.18	Jun.13, 2005
Apr.29, 2005	2004	DIVIDENDS	May 2, 2005	150,000	0.60	May 9, 2005
Apr.19, 2005	2005(*)	INTEREST <sup>(1)</sup>	Apr.27, 2005	81,000	0.31	May 13, 2005
Dec.21, 2004	2004 (*)	INTEREST <sup>(1)</sup>	Dec.29, 2004	28,500	0.11	Jan.11, 2005
Nov.16, 2004	2004 (*)	INTEREST <sup>(1)</sup>	Nov.23, 2004	32,000	0.12	Dec.10, 2004
Oct.19, 2004	2004 (*)	INTEREST <sup>(1)</sup>	Oct.27, 2004	198,000	0.69	Nov.11, 2004
Apr.29, 2004	2003	DIVIDENDS	Apr.30, 2004	360,000	1.24	May14, 2004
Apr.29, 2003	2002	DIVIDENDS	May 7, 2003	315,000	1.09	May 15, 2003
Apr.30, 2002	2001	DIVIDENDS	May 2, 2002	180,000	0.77	May13, 2002
Mar.30, 2001	2000	DIVIDENDS	Apr. 2, 2001	136,878	0.64	Apr.12, 2001

(1) Interest on Stockholders' Equity

(\*) advance payment of dividends

Dividends/Interest on Equity distribution based on the Fiscal Year  
(Gross amount US\$ / ADR)



## Results According to Brazilian GAAP

The local currency consolidated result, according to **Brazilian GAAP** - the accounting principles adopted in Brazil, was a net income of R\$277.0 million for the quarter. Aracruz has also publicly released the unconsolidated financial results in Brazil, which under **Brazilian GAAP** serve as the basis for the calculation of minimum dividends and income taxes. In the third quarter of 2006, Aracruz Celulose S.A. reported an unconsolidated net income of R\$296.6 million (net income of R\$32.2 million, excluding equity results).

## Additional Information

### Aracruz again chosen for Dow Jones Global Sustainability Index

Aracruz Celulose has once again been chosen for the select list of companies comprising the Dow Jones Sustainability Index (DJSI World) 2007, which draws attention to the best corporate sustainability practices worldwide.

A total of 2,500 companies were competing for a place in the latest global index, effective from September 18th. The DJSI comprises just 318 companies, covering 58 sectors in 24 countries. Aracruz, competing in the paper and forest products sector, achieved distinction in all three dimensions evaluated (economic, environmental and social).

"Aracruz is the only company in the sector to have been chosen this year for the global index. It is always a considerable challenge to retain a place in this highly select index, against competition from very large and important companies from around the world. This is the first time that the DJSI World has had only one company representing our sector, which makes our achievement even more noteworthy", Aracruz's CFO, Isac Zagury, commented.

Brazil has increased its participation in the global index, with the inclusion of three more institutions, bringing the total to six companies: Aracruz, Bradesco, Itaú, Cemig, Itaúsa and Petrobras.

## Fitch Ratings gives additional upgrade, to BBB

In August, Fitch Ratings upgraded Aracruz's foreign currency issuer default rating (IDR) one notch, from "BBB-" to "BBB", with a stable outlook. It is now one notch above the investment grade rating floor, following the upgrading of Aracruz's foreign currency IDR, last June, in the wake of the upward revision of the country ceiling,

Fitch has recently updated its methodology for assigning country ceilings, as part of the regular and on-going review of its criteria and methodology. The upward revision of the country ceilings since they were first assigned, more than two years ago, reflects the increased liberalization of capital and exchange controls in many 'emerging market' economies, the strengthening of monetary and exchange rate regimes, and the deepening integration of emerging markets within the global economy.

The investment grade rating granted by Fitch Ratings puts Aracruz among the few companies in Brazil to be awarded an investment grade in foreign currency debt by the three main rating agencies (Fitch, Moody's and S&P).

*Note: In the main body of the text (p.1 - 18), amounts are in US\$ unless otherwise specified.*

Aracruz Celulose S.A., with operations in the Brazilian states of Espírito Santo, Bahia, Minas Gerais and Rio Grande do Sul, is the world's largest producer of bleached eucalyptus kraft pulp. All of the high-quality hardwood pulp and lumber supplied by the company is produced exclusively from planted eucalyptus forests. The Aracruz pulp is used to manufacture a wide range of consumer and value-added products, including premium tissue and top quality printing and specialty papers. The lumber, produced at a high-tech sawmill located in the extreme south of the state of Bahia, is sold to the furniture and interior design industries in Brazil and abroad, under the brand name Lyptus. Aracruz is listed at the São Paulo Stock Exchange (BOVESPA), at the Latin America Securities Market (Latibex), in Madrid - Spain, and at the New York Stock Exchange (NYSE) under the ADR level III program (ticker symbol ARA). Each ADR represents 10 underlying "Class B" preferred shares.

## ARACRUZ CELULOSE S.A. – CONSOLIDATED STATEMENTS OF OPERATIONS

(Expressed in thousands of US dollars, except for per-share amounts)(unaudited)	Three-month period ended			Nine-month period ended	
	Sep.30, 2006	Jun.30, 2006	Sep.30, 2005	Sep.30, 2006	Sep.30, 2005
<b>Operating revenues</b>	<b>489,209</b>	<b>455,170</b>	<b>370,229</b>	<b>1,390,000</b>	<b>1,082,496</b>
Domestic	20,340	16,842	19,308	53,795	47,141
Export	468,869	438,328	350,921	1,336,205	1,035,355
<b>Sales taxes and other deductions</b>	<b>57,204</b>	<b>53,154</b>	<b>45,283</b>	<b>166,576</b>	<b>135,722</b>
<b>Net operating revenue</b>	<b>432,005</b>	<b>402,016</b>	<b>324,946</b>	<b>1,223,424</b>	<b>946,774</b>
Pulp	418,736	390,143	312,503	1,186,997	912,232
Paper	13,269	11,873	12,443	36,427	34,493
Sawn wood					49
<b>Operating costs and expenses</b>	<b>303,352</b>	<b>284,266</b>	<b>205,045</b>	<b>867,621</b>	<b>612,468</b>
Cost of sales	261,192	248,668	184,522	759,543	531,439
Pulp	252,388	240,672	177,034	734,530	509,952
Cost of sales relating to pulp production and purchases	213,061	202,604	152,828	621,143	434,656
Inland freight, ocean freight, insurance and other	39,327	38,068	24,206	113,387	75,296
Paper	8,804	7,996	7,488	25,013	21,440
Sawn wood					47
Selling	17,809	18,908	16,183	55,806	46,410
Administrative	19,249	11,259	8,782	39,769	22,718
Other, net	5,102	5,431	(4,442)	12,503	11,901
<b>Operating income</b>	<b>128,653</b>	<b>117,750</b>	<b>119,901</b>	<b>355,803</b>	<b>334,306</b>
<b>Non-operating (income) expenses</b>	<b>(1,892)</b>	<b>17,623</b>	<b>(18,491)</b>	<b>(34,698)</b>	<b>(31,787)</b>
Financial income	(39,772)	(21,117)	(38,032)	(146,930)	(107,197)
Financial expenses	38,344	36,672	30,395	119,168	104,872
Interest on financing	31,530	20,637	25,394	86,799	74,392
Other	6,814	16,035	5,001	32,369	30,480
(Gain) loss on currency re-measurement, net	(464)	2,067	(10,479)	(6,934)	(28,912)
Other, net		1	(375)	(2)	(550)
<b>Income before income taxes, minority interest and equity in results of affiliated companies</b>	<b>130,545</b>	<b>100,127</b>	<b>138,392</b>	<b>390,501</b>	<b>366,093</b>
<b>Income taxes</b>	<b>(7,104)</b>	<b>(6,650)</b>	<b>43,347</b>	<b>49,577</b>	<b>113,087</b>
Current	(13,575)	2,277	(3,754)	23,541	78,111
Deferred	6,471	(8,927)	47,101	26,036	34,976
<b>Minority interest</b>	<b>184</b>	<b>200</b>	<b>(208)</b>	<b>373</b>	<b>(184)</b>
<b>Equity results of affiliated companies</b>	<b>(5,743)</b>	<b>649</b>	<b>23,213</b>	<b>12,292</b>	<b>54,439</b>
<b>Net income for the period</b>	<b>143,208</b>	<b>105,928</b>	<b>72,040</b>	<b>328,259</b>	<b>198,751</b>
<b>Depreciation and depletion in the results:</b>	<b>51,770</b>	<b>53,153</b>	<b>47,868</b>	<b>158,689</b>	<b>146,363</b>
Pulp production cost	49,332	54,226	49,116	157,014	150,933
Forests and other	3,815	(240)	4,175	1,115	2,682
Other operating costs and expenses	1,399	1,404	1,353	4,173	4,027
<b>Sub-total</b>	<b>54,546</b>	<b>55,390</b>	<b>54,644</b>	<b>162,302</b>	<b>157,642</b>
Inventory movement	(2,776)	(2,237)	(6,776)	(3,613)	(11,279)
<b>EBITDA<sup>(*)</sup></b>	<b>180,423</b>	<b>170,903</b>	<b>167,769</b>	<b>514,492</b>	<b>480,669</b>
<b>EBITDA (adjusted for other non-cash items) <sup>(*)</sup></b>	<b>187,105</b>	<b>177,522</b>	<b>163,703</b>	<b>532,779</b>	<b>495,124</b>

(\*) does not include 50% of Veracel's EBITDA

## ARACRUZ CELULOSE S.A. – CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of US dollars)

ASSETS	Sep.30, 2006	Jun.30, 2006	Sep.30, 2005	LIABILITIES	Sep.30, 2006	Jun.30, 2006	Sep.30, 2005
<b>Current assets</b>	<b>1,231,287</b>	<b>1,178,390</b>	<b>1,107,526</b>	<b>Current Liabilities</b>	<b>310,497</b>	<b>327,817</b>	<b>450,111</b>
Cash and cash equivalents	110,576	135,535	113,633	Suppliers	92,860	71,787	48,597
Short-term investments	499,855	474,984	523,202	Payroll and related charges	24,531	18,826	20,146
Accounts receivable	262,065	234,480	195,742	Income and other taxes	40,077	47,027	39,736
Inventories, net	217,149	204,151	164,941	Current portion of long-term debt			
Deferred income tax	19,268	14,805	11,084	Related party	63,942	64,171	61,384
Recoverable income and other taxes	108,030	107,129	88,872	Other	23,207	56,896	169,769
Prepaid expenses and other current assets	14,344	7,306	10,052	Short-term borrowing - export financing and other	4,600	4,620	92,785
<b>Property, plant and equipment, net</b>	<b>2,104,138</b>	<b>2,078,132</b>	<b>2,077,086</b>	Accrued financial charges	16,004	13,826	10,835
<b>Investment in affiliated company</b>	<b>311,134</b>	<b>280,890</b>	<b>266,781</b>	Interest on stockholders' equity payable	38,196	35,570	1,125
<b>Goodwill</b>	<b>207,050</b>	<b>207,050</b>	<b>207,050</b>	Other accruals	7,080	15,094	5,734
<b>Other assets</b>	<b>105,544</b>	<b>102,958</b>	<b>90,280</b>	<b>Long-term liabilities</b>	<b>1,537,854</b>	<b>1,514,902</b>	<b>1,405,302</b>
Long-term investments	2,575	2,524	1,913	Long-term debt			
Advances to suppliers	74,528	71,424	60,276	Related party	172,948	189,686	165,634
Deposits for tax assessments	22,109	22,334	21,141	Other	1,023,045	971,315	893,715
Recoverable income and other taxes	4,177	4,442	2,952	Tax assessment and litigation contingencies	220,495	242,725	223,100
Other	2,155	2,234	3,998	Deferred income tax, net	87,225	76,291	86,841
				Suppliers	4,097	9,062	11,849
				Other	30,044	25,823	24,163
				Minority interest	704	520	116
				Stockholders' equity	2,110,098	2,004,181	1,893,194
<b>TOTAL</b>	<b>3,959,153</b>	<b>3,847,420</b>	<b>3,748,723</b>	<b>TOTAL</b>	<b>3,959,153</b>	<b>3,847,420</b>	<b>3,748,723</b>

# ARACRUZ CELULOSE S.A. – CONSOLIDATED STATEMENTS OF CASH FLOW

(Expressed in thousands of US dollars)

	Three-month period ended			Nine-month period ended	
	Sep.30, 2006	Jun.30, 2006	Sep.30, 2005	Sep.30, 2006	Sep.30, 2005
<b>Cash flows from operating activities</b>					
Net income for the period	143,208	105,928	72,040	328,259	198,751
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and depletion	54,546	55,390	54,644	162,302	157,642
Equity results of affiliated company	(5,744)	650	23,213	12,291	54,439
Deferred income tax	6,471	(8,927)	47,101	26,036	34,976
Loss (gain) on currency re-measurement	(464)	2,067	(10,479)	(6,934)	(28,912)
Loss (gain) on sale of equipment	200	43	646	59	1,000
Decrease (increase) in operating assets					
Accounts receivable, net	(30,827)	6,016	11,283	(17,231)	4,389
Inventories, net	(12,998)	(18,804)	(11,130)	(43,276)	(38,721)
Recoverable income taxes	(1,371)	(3,481)	(22,950)	(12,905)	(38,539)
Other	(17,823)	26,634	(20,808)	3,339	(66,982)
Increase (decrease) in operating liabilities					
Suppliers	15,638	(11,954)	704	(549)	(8,452)
Payroll and related charges	5,860	4,723	4,621	4,080	3,787
Tax assessment and litigation contingencies	(24,290)	6,298	(20,433)	10,630	52,694
Accrued financial charges	2,238	5,190	2,158	8,848	2,887
Other	(7,166)	7,948	(8,306)	9,009	3,845
Net cash provided by operating activities	127,478	177,721	122,304	483,958	332,804
<b>Cash flows from investing activities</b>					
Short-term investments	(15,519)	(32,792)	39,757	56,847	36,987
Proceeds from sale of equipment	91	18	424	326	505
Investments in affiliate	(24,500)		(21,830)	(24,500)	(47,330)
Additions to property, plant and equipment	(80,847)	(66,201)	(50,422)	(198,266)	(102,222)
Net cash provided by (used in) investing activities	(120,775)	(98,975)	(32,071)	(165,593)	(112,060)
<b>Cash flows from financing activities</b>					
Short-term debt, net	530	3,624	41,914	(74,748)	97,587
Long-term debt					
Issuance	250,000	209,000		809,000	25,000
Repayments	(247,681)	(77,703)	(82,473)	(759,204)	(140,165)
Treasury stock			(351)		(351)
Dividends and interest on stockholders' equity paid out	(33,842)	(114,208)	(10,748)	(214,793)	(132,159)
Net cash used in financing activities	(30,993)	20,713	(51,658)	(239,745)	(150,088)
Effect of exchange rate variations on cash and cash equivalents	(669)	(1,178)	2,779	(2,158)	6,503
Increase (decrease) in cash and cash equivalents	(24,959)	98,281	41,354	76,462	77,159
Cash and cash equivalents, beginning of the period	135,535	37,254	72,279	34,114	36,474
Cash and cash equivalents, end of the period	110,576	135,535	113,633	110,576	113,633

## Reconciliation of Operating Results

Brazilian GAAP v US GAAP (US\$ million)	3Q 2006	YTD 2006
Net Income - Parent Company (Brazilian GAAP)	136.4	400.2
Realized (Unrealized) profits from subsidiaries	(9.0)	(6.9)
Net Income - Consolidated (Brazilian GAAP)	127.4	393.3
Depreciation, depletion and asset write-offs	(3.4)	(12.3)
Income tax provision - Fas 109	(4.4)	(13.2)
Equity results of affiliated company	4.7	(20.1)
Reversal of goodwill amortization	12.8	39.3
Foreign-exchange variation	6.1	(58.7)
Net Income - Consolidated (US GAAP)	143.2	328.3

Exchange rate at the end of September/2006 (US\$1.0000 = R\$2.1742)

## NON-GAAP INFORMATION - DISCLOSURE AND RECONCILIATION TO GAAP NUMBERS

The company believes that, in addition to the reported GAAP financial figures, the inclusion and discussion of certain financial statistics, such as Adjusted EBITDA and cash production cost, will allow the management, investors, and analysts to compare and fully evaluate the unaudited consolidated results of its operations.

- "Cash production cost"

**Cash production cost** expresses the Company's production costs adjusted for non-cash items, such as depreciation and amortization. Cash production cost is not a financial measure under U.S. GAAP, does not represent cash flow for the periods indicated and should not be considered an indicator of operating performance or a substitute for cash flow as a measure of liquidity. The definition of cash production cost is not standardized and our cash production cost calculation may not be comparable to the cash production cost of other companies. Even though cash production cost does not provide a measurement of operating cash flow in accordance with U.S. GAAP, the company uses cash production cost as an approximation of actual production cost for the period. In addition, the company understands that certain investors and financial analysts use cash production cost as an indicator of operating performance.

The management believes that cash production cost allows investors to derive the current breakeven cash cost for Aracruz and it shows clearly where costs are heading, without the impact of inventory turnover, which is based on average cost. The management also believes that the cash production cost, together with the forecast of regular capital expenditure provided, which includes maintenance and silviculture disbursement, is a better indicator of future cash requirement, since the current depreciation and depletion figures may have been impacted by foreign exchange rate volatility. Therefore, the management focuses on cash production cost for performance assessment, as part of the cash requirements estimates and cost control.



	3Q06			2Q06			3Q05		
	US\$ million	Volume '000 tons	US\$ per ton	US\$ million	Volume '000 tons	US\$ per ton	US\$ million	Volume '000 tons	US\$ per ton
Cost of sales	213.1	743.7		202.6	720.1		152.8	614.3	
Pulp inventories at the beginning of the period	(139.1)	(466.7)		(122.6)	(408.9)		(96.3)	(371.0)	
Pulp purchased	(45.5)	(127.1)		(41.3)	(115.2)		(10.3)	(34.1)	
Pulp for paper production	3.0	12.1		2.9	11.5		2.8	12.2	
Other	0.3			(2.4)			(0.3)	-	
Pulp inventories at the end of the period	142.0	460.5		139.1	466.7		101.3	379.4	
Pulp production cost	173.8	622.5	279	178.3	674.2	264	150.0	600.8	250
Depreciation and depletion in the production cost	(49.3)	-	(79)	(54.2)	-	(80)	(49.1)	-	(82)
Cash production cost	124.5	622.5	200	124.1	674.2	184	100.9	600.8	168
Cash production cost - Veracel	19.1	130.7		16.9	119.1		15.6	87.0	
Combined cash production cost	143.6	753.2	191	141.0	793.3	178	116.5	687.8	169

- "Adjusted EBITDA, including 50% of Veracel"

The inclusion of **adjusted EBITDA** information is intended to provide a measurement for assessing our ability to generate cash from our operations. Adjusted EBITDA represents the operating income, adjusted for depreciation and depletion and non-cash charges. In managing our business, we rely on adjusted EBITDA as a means of assessing our operating performance. The adjusted EBITDA gives investors a picture of the company's overall cash generation and debt, incorporating the adjusted EBITDA and debt relating to Aracruz's 50/50 joint venture in Veracel, thus providing a more accurate assessment of the aggregate cash and debt performance. We believe that ratios based on Adjusted EBITDA, such as "Enterprise Value per Adjusted EBITDA", provide a better picture of Aracruz than focusing just on net income. Because adjusted EBITDA excludes interest, income taxes, depreciation, currency re-measurement, equity equivalence, depletion and amortization, it provides an indicator of general economic performance that is not affected by debt restructuring, fluctuations in interest rates or effective tax rates, or levels of depreciation and amortization. We also adjust for non-cash items, to emphasize our current ability to generate cash from our operations. Accordingly, we believe that this type of measurement is useful for comparing general operating performance from period to period and making certain related management decisions. We also calculate adjusted EBITDA in connection with our credit ratios. We believe that adjusted EBITDA enhances the understanding of our financial performance and our ability to satisfy principal and interest obligations in relation to our indebtedness, as well as to fund capital expenditure and working capital requirements. In addition, the net income (Price/Earnings) approach can be somewhat volatile given Aracruz's foreign exchange exposure and the impact it can have on the company's tax rate. Focusing on adjusted EBITDA minimizes the impact of foreign exchange on the income statement due to the translation of balance-sheet items. Therefore, the management also focuses its relative performance indicators and credit ratios on "Adjusted EBITDA". Adjusted EBITDA is not a measurement of financial performance under U.S. GAAP. Adjusted EBITDA should not be considered in isolation, or as a substitute for net income, as a measurement of operating performance, as a substitute for cash flows from operations or as a measurement of liquidity. Adjusted EBITDA has material limitations that compromise its value as a measurement of a company's overall profitability, since it does not address certain ongoing costs of our business that could significantly affect profitability, such as financial expenses and income taxes, depreciation or capital expenditure and related charges.

(US\$ million)	3Q 2006	2Q 2006	3Q 2005	YTD 2006	YTD 2005
<b>Net income</b>	<b>143.2</b>	<b>105.9</b>	<b>72.0</b>	<b>328.3</b>	<b>198.8</b>
Financial income	(39.8)	(21.1)	(38.0)	(146.9)	(107.2)
Financial expenses	38.3	36.7	30.4	119.1	104.9
Income tax	(7.1)	(6.7)	43.3	49.6	113.1
Equity in results of affiliated companies	(5.7)	0.7	23.2	12.3	54.4
Gain on currency re-measurement, net	(0.4)	2.1	(10.5)	(7.0)	(28.9)
Other	0.2	0.2	(0.5)	0.4	(0.8)
<b>Operating income</b>	<b>128.7</b>	<b>117.8</b>	<b>119.9</b>	<b>355.8</b>	<b>334.3</b>
<b>Depreciation and depletion in the results:</b>	<b>51.7</b>	<b>53.1</b>	<b>47.9</b>	<b>158.7</b>	<b>146.4</b>
Depreciation and depletion	54.5	55.3	54.7	162.3	157.7
Depreciation and depletion - inventory movement	(2.8)	(2.2)	(6.8)	(3.6)	(11.3)
<b>EBITDA</b>	<b>180.4</b>	<b>170.9</b>	<b>167.8</b>	<b>514.5</b>	<b>480.7</b>
<b>Non-cash charges</b>	<b>6.7</b>	<b>6.6</b>	<b>(4.1)</b>	<b>18.3</b>	<b>14.4</b>
Provision for labor indemnity	0.1	0.5	0.6	0.8	1.8
Provision (reversal) for loss on ICMS credits	5.9	5.8	(10.1)	16.6	2.7
Provision for a tax contingency	-	-	4.2	-	8.0
Fixed asset write-offs	0.2	-	0.6	0.1	1.0
Loss on the sale of obsolete spare parts	-	0.1	0.5	0.1	0.9
Discount on tax credit sales	-	0.2	-	0.2	-
Allowance for doubtful accounts receivable	0.5	-	0.1	0.5	-
<b>Adjusted Aracruz EBITDA</b>	<b>187.1</b>	<b>177.5</b>	<b>163.7</b>	<b>532.8</b>	<b>495.1</b>
<b>50% of Veracel Adjusted EBITDA</b>	<b>25.0</b>	<b>18.0</b>	<b>3.2</b>	<b>61.1</b>	<b>4.5</b>
<b>Adjusted total EBITDA</b>	<b>212.1</b>	<b>195.5</b>	<b>166.9</b>	<b>593.9</b>	<b>499.6</b>
<b>Adjusted EBITDA margin - %</b>	<b>49%</b>	<b>49%</b>	<b>51%</b>	<b>49%</b>	<b>53%</b>

This press release contains statements which constitute forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may not be possible to realize. Prospective 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, due to a variety of factors. The company does not undertake, and specifically disclaims any obligation to update any forward-looking statements, which speak only for the date they are made.