



ARACRUZ

2007

Annual and
Sustainability Report



The Company

Aracruz Celulose is the world's leading producer of bleached eucalyptus pulp. Its main markets are international: it exports 98% of its production.

The Company is responsible for 24% of the world's consumption of this type of pulp, reaching people through printing and writing, tissue, napkins, diapers, feminine absorbents, and high value-added specialty papers.

Its renewable eucalyptus plantations grow in the Brazilian States of Espírito Santo, Bahia, Minas Gerais and Rio Grande do Sul. They account for some 286,000 hectares of eucalyptus plantations, intermingled with more than 170,000 hectares of native forest reserves. These native lands are untouchable, protecting the eucalyptus forests, helping combat pests, and maintaining natural balance, biodiversity, and ecosystems.

Aracruz's sustenance comes from the land and it is from the land that its commitment to sustainable development is derived, orienting the practices for management of its renewable eucalyptus plantations and all other activities.

As part of this commitment, Aracruz grows and fosters the growth of the communities in which its operations are located, seeking to improve its relationships with NGOs, institutes, leaders, and communities.

These are historic investments – embedded in Aracruz's roots since it was founded and reflected in residential complexes, schools, medical clinics, community centers, energy and basic sanitation networks, access to water, highways, and transportation infrastructure. The investments include social programs, projects, and actions that offer opportunities, a future, and dignity to generations of citizens and communities.

Besides its own plantations, Aracruz promotes third-party planting of eucalyptus trees through its Forestry Partners Program, which encompasses about 96,000 hectares that have been contracted with more than 3,000 farmers in Espírito Santo, Bahia, Minas Gerais, Rio de Janeiro, and Rio Grande do Sul. These independent producers add eucalyptus crops to other agricultural activities on their properties, increasing their businesses and their income.

Aracruz's nominal bleached hardwood eucalyptus pulp production capacity of 3.2 million tons a year is distributed between three pulp making units: Barra do Riacho in Espírito Santo (2.3 million tons), Guaíba in Rio Grande do Sul (450,000 tons) and Veracel in Bahia (450,000 tons, or 50% of that facility's total capacity).

In Espírito Santo, Aracruz operates a pulp-making complex consisting of three fiber lines. The facilities are fully integrated with company-owned eucalyptus plantations and a specialized private port, Portocel, through which most of its annual production is exported. The facility's environmental practices and controls, along with their modern emission, effluent, and solid waste treatment systems, are continuously being improved.

At the Guaíba Unit located in the municipality of Guaíba (RS), Aracruz operates a high-tech pulp mill with nominal production capacity of 450,000 tons a year that is also equipped with advanced environmental protection controls. The unit addresses part of this volume to the production of printing and writing paper (58,000 tons in 2007), primarily to supply the domestic market.

A third manufacturing facility, Veracel Celulose, with a nominal annual capacity of 900,000 tons of pulp, is located in the municipality of Eunápolis, in the south of Bahia. It is a partnership between Aracruz and the Swedish Finnish Stora Enso, in which both partners own a 50% stake.

In association with Weyerhaeuser in the U.S., Aracruz owns a one-third stake in Aracruz Produtos de Madeira, which operates a high technology sawmill in southern Bahia, supplying top quality solid wood products made from eucalyptus plantation lumber to the furniture and interior design industries in Brazil and abroad.

Four major shareholders control Aracruz's voting shares: the Safra, Lorentzen, and Votorantim groups (each owning 28% of the voting shares) and BNDES, the Brazilian National Economic and Social Development Bank (12.5%). Aracruz's preferred shares, which constitute 56% of the Company's total outstanding shares, are traded on the São Paulo (Bovespa), Madrid (Latibex), and New York (NYSE) stock exchanges.

Aracruz is the only company in the paper and forest products sector to have been chosen for the Dow Jones Sustainability Index (DJSI World) 2007/2008, which highlights the best corporate sustainability practices in the world. At Bovespa, it is among the 32 companies that comprise the Corporate Sustainability Index (ISE).



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About this Report

In this 2007 edition, Aracruz Celulose is seeking to offer an even more integrated view of the Company's economic, social, and environmental performance in a single report which reflects its strategy for sustainable growth:

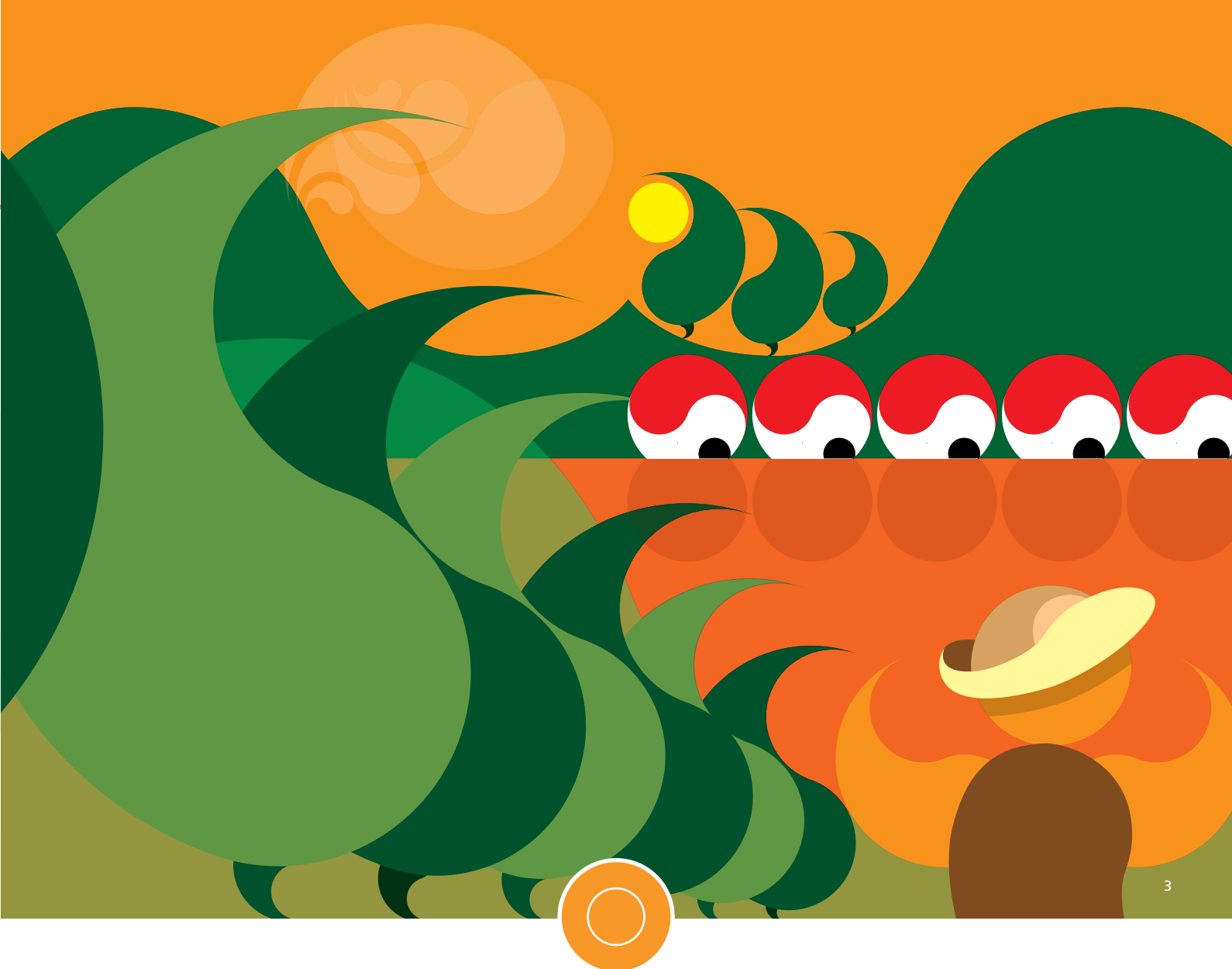
- **VALUE CREATION:** actions designed to increase Aracruz's value for shareholders and society, based on the best corporate governance practices.
- **CUSTOMER SATISFACTION:** initiatives that seek to anticipate, satisfy, and exceed the needs of our customers, and contributing to the establishment and maintenance of long-term commercial relationships.
- **INTERNAL PROCESSES:** actions to enhance our internal procedures, improving the quality of the products and services we offer, striving to maintain high standards of social and environmental responsibility throughout the production chain.
- **LEARNING AND DEVELOPMENT:** programs to ensure a favorable internal environment so the people who are responsible for the Company's success can fully develop their capabilities and engage in actions that support a constructive relationship with all our stakeholders.

As in the previous year, we seek greater compliance with the Global Reporting Initiative (GRI) by publishing a cross-index that reflects GRI's indicators as well as those forming the UN's Global Compact program. Although we are not fully following the GRI model, it is our intention to be transparent in our reporting and to make it easy to find pertinent information.

Sustainability aspects of our operations in the Barra do Riacho, Espírito Santo, and Guaíba, Rio Grande do Sul units are included in this report.

The activities of Veracel, a joint venture with the Swedish-Finnish company Stora Enso in which Aracruz has a 50% ownership stake, are presented in condensed form on pages 66-69, as well as in the Financial Statements at the end of this report.

Information about Portocel is reported only in the operating and financial sections. The activities of Aracruz Produtos de Madeira, in which Aracruz holds a one-third ownership stake, are not within this report's scope.



Financial and legal information regarding Mucuri Agroflorestal, an Aracruz subsidiary in the field of forestry and eucalyptus reforestation through land loan agreements, is included in this report.

Supplementary and supporting information is presented on the CD that accompanies this report and in the online version available at www.aracruz.com/2007sustainabilityreport.

As in previous years, this report was submitted for independent verification by Bureau Veritas Certification to guarantee the consistency and accuracy of the information offered, as well as comparability, reliability, periodicity, materiality, inclusion of stakeholders, and sustainability context. This report was also evaluated by two independent readers, whose perceptions are presented on pages 92 to 94.

Aracruz invites readers to send in comments and suggestions so that we can improve our reporting and satisfy expectations. Contact information can be found at the end of this report on page 103.

Materiality Matrix

In line with our sustainability strategy, in 2007 we utilized specialized consultants to prepare a materiality matrix. This work seeks to identify – among the many and complex issues that involve the operations of a company such as Aracruz – the aspects which are considered the most important for our stakeholders and the impact they have, or could have, on the pursuit of the Company's businesses.

The first version of the matrix points to the Company's ethical behavior, a final solution to the indigenous question in the State of Espírito Santo, the Forest Stewardship Council (FSC) certification process, the regional economic impacts of Aracruz's operations, the impact of eucalyptus plantations on biodiversity, and the relationship with descendents of *quilombolas* (communities originally made up of escaped slaves) as being the issues the Company and its stakeholders consider to be most important to resolve.

Based on this first version, and within the measures called for in our sustainability plan, we have assigned these issues to be top priority in 2008. The matrix also helps identify opportunities for taking actions that increase the Company's competitiveness, directly contributing to the sustainability of the business.

What matters to readers

With the mounting attention that society places on the impact of business activities on peoples' lives as well as the planet, such issues are increasingly being incorporated into companies' sustainability reports. However, due to the volume and complexity of these topics, it is now considered fundamental to identify which are considered more significant – and, thus, more tangible, or material – for the many different publics with whom companies interact. The materiality matrix is a way to graphically represent these issues, staking out the boundaries for the sustainability actions of companies.

Board of Directors

Carlos Alberto Vieira – Chairman

Ernane Galvêas

João Carlos Chede

Haakon Lorentzen

Eliezer Batista da Silva

Luiz Aranha Corrêa do Lago

Raul Calfat

Álvaro Luís Veloso

Alexandre D'Ambrosio

Jorge Eduardo Martins Moraes

Executive Officers

1. Carlos Augusto Lira Aguiar – President and CEO

2. Isac Roffé Zagury

3. João Felipe Carsalade

4. Walter Lídio Nunes

Associate Officers

Carlos Alberto de Oliveira Roxo

José Luiz Braga

Fiscal Council

Fernando Octávio Martins Alves

José Gilberto Jaloretto

Wagner Braz

5



1



2



3



4

Message from the Management

The world's economy maintained its pace of expansion in 2007, with China once again as a center of focus, growing by more than 11%. Despite uncertainties, mainly involving the U.S. real estate market and the volatility of financial markets, the main economic indicators signaled a positive scenario for the paper and pulp industry in the coming years.

In Brazil, the economy displayed its best performance since 2004, expanding by over 5%. Contributing to this was the expansion of investments by about 14% for the year and a 6% rise in consumption. Export revenues rose 16%, mostly due to increases in prices on the international market, while imports were up 32%, driven by strong domestic demand and the appreciation of the Brazilian currency, the real.

During the year, we celebrated the 40th birthday of Aracruz. Our Company has maintained its prominent position in the industry as the world's leading producer of eucalyptus pulp.

Our strategy for sustainable growth – focused on operational excellence coupled with social and environmental responsibility – contributed to our good results. In 2007, Aracruz repeated its excellent performance of the previous year and sold its entire pulp volume of more than 3.1 million tons.

Planning for continued growth in an appropriate and sustainable manner is crucial in order for the Company to face the challenges over the next few years. Our goal is to supply 25% of the worldwide demand for hardwood market pulp by 2015.

With this challenge in view, we invested over US\$300 million to increase the installed capacity of our facilities. The highlights included the conclusion of the Barra do Riacho Unit modernization, which will begin producing 2.3 million tons per year starting in 2008; and the Guaíba Unit's expansion project, targeted to reach total production of 1.8 million tons a year by 2010.

Furthermore, we are studying Veracel's duplication, which the Company's Board of Directors will evaluate in 2009. This project would add 700,000 tons a year – representing the Company's 50% share in Veracel's output – to Aracruz's overall annual pulp production volume.

Some US\$50 million in capital expenditures was committed to expand Portocel, which will reinforce our logistics and hold up the increase of pulp production. These improvements also support our commercial strategy which emphasizes long-term relationships with customers.

These investments are in line with our business strategy – that the Company's organic growth and the acquisition of assets are priorities designed to support the growth of our commercial partners and other stakeholders.

We continued to conduct important studies related to environmental sustainability, particularly with regard to climate change. Technological prospecting was intensified in the fields of bioenergy, bioproducts, and technologies to improve environmental controls. These initiatives are in step with the worldwide demand to enhance the eco-efficiency of operations and find sustainable energy solutions.

A highlight in our stakeholder relationships was the resolution of a land dispute between Aracruz and indigenous communities in Espírito Santo. The issue was resolved through an agreement establishing the rights and obligations of each party – Aracruz, the Indians and the National Indian Foundation (FUNAI) – in a process that transfers approximately 11,000 hectares of land to the indigenous communities.

After a long period of disputes, punctuated by episodes of high tension, we believe that the agreement represents a sustainable solution that harmonizes the interests of the involved parties. This better understanding led to transforming the Indians' demand to expand their lands into a feasible proposition; while, for Aracruz, it meant obtaining legal assurances that these lands would not again be expanded.

We continued efforts to strengthen our relationship with NGOs in Bahia and Espírito Santo states, which resulted in agreements to implement Forestry Partners Program projects and the signing of an Atlantic Forest Revitalization Program. In Rio Grande do Sul, the resumption of ties between environmental NGOs and forestry companies marked the beginning of an important dialogue on aspects relating to the Atlantic Forest in the state.

At the end of 2007, Aracruz owned 456,000 hectares of land; approximately 170,000 hectares of its forestlands are native reserves (including legal forest reserves and permanent preservation areas), which account for 37% of the total forestry base.

At the same time that we celebrated our 40th birthday, we also commemorated the planting of our one billionth tree, a very important landmark for the Company. In this context, one of the year's highlights was the creation of three Private Natural Heritage Reserves in Espírito Santo, which will preserve around 3,000 hectares of native forest and are crucial for protecting remaining Atlantic Forest remnants.

Our Forestry Partners Program closed the year with a presence in 161 municipalities and an additional 442 new contracts. This now represents 23% of the total wood supply utilized by Aracruz.

Forestry management and chain of custody certification under the Brazilian Forest Certification Program (CERFLOR) rules were maintained in 2007 for the entire forestry base that we own. We are evaluating the possibility of obtaining dual certification (CERFLOR and FSC), in a process that should involve a wide-ranging discussion with many different stakeholders.

In 2007, Aracruz was responsible for more than 12,000 direct jobs. We had the distinction of being included on the list of the best companies in Brazil to work for, published by *Guia Exame Você S.A.*, for the fourth straight year. This attests our employees' positive perception regarding the workplace and conditions we offer.

We also continued to receive important recognition from the financial community, such as the inclusion for the third year in a row on the Dow Jones Sustainability Index (DJSI World) 2007/2008. In Brazil, we remained on the Bovespa Corporate Sustainability Index (ISE), having been included since its inception in 2005. We also improved our ratings given by the most important risk classification agencies, giving Aracruz one of the best rating/outlook positions among the world's paper and forest products companies.

The Aracruz Deeply-Rooted Assets Institute, which will initiate activities in 2008, was created to improve the management of our social investments. The institute seeks to foster sustainable community development, based on the strengthening of human, social, and economic capital. Its actions will be aimed, first and foremost, at deprived communities in the regions where Aracruz operates.

All these actions are designed to equip Aracruz with the appropriate resources to take effective action that will assure the sustainability of our activities in the years to come. We believe this is the only way to guarantee the Company will achieve consistent growth that is accompanied by the necessary creation of value for our shareholders, our customers, employees, and all of society.



Carlos Alberto Vieira
*Chairman of the
Board of Directors*



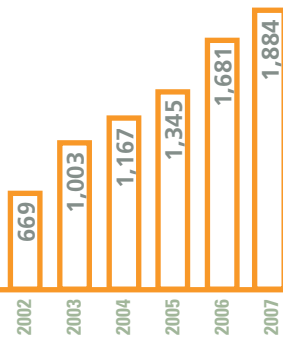
Carlos Augusto Lira Aguiar
President and CEO

Financial-Economic Highlights (*)

Consolidated data

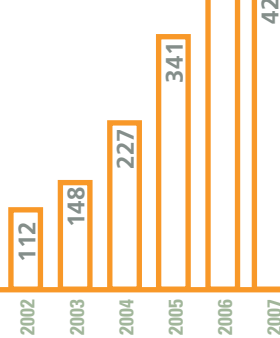
Net sales revenue

US\$ million



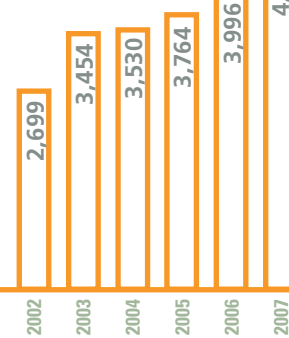
Net income

US\$ million



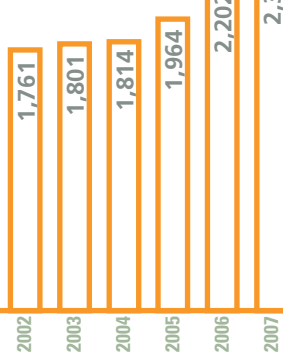
Assets

US\$ million



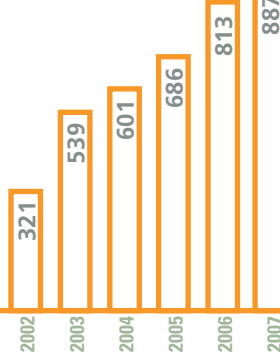
Shareholder's equity

US\$ million



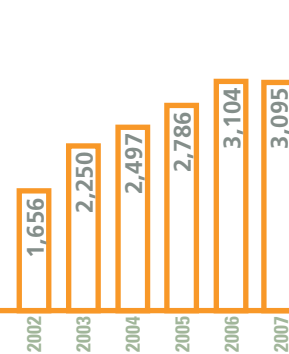
EBITDA ¹

US\$ million



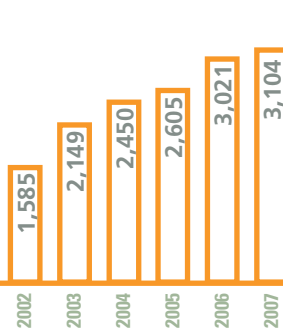
Production

Thousand tons



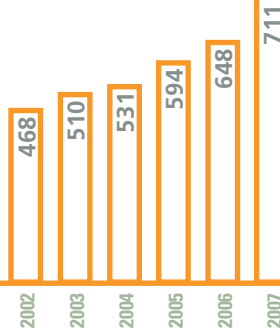
Sales

Thousand tons



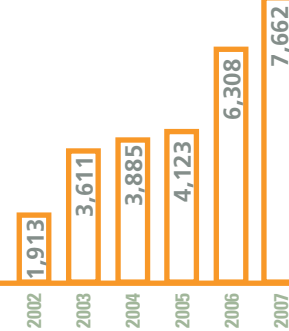
Average list price of pulp

US\$/t



Market capitalization ²

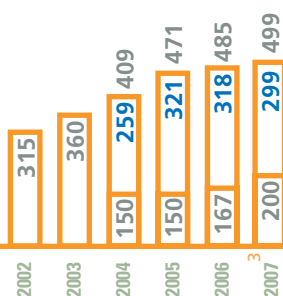
US\$ million



Dividends/Interest on stockholders' equity

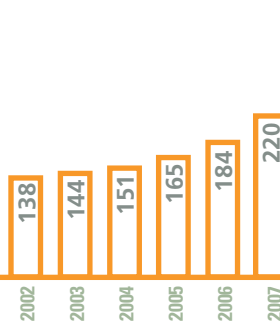
R\$ million

○ Dividends ● Interest on stockholders' equity



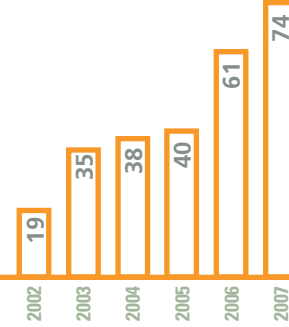
Cash production cost ⁴

US\$/t



Stock price – ADR ⁵

US\$



1. EBITDA | Adjusted for other non-cash items. Including 50% of Veracel's EBITDA. 2. Market capitalization | Market capitalization | Price per ADR (closing price for each year) x number of company's shares. 3. Dividends | Including R\$200 million of supplementary dividends to be approved at the General Shareholder's Meeting. 4. Cash production cost | Including 50% of Veracel. 5. Stock price – ADR | Price per ADR (closing price for each year).

Income statement

Net sales	1,680.8	1,883.8
Operating income	499.4	593.9
Income before income taxes	524.8	619.4
Net income	455.3	422.1

Balance sheet

Cash and cash equivalents	48.4	53.3
Short-term investments	531.2	440.0
Other current assets	621.3	758.1
Property, plant and equipment, net	2,151.2	2,518.7
Investment in affiliated company	516.8	607.4
Long-term investments	2.7	33.1
Other assets	124.3	214
Total assets	3,995.9	4,624.8

Short-term / current portion of long-term debt, includes accrued finance charges	89.8	96.7
Other current liabilities	197.0	231.0
Long-term debt	1,155.0	1,312.4
Other long-term liabilities	350.8	586.2
Minority interest	0.9	11.4
Stockholders' equity	2,202.4	2,387.1
Total liabilities and stockholders' equity	3,995.9	4,624.8

Cash flow

Operating income	499.4	593.9
Depreciation and depletion	217.8	217.6
Depreciation and depletion - inventory movement	(1.2)	2.3
EBITDA	716.0	813.8
Non-cash items		
Provision (reversal) for loss on ICMS credits	17.5	(40.5)
Other	2.2	22.5
EBITDA (adjusted by non-cash items)	735.7	795.8
Financial (expenses) income and gain (loss) on currency remeasurement, net	39.6	68.0
Cash flow impact of other operating activities, except financial	(116.9)	(139.3)
Sub-total	658.4	724.5
Additions to property, plant and equipment	(301.0)	(589.7)
Investments in affiliate	(24.5)	(122.8)
Proceeds from sale of equipment and investment	0.6	0.5
Dividends and interest on stockholders' equity paid	(251.7)	(232.7)

Net cash flow before increase / decrease of net debt**81.8 (220.2)**

Increase (decrease) in gross debt (1)	(57.5)	164.3
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Net cash flow**24.3 (55.9)**

Cash and cash equivalents / short and long-term investments, beginning of period	558.0	582.3
Cash and cash equivalents / short and long-term investments, end of period	582.3	526.4

Production volume (thousand tons)**3,103.6 3,094.7**

Barra do Riacho Unit	2,180.0	2,132.5
Guaíba Unit	436.0	436.5
50% of Veracel	487.6	525.7

Sales volume (thousand tons)**3,020.5 3,104.1**

Year-end inventories (thousand tons)	423.1	380.7
Average list pulp price (US\$/ton)	648	711

(1) Includes gain / loss on remeasurement.

(*) The Company's financial information have been prepared according to US GAAP.

About Aracruz

Aracruz Celulose is a Brazilian company, the world's leading producer of bleached eucalyptus pulp used to manufacture printing and writing, tissue, and high value added specialty papers.

Capital stock
US\$1,413,129,000

Total shares in circulation
1,030,587,806
(1 ADR = 10 PNB shares)

Market value (12/31/07)
US\$7.7 billion

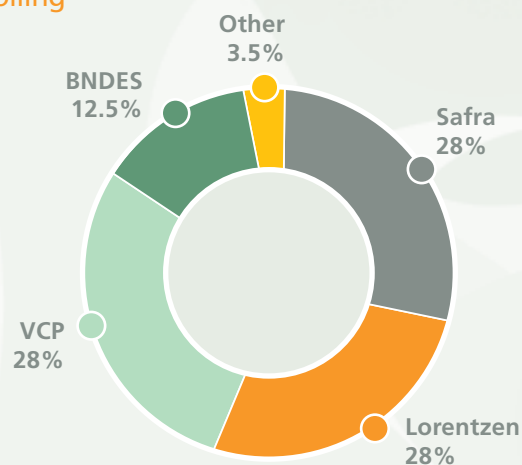
Patrimonial value (12/31/07)
US\$2.4 billion



Aracruz's **forestry operations** are situated in the States of Espírito Santo, Bahia, Minas Gerais and Rio Grande do Sul. They involve some **286,000 ha of eucalyptus plantations**, intermingled with around **170,000 ha of native forest reserves**, which are of fundamental importance for ensuring the balance of the ecosystem.

In association with Weyerhaeuser (U.S.) in Aracruz Produtos de Madeira, Aracruz supplies top quality solid wood **products made from eucalyptus** plantation lumber to the **furniture and interior design industries** in Brazil and abroad.

Controlling



Accumulated investments:
around **US\$5 billion**

Runs a **Forestry Partners Program** through which it stimulates the planting of eucalyptus in partnership with farmers in the States of Espírito Santo, Bahia, Minas Gerais, Rio de Janeiro and Rio Grande do Sul.

2007

Contracted area	96,300 ha
Planted area	89,800 ha
Municipalities reached	161 (71 in ES, 14 in BA, 39 in MG, 8 in RJ and 29 in RS)
Number of contracts	3,907
Average area under contract	24.7 ha

More information on the Aracruz Forestry Partners Program can be found at www.produtorflorestal.com.br/en.

History

Aracruz (Florestal) established: **Nov 1967**

Aracruz Celulose established: **Apr 1972**

Fiberline A starts up: **Sep 1978**

Portocel created: **Jan 1985**

Fiberline B starts up: **Mar 1991**

1st Brazilian company with Level 3

ADRs on the NYSE: **May 1992**

UBR (ES) Modernization Project: **1997**

APM inaugurated: **Aug 1999**

Ownership stake in Veracel: **Oct 2000**

Fiberline C starts up: **Aug 2002**

Veracel construction begins: **Jun 2003**

Acquisition of Riocell (now Guaíba Unit): **Jul 2003**

Veracel starts up: **May 2005**

UBR (ES) Modernization Project: **2007**

UBR – Barra do Riacho Unit
UG – Guaíba Unit
APM – Aracruz Produtos de Madeira
ES – State of Espírito Santo

RS – State of Rio Grande do Sul
MG – State of Minas Gerais
BA – State of Bahia
RJ – State of Rio de Janeiro

Certifications

ISO 9002

Barra do Riacho and Guaíba Units: since Jan/93

ISO 9001

Barra do Riacho Unit: since Jan/95 – for all activities

Guaíba Unit: Jul/03 – industrial area; Dec/04 – forestry activities

ISO 14001

Barra do Riacho Unit: since Oct/99.

Guaíba Unit: Nov/96.

Brazilian Forest Certification Program (CERFLOR, NBR 14789)

100% of the areas under our own management are certified.

HPP (Highly Protected Risk) Certificate by FM Global

The Barra do Riacho Unit has held this certificate since Dec/03 and Veracel since Nov/05.

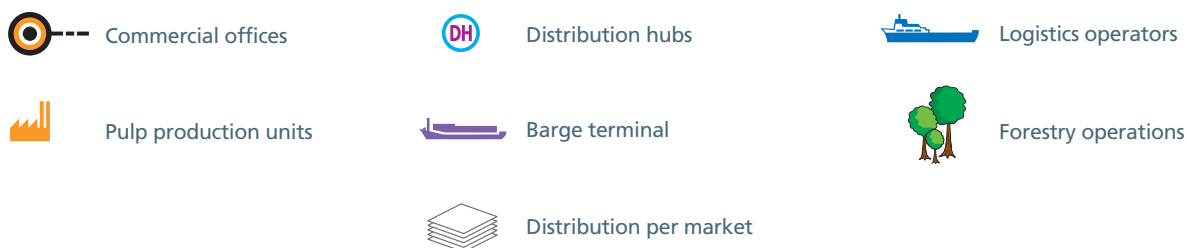
Chain of Custody (CERFLOR)

Barra do Riacho – since Jun/06.

Guaíba Unit – since Oct/06.



Our forestry operations, pulp production units, port terminals and offices are located in five Brazilian states, and our product is exported to the main consuming markets. We have our own commercial offices and rely on distribution hubs in North America, Europe and Asia.





Barra do Riacho Unit

Houses the world's largest eucalyptus pulp mill, with total annual capacity of **2.3 million tons** of the product, fully integrated with forest plantations and a private specialized port, Portocel, located 1.2 km away from the mill in the State of Espírito Santo.



Guaíba Unit

Has annual nominal capacity of **450,000 tons** of eucalyptus pulp per year and is located in the State of Rio Grande do Sul. The unit addresses part of this volume to produce printing and writing papers (**58,000 tons** produced in 2007).



Veracel

With the capacity to produce **900,000 tons** of pulp per year, is located in the State of Bahia. It is a joint venture of Aracruz and Stora Enso, in which ownership and production are equally shared.

Our goal is to supply 25% of the world demand for hardwood market pulp in 2015.

Our business strategy

Aracruz's actions seek to reduce business risks and create a favorable environment for its sustainable growth as a way of ensuring continuous value generation and an adequate return for shareholders. Our business strategy is based on investments in organic growth and the acquisition of assets in the market.

In 2007, we invested in boosting our production capacity. The highlights included modernization of the Barra do Riacho mills and the Guaíba expansion project, with the goal of making the unit more competitive globally in terms of volume and helping reinforce Aracruz's market leadership position.

A project to duplicate Veracel (a joint-venture with Stora Enso) is to be analyzed by the Board of Directors in 2009. The plan is to add 700,000 tons per year to Aracruz's total capacity, which is the portion that corresponds to the Company's 50% stake in the Veracel project.





At Portocel, some US\$50 million in capital expenditures were carried out, designed to expand its logistical structure to support Aracruz's projected production increases. New investments will be made over the next few years in line with the Company's commercial strategy to establish long-term relationships with its customers.

During its 40 years existence, Aracruz has always invested in the research and development of technologies whose advances have contributed to its improved competitiveness and reinforces the Company's prominence in the world forestry sector.

Over the last 12 years, Aracruz tripled its pulp production capacity. Its growth strategy calls for a continuous increase in the amount of pulp it produces, with the goal of supplying 25% of the world demand for hardwood market pulp – estimated at 7 million tons – in 2015. This means more than doubling our current capacity of 3.2 million tons/year.

In order to carry out this strategy, Aracruz increasingly has invested in integrated actions that stimulate a favorable business environment with all stakeholders, seeking to create the conditions to achieve its objectives.



Value Creation

IN ONLY FOUR DECADES, ARACRUZ HAS BECOME A WORLDWIDE PULP INDUSTRY BENCHMARK, GROWING CONTINUOUSLY AND FOCUSED ON OPERATIONAL EXCELLENCE AND SUSTAINABILITY. THE SUCCESS OF ITS STRATEGY HAS BEEN REFLECTED IN CONSECUTIVE PRODUCTION AND SALES RECORDS, STRONG CASH GENERATION, DISTRIBUTION OF INCREASINGLY HIGHER LEVELS OF DIVIDENDS TO SHAREHOLDERS, AND THE CONTINUOUS CREATION OF VALUE FOR SOCIETY.

Governance

Code of Conduct

In 2007, the Board of Directors approved the new version of the Aracruz Code of Conduct, which incorporates the ethical principles consecrated in the Company's "Mission, Vision and Principles" statement.

Prepared by a group representing different Company areas, and supported by specialized consultants, the work will be consolidated in 2008 through a series of actions designed to implement and disclose the statement among stakeholders. Designed to improve governance and the Code's application, the Board of Directors approved the creation of a Conduct Committee in May, replacing the former Disciplinary Committee.

Aracruz's "Mission, Vision and Principles" statement, as well as other information about the Conduct Committee and the full text of the Code of Conduct, can be found on the CD that accompanies this report and in our website: www.aracruz.com/aracruz.

Internal controls

During 2007, the procedures required to maintain effective internal controls that are also compatible with the requirements of the Sarbanes-Oxley Act (SOX) were duly observed. Independent auditors evaluated these controls and did not encounter any materially relevant deficiencies or weaknesses, issuing their opinion without reservations.

Anonymous communication

Aracruz has a channel for anonymous communication with a total guarantee of secrecy, managed by an independent company. Any information obtained through this channel is directed either to the Conduct Committee or to the Audit Committee, which are totally independent of Company management. During 2007, a single anonymous communication was received, concerning a doubt about the Company's internal regulations. The channel itself clarified the query. Among other actions, the Audit Committee conducts separate meetings with the independent auditors to check if the Company's internal controls follow appropriate practices to avoid occurrences of fraud and other practices contrary to the Code of Conduct, including at the top management level. In addition, the independent auditors frequently question the Audit Committee regarding knowledge about any type of fraud or any other irregular action committed by the Company's management. No occurrences have been reported.

Services provided by the independent auditors

Aracruz's relationship with its independent auditors regarding other services related to external audits is based on the principle of preserving the auditors' independence. In 2007, the Company hired these auditors for other work not directly connected to the audit of the financial statements, for approximately US\$23,000, which represented 3.4% of the total compensation for external auditing services.

Aracruz adopted as a formal procedure, prior to contracting other professional services not related to the external audit, that it consults with its independent auditors to ensure that the provision of said services will not affect the independence and objectivity necessary for the performance of their independent audit services, as well as to obtain Audit Committee approval.

Sustainability Committee

The Sustainability Committee, which assists the Board of Directors, recently added two independent members: Worldwide Fund for Nature (WWF) counselor, Prof. Claudio Padua, and forestry engineer and former governor of the State of Acre, Jorge Viana.

Risk management

Aracruz's corporate risk management process is an essential tool for optimizing its use of capital and determining the best business opportunities to ensure the best risk-return ratio for its shareholders.

The continuous and integrated risk management process is designed to identify, evaluate, and manage the risks related to strategic, operational, financial, legal, and environmental factors, making a direct contribution to the sustainability of the business.

In 2007, we improved our risk management methods based on best business practices, and we prepared a specific corporate risk management policy that the Board of Directors is expected to approve in 2008.

Details of the risks associated with Aracruz's activities can be found on the CD that accompanies this report and also are contained in the online version available at www.aracruz.com/2007sustainabilityreport.

Global situation

The world economy maintained its pace of expansion during 2007, providing a positive climate for the paper and pulp industry despite uncertainties regarding the U.S. economy.

Worldwide demand for paper and board rose by 2.7% over the previous year, surpassing 390,000 million tons. In North America, Europe, and Asia, the main consuming markets, growth was reported in all types of paper produced from market pulp – printing and writing, tissue, and specialties.

Demand for eucalyptus pulp grew by more than 17% – equivalent to 1.4 million tons – driving the entire market pulp sector, which rose 5% over 2006.

The scarcity of pulp throughout the distribution chain affected supply, which contributed to the reduction of stocks held by world market pulp producers. A number of convergent factors, such as scarce fiber supply, maintenance shutdowns, and technical problems in some production facilities – as well as currency exchange issues – led to this supply reduction.

Despite capacity expansion projects expected in Latin America, the pulp market should remain in balance over the next few years, with an increase in demand for eucalyptus fiber. This is expected to generate continuity in an environment that is favorable to Aracruz's achieving its growth strategy.

Economic and financial performance

In 2007, Aracruz reported net income of US\$422 million, a 7% reduction compared to US\$455 million net income in 2006, with before tax income totaling US\$619 million, 18% higher than the previous year.

Net operating revenues were impacted by an 8% increase in the average net pulp sales prices and 3% of higher pulp sales volume, representing a new record (3.1 million tons in 2007).

Operating expenses declined 31% compared to 2006, mainly due to a recovery of part of the ICMS (Brazilian value-added tax on sales and services) credit through sales to third parties.

Operating cash generation (measured by EBITDA adjusted by other strictly accounting postings, without an impact on the cash balance), was US\$796 million, 8% up the US\$736 million achieved in 2006.

Financial expenses were 33% lower than in 2006, mainly as a result of expenses involving the anticipated liquidation of the securitization program in 2006. During the period, the rating issued by the Moody's risk classification agency was raised by one more point, to Baa2, which is equivalent to the assessments made by Standard & Poor's and Fitch.



Financial revenues remained stable, favored by a US\$96 million gain in derivative operations (hedge). As a measure designed to protect cash flow exposure, the Company continued to use derivative operations to hedge against the appreciation of the real. At the end of 2007, the sold position in dollars on the Brazilian Mercantile & Futures Exchange was equivalent to US\$150 million.

Currency remeasurement represented a gain 88% lower than that of 2006, mainly due to the higher appreciation of the real during the period (17% in 2007 against 9% in 2006).

Net indebtedness, comprised of total gross debt less cash, was up 33% (or US\$220 million) in comparison with 2006, mainly due to greater capital expenditures, payment of dividends, and interest on stockholders' equity (ISE) partially offset by positive operational cash generation. Aracruz's cash position as of December 31, 2007, in the amount of US\$526 million, represented six times the short-term debt's principal of US\$88 million, reflecting the Company's favorable debt profile.

Share information

Dec 31, 2007

Total number of shares	1,030,587,806
Common shares	454,907,585
Preferred shares	575,680,221
ADR (American Depositary Receipt)	1 ADR = 10 PNB shares
Market capitalization	US\$7.7 billion
Average daily financial volume traded - 2007 (Bovespa and NYSE) *	US\$41 million

* Source: Bloomberg.

Capital markets

In May, Aracruz commemorated its 15th anniversary of listing its ADRs on the New York Stock Exchange (NYSE).

Aracruz's average daily share trading volume on the Bovespa and the NYSE reached US\$41 million, 62% higher than in 2006.

The Company's market capitalization was US\$7.7 billion at the close of 2007, 21% higher than in 2006.

Dividends and ISE

In 2007, US\$156 million was distributed in the form of interest on stockholders' equity (ISE), as anticipation of annual mandatory dividends for the fiscal year of 2007, of which US\$32 million was declared on March 21, US\$40 million on June 19, US\$40 million on September 18 and US\$44 million on December 21, in compliance with Article 9 of Law 9.249/95.

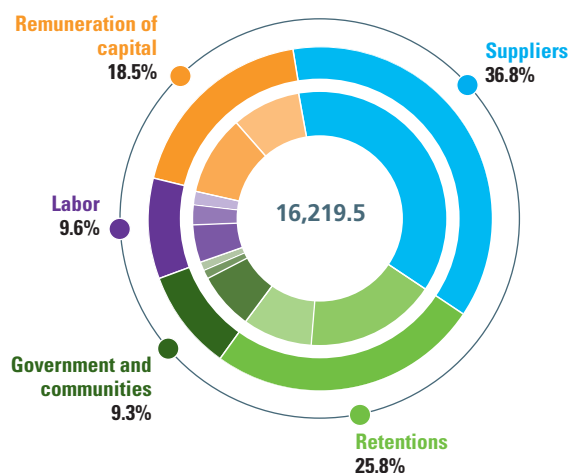
In addition to the different declarations of ISE based on the 2007 fiscal year, Management also proposed payment of US\$113 million in dividends, to be submitted during the General Shareholders Meeting (to be held in April, 2008). If this is confirmed, the total distribution for fiscal 2007 will be US\$269 million, or US\$0.27 per PNB share.

Earnings and employment

Aracruz's activities generate foreign exchange earnings, income, and mainly jobs for the country.

According to the study entitled "From Trees to Homes," prepared by the Getúlio Vargas Foundation (FGV), the Company's activities drive a large chain of production, which leverages social and economic development in the regions where it has operations, being responsible for more than 95,000 direct and indirect jobs.

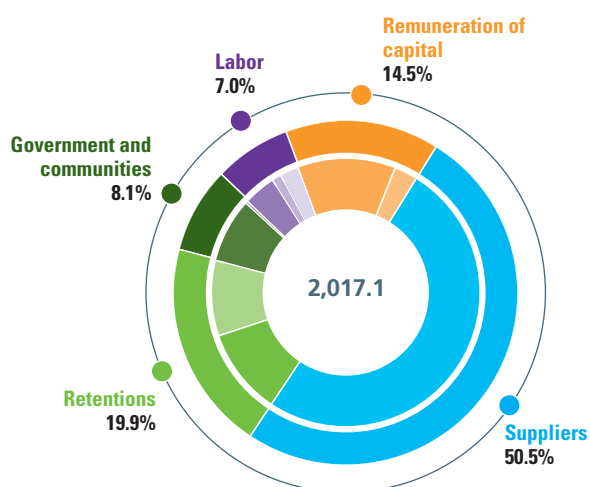
Use of resources generated in 1989-2007
US\$ million



Suppliers	5,969.9
Materials and services purchased	5,969.9
Retentions	4,177.9
Depreciation, amortization and exhaustion	2,805.8
Retained result	1,372.1
Remuneration of capital	2,995.2
Financial expenses	1,539.0
Dividends and interest (on own capital)	1,456.2
Labor	1,560.5
Payroll	876.7
Compulsory benefits, except social security	262.9
Voluntary benefits	420.9
Government and communities	1,516.0
Taxes and contributions, including social security	1,390.3
Infrastructure	66.4
Community projects, donations and other social demands	59.3
Total resources generated	16,219.5

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Use of resources generated in 2007
US\$ million (*)



Suppliers	1,018.6
Materials and services purchased	1,018.6
Retentions	401.2
Retained result	183.6
Depreciation, amortization and exhaustion	217.6
Remuneration of capital	292.0
Dividends and ISE	238.5
Financial expenses	53.5
Labor	140.7
Payroll	75.6
Compulsory social taxes except social security	20.6
Voluntary social taxes, except social security	44.5
Government and communities	164.6
Taxes and contributions, including social security	158.1
Donations and social demands	6.5
Total resources generated	2,017.1

* The chart presents the resources generated in 2007 according to the Added Value Demonstration criteria, based on the results of the year.

In 2007, Aracruz's activities generated more than US\$2 billion. A significant portion, about US\$1 billion, was earmarked for the purchase of raw materials, products, and services sourced preferentially from local suppliers, nourishing an entire chain of wealth production.

In the last 12 years, Aracruz has grown at a 10% average annual rate. From 1989 to 2007, the Company generated some US\$16.2 billion, helping drive the development in regions where it is present.

The complete FGV study is available through our website:
www.aracruz.com/pdf/arquivofgveng.pdf

Jobs

At year's end, Aracruz was responsible for maintaining 12,010 direct employees, of which 2,495 are its own employees and 9,515 are workers who are outsourced through enterprises that permanently render services to the Company.

Aracruz favors hiring employees in the regions where it operates, a policy designed to stimulate the economic development of local communities. At the end of 2007, employees from Espírito Santo, Bahia, and Rio Grande do Sul states represented 78% of the total labor force.

Its own employees are represented by seven labor unions in Espírito Santo, Bahia, São Paulo, and Rio Grande do Sul and are covered by collective bargaining agreements established with the unions that represent them. Employees are free to join unions under Brazilian legislation.

The chart on the following page presents consolidated data on Aracruz's job maintenance in 2007.



Employees - 2007 consolidated data

Own	2,495
Aracruz Celulose S.A.	2,303
Barra do Riacho Unit	1,785
Guaíba Unit	496
International subsidiaries	22
Portocel - Terminal Especializado de Barra do Riacho S.A.	192
Permanently outsourced workers	9,515
Barra do Riacho Unit	6,960
Guaíba Unit	2,555
Total direct jobs	12,010

Labor compensation (own employees)

US\$ thousand

Wages	75,561
Compulsory social taxes	38,983
Benefits	44,589
Employee profit share	13,793
Medical assistance	8,253
Meals and basic food provisions	4,832
Transportation	5,670
Professional training	2,946
Private retirement plan	3,689
Other benefits	5,406
Total	159,133

Selected statistics

Admissions	289
Nominal average wage	3,801
Basic wage	720.79
Hours dedicated to training and professional development activities	105,697
Hours of training and development per employee	42
Number of beneficiaries assisted by the health plan	7,327
Number of medical consultations under the health plan	33,704
Number of occupational health consultations	2,348
Number of occupational health exams	30,154
Number of days spent in hospital covered by the health plan	817
Number of meals served	2,183,325
Own employee turnover index (%)	1.52
Percent of employees covered by union collective bargaining agreements (%)	97.4
Lowest salary at Aracruz x annual compensation based on minimum wage in effect in the country	2.23
Percentage of women in Company's workforce (%)	12
Percentage of Caucasians* (%)	68
Percentage of Afro-Brazilians and mixed race* (%)	31
Others - Asian/Indigenous* (%)	1
Percentage of employees with disabilities (%)	5
Average age of employees	37
Average time in the Company	12

*According to IBGE criteria.

Turnover in 2007

Monthly average

Annual total

Admissions	24	289
Departures	13	154
Effective average	2,435	2,495
Average accumulated turnover	1.5%	9.1%

Education

Numbers

%

Completed Grade School	207	8
Completed High School	1,510	62
Completed University	505	21
Specializations (postgraduate, masters and doctorate)	215	9

Capital expenditures and investments

In order to achieve the growth necessary to reach its long-term objectives, in 2007 Aracruz made capital investments totaling US\$712.5 million, an amount that was 119% higher than the previous year, with the following highlights:

Barra do Riacho Unit

A modernization project was concluded that boosted pulp production by 200,000 tons per year, with the facility now able to produce 2.33 million tons/year. This modernization was carried out during periodic shutdowns and was concluded in record time, with a minimal impact on the unit's annual production. As a result, it is expected there will be approximately US\$5/ton overall reduction in the cost of production due to economies of scale and a reduction in raw materials consumption.

Guaíba Unit

Aracruz intends to build a new bleached eucalyptus pulp mill next to the existing one, increasing the total production capacity of the unit to 1.8 million tons per year of pulp. The two mills will be integrated and will incorporate the most advanced environmental protection technology currently available. The total investment in the mill is estimated to be US\$1.8 billion.

The Guaíba Unit will have a private pulp export port terminal in São José do Norte (SJN), which will meet all of the needs of the two mills. The production of pulp will be shipped from the mills to the port at SJN on barges.

The unit's new forestry base will increase to 121,000 hectares of eucalyptus plantations, along with 87,000

hectares of native reserves earmarked as permanent protection and legal reserves. Furthermore, Aracruz is expected to lease property for third-party plantations and to establish Forestry Partners Program arrangements.

Portocel

With investments estimated at US\$80 million, the terminal's total pulp shipping capacity will be increased to 7.5 million tons per year in 2009. The first phase of the project includes construction of a new berth for vessels, a new pulp barge terminal, a sixth pulp storage warehouse, and dredging the channel to handle ships with 12.5 meters of draft, as well as operational improvements and technical adjustments.

Aracruz and Cenibra, the terminal's shareholders, are studying the implementation of a second stage in the expansion project, scheduled to occur between 2010 and 2026, representing a US\$244 million investment. This stage calls for the construction of four more berths, two warehouses, and a new rail spur that would raise the terminal's total annual shipping capacity to 17 million tons.

2007 capital expenditures and investments

	US\$ million
Silviculture	146.5
Purchase of land and forests	140.3
Other forestry investments	30.9
Current industrial investments	51.6
Modernization projects (Guaíba and Barra do Riacho units)	155.1
Investments in Portocel	50.1
Others	15.2
Total capital expenditures	589.7
Aracruz capital increase in affiliated companies	122.8
Total capital expenditures and investments	712.5



Veracel

The Aracruz Board of Directors will decide upon the Veracel duplication project in 2009, with about 70% of the forestry base required for the increase to be acquired by the end of 2008. The new line will have the capacity to produce 1.4 million tons/year of pulp, raising the unit's nominal production capacity to 2.3 million tons/year (50% for each partner, Aracruz and Stora Enso).

Social investments

Aracruz 'Bem de Raiz' Institute

The Aracruz 'Bem de Raiz' Institute was created to improve the management of the Company's social investments. The Institute's objective is to foster sustainable community development, based on the strengthening of human, social, and economic capital.

The Institute will concentrate on critical communities located in areas where Aracruz has its operations. Legally registered in 2007 and scheduled to begin activities in 2008, the Institute's investment focus will be education and income generation, directing assistance on a priority basis to needy communities.

Social projects

A number of programs that Aracruz supports or has developed proceeded during the year. The emphasis has been projects focused on education, health, safety, food safety, local productive arrangements, and social inclusion, resulting in investments of about US\$6.5 million.

The following are the main results of some projects; the full list can be found on the CD that accompanies this report as well as in its online version.

Formar Project – This program for the training of literacy teachers, developed by Aracruz, was conducted in 20 municipalities in Espírito Santo and Minas Gerais. In 2007, the program certified 755 teachers, indirectly benefiting 12,074 students, which corresponds to 16% of the students in the public elementary schools in the municipalities encompassed by the project. Over its 10-year existence, Formar has significantly contributed to a deeper understanding of literacy teaching practices, with gains for thousands of teachers and students. Aracruz believes that the initiative has fulfilled its role and, as of 2008, a new program will be introduced that is designed to reduce illiteracy levels in the regions where the Company is present.

Cover the World in Green – This partnership with Porto Alegre's Iguatemi Shopping Center began in 1980. It strives to involve the local community in environmental preservation and awareness actions. Among other activities, the project conducts environmental education classes in schools and explains the pulp production process and how environmental management works. In 2007, the project involved 33,000 persons and 100,000 tree seedlings were distributed.

Awaken – Fourteen sessions were conducted on citizenship and preventive actions/guidance regarding chemical dependence (alcohol and drugs) involving approximately 1,545 middle school students in 14 communities in the municipalities of São Mateus, Conceição da Barra, Fundão and Aracruz in Espírito Santo, and Mucuri, Caravelas and Nova Viçosa, in Bahia.

Community Tree Nurseries – The Angelim II (ES), Ibirapuã and Aparaju (BA) community tree nurseries involve 25 families. Activities included improvement of the Aparaju site and computerization of the facilities. Furthermore, a tree nursery operator course was taught, graduating 32 persons. The seedlings produced and sold to Aracruz by

the community nurseries involved 492,000 of eucalyptus and 343,000 of native species and generated US\$109,000 in revenues. Aracruz also operates two other tree nurseries with social objectives in Espírito Santo – one at the Viana Agricultural Penitentiary and the other in Linhares, as part of the Children of the Earth Project.

Agro-forestry system – The planting of beans, manioc, and corn between rows of young eucalyptus trees (in the first two years after planting) in Espírito Santo has been developed in Assentamento Nova Esperança and Cachoerinha do Riacho in the municipality of Aracruz. In 2007, the project generated approximately US\$670 supplemental income for each of the 23 farmers involved.

The ComUnidade Program – A partnership between Aracruz Celulose, Suzano Papel e Celulose, and the Consórcio Parceria 21 (made up of the Brazilian Municipal Administration Institute, the Social Institute for Religious Studies and the Human Development Network), the program's objective is to stimulate the development of local productive arrangements that help improve the quality of life in Cruzelândia, Nova Brasília and Oliveira Costa (Mucuri) in Espírito Santo; and Cândido Mariano (Nova Viçosa), Juerana (Caravelas) and Taquari (Alcobaça) in Bahia.

The actions include the structuring of the charcoal chain of production, the encouragement of cooperatives and associations, and the insertion of community activities into companies' chains of production. At the end of its first year in operation, three charcoal workers' associations already were constituted along with a seamstress cooperative in Juerana. Moreover, a community vegetable garden was initiated in Oliveira Costa. The investments in the first phase totaled US\$564,000, with half donated by each of the two companies. For 2008, actions are scheduled to increase government participation and to seek new financing sources.

Volunteer activities – In 2007, the Aracruz Volunteer Program completed its fourth year with its participants conducting volunteer actions benefiting some 22,000 persons. The activities included support of senior citizen homes and orphanages, visits to hospital patients, and a Christmas campaign that in 2007 collected 63 tons of foodstuffs – seven more tons than the previous year. Employees and service providers from Aracruz and Portocel donated 27.7 tons, which was matched with 27.7 donated by Aracruz Celulose. Partner companies donated 8 tons.

The Mini-Company Program, an initiative of the Junior Achievement NGO, is also a part of the Volunteer Program. The purpose is to help students learn first-hand about business and commerce by setting up and managing a company. In 2007, 6 Aracruz volunteers provided guidance for 32 teenagers enrolled at the Monsenhor Guilherme Schmitz School located in Aracruz (ES) in setting up a small company, Papelarte, which produced and sold articles made from newsprint.

Training – In 2007, the Forestry Machinery Maintenance Operator course was conducted in 28 municipalities in Espírito Santo and Bahia. Some 366 operators graduated from the course and 278 are now working as harvest operators for Aracruz. The certification of the participants allows them to develop professional skills necessary to achieve production gains in the operation.

Another project is the Pulp Manufacturing Training Program, a partnership with the National Industrial Learning Service of Paraná (Senai-PR). Some 45 persons were selected for the program from a group of 1,500 candidates. The classes were held at Company facilities in Aracruz (ES). The course includes three months of classroom theory, three months as an apprentice, and one year as a trainee operator in an Aracruz industrial area.

In 2007, Aracruz and Portocel, together with 14 partner companies that provide them with services, hosted 65 students from the Logistics Techniques Course run by the Faculdade Casa do Estudante, of Aracruz (ES). The trainee program is part of the course curricula, which is part of the Espírito Santo government's Professional Qualification Program, a partnership with the Espírito Santo em Ação NGO and the Private Teaching Establishments Syndicate (Sinepe-ES). The program involves five vocational courses of six educational institutions with 700 students in the state public school system.

The full list of the projects that were managed or supported by Aracruz in 2007 can be found on the CD that is part of this report or in its online version www.aracruz.com/2007sustainabilityreport.

Intangible assets

As part of its sustainable growth strategy, Aracruz manages the various aspects of its intangible assets involving personnel, commercial and social matters. The Company's actions in this regard are designed to reinforce its role as an agent of development for the country.

Employees' perceptions

For the fourth consecutive year, Aracruz was cited as one of the best companies to work for in Brazil, on the list published by *Guia Exame Você S.A.* This demonstrates the perception of our employees that they are provided a healthy workplace that fosters innovation and personal development.

Customers' perceptions

A new satisfaction survey of the Company's customers was conducted by a specialized consulting firm. The results showed a high level of satisfaction in the products, services, and assistance Aracruz offers.

All individuals interviewed (85% of the customer base) in the survey conducted in 2007 affirmed they were very satisfied with our products and services, attributing an average grade of 4.1 on a scale in which 5 represented the highest level of satisfaction. This result, when compared to the average satisfaction level achieved in 2004/2005, of 3.7, demonstrates that the actions implemented for the continuous improvement of the quality of our products and services have been recognized and appreciated by our customers.

The survey evaluated the quality of the pulp and technical and logistical services rendered as well as commercial and corporate aspects, such as Aracruz's relationships with stakeholders.

The factors that most contributed to the good result were related to pulp quality (uniformity, cleanliness and whiteness) and services (logistics, sales and technical assistance), as well as corporate aspects linked to the Company's image (trustworthy, supply guarantee, communication and long-term relationship).

Despite the excellent level of satisfaction regarding these aspects, Aracruz understands that others could still be improved and will be the focus of specific action plans. The analysis of the results of this survey will help the areas of the Company involved with customer service to improve a number of aspects and to drive us toward continuously enhancing customer satisfaction.

Ratings

Aracruz's risk classification, already at an investment grade rating by Moody's, Fitch, and Standard & Poor's, was further elevated during the year. Moody's Investor Service raised Aracruz Celulose S.A. global scale issues rating ("Aracruz") from Baa3 to Baa2 and its local currency classification from Aa1.br to Aaa.br. This gives Aracruz one of the best rating/outlook classifications among the world's paper and forest products companies.

Communication

During the year, the Company further enhanced its communication program to improve the knowledge about the Company and enhance its image with its many audiences at regional and national levels. In this context, the Deeply-Rooted Assets Institute is expected to be of fundamental importance in reinforcing this work and obtaining synergies for Aracruz's many social and environmental actions.

Deeply-Rooted Assets – With the assistance of a specialized consulting firm, Aracruz conducted a series of

surveys and studies in 2007 which uncovered the need to better structure the Company's social and environmental initiatives. While the Company has been carrying out social and environmental activities for over 40 years, the study revealed opportunities to optimize investments and reinforce its communication process.

With this basis, the Deeply-Rooted Assets (Bem de Raiz) concept and visual identity was developed to make the Company's efforts more cohesive and provide a better perception of its commitment to social and environmental responsibility – thus reinforcing the Aracruz brand as an asset that represents the real contribution the Company makes in generating value for society.

The Deeply-Rooted Assets master brand will spawn a number of sub-brands that will identify the Aracruz Deeply-Rooted Assets Institute and its programs, projects and social and environmental actions, the Forestry Partners Program, the Volunteers Program, and our employee quality of life program, among others.

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Why Deeply-Rooted Assets?

The expression Deeply-Rooted Assets stems from the natural and direct affinity between Aracruz and its raw material: the eucalyptus tree. It is an expression used in Civil Law to define "those assets that cannot be removed from the land, under the threat of fragmentation, for being constituted by or incorporated into it (urban and rural buildings, etc.)." Deeply-Rooted Assets are a legacy for future generations. Moreover, it is a name that reinforces Aracruz's Brazilian roots.



Media exposure

Aracruz's presence in the media in 2007 returned to its historical level of the past few years. The positive Press Visibility Index fell by one-third compared to 2006, a year in which exposure in the media rose nearly 50% due to episodes related to demands and conflicts involving the Company's lands, along with implementation of a corporate strategy to proactively make its position on these issues public. In 2007, the Company had the lowest negative visibility (less than 1% of the total exposure) since this survey began in 1998.

Considering the general exposure that the land dispute issue received in the media during 2007 – despite continued invasions of productive property by the movements that disputed ownership of the land in Brazil – the conflicts garnered less media attention, due in part to their repetition. In Aracruz's specific case, this reduction in media attention also resulted from the repudiation by some factions of society of the violent acts staged against the Company in 2006. The reduction in tensions brought about by negotiations with the indigenous communities, leading to an agreement that was signed at year's end, should be mentioned.

As part of its communications strategy in 2007 and in line with the Company's commitment to the principles of sustainability, Aracruz's press relations activities were integrated into other initiatives, including the Company's advertising campaign.

Image evaluation

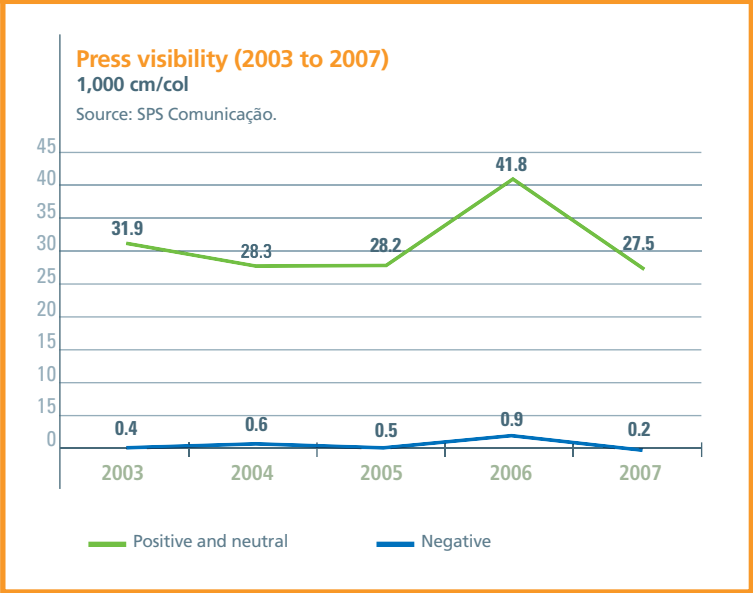
In 2007, Aracruz registered a slight average reduction in favorable image as seen by the people living in communities neighboring the Company's operations. The index of residents rating the Company either "excellent" and "good" decreased slightly from 70.42% to 69.19%, with the decrease coming from residents in Bahia.

The perception in Espírito Santo, however, increased to 72.86% from 69.62% over the same time period. This improvement can be partially attributed to the solution of the land dispute question with the indigenous communities of the state.

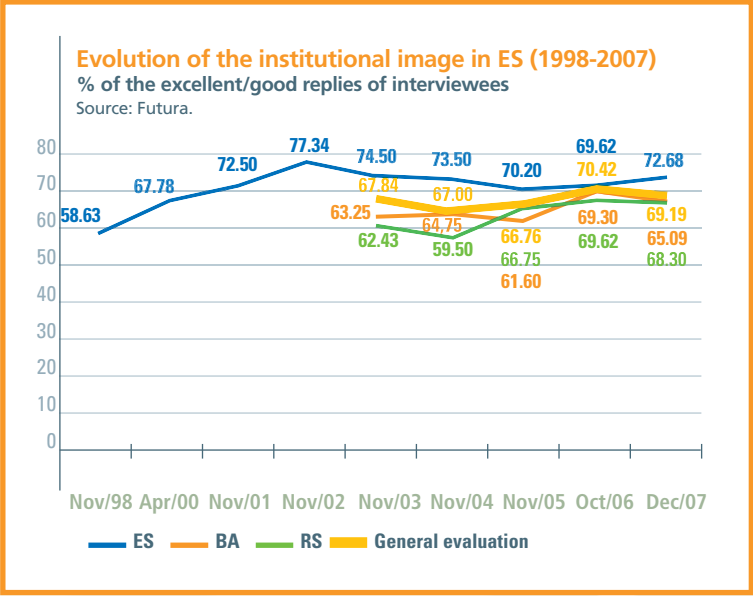
In Bahia, the positive image slipped to 65.09%. The Company is evaluating the survey results to identify the key factors and to structure better links to the community. The training of more than 80 employees in engagement practices was among the efforts made during 2007 along these lines.

The survey revealed the maintenance of a good image level in Rio Grande do Sul, where 68.3% of those interviewed viewed the Company's image as being "excellent" or "good." The region already has a forest plantation culture and the new investments in Guaíba (such as the new pulp production line) also contribute to fostering this favorable image.

The chart on the right presents the main results of the 2007 survey.



The chart presents Aracruz's positive, negative, and neutral mentions in about 100 national and regional communication outlets (newspapers and magazines). The positive mentions are those that register matters that are either positive or of interest to the Company, and the negative mentions are those in which the Company is cited in an unfavorable context.



The chart presents the results of image surveys conducted in 2007 in the regions where the Company operates. A total of 1,681 persons were interviewed (of which 608 were in Espírito Santo, 401 in Bahia and 672 in Rio Grande do Sul).



Customer Satisfaction

IN ITS 40th YEAR OF BUSINESS ACTIVITIES, ARACRUZ MAINTAINED ITS LEADERSHIP POSITION IN THE EUCALYPTUS PULP INDUSTRY – THE OUTCOME OF A STRATEGY THAT EMPHASIZES INCREASING THE VOLUMES WE OFFER THE MARKET WHILE SOLIDIFYING LONG-TERM RELATIONSHIPS WITH OUR COMMERCIAL PARTNERS.



Pulp production

In 2007, our three industrial units repeated the result of the previous year, producing 3.1 million tons of pulp. The production of each unit is shown in the chart on page 40.

The Barra do Riacho Unit's capacity was increased. In 2008, 2.33 million tons of pulp is planned to be produced. The capacity upgrade and equipment modernization was carried out during regular shutdowns of the mill and in record time, with a minimum negative impact on annual production.

Veracel's increase in production was a highlight of the year, reaching 1,051,000 tons in 2007. This exceeded the nominal design capacity of 900,000 tons/year by 17%.

Aracruz's sales in 2007 remained above 3.1 million tons, consuming the entire amount produced during the period and maintaining the balance between production capacity and sales volumes.

Distribution logistics

The European market continued to represent the largest portion of Aracruz's sales volumes, with a 41% share. The North American and Asian markets maintained their significant shares as well, at 34% and 23% respectively. Aracruz believes the Asian market has the potential to continue increasing its overall share in future years.

Aracruz made a series of important investments to improve its logistics processes in order to assure the efficient distribution of greater volumes of pulp to its customers.

Among these investments was the completion of a standardization process for unloading pulp in all ports where Aracruz operates. Now, the entire loading and unloading process of pulp that is transported by ship is conducted directly by the Company, ensuring faster deliveries to customers.

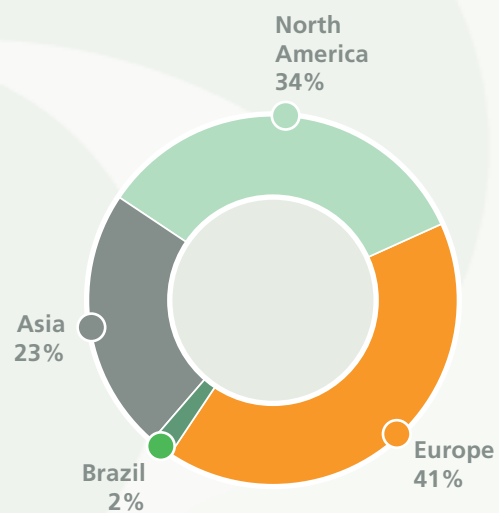
The increase in the ship draft at Portocel to 12.5 meters was confirmed. This will allow the private terminal to efficiently load all types of specialized vessels used to transport forestry products, improving the freight contracting process and making it more flexible.

As part of the terminal expansion investment, two new barge berths for finished products (wood and pulp) were commissioned. A one-day pulp shipping record of 35,000 tons was set.



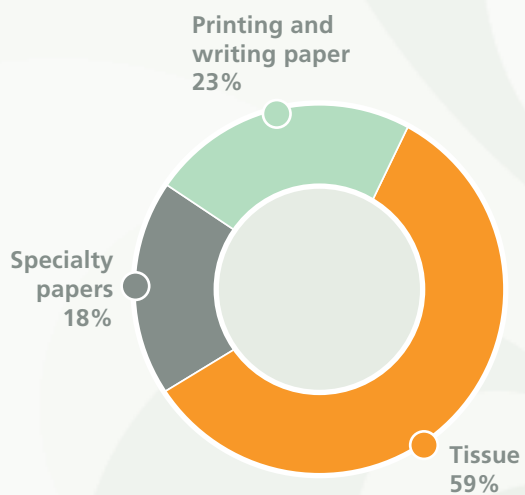
Geographical distribution of sales

Source: Aracruz Celulose, 2007.



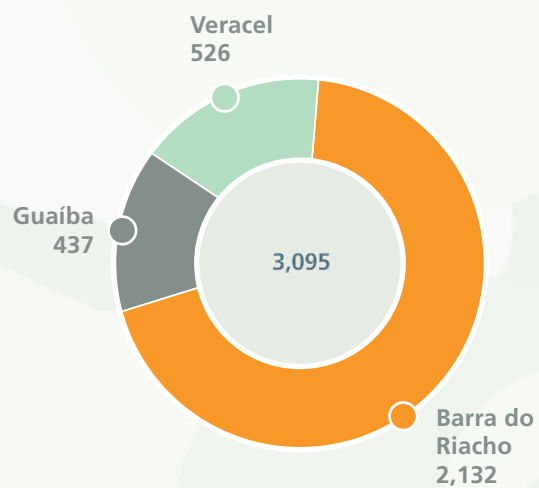
Sales by end use

Source: Aracruz Celulose, 2007.



Pulp production per unit (thousand tons)

Source: Aracruz Celulose, 2007.



Customer relationships

We continued the program to improve relationships with our customers through the Internet, implementing a tool on the website dedicated to them. This feature enables customers to provide us with a monthly demand forecast. On the technical support side, an option for inquiries based upon order number was instituted, speeding up the information exchange process.

In the process of updating our SAP software, we chose to interrupt the procedures that had been used to liberate new customers in view of the fact most information

available on the website comes from SAP-based data. The implementation of the new system implies reviewing all procedures for the extraction and publication of this data. The process will be resumed as soon as the SAP implementation has been concluded and the website is integrated with the new version of the platform.

To better support Asian customers, Aracruz set up a technical assistance department in its Hong Kong office. The department helps the Company follow up more closely the performance of its pulp with Asian customers and to offer responsive technical support.



Internal Processes

ARACRUZ IS COMMITTED TO CONTINUOUS IMPROVEMENT OF THE EFFICIENCY OF OUR INTERNAL PROCEDURES TO ENSURE ENHANCING THE QUALITY OF PRODUCTS AND SERVICES WE OFFER, AS WELL AS REINFORCING SOCIAL AND ENVIRONMENTAL RESPONSIBILITY THROUGHOUT THE ENTIRE CHAIN OF PRODUCTION.

Research and development

Our forestry research in 2007 led to the creation of 12 new higher productivity eucalyptus clones for the Company's units as well as better quality wood that satisfies our customers' requirements. During the year we issued a first-time recommendation to use the *E. urophylla* x *E. dunni* hybrid clones in the Guaíba Unit's plantations in Rio Grande do Sul.

Other highlights included a series of studies related to Aracruz's environmental sustainability, especially regarding climate change.

Our industrial technology development efforts were intensified to differentiate our pulp, including assessment of alternative, non-conventional technologies such as using additives and techniques to introduce alterations to the surface of fibers. The results obtained in 2007 made it possible to confirm the potential of the differentiation of Aracruz's pulp for the manufacturing of tissue, printing and writing, and specialty papers.

We also intensified technological prospecting efforts in several different areas, mainly bioenergy and bioproducts, environmental control technologies, and cutting edge technology, such as those related to surface chemistry.

Forestry operations

Land management

Aracruz invested in scientific studies about the influence of forestry management with regard to the quantity and quality of organic matter found in the soil of its eucalyptus plantations. This component is considered one of the main indicators of soil quality.

The preliminary results of the studies, which were coordinated by the Federal University of Viçosa with the participation of a number of Brazilian pulp and charcoal producers, show evidence that the eucalyptus trees could be a good option for recovering organic matter in degraded areas. Furthermore, intensive management to obtain high wood productivity has contributed to increasing organic matter in the soil.



These studies are proving useful for establishing environmental indicators for predicting productivity and to help making decisions about more sustainable silvicultural practices from both economic and environmental points of view.

At the Guaíba Unit, another important study, in partnership with the Federal University of Lavras, involved soil mapping of the expansion areas and measurements of potential erosion and impact of harvesting equipments.

Forestry Partners Program

At the end of 2007, the Forestry Partners Program had 96,300 hectares of land under contract. Of this total, 92,700 hectares were connected to the Barra do Riacho Unit and 3,600 hectares were in use for the Guaíba Unit. The total area under cultivation reached 90,000 hectares, involving 161 municipalities in the States of Espírito Santo, Bahia, Minas Gerais, Rio de Janeiro, and Rio Grande do Sul.

Aracruz intends to boost the supply of wood it receives from its partners' plantations. Toward this end, in 2008 the Forestry Partners Program is expected to contribute approximately 23% of the Company's total wood supply.

Forestry certification

The Bureau Veritas Certification conducted audits during 2007 to maintain forestry management and chain of custody certification under the CERFLOR rules (NBR 14789 and NBR 14790) for the entire forestry base that Aracruz owns. This certification attests to the fact that all

the raw material used, at minimum, derives from 70% of wood that is grown using sustainable forestry management practices, while the rest is from non-controversial sources.

In 2007, Aracruz studied the procedures to match its forestry management system to FSC principles and criteria. The Company is evaluating possible certification through this system. This decision will be taken following a process that will involve discussions with a number of stakeholders regarding possible dual certification of the Company.

Nurseries

The Aracruz Regional seedling nursery (ES) concluded the implementation of technological and management changes that resulted in an increase in productivity, improvement in the quality of the seedlings destined for planting, and environmental and ergonomic enhancements of the production process. The work required an investment of about US\$3.5 million. Improvements in the processes for reutilizing water and final disposal of effluents will be concluded during the first half of 2008.

Aracruz plans to build a new nursery in the municipality of Nova Viçosa, Bahia with capacity to produce 30 million eucalyptus clonal seedlings per year. Construction is scheduled to begin in February 2008 after successful conclusion of the environmental licensing process. The investment is budgeted at about US\$12 million and is slated for conclusion in October 2008.

Forestry operations

Land use

		UBR (ES/BA/MG)	UG (RS)	Total
Eucalyptus plantations	ha	211,229	74,870	286,099
Native reserves	ha	128,621	41,570	170,191
Other uses*	ha	19,973	9,934	29,907
Ratio eucalyptus plantations / native reserves		1.6	1.8	1.7

Eucalyptus

Seedling production	1,000 un	61,702	50,823	112,525
Seedling planting	1,000 un	50,900	18,627	69,527
Seedling donations	1,000 un	5,815	135	5,950

Native species

Seedling production	1,000 un	572	158	730
Seedling donations	1,000 un	277	107	384

Harvest

Average age of wood for pulp	years	6.4	9.7	
Average harvest cycle of own forests for pulp	years			6 to 8

Forestry Partners Program

		ES/BA/RJ/MG	RS	
Area contracted	ha	92,701.1	3,616.3	96,317.4
Area planted	ha	86,982.6	2,852.9	89,835.5
Number of contracts	un	3,787	120	3,907
Average area per contract	ha/un	24.48	30.14	24.65
Number of municipalities	un	132	29	161

* Firebreaks, roads, installations.

UBR – Barra do Riacho Unit

UG – Guaíba Unit

ha – hectare

un – unit

ES – State of Espírito Santo

BA – State of Bahia

MG – State of Minas Gerais

RJ – State of Rio de Janeiro

RS – State of Rio Grande do Sul



View of the Guaíba Unit (RS) seedling nursery.



Wood production

The supply of wood for pulp production totaled 9,494,000 m³. Of this total, 7,872,000 m³ was utilized by the Barra do Riacho Unit and 1,622,000 m³ by the Guaíba Unit. About 86% of the wood utilized by Aracruz comes from its own plantations, although there is a growing share of wood supplied through the Forestry Partners Program.

The Barra do Riacho Unit closed the year with 340,000 hectares of forest lands, with 211,000 hectares consisting of eucalyptus plantations while 129,000 hectares were in native reserves. In Guaíba, the total area belonging to the unit was 117,000 hectares, comprising 75,000 hectares of eucalyptus plantations and 42,000 hectares in native reserves. Overall, Aracruz maintains a ratio of 1 hectare of native reserves for each 1.7 hectare of forest plantations.

Wood logistics

Of the 7,872,000 m³ of wood utilized by the Barra do Riacho Unit in 2007, 75% were shipped by highway, 21% by water, and 4% by rail. The growing share of maritime shipping made it possible to eliminate 76,200 truck trips during the period, contributing to a reduction of traffic along the BR-101 highway stretch where Aracruz's plantations are located. The number of traffic accidents involving lumber trucks in 2007 was at the lowest level of the past three years.

Meteorology and water resources

Plants interact with the environment, suffering its influences and responding to its stimuli throughout their lifecycle. The elements of climate and water in an ecosystem take on an important role in this context because they are essential to the survival and productivity of planted crops, including forest species.

Aracruz monitors the climate in the areas in which it operates through a meteorological network of 32 automatic stations for the Barra do Riacho Unit and seven at the Guaíba Unit. Moreover, the monitoring of the quantity and quality of surface and subsurface water occurs in 17 representative watersheds at the Barra do Riacho and Guaíba Units, as well as other nine located in Forestry Partners Program areas, encompassing different land use situations (eucalyptus, pasture, and native forest).

In addition to aiding forestry planning, the climate data collected offers guidance for the acquisition of new land, for determining the risks of climate change and forest fires, and for evaluating the effects of the management practices on plantation productivity. The information about water resources is mainly used to evaluate possible changes in the quantity and quality of water that can then be related to the eucalyptus plantations.

The results obtained by the Barra do Riacho's Experimental Watershed, in partnership with important research institutions such as the Commonwealth Scientific and Industrial Research Organisation (CSIRO) of Australia, have shown that under the conditions studied the consumption of water by eucalyptus trees is similar to that of native

forests. In a number of regions sampled, eucalyptus tree roots rarely extend beyond 2.5 meters in depth, while the water tables are located at a depth of 20–30 meters. The data collected during 2007 shows that the water quality index conforms to the standards established by the Brazilian National Environmental Council (CONAMA) and the Environmental Sanitation Technology Company (CETESB).

A hydrological station is being installed in an Experimental Watershed at the Guaíba Unit where complete studies of the hydrological cycle of the region's forests will be carried out. Moreover, an area located in recently acquired land has been defined for the installation of a second Experimental Watershed.

Biodiversity

Aracruz's business activities are directly dependent upon the availability of natural resources, such as water, air, and good soil quality. Moreover, the Company operates mainly in the Atlantic Forest domain – an ecosystem with one of the highest levels of biodiversity in the world, and perhaps one of the most threatened. This calls for Aracruz's special attention to the measures it undertakes to understand and preserve the biodiversity in the regions where it operates.

With the results obtained from studies and monitoring in 2007, data regarding biodiversity on Aracruz land has been updated, particularly information on bird life. Since 1989, data has been collected on more than 119,000 birds representing 556 different species. This data has been



gathered through capture for classification and census taking, the surveying for transects, and field observation. Of these, 69 species have been spotted that are currently identified as being threatened with extinction according to lists prepared by the Brazilian Environmental Institute (IBAMA), the State Environmental Institute (IEMA), and the International Union for Conservation of Nature (IUCN). Approximately 11,800 birds were banded to generate information about their permanence and forays into the Company's lands.

Studies currently underway make it possible to define the standards to be used for establishing connection corridors between the native forests and to generate research data for adjusting the implementation of this management option in the future. Besides, the first survey was conducted to estimate the size of the Hook-Billed Hummingbird (*Glaucis dohrnii*) population – the most threatened hummingbird in Brazil – in the Company's only forest reservation where its presence has been detected. Four new hummingbirds were banded in 2007. This brings to 21 the number of hummingbirds banded since 2004. From this, it is estimated that a population of approximately 100 such hummingbirds exists in the area under study.

Also in 2007, there were differences noted between the rate of capture of birds for census taking and banding at the Guaíba Unit (UG) and the Barra do Riacho Unit (UBR). At the UG, on average there was a tendency to capture three times as many birds as at UBR, indicating a very high level of local biological diversity.

The data deriving from all these studies and monitoring activities show that the forestry management model adopted by Aracruz has maintained the bird communities in the locations studied.

Also in 2007, a work group was set up whose main goal was to prepare the Aracruz Strategic Environmental Conservation Operating Plan as well as to improve the internal organization of the Company's environmental management actions and procedures, with a focus on biodiversity. For this, the multidisciplinary team reviews work procedures and developed actions to align the Company with the principles and criteria established for the good management of its forestry project.

We pay special attention to understanding and preserving the biodiversity of the ecosystems in which we operate.

Integrated management of pests and disease

Eucalyptus trees, like other farm crops, host a number of pests and diseases, some of which are capable of compromising growth and wood quality, and even causing the death of the tree. Aracruz's objective is to employ the minimum amount of chemicals in pests and diseases control. The Company favors an integrated management concept that simultaneously employs different control technologies to minimize the risk of occurrence and also the dissemination of these damaging agents.

The main approach for disease control in the field is the selection of tolerant eucalyptus clones, because this strategy reduces the use of agricultural chemicals and the risk of economic loss. For this to be feasible, a substantial amount of research was carried out in 2007 integrating genetic improvement and forest protection research areas. This work was performed in partnership with the Federal University of Viçosa. 12 new hybrid eucalyptus clones were recommended to the planting operations. These clones combine excellent characteristics for high pulp productivity per hectare, wood quality, and tolerance for the major diseases.



Within this context, the constant improvement in cloning methodologies is a strength of the Company. This has a positive impact on the efficiency of seedling production – including savings in water, energy, and defensives consumption, as well as improvements in the treatment and use of effluents, and the preferential utilization of biodegradable materials.

The control of eucalyptus pests in the field begins with preventive measures. The Company continuously monitors its forests to quickly detect outbreaks of insects that might inflict damage. Control is only initiated if the pest population reaches levels that could cause economic damage. In this way, productivity losses as well as the application of agricultural chemicals are minimized, ensuring that the health of the forests is achieved at the lowest cost and with minimum environmental impact. In 2007, no significant problem was detected regarding the occurrence of pests. With expansion of the Company's operating area, a Pest Risk Management System has been put in place that establishes internal management procedures to reduce the risk of the arrival and dispersal of forest pests in our nurseries and plantations. In addition, research into the biological control of eucalyptus leaf-eating caterpillars and beetles continued to merit our highest priority.

During the year, all information about pests and diseases was updated and published in technical manuals which aid employees and service suppliers in the diagnosis and access to the best control methods.

RPPNs

Three new Private Natural Heritage Reserves (RPPNs) were created in 2007, the result of a partnership between Aracruz and the BioAtlântica Institute (IBio). The RPPNs are located in Espírito Santo and were established after approval by the State Institute for Agro-Cattle and Forest Defense (IDAF).

The reserves assure that 2,877 hectares of native forests in the region are protected, contributing to the effort to consolidate the Atlantic Forest Central Corridor that runs from Espírito Santo to the far south of Bahia.

RPPN Restinga de Aracruz, with 296 hectares, is located in the municipality of Aracruz. The Mutum Preto and Recanto das Antas RPPNs, with 379 and 2,202 hectares respectively, are in the municipality of Linhares. Together, they strengthen the connection between the Sooretama Biological Reserve and the Linhares Forest Reserve.

Recanto das Antas is Espírito Santo's largest RPPN. Some 215 bird species have been spotted on the property, of which 34 are threatened, 11 are exclusive to the Atlantic Forest, and 16 are considered to be rare in the state.

The process to establish another RPPN currently is under consideration for approval by the Bahia state environmental agencies.

The importance of the RPPNs

Private Natural Heritage Reserves (RPPNs) are conservation units created on private land, at the owner's initiative, by means of official recognition from the appropriate official environmental body. An RPPN's main objective is conservation of biological diversity. Currently, more than 80% of Atlantic Forest remnants is on private land. This type of reserve has strategic importance for the preservation of the Atlantic Forest biome, in that it already has lost over 90% of its original vegetation.

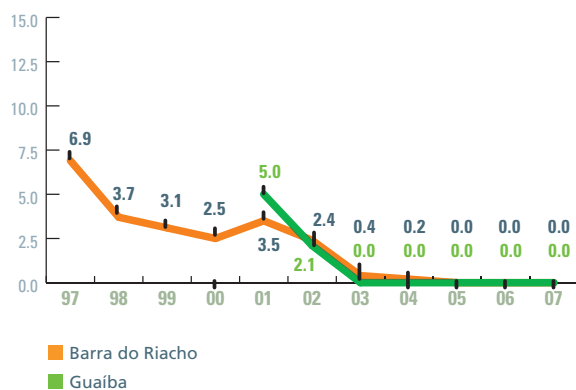
Upon transforming part of property into an RPPN, the owner is favored with a series of advantages, such as exemption from the Rural Land Tax incurring on the area, government protection against forest fires and property invasions, and preference in rural loans and farm mechanization assistance.

From the environmental viewpoint, the RPPNs also offer advantages for silviculture-based companies like Aracruz, because the improved ecological balance through the presence of natural agents helps reduce the incidence of pests and diseases. The preservation of the biodiversity of the areas also contributes to an increase in the availability of water resources.

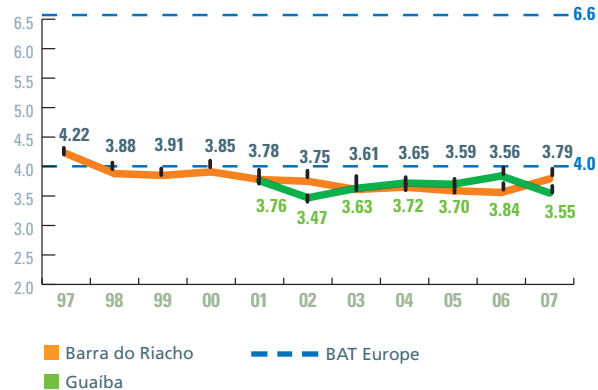
Industrial operations

Specific pulp production consumptions

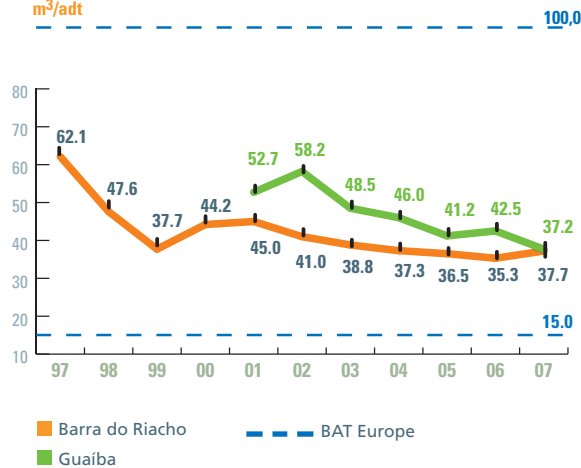
Chloride
kg/ad^t



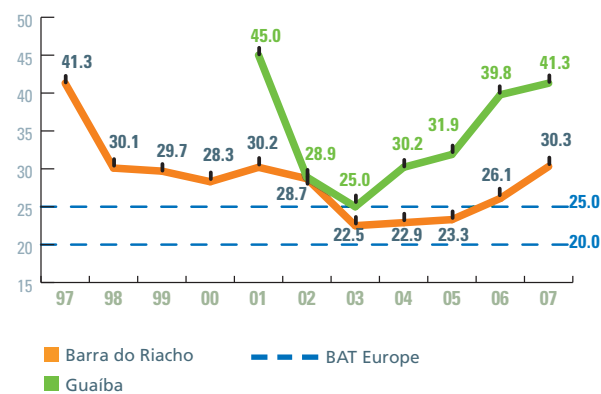
Wood
m³/ad^t



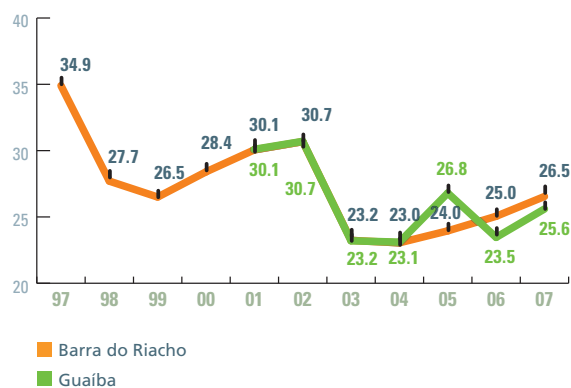
Water
m³/ad^t



Soda
kg/ad^t



Chlorate
kg/ad^t



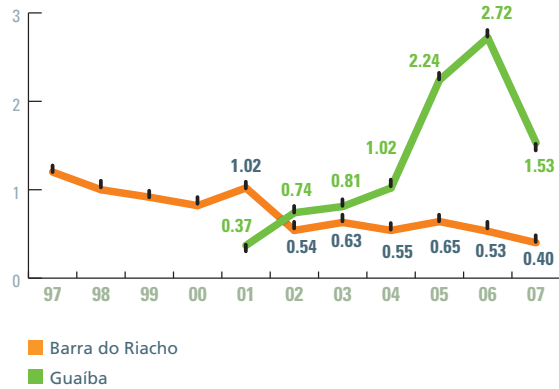
ad^t – air-dried ton

Some of the charts indicate the Best Available Techniques (BAT) in Europe, according to the "European Commission's Best Available Techniques in the Pulp and Paper Industry Reference Document". The document (<http://eippcd.jrc.es/pages/FActivites.htm>) does not present parameters for some of the indicators used by Aracruz in this report.

Emissions, effluents and waste in pulp production

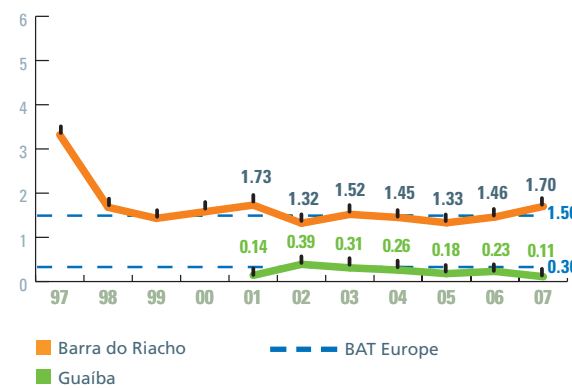
Emission of particulate material

1,000t/year



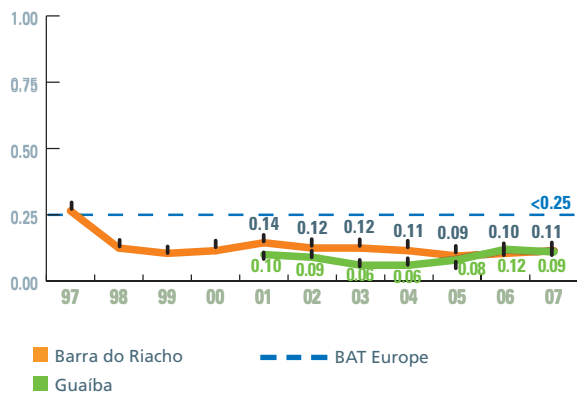
Effluent BOD

kg/adt



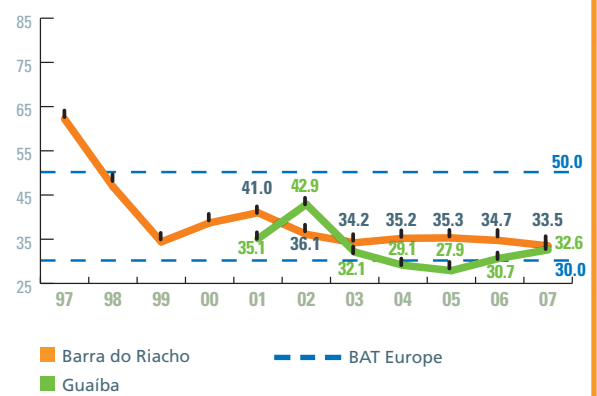
Effluent AOX

kg/adt



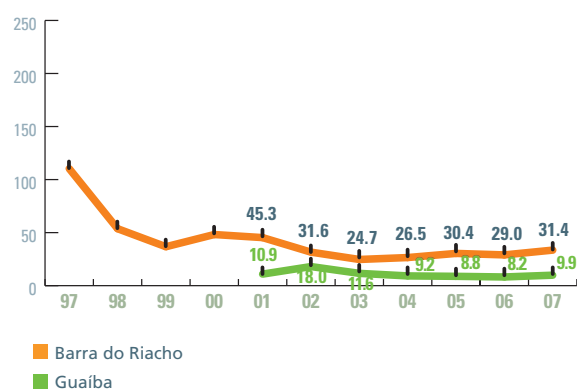
Effluent outflow

m³/adt



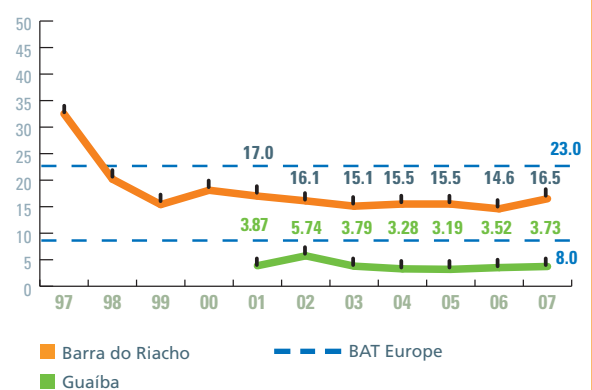
Effluent color

kg/adt



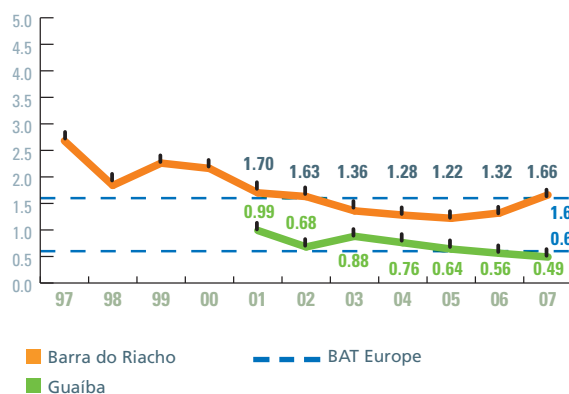
Effluent COD

kg/adt



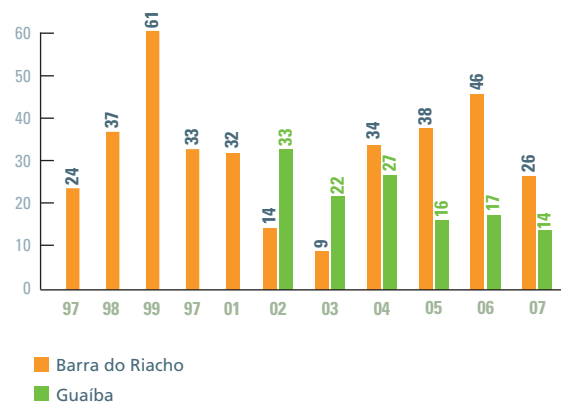
Effluent TSS

kg/adt



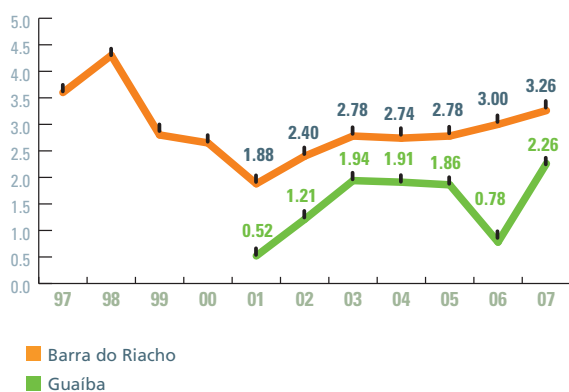
Odor perception network

number of reports



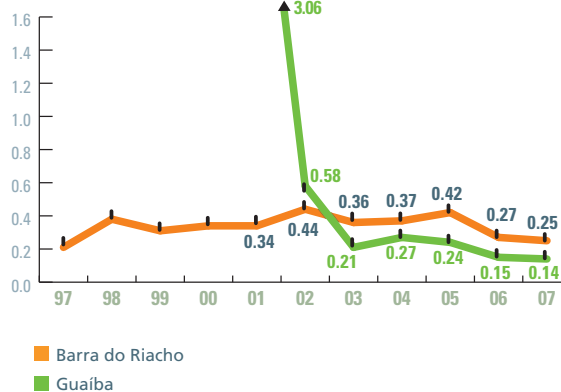
Furnace TRS

ppm



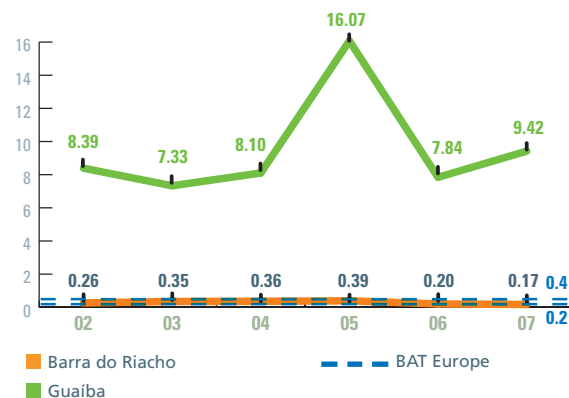
TRS of boilers

ppm



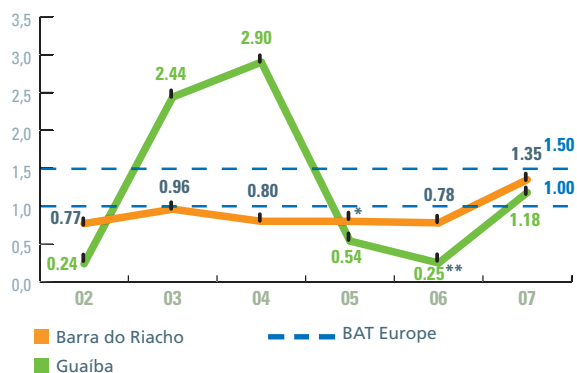
Total SO₂

kg/adt



Total NO_x

kg/adt



* Not reported due to analytical problems.

** Incorrectly reported in 2006 due to errors in the calculation.

TSS – total suspended solids | TRS – total reduced sulfur | SO₂ – sulfur dioxide | NO_x – nitrogen oxides

Generation and consumption of electrical energy and fuels - 2007

Barra do Riacho Unit

Electrical energy	MW	%
Self-generated	1,383,416	95.47
Purchased	62,277	4.53
Fuel consumption	Gj	%
Renewables (1)	52,537,556	93.0
Non-renewables (2)	3,975,917	7.0

Guaíba Unit

Electrical energy	MW	%
Self-generated	296,153	68.8
Purchased	134,076	31.2
Fuel consumption	Gj	%
Renewables (3)	6,332,351	52.03
Non-renewables (4)	5,838,265	47.97

(1) Black liquor (85.3%), biomass (7.2%), non-condensable gases and methanol (0.45%). (2) Fuel oil (1.4%) and natural gas (5.7%).
 (3) Black liquor (100%). (4) Fuel oil (12.29%), coal (82.28%), BTE oil (4.8%), diesel oil (0.33%) and GLP (0.30%).

55

Generation and disposal of solid waste

Barra do Riacho Unit

Industrial Landfill "B"	2002	2003	2004	2005	2006	2007
Generation of solid wastes (t/adt)	0.08	0.05	0.058	0.052	0.041	0.091
% of waste recycled	17.23	18.52	21.26	25.50	55.20	64.7
Amount sent to industrial landfill (t)	107,932	82,536	95,167	82,172	54,384	68,720

The increase in generation of solid wastes sent to landfills was due to the natural gas supply crisis. The lack of natural gas causes the opening of the closed chemical recovery cycle, creating the generation of lime mud.

Guaíba Unit

Waste Treatment Center	2002	2003	2004	2005	2006	2007
Generation of solid waste (t/adt)	0.736	0.612	0.587	0.499	0.490	0.560
% of waste recycled	98.70	99.48	99.37	99.44	99.41	99.30
Amount sent to industrial landfill (t)	2,850	1,283	1,482	1,174	1,268	1,712

Fines and lawsuits

Assessments and notifications

In 2007 a Civil Inquiry was started to investigate possible negative impact caused by the removal of eucalyptus trees in permanent preservation areas in the municipality of Linhares (ES), in the area encompassing the Barra do Riacho Unit. The Guaíba Unit and Mucuri Agroflorestal, a company controlled by Aracruz, each received a notice of violation.

The companies signed Conduct of Adjustment Agreements or presented their defense before the environmental agencies and await a decision.

Lawsuits

In 2007, Aracruz initiated 13 property protection lawsuits (11 in Espírito Santo and 2 in Bahia) for the safeguarding of its holdings. For each of the 13 lawsuits, the Company obtained temporary injunctions. The cases are in the discovery and evidence gathering stages.

Aracruz also was cited as the defendant in two recovery suits in the Nova Viçosa (BA) district, and two suits brought by the municipality of Aracruz (ES).

Two civil suits were filed in Rio Grande do Sul questioning the validity of the licenses granted by the State Foundation for Environmental Protection (FEPAM) for forestry activities. The first suit was brought by NGOs and names Aracruz as one of the defendants. The second suit was brought by the Federal Public Prosecution Office and has a similar objective

with broader demands, especially with regard to the content and extension of the Environmental Impact Study/Environmental Impact Report (EIA/Rima) for each new license for exotic species planting for industrial purposes in the state. Aracruz presented its pleadings in the records of those suits when required to do so.

Also in Rio Grande do Sul, Aracruz filed an action for Reinstatement of Ownership along with a Request for Indemnification for Losses and Damages against the members of the Via Campesina. Via Campesina unites the Brazilian Landless Workers Movement (MST) and small farmers who occupied Company property in the municipality of Eldorado do Sul.

In 2007, Portocel sought an injunction in the Aracruz District Court against the Construction Workers Union (Sintraconst) as a result of some of the defendant's members having prevented other workers from entering the terminal area.

Mucuri Agroflorestal S.A. was named as defendant in two lawsuits, one in the Teixeira de Freitas District Court and the other in Caravelas, both in Bahia. In both cases, Mucuri presented its defense and awaits the reconciliation hearing.

The details on the fines and lawsuits involving the Company in 2006 and 2007 can be found on the CD that accompanies this report and in its online version (www.aracruz.com/2007sustainabilityreport).



Accidents with lost time Aracruz employees

Year	Frequency rate*
2001	2.22
2002	2.92
2003	2.50
2004	2.61
2005	2.51
2006	2.42
2007	2.05

* Does not include Portocel. Calculated by OSHA (Occupational Safety and Health Administration) methodology.

Accidents with lost time Permanent outsourced workers

Year	Frequency rate*
2001	14.82
2002	22.43
2003	19.99
2004	17.30
2005	15.05
2006	11.30
2007	11.86

* Does not include Portocel. Calculated by ABNT (Brazilian Association of Technical Norms) methodology.

Labor force

Employee profile

The average Aracruz employee is 37 years old and has been with the Company 12 years. Eighty-eight percent are male and 12% female. In terms of education, 92% have completed at least middle school. A total of 78% are natives of Espírito Santo, Rio Grande do Sul, and Bahia.

The employees are represented by seven labor unions in Espírito Santo, Bahia, São Paulo, and Rio Grande do Sul. They are covered by collective bargaining agreements with the unions that represent them. Workers are free to join unions under the terms of Brazilian legislation.

Health and safety

In 2007, Aracruz Celulose, Portocel, and their suppliers actively participated in the in-company Accident Prevention Weeks. At the Barra do Riacho Unit the event was held in April, and at the Guaíba Unit in October. Besides the activities for employees, the program also included events for the community.

The annual flu immunization program continued in 2007, benefiting 1,821 employees.

At year's end we were responsible for more than **12,000** direct jobs, being **2,500** our own employees and **9,500** permanent outsourced workers.



Quality of life

Aracruz continues to operate several programs aimed at improving the quality of life for employees and their dependents.

Full Life – Seeks to support participants in planning their retirement. The program, which offers lectures, motivational meetings, and a seminar to assist employees in planning this new phase of their lives, begins two years before the employee's scheduled retirement. The minimum age of participants is 53 years.

Employee smoking – This Company program provides information, encouragement, medical support, and financial support for employees who wish to stop smoking and adopt a healthier lifestyle. Of the 190 people who participated in the program in 2007, 47% continue to abstain from smoking.

Employee chemical dependence – In 2007, the program assisted 22 people (employees and family members) by arranging treatment in a specialized clinic. An additional 30 people received outpatient assistance or participated in support groups, and 27 people received post-treatment assistance. A total of 137 post-treatment meetings, involving 1,125 people, were held in Aracruz and Conceição da Barra (ES) and Posto da Mata (BA). The program also provided 1,005 individual consultations for employees with chemical dependence and 972 individual consultations for family members of employees. In partnership with the Catholic Church of Coqueiral in Aracruz (ES), the Company sponsored radio programs on various subjects, including problems related to alcohol and other drugs, inviting specialists to speak on the topic and preparing specific publications for distribution in the community.

Professional rehabilitation – This program is designed to facilitate the return to the workplace of workers who, because of sickness, accidents or other factors, have had their original capacity for working reduced. At the end of 2007, the workforce had 86 rehabilitated workers.

Move it – A physical activity program in which Aracruz pays the fees for employees to participate in exercise programs. At the end of 2007, 394 employees were participating in the program.

In line with fostering physical activity, Aracruz encourages employees to participate in runs/walks. One of these events was the Garoto 10-Mile Run in Vitoria in which 21 people from the Company took part.

Supplemental pension – The Aracruz Social Security Foundation (ARUS) ended the year with 4,583 active and retired participants, with US\$267 million in net assets. In 2007, the sponsors – Aracruz and Portocel – provided US\$3.3 million to increase the financial reserve for ARUS. This reserve covers retirement costs and the cost of benefits for disability retirement and death (offered free of charge), and for the administrative cost of the plan. Considering exclusively the benefit plans of Aracruz and Portocel, whose net assets total US\$256 million, in 2007 around US\$9 million was paid out in benefits to 506 beneficiaries.

Suppliers

Aracruz gives preference to utilizing local suppliers to stimulate the formation of a value generation network that extends into the communities in which the Company is present.

The Integrated Program for the Development and Qualification of Suppliers (PRODFOR), which brings together 12 companies including Aracruz, marked its 10th anniversary in 2007. The program has been effective in forming a reliable supply network for the companies, creating growth opportunities for local suppliers.

In 2007, the Institute Euvaldo Lodi (IEL-ES) completed a study that evaluated the earnings of 135 companies during the period from 1998 to 2004. The program's participant companies had a total sales of US\$1.3 billion for the period and were responsible for generating more than 21,000 direct and 64,000 indirect jobs. The study showed that, after the certification by the program, these suppliers experienced a 17.4% average annual sales growth rate, a level much higher than the national average. At present, 83 suppliers are certified by the program or under certification process.

Information technology

Management systems

A major effort in the Information Technology (IT) area was the revision of the Integrated Enterprise Management System (SAP R/3), originally set up in 1998.

The main objective is to increase the business units' productivity by simplifying and unifying the Company's processes, which have undergone various modifications over the last decade.

The new platform shall be completely operational in the first quarter of 2008. It will accommodate the new requirements made possible by technological advances and the increase in the complexities of the Company's operations.

Governance

In line with corporate management strategy, the project to implement an IT administration based on global best practices was continued.

In addition to revisions in the change management process (maintenance of infrastructure and systems) and continuity, which were initiated in 2006 to meet the requirements of the Sarbanes-Oxley Act (SOX), a process for incident management was implemented. This creates a single contact point for users and leads to faster answering of calls.

For 2008, new support processes will be installed for better management of IT demands and projects, as well as the establishment of a service agreement with user areas.

Measures were continued to ensure the correct levels of security, enhance the performance and availability of the Company's networks, analyze potential vulnerabilities, update security tools, and revise the wireless network.

Environmental management

To continuously improve environmental performance and contribute to the sustainability of the business, the Aracruz Environmental Committee analyzes new scenarios, trends, and technologies. The Committee takes into account stakeholder concerns and Company Environmental Management System directives.

In 2007, committee members altered the structure and composition and agreed upon topics to be considered. The list of subjects to be targeted is available on the CD that accompanies this report, as well as on its online version.

It was decided that the computerized follow-up of the Environmental Improvement Plan system, implemented in 2007, did not meet the needs of the users and has been deactivated. A follow-up of the projects was conducted every six months and the results were compiled and filed in the Company's database.



Climate change

With the publication of the 4th Report of the Intergovernmental Panel on Climate Change (IPCC), the relationship between human influences on the climate and global warming became more evident. This gives the issue of climate change even greater importance. Aracruz seeks to contribute to this issue by monitoring and publishing facts about its emissions of greenhouse gases (GHGs) and its carbon stocks.

Additionally, Aracruz regularly evaluates opportunities to improve its emissions indicators – that is, to improve the efficiency of GHG emissions associated with its industrial activities. Since 2003, the Company has reduced its direct emissions by around 4.3%. At present, about 84% of the energy used by Aracruz in its production processes comes from renewable energy sources.

In 2007, the Company signed the Climate Defense Pact, along with the Brazilian Business Council for Sustainable Development (CEBDS). The objective of the Pact is to mobilize Brazilian society to reduce GHG levels in the country and to contribute to reaching the targets set by the World Climate Convention. Among the 10 proposals for

practical action in the document, the signatories make a public commitment to discourage the clearing of forests, to stimulate the incorporation of clean and renewable Brazilian energy sources, and to propose a policy of goals for reducing greenhouse gases.

Aracruz also participated in the development of the publication "Forests as Carbon Sinks", published in 2007 by CEBDS at the Conference of the Parties to the UN Framework Convention on Climate Change (COP 13) in Bali, Indonesia. The publication describes the most recent and important information on the forestry theme, a topic of special interest to Brazil.

Survey of carbon stock in native forests

Aracruz owns eucalyptus plantations used for pulp production and solid wood products. The plantations incorporate native reserve areas essential for maintaining the balance of the ecosystem and the sustainability of the production. In this context, the sequestration of carbon by the forests is of fundamental importance because it contributes to the reduction of greenhouse gases in the atmosphere through the retention of carbon in the trees and plants.

In the plantations

The first estimate of the total amount of carbon that is sequestered in the natural biomes of the Barra do Riacho Unit was made in 2004 by the University of São Paulo's Astronomy, Geophysics and Atmospheric Sciences Institute (IAG). In 2007, the information regarding the carbon stock was updated, based on reallocating the areas into different ecosystems and incorporating new areas into the central database, as seen in the following table.

The quantity of carbon stocked in the Barra do Riacho Unit's native reserves was estimated at 5.28 million tons in December 2007. The increase of 100,000 tons from 2006 to 2007 is explained mainly by the evolution of the areas in initial and medium stages of regeneration to the advanced stage. In addition, some new areas were incorporated.

In the Guaíba Unit, the natural biomass registry was updated and the estimates of biomass and carbon stock for each ecosystem are being calculated.

Estimate of the stock of carbon in native reserves of UBR - 2007

Ecosystem	Biomass (t/ha)	Area (ha)	Total C (t)	Total C (%)
Advanced stage*	384	12,800	2,460,160	46.55
Medium stage*	92	24,400	1,119,960	21.19
Initial stage*	13	47,600	304,640	5.76
Costal tidal lowlands	40	5,200	104,000	1.97
Bushland	47	14,800	347,060	6.57
Swampland	135	13,400	903,160	17.09
Total		124,300	5,284,730	100.00

* Atlantic Forest reserve areas.

A protocol has been developed in partnership with CSIRO, the Australian research institute, for obtaining a series of climatic, soil, and biological data on the native forests with the objective of calibrating a more robust scientific methodology to determine the carbon stock in the Company's reserves.

Emissions inventory

In 2007, Aracruz revised all the established premises, factors, and sources of emission and internal procedures for measuring GHG emissions and sequestering carbon in its processes. This revision was based on updated versions of internationally accepted documents for the preparation of emissions inventories and, when possible, through laboratory analysis of the composition of fuels.

The emission factor of coal used in the Guaíba plant was corrected based upon a new laboratory analysis. In order to standardize Aracruz inventories, the 2003 to 2006 factors were also revised.

In addition to this emissions factor, some premises established for the determination of inventory organizational limits were revised. The organizational and operational limits defined at the beginning of the inventory development were re-evaluated because of the need to include emissions previously defined as indirect within the Company limits. In this way, Aracruz began to consider as

part of its direct emissions (Scope 1) not only the sources of its own property, but also those over which it retains total operational control, though not financial control. This includes GHG emissions from vehicles and mobile equipment that do not belong to Aracruz, but which are fueled by it and used exclusively in its service.

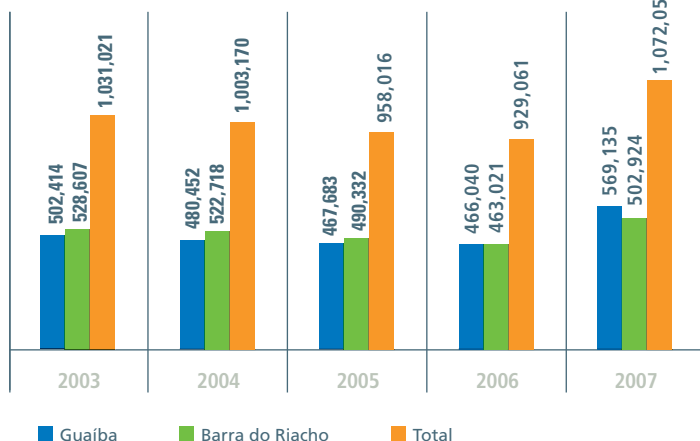
For 2008, Aracruz intends to broaden this scope to include indirect emissions associated with its administrative activities. These emissions would be related to natural gas used for the generation of electrical energy used in its offices, which are considered indirect and included in Scope 3 of the inventory because they are conducted by third parties, but indirectly are part of the Company's activities.

The 2007 Aracruz GHG emissions inventory, as in previous years, followed the calculation protocol issued by the International Council of Forest and Paper Associations (Calculation Tools for Estimating Greenhouse Gas Emissions from Pulp and Paper Mills, ICFPA, 2004). The methodology followed the GHG emissions protocol adopted by the WRI/WBCSD (A Corporate Accounting and Reporting Standard, WRI, 2004).

Aracruz reports direct emissions from its operations (Scope 1), from the generation of energy (Scope 2), and from other sources attributed to the Company, as, for example, use of vehicles that do not belong to its own fleet (Scope 3).

Direct GHG emissions (tCO₂e)

Scopes 1 + 2 + 3



Scope 1: Direct GHGs emissions - deriving from sources pertaining to or controlled by Aracruz.

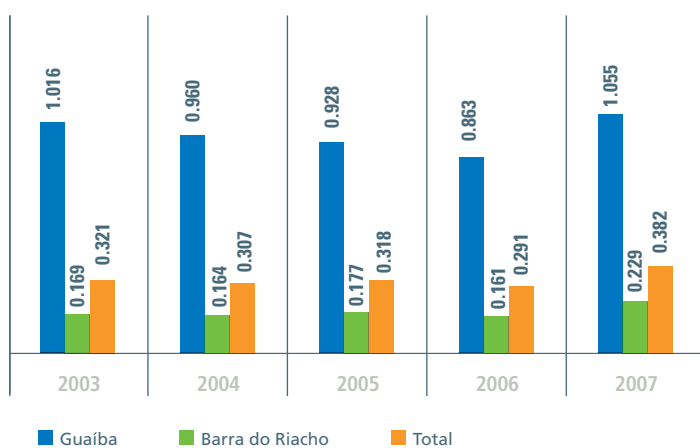
Scope 2: Indirect GHGs emissions - net emissions based on energy imports and exports, such as is the case of imported electricity and steam.

Scope 3: Other direct and indirect GHGs emissions - All other sources of emission possibly attributable to Aracruz's activity, such as: transportation of Company products in vehicles not belonging to Aracruz, outsourcing of activities (management nucleus/disposal of waste outside of the establishment).

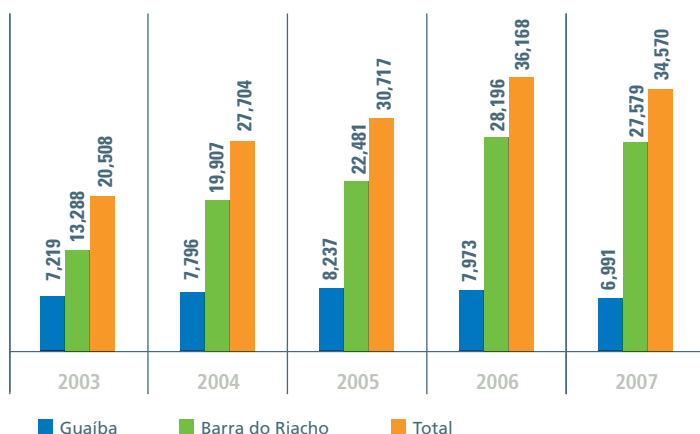
tCO₂e - equivalent carbon ton.

Intensity of emissions (tCO₂e/product t)

Scope 1



Stock of carbon in eucalyptus plantations (ktCO₂)



ktCO₂ - thousands of carbon tons.

Chicago Climate Exchange

During 2007, audits were approved for the processes for quantification of carbon stock in Aracruz's eucalyptus forests and for the choice of the areas that comprise the project presented to the Chicago Climate Exchange (CCX). The data on the stocks have already been sent to CCX, awaiting completion of the GHG emissions audit.

The baseline for GHG emissions was approved by CCX and auditors of the Financial Industry Regulatory Authority (FINRA), and will be submitted to the CCX Emissions Committee for final approval at the beginning of 2008. The baseline calculations take into account emissions from the pulp production process – emissions from Scope 1 and transportation from the Barra do Riacho Unit.

Still underway is the verification of information presented to the CCX on the total GHG emissions from the Barra do Riacho and Guaíba Units from 2003 to 2006. The Company data (to be ratified by FINRA/CCX) indicate non-compliance with the reduction goals set with CCX. The debits with regard to this non-compliance will be paid at the end of the audit, scheduled for the first quarter of 2008.

Offsetting this will be excess forest credits (i.e. credits resulting from the annual increase of carbon stocks in the forests from 2003 to 2006), which can be marketed in the future.

Aracruz is considering whether to assume new commitments with the CCX for the 2007-2010 period.



Competitive operations

In 2007, the second year of operation, Veracel Celulose established its position as a worldwide benchmark for market pulp production. A combination of excellent forestry yields, cutting edge industrial processes, and efficient logistics enabled the mill to once again exceed nominal capacity, producing 1,051,075 tons.

During the period, the daily average of pulp production was 2,961 tons, with a prime quality index of 99%. From initial start-up to December 31, 2007, pulp production totaled 2,494,400 tons.

Capital expenditures in the industrial, forestry, and corporate areas totaled US\$11 million in 2007, five times higher than the previous year. Taxes and contributions totaled US\$33 million.

Sales in 2007 represented 16% of the Brazilian pulp market, or 3% of the paper and pulp sector's total sales, according to the Getúlio Vargas Foundation (FGV).

The numbers for the year's forestry harvest operations were as follows:

Cut:	3,547,000 m ³ sc
Transshipment:	3,543,000 m ³ sc
Transportation:	3,572,000 m ³ sc

m³sc - debarked cubic meters

With regard to pulp transportation, nearly 965,000 tons were shipped in barges from the Belmonte Marine Terminal, located 60 km from the mill, to Portocel, in Aracruz (ES).

Its performance so far places Veracel among the 500 largest companies in Brazil, according to the Getúlio Vargas Foundation. The company was highlighted in the 2007 edition of the foundation's ranking for having gone from 722th place to 399th, which also led to it being recipient of a prize awarded by *Conjuntura Econômica* magazine.

Best environmental practices in forestry operations

Veracel today has over 209,000 hectares of land distributed through 10 municipalities in Bahia. Of this total, its eucalyptus plantations occupy about 87,000 hectares. More than 110,000 hectares are set aside for the recovery and preservation of native forests, including Veracel Station, the Largest Private Natural Heritage Reserve in the country.

Area planted in eucalyptus	Hectares
Own	86,731
Available area	9,116
Total	95,847
Areas not set aside for eucalyptus plantations	
Veracel Station	6,069
Infrastructure	9,398
Protected areas	97,983
Total	113,450
Overall total	209,297

The management of the eucalyptus plantations seeks to preserve the native fauna through the mosaic cultivation, interlacing plantations with forest conservation areas. This facilitates the movement of animals and the maintenance of biodiversity. The company also uses the minimum cultivation technique, minimizing environmental impact on the soil. All bark from harvested trees is left on the ground, contributing to nutrient retention.

In 2007, some US\$4 million was invested in construction of a new seedling nursery in Eunápolis. With the investment, fresh water consumption was reduced by 50%.

The new nursery produced 11 million eucalyptus seedlings as well as 324,000 native tree seedlings of 78 different Atlantic Forest species.



For 2008, construction of a second nursery module with production capacity of 22 million seedlings is planned.

To create a new source of income for local land owners, Veracel signed more than 100 Forestry Partners Program contracts, totaling 16,000 hectares of eucalyptus plantations.

The highlight in 2007 was the process of awarding of the Forest Stewardship Council (FSC) certification which proves that the pulp produced by the company is in compliance with the best environmental and social practices in the world. The FSC auditing process is to be concluded during the first months of 2008.

Veracel also holds ISO 14001 and CERFLOR certifications. In 2007, the company's Chain of Custody was recertified by CERFLOR.

Atlantic Forest Program

This program encompasses the connecting of remaining Atlantic Forest areas in the region where Veracel has operations with the company's eucalyptus plantations through the mosaic cultivation system.

As part of this initiative, the company recovers 400 hectares of native forest per year. Since its inception, nearly 2,500 hectares have been planted, totaling more than 2.7 million seedlings.

RPPN Veracel Station

Veracel Station is an area containing more than 6,000 hectares of forest reserves that comprises the largest private Atlantic Forest reserve in Brazil. Recognized by IBAMA as a Private Natural Heritage Reserve (RPPN) in 1998 and by UNESCO as a Discovery Coast World Heritage Site, Veracel Station is designed to offer space for environmental research and education. It reflects the company's commitment to the preservation of the Atlantic Forest and its biodiversity.

In 2007, Veracel developed a Management Plan for the reserve in partnership with the Conservação Internacional do Brasil NGO, the State University of Santa Cruz and the BioAtlântica Institute (IBio).

The plan integrates management of the reserve with the objectives of the Ecological Corridors and other regional and worldwide conservation projects. The objectives are analogous to those of a biological reserve: preserve the biodiversity and protect the threatened species of fauna and flora; maintain existing water resources in the area; and foster environmental education and interpretation.



Best environmental practices for pulp production

Veracel's production process includes advanced technology which achieves environmental performance that is compatible with international standards:

- Low water consumption: the volume of liquid effluents, treated and discharged by the mill into the Jequitinhonha River (6 km from the mill) in 2007, was 25.1 m³ per ton of pulp produced, with the company's overall consumption being 28 m³ per ton. Per hour, 3,000 m³ of water is treated, a total of 70 million liters per day.
- Discharge of the company's effluents 800 meters upstream from the point of entry.
- Treatment of the system's effluents with activated mud.
- Permanently monitored atmospheric emissions:
 - High efficiency electrostatic precipitators.
 - Single chimney.
- Odor Perception Network composed of 22 residents of nearby neighborhoods.
- Solid wastes: more than 85% of waste generated by the mill is recycled. First mill to initiate its activities using this process.
- Energy self-sufficiency: 120 MWh, of which 65% for own consumption and 35% for the market.
- Monitoring of whales and marine turtles on the barge route between the Belmonte Maritime Terminal to Portocel.

Social commitment, generation of economic impact and active dialogue with stakeholders

The planning and implementation of Veracel's social projects are based on a systematic approach. Whenever possible, its actions are conducted through a "shared value" format, defined as being the intersection of the perceived benefit between Veracel and each group of stakeholders.

In 2007, Veracel invested US\$2.3 million in these projects. Among the most significant programs are the implementation of a social inventory in the municipalities where the company has operations; the construction of social networks to contribute to community development; the Encounter with the Neighbors project; and the Social Articulation, Open Doors, Social Demands and Dialogue with Authorities programs.

Scheduled for 2008 are studies into the chain of sustainable supplies, the Sustainable Industrial Community Program and studies about the use of renewable resources.

Veracel also follows up on programs with a social-environmental focus that are intrinsic to its activities. Among the environmental programs currently underway are the South Bahia Environmental NGO Forum and the Odor Perception Program.

Veracel promotes a series of activities in the communities which raise environmental awareness and foster better use of natural resources, such as the Corporate Environmental Education Program (PEACOR) and the Veracel Station RPPN.

Also noteworthy are in-company projects such as the To Be a Volunteer Program. Based on the results of the Internal Climate Survey conducted by the company, action plans were created to deal with a number of issues related to quality of life, leadership and communication, among other organizational guidelines.

Within this context, employee involvement in social and environmental issues is constantly encouraged. One of the processes for building the engagement culture is training of employees with aptitude for mediating community relationships as sustainability agents.

Challenges for 2008

- Expand production. In October 2007, Veracel requested a license to expand its production from the Bahia state government environmental agency (Centro de Recursos Ambientais-CRA).
- Reinforce occupational safety as a company value.
- Make Veracel one of the best companies in which to work.
- Make Veracel a Bahia community asset.



Learning and Development

SUSTAINING THE PROPER IN-COMPANY ENVIRONMENT THAT IS FAVORABLE FOR THE FULL DEVELOPMENT OF THE PEOPLE WHO MAKE ARACRUZ SUCCESSFUL, AND ENCOURAGING THE BUILDING OF PRODUCTIVE RELATIONSHIPS WITH ALL OUR STAKEHOLDERS THROUGH ENGAGEMENT.

Professional training and development

Aracruz increased its investments in professional development activities in 2007. The Company provided 105,697 hours of training, an average of 42 hours per employee, compared with 37 hours in the previous year.

Aracruz continually invests in leadership development activities to prepare employees to confront the growing challenges that it faces. To reach this objective, over the last five years the Company has trained its managers on strategic and leadership profile alignment. Starting with the competencies model established for all managers, a process was begun in 2007 to create a database for the overall group and individual profiles of 259 managers, showing how each adjusted to the demands of his/her position and strategic business objectives.

This information also served as a basis for the next step in the leadership development process. It included 196 managers and entailed making it possible for professionals to better understand the correlations between the individual profile, the manager's job requirements, the managerial style, and the impact of this style on the unit's environment.

Some 68 managers participated in two new Aracruz Manager Development Program classes. The program, which began in 2003 in partnership with the Dom Cabral Foundation, seeks to foster the strategic alignment of new managers.

With the aim of offering professional development opportunities to its employees, the internal recruitment program provided 37 openings in 2007; professionals already on the Company payroll filled 89% of the openings. Additionally, 284 outside recruitments were conducted during the year.

At the Guaíba Unit, the Company continued the Improvement Suggestions Program that encourages employee participation in problem solving and in optimizing procedures in day-to-day activities. From the 59 ideas suggested in 2007, 10 were implemented. By the end of the year, Aracruz realized estimated savings of US\$1.9 million through the suggested improvements.

Opportunity for young people

In 2007, Aracruz employed 128 college interns, mostly in Administration, Chemical Engineering, and Forestry. An additional 35 students in technical-vocational classes (predominantly Chemistry and Pulp & Paper) were employed.

Started in 2003, the Aracruz and Portocel Young Apprentice Program, in partnership with National Industrial Apprentice Service (SENAI), the National Commercial Service (SENAC) and the Center for Professional Orientation and Career Paths (COEP), has offered opportunities for professional development to young people aged 14 to 18. These apprentices must be enrolled and attending school in the communities of Vila do Riacho and Barra do Riacho in Aracruz and the municipality of Conceição da Barra (ES). In 2007, 58 students from low-income families in neighborhoods close to the Company participated in the program.

While offering activities for young apprentices is a legal requirement, Aracruz goes further conducting classes in workplace health, safety, hygiene, ethics, citizenship, and environmental education.

Internal environment

Aracruz was ranked for the fourth consecutive time, on the list of the best companies to work for in Brazil, published by *Guia Exame Você S.A.* The survey takes into account the perception of employees about the companies for which they work, and the classification reflects the result of the Company's Organizational Climate Management program that strives for continuous improvement in the workplace.

The 5th biannual Organizational Climate Survey was conducted in 2007. While participation is voluntary, 87% of employees responded. According to the survey, the Company obtained a general favorability rating of 63%, reflecting the degree of employee approval of management from various perspectives. The results of the survey guide Aracruz management in taking actions to ensure a high level of employee satisfaction.

Among the perceptions considered more favorable are those regarding the effectiveness of the organization from the strategic management point of view and its external image, which contribute to increase peoples' level of engagement. The favorability rating achieved in this item was 73%. The less favorable perceptions, which offer opportunities for improvement with a grade of 51%, are related to the way employees are treated within the organization, mainly taking into consideration how the Company deals with people of different levels of performance.

The results of the surveys guide Aracruz's actions and programs that seek to ensure an environment that is favorable to the quality and productivity of the work, and well-being of our employees.

The Internal Climate Management process contributed to the Company's receiving an important recognition in 2007: the Sesi World Quality Prize in Espírito Santo. The prize takes into account various aspects related to the management of personnel, education and development, quality of life, and social and environmental development.

Direct Dialogue about the Environment

This initiative involves 148 trained facilitators who organize monthly meetings on subjects such as prevention and fighting of forest fires, and waste management. In 2007, more than 7,000 monthly newsletters were distributed to all Aracruz forestry employees, including outsourced workers.

Environmental Education Program

Carried out within the scope of the Forestry Partners Program, this initiative is designed to stimulate the environmental recovery of permanent preservation areas and legal reserves on rural properties. In 2007, 11 meetings were held with 409 farmers. The participants were introduced to the Barra do Riacho Unit, where they received



consciousness-raising talks, became acquainted with the nursery, the mill and the Cereias project for rehabilitation of wild animals, as well as visiting an environmental recuperation demonstration area on a forestry partner's property.

Engagement

Continuing activity which was initiated in the previous year, about 80 professionals at various seniority levels received training on the new Aracruz engagement model. This initiative stemmed from the activities of a work group that identified the necessity for greater internal preparation for activities of this nature.

The highlight in 2007 was the structuring of a framework for constructive criticism in the communities in which we operate in order to prioritize our engagement efforts. The



Community perception

framework considers positive and negative impacts – social, environmental, economic, and those related to land questions and operations – caused by the Company in the communities, as well as the impacts caused by the communities on our operations.

These actions are part of a set of initiatives aimed at structuring and improving the Company's engagement model. Aracruz understands that this is a long-term investment that should bring about positive results in the future.

To further support the engagement with stakeholders, we are for the first time publishing in this report the perception of some members in local communities about Aracruz. An outside consulting firm interviewed community residents in Helvécia (Bahia) and São Mateus (Espírito Santo) where the Company has operations. The purpose is to provide a public channel for communities to express their perceptions of Aracruz.

Report of Dom Zanoni, Bishop of São Mateus (ES)

This year the São Mateus diocese is commemorating its 50th anniversary. And, today, we can see that the solutions to problems must be different than they were in past times.

The old conflicts have given way to dialogue. We are in a transitional moment. I'm new around here. But I see, through conversations with the Bishop Emeritus, Dom Aldo, and the witness of other people, that there is a climate of outreach, a greater disposition for dialogue. It is obvious that there are historical issues regarding land occupation, rural exodus, the position of the company regarding economic policy and outside capital. But today the move is towards closing the gaps.

Each social group expresses different opinions. There are those who think that Aracruz Celulose is a very powerful company and could contribute much more. Then there are those who see Aracruz as the major enemy. The Church and Aracruz have in the past worked on opposite sides. However, today both are more open to listening, to holding a dialogue, and to understanding.

Aracruz certainly has considerable economic influence in the region. In the face of so many challenges and a large plurality of interests and diverse opinions, it is called to participate with society in general to benefit the region, mainly the neediest areas. From this perspective, nobody is able to do anything alone. The Church has placed itself in the service of dialogue, of understanding and of everything that leads to the construction of justice and of peace.

To Aracruz, we have said that everything they are doing in the defense of peoples' lives and development of human beings, they can count on us.

Report of Cássio Caldeira, businessman in São Mateus (ES)

I am a local businessman and also represent an NGO called Pró-São Mateus, which is engaged in discussing what is good for the community. I am also a partner, together with the Church, in Radio Kairós.

With this involvement, and as a former Aracruz employee, I have perhaps a unique perspective about the degeneration of the company's image in São Mateus. Part of this erosion was the company's move to outsource some activities, which reduced the contingent of local people who worked for them, from more than 1,000 to 100. Moreover, the community resented the fact that Aracruz moved its office from the city to Conceição da Barra, further diminishing its local presence.

In the latest conflicts with the quilombolas, marked by land invasions and the setting of forest fires, a reporter and I talked with the community. I thought I would hear negative things about the company, but not as many as I actually did. There was hurt and resentment to the point that people said that it was good that this was happening to the company. Before publishing the criticism, we gave Aracruz the right to respond. Through its local leader, the company showed that it was very sensitive to the problem and was willing to listen.

This episode brought us closer to the company's communication department and also took us to Barra do Riacho, where we had the opportunity to express our views about the image of the company in São Mateus. To my surprise, the company recognized it had pulled back and it wanted to reverse the situation.

We saw this as a positive movement for opening up dialogue and Aracruz was interested in once again strengthening its ties with the community. The crisis led to the opening up of a channel, which is an opportunity for a more serious conversation where we, as society, can raise more serious subjects for discussion. One of the actions that could come about from these discussions, for example, is a greater preference on the part of Aracruz to use local suppliers, thus promoting development and generating jobs.

I recognize that the company has good social projects, but this is not enough. Many trucks drive through this city, we are surrounded by eucalyptus trees, but the service suppliers are not from here. Thus, there is a feeling that we are being used.

This communication channel is mutually interesting. Aracruz needs to be on good terms with the society in which it has interests and society needs to feel good about this partnership. What is missing now is to sit down and begin this work as soon as possible.

Report of Mrs. Elzira Rafael Peixoto, member of the Helvécia community (BA)

There was a time when many of us worked for Aracruz Celulose and the expectation was there would be more and more jobs. With mechanization, many jobs disappeared. We saw the eucalyptus trees moving in closer and we felt disillusioned, but the hope of having Aracruz as a partner remained.

In general, the relationship with Aracruz has changed for the better and in a progressive manner. The relationship grew little by little.

Three years ago, we had some talks and some meetings and we felt that the relationship – not only with Aracruz, but mainly among ourselves – had begun to change. The process of understanding what was important to the community emerged through these meetings.

Because Helvécia is a needy community, the company has done more than just help it financially. There has been significant support for middle school education in the sense of making it possible for the young people to study, whereas before there was a major barrier due to the distance and the transportation to neighboring locations. This support on the part of the company was very welcome.

I feel that the library and the computer center are examples of accomplishments and partnership between the company and the community. Through the partnership with SENAI, today we are training and preparing 130 young people to enter the job market here. Before they would leave here to study or work and often never return. The computer training will develop people with a volunteer commitment that will allow them to share their learning with other people in the community.

Everybody in Helvécia has a different view of Aracruz. We see Aracruz as a company that likes Helvécia, that is seeking its development. We feel that the company helps us make our dreams come true for Helvécia.

The expectation regarding the seedling nursery is very high. Many people who need to leave the community to sell their products will be able to sustain themselves right here. Before, there was a feeling that “everything that is ours is taken out of here”. In a movement in the opposite direction, the Post Office and the postman have returned to Helvécia and shortly we will have automatic teller machines.

We are happy. I feel happiness in the community and we would like this work to have continuity. We support Aracruz and the company returns the feeling. The Helvécia community is very thankful.

Report of Maria Aparecida dos Santos (Tidinha), president of the Helvécia 'Quilombola' Association (BA)

Aracruz took a while to arrive. It arrived after Helvécia was recognized as a community deriving from a quilombo in 2005. That's when they felt that it was necessary to come here.

The partnership began two years ago. There was a movement for opening up dialogue, then there was a process of impractical meetings, which was perceived as being a delaying tactic. With the arrival of another executive in the community, there was closer proximity with other leaders of the company that sped things up and was more practical. The proof of this is the computer center and the library.

The promise 20 years ago with the arrival of Aracruz was that the company would bring development, but this never happened. Now, with the setting up of the seedling nursery in Helvécia, this development could take place, mainly through the local generation of jobs.

Different from other communities, we are using dialogue as a strategy to resolve our problems. So, we approached Aracruz as a partner and we selected several subjects to be worked on: bringing middle school education to the community, restoring family agriculture, training, recovery of our culture, leisure activities, a computer center.

Today the community-company relationship is totally different. The company is open to dialogue and so are we. We can discuss the issues of territoriality, for example, in another way. We have an opening to talk about this with the company and the other sectors of the community, to reach a consensus, for the common good.

We are playing openly and fairly with them and we feel they are doing the same thing. We feel safe even knowing that the company is powerful, because fighting is an uncertain path to take. The way forward is through dialogue. What we want is that the commitments that are signed with us are fulfilled – the question of the Seedling Production Unit, for example, where we were promised that half of the jobs generated would be in Helvécia. We want these promises to be written down and met... We are trustful, but wary. We want them to return our trust.

Community relationships

Aracruz and indigenous communities in ES

The land dispute between Aracruz Celulose and the indigenous communities of Espírito Santo ended in 2007. On August 27, the Minister of Justice, Tarso Genro, signed Edicts in favor of the Indians in the land dispute issue.

Shortly after the Edicts were signed, Aracruz demonstrated its desire to negotiate conditions aiming a stable solution that would put an end to the dispute, and said it would give up taking legal action if such a solution were to be reached.

With the consent of the indigenous communities and the government, a negotiation process was developed and concluded with the signing of a Conduct Adjustment Agreement (TAC) on December 3, 2007. This agreement clarifies the rights and obligations of each party (Aracruz, Indians, National Indian Foundation - FUNAI) in the process for transferring approximately 11,000 hectares of land to the indigenous communities. The enlargement in reserves still requires the issuance of a decree by the President of the Republic and subsequent demarcation of the lands, after which the transfer of the property and ownership will take place. The TAC also called for removal by Aracruz of the eucalyptus trees already planted in the area.

The agreement, with the participation of all authorities who took part in the negotiations including the Federal Attorney General's office and FUNAI (which will be responsible for contracting a company to make the physical demarcation of

the lands), calls for an end by both parties to any current or future action in this respect and will be ratified by the Federal Court of Linhares (ES).

Under the TAC, Aracruz agrees to finance an ethno-environmental study by FUNAI with the involvement of the Indians, seeking to identify better alternatives for use of the land and development of the communities. Aracruz will also provide around US\$1.6 million to support projects resulting from this study.

Before the agreement was signed, the terms of the TAC were submitted to the indigenous communities and approved in an assembly held on October 16, being ratified by them in a meeting on November 28, as recommended by Convention 169 of the International Labor Organization on indigenous peoples and tribes, of which Brazil is a signatory.

Aracruz believes the agreement represents a sustainable solution that balances the diverse interests of the parties involved. It allows the satisfaction of the demand for enlargement in Indian lands and provides Aracruz with the legal assurance that these lands will not be expanded again.

The complete text of the TAC can be found on our website at [>> www.aracruz.com/aracruz/positionings](http://www.aracruz.com/aracruz/positionings) Aracruz and the Indians issue.

We seek to structure and improve our relationship with stakeholders in a long-term investment.

Aracruz and the 'quilombolas'

The *quilombola* communities are formed by descendants of slaves who from the 16th to 19th centuries escaped from their masters and created *quilombos* in various parts of the country. The *quilombos* were communities of runaway slaves that turned into communities.

The land claims by *quilombolas* raise a new issue that has national importance and occurs in 24 Brazilian states. This affects private urban and rural properties as well as large companies, among them Aracruz.

The Federal Constitution of 1988 recognized the rights of these descendants, giving them definitive ownership to lands historically occupied by their communities without affecting, though, third party rights. However, in 2003, Decree 4,887 substantially altered what was contained in the Constitution by holding that recognition of a *quilombola* would be made according to self-determined criteria by the communities themselves and that their lands would be those "utilized to guarantee their physical, social, economic and cultural reproduction" and no longer those that were in their possession.

Thus the decree created an unusual situation by granting new rights to the *quilombola* communities that conflicted with the traditional constitutionally guaranteed property rights of thousands of people.

In light of evidence of unconstitutionality cited by jurists, the Federal Supreme Court has taken under consideration a Direct Action of Unconstitutionality suit against Decree 4,887, filed by various national reputable entities. The case has not yet been decided. Additionally, the Chamber of Deputies is considering legislation that would suspend the enforcement of the decree. The bill is in the Committee on the Constitution and Justice and Citizenship, expected to be sent to the full chamber.

From the issuance of Decree 4,887 through to December 2007, nearly 1,000 communities throughout the country registered with the Palmares Cultural Foundation. It is estimated that the number of communities will reach 3,500 to 5,000. The number has been increasing exponentially in recent years because of the changes brought by the decree that, even though it came from a lower level, broadened the

reach of the Federal Constitution. Maintaining the area/community ratio established up to now, the total area to be demarcated and expropriated in the country would be between 15 million and 25 million hectares, equivalent to four or five times the size of the State of Rio de Janeiro.

Of the communities already registered, 31 are located in municipalities where Aracruz owns rural property. For nine of these communities, proceedings are underway for identification and setting of boundaries of lands. Two already have recommended demarcation: Linharinho and São Jorge, both in Espírito Santo.

These two proceedings, which would benefit 111 families, involve 17,000 hectares that belong to Aracruz and 8,000 hectares belonging to various private owners. The Company filed a protest to the demarcation with documentation duly registered with the public notaries that shows it has legally acquired the contested lands.

In July 2007, people connected to the *quilombola* movement promoted the invasion of an Aracruz forest area in Linharinho, Conceição da Barra (ES) municipality. About 250 people, among them demonstrators from the Brazilian Landless Workers Movement (MST), cut down trees and blocked the passage of Aracruz employees in an effort to speed up the land demarcation process. The occupation lasted 20 days, a period in which hundreds of trees were cut. The Company obtained an injunction against the occupation and the land was vacated in August.

Aracruz believes the rights of the *quimbola* communities should be preserved, but it should be conducted according

to the principles supported by constitutional norms. It recognizes that the poverty of these communities needs to be reversed through the administration of effective public policies, generally absent in these regions, as well as through the efforts of various public and private segments of society, and the communities themselves.

In this sense, the Company took the initiative in 2007 to propose the creation of a group with representatives of the federal and state governments, the São Mateus (ES) mayor's office, Aracruz and the communities. The objective would be to improve socio-economic conditions through undertakings that promote the application and integration of public policies, creating productive local arrangements and improving regional economic potential. This group has held several meetings and it is hoped that it will begin to produce positive results in 2008.



Charcoal

Some segments of the economy that use wood as raw material for producing charcoal have not made the investments necessary to ensure its sustainable supply, which is aggravated by the lack of timber in the country. In this context, some communities – the so-called charcoal workers – have produced charcoal deriving from illegally cut down trees in native forests or from wood illegally taken from forest plantations.

While this illegal activity may appear attractive on the short-term, it ends up harming the communities as much through moral degradation and breakdown of family structures as making development of alternative sources of local revenue impractical. This has hurt the establishment of social projects in the region, some of them supported by Aracruz and other forestry companies.

Starting in 2003, Aracruz authorized the collection by community associations and local cooperatives of forest residues (parts of trees not used for pulp production) on some of its land for the production of charcoal. However, serious problems arose, such as fires in areas not authorized for the collection of residues (a tactic used to make the trees unsuitable for pulp production and to force the Company to sell them for charcoal production). In addition, the complexity of Brazilian legislation led to Aracruz being held responsible in several labor and tax cases brought against associations that operate outside the Company's control. The expense to Aracruz was considerable.

Simultaneously, various obstacles to the expansion of planted forests in Brazil have caused a growing timber deficit. To meet this challenge, the Company started in 2006 to speed up the implementation of technological changes in harvesting in order to ensure supplies for its mills. These changes resulted in fuller use of the trees and, consequently, reduced the volume of residues left in the field.

As a result, Aracruz and other forestry companies were targeted for acts of violence, such as invasions and forest fires. In 2007, 98 fires burned more than 2,000 hectares of Company forests in the São Mateus (ES) municipality alone. Damages totaled more than US\$1 million in addition to destroying 650 hectares of native vegetation in permanent preservation and legal reserve areas.

This is a complex situation that requires not only firm action by the authorities, especially in Espírito Santo and in the south of Bahia, but also a clear effort by the parties involved to establish public policies and income-generating projects that create a proper atmosphere for the development of the communities without breaking the law. An example is the ComUnidade project, developed by Aracruz with various partners, cited on page 30.

Dialogues with NGOs

Aracruz is engaged in regional, national, and international discussion forums with social and environmental NGOs. The Company also has sought to develop relations with some national and international NGOs and plans to broaden these relationships.

NGOs in the South of Bahia – Continuing the priority items listed by the Bahia Forestry Forum, there has been progress in understanding the issues linked to forestry partnership arrangements with companies. The Bahia forestry partner work group prepared a document with 10 directives to be followed by the companies and NGOs for the advancement of issues connected to the topic. The document's full text is available on the CD accompanying this report and in its online version. The discussion about multiple uses of wood in the region culminated in the establishment of a work group to follow an experimental project to produce small wooden craft objects – using eucalyptus rather than native trees – which could improve working conditions of artisans in the region. In addition, there is discussion to start another experimental project to identify other native or exotic forest species that could grow in the region and meet the needs of the furniture industry and artisans.

The discussions about plantings in the context of the Conservation Units is aimed at establishing directives so that they will be maintained and executed according to the sector's best practices for this type of area. There also were discussions relative to Ecological Economic Zoning proposed by the government of Bahia.

NGOs in Espírito Santo – The dialogue with the NGO Forum of Espírito Santo set as a priority the preparation and signing of the Pact for the Revitalization of the Atlantic Forest. This document, signed by companies, a city government, state institutions and NGOs, presents a series of public and private initiatives for the revitalization of Atlantic Forest remnants. Among the methods identified are implementing, operating, and maintaining Recuperation and Conservation Centers. These Centers would aid the recuperation and conservation of the Atlantic Forest areas by producing seedlings of species containing characteristics that are special to the ecosystem.

The full text of the Pact is available on our website: [>> www.aracruz.com/aracruz](http://www.aracruz.com/aracruz) >> Forums and commitments.

NGOs in Rio Grande do Sul – The dialogue with NGOs in Rio Grande do Sul was restarted with three meetings in 2007. Representatives of three NGOs and three companies (Aracruz Celulose, Votorantim Celulose e Papel, and Stora Enso) participated. The meetings sought to establish the Rio Grande do Sul Forestry Dialogue and to define the topics to be discussed. Initially, the topics encompass the situation of the Atlantic Forest biome in the state and the Environmental Impact Studies/Reports of the participant companies. In 2008, the discussions will be extended to cover the state's Ecological Economic Zoning policies and will seek to increase the number of participant organizations.



Participation in the Atlantic Forest Dialogue

In 2007, Aracruz participated in the fourth and last meeting of the Atlantic Forest Dialogue's first phase held in Mogi das Cruzes, São Paulo. The initiative has the support of The Forests Dialogue (TFD) and brings together companies in the forestry sector that work in areas with Atlantic Forest remnants and socio-environmental NGOs. The two main themes of discussion were forestry partners programs and land legalization. The meetings also analyzed the first phase results and started the planning for the second phase.

Participation in the TFD

Aracruz participated in the activities of The Forests Dialogue (TFD), comprising social and environmental NGOs, research institutes, forestry companies from around the world, the World Business Council for Sustainable Development (WBCSD), and financial institutions. In 2007, the Company participated in topical dialogues promoted by the TFD on intensive management of forest plantations in Indonesia and the reduction of poverty in Bolivia.

Financial community

The Aracruz Investor Relations team interacts on a regular basis with market participants via various channels, notably through the Aracruz website (www.aracruz.com/ir), which now makes it possible to obtain historical information on the economic-financial performance of the Company in an electronic spreadsheet. Our quarterly information bulletin is the main communications tool with analysts and investors, along with the Annual and Sustainability Report and obligatory disclosure routines.

In 2007, more than 2,000 contacts were made with investors through meetings, conferences, telephone calls and correspondence, including 10 visits to the Barra do Riacho Unit and Veracel, which included 23 capital market professionals from Brazil and abroad.

Visits

Barra do Riacho Unit – In 2007, 6,263 visitors were received at the unit, of which 5,973 toured the mill and 290 the Caravelas Maritime Terminal. Of the visitors, 64.7% were from teaching institutions and 18.3% came from neighboring communities, including participants in the Forestry Partners and Good Neighbors programs. Besides its emphasis on environmental education and the dissemination of information about the Company's social and environmental responsibility actions at the elementary and middle school levels, the visitation program also focused on students from vocational schools and universities, who represented 27.5% of total visitors.

Guaíba Unit – Since it is situated near the urban area of Guaíba, the Aracruz pulp mill is surrounded by schools. This makes the mill a natural draw for curious students. Specialized technicians at the mill serve as guides for the visitors, offering students the opportunity to learn more about the facility, pulp production, forest cultivation, and environmental protection. In 2007, visitors included 1,551 teachers and university students from Rio Grande do Sul and Santa Catarina, in addition to 628 teachers and elementary school students from the public schools in the Guaíba municipality.

Presence in forums

During the year, Aracruz attended state and municipal environmental council meetings in the States of Espírito Santo, Bahia and Rio Grande do Sul, as well as meetings with numerous Brazilian organizations.

It also participated in international forums such as the WBCSD, TFD and the UN's Global Compact Initiative.

A complete list of the forums and organizations may be found on the CD that accompanies this report and in its online version at: www.aracruz.com/2007sustainabilityreport.

Perceptions of readers

In order to improve the quality and usefulness of information published in our Annual and Sustainability Report, we surveyed our readers again in 2007 to get their feedback. CorporateRegister.com, a corporate social responsibility (CSR) resources company based in the United Kingdom, again gathered feedback from 41 readers. Readers included students, professionals in the CSR field, consultants, and representatives of NGOs. We thank these readers who freely expressed their opinions about our 2006 report.

Corporate CSR professional

"Indigenous land rights / issues appear crucial. Can we have more information and some outside views to assess competing positions? I like this report and the wealth of data, but the company position needs objective evidence and some balancing views. GRI and GC index are welcome, although I missed the GC part. Verification still not best practice."

Student

"Quite lengthy and mainly for shareholders. Good that it's integrated but I want to read the eco and social content quickly. Land and land use disputes are a major problem."

Academic

"Very interesting report, both for the region, the sector and the issues. Extensive GRI table (G3 application level?) but can't identify the Global Compact parameters. Attempts at external assurance but these aren't rigorous, needs more stated method and conclusions. A lot of content and a clear clean style. Social issues need their own qualified assessor."

Consultant

"I don't read many reports from Brazil and this one gives a good insight into issues and dynamics."

Sustainability Objectives for 2008

Governance

- Implement the management mechanisms of the new version of the Code of Conduct and carry on an internal audit.
- Initiate review of the Company's internal policies, seeking to adjust them to the new Mission, Vision and Principles statement.
- Maintain the certification, without reservations, of compliance with the Sarbanes-Oxley Act's requirements.
- Consolidate corporate risk management.

Stakeholder relationships

- Review the relationship model with communities and implement engagement models with selected communities.
- Maintain the dialogue with the NGOs of Bahia and Espírito Santo and intensify the dialogue with NGOs of Rio Grande do Sul.
- Support the organization and realization of Dialogue about Plantations of The Forests Dialogue, to be held in Brazil.

Social investments

- Begin the activities of the Aracruz Deeply-Rooted Assets Institute, within the social investment strategic plan.
- Participate in the implementation of income generation and social promotion programs of three communities located in the north of Espírito Santo.
- Develop income alternatives for the communities involved in the charcoal production activity in the far south of Bahia (ComUnidade Project).

- Build a community nursery in the Coal Region (RS) to produce native and medicinal plant species.

Responsibility for the chain of supply

- Engage the suppliers in the Aracruz Code of Conduct.
- Engage the suppliers in the "Na Mão Certa" Program to combat child sexual exploitation along Brazilian highways.

Environment

□ Biodiversity

- Finalize actions for recognition of the Esperança do Beija Flor (BA) RPPN.
- Prepare the Management Plan for the Restinga de Aracruz, Mutum Preto and Recanto das Antas RPPNs.
- Conduct mapping of the Atlantic Forest fragments existing in the areas where the Company has operations.
- Resume the Watershed Project studies, updating results and setting up a new experimental watershed.

Other actions

- Revise the Odor Perception Network management model.
- Establish a plan for managing and disposing of the Barra do Riacho Unit's solid wastes.
- Finalize audit of the project presented to the Chicago Climate Exchange (CCX).

Employees

- Remain one of the best companies regarding internal environment management.
- Maintain the lost-time accident frequency rate under 25 points (following ABNT rule 14,280).

Barra do Riacho Unit

Parameter	Unit	BAT		2007 Average	2008 Target
		IL	SL		
Effluents					
COD	kg/adt	8	23	16.5	Keep parameters within BAT limits
BOD	kg/adt	0.3	1.5	1.70	
TSS	kg/adt	0.6	1.5	1.66	
Total nitrogen	kg/adt	0.1	0.25	0.27	
Phosphorus	kg/adt	0.01	0.03	0.04	
AOX	kg/adt	0	0.25	0.11	
Outflow	m³/adt	30	50	33.5	
Atmospheric emissions					
TRS	kg/adt	0.1	0.2	0.0050	Keep parameters within BAT limits
SO ₂	kg/adt	0.2	0.4	0.1744	
PM	kg/adt	0.2	0.5	0.3994	
NOx	kg/adt	1.0	1.5	1.3491	
Solid residues					
Residues	kg/adt	0	43	91.2	

Guaíba Unit

Parameter	Unit	BAT		2007 Average	2008 Target
		IL	SL		
Effluents					
COD	kg/adt	8	23	3.73	Keep parameters within BAT limits
BOD	kg/adt	0.3	1.5	0.23	
TSS	kg/adt	0.6	1.5	0.49	
Total nitrogen	kg/adt	0.1	0.25	0.08	
Phosphorus	kg/adt	0.01	0.03	0.0029	
AOX	kg/adt	0	0.25	0.09	
Outflow	m³/adt	30	50	32.60	
Atmospheric emissions					
TRS	kg/adt	0.1	0.2	0.008	Keep parameters within BAT limits
SO ₂	kg/adt	0.2	0.4	9.42	
PM	kg/adt	0.2	0.5	3.51	
NOx	kg/adt	1.0	1.5	1.18	
Solid residues					
Residues	kg/adt	0	43	0	

BAT - Best Available Techniques.

Source: Integrated Pollution Prevention and Control (IPPC) - Reference Document on Best Available Techniques in the Pulp and Paper Industry. December 2001. Available at <http://eippcb.jrc.es/pages/FActivities.htm>.

IL - Inferior limit

SL - Superior limit

PM - Particulate matter emission

The Environment Committee, responsible for the critical analysis of the Company's environmental management system, decided in 2007 that the goals for the parameters of net atmospheric emissions and for solid wastes as of 2008 should satisfy the requirements published in the document, "Integrated Pollution Prevention and Control (IPPC) - Reference Document on Best Available Techniques in the Pulp and Paper Industry, December 2001".

Through this it would be possible to compare the values measured by Aracruz with regard to the benchmarks of the best practices in the paper and pulp industry.

Awards and Recognitions for Aracruz Celulose in 2007

- For the third consecutive year, Aracruz was included on the Dow Jones Sustainability Index (DJSI World) 2007/2008. Of the 13 forestry companies in the world under consideration, the Company once again was the only one to be included on the list.
- For the fourth consecutive year since it began participating in the survey by *Exame* and *Voce S/A* magazines, Aracruz was on the list of best companies to work for in Brazil. In its 11th edition, there were 504 entries and 121,000 questionnaires filled out by professionals throughout Brazil.
- Aracruz remained on the Bovespa (São Paulo Stock Exchange) Corporate Sustainability Index (ISE). The Company has been included on the list since its first edition three years ago.
- Aracruz was considered a model company in corporate responsibility in the 2007 edition of the *Guia Exame de Sustentabilidade*, published by *Exame* magazine.
- Aracruz is among the "Best Companies for Executives" in Brazil. The ranking was prepared based on the 2006 edition of the *Guia Exame Você S/A's* survey of "The Best Companies to Work For in Brazil."
- Aracruz received for the 13th consecutive time the ABVD Export Prize from the Marketing and Sales Directors Association of Brazil in Rio Grande do Sul. The Company was one of five cited in the Master category.
- The Aracruz website remained in fifth place in the "Studies of the Best Websites on Sustainability or Social Responsibility in Brazil 2007," a ranking made by *Razão Contábil* magazine in partnership with Grow Associates and Management Excellence consulting firms.
- Aracruz was in second place in the ranking of companies with the best adjusted net income; fourth company in terms of the largest amount of available funds; 24th in the classification of the largest companies in Brazil's Southeast region, and 33rd among the largest agribusiness firms in the country published by the *Exame Agronegócio* yearbook.
- Aracruz was classified among "The 10 Best Companies in the Indicator of Human Organizational Development – IDHO," in a survey by Gestão RH Editora.

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- Aracruz won the 2007 Espírito Santo Business Leader Prize in the Industrial and Export Companies category. Carlos Aguiar, president and CEO of Aracruz, was elected Leader of the Year.
 - The 2007 Financial Officer Prize selected Aracruz as Company of the Year in its category, and Isac Zagury, CFO of Aracruz, was elected CFO of the Year in the category.
 - Carlos Aguiar, Aracruz president and CEO, was elected state leader for Espírito Santo and national sector leader in the Paper and Pulp category in the awards of the Business Leaders Forum, promoted by the *Gazeta Mercantil* newspaper.
 - In the awards for the Best of Dinheiro, promoted by the magazine *IstoÉ Dinheiro*, Aracruz came in first in the Paper and Pulp category.
 - Aracruz received the 2007 Shopkeeper Merit Prize in the Paper category, awarded by the Federation of Chambers of Shopkeepers of Rio Grande do Sul.
 - Carlos Aguiar received the 2007 Distinguished Executive Prize of the 11th edition of the publication “200 Largest Companies of Espírito Santo,” sponsored by the State Federation of Industries (FINDES) and the Euvaldo Lodi Institute (IEL). Moreover, the Company took third place among the largest companies of the state.
 - Aracruz was the winner in the Companies category of the third edition of the 2007 Environmental Responsibility Prize, sponsored by the State Environmental Secretariat, by the Rio Grande Press Association, and by the Latin American Institute for Environmental Protection – Blue Butterfly.
 - Veracel won second place among companies with the greatest increase in sales in the Exame Agronegócio yearbook published by *Exame* magazine. The same evaluation placed Veracel 15th among the largest companies of the North, Northeast, and Central-West regions.

External Views

In line with actions in our Sustainability Plan to improve channels of communication, we include in this report for the second time some views of our readers who expressed their perception on the quality, materiality, and relevance of the published information.

In 2006, we published the comments of independent readers whose suggestions helped us improve the reporting of complex questions involving stakeholder relations,

seeking a more balanced description of the facts. We also tried to improve the information relative to aspects of income generation associated with our activities, an issue identified as important in the materiality matrix (see page 4). Among suggestions to be implemented in the future, one that stands out is the establishment of a more direct relationship between the sustainability actions and the financial results that the Company derives, or could derive, from such actions.

Aracruz's commitment to sustainable development is demonstrated through the high degree of transparency by which this 2007 Sustainability Report is produced. This transparency helps outsiders evaluate the path the Company is taking - and the actions it plans to take - to achieve a fully sustainable level of management. The beginning of the report probably will not be as of much interest to readers whose focus is on the social and environmental issues, yet it includes many interesting facts and data. Aracruz's efforts to openly engage the communities in which it is present constitutes a landmark in the Company's history. However, a lot more needs to be done. The Company must improve its ability to evaluate its social projects. Additionally, it still has work to do to realize its full natural potential for leadership of sustainability issues in its management processes. The 2007 Sustainability Report openly recognizes the company's limitations and, accordingly, sets the stage for its future actions. As such, it is a major achievement that merits recognition, and is a solid step in the direction of full exercise of its social and environmental responsibilities.

Flávio Comim

Professor at Cambridge and the Federal University of Rio Grande do Sul (Brazil)

Cambridge - England

April 2008

A word of warning: a Sustainability Report reveals an important process for a company due to the fact that it summarizes a company's insertion into society. It is the result of an internal cultural process that seeks horizontal and vertical integration, as well as a relationship with stakeholders.

So, one should read such a Report from the perspective that this is a challenging process. The subject of Sustainability is relatively new in the business world, and the preparation of a Report requires a dialogue with society that reflects what is truly important from the standpoint of the different actors who co-exist with the Company. In the case of Aracruz, I have followed the development of its Reports for quite some time. They have demonstrated a significant evolution with regard to how they inform readers - no matter how diverse - about a company that is a leader on so many fronts.

The reading of a Sustainability Report allows a prepared reader to learn about the risks within a given company - not just risks that are economic in nature, but also regarding issues that are increasingly appreciated by contemporary society, such intangible assets as "reputational capital." In order to advance further, there is a need to stimulate companies to understand the importance of these Reports as well as the strategies that make it possible to establish two-way communications with all stakeholders.

Aracruz is a company which has undeniable operational "triple bottom line" strength. The financial numbers speak for themselves. Regarding other dimensions, the efforts to obtain forestry certification (whether through CERFLOR or more recently through the FSC) show that the company is in tune with the idea that the consumer is increasingly becoming an agent to induce changes in society by choosing to buy from companies that are in step with the need for global sustainability.

Regarding this Report, it is important to point out that it satisfies its main objective: to maintain credibility for the company. This is important, because in Brazil until now no one has been able to demonstrate that this type of a report is little more than a marketing tool. Problems, conflicts, and challenges are inherent in business. It is important to demonstrate the Company's attitudes and policies in challenging situations. This ensures a permanent dialogue, and in the final instance, adds value to shareholders, employees, communities, and members of the production chain - that is, society at large.

My personal training and history focus my attention on the social and environmental aspects, because the Company has been the target of tensions involving quilombolas and indigenous populations, as well as discussions about the planting of eucalyptus trees to produce pulp. Aracruz's approach to these issues, demonstrated by negotiated solutions, has been the hallmark of its treatment of such complex issues. The information contained in this Report is sufficient for readers to understand the conflicts that, nevertheless, have solutions that are being implemented, with the participation of government and the communities directly affected by such activities.

With regard to sustainable development, it should be noted that the Company has sought engagement with representative organizations in society to put forth a positive agenda involving actions to generate income and to format public policies for forestry matters and the conservation of biodiversity. Coupled with these topics, the Report presents data enabling comparisons with previous periods and other companies. Still, it is always good to state that because this is a Report that portrays long-term processes, we should follow the evolution of performance which demonstrates compliance with improvement targets.

Finally, I would like to make an important observation regarding global climate change. With the disclosure of the 4th Intergovernmental Panel on Climate Change (IPCC), the level of awareness regarding the urgency and seriousness of the problem has changed. Companies play a significant role in confronting the problem, particularly those that have a forestry base. The existence of an "emissions inventory" demonstrates that Aracruz is looking towards the future, is engaged in resolving the problem, and can contribute effective solutions through its business practices.

Fabio Feldmann
Environmentalist and consultant
São Paulo - Brazil
April 2008



Verification Statement

Introduction

The Bureau Veritas Certification was contracted by Aracruz Celulose S.A. to conduct an independent verification of its 2007 Annual and Sustainability Report, consisting of the evaluation of its content and quality. This work was performed in March 2008 at the Barra do Riacho Unit (Espírito Santo), Guaíba Unit (Rio Grande do Sul) and corporate headquarters (São Paulo), and it was based on the policies, procedures, and records that Aracruz Celulose S.A. maintains for the preparation of this publication.

This verification does not encompass the analysis of Financial Information or the Independent Auditor's Report disclosed together with the Aracruz Celulose S.A. Annual and Sustainability Report.

Methodology

The methodology used was based on Bureau Veritas Certification's procedures that, for their part, adhere to the best practices used for independent assessment analyses. The verification used the principles of Comparability, Clarity, Reliability, Periodicity, Materiality, Inclusion of Stakeholders, and Sustainability Context, employed in norms that are internationally recognized, such as the GRI-G3 - Guidelines for Sustainability Reports and the AA 1000 - Assurance Standard.

This methodology includes analysis of sustainability reports referring to the 2006 and 2007 periods, in interviews with people responsible for the areas that directly or indirectly contributed information for the report and verification of the system used by Aracruz to prepare the publication, in light of the aforementioned principles. Thus, this verification was based on the data and the information made available to the verification team, and Bureau Veritas Certification cannot therefore be considered co-responsible by any stakeholders for decisions taken or not taken based on this verification statement

Technical opinion

During the evaluation, the Bureau Veritas Certification team found evidence of improvement in the process for the preparation of the Annual and Sustainability Report, such as the use of documented criteria for establishing Materiality, which led the company to prioritize information regarding the following issues:

- Biodiversity;
- Relationship with indigenous communities;
- FSC certification;
- Local and regional economic impacts;
- Relationship with remaining members of *quilombos*;
- Ethical behavior.

The evaluation team understands that the use of Materiality criteria led to a significant improvement in the Report's content. In addition, we understand that the information regarding the indigenous question was reported in a clear and objective manner.

The disclosure of the information in the 2006 and 2007 reports, aligned with the four key perspectives used in the sustainable growth and productivity strategy, provides the reader with an understanding of the material issues from Aracruz's business point of view, further facilitating the comparison of the information over time.

From the viewpoint of management of the material aspects that were disclosed, the evaluation team obtained sufficient evidence to state that, despite the fact the company is restructuring its sustainability area, Aracruz Celulose has the appropriate resources necessary to manage the relevant material questions.

It is Bureau Veritas Certification's opinion that Aracruz Celulose should continue the process of improving the Annual and Sustainability Report, summarizing below the main opportunities for improvement that were identified during the verification:

- Training those responsible for relevant material issues about the criteria for the content and quality of the sustainability reports (in compliance with internationally recognized guidelines);
- Regarding the use of the Clarity criteria, greater attention must be paid to the need for answers regarding the expectations created in the report's previous editions;
- Regarding the use of the Comparability criteria, a greater focus must be given to the possibility for analyzing changes in the organization's performance over time;
- The development of social performance indicators that permit stakeholders to make a more objective analysis about this topic over time should become a priority;
- The report should have wider scope regarding the performance of Portocel, in which Aracruz Celulose has a controlling stake (51%);
- Aracruz Celulose should intensify the engagement process with stakeholders regarding the definition of Materiality for the Annual and Sustainability Report;
- The information about the organization's environmental performance should be better contextualized in order for the reader to more clearly understand the subject matter.

Conclusion

Bureau Veritas Certification understands that Aracruz Celulose S.A. has duly implemented a management system that encompasses its significant material aspects, which makes it possible to disclose reliable information in this respect, as well as being able to effectively manage these aspects. During the field evaluations, the data supplied for the report were confirmed in terms of exactness and reliability.

We furthermore concluded that the 2007 Annual and Sustainability Report's content improved compared to the previous year's report due to the use of the criteria for establishment of Materiality. Nevertheless, the system that has been defined to establish material issues should consider including stakeholders in order to create a more robust tool, one that is capable of perfecting the decision making processes regarding this important aspect.

Thus, Bureau Veritas Certification considers that the Aracruz Celulose 2007 Annual and Sustainability Report is in compliance with the principles of **Preciseness, Periodicity, Clarity and Reliability**. All of the social and environmental information presented in the Aracruz Celulose S.A. 2007 Annual and Sustainability Report reflect in a consistent and reliable manner the data that was collected in its production units and the company's corporate headquarters.

Additionally, we attest that the methodology used to determine the inventory of greenhouse gases and carbon stock in Aracruz's forests is consistent with the calculation protocol established by the ICFPA - International Council of Forest and Paper Associations in November 2004 and revised in July 2005.

Bureau Veritas Certification is accessible for further clarification on www.bureauveritascertification.com.br/faleconosco.asp or by phone +55 (11) 5070-9800.

Global Reporting Initiative (G3)

Economic performance

	Description	Location	Page
C EC1	Economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Use of resources generated in 2007 (ASR)	25
C EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Climate Change (ASR) Environmental risks (CD/Website)	61-65
C EC3	Coverage of the organization's defined benefit plan obligations.	Full life (ASR) Jobs chart – labor compensation (ASR)	58 27
C EC4	Significant financial assistance received from government.	BNDES (shareholder) loan – Financial Statements	

Market presence

A EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Jobs chart - selected statistics (ASR)	27
C EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Use of resources generated in 1989 -2007 (ASR) Use of resources generated in 2007 (ASR) Suppliers (ASR)	25 25 59
C EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Jobs (ASR)	26

Indirect economic impacts

C EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Use of resources generated in 1989 – 2007 (ASR)	25
A EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Earnings and employment (ASR)	24-25

Environmental

Materials

C EN1	Materials used by weight or volume.	Forestry operations – wood production (ASR) Industrial operations (ASR) Consumptions in the production of pulp (ASR)	47 52-55 52
A EN2	Percentage of materials used that are recycled input materials.	NA	

Energy

C EN3	Direct energy consumption by primary energy source.	Generation and consumption of electric energy and fuel – 2007 (ASR)	55
C EN4	Indirect energy consumption by primary source.	Generation and consumption of electric energy and fuel – 2007 (ASR)	55
A EN5	Energy saved due to conservation and efficiency improvements.	NR	
A EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Generation and consumption of electric energy and fuel – 2007 (ASR) Climate change (ASR)	55 61-65
A EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Generation and consumption of electric energy and fuel – 2007 (ASR) Climate change (ASR)	55 61-65

ASR – 2007 Annual and Sustainability Report

CD/website – Information can be found on the CD that accompanies this publication and in the online version of this report available at www.aracruz.com/2007sustainabilityreport.

NA – Not applicable NR – Not reported

A – Additional **C** – Core **■** – Corresponds with the UN Global Compact

Water

	Description	Location	Page
C EN8	Total water withdrawal by source.	Consumptions in the production of pulp (ASR)	52
A EN9	Water sources significantly affected by withdrawal of water.	NR	
A EN10	Percentage and total volume of water recycled and reused.	NR	

Biodiversity

C EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Forestry operations (ASR)	44-51
C EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Biodiversity (ASR)	48-49
A EN13	Habitats protected or restored.	Biodiversity (ASR) RPPNs (ASR)	48-49 51
A EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Biodiversity (ASR) RPPNs (ASR) Meteorology and water resources (ASR) Fulfilling Aracruz Celulose's sustainability objectives for 2007 (CD/Website) Main sustainability objectives for 2008 (ASR)	48-49 51 48 88-89
A EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Biodiversity (ASR)	48-49

Emissions, effluents, and waste

C EN16	Total direct and indirect greenhouse gas emissions by weight.	Climate change – Emissions inventory (ASR)	63-64
C EN17	Other relevant indirect greenhouse gas emissions by weight.	Climate change – Emissions inventory (ASR)	63-64
A EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Climate change (ASR)	61-65
C EN19	Emissions of ozone-depleting substances by weight.	Emissions, effluents and residues in the production of pulp (ASR)	53-54
C EN20	NOx, SOx, and other significant air emissions by type and weight.	Emissions, effluents and residues in the production of pulp (ASR)	53-54
C EN21	Total water discharge by quality and destination.	Emissions, effluents and residues in the production of pulp (ASR)	53-54
C EN22	Total weight of waste by type and disposal method.	Generation and use of solid wastes (ASR) Solid wastes generated (CD/Website)	55
C EN23	Total number and volume of significant spills.	There were no spills in 2007.	
A EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Aracruz does not transport, import or export hazardous waste under the Basel Convention.	
A EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	NR	

A – Additional **C** – Core **■** – Corresponds with the UN Global Compact

Products and services

	Description	Location	Page
C EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	NR	
C EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not applicable to Aracruz's business.	

Compliance

C EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fines and lawsuits (ASR) Fines and lawsuits (CD/Website)	56
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Transport

A EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	Climate change (ASR) Wood logistics (ASR)	61-65 47
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Overall

A EN30	Total environmental protection expenditures and investments by type.	Environmental Management (ASR)	61
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Social performance: labor practices & decent work

Employment

C LA1	Total workforce by employment type, employment contract, and region.	Jobs (ASR) Jobs chart – employees consolidated data 2007 (ASR)	26 27
C LA2	Total number and rate of employee turnover by age group, gender, and region.	Jobs chart – selected statistics (ASR) Jobs (ASR)	27 26
A LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Jobs chart – labor compensation (ASR)	27

Labor/management relations

C LA4	Percentage of employees covered by collective bargaining agreements.	Jobs (ASR)	26
C LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	NR	

Occupational health and safety

A LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	NR	
C LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Labor force (ASR)	57-59
C LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Quality of life (ASR)	58-59
A LA9	Health and safety topics covered in formal agreements with trade unions.	NR	

A – Additional **C** – Core **NR** – Corresponds with the UN Global Compact

Training and education

	Description	Location	Page
C LA10	Average hours of training per year per employee by employee category.	Professional training and development (ASR)	72-73
A LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Jobs chart – selected statistics (ASR) Full life (ASR)	27 58
A LA12	Percentage of employees receiving regular performance and career development reviews.	NR	

Diversity and equal opportunity

C LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Corporate governance (CD/Website) Jobs chart – selected statistics (ASR)	27
C LA14	Ratio of basic salary of men to women by employee category.	NR	

Social performance: human rights

Investment and procurement practices

C HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	NR	
C HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	NR	
A HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Jobs chart - selected statistics (ASR)	27

Non-discrimination

C HR4	Total number of incidents of discrimination and actions taken.	There were no reports in 2007.	
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Freedom of association and collective bargaining

C HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	There were no reports in 2007.	
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Child labor

C HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	There were no reports in 2007.	
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Forced and compulsory labor

C HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.	There were no reports in 2007.	
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A – Additional **C** – Core **NR** – Corresponds with the UN Global Compact

Security practices

	Description	Location	Page
A HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	NR	

Indigenous rights

C HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Aracruz and the indigenous communities (ASR)	80
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Social performance: society

Community

C SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	Engagement (ASR) Community relationships (ASR) Social investments (ASR)	74-79 80-87 29-32
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Corruption

C SO2	Percentage and total number of business units analyzed for risks related to corruption.	Risk management (ASR) Risk management (CD/Website)	21
C SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	NR	
A SO4	Actions taken in response to incidents of corruption.	There were no reports in 2007.	

Public policy

C SO5	Public policy positions and participation in public policy development and lobbying.	NR	
A SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	There was no political contribution in 2007.	

Anti-competitive behavior

A SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	There were no reports in 2007.	
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Compliance

C SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Fines and lawsuits (ASR) Fines and lawsuits (CD/Website)	56
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A – Additional **C** – Core **NR** – Corresponds with the UN Global Compact

Social performance: product responsibility

Customer health and safety

	Description	Location	Page
C PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	NR	
A PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	There were no reports in 2007.	

Products and service labeling

C PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	NA	
A PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	NA	
A PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Customer relationships (ASR)	41

Marketing communications

C PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	NR	
A PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	NR	

Customer privacy

A PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	NR	
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Compliance

C PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	There were no reports in 2007.	
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A – Additional **C** – Core **NR** – Corresponds with the UN Global Compact

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Financial statements
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Analysis of the 2007 results

Net operating revenues reached a record of US\$1,884 million, 12% higher than the amount obtained in 2006, due to an 8% increase in the average net pulp prices, representing US\$127.9 million, and 3% of higher pulp sales volume, totaling US\$47.9 million. The remaining US\$27.2 million are related to other sales.

Cost of products sold (pulp), measured in US\$/ton, was US\$369/t, which represented an expansion of 11% over 2006, mainly due to US\$19/t of the effect of the appreciation of the real against the dollar on the items of the cost structure correlated to the local currency (real – R\$), higher pulp volume purchased from Veracel (US\$8.8/t) and some raw materials, such as wood purchases from third parties, oil prices, chemicals and energy sources.

Selling (Distribution and sales) expenses rose 6.5% in nominal values, reflecting the 3% increase in sales volume over the previous year and higher terminal expenses, partially offset by the effect of the appreciation of the real against the dollar over the period.

In 2007, **general and administrative expenses** were equivalent to 3.1% of total net revenues, compared to 3.4% in the previous year, mainly due to reductions in institutional advertising.

The result for **other net operating expenses** was a credit of US\$38.6 million in 2007, US\$51.1 million better than in the previous year, mainly due to the partial reversal of the provision for losses on ICMS tax credits, which are expected to be recovered in the short-term, considering the history of such transactions. During the year 2007, the Company sold approximately US\$50 million in ICMS tax credits and it has the perspective of successfully closing other sales transactions.

Operating cash generation (measured by the EBITDA adjusted for other strictly accounting events and without impact on cash flow – not including 50% of Veracel) was US\$0.8 billion, 8% higher than the US\$0.7 billion posted in 2006.

Financial expenses in 2007 were 33% lower than in 2006, mainly due to the expenses linked to the pre-payment of the securitization program in 2006, and lower interest on loans and financing.

Financial revenues also was favored by US\$96 million in foreign exchange derivative operations for cash flow protection. As a measure to protect its cash flow exposure and in compliance with the Aracruz’ financial policy as approved by the Board of Directors, which establish that the Company is allowed to hedge its cash flow, in compliance

with FAS 133 regulations, utilizing a range of financial instruments (including derivatives and others), limited to a total of US\$50 million in notional value per party and for a maximum period of 1 (one) year on NDF operations, as well as being restricted to banks based in G-7 countries and with a rating of “A-” or better. At the end of the year, the cash flow currency protection strategy, taking a short position in dollars totaling US\$150 million, represented approximately 3 months of cash flow exposure to the local currency (real – R\$).

Currency remeasurement represented a gain of R\$0.9 million, caused by the 17.1% devaluation of the dollar over the period, compared to gain of US\$7.6 million in 2006, when the dollar devalued by 8.7%.

Income tax and social contribution amounted to provision of \$197.3 million in 2007, against \$69.5 million in the previous year, an increase of 184%. Tax charges are calculated based on the Brazilian GAAP results, and consequently influenced by the exchange rate variation’s effect on monetary assets and liabilities denominated in US dollars. Breaking down the income tax expense in 2007, the total expense of \$197 million (\$70 million in 2006) comprises \$41 million of current tax (\$31 million in 2006) and \$156 million of deferred tax (\$39 million in 2006). The reason for the increase in the deferred tax amount in comparison with 2006 is the impact of the Brazilian currency’s appreciation against the dollar on Brazilian GAAP numbers, which are the basis for calculating the Brazilian taxes. Since 2005, the company has opted to make cash settlement of income tax and social contribution liabilities, arising from currency variations, in the period that the underlying assets/liabilities are settled, and not in the period that such tax liabilities arise. In 2007, the income tax provision was equivalent to 31% of the pre-tax profit (in 2006 it was 13%).

As a result, **net earnings** totaled US\$422.1 million, 7.3% lower than net earnings of US\$455.3 million in 2006.

The comparison of the main variations in the results were as follows:

US\$ millions	
Higher pulp sales price	128
Higher pulp sales volume	18
Effect of price on costs	(109)
Lower operating expenses	45
Increase in net financial revenues, including currency remeasurement gain	28
Higher provision for Income Tax and Social Contribution	(128)
Other	(15)

Net indebtedness, comprised of total gross debt less cash, was up 33% (or US\$220 million) in comparison with 2006, mainly due to greater expenditures on investments, payment of dividends and interest on stockholders' equity, partially offset by positive operational cash generation. Aracruz's cash position as of December 31, 2007, in the amount of US\$526 million, represented 6 times the principal of the short term debt, in the amount of US\$88 million, reflecting the Company's favorable debt profile.

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, cash production cost and net debt, will allow the management, investors, and analysts to compare and fully evaluate the unaudited consolidated results of its operations.

“Net debt”

Net debt reflects the company's total debt minus cash, cash equivalents and short-term investments. Net debt is not a financial measure under U.S. GAAP, does not represent cash flows for the periods indicated and should not be considered as a substitute for cash flow as a measure of liquidity or as an indicator of ability to fund operations. Net debt does not have a standardized definition and our net debt calculation may not be comparable to the net debt of other companies. Even though net debt does not provide a measure of cash flow in accordance with U.S. GAAP, the company uses net debt as an accurate measure of financial leverage, since the company keeps cash in excess of its working capital requirement. Furthermore, the company understands that certain investors and financial analysts use net debt as an indicator of financial leverage and liquidity.

“Adjusted EBITDA”

The inclusion of **adjusted EBITDA** information is to provide a measure for assessing our ability to generate cash from our operations. Adjusted EBITDA is equal to 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. Because adjusted EBITDA excludes interest, income taxes, depreciation, currency re-measurement, equity accounting for associates, 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 meet principal and interest obligations with respect to our indebtedness, as well as to fund capital expenditure and working capital requirements. Adjusted EBITDA is not a measure of financial performance under U.S. GAAP. Adjusted EBITDA should not be considered in isolation, or as a substitute for net income, as a measure of operating performance, as a substitute for cash flows from operations or as a measure of liquidity. Adjusted EBITDA has material limitations that impair its value as a measure 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. An adjusted EBITDA calculation is tolerated by the Brazilian regulators with respect to disclosures published in Brazil.

(US\$ million)	YTD 2007	YTD 2006
Net income	422.1	455.3
Financial income	(168.0)	(181.7)
Financial expenses	100.9	149.7
Income tax	197.3	69.5
Equity in results of affiliated companies	32.1	13.7
Loss (gain) on currency re-measurement, net	(0.9)	(7.6)
Other	10.4	0.5
Operating income	593.9	499.4
Depreciation and depletion in the results:	219.9	216.6
Depreciation and depletion	217.7	217.8
Depreciation and depletion – inventory movement	2.2	(1.2)
EBITDA	813.8	716.0
Non-cash charges	(18.0)	19.7
Provision for labor indemnity	4.6	0.8
Provision (reversal) for loss on ICMS credits	(40.5)	17.5
Provision (reversal) for a tax contingency	0.4	0.1
Fixed asset write-offs	1.9	-
Loss on the sale of obsolete spare parts	0.1	0.9
Discount on tax credit sales	15.5	1.5
Allowance for doubtful accounts receivable	-	0.5
Reversal of tax provision	-	(1.6)
Adjusted Aracruz EBITDA	795.8	735.7

Management’s report on internal control over financial reporting

The management of Aracruz Celulose S.A. and subsidiaries (“the Company”) is responsible for establishing and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

The Company’s internal control over financial reporting is a process designed by, or under the supervision of, the Company’s Audit Committee, principal executive and principal financial officers, and effected by the Company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. The Company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect material misstatements on a timely basis. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations – COSO – of the Treadway Commission. Based on that assessment management has concluded that as of December 31, 2007 the Company’s internal control over financial reporting is effective.

Management’s assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2007 has been audited by Deloitte Touche Tohmatsu Auditores Independentes, the Company’s independent registered public accounting firm, which opinion is stated in their report, dated January 10, 2008, included herein.

Carlos Augusto Lira Aguiar
Carlos Augusto Lira Aguiar
Chief Executive Officer
January 10, 2008

Isac Roffé Zagury
Isac Roffé Zagury
Chief Financial Officer
January 10, 2008

Report of independent registered public accounting firm, on internal control over financial reporting

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

We have audited the internal control over financial reporting of Aracruz Celulose S.A. and subsidiaries (the “Company”) as of December 31, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2007 of the Company and our report dated January 10, 2008 expressed an unqualified opinion on those consolidated financial statements.

Deloitte Touche Tohmatsu Auditores Independentes

Deloitte Touche Tohmatsu Auditores Independentes

Rio de Janeiro, Brazil

January 10, 2008

Report of independent registered public accounting firm

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

We have audited the accompanying consolidated balance sheets of Aracruz Celulose S.A. and subsidiaries ("the Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 10, 2008 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte Touche Tohmatsu Auditores Independentes
Deloitte Touche Tohmatsu Auditores Independentes
Rio de Janeiro, Brazil
January 10, 2008

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

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

	December 31,	
Liabilities and stockholders' equity	2006	2007
Current liabilities		
Suppliers	95,574	119,950
Payroll and related charges	25,246	33,310
Income and other taxes	38,391	31,237
Short-term borrowings	4,677	5,646
Current portion of long-term debt		
Related party	65,360	76,082
Other	1,854	5,897
Accrued finance charges	17,896	9,143
Accrued dividends – interest payable on stockholders' equity	36,545	45,495
Other accruals	1,276	959
Total current liabilities	286,819	327,719
Long-term liabilities		
Long-term debt		
Related party	232,191	350,274
Other	922,859	962,077
Tax assessments and litigation contingencies	101,772	130,999
Liabilities associated with unrecognized tax benefits	71,727	92,449
Interest and penalties on liabilities associated with unrecognized tax benefits	47,996	69,046
Deferred income tax, net	96,035	248,879
Other	33,231	44,905
Total long-term liabilities	1,505,811	1,898,629
Commitments and contingencies (Note 3 and 14)		
Minority interest	875	11,397
Stockholders' equity		
Share capital – no-par-value shares authorized and issued		
Common stock – 2006 and 2007 – 455,390,699 shares	297,265	518,385
Preferred stock		
Class A – 2006 – 37,962,555 shares 2007 – 27,958,116 shares	31,056	41,305
Class B – 2006 – 539,200,866 shares; 2007 – 549,205,305 shares;	583,440	853,439
Treasury stock		
Class B preferred stock – 2006 and 2007 – 1,483,200 shares;		
Common stock – 2006 and 2007 – 483,114 shares	(2,639)	(2,639)
Total share capital	909,122	1,410,490
Appropriated retained earnings	1,419,079	1,434,228
Unappropriated retained earnings (deficit)	(125,778)	(457,600)
Total stockholders' equity	2,202,423	2,387,118
Total liabilities and stockholders' equity	3,995,928	4,624,863

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

Consolidated statements of operations

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

	Year ended December 31,		
	2005	2006	2007
Operating revenues			
Domestic	62,019	77,431	137,086
Export	1,469,646	1,845,026	2,007,017
Gross operating revenues	1,531,665	1,922,457	2,144,103
Sales taxes and other deductions	(186,432)	(241,624)	(260,328)
Net operating revenues	1,345,233	1,680,833	1,883,775
Operating costs and expenses			
Cost of sales	783,578	1,037,896	1,190,957
Selling	64,430	74,005	78,832
Administrative	33,820	57,020	58,708
Other, net	16,313	12,514	(38,624)
Total operating costs and expenses	898,141	1,181,435	1,289,873
Operating income	447,092	499,398	593,902
Non-operating (income) expenses, net			
Financial income	(125,439)	(181,733)	(168,037)
Financial expenses	137,276	149,719	100,864
Gain on currency remeasurement, net	(21,386)	(7,641)	(908)
Other, net	(778)	(7)	(61)
Total non-operating (income) expenses, net	(10,327)	(39,662)	(68,142)
Income before income taxes, minority interest and equity in results of affiliated companies	457,419	539,060	662,044
Income tax expense			
Current	71,086	30,754	41,343
Deferred	1,142	38,740	155,969
Total income tax expense	72,228	69,494	197,312
Minority interest	(31)	(544)	(10,522)
Equity in results of affiliated companies	(44,062)	(13,705)	(32,141)
Net income	341,098	455,317	422,069
Basic and diluted earnings per share			
Common stock	0.31	0.42	0.39
Class A preferred stock	0.34	0.46	0.43
Class B preferred stock	0.34	0.46	0.43
Weighted-average number of shares outstanding (thousands) – basic and diluted			
Common stock	454,908	454,908	454,908
Class A preferred stock	38,022	38,015	36,933
Class B preferred stock	537,739	537,665	538,747

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

Consolidated statements of cash flows

Expressed in thousands of United States dollars

	Year ended December 31,		
	2005	2006	2007
Cash flows from operating activities			
Net income	341,098	455,317	422,069
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and depletion	211,615	217,842	217,641
Equity in results of affiliated companies	44,062	13,705	32,141
Deferred income tax	1,142	38,740	155,969
Gain on currency remeasurement, net	(21,386)	(7,641)	(908)
Loss (gain) on sale of equipment	1,005	(46)	1,967
Decrease (increase) in assets			
Accounts receivable, net	(58,514)	(47,366)	(110,469)
Inventories, net	(47,653)	(28,831)	(22,319)
Interest receivable on short-term investments	(45,206)	(6,281)	(33,244)
Recoverable taxes	(45,170)	(22,093)	(59,549)
Other	(3,609)	(1,902)	72
Increase (decrease) in liabilities			
Suppliers	26,825	(614)	13,237
Payroll and related charges	3,782	4,606	5,941
Income and other tax assessments and litigation contingencies	38,953	5,725	16,194
Accrued finance charges	(811)	10,697	(9,049)
Other	(391)	3,010	12,011
Net cash provided by operating activities	445,742	634,868	641,704
Cash flows from investing activities			
Short-term investments:			
Applications	(141,736)	(175,913)	(108,398)
Redemptions	143,750	223,331	298,304
Proceeds from sale of equipment	724	565	531
Investments in affiliate	(69,097)	(24,500)	(122,800)
Additions to property, plant and equipment	(147,884)	(301,009)	(589,677)
Net cash used in investing activities	(214,243)	(277,526)	(522,040)
Cash flows from financing activities			
Short-term debt, net	86,962	(73,649)	12,264
Long-term debt			
Issuances			
Related parties	60,205	72,776	138,151
Other	25,000	809,000	285,000
Repayments			
Related parties	(56,245)	(63,693)	(71,276)
Other	(209,319)	(834,042)	(251,854)
Treasury stock acquired	(351)		
Dividends and interest on stockholders' equity paid	(139,420)	(251,758)	(232,740)
Net cash used in financing activities	(233,168)	(341,366)	(120,455)
Effect of changes in exchange rates on cash and cash equivalents	(691)	(1,676)	5,698
Increase (decrease) in cash and cash equivalents	(2,360)	14,300	4,907
Cash and cash equivalents, beginning of year	36,474	34,114	48,414
Cash and cash equivalents, end of year	34,114	48,414	53,321
Supplementary cash flow information			
Interest paid	80,919	76,030	91,304
Income taxes paid	95,359	41,450	51,500
Non-cash transaction:			
Capital increase with balances from investment reserves			501,368
Unpaid accrued dividends and interest on stockholders' equity	65,947	36,545	45,495

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

Consolidated statements of changes in stockholders' equity

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

	Year ended December 31,					
	2005		2006		2007	
	Shares	US\$	Shares	US\$	Shares	US\$
Share Capital						
Common stock						
Balance, January 1	455,390,699	297,265	455,390,699	297,265	455,390,699	297,265
Capital increase						221,120
Balance, December 31	455,390,699	297,265	455,390,699	297,265	455,390,699	518,385
Preferred stock – Class A						
Balance, January 1	38,022,178	31,105	38,022,178	31,105	37,962,555	31,056
Capital increase						18,433
Conversion to Class B stock			(59,623)	(49)	(10,004,439)	(8,184)
Balance, December 31	38,022,178	31,105	37,962,555	31,056	27,958,116	41,305
Preferred stock – Class B						
Balance, January 1	539,141,243	583,391	539,141,243	583,391	539,200,866	583,440
Capital increase						261,815
Conversion from Class A stock			59,623	49	10,004,439	8,184
Balance, December 31	539,141,243	583,391	539,200,866	583,440	549,205,305	853,439
Treasury stock						
Balance, January 1 – Preferred and common stock	(1,861,114)	(2,288)	(1,966,314)	(2,639)	(1,966,314)	(2,639)
Treasury stock acquired – Class B Preferred stock	(105,200)	(351)				
Balance, December 31	(1,966,314)	(2,639)	(1,966,314)	(2,639)	(1,966,314)	(2,639)
Total share capital	1,030,587,806	909,122	1,030,587,806	909,122	1,030,587,806	1,410,490
Appropriated Retained Earnings						
Fiscal-incentive reserve						
Balance, January 1		53,819		69,300		75,870
Transfer from unappropriated retained earnings		15,481		6,570		15,706
Balance, December 31		69,300		75,870		91,576
Investments reserve						
Balance, January 1		482,013		823,434		1,184,905
Transfer to share capital – capital						(501,368)
Dividends cancelled						1,126
Transfer from unappropriated retained earnings		341,421		361,471		438,102
Balance, December 31		823,434		1,184,905		1,122,765
Legal reserve						
Balance, January 1		83,695		120,065		158,304
Transfer from unappropriated retained earnings		36,370		38,239		61,583
Balance, December 31		120,065		158,304		219,887
Total appropriated retained earnings		1,012,799		1,419,079		
Balance carried forward	1,030,587,806	1,921,921	1,030,587,806	2,328,201	1,030,587,806	2,844,718

(Continued)		Year ended December 31,					
		2005		2006		2007	
		Shares	US\$	Shares	US\$	Shares	US\$
Balance brought forward		1,030,587,806	1,921,921	1,030,587,806	2,328,201	1,030,587,806	2,844,718
Unappropriated retained earnings							
Balance, January 1			285,287		42,502		(125,778)
Net income			341,098		455,317		422,069
Cash dividends (per share: 2005 – US\$0.06 to Class A preferred stock and US\$0.05 to both Class B preferred and common stock; 2006 – US\$0.07 to Class A preferred stock and US\$0.06 to both Class B preferred and common stock; 2007 – US\$0.08 to both Class A preferred and Class B preferred stock and US\$0.08 to common stock)			(59,484)		(70,969)		(82,307)
Interest on Stockholders' Equity (per share: 2005 – US\$0.13 to both Class A and B preferred stock and US\$0.12 to common stock; 2006 – US\$0.15 to both Class A and B preferred stock and US\$0.13 to common stock) 2007 – US\$0.16 to both Class A and B preferred stock and US\$0.14 to common stock)			(131,127)		(146,348)		(156,193)
Transfer to reserves			(393,272)		(406,280)		(515,391)
Balance, December 31			42,502		(125,778)		(457,600)
Total stockholders' equity		1,030,587,806	1,964,423	1,030,587,806	2,202,423	1,030,587,806	2,387,118
Comprehensive income is comprised as follows:							
Net income			341,098		455,317		422,069
Total comprehensive income			341,098		455,317		422,069

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

Notes to the consolidated financial statements for the years ended December 31, 2005, 2006 and 2007.

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

1. Operations and summary of significant accounting policies

1.1. Operations

Aracruz Celulose S.A. and its subsidiaries (the "Company") produces eucalyptus pulp, which is a high-quality variety of hardwood pulp used by paper manufacturers to produce a wide range of products, including premium tissue, printing and writing papers, liquid packaging board and specialty papers. Eucalyptus pulp's distinguishing characteristics are its softness, opacity, porosity, and suitability for printing. "Market pulp" is the pulp sold to producers of paper products, as opposed to pulp produced by an integrated paper producer, for use in paper production facilities.

1.2. Summary of significant accounting policies

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

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with US GAAP, which differ in certain respects from the Brazilian accounting principles applied by the Company in its statutory financial statements prepared in accordance with Brazilian corporate legislation.

The Company has reported its financial statements in U.S. dollars since 1994 when the U.S. Securities and Exchange Commission permitted foreign registrants to report in U.S. dollars rather than in the currency of the country in which they are incorporated. The U.S. Dollar is used as the Company's functional currency as this has been, and remains, in the opinion of the Company's Board of Directors and Management, the currency in which it principally operates as well as being the Company's primary unit of economic measure. The U.S. dollar amounts have been remeasured from Brazilian Reais (R\$) in accordance with the criteria set forth in Statement of Financial Accounting Standards N° 52 – "Foreign Currency Translation" ("SFAS 52"). Remeasurement gains and losses are recognized in the income statement and non-monetary assets and liabilities (such as inventory and fixed assets) are converted at the historical exchange rate rather than at the end of period exchange rate.

The impact of the exchange variation of the Brazilian Real in relation to the U.S. dollar on the Company's monetary assets and liabilities denominated in Brazilian Reais in 2007 was a net gain of US\$1 million (US\$8 million in 2006 and US\$21 million in 2005). The exchange rates at December 31, 2007, 2006 and 2005 were, respectively: US\$1: R\$1.7713, R\$2.1380 and R\$2.3407.

Stockholders' equity included in the consolidated financial statements presented herein differs from that included in the Company's statutory accounting records as a result of the variations in the U.S. dollar exchange rate, the indexation mandated over the years up to December 31, 1995 for statutory financial statements and adjustments made to reflect the requirements of US GAAP (note 11).

(b) Basis of consolidation

The financial statements of all majority-owned subsidiaries, Private Investment Fund, have been consolidated, and all significant intercompany accounts and transactions have been eliminated. Accordingly, the following companies were consolidated: Aracruz Trading S.A., Aracruz Celulose (USA) Inc., Portocel – Terminal Especializado de Barra do Riacho S.A., Mucuri Agroflorestal S.A., Riocell Limited, Ara Pulp – Com. de Importação e Exportação, Unipessoal Ltda. and Aracruz Trading International Commercial and Servicing Limited Liability Company ("Aracruz Trading International Ltd."), the Private Investments Funds Pulp and Lyptus and the Arcel Finance Limited (dissolved in November 27, 2007).

(c) Cash and cash equivalents

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

(d) Concentration of risk

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

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

(e) Inventories

Inventories are stated at the lower of the average cost of purchase or production, and replacement or market values. Cost is determined principally on the average-cost method. Cost is adjusted for slow-moving or obsolete inventories when considered appropriate.

(f) Investments in affiliated companies and other investments

The Company uses the equity method of accounting for its long-term investment (Veracel Celulose S.A.) in which it owns 50% of the investee's voting stock and has the ability to exercise significant influence over operating and financial policies of the investee and for its long-term investment in Aracruz Produtos de Madeira S.A. ("APM") in which it owns 33.3% of the investee's voting stock and also has the ability to exercise significant influence over operating and financial policies. The equity method requires periodic adjustments to the investment account to recognize the Company's proportionate share in the investee's results, reduced by receipt of investee dividends and, up to January 1, 2002, amortization of goodwill.

The Company accounts for its investment securities having a quoted market price (other than those accounted for under the equity method) in accordance with SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115").

(g) Impairment testing of goodwill

The Company annually evaluates the carrying value of goodwill during and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The fair value of the reporting unit is estimated using a discounted cash flows approach. If the carrying amount of the reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of reporting unit goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value. The Company's evaluation of goodwill completed during the year resulted in no impairment losses. The Goodwill registered

in the Company's financial statements mainly refers to the acquisition of Riocell S.A.

(h) Property, plant and equipment

Timber resources are stated at cost, less accumulated depletion. Forest development and maintenance cost including costs related to site preparation, planting, fertilization, herbicide application and thinning, together with related taxes, are capitalized as timber resources. Depletion is determined on stand by stand basis, excluding from the amount to be depleted the portion of development costs that benefit future harvests; such costs remain capitalized and are included in the future depletion cost of those harvests.

Other property, plant and equipment are recorded at cost, including interest incurred on financing during the construction period of major new facilities. Interest on borrowings are capitalized exclusive of the foreign currency translation effects.

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

The costs of logging roads and related facilities included in property, plant and equipment, under the heading "Buildings, improvements and installations" are depreciated over their useful lives.

Maintenance expenses, including those related to programmed maintenance of the Company's facilities, are charged to the cost of production as incurred.

(i) Environmental costs

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

(j) Research and development

Expenditures for research and development were US\$10.0 million, US\$8.6 million and US\$6.3 million for the years ended December 31, 2007, 2006 and 2005, respectively. All such costs are expensed as incurred.

(k) Recoverability of long-lived assets

Management reviews long-lived assets to be held and used in the Company's business activities, for the purpose of determining and measuring impairment on a recurring basis or when events or changes in circumstances indicate that the carrying value of an

Notes to the consolidated financial statements for the years ended December 31, 2005, 2006 and 2007.

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

asset or group of assets may not be recoverable. Write-down of the carrying value of assets or groups of assets is made if and when appropriate in accordance with Statement of Financial Accounting Standards N° 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," or SFAS 144. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. In accordance with SFAS 144, the carrying value of long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the assets. Fair value is determined primarily by using a discounted cash flow analysis. During 2007, as a consequence of the devaluation of the US dollar against Brazilian Reais, we have performed the anticipated undiscounted cash flow test and we have concluded that the carrying amount of our assets is still recoverable.

(l) Advances to suppliers

Advances to suppliers represent amounts advanced (either in cash, seeds, technical assistance or other assets that will be used to grow eucalyptus plants) to small private producers in the states of Espírito Santo, Bahia, Minas Gerais and Rio Grande do Sul, as part of a program called "Programa Produtor Florestal". In exchange, the Company receives wood produced by these small private producers. The allocation between current and non-current asset is calculated based on the estimated timing of future harvest.

**(m) Employee retirement
and post-employment benefits**

The cost of the employee retirement benefits is accrued currently. Employee postretirement and post-employment benefits as defined by SFAS 106 – "Employers' Accounting for Postretirement Benefits other than Pensions" and SFAS 112 – "Employers' Accounting for Post-employment Benefits", respectively, are not significant. The Company is required by law to provide severance benefits to employees terminated without just cause.

(n) Compensated absences

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

(o) Revenues and expenses

Revenues arise from annual and long-term sales contracts and from spot sales and are recognized on an accrual basis when the products have been delivered or shipped to the customer and the risk of ownership has passed to the customer. The Company's selling prices are fixed or determinable and collectibility is reasonably assured. Expenses and costs are accrued as incurred. The Company reflects rebates, discounts and value-added taxes as a reduction of gross operating revenues.

(p) Shipping and handling fees

Amounts billed to customers in a sale transaction related to shipping and handling are classified as revenue. The related costs incurred for related to shipping and handling are classified as costs of sale.

(q) Accounting for derivatives and hedging activities

The Company accounts for derivative financial instruments pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. This standard requires that all derivative instruments be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative instruments are recognized periodically in income as the Company accounts for all derivative financial instruments as non-hedge transactions. Gain and losses are classified as financial income and expense in the statements of operations.

(r) Income taxes

The Company recognizes deferred income tax assets and liabilities for the expected future tax consequences of temporary differences between the tax bases and financial reporting bases of assets and liabilities, as well as on tax losses carryforward. A valuation allowance is provided to reduce deferred income tax assets when management considers that realization is not more likely than not.

The Company adopted the provisions of FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes, on January 1, 2007. Beginning January 1, 2007, the Company records the financial statement effects of an income tax position when it is more likely than not, based on the technical merits, that it will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold is measured and recorded as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority. Previously recognized tax positions are derecognized in the first period in which it is no longer more likely than not that the tax position will be sustained. The benefit associated with previously unrecognized tax positions are generally recognized in the first period in which the more-likely-than-not threshold is met at the reporting date, the tax matter is ultimately settled through negotiation or litigation or when the related statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired. The recognition, derecognition and measurement of tax positions are based on management's best judgment given the facts, circumstance and information available at the reporting date.

Differences between a tax position taken or expected to be taken in the Company's tax returns and the amount of benefit recognized and measured in the financial statements result in unrecognized tax benefits, which are recorded 'in the balance sheet as a either a liability for unrecognized tax benefits or reductions to recorded tax assets, as applicable. The liability for unrecognized tax benefits expected to be realized within one year are classified as current in the balance sheet.

Interest and penalties are accrued with respect to unrecognized tax benefits in accordance with the legislation of the respective taxing jurisdictions.

The adoption of FIN 48 did not have a material impact in the Company's statements of operations and financial position and did not result in a cumulative adjustment to retained earnings at adoption.

(s) Basic and diluted earnings per share

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of all classes of shares outstanding during the year, net of treasury stock, after taking into consideration the dividend preferences applicable to the Company's Class A and Class B preferred stocks, assuming that all earnings for the year are fully distributed. There were no dilutive securities outstanding in 2005, 2006 and 2007 (see Note 11).

(t) Segment information

SFAS No. 131 "Disclosures about Segments of Enterprise and Related Information" ("SFAS 131") requires that a business enterprise supplementally disclose certain financial information among its various and distinct operating activities. Such information is to be presented from the point of view of how operating and financial decisions are made for each business sector. See presentation of exports by geographic information in note 18.

(u) Guarantees

The Company has disclosed its guarantees to third parties in accordance with FASB Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45") in Note 15. FIN 45 requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement requirements of FIN 45 are effective for guarantees issued or modified after December 31, 2002.

2 Recently issued accounting pronouncements

In September 2006, the FASB issued SFAS No. 157 – "Fair value measurements", which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements.

This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of such pronouncement will not generate a material impact on the Company's financial position.

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of SFAS No. 115" ("SFAS 159"). SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement shall be effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. The adoption of such pronouncement will not generate a material impact on the Company's financial position.

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (revised 2007), "Business Combination", which replaces FASB Statement No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. Statement 141 did not define the acquirer, although it included guidance on identifying the acquirer, as does this Statement. This Statement's scope is broader than that of Statement 141, which applied only to business combinations in which control was obtained by transferring consideration. The result of applying Statement 141's guidance on recognizing and measuring assets and liabilities in a step acquisition was to measure them at a blend of historical costs and fair values, a practice that provided less relevant, representationally faithful, and comparable information than will result from applying this Statement. In addition, this Statement's requirement to measure the noncontrolling interest in

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the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer, which improves the completeness of the resulting information and makes it more comparable across entities. By applying the same method of accounting, the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, this Statement improves the comparability of the information about business combinations provided in financial reports. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The effective date of this Statement is the same as that of the related FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. The Company will apply such pronouncement on a prospective basis for each new business combination.

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51", which clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this Statement is the same as that of the related Statement 141(R). This Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is currently evaluating the impact of such new pronouncement in its consolidated financial statements.

3 Taxes

3.1 Income taxes

Income taxes in Brazil comprise federal income tax and social contribution. The deferred income tax balances at each period are computed at the rates to be in force in the subsequent years and the current tax balances at each period include taxes to be paid currently. The statutorily enacted rates applicable for federal income tax and social contribution were 25% and 9%, respectively, which represented an aggregate rate of 34%, for 2007, 2006 and 2005.

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

	Year ended December 31,		
	2005	2006	2007
Income before income taxes, minority interest and equity in results of affiliated companies	457,419	539,060	662,044
Federal income tax and social contribution at statutory rates	155,522	183,280	225,095
Adjustments to derive effective tax rate:			
Effects of differences in remeasurement from reais to U.S. dollars, using historical exchange rates and indexing for tax purposes:	59,976	35,295	80,546
Fiscal incentive – income tax (a)	(8,708)		
Fiscal incentive – Technological innovation			(4,714)
Results in subsidiaries with different tax rates	(90,574)	(101,644)	(36,030)
Interest on stockholders' equity	(46,584)	(50,570)	(57,374)
Other	2,596	3,133	(10,211)
Income tax expense reported in the consolidated Statements of income	72,228	69,494	197,312

(a) Fiscal incentives

As a result of the Barra do Riacho operations being located within the geographic area of ADENE (Agency for the Development of the Northeast) and since Decree No. 4213, of April 16, 2002, which recognizes the pulp and paper sector as a priority in the development of the region, Aracruz requested and was granted by the Federal Revenue Service in December 2002 the right to benefit from reductions in corporate income tax.

On January 9, 2004, the Company was notified by the Liquidator of the former Superintendência de Desenvolvimento do Nordeste (SUDENE) of its decision to revoke the fiscal benefits previously granted to the Company based on an opinion of the Legal Counsel to the National Integration Ministry on the definition of the geographical area eligible for the recognition of such benefit.

During 2004 and 2005, ADENE issued several acts with the objective of annulling the tax benefit used by the Company. Such acts were always challenged by the Company and no final decision on the merits was issued at this point. Nevertheless, in December 2005 the Company was notified by the Federal

Revenue Service (SRF) to pay the amount corresponding to the tax incentive it had recorded, plus interest, in the total amount of US\$97 million.

The Company presented its defense in January 2006 but its arguments have not been accepted by Federal Revenue Service. The Company appealed to the Federal Taxpayers Council and is currently awaiting a decision.

The Company’s management, based on the advice of external legal counsel, believes that the cancellation of the tax incentive is mistaken and shall not prevail, both with respect to the amounts already recorded and with respect to the remaining period. In respect of the tax incentive recorded until 2004 (US\$66.8 million on December 31, 2004), it is the management’s understanding, based on advice of external legal counsel, that tax assessment shall be overruled, since the tax incentive was recorded pursuant to strict legal requirements and acts of SRF and ADENE. The Company’s management also believes, based on external legal counsel’s opinion, that the cancellation of the tax incentive regarding future years (up to 2012 for Fiberlines A and B and 2013 to Fiberline C) is illegal due to the fact that the incentive was granted upon compliance of predetermined conditions (implantation, expansion and modernization of industrial plants). Therefore, the Company has vested right to use the tax incentive until the date set forth in the Law and in the acts issued by ADENE.

Notwithstanding the confidence in the robustness of its right, the Company, considering the facts occurred during the years 2004 and 2005, which indicate ADENE’s and SRF’s intention to cancel the tax incentive, decided to be conservative and ceased to recognize the incentive in the calculation of income tax payable from 2005 on and until a final Court decision has been granted.

Based on the opinion of its legal advisors, Company’s management believes that the ultimate resolution of this matter may be in favor of the Company’s arguments, both with respect to the tax incentive recorded up to 2004 and with respect to those to be recorded from 2005 on. Thus, no provisions for loss were booked for the amounts of the benefits already recognized.

The major components of the deferred income tax accounts in the consolidated balance sheets are as follows:

	December 31,	
	2006	2007
Deferred Tax Asset – Current Assets		
Unrealized profits on intercompany inventory transactions	15,375	12,280
Net Deferred Tax Liability – Long-Term		
Taxation of foreign exchange variation payable on cash basis	71,607	189,224
Difference in basis of accounting for Property, plant and equipment	67,963	59,171
Tax loss carryforwards from operations	(11,512)	(13,918)
Deductible temporary differences - other provisions	(32,023)	14,402
Net deferred tax liability – long-term	96,035	248,879

Although realization of net deferred tax assets is not assured, management believes that such realization is more likely than not to occur and, therefore, has not recognized any valuation allowances.

3.2 Liabilities associated with unrecognized tax benefits

As discussed in note 1.2 (r), the adoption of FIN 48 did not have a material impact in the Company’s statements of operations and financial position and did not result in a cumulative adjustment to retained earnings at adoption.

As a consequence of adoption, on January 1, 2007 the Company did reclassify certain recorded liabilities related to unrecognized tax benefits of US\$71,727, previously recorded as part of litigations, contingencies and commitments line in the consolidated balance sheet at December 31, 2006. At December 31, 2007, the Company’s recorded liability for unrecognized tax benefits was US\$92,449, reflecting increases resulting from current year tax positions and the effects of currency remeasurement. These unrecognized tax benefits primarily refer to tax positions taken by the Company related to the deductibility of social contribution taxes in the determination of federal income taxes on profits generated by export sales and related to the timing of utilization of historical tax loss carryforwards used to offset income tax and social contribution payable. Included in the balance at December 31, 2007 are approximately US\$13 million of tax positions for which there is uncertainty as to the timing of such benefits. As a result of deferred tax accounting, the disallowance of a shorter benefit period would not affect the annual effective tax rate but could accelerate the payment of cash to the taxing authority to an earlier period.

The Company or its subsidiaries file income tax returns in Brazil and other foreign federal and state jurisdictions. Generally, the tax years 2002 through 2007 remain open and subject to examination by the relevant tax authorities.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2007	71,727
Additions based on tax positions related to the current year	6,536
Additions for tax positions of prior years	-
Reductions for tax positions of prior years	-
Settlements	-
Effects of translation from Brazilian R\$ into US dollar	14,186
Balance at December 31, 2007	92,449

The Company recognizes interest and penalties accrued on unrecognized tax benefits as a component of interest expense and other non-operating expenses, respectively. The Company has recorded US\$69,046 of accrued interest and penalties associated with unrecognized tax benefits at December 31, 2007, recorded as a component of long-term liabilities. As a consequence of adopting FIN 48 and consistent with the Company’s classification of interest and penalties, the corresponding interest and penalties of US\$47,996 accrued at December 31, 2006 with respect to the previously recorded liabilities associated with unrecognized tax benefits have also been reclassified from the litigations, contingencies and commitments line to the line of interest and penalties on liabilities associated with unrecognized tax benefits , in the long-term liabilities. The Company recognized approximately US\$10,192 in accrued interest for the year ended December 31, 2007, respectively US\$11,677 for the year ended December 31, 2006, respectively).

(i) Social Contribution on profits generated by export sales

On September 10, 2003, the Company obtained a Court Order giving it the right not to pay Social Contribution on profits generated by export sales from January 2002 as well as the right to recognize the amounts of tax credits previously compensated in this regard. Pending final determination, the Company has accrued a provision of US\$79.0 million as of December 31, 2007 (US\$89.6 million to December 2006).

(ii) Income Tax – Deductibility of Social Contribution on the net profit

On June 29, 2005, the Company received a tax assessment notice relating to the deductibility of social contribution in the calculation basis of income tax for 2000 and 2001. The existing provision was increased by US\$1.5 million, resulting in a final provision of US\$16.2 million.

In July 2005, the Company reviewed the base of calculation of the income tax for the periods covered in the assessment and decided to partially pay US\$10.1 million of the requested amount. The Company challenged the balance of the tax assessment via an administrative appeal and therefore the ability of the authorities to charge the tax debt is currently suspended. The Company has also initiated a judicial proceeding with the purpose of assuring its right to deduct the social contribution in the calculation basis of income tax.

(iii) Income tax and social contribution – offsetting of tax losses

On June 29, 2005, the Company received a tax assessment notice relating to the offsetting of tax losses against taxable income of 2000 and 2001. The Company also received a tax assessment notice relating to 2000, regarding tax losses generated during the period in which the Company took advantage of the BEFLEX tax benefit program.

In July 2006 a Court decision did not recognize the Company’s right to offset tax losses against taxable income. The Company challenged such decision. Notwithstanding, with the purpose of avoiding penalty charges the Company paid the amount of US\$23.1 million

The existing accrual at December 31, 2007 for the period in which the Company took advantage of the BEFLEX tax benefit program is US\$37.8 million.

3.3 Recoverable taxes

	December 31,	
	2006	2007
Recoverable taxes		
Prepaid income tax and social contribution	76,533	91,829
Withholding income tax on financial investments	20,021	20,792
Value-Added Tax Credit – ICMS (*)	145,264	154,854
Valuation allowance on Value-Added Tax Credit	(140,204)	(109,993)
Pis and COFINS contribution on acquisition of goods	21,720	46,721
Other	924	1,086
Total recoverable taxes	124,258	205,289
Current	109,165	140,390
Long-term	15,093	64,899
Total	124,258	205,289

(*) Since the promulgation of the Federal Law no. 87 on September 13, 1996, the Company has been accumulating ICMS (state sales tax) credits resulting from ICMS paid on purchases, credited to its books and not compensated against ICMS on sales because export sales are exempt from ICMS. The Company has the legal right, not contested by

the state authorities, to claim those credits against the state of Espírito Santo, and has been able to recover part of these credits by selling them to third parties, pursuant to the provisions of current legislation. Considering the history of such transactions during the year 2007, when the Company sold approximately US\$50 million (R\$95 million) in ICMS tax credits and the perspective of successfully closing other sales transactions, the Company believes it will be able to recover part of the ICMS credits recorded in its books against the state of Espírito Santo. Therefore, it has decided to revert on December 31, 2007 approximately US\$40,100 of the provision previously accrued, so that the balance of this provision is US\$110,000.

4 Cash and cash equivalents

	December 31,	
	2006	2007
Brazilian reais	816	34,647
United States dollars	47,103	17,995
Other European currencies	495	679
	48,414	53,321

Cash equivalents denominated in Brazilian Reais and in United States dollars represent principally investments in certificates of deposit placed with major financial institutions and with original maturities of 90 days or less.

5 Short-term investments

Short-term investments represent principally investments included in one private investment fund which is entirely owned by the Company. The investments are represented principally by certificates of deposits and debt securities issued by the Brazilian government with final maturities ranging from January 2008 to April 2011. Those debt securities are classified as available for sale. The securities included in the portfolio of the private investment funds have daily liquidity with interest recognized in the Company’s results of operations. The interest is linked to the daily interbank rate. The marked to market adjustments relating to these debt securities were immaterial for all periods presented.

These private investment funds do not have significant financial obligations. Any financial obligations are limited to service fees to the asset management company employed to execute investment transactions, audit fees and other similar expenses. There are no consolidated assets of the Company that are collateral for these obligations and the creditors of the funds do not have recourse against the Company.

6 Accounts receivable, net

	December 31,	
	2006	2007
Customers – pulp sales		
Domestic	8,540	18,161
Export	261,608	319,220
Advances to suppliers	2,048	2,919
Other	18,233	25,621
	290,429	365,921
Allowance for doubtful accounts	(4,634)	(4,318)
Total, net	285,795	361,603

Changes in allowance for doubtful accounts are as follows:

	2006	2007
Balance as of January 1	(4,067)	(4,634)
Provision for doubtful accounts	(592)	(117)
Write-offs	25	433
Balance as of December 31	(4,634)	(4,318)

At December 31, 2007, two customers accounted for 31% and 13%, respectively (at December 31, 2006, two customers accounted for 38% and 11%, respectively), of total customer receivables and no other accounted for more than 10%.

Export receivables are denominated in the following currencies:

	December 31,	
	2006	2007
United States dollars	259,112	315,531
European currency units – EURO	2,496	3,689
	261,608	319,220

7 Inventories

	December 31,	
	2006	2007
Finished products	130,192	141,240
Raw materials	27,027	34,404
Maintenance supplies and other	45,485	49,379
	202,704	225,023

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8 Property, plant and equipment

December 31, 2006			
	(Accumulated depreciation and depletion)		Net
	Cost		
Land	375,673		375,673
Timber resources	398,860	(51,860)	347,000
Buildings, improvements and installations	583,590	(364,787)	218,803
Equipment	2,556,694	(1,470,088)	1,086,606
Information technology equipment	55,565	(48,356)	7,209
Other	138,845	(104,638)	34,207
	4,109,227	(2,039,729)	2,069,498
Construction in progress	81,714		81,714
Total	4,190,941	(2,039,729)	2,151,212

December 31, 2007			
	(Accumulated depreciation and depletion)		Net
	Cost		
Land	508,335		508,335
Timber resources	501,785	(53,281)	448,504
Buildings, improvements and installations	617,314	(383,960)	233,354
Equipment	2,750,358	(1,602,407)	1,147,951
Information technology equipment	57,449	(50,799)	6,650
Other	141,876	(111,215)	30,661
	4,577,117	(2,201,662)	2,375,455
Construction in progress	143,245		143,245
Total	4,720,362	(2,201,662)	2,518,700

As of December 31, 2007 and 2006 the entire Company mill in the amount of US\$1,506,790 and US\$1,365,842 , respectively was securing financial obligations with BNDES (Note 10) .

9 Investment in affiliated company

Veracel Celulose S.A.

The Company accounts for its investment in Veracel using the equity method of accounting. At December 31, 2007 the Company’s investment in Veracel amounted to US\$404,451. Included in investment is an unamortized goodwill of US\$15,015. In 2007, the Company recognized an equity loss of US\$31,572 (2006 – loss of US\$13,349; 2005 – loss of US\$42,674).

The summarized financial information of Veracel as of December 31, 2007 and 2006 and for the three years then ended is as follows:

As of December 31,		
	2006	2007
Current assets	132,011	132,336
Non-current assets	1,340,591	1,363,164
Current liabilities	160,956	161,103
Non-current liabilities	1,311,646	1,334,397

For the year ended December 31,			
	2005	2006	2007
Gross revenues (*)	130,422	356,336	410,850
Gross profit	21,860	113,665	128,150
Net loss	(85,348)	(26,698)	(63,144)

(*) Includes sales to the Company in the amounts of US\$62,436, US\$167,459 and US\$205,481, during 2005, 2006 and 2007, respectively.

Aracruz Produtos de Madeira S.A. (APM)

At December 31, 2007, the Company’s investment in APM amounted US\$10,943 (US\$11,513 in 2006). In 2007, the Company recognized an equity loss of US\$570 (US\$355 in 2006).

10 Short-term borrowings and long-term debt

(a) Short-term borrowings

At December 31, 2007, the balance of short-term debt consisted of rural credit denominated in reais, in the amount of US\$5,646 (US\$4,677 as of December 31, 2006) with interest rate of 6.75%.

(b) Long-term debt

	December 31,	
	2006	2007
Denominated in Brazilian currency:		
BNDES term loans with varying interest rates; principally the "Long-term interest Rate" (TJLP) plus 7.8% to 10.5% (2006 – 7.8% to 10.5%) due 2008 to 2016	258,193	381,477
Credit Export Note – 100% CDI, due 2008 to 2013	48,859	58,974
BNDES Term loans – 7.86% to 9.76% (2006 – 7.45% to 9.35%), due 2008 to 2016 and indexed to BNDES basket of currencies	39,358	44,879
	346,410	485,330
Denominated in US Dollars:		
Import financing – 2006 – 5.55% to 6.20%	1,854	
Pre-export financing – 5.73% to 6.34% (2006 – 5.75% to 6.48%) due 2012 to 2016	874,000	909,000
	875,854	909,000
Total	1,222,264	1,394,330
Less current maturities	(67,214)	(81,979)
Total long-term debt	1,155,050	1,312,351

In December 2006, the Company signed a financing agreement with Banco Nacional de Desenvolvimento Econômico e Social – BNDES, in the total amount of US\$273,334 to be amortized from 2009 to 2016, which US\$210,929 has already been released, with annual interest rates ranging from 7.86% to 8.86%

(c) Long-term portion payment schedule

The long-term portion of the Company's debt at December 31, 2007 falls due in the following years:

2009	57,822
2010	29,795
2011	30,503
2012	89,795
2013 and thereafter	1,104,436
Total	1,312,351

11 Stockholders' equity

At December 31, 2007, the Company's principal common stockholders and their common stock ownership interests, either direct or indirect are as follows: Arapar S.A. (an affiliate Group Lorentzen), Arainvest Participações S.A. (an affiliate of Banco Safra S.A.), and Newark Financial Inc (an affiliate of Votorantim Celulose e Papel (VCP)) with 28% each; Banco Nacional de Desenvolvimento Econômico e Social – BNDES with 12.5%.

At December 31, 2007, Arainvest, Treasure Hold Investments Corp (an affiliate of Banco Safra S.A) and the Banco Nacional de Desenvolvimento Econômico e Social – BNDES also owned preferred stocks which in total amounted to 14.9% and 7.7%, respectively, of the total preferred stocks.

During 2007, the Company has increased its capital by US\$501,368 using balances from the investment reserve, as required by the Brazilian Corporate Law. Such capital increase was approved by the General Shareholders' Meeting held in April 24, 2007.

Brazilian law permits the payment of cash dividends only from retained earnings and certain reserves registered in the Company's statutory accounting records. At December 31, 2007, after considering appropriated retained earnings which can be transferred to unappropriated retained earnings, the earnings and reserves available for distribution as dividends, upon approval by the Company's stockholders, amounted to the equivalent of US\$1,118 million.

Appropriated retained earnings is composed by the following reserves:

a) Fiscal-incentive reserve – Consists of the appropriations from retained earnings equivalent to the cumulative amounts by which income tax rates have been reduced each year as a result of the Barra do Riacho operations of the Company being located in a development area. The fiscal-incentive reserve may be used to increase capital and absorb losses, but is not available as cash dividends.

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

c) Legal reserve – legal reserve results from appropriations from retained earnings of 5% of annual net income recorded in the statutory accounting records. Such appropriations are required

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until the balance reaches 20% of the balance of capital stock, based on the statutory accounting records. The legal reserve may be used to increase capital and to absorb losses, but is not available for distribution as cash dividends.

Dividends and interest on stockholders' equity

The Company's by-laws guarantee a minimum annual dividend equal to 25% of the adjusted net income for the year, as required by the Brazilian Corporate Law. In accordance with the Company's by-law and the Brazilian Corporate Law, adjusted net income is represented by the net income for the year less appropriation of the above mentioned legal reserve.

Brazilian law permits the payment of cash dividends only from retained earnings. As of January 1, 1996, Brazilian corporations are allowed to attribute interest on stockholders' equity. The calculation is based on the stockholders' equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long-term interest rate ("TJLP") determined by the Brazilian Central Bank (approximately 9.75%, 7.78% and 6.32.% for the years 2005, 2006 and 2007, respectively). Also, such interest may not exceed the greater of 50% of net income for the year or 50% of retained earnings plus income reserves (including those mentioned above), determined in each case on the basis of the statutory financial statements. The amount of interest attributed to stockholders is deductible for corporate income tax purposes.

The Company paid US\$233 million of dividends and interest on stockholders' equity during the year ended December 31, 2007 and accrued US\$44 million of interest on stockholders' equity for payment in 2008 (US\$252 million and US\$37 million, respectively, during 2006).

Basic and diluted earnings per share

Basic and diluted earnings per share ("EPS") as of December 31, 2007, 2006 and 2005, as presented in the Company's statements of operations, have been calculated on the following basis taking into consideration the Dividend Allocation between Class A and Class B preferred stock and common stock as discussed in the following summary of significant rights, terms, privileges and conversion features of the Company's stock:

	Common Stock	Class A Stock	Class B Stock
Voting Rights	Yes	No, except in the event that dividends not paid for 3 consecutive years. Voting rights will then be granted until dividends in arrears for those 3 years are paid.	No, except in the event that dividends are not paid for 3 consecutive years. Voting rights will then be granted until the dividends in arrears for those 3 years are paid.
Privileges	None	Priority in the return of capital in the liquidation of the Company; Right to receive cash dividends in an amount 10% higher than dividends attributable to each common stock. Priority in the distribution of a minimum annual cash dividend equivalent to 6% of the capital attributable to it.	Priority in the return of capital in the liquidation of the Company; Right to receive cash dividends in an amount 10% higher than dividends attributable to each common stock.
Conversion Features	None	Can be converted into Class B Stock at any time, at the option and cost of the stockholder. Conversion rate 1:1.	Cannot be converted into Class A Stock nor to Common Stocks at any time.

Earnings, if any, in excess of the Class A preferred share minimum dividend will be distributed as dividends to Class B preferred stock and common stock, up to the equivalent on a per-share basis of those paid to Class A preferred stock. Any earnings remaining for distribution thereafter are shared ratably among Class A preferred, Class B preferred and common shares.

The following presents the earnings per share calculations:

	2005			
	Preferred stock		Common	
	Class A	Class B	Stock	Total
Dividends and interest on capital	7,326	103,606	79,679	190,611
Undistributed earnings	5,783	81,797	62,907	150,487
Net income for the year	13,109	185,403	142,586	341,098
Weighted average number of shares	38,022	537,739	454,908	
Basic and diluted earnings per share	0.34	0.34	0.31	

	2006			
	Preferred stock		Common	
	Class A	Class B	Stock	Total
Dividends and interest on capital	8,390	118,659	91,268	218,317
Undistributed earnings	9,107	128,814	99,079	237,000
Net income for the year	17,497	247,473	190,347	455,317
Weighted average number of shares	38,015	537,665	454,908	
Basic and diluted earnings per share	0.46	0.46	0.42	

	2007			
	Preferred stock		Common	
	Class A	Class B	Stock	Total
Dividends and interest on capital	8,904	129,890	99,706	238,500
Undistributed earnings	6,854	99,974	76,741	183,569
Net income for the year	15,758	229,864	176,447	422,069
Weighted average number of shares	36,933	538,747	454,908	
Basic and diluted earnings per share	0.43	0.43	0.39	

There were no dilutive securities outstanding in 2005, 2006 and 2007.

Notes to the consolidated financial statements for the years ended December 31, 2005, 2006 and 2007.

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

12 Pension plan

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

The Sponsors and eligible employees make monthly contributions under the plan to ARUS, which manages (or places with a trustee) its investments and other assets, which comprised, principally, of bank certificates of deposit, investments funds and marketable equity securities.

Contributions made by the Company to the plan amounted to US\$2,449, US\$3,125 and US\$3,689 in 2005, 2006 and 2007, respectively, and represented the annual pension expense of the Company for the plan.

13 Employee benefits

Certain severance payments are due on dismissal of employees, principally notice of one month's salary and a severance payment calculated at 40% of the accumulated contributions made to the government severance indemnity plan on behalf of the employee. Based on current operating plans management does not expect that amounts of future severance indemnities will be material.

14 Contingencies and Commitments

(a) Contingencies

(i) Labor proceedings

At December 31 2007, the Company had a total provision recorded for labor proceedings of US\$20.4 million (US\$14.1 million on December 31 2006) and a corresponding deposit in an escrow account of US\$7.5 million (US\$5.8 million on December 31, 2006).

Labor proceedings consist principally of those related to the effect of variation in the inflation indexes (economic plans) on the 40% penalty applicable to the Mandatory Fund for Unemployment Benefit (FGTS), and also of additional amounts allegedly owed to certain employees that perform hazardous activities.

(ii) Social charges proceedings

In March 1997, the Company received notification from the INSS (the Brazilian Social Security System) relating basically to the value of housing allowances paid to certain employees over a period of several years. INSS considered that the reduced amount of housing allowances to the employees represented a fringe benefit and, consequently, the corresponding social charge was underpaid. The Company has been contesting this notification in the amount of US\$1.7 million in Court aiming to its annulment and, at December 31, 2007, has placed approximately US\$2.0 million in an escrow account to cover this claim. The Brazilian Superior Court of Justice granted a decision in favor of the Company on examination of the first judicial claim related to the matter. Based on the opinion of its legal advisors, which evaluated the probability of loss in such case as remote, no provision has been recognized.

(iii) PIS and COFINS contributions

At December 31, 2007, the provision for contingencies included US\$94.3 million (US\$74.3 at December 31, 2006) for PIS (Social Integration Program) and COFINS (Social Fund) payable on exchange gains on U.S. dollar denominated debt resulting from the appreciation of the Real against the U.S. dollar, principally in the period from early 1999 until September 2002.

The Company is taking action in court against certain changes in the rates and rules for the calculation of the PIS and COFINS contributions determined by Law 9.718/98, the basis of calculation of which includes financial income and exchange and monetary variations. In November 2001 the Company was granted a favorable judgment.

After analyzing certain unfavorable legal decisions on similar legal actions of other companies and their implications for Aracruz's case at that time, the Company decided to cancel, on August 29, 2003, part of the legal action, regarding the rate increase and the basis of calculation modifications (except for foreign exchange variation), and decided to pay the accrued amount in installments according to a special tax collection called PAES program, enacted by Law 10.684/2003. Notwithstanding, due to a judgment issued by the Brazilian Supreme Court in a similar legal action, which considered the modification in the rules for the calculation of PIS and COFINS to be unconstitutional, the Company requested and was granted a provisional remedy allowing it not to pay the PAES installments related to such modification.

In September 2007, based on the opinion of its legal advisors, the Company decided to reverse approximately US\$37.3 million of this provision related to the imposition of those taxes on revenues resulting from exchange gains, pursuant to article 150, § 4º of the National Tax Code.

Taking into account decisions of the Brazilian Supreme Court in regard to the unconstitutionality of such taxes that have been followed by other administrative and judicial courts, meaning that the jurisprudence on the matter is consolidated, the Company is convinced that it is very unlikely that an unfavorable decision will be issued. Notwithstanding, considering a recently issued pronouncement of Ibracon (Brazilian Independent Auditors Institute), the Company, on a conservative approach, decided to rebuilt the reverted amount of the provision.

(iv) Value-Added Tax Credit

In October 2006, the Company received tax assessments, issued by the government of the State of Espírito Santo, in the total amount of US\$41.2 million, related to the alleged non compliance of formal obligations and supposedly inappropriate ICMS credits from fixed assets and other goods acquired for utilization in the process of pulp production. The company has paid a minor part of that value and has been contesting another 17 notifications, in the amount of US\$40.1 million. The Company has already been granted favorable decisions in tax notifications amounting to US\$6.3. Based on the opinion of its legal advisors, who evaluate the probability of loss in the courts as no more then possible, no provision has been recognized.

(v) Environmental Regulations

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

(vi) Others

The Company has, based on an analysis of the disputes involved and consultation with its legal counsel, recorded additional provisions in the amount of US\$16.2 million relating to several other legal disputes and has also made deposits in the amount of US\$13.0 million in escrow accounts as of December 31, 2007.

(b) Commitments

(i) Indian Communities – Terms of settlement

In the first semester of 1998, the Indian communities and the Company entered into Terms of Settlement in which both parties recognized the legitimacy of the Ministry of Justice Edicts 193, 194 and 195, dated March 6, 1998, that determined the enlargement of the Indian reservation by 2,571 hectares of land belonging to the Company. The Company committed itself to a financial aid program to be implemented through social, agricultural, educational, shelter and health projects, up to an amount of approximately R\$13.5 million (equivalent to US\$7.6 million at December 31, 2007), monetarily restated by one of the official inflation indexes, to be disbursed within a twenty-year period, conditioned to the accomplishment of certain obligations by the Indian communities.

Despite the fact that the Terms of Settlement were in force, in 2005 some members of the Indian communities invaded some forestry areas and the industrial premises of the Company. . Since the invasion represented the breach of the Terms of Settlement by the Indian communities, the Company – after having notified the communities themselves, the National Indian Foundation – FUNAI and the Federal Public Prosecutor (Ministério Público Federal) – in 2005 suspended all its commitments towards the Indian communities under the Terms of Settlement. During the period in which the Terms of Settlement were being complied with, the Company had donated to the Indian Associations the amount of approximately R\$9.6 million, equivalent to US\$5.4 million.

On February 17, 2006 FUNAI published Dispatches No. 11 and 12 in the Official Federal Gazette, approving the conclusion of the working group set up by FUNAI Edict No. 1.299/05, which recommends the extension of Indian reserves by approximately 11,000 hectares, comprised almost entirely of lands whose title and possession belong to Aracruz. These areas were identified by the working group as being land traditionally occupied by Indians. Confident in the robustness of its rights, the Company presented its challenge of those Dispatches on June 19, 2006. In early 2007 the Ministry of Justice, who should ultimately decide the matter, returned the administrative procedure to FUNAI, determining that it widened the studies "with a view towards preparing an appropriate recommendation that assuages the interest of both parties".

On August 27, 2007, the Ministry of Justice based on the conclusions of the working group set up by FUNAI Edict No. 1.299/05, issued Edicts nr. 1.463 and 1.464 determining the enlargement of the Indian reservation by 11,000 hectares, 98% of which (i.e., approximately 10,700 hectares) are lands owned or legally possessed by the Company. The net book values of such lands is immaterial.

Notes to the consolidated financial statements for the years ended December 31, 2005, 2006 and 2007.

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

The land dispute among Aracruz and the Indian Communities in the State Espírito Santo was resolved in 2007. On December 3, 2007, in the Ministry of Justice in Brasília, a Conduct Adjustment Agreement (TAC) that considers the rights and obligations of the Company, the Indians and the National Indian Foundation-FUNAI in transferring approximately 11,000 hectares of land to the indigenous communities was signed. The TAC also sets forth that all the eucalyptus wood planted in the area (approximately 6,800 hectares of forest) shall be harvested by the Company as a compensation for improvements. The enlargement of the Indian reservations must still be approved by decree from the President of Brazil, with the subsequent demarcation of the lands in question, when the transfer of title to the lands shall be effective.

The signature of the TAC was accompanied by all authorities that took part in the negotiation, including the Federal Attorney General and FUNAI – which will be responsible for hiring a company to do the physical demarcation of the lands – and sets forth that both parties will abandon any current or future claims against each other in relation to the matter. The agreement shall be homologated by the Federal Court of Linhares – ES.

Before the signing of the settlement, the terms of the TAC were submitted to the indigenous communities and approved at an assembly on October 16, and subsequently ratified by them on November 28, as recommended by Convention 169 of the International Labor Organization (ILO) regarding indigenous and tribal peoples, to which Brazil is a signatory.

Aracruz considers the agreement a sustainable solution that enables the balance among the interests of all parties involved, since it satisfied the demands of the Indians for an enlargement in their lands, while at the same time providing Aracruz with the legal assurances that these lands will not be expanded again.

(ii) "Take-or-Pay" contract

In connection with the sale of its electrochemical plant to Canexus Química Brasil Ltda (Canexus) in 1999, the Company and Canexus entered into a long-term contract for chemical products supply, amended in 2002 to include additional volumes. According to the "take-or-pay" clause, the company is committed to acquire from Canexus a volume of chemical products conservatively projected. Volumes purchased by the Company in addition to the minimum agreed (take-or-pay) for a given year may be compensated with lower volumes acquired in subsequent years. For the take-or-pay quantities, the Company will pay in accordance with the terms of the contract. There are remaining take-or-pay committed volumes until 2008, regarding the 2002 contractual amendment.

(iii) Wood supply

The Company signed a contract with Suzano Papel e Celulose S.A. with a view to a loan of 1,700 thousand m³ of eucalyptus wood, which were received through September of 2005. The remaining balance as of December 31, 2007 is 1,075 thousand m³ of eucalyptus wood and, based on its present forest formation costs, the Company has booked the amount of US\$5,007 under liabilities. The contract calls for return of an equivalent volume on similar operating conditions during 2008.

(iv) Compliance with regulations

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

15 Guarantees of Veracel third-party debt

As of December 31, 2007, the Company is contingently liable as a several guarantor with respect to 50% of indebtedness of Veracel Celulose S.A., an entity under joint control with another company. Such company is the several guarantor of the additional 50% of indebtedness of Veracel Celulose S.A.. The total amount guaranteed by the Company is US\$321.5 million. The expiration of the guarantees range from 2008 to 2014. At any time through those dates, the Company will be obligated to perform under the guarantees by primarily making the required payments, including late fees and penalties, limited to its proportion of the guarantees, if and whenever Veracel shall default in the payment of any of the guaranteed obligations, after the date of communication of default by the creditor pursuant to the terms and conditions of the relevant agreements. The fair value of such guarantee is immaterial.

16 Derivative instruments and risk management activities

The Company's foreign currency risk and interest rate management strategy may use derivative instruments to protect against foreign exchange and interest rate volatility.

(a) Enterprise Risk Management – ERM

The Company is developing its Sustainability Plan, which comprises the ERM, a wide and structured long term approach of the main corporate risks of the company.

Following the best practices of Corporate Governance, the Company seeks to have full control of its main financial and intangible corporate risks. The methodology used by the Company, considers an evolution of impact and probability, regarding financial and intangibles corporate risks.

(b) Foreign currency risk management

The Company's foreign currency risk management strategy may use derivative instruments to protect against foreign exchange rate volatility

During 2007 the Company has recognized, as financial income, gains of US\$93.7 million (2006 – US\$88.8 million) related to derivative instruments registered in BM&F – Brazilian Mercantile & Futures Exchange with notional amount of US\$150.0 million and with maturity in February 2008. These operations are marked to market on a daily basis and as of December 31, 2007 the fair value of these contracts were reported as a liability of US\$1.2 million (as of December 31, 2006 were reported as an asset of US\$1.4 million).

(c) Interest rate risk management

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

During 2007 and 2006 the Company recognized under financial income, losses of US\$36.4 million and US\$2.8 million on interest rate derivative instruments registered in BM&F – Brazilian Mercantile & Futures Exchange for the 2007 and 2006, respectively. These operations are marked to market on a daily basis, and at December 31, 2007 the fair value of these contracts were reported as an asset of US\$0.6 million.

It also has recognized gains of US\$38.3 on swap transactions (TJLP or interest long-term rate against Dollar). There were no such kind of derivative instruments in 2006. These operations are marked to market, and at December 31, 2007, the notional amount of these swaps totaled US\$334.1 million with maturity in April 2010. The outstanding amount of these contracts were reported as an asset of US\$38.3 million.

(d) Commodity price risk management

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

Notes to the consolidated financial statements for the years ended December 31, 2005, 2006 and 2007.

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

17 Nonderivative financial instruments

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

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

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

Short-term debt and long-term debt – interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities are used to estimate fair value, which approximates the carrying value at December 31, 2007 and 2006. The Company’s financial structure does not require any substitution of such financing or the contracting of similar fundings.

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

18 Segment information

The Company has adopted SFAS No. 131 “Disclosures about Segments of an Enterprise and Related Information” (“SFAS 131”) with respect to the information it presents about its operating segments and geographical information. SFAS 131 introduces a “management approach” concept for reporting segment information, whereby financial information is required to be reported on the same basis that the top decision-maker uses such information internally for evaluating segment performance and deciding how to allocate resources to segments.

The Company has determined that its operation has only one segment – pulp.

Sales by geographic area are determined based on the location of the customers.

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

Year ended December 31,			
	2005	2006	2007
North America	544,499	661,177	709,285
Europe	640,614	721,074	844,393
Asia	267,612	443,904	450,002
Other	16,921	18,871	3,337
Total	1,469,646	1,845,026	2,007,017

Sales to two unaffiliated customers represented 29% and 15% of net sales in 2007. Two unaffiliated customers represented 31% and 13% in 2006, and 31% and 17% in 2005. No other individual customers represented more than 10% of net sales.

19 Related parties

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

December 31,			
2006		2007	
Assets	Liabilities	Assets	Liabilities
Balance sheet			
Current assets			
Cash and cash equivalents			
Bank Safra S.A.	68,191	59,881	
Banco Votorantin S.A	43,591		
Aracruz Produtos de Madeira S.A.	541	495	
Veracel Celulose S.A.		19,431	21,663
Long-term debt (including current portion and accrued finance charges)			
BNDES – Banco Nacional de Desenvolvimento Econômico e Social		299,677	429,026
	112,323	319,108	60,376
			450,689

Year ended December 31,			
2005	2006	2007	
Expense	Expense	Expense	
Income statement			
Financial income			
Banco Safra S.A.	(34,510)	(8,891)	(10,273)
Banco Votorantin S.A.	(13,085)	(7,308)	(2,276)
Wood Sales			
Aracruz Produtos de Madeira S.A.	(1,246)	(3,049)	(3,464)
Pulp			
Veracel Celulose S.A.	62,436	167,459	205,481
Financial expenses			
BNDES – Banco Nacional de Desenvolvimento Econômico e Social	50,126	48,121	89,955
	63,721	196,332	279,423

20 Subsequent event

Due to the rejection by the Senate of the proposal of extension of the Provisional Contribution over Financial Operations (CPMF), such tax will no longer be charged.

Nevertheless, in order to compensate the loss in the tax revenues as a result of the CPMF's extinction, as of January 2008, credit, exchange and insurance operations will be subject to an additional rate of 0,38% of the Tax on Financial Transactions (IOF), same rate of the extinguished CPMF.

Mauro Bitti Loureiro
Accountant CRC – ES – 005.002/O-8 "S" SP, RJ, MG, RS e BA

Selected consolidated historical data (*)

	FY 2002	FY 2003	FY 2004	FY 2005
OPERATIONAL MEASURES				
Sales volume by region (thousand tonnes)	1,584.9	2,149.0	2,450.0	2,604.6
Domestic	27.0	37.1	49.6	40.7
Export	1,557.9	2,111.9	2,400.4	2,563.9
North America	623.2	767.8	831.3	909.3
Europe	637.0	813.7	1,014.4	1,122.3
Asia	280.1	509.0	533.1	520.4
Latin America	17.6	21.4	21.6	11.9
Sales by market (%)	100%	100%	100%	100%
Domestic	2%	2%	2%	2%
Export	98%	98%	98%	98%
North America	39%	36%	34%	35%
Europe	40%	38%	41%	43%
Asia	18%	23%	22%	20%
Latin America	1%	1%	1%	-
Production volume (thousand tonnes)	1,656.0	2,249.6	2,496.5	2,785.5
Barra do Riacho Unit	1,656.0	2,031.4	2,093.0	2,134.6
Guaíba Unit	-	218.2	403.5	417.0
50% of Veracel	-	-	-	233.9
Inventories, end of the period (thousand tonnes)	165.7	273.3	277.8	395.4
Average list pulp price (US\$/ tonne)	468	510	531	594
Cost of pulp sales (US\$/ tonne) (1)	288	265	272	291
Manpower	1,710	2,281	2,287	2,249
Aracruz Celulose S.A.	1,455	1,998	2,012	2,106
Barra do Riacho Unit	1,442	1,510	1,549	1,608
Guaíba Unit	-	474	449	481
International subsidiárias	13	14	14	17
Aracruz Produtos de Madeira S.A.	146	147	144	-
Portocel - Terminal Especializado de Barra do Riacho S.A.	109	136	131	143
BALANCE SHEET (US\$ million)				
Assets				
Current assets	524.4	742.7	833.1	1,094.8
Property, plant and equipment	2,000.1	2,270.4	2,133.9	2,068.5
Investment in affiliated company	87.0	382.3	481.0	506.0
Other assets	87.3	59.0	81.7	94.7
Total	2,698.8	3,454.4	3,529.7	3,764.0
Liabilities and stockholders' equity				
Current liabilities	238.5	513.7	274.8	485.2
Short-term / current portion of long-term debt	182.7	392.1	152.9	292.0
Other, net	55.8	121.6	121.9	193.2
Long-term liabilities	699.4	1,139.5	1,440.3	1,314.1
Long-term debt	611.1	979.4	1,222.7	1,010.3
Other, net	88.3	160.1	217.6	303.8
Minority interest	0.3	0.3	0.3	0.3
Stockholders' equity	1,760.6	1,800.9	1,814.3	1,964.4
Total	2,698.8	3,454.4	3,529.7	3,764.0

(1) After the second quarter of 2005, includes pulp purchases of Veracel

(*) The Company's financial information have been prepared according to US GAAP

1 ST Q 06	2 ND Q 06	3 RD Q 06	4 TH Q 06	FY 2006	1 ST Q 07	2 ND Q 07	3 RD Q 07	4 TH Q 07	FY 2007
744.7	722.3	747.4	806.1	3,020.5	676.0	832.2	753.0	842.9	3,104.1
10.8	13.4	15.3	18.9	58.4	16.3	15.7	16.7	24.1	72.8
733.9	708.9	732.1	787.2	2,962.1	659.7	816.5	736.3	818.8	3,031.3
248.2	239.5	255.8	272.9	1,016.4	224.2	282.0	264.1	280.5	1,050.8
291.1	298.8	271.0	314.1	1,175.0	277.0	334.7	323.9	330.5	1,266.1
192.4	169.3	200.1	196.9	758.7	157.9	196.7	148.2	207.6	710.4
2.2	1.3	5.2	3.3	12.0	0.6	3.1	0.1	0.2	4.0
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1%	2%	2%	2%	2%	2%	2%	2%	3%	2%
99%	98%	98%	98%	98%	98%	98%	98%	97%	98%
34%	33%	34%	34%	34%	33%	34%	35%	33%	34%
39%	42%	36%	39%	39%	41%	40%	43%	39%	41%
26%	23%	27%	25%	25%	24%	24%	20%	25%	23%
-	-	1%	-	-	-	-	-	-	-
765.9	793.4	753.2	791.1	3,103.6	783.5	763.3	753.6	794.3	3,094.7
541.3	559.4	507.0	572.3	2,180.0	538.5	528.6	529.8	535.6	2,132.5
110.4	114.9	115.5	95.2	436.0	114.4	109.0	97.1	116.0	436.5
114.2	119.1	130.7	123.6	487.6	130.6	125.7	126.7	142.7	525.7
408.9	466.8	460.5	423.1	423.1	512.5	421.1	432.5	380.7	380.7
611	637	663	678	648	685	685	716	754	711
324	334	339	336	333	342	362	370	395	369
2,309	2,314	2,346	2,361	2,361	2,414	2,426	2,463	2,495	2,495
2,122	2,124	2,156	2,171	2,171	2,226	2,233	2,270	2,303	2,303
1,616	1,617	1,649	1,665	1,665	1,716	1,714	1,750	1,785	1,785
488	489	490	487	487	490	498	498	496	496
18	18	17	19	19	20	21	22	22	22
-	-	-	-	-	-	-	-	-	-
187	190	190	190	190	188	193	193	192	192
1,053.5	1,178.4	1,231.3	1,200.9	1,200.9	1,164.5	1,165.6	1,248.3	1,251.4	1,251.4
2,067.4	2,078.1	2,104.1	2,151.2	2,151.2	2,196.7	2,294.8	2,426.3	2,518.7	2,518.7
488.6	487.9	518.2	516.8	516.8	597.4	590.4	593.7	607.4	607.4
100.7	103.0	105.6	127.0	127.0	134.8	155.6	185.5	247.3	247.3
3,710.2	3,847.4	3,959.2	3,995.9	3,995.9	4,093.4	4,206.4	4,453.8	4,624.8	4,624.8
313.3	327.8	310.5	286.8	286.8	270.5	286.9	338.5	327.7	327.7
125.8	139.5	107.7	89.8	89.8	88.7	83.4	95.7	96.7	96.7
187.5	188.3	202.8	197.0	197.0	181.8	203.5	242.8	231.0	231.0
1,394.3	1,514.9	1,537.9	1,505.8	1,505.8	1,551.9	1,642.2	1,770.2	1,898.6	1,898.6
1,033.0	1,161.0	1,196.0	1,155.0	1,155.0	1,167.6	1,178.2	1,269.1	1,312.4	1,312.4
361.3	353.9	341.9	350.8	350.8	384.3	464.0	501.1	586.2	586.2
0.3	0.5	0.7	0.9	0.9	1.3	7.8	10.0	11.4	11.4
2,002.3	2,004.2	2,110.1	2,202.4	2,202.4	2,269.7	2,269.5	2,335.1	2,387.1	2,387.1
3,710.2	3,847.4	3,959.2	3,995.9	3,995.9	4,093.4	4,206.4	4,453.8	4,624.8	4,624.8

Selected consolidated historical data (*)

	FY 2002	FY 2003	FY 2004	FY 2005
INCOME STATEMENTS (US\$ million)				
Gross operating revenues	717.7	1,098.9	1,322.7	1,531.7
Domestic	17.1	42.4	66.1	62.0
Export	700.6	1,056.5	1,256.6	1,469.7
Value-added tax and other sales deductions	48.7	95.8	155.6	186.5
Net operating revenues	669.0	1,003.1	1,167.1	1,345.2
Operating cost of sales	468.9	592.6	700.3	783.6
Operating expenses	104.6	103.3	110.1	114.5
Selling costs	28.2	38.6	53.8	64.4
Administrative costs	22.3	22.8	31.1	33.8
Other	54.1	41.9	25.2	16.3
Operating income	95.5	307.2	356.7	447.1
Other (income) expenses	(0.8)	30.0	59.2	33.8
Financial expenses	82.0	108.2	120.0	137.3
Financial income	(61.6)	(43.0)	(56.1)	(125.4)
(Gain) loss on currency remeasurement, net	(14.9)	(42.0)	(16.2)	(21.4)
Equity in results of affiliated company	(6.1)	6.9	11.6	44.1
Other	(0.2)	(0.1)	(0.1)	(0.8)
Income before income taxes	96.3	277.2	297.5	413.3
Income taxes	(15.6)	129.1	70.3	72.2
Current	(24.0)	106.5	42.8	71.1
Deferred	8.4	22.6	27.5	1.1
Net income	111.9	148.1	227.2	341.1
CASH FLOW GENERATION (US\$ million)				
Operating income	95.5	307.2	356.7	447.1
Depreciation and depletion	171.5	191.5	206.9	211.6
Depreciation and depletion - inventory movement	-	-	(0.8)	(10.5)
EBITDA	267.0	498.7	562.8	648.2
Non-cash items				
Provision (reversal) for loss on ICMS credits	45.1	23.2	22.9	7.4
Other	8.5	17.2	9.3	13.3
EBITDA (adjusted by non-cash items)	320.6	539.1	595.0	668.9
Financial (expenses) income and gain (loss) on currency remeasurement, net	(5.5)	(23.2)	(47.7)	9.5
Cash flow impact of other operating activities, except financial	(45.8)	(114.6)	(79.4)	(141.5)
Sub-total	269.3	401.3	467.9	536.9
Additions to property, plant and equipment	(260.7)	(118.7)	(94.5)	(147.9)
Acquisition of Riocell S.A., net of cash acquired	-	(563.2)	-	-
Investments in affiliate	-	(110.2)	(99.0)	(69.1)
Treasury stock acquired	(2.2)	-	-	-
Marked to market investment in government bonds	(16.3)	-	-	-
Proceeds from sale of equipment and investment	1.2	0.7	18.1	0.7
Dividends and interest on stockholders' equity paid	(73.8)	(109.3)	(198.7)	(139.4)
Net cash flow before the increase / decrease of the net debt	(82.5)	(499.4)	93.8	181.2
Increase (decrease) in gross debt (2)	(69.2)	577.8	4.1	(73.4)
Net cash flow	(151.7)	78.4	97.9	107.8
Cash and cash equivalents / short and long-term investments, beginning of period	425.6	273.9	352.3	450.2
Cash and cash equivalents / short and long-term investments, end of period	273.9	352.3	450.2	558.0

(2) Includes gain / loss on remeasurement
 (*) The Company's financial information have been prepared according to US GAAP

1 ST Q 06	2 ND Q 06	3 RD Q 06	4 TH Q 06	FY 2006	1 ST Q 07	2 ND Q 07	3 RD Q 07	4 TH Q 07	FY 2007
445.6	455.2	489.2	532.4	1,922.4	455.7	564.2	518.2	606.0	2,144.1
16.6	16.9	20.3	23.6	77.4	29.1	32.4	33.2	42.4	137.1
429.0	438.3	468.9	508.8	1,845.0	426.6	531.8	485.0	563.6	2,007.0
56.2	53.2	57.2	75.0	241.6	60.3	70.0	62.7	67.3	260.3
389.4	402.0	432.0	457.4	1,680.8	395.4	494.2	455.5	538.7	1,883.8
249.7	248.6	261.2	278.4	1,037.9	240.4	313.0	290.9	346.7	1,191.0
30.3	35.6	42.2	35.4	143.5	35.2	13.0	37.1	13.6	98.9
19.1	18.9	17.8	18.2	74.0	17.1	21.5	19.5	20.7	78.8
9.2	11.3	19.3	17.2	57.0	10.4	15.5	14.2	18.6	58.7
2.0	5.4	5.1	-	12.5	7.7	(24.0)	3.4	(25.7)	(38.6)
109.4	117.8	128.6	143.6	499.4	119.8	168.2	127.5	178.4	593.9
(33.0)	18.5	(7.5)	(3.4)	(25.4)	(16.8)	(21.3)	(40.0)	52.6	(25.5)
44.1	36.7	38.3	30.6	149.7	25.6	19.3	(5.8)	61.8	100.9
(86.0)	(21.1)	(39.8)	(34.8)	(181.7)	(49.9)	(62.9)	(36.6)	(18.6)	(168.0)
(8.5)	2.0	(0.4)	(0.7)	(7.6)	0.7	(0.2)	(4.3)	2.9	(0.9)
17.4	0.7	(5.8)	1.4	13.7	6.3	16.1	4.5	5.2	32.1
-	0.2	0.2	0.1	0.5	0.5	6.4	2.2	1.3	10.4
142.4	99.3	136.1	147.0	524.8	136.6	189.5	167.5	125.8	619.4
63.3	(6.6)	(7.1)	19.9	69.5	37.1	66.9	62.2	31.1	197.3
34.8	2.3	(13.5)	7.2	30.8	20.9	12.8	12.7	(5.1)	41.3
28.5	(8.9)	6.4	12.7	38.7	16.2	54.1	49.5	36.2	156.0
79.1	105.9	143.2	127.1	455.3	99.5	122.6	105.3	94.7	422.1
109.4	117.8	128.6	143.6	499.4	119.8	168.2	127.5	178.4	593.9
52.4	55.3	54.6	55.5	217.8	52.7	52.2	54.6	58.1	217.6
1.4	(2.2)	(2.8)	2.4	(1.2)	(3.7)	5.4	(2.7)	3.3	2.3
163.2	170.9	180.4	201.5	716.0	168.8	225.8	179.4	239.8	813.8
4.9	5.8	5.9	0.9	17.5	6.7	(25.4)	(3.4)	(18.4)	(40.5)
0.1	0.8	0.8	0.5	2.2	1.5	4.0	9.5	7.5	22.5
168.2	177.5	187.1	202.9	735.7	177.0	204.4	185.5	228.9	795.8
50.4	(17.6)	1.9	4.9	39.6	23.6	43.8	46.7	(46.1)	68.0
(15.0)	(8.5)	(53.2)	(40.2)	(116.9)	(9.0)	(42.9)	(2.6)	(84.8)	(139.3)
203.6	151.4	135.8	167.6	658.4	191.6	205.3	229.6	98.0	724.5
(51.2)	(66.2)	(80.9)	(102.7)	(301.0)	(98.5)	(150.9)	(186.2)	(154.1)	(589.7)
-	-	-	-	-	-	-	-	-	-
-	-	(24.5)	-	(24.5)	(87.0)	(9.0)	(7.8)	(19.0)	(122.8)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
0.2	-	0.1	0.3	0.6	0.2	-	0.1	0.2	0.5
(66.7)	(114.2)	(33.8)	(37.0)	(251.7)	(34.8)	(115.7)	(40.5)	(41.7)	(232.7)
85.9	(29.0)	(3.3)	28.2	81.8	(28.5)	(70.3)	(4.8)	(116.6)	(220.2)
(143.5)	141.7	3.2	(58.9)	(57.5)	11.5	5.3	103.2	44.3	164.3
(57.6)	112.7	(0.1)	(30.7)	24.3	(17.0)	(65.0)	98.4	(72.3)	(55.9)
558.0	500.4	613.1	613.0	558.0	582.3	565.3	500.3	598.7	582.3
500.4	613.1	613.0	582.3	582.3	565.3	500.3	598.7	526.4	526.4

Selected consolidated historical data (*)

	FY 2002	FY 2003	FY 2004	FY 2005
OTHER FINANCIAL DATA				
Weighted average number of shares outstanding (in million of shares)	1,032.1	1,030.7	1,030.7	1,030.7
Class A preference stock	40.4	39.8	38.1	38.0
Class B preference stock	536.8	536.0	537.7	537.7
Common stock	454.9	454.9	454.9	454.9
Earnings per share				
Class A preference stock	0.11	0.15	0.23	0.34
Class B preference stock	0.11	0.15	0.23	0.34
Common stock	0.10	0.14	0.21	0.31
General data				
Aracruz EBITDA	267.0	498.7	562.8	648.2
Adjusted Aracruz EBITDA	320.6	539.1	595.0	668.9
50% of Veracel adjusted EBITDA	10.7	8.7	5.9	17.0
Adjusted total EBITDA	331.3	547.8	600.9	685.9
Adjusted total EBITDA margin - %	49.5%	54.6%	51.5%	51.0%
Adjusted Aracruz EBITDA per share (US\$)	0.31	0.52	0.58	0.65
Aracruz net debt	519.8	1,019.2	925.5	744.3
Net debt (including 50% of Veracel)	563.7	1,041.1	1,150.9	1,142.4
Aracruz net debt to total capital ratio	22.8%	36.1%	33.8%	27.5%
Net debt to total capital ratio (including 50% of Veracel)	24.3%	36.6%	38.8%	36.8%
ROE - Return on equity	6.4%	8.3%	12.6%	18.1%

(*) The Company's financial information have been prepared according to US GAAP

1 ST Q 06	2 ND Q 06	3 RD Q 06	4 TH Q 06	FY 2006	1 ST Q 07	2 ND Q 07	3 RD Q 07	4 TH Q 07	FY 2007
1,030.6	1,030.6	1,030.6	1,030.6	1,030.6	1,030.6	1,030.6	1,030.6	1,030.6	1,030.6
38.0	38.0	38.0	38.0	38.0	38.0	38.0	37.1	28.0	36.9
537.7	537.7	537.7	537.7	537.7	537.7	537.7	538.6	547.7	538.8
454.9	454.9	454.9	454.9	454.9	454.9	454.9	454.9	454.9	454.9
0.08	0.11	0.14	0.13	0.46	0.10	0.12	0.11	0.10	0.43
0.08	0.11	0.14	0.13	0.46	0.10	0.12	0.11	0.10	0.43
0.07	0.10	0.13	0.12	0.42	0.09	0.11	0.10	0.09	0.39
163.2	170.9	180.4	201.5	716.0	168.8	225.8	179.4	239.8	813.8
168.2	177.5	187.1	202.9	735.7	177.0	204.4	185.5	228.9	795.8
18.1	18.0	25.0	16.0	77.1	23.3	21.5	24.9	21.5	91.2
186.3	195.5	212.1	218.9	812.8	200.3	225.9	210.4	250.4	887.0
47.9%	48.6%	49.1%	47.8%	48.4%	50.7%	45.7%	46.2%	46.5%	47.1%
0.16	0.17	0.18	0.20	0.71	0.17	0.20	0.18	0.22	0.77
658.4	687.5	690.7	662.5	662.5	691.0	761.4	766.1	882.7	882.7
1,082.9	1,115.4	1,108.5	1,081.4	1,081.4	1,034.4	1,104.8	1,105.7	1,217.8	1,217.8
24.7%	25.5%	24.7%	23.1%	23.1%	23.3%	25.1%	24.7%	27.0%	27.0%
35.1%	35.8%	34.4%	32.9%	32.9%	31.3%	32.7%	32.1%	33.8%	33.8%
4.0%	5.3%	7.0%	5.9%	21.9%	4.5%	5.4%	4.6%	4.0%	18.4%

Number of shares

Class	# share	% of share capital
Common outstanding	454,907,585	44.14
Preferred "A" outstanding	27,958,116	2.71
Preferred "B" outstanding*	547,722,105	53.15
Total outstanding	1,030,587,806	100.00
Common in treasury	483,114	
Preferred "A" in treasury	0	
Preferred "B" in treasury	1,483,200	
Total in treasury	1,966,314	
Total	1,032,554,120	

* Being 355,365,532 PNB shares under the American Deposit Receipt (ADR) program on the NYSE, representing 35,536,553 ADRs or 65% of the class "B" outstanding shares, as of 12/31/07.

Stock Exchanges

In Brazil	In the United States	In Europe
Aracruz's shares are listed on the São Paulo Stock Exchange (Bovespa) under the ticker symbols: ARCZ6 (Preferred class "B"), ARCZ5 (Preferred class "A") and ARCZ3 (Common share)	Aracruz is listed on the New York Stock Exchange (NYSE) under an ADR level 3 program. The shares of Aracruz are traded under the ticker symbol "ARA" (1 Aracruz ADR = 10 Preferred class "B" shares)	Aracruz's shares are listed on the Latin American Stock Exchange (Latibex) in Madrid, Spain, under the ticker symbol "XARAB" (1 Aracruz deposit receipt = 1 Preferred class "B" share)

Performance on the BOVESPA
(Preferred "B" class share – PNB)

52-week closing High (December 7, 2007): R\$14.15
52-week closing Low (March 28, 2007): R\$10.25
2007 variation: -2%
2007 Average Daily Trading Volume: 1,758,921 shares
2007-Year End PNB price: R\$12.91

Performance on the NYSE

52-week closing High (December 6, 2007): US\$80.24
52-week closing Low (August 16, 2007): US\$49.01
2006 Variation: 21%
2006 Average Daily Trading Volume: 473,489 ADRs
2006 ADRs Year End ADR price: US\$74.35

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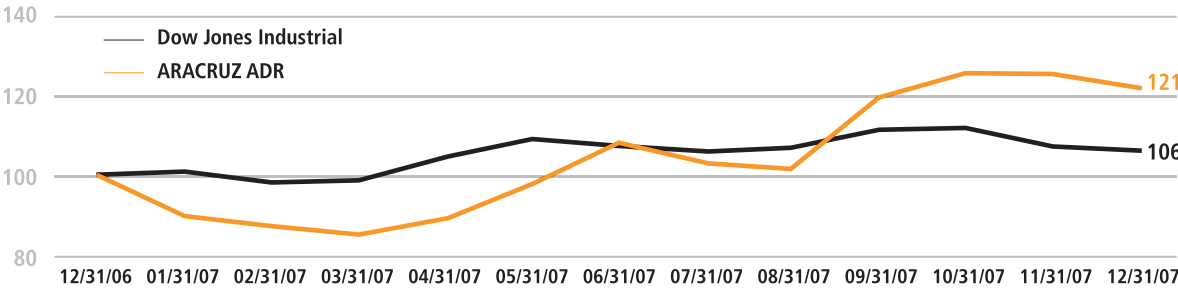
Investor publications and
information

The company's Quarterly Earnings and Press Releases, Annual Reports and quarterly Aracruz's Newsletter are available upon request from our Investor Relations Department. This information is also available on our website (www.aracruz.com.br).


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Aracruz ADR 2007 price evolution – 100 basis in Dec 31, 2006







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