

ARACRUZ CELLULOSE S A
Form 20-F
June 30, 2009
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As filed with the Securities and Exchange Commission on June 30, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

- .. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the Fiscal Year Ended December 31, 2008
OR
- .. TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- .. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report.

ARACRUZ CELULOSE S.A.

(Exact name of Registrant as specified in its charter)

Aracruz Cellulose

(Translation of Registrant's name into English)

Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

Av. Brigadeiro Faria Lima, 2277, 4th floor

01452-000 São Paulo, SP, Brazil
(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class:	Name of each exchange on which registered:
American Depositary Shares (as evidenced by American Depositary Receipts), each representing ten shares of Class B Preferred Stock Securities registered or to be registered pursuant to Section 12(g) of the Act.	New York Stock Exchange

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

455,390,699	Shares of Common Stock
27,956,802	Shares of Class A Preferred Stock
549,206,619	Shares of Class B Preferred Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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U.S. GAAP

International Financial Reporting Standards as issued

Other

by the International Accounting Standards Board

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Richard S. Aldrich, Jr.

Skadden, Arps, Slate, Meagher & Flom LLP

4 Times Square

New York, NY 10036

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INTRODUCTION

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

U.S. dollars, dollars, \$ or US\$ are to United States dollars;

reais, *real* or R\$ are to Brazilian *reais*, the official currency of Brazil;

Brazilian government are to the federal government of the Federative Republic of Brazil;

audited consolidated financial statements are to the Audited Consolidated Financial Statements of Aracruz Celulose S.A. as of December 31, 2007 and 2008 and, for the three years ended December 31, 2008, together with the corresponding Report of Independent Registered Public Accounting Firm;

the Company, Aracruz, we, us and our are to Aracruz Celulose S.A. and its consolidated subsidiaries (unless the context otherwise requires);

our preferred shares and our common shares are to our authorized and outstanding preferred stock and common stock, respectively;

Class A Preferred Stock or Class A Preferred Shares are to our class A non-voting preferred stock (*ações preferenciais classe A*);

Class B Preferred Stock or Class B Preferred Shares are to our class B non-voting preferred stock (*ações preferenciais classe B*);

Preferred Shares are to our Class A Preferred Stock together with our Class B Preferred Stock;

tons are to metric tons of 1,000 kilograms each;

COFINS is the *Contribuição para o Financiamento da Seguridade Social*, a Brazilian federal social contribution;

CPMF is the *Contribuição Provisória sobre Movimentação Financeira*, a Brazilian federal social contribution that used to be charged to bank transfers and withdrawals at the rate of 0.38% and that was discontinued in January 2008;

ICMS is the *Imposto sobre Circulação de Mercadorias e Serviços*, a Brazilian state value-added tax;

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PIS is the *Programa de Integração Social*, a Brazilian federal social contribution;

TJLP rate is the *Taxa de Juros de Longo Prazo*, the Brazilian long-term interest rate;

CDI rate is the interest rate on Brazilian interbank certificate of deposits (*Certificados de Depósito Interbancário*); and

SELIC rate is the daily average interest rate for repurchase agreements of Brazilian government treasury bonds.

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

Unless otherwise indicated,

all references in this annual report to percentages, tons and U.S. dollars or *real* amounts of pulp are to market pulp ; and

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amounts in *reais* stated at a particular date and followed by U.S. dollar equivalents have been converted using the *reais* to U.S. dollars commercial selling rate in effect on such date.

FORWARD-LOOKING STATEMENTS

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

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

inflation and fluctuation in exchange rates;

the effects of the current world economic crisis on global and Brazilian economic and market conditions;

existing and future governmental regulation;

the declaration or payment of dividends;

our direction and future operation;

the implementation of our proposed business combination with Votorantim Celulose e Papel S.A., or VCP, which directly and indirectly owns 96.5% of our common shares;

the implementation of our principal operating strategies, including our potential participation in acquisition or joint venture transactions or other investment opportunities;

the implementation of our financing strategy and capital expenditure plans;

our level of indebtedness and leverage;

changes in competitive conditions and in the general level of demand for our products;

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other factors or trends affecting the pulp and paper market (including its cyclical nature and our financial condition or results of operations); and

other factors or trends affecting our financial condition or results of operations.

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

We make statements in this annual report about our competitive position and market share in, and the market size of, the pulp industry. We derive this third-party information principally from reports published by the International Pulp Statistical Committee, which includes the American Forest Paper Association, the

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Canadian Pulp & Paper Association, the Finnish Forest Industry Federation and the Brazilian Pulp and Paper Association and reports published by Hawkins Wright Ltd., or Hawkins Wright. We have not independently verified the competitive position, market share, market size or market growth data provided by third parties or by industry or general publications.

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**A. Selected Financial Data**

Our audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Because we export substantially all of our production, and due to the fact that we operate in an industry that uses the U.S. dollar as its currency of reference and this is the currency in which cash is primarily generated and expended (thus representing the economic environment in which the Company conducts its operations), our management believes that the U.S. dollar is the Company's functional currency and the most appropriate currency in which to present our audited consolidated financial statements. Accordingly, we have been presenting our primary U.S. GAAP audited consolidated financial statements in U.S. dollars since 1994. For this purpose, amounts in *reais* for all periods presented have been remeasured into U.S. dollars in accordance with the methodology set forth in Statement of Financial Accounting Standards No. 52, or SFAS 52.

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

For certain purposes, such as providing reports to our Brazilian shareholders, filing financial statements with the *Comissão de Valores Mobiliários*, or CVM, the Brazilian securities commission, and determining dividend payments and other distributions and tax liabilities in Brazil, we have prepared and will continue to be required to prepare financial statements in accordance with the accounting practices adopted in Brazil. Our financial statements are prepared in accordance with Law 6,404/76, as amended, or the Brazilian Corporate Law, and are not adjusted to account for the effects of inflation.

The following table presents our selected financial data as of the dates and for each of the periods indicated. Our U.S. GAAP audited consolidated financial statements as of December 31, 2007 and 2008 appear elsewhere herein, together with the reports of our Independent Registered Public Accounting Firm, Deloitte Touche Tohmatsu Auditores Independentes, or Deloitte. The selected financial information at December 31, 2004, 2005 and 2006 have been derived from our U.S. GAAP audited consolidated financial statements, not included in this annual report. The selected financial data should be read in conjunction with Item 5. Operating and Financial Review and Prospects.

	At and for the year ended December 31,				
	2004	2005	2006	2007	2008
	<i>(in US\$ thousands, except number of shares and per share amounts)</i>				
Statement of Operations Data					
Operating Revenues					
Domestic	66,083	62,019	77,431	137,086	152,285
Export	1,256,648	1,469,646	1,845,026	2,007,017	1,999,605

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Gross operating revenues	1,322,731	1,531,665	1,922,457	2,144,103	2,151,890
Sales taxes and other deductions	(155,618)	(186,432)	(241,624)	(260,328)	(240,587)
Net operating revenues	1,167,113	1,345,233	1,680,833	1,883,775	1,911,303
<i>Operating costs and expenses</i>					
Cost of sales	700,333	783,578	1,037,896	1,190,957	1,337,797
Selling	53,850	64,430	74,005	78,832	88,329
Administrative	31,072	33,820	57,020	58,708	64,738
Other, net	25,208	16,313	12,514	(38,624)	77,973
Total operating costs and expenses	810,463	898,141	1,181,435	1,289,873	1,568,837

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	At and for the year ended December 31,				
	2004	2005	2006	2007	2008
	<i>(in US\$ thousands, except number of shares and per share amounts)</i>				
Operating income	356,650	447,092	499,398	593,902	342,466
Non-operating (income) expenses					
Financial income	(56,123)	(125,439)	(181,733)	(168,037)	2,093,875
Financing expense	119,976	137,276	149,719	100,864	112,690
Gain on currency remeasurement, net	(16,197)	(21,386)	(7,641)	(908)	(71,146)
Other, net	(76)	(778)	(7)	(61)	
Total Non-operating (income) expenses	47,580	(10,327)	(39,662)	(68,142)	2,135,419
Income before income taxes, minority interest and equity in results of affiliated companies	309,070	457,419	539,060	662,044	(1,792,953)
Income tax expense					
Current	42,746	71,086	30,754	41,343	34,305
Deferred	27,510	1,142	38,740	155,969	(524,063)
Total income tax expense (credit)	70,256	72,228	69,494	197,312	(489,758)
Minority interest	(9)	(31)	(544)	(10,522)	735
Equity in results of affiliated companies	(11,568)	(44,062)	(13,705)	(32,141)	63,766
Net income (loss)	227,237	341,098	455,317	422,069	(1,238,694)
Basic and diluted earnings per share(1)					
Common Stock	0.21	0.31	0.42	0.39	(2.84)
Class A Preferred Stock	0.23	0.34	0.46	0.43	0.09
Class B Preferred Stock	0.23	0.34	0.46	0.43	0.09
Dividends and interest on shareholders equity per share					
Common Stock	0.11(2)	0.05(4)	0.06(6)	0.08(8)	0.11(10)
	0.08(3)	0.12(5)	0.13(7)	0.14(9)	0.08(11)
Class A Preferred Stock	0.12(2)	0.06(4)	0.07(6)	0.08(8)	0.12(10)
	0.09(3)	0.13(5)	0.15(7)	0.16(9)	0.09(11)
Class B Preferred Stock	0.12(2)	0.06(4)	0.07(6)	0.08(8)	0.12(10)
	0.09(3)	0.13(5)	0.15(7)	0.16(9)	0.09(11)
Weighted-average number of shares outstanding (thousands of shares)					
Common Stock	454,908	454,908	454,908	454,908	454,908
Class A Preferred Stock	38,074	38,022	38,015	36,933	27,957
Class B Preferred Stock	537,711	537,739	537,665	538,747	547,723
Total	1,030,693	1,030,669	1,030,588	1,030,588	1,030,588

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

(2) Including the dividend declared on April 29, 2004.

(3) Including the interest on shareholders equity declared on October 19, 2004 and November 16, 2004, respectively. The interest on shareholders equity was attributed to the mandatory dividend relating to the 2004 fiscal year, which was declared on April 29, 2005.

(4) Including the dividend declared on April 29, 2005.

(5) Including the interest on shareholders equity declared on April 19, 2005, May 19, 2005, June 20, 2005 and December 20, 2005, respectively. The interest on shareholders equity was attributed to the mandatory dividend relating to the 2005 fiscal year, which was declared on April 28, 2006.

(6) Including the dividend declared on April 28, 2006.

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- (7) Including the interest on shareholders' equity declared on March 23, 2006, June 20, 2006, September 19, 2006 and December 22, 2006, respectively. The interest on shareholders' equity was attributed to the mandatory dividend relating to the 2006 fiscal year, which was declared on April 24, 2007.
- (8) Including the dividend declared on April 24, 2007.
- (9) Including the interest on shareholders' equity declared on March 21, 2007, June 19, 2007, September 18, 2007 and December 21, 2007, respectively. The interest on shareholders' equity was attributed to the mandatory dividend relating to the 2007 fiscal year, which was declared on April 30, 2008.
- (10) Including the dividend declared on April 30, 2008.
- (11) Including the interest on shareholders' equity declared on March 18, 2008 and June 20, 2008, respectively. No dividends were declared relating to the 2008 fiscal year.

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	2004	At and for the year December 31,			2008
		2005	2006	2007	
		(in US\$ thousands)			
Balance Sheet Data					
Cash and cash equivalents	36,474	34,114	48,414	53,321	60,033
Short-term investments	412,110	521,613	531,229	439,940	368,862
Accounts receivables, net	208,336	253,306	285,795	361,603	288,611
Inventories	126,220	173,873	202,704	225,023	310,383
Other current assets	49,973	111,899	132,782	174,930	165,763
Property, plant and equipment, net	2,133,896	2,068,547	2,151,212	2,518,700	3,009,367
Investment in affiliated company	273,890	298,925	324,736	415,394	556,410
Goodwill	207,050	207,050	192,035	192,035	192,035
Other non-current assets	81,709	94,678	127,021	247,334	447,951
Total assets	3,529,658	3,764,005	3,995,928	4,628,280	5,399,415
Short-term debt	152,934	292,018	89,787	100,185	346,352
Derivative instruments					37,515
Other current liabilities	121,872	193,147	197,032	230,951	220,137
Long-term debt	1,222,728	1,010,285	1,155,050	1,312,351	3,566,695
Derivative instruments					23,467
Other long-term liabilities	217,837	304,132	351,636	597,675	267,612
Share capital	909,473	909,122	909,122	1,410,490	1,410,490
Other shareholders' equity accounts	904,814	1,055,301	1,293,301	976,628	(472,853)
Total liabilities and shareholders' equity	3,529,658	3,764,005	3,995,928	4,628,280	5,399,415

Exchange Rates

Prior to March 4, 2005, there were two principal legal foreign exchange markets in Brazil:

(i) the commercial rate exchange market, and

(ii) the floating rate exchange market.

Most trade and financial foreign exchange transactions were carried out on the commercial rate exchange market. These included the purchase or sale of shares or payment of dividends or interest with respect to shares. Foreign currencies could only be purchased in the commercial exchange market through a Brazilian bank authorized to buy and sell currency in these markets. In both markets, rates were freely negotiated.

On March 14, 2005, those two markets were consolidated into one single foreign exchange market, named the Foreign Exchange Market. Transactions in the Foreign Exchange Market are required to comply with the provisions set forth in Resolution No. 3,568 by the *Conselho Monetário Nacional*, or CMN, the Brazilian monetary council, dated May 29, 2008, and the regulations established by the *Banco Central do Brasil*, or the Central Bank, the Brazilian central bank. All foreign exchange transactions are now carried out through institutions authorized to operate in the consolidated market and are subject to registration with the electronic registration system of the Central Bank. Foreign exchange rates continue to be freely negotiated, but may be influenced by Central Bank intervention.

Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely, and during that period, the *real*/U.S. dollar exchange rate has fluctuated considerably. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially in the future. See Item 3D. Risk Factors - Risks Relating to Brazil.

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

Year ended December 31,	Exchange Rate of Reais to US\$1.00			
	Low	High	Average(1)	Year-End
2004	2.6544	3.2051	2.8639	2.6544
2005	2.1633	2.7621	2.4125	2.3407
2006	2.0586	2.3711	2.1771	2.1380
2007	1.7325	2.1556	1.9483	1.7713
2008	1.5593	2.5004	1.8375	2.3370

Source: Central Bank.

(1) Represents the average of the daily exchange rates during the relevant period.

Month/period ended	Exchange Rate of Reais to US\$1.00	
	Low	High
December 31, 2008	2.3149	2.5127
January 31, 2009	2.1889	2.3803
February 28, 2009	2.2446	2.3916
March 31, 2009	2.2375	2.4218
April 30, 2009	2.1699	2.2899
May 31, 2009	1.9518	2.1740
June 15, 2009	1.9231	1.9648

Source: Central Bank.

We have historically paid cash dividends and make other cash distributions with respect to the Class B Preferred Stock in *reais*. Accordingly, exchange rate fluctuations may affect the U.S. dollar amounts received by holders of American Depositary Shares, or ADSs, on conversion by the depositary of our ADSs, or the Depositary, of such distributions into U.S. dollars for payment to holders of ADSs.

Since November 2006, Brazilian exporters are authorized, pursuant to the terms of Law No. 11,371, to keep their export revenues outside Brazil and use such revenues to make investments and to pay indebtedness and other obligations of the exporter. The Company may, from time to time and at its convenience, use amounts deposited abroad pursuant to Law No. 11,371 to pay dividends and any other cash distributions. For additional information, see Item 10D. Exchange Controls. For information on dividends, see Item 8A. Consolidated Statements and Other Financial Information Payment of Dividends.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risk Factors Relating to Brazil

Brazilian political and economic conditions have a direct impact on our business and the market price of our Preferred Shares and ADSs.

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

currency fluctuations;

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inflation;

exchange control policies;

monetary policies;

liquidity of domestic capital and lending markets;

price instability;

interest rates;

tax policy; and

other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty as to whether the Brazilian government will implement changes in policy or regulation affecting these or other factors may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian companies, including our ADSs.

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

Exchange rate instability may adversely affect our financial condition and results of operations and the market price of our Preferred Shares and ADSs.

Because a portion of our expenses, liabilities, and a significant portion of our assets are denominated in *reais* and we have U.S. dollar-denominated revenues, debt and other liabilities, we may be adversely affected by foreign exchange rate volatility. See Selected Financial Data Exchange Rates.

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

Historically, depreciations in the *real* relative to the U.S. dollar have also created additional inflationary pressures in Brazil by generally increasing the price of imported products and requiring recessionary government policies to curb aggregate demand. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the current account and the balance of payments, as well as dampen export-driven growth. Depreciations of the *real* relative to the U.S. dollar will reduce the U.S. dollar value of distributions and dividends on our ADSs, and may also reduce the U.S. dollar market value of our Preferred Shares and ADSs.

In 2003, Brazil started a cycle of *real* appreciation relative to the U.S. dollar. In that year, the *real* appreciated 18.2% against the U.S. dollar. The appreciation of the *real* relative to the U.S. dollar was 8.1% in 2004, 12.1% in 2005, 8.5% in 2006 and 16.7% in 2007, representing an accumulated appreciation of 49.7% since the beginning of 2003 until the end of 2007. In the second half of 2008, the *real* suffered a sharp devaluation against the U.S. dollar mainly due to the international financial crisis. In 2008, the *real* devalued 30.3% against the U.S. dollar, and in 2009 the *real* started to resume its appreciation trend, gaining approximately 15% against the U.S. dollar in the first five months of the year.

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The volatility of the *real* exchange rate against the U.S. dollar may adversely affect our financial condition and results of operations and the market price of our Preferred Shares and ADSs. No assurance can be given that the *real* will not appreciate or depreciate significantly against the U.S. dollar in the future, or that we will succeed in protecting ourselves accordingly to prevent financial or operating losses resulting from significant fluctuations of the *real*.

Inflation and certain governmental measures to control inflation may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets, and, consequently, adversely affect the market value of our Preferred Shares and ADSs.

Until 2002, Brazil experienced extremely high rates of inflation. Inflation itself, as well as certain governmental measures to combat inflation, coupled with public speculation about possible future governmental actions, have had significant negative effects, and contributed to economic uncertainty to the Brazilian economy, causing heightened volatility in the Brazilian securities markets.

Our cash operating expenses are substantially denominated in *reais* and tend to increase with Brazilian inflation because our suppliers and providers generally increase prices to reflect the depreciation of the value of the local currency. As expressed in U.S. dollars, however, these increases are typically offset, at least in part, by the effect of the appreciation of the U.S. dollar against the *real*, which in turn serves to increase the local currency value of our U.S. dollar denominated revenues derived from exports. If the rate of Brazilian inflation increases more rapidly than the rate of appreciation of the U.S. dollar, then, as expressed in U.S. dollars, operating expenses may increase and (assuming constant U.S. dollar sales prices) profit margins may decrease. Future Brazilian government actions, including interest rate decreases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation. If Brazil experiences high inflation again in the future, our operating expenses and borrowing costs may increase, our operating and net margins may decrease and, if investor confidence decreases, the price of our common shares and ADSs may also decrease.

In addition, high inflation generally leads to higher domestic interest rates, and as a result the Company's costs of *real*-denominated debt may increase. See Item 5. Operating and Financial Review and Prospects Brazilian Economic Environment.

We may be impacted by governmental actions affecting the Brazilian markets and economy.

The Brazilian government has exercised and continues to exercise substantial influence over many aspects of the private sector. The Brazilian government, for example, could impose some restrictions for the export market, by creating export duties for any product, including our main source of revenues (market pulp), affecting the margins and the profitability of exporting companies. In addition, the Brazilian government owns or controls many companies, including some of the largest in Brazil. For example, *Banco Nacional de Desenvolvimento Econômico e Social*, or BNDES, the Brazilian social and economic development bank, through its holding company, BNDES Participações S.A., or BNDESPar, will be a significant shareholder of the entity which would result in the event of our proposed business combination with VCP, or the VCP Aracruz Business Combination, (see Item 4A. History and Development of Aracruz VCP's Acquisition of our Control and Upcoming Corporate Restructuring) and has historically been an important creditor. See Item 7B. Related Party Transactions BNDES Loan Agreements.

Economic developments and investor perceptions of risk in other countries, including emerging market countries, may adversely affect the trading price of Brazilian securities, including our shares and ADSs.

The market value of securities of Brazilian issuers is affected to varying degrees by economic and market conditions in other countries, including other Latin American and emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Brazil, the reaction of investors to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Developments or conditions in other emerging market countries have, at times, significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil. In addition, events taking place in the world's main financial centers may have an adverse effect on the securities of issuers in other countries, including Brazil. For example, the occurrence in 2008 of the global economic crisis has had a global impact on the world economy and capital markets, including in Brazil. Such crisis is evidenced by instability in securities' value and capital markets, instability of most currencies, a widespread reduction in demand, a credit crunch,

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inflationary pressure, and other factors that could adversely affect our financial condition and diminish investor's interest in securities of Brazilian issuers, including ours. Future crises in other countries could adversely affect the trading price of our shares and ADSs, and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all. There can be no assurance that the Brazilian securities markets will not continue to be affected negatively by events elsewhere or that such events will not adversely affect the value of the Company's Preferred Shares or ADS.

Risks Relating to our Preferred Shares and ADSs

Exchange controls and restrictions on remittances abroad may adversely affect holders of ADSs.

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

The preferred shares underlying the ADSs have limited voting rights.

Of our three classes of shares outstanding (common, Class A Preferred Stock and Class B Preferred Stock), only our common shares have full voting rights. Except in certain limited circumstances, our Preferred Shares will not be entitled to voting rights. As a result of these limited voting rights and the fact that VCP directly and indirectly owns 96.5% of our common shares, holders of our Preferred Shares, including in the form of the ADSs, generally will not be able to influence most of the corporate decisions requiring a shareholder vote. In addition, only shareholders appearing in our shareholder records are recognizable to us and given admission to our shareholders' meetings. The record holder of the preferred shares underlying the ADSs is The Bank of New York, the depositary of our ADS program, and not our ADS holders. As a result, ADS holders depend on us and on the depositary to be represented at our shareholders' meetings and to vote the preferred shares underlying the ADSs in the very limited circumstances where our Preferred Shares may have a vote, pursuant to the Brazilian Corporate Law. Accordingly, even in the limited circumstances where our Preferred Shares may be entitled to a vote, the exercise of those limited voting rights might not be structured in a convenient and/or timely fashion for the benefit of our ADS holders, if at all.

Exchanging ADSs for the underlying Class B Preferred Stock may have unfavorable consequences.

The Brazilian custodian for our Class B Preferred Stock, or the Custodian, must obtain an electronic certificate of registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds related thereto. If you decide to exchange your ADSs for the underlying Class B Preferred Stock, you will be entitled to continue to rely (for five business days from the date of the exchange) on the ADS Depositary's electronic certificate of registration. Thereafter, you may not be able to obtain and remit U.S. dollars abroad upon the disposition of the Class B Preferred Stock, or distributions relating to the Class B Preferred Stock, unless you obtain your own electronic certificate of registration pursuant to Resolution No. 2,689, of January 26, 2000, of the CMN, or Resolution 2,689, which entitles foreign investors to buy and sell on the *BM&FBovespa S.A. - Bolsa de Valores, Mercadorias e Futuros*, or Bovespa, the São Paulo stock exchange. If you do not obtain a certificate of registration under Resolution 2,689, you may not be able to obtain and remit U.S. dollars abroad or other foreign currencies upon the disposition of Class B Preferred Stock or distributions with respect thereto, and you will generally be subject to less favorable tax treatment on gains with respect to the Class B Preferred Stock. If you attempt to obtain your own electronic certificate of registration, you may incur expenses or suffer significant delays in the application process. Obtaining an electronic certificate of registration involves generating significant documentation, including completing and filing various electronic forms with the Central Bank and the CVM. These expenses or delays could adversely impact your ability to remit dividends or distributions relating to the Class B Preferred Stock or the return of your capital outside of Brazil in a timely manner. If you decide to exchange your Class B Preferred Stock back into ADSs once you have registered your investment in the Class B Preferred Stock, you may deposit your Class B Preferred Stock with the Custodian and rely on the Depositary's certificate of registration, subject to certain conditions. See Item 10D. Exchange Controls. We cannot assure you that the Depositary's certificate of registration or any

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certificate of foreign capital registration obtained by you may not be affected by future legislative or other regulatory changes, or that additional Brazilian restrictions applicable to you, to the disposition of the underlying Class B Preferred Stock or to the repatriation of the proceeds from disposition would not be imposed in the future.

The relative volatility and illiquidity of the Brazilian securities markets may adversely affect holders of ADSs.

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

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. These features may substantially limit holders' ability to sell the preferred shares underlying the ADSs at a price and time at which holders wish to do so. The companies trading on the Bovespa had a market capitalization of approximately US\$588 billion as of December 31, 2008, and an average daily trading volume of approximately US\$3.1 billion in 2008. In comparison, as of December 31, 2008, the market capitalization of the companies listed on the New York Stock Exchange, or NYSE, was US\$14.3 trillion and the 10 largest companies listed on the NYSE represented approximately 15% of the total market capitalization of all listed companies, while the average daily trading volume was US\$82 billion.

There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 52% of the aggregate market capitalization of Bovespa as of December 31, 2008. The top ten stocks in terms of daily trading volume accounted for approximately 59% of all shares traded on Bovespa.

Because we are subject to specific rules and regulations as a Brazilian corporation, holders of our ADSs have fewer and less well defined shareholders' rights than investors in U.S. companies.

Our corporate affairs are governed by our by-laws and the Brazilian Corporate Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as Delaware or New York, or in certain other jurisdictions outside Brazil. In addition, your rights or the rights of holders of the Preferred Shares under the Brazilian Corporate Law, to protect your, or their interests, relative to actions taken by our *Conselho de Administração*, or Board of Directors, or by the holders of common shares, may be fewer and less well defined than under the laws of other jurisdictions outside Brazil.

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

Also, in accordance with the Brazilian Corporate Law and our by-laws, holders of our Preferred Shares, and therefore of our ADSs, are not entitled to vote at meetings of our shareholders except in limited circumstances. See Item 10B. Memorandum and Articles of Association.

You may not be able to exercise preemptive rights.

You may not be able to exercise the preemptive rights relating to the Class B Preferred Stock underlying the ADSs unless a registration statement under the U.S. Securities Act of 1933, as amended, or Securities Act, is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights, and we cannot assure investors that we will file any such registration statement. Unless we file a registration statement or an exemption from registration applies, investors may receive only the net proceeds from the sale of their preemptive rights by the Depositary, or if the preemptive rights cannot be sold, they will be allowed to lapse.

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

Risk Factors Relating to Aracruz and the Pulp Industry

The global recession could lead to a significant reduction in our revenues, cash flow and profitability.

The global economy, and in particular global industrial production, is the primary driver of demand for pulp and paper. Global industrial production has been trending downward since the second half of 2008, resulting in a significant and widespread contraction in demand for pulp and paper.

There is uncertainty about the depth and duration of the current global economic downturn and its continuing impact on the demand for pulp and paper. To avoid significant inventory accumulation, we may, from time to time, reduce production of several products which could lead to a negative impact on our cash generation and profitability. In addition, the abrupt and severe deterioration of the global economic scenario in the second half of 2008 has caused us to incur significant derivative losses, which we recorded as indebtedness at the end of 2008. This measure significantly increased our leverage and has subjected us to covenants under our new financing agreements that require us to reduce our operating investments and, therefore, may prevent us from growing our production capacity in line with growth in demand when global markets begin to recover and demand for our products resumes its former growth trend.

The market prices for our products are cyclical.

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

worldwide demand for pulp products;

worldwide production capacity;

the strategies adopted by major pulp producers; and

the availability of substitutes for our products.

All of these factors are beyond our control.

In addition, the price of our main products has fluctuated significantly in the past. For example, the average list price for Bleached Eucalyptus Kraft Market Pulp, or BEKP, increased 9% in 2008, 9% in 2007, 9% in 2006 and 11% in 2005. Significant fluctuations in the price, or demand, for BEKP may make it harder for us to plan accordingly, leaving us exposed to risks associated with excesses or shortages of stock, which in turn may have an adverse effect on our operating margins or on our ability to meet customer orders.

Discounts from list prices are frequently granted by sellers to significant purchasers. The Company has long-term supply contracts with various customers and no assurance can be given that the prices for pulp or paper will stabilize or not decline further in the future, or that demand for the Company's products will not decline in the future. As a result, no assurance can be given that the Company will be able to operate its production facilities in a profitable manner in the future. The Company's results of operations would be materially adversely affected if the price of its product were to decline significantly. See also Item 4B. Business Overview Market Overview.

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We face significant competition, which may adversely affect our market share.

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

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

We may be adversely affected by the imposition and enforcement of more stringent environmental regulations that would require us to spend additional funds.

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

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

Actions by federal or state legislature may adversely affect our operations.

State laws have in the past tried to restrict the plantation of eucalyptus forests for purposes of pulp production within the state of Espírito Santo. Although injunctive relief against those state laws has been obtained, and new state legislation has revoked them, there can be no assurance that similar laws will not be enacted in the future with a view to imposing limitations or restrictions on the plantation of eucalyptus in the region where we operate.

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

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

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Unfavorable outcomes in pending litigation may negatively affect the trading price of our shares and ADSs, as well as our financial performance and financial condition.

We are involved in numerous tax, civil and labor disputes involving significant monetary claims. If unfavorable decisions are rendered in one or more of these lawsuits, we could be required to pay substantial amounts, which could materially adversely affect our financial condition and results of operations. For some of these lawsuits, we have not established any provision on our balance sheet or have established provisions only for part of the amounts in question, based on our judgments as to the likelihood of winning these lawsuits. An unfavorable outcome in any of such lawsuits could have a material effect on our financial condition, results of operations and cash flows.

Our principal lawsuits include the following:

Class Action. In November 2008, a securities class action lawsuit was filed against us and certain of our current and former officers and directors in a U.S. federal court, purportedly on behalf of persons who purchased our shares and American Depositary Receipts between April 7 and October 2, 2008, which lawsuit we are defending. The complaint asserts claims for alleged violations of Section 10(b) of the Securities Exchange Act and Rule 10b-5 promulgated thereunder and Section 20(a) of the Securities Exchange Act, alleging that we misrepresented or failed to disclose information in connection with, and losses arising from, certain derivative transactions into which we had entered. The plaintiffs are seeking unspecified compensatory damages and expense reimbursement.

Environmental Civil Public Suits. In the second quarter of 2007, a number of non-governmental organizations and the Federal Public Prosecution Office of the state of Rio Grande do Sul brought two Civil Public Suits (*Ações Cíveis Públicas*) questioning the validity of the procedures adopted by the *Fundação Estadual de Proteção Ambiental*, or FEPAM, the Rio Grande do Sul state agency for environmental protection, in issuing environmental licenses for eucalyptus plantations in that state. Injunctive relief (*medida liminar*) was initially granted, to determine that FEPAM ceases to issue environmental licenses for eucalyptus plantations, and so the responsibility for the issuance of such licenses was transferred to the *Instituto Brasileiro de Meio Ambiente*, or IBAMA, the Brazilian environmental institute. The injunctive relief was suspended by the Federal Court of the Fourth Region at the request of the Government of Rio Grande do Sul. The Company believes that such suspension will be confirmed by the court's definitive decision on the merits. However, there can be no assurance that such definitive decision will be favorable to the Company or that similar suits will not be brought in the future that would impose a limitation or restriction on plantation of eucalyptus or that would affect our licenses or permits.

Social Contributions. We are contesting in local federal courts changes in the rates and rules for the calculation of PIS and COFINS determined by Law No. 9,718/98. 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 changes to the taxable revenue basis of these social contributions, and decided to pay the accrued amount in installments according to a special installment tax collection program called PAES, enacted by Law No. 10,684/2003. Notwithstanding, due to a judgment issued by the *Supremo Tribunal Federal*, or 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. 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, indicating that the jurisprudence on the matter is consolidated, the Company is convinced that it is very unlikely that an unfavorable decision will be issued. Nevertheless, considering a late 2007 pronouncement of the *Instituto dos Auditores Independentes do Brasil*, or the IBRACON, the Company recognizes a provision with respect to such legal actions which equaled approximately US\$75.4 million as of December 31, 2008.

See Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings.

Our level of indebtedness and related debt service obligations may adversely affect our financial condition and our business.

We currently have a significant level of indebtedness. In 2008, due to a sharp devaluation of the *real* against the U.S. dollar, we suffered significant losses in connection with certain of our derivative financial instruments. On November 3, 2008, we recorded a total loss of approximately US\$2.1 billion related to such

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instruments. As of December 31, 2008, our total indebtedness, including the payment of obligations under our derivative financial instruments, amounted to US\$3,913 million, 90.6% of which represented long-term debt payments.

We renegotiated the terms and conditions of the outstanding payment obligations under our derivative financial instruments and as of May 13, 2009 entered into an Export Prepayment Facility Agreement and Secured Loan, or the Export Prepayment Credit Facility, which requires us to make interest payments based on the London Interbank Offered Rate, or LIBOR, plus a margin that increases over time. An increase in the interest rate associated with our floating-rate debt, particularly the LIBOR, would increase our debt service costs and adversely affect our results of operations and cash flow.

The level of our indebtedness has important consequences to our investors, our business and our operations. For example, it:

increases our vulnerability to general adverse economic and industry conditions;

requires us to dedicate a substantial portion of our cash flow from operations to payments of our debt, thereby reducing the amount of our cash flow available for working capital, capital expenditure and other general corporate purposes;

limits our ability to borrow money to fund future working capital requirements, capital expenditures and other general corporate requirements;

limits our flexibility in planning for, or reacting to, changes in our business and the retail industry;

makes it more difficult for us to meet our debt service obligations in the event there is a substantial increase in interest rates;

restricts our ability to make certain types of investments, pay dividends, or sell all of our assets or merge or consolidate with another company; and

places us at a competitive disadvantage compared to our competitors that have less debt.

In addition, we may need to incur additional debt in the future in order to refinance our existing indebtedness, and we cannot assure you that any such refinancing will be available to us, if at all, or that we will be able to obtain favorable financing terms. We may be unable to generate sufficient cash flow to make principal, interest or other debt-related payments under our financing agreements. If we are unable to meet our debt service obligations and if we default under our financing agreements, our lenders could elect to accelerate our indebtedness and related obligations, which would have a material adverse effect on our business, financial condition and results of operations. An event of default under our obligations could also adversely affect our financial condition in light of the cross default provisions in certain of our other credit agreements.

See Item 11. Quantitative and Qualitative Disclosures About Market Risk and Note 10 to our audited consolidated financial statements.

Any further downgrade in our credit ratings could adversely affect the availability of new financing and increase our cost of capital.

In 2005 and during 2006, the risk rating agencies Moody's Investor Service, or Moody's, Standard & Poor's and Fitch Ratings, or Fitch, both assigned an indicative rating to the Company's foreign currency debt under foreign law. After the rating agencies' confirmation, Aracruz became one of the few companies in Brazil confirmed as investment grade in foreign currency debt from three of the most important rating agencies in the world—Moody's, Standard & Poor's and Fitch Ratings—thus reducing the Company's average cost of capital.

During 2007 our rating improved, with Moody's raising our rating an additional notch to Baa2, which is equivalent to the ratings assigned by Standard & Poor's and Fitch's rating BBB.

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However, in the second half of 2008, Moodys, S&P and Fitch announced on October 15, October 10 and October 9, respectively, that they had downgraded the foreign currency rating for Aracruz Celulose. The main reason for those announcements was the negative fair value of derivative operations disclosed by the Company to the market on September 25 and October 2, 2008. Although these agencies have subsequently revised our ratings and as of the date of this annual report most of those ratings have improved as compared to

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October 2008, there is no assurance that our ratings will not be downgraded again in the future. Also, the entity resulting from the VCP Aracruz Business Combination may be downgraded as a result of the consolidation of our significant indebtedness.

Our financing agreements include extensive covenants, including covenants to maintain financial ratios. Any default arising from a breach of such covenants could have a material adverse effect on us.

We are a party to several financing agreements which require us to maintain certain financial ratios or to comply with other specific covenants. These financial ratios and covenants include:

subject to certain exceptions, limitation on capital expenditures by the Company and its subsidiaries;

subject to certain exceptions, limitation on incurrence of additional indebtedness;

subject to certain exceptions, limitation on prepayment of indebtedness;

the maintenance of minimum debt service coverage ratios; and

the maintenance of maximum debt to adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA, ratios. See Item 5B. Liquidity and Capital Resources Indebtedness Export Prepayment Facility Agreement and Secured Loan.

Any default on the terms of our financing agreements that is not waived by the relevant creditors may result in a decision by such creditors to accelerate the outstanding balance of the relevant debt. This may also result in the enforcement of collateral and accelerate the maturity of debts under other financing agreements due to cross-default provisions. Our assets and cash flow may be insufficient to pay the full outstanding balance under our financing agreements, either upon their scheduled maturity dates or upon any acceleration of payments following an event of default. If such events were to occur, we would be adversely affected. See Item 5B. Liquidity and Capital Resources Indebtedness.

The interests of our controlling shareholder may differ from those of our other shareholders.

VCP directly and indirectly owns 96.5% of our common shares. Accordingly, VCP controls us and has the power to:

elect the majority of the members of our Board of Directors and remove them;

exercise overall control over our management;

set and modify our internal policies and business plan; and

decide upon any resolution that requires shareholder approval, including related-party transactions, corporate reorganizations (such as mergers, significant acquisitions and recapitalizations), the sale of all or substantially all our assets and the delisting of our shares and ADSs from the Bovespa and the NYSE, respectively; and declare the amount and timing of any dividend payments.

Our controlling shareholder may have interests that differ from, or may be adverse to, the interests of our other shareholders. We cannot ensure that our controlling shareholder will not exercise the above listed powers, or otherwise act in its own interest as controlling shareholder, in a manner that might conflict with the interests of our other shareholders.

We are dependent on few customers, and the loss of any of them could cause a significant impact on our operations.

Our marketing strategy is to develop long-term relationships with customers that will purchase our products year after year. In 2008, the our three largest customers accounted for approximately 61% of our sales in terms of volume. See Item 4B. Business Overview Markets and Customers. We believe that the loss of any of these customers would have a material adverse effect on our results of operations.

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Risks Relating to our Proposed Business Combination with VCP

The ownership percentage of our Preferred Shareholders in the entity resulting from the VCP Aracruz Business Combination will be less than their current interest in Aracruz.

As a result of the relative value of Aracruz shares and the exchange ratios for our combination with VCP, upon the completion of the VCP Aracruz Business Combination, our preferred shareholders will have their interest in the entity resulting from the business combination reduced in comparison to the interest that they currently hold in Aracruz.

Our minority shareholders may dispute the applicable exchange ratios for the VCP Aracruz Business Combination.

Upon the completion of the VCP Aracruz Business Combination, Aracruz shareholders will receive VCP shares pursuant to the applicable exchange ratios voted by our shareholders. Votorantim Industrial S.A., or VID, in association with BNDESPar, is our ultimate controlling shareholder, and, as such, has the power to vote and approve such exchange ratios both at the relevant VCP shareholders' meeting and, indirectly, at the Aracruz shareholders' meeting that will be deliberating the VCP-Aracruz Business Combination. These exchange ratios were analyzed by special independent committees of each of VCP and Aracruz formed in accordance with CVM Practice Bulletin (*Parecer de Orientação*) No. 35 (see Item 6A. Directors and Senior Management - Special Independent Committee). Accordingly, the boards of directors of each of VCP and Aracruz have submitted these exchange ratios to their respective shareholders for approval. Nonetheless, our minority shareholders may dispute such ratios, which could adversely impact the completion of the VCP-Aracruz Business Combination on a timely basis.

The implementation of the VCP Aracruz Business Combination may face significant challenges.

The implementation of the business combination may present significant challenges, including unanticipated costs and delays, shareholder or creditor opposition, regulatory interference and excessive diversion of our management's attention from the day-to-day management of our operating activities. If our senior management is unable to efficiently conduct the implementation of the VCP Aracruz Business Combination, Aracruz's business could suffer. We cannot assure that our management will successfully or cost-effectively implement the business combination.

The implementation of VCP Aracruz Business Combination is expected to simplify our capital structure, thereby improving the access to capital markets of the entity resulting from the business combination, if approved, and increasing the liquidity of our shareholders' securities. Even if our management is able to successfully and cost-effectively implement the business combination, access to capital markets and the liquidity of our shareholders' securities will continue to depend upon, among other things, our future performance, market conditions, investor interest and general economic, political and business conditions both in Brazil and abroad. In addition, our shareholders may still experience a decrease in their ability to sell shares of the combined VCP Aracruz entity, as compared to their current ability to sell Aracruz shares or ADSs.

The benefits that are expected to be achieved from operating VCP and Aracruz as a combined enterprise may not be achieved.

The VCP Aracruz Business Combination, if approved, is expected to provide enhanced competitiveness to the entity resulting from such transaction. We believe that the proposed VCP Aracruz Business Combination will create a basis for the sustainability, growth and continuity of our businesses and activities by generating operating synergies and increasing financing resources for the development of new products and expansion programs. However, the benefits that are expected to be obtained with the operation of Aracruz and VCP as a combined enterprise, which could in turn generate additional operating and financial benefits to this resulting company, may be delayed or not materialize at all.

The entity resulting from the proposed VCP Aracruz Business Combination may have to cope with a number of concerns, including: (i) difficulties integrating the operations of each company into a single entity; (ii) the challenge of integrating the business culture of the companies; (iii) the departure of members of the senior management of either company; and (iv) litigation in respect of the business combination process. In addition, integrated operations of the combined entity may encounter other obstacles that we cannot predict at this time, and our senior management may be required to devote a considerable amount of time to the integration process and to the resolution of such obstacles, which will decrease the time they will have to manage the business. Further, the entity resulting from the proposed VCP Aracruz Business Combination, if approved, will be highly leveraged, which may impair its ability to raise new capital or debt to finance its activities and, as a consequence, the results expected to be achieved with this transaction may be jeopardized.

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These factors, among others, may cause the entity resulting from the proposed VCP Aracruz Business Combination to fail to realize the expected operational synergies or deliver the expected gains in operating and financial results. We cannot predict whether the integrated operations of the combined entity will be successful in achieving the benefits we expect will be enjoyed as a result of the business combination.

Our preferred shareholders, including in the form of ADSs, may not have the right to vote or appraisal or tag along rights in connection with the Stock Swap Merger, as described in Item 4A. History and Development of Aracruz VCP's Acquisition of our Control and Proposed Upcoming Corporate Restructuring The Stock Swap Merger.

We are undergoing a proposed business combination with VCP, which directly and indirectly controls us, according to which it is expected that our shareholders will be required to exchange their Aracruz shares for VCP common shares at a Brazilian Corporate Law stock swap merger (*incorporação de ações*). Under the Brazilian Corporate Law, any corporate transaction with a view to implementing a business combination, including stock swap mergers, short form mergers (*incorporação*) and amalgamations (*fusão*), are subject to voting only by the target common shareholders. Accordingly, holders of our Preferred Shares will not be afforded an opportunity to vote at the shareholders' meeting that will decide upon the Stock Swap Merger. Such limitation on voting rights may adversely affect the trading price of our shares and our American Depositary Receipts, or ADRs, or prevent our preferred shareholders from blocking the business combination or negotiating terms that are more favorable to them for this transaction.

Also, under the Brazilian Corporate Law, shares that are dispersed and liquid do not entitle their holders to appraisal rights that would otherwise be available to dissenters of other business combination. Our Preferred Shares, including in the form of ADSs, meet this dispersion and liquidity criteria of the Brazilian Corporate Law and, therefore, do not have appraisal rights in connection with the Stock Swap Merger. See Item 4A. History and Development of Aracruz VCP's Acquisition of our Control and Proposed Upcoming Corporate Restructuring The Stock Swap Merger.

In addition, under the Brazilian Corporate Law, common shares owned by minority shareholders entitle their holders to a tag along right that requires the buyer of a controlling stake in a Brazilian publicly-held corporation to launch a change of control mandatory tender offer to buy the common shares held by such minority shareholders pursuant to the same terms, and for a price equal to at least 80% of the price, applicable to the relevant purchase and sale of control transaction. This change of control tag along right is not applicable to preferred shares, including in the form of ADSs, of Brazilian publicly-held corporations.

The VCP Aracruz shares that our shareholders will receive as a result of the Stock Swap Merger represent an investment in a different business from that in which our shareholders had originally invested.

Our shareholders will receive VCP common shares in exchange for their Aracruz shares in the Stock Swap Merger. Because VCP owns, directly and indirectly, 96.5% of our outstanding common shares and current members of our and VCP's board of directors have been elected by the same ultimate controlling shareholder, VID, our business operations should start to begin being integrated with VCP's business operations. Although VCP operates in the same business segment that we do, owning an interest in an entity that combines VCP and Aracruz represents an investment in a different business enterprise with different management than that of an investment in Aracruz. This is because VCP is a different company with different priorities, management styles and corporate culture than our own and is subject to different risks and potential liabilities than those to which we are subject.

While it is expected that shares of the new combined entity will be listed on the Bovespa's Novo Mercado listing segment, there can be no assurance that such listing will occur in a timely fashion, if at all.

The listing of the new combined entity's shares on the Bovespa's Novo Mercado listing segment is expected to occur sometime after the consummation of the VCP Aracruz Business Combination. However, there can be no assurance as to when such listing will occur in a timely fashion, if at all. Delays to complete such Novo Mercado listing may occur for a number of reasons, including the impossibility of the combined entity to meet the corporate governance standards of the Bovespa's Novo Mercado listing segment or our controlling shareholder's decision to abandon the listing application altogether. Delays or failure to list on the Bovespa's Novo Mercado may adversely affect the trading price of shares of the combined entity's shares and prevent shareholders from enjoying the enhanced corporate governance standards of the Bovespa's Novo Mercado listing segment.

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The market price of Aracruz Preferred Shares is uncertain.

The exchange ratio set for the stock swap is fixed and there is no mechanism to adjust the exchange ratio in the event the market price of the Aracruz Preferred Shares declines. The trading market for Aracruz Preferred Shares may be impaired or disrupted as a result of the business combination. As a result, until the business combination is complete and investors receive VCP shares or VCP ADSs as a result of the Stock Swap Merger, the liquidity and price of Aracruz Preferred Shares and ADSs may decline and their volatility may increase.

If regulatory agencies impose conditions on the approval of the business combination, its anticipated benefits could be diminished.

If regulators were to impose any requirements for the deal's approval and we or VCP fail or have difficulties complying with such requirements, the benefits of the VCP Aracruz Business Combination could be delayed, possibly for a significant period of time after shareholder approval for the transaction has been obtained. In addition, if governmental agencies conditioned their approval upon our or VCP's compliance with conditions affecting the deal's terms, Aracruz's operating results or the value of the Aracruz shares could be adversely affected.

The *Conselho Administrativo de Defesa Econômica*, or CADE, the Brazilian antitrust authority, is reviewing the business combination and has the authority to require VCP to dispose of assets or adopt other restrictive measures with a view to protecting competition. If VCP were required to dispose of assets or adopt any such restrictive measures following the completion of the transaction, the share price of the new combined entity or the competitive gains expected to be achieved with the transaction could be adversely affected.

There is no clear guidance under Brazilian law regarding the income tax consequences to investors resulting from a business combination.

There is no specific legislation, nor administrative or judicial precedent regarding the income tax consequences to investors resulting from a business combination. Based on the opinion of its external tax advisors, Aracruz believes that there are reasonable legal grounds to sustain that the receipt (resulting from the business combination) by a non-Brazilian holder of ADSs or by a U.S. person of shares that are registered as a foreign portfolio investment under Resolution 2,689 or are registered as a foreign direct investment under Law No. 4,131/62 would not be subject to income tax pursuant to Brazilian tax law. However, this position may not prevail, in which case VCP would be liable to the Brazilian tax authorities for withholding and collecting the taxable capital gains of shareholders who reside abroad. While such shareholders would not be directly liable to Brazilian tax authorities, VCP would be entitled to reimbursements from them.

The taxable basis for capital gains arising from a disposition of Aracruz shares, registered as a direct foreign investment in Brazil, is uncertain.

There is uncertainty concerning the currency to be used for the purposes of calculating the cost of acquisition of shares registered with the Central Bank as a direct investment. Even though a recent precedent of a Brazilian administrative court supports the view that capital gains should be based on the positive difference between the cost of acquisition of the shares in the applicable foreign currency and the value of disposition of those shares in the same foreign currency, tax authorities are not bound by such precedents.

ITEM 4. INFORMATION ON ARACRUZ

A. History and Development of Aracruz Overview

We conduct our operations under our legal and commercial name, Aracruz Celulose S.A. We are a publicly-held corporation (*sociedade anônima*), with unlimited duration, organized under the laws of the Federative Republic of Brazil. As a Brazilian corporation, we operate under the provisions of the Brazilian Corporate Law. Our headquarters and main operating unit are located at Rodovia Aracruz Barra do Riacho, Kilometer 25, Municipality of Aracruz, state of Espírito Santo, Brazil, and its telephone number is 55-27-3270-2122. Our principal office is located at Av. Brigadeiro Faria Lima, 2277, 4th floor, 01452-000, City of São Paulo,

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state of São Paulo, Brazil, and our telephone number is 55-11-3301-4111. Our agent for service of process in the United States with respect to the deposit agreement for our ADSs is Greenberg Traurig, LLP, 200 Park Avenue, New York, NY 10166. We maintain an Internet website at www.aracruz.com.br. Information contained on our website is not part of, or incorporated by reference into, this annual report.

In December 1999, we moved our headquarters from Rio de Janeiro to the Municipality of Aracruz, in the Brazilian coastal state of Espírito Santo, where part of the Company's production facilities is located. In 2005, we moved our executive offices from Rio de Janeiro to São Paulo, where we maintain our financing, administrative and trading activities.

Our Operations Commence at the Barra do Riacho Unit

Aracruz Florestal S.A., or AFSA, our predecessor, was incorporated in 1967, for an unlimited duration, to plant eucalyptus forests. In 1972, Aracruz was incorporated with AFSA, becoming a subsidiary of Aracruz. On July 20, 1993, AFSA was merged into Aracruz.

We commenced pulp production operations in September 1978 at what today is our Barra do Riacho Unit. We initiated our operations using a single production line, or Fiberline A, having at the time a nominal production capacity (*i.e.*, the production capacity for which the mill was designed) of approximately 400,000 tons of pulp per year. In early 1991, we completed an expansion plan named the 1991 Expansion Project. The 1991 Expansion Project provided us with a second production line, or Fiberline B. This increased the nominal capacity of the Barra do Riacho Unit to approximately 1,025,000 tons per year. In 1994, we increased our effective production capacity to 1,070,000 tons through system upgrades and productivity gains. From October 1995 to December 1998, we implemented the Modernization Project, which increased Barra do Riacho Unit's nominal capacity to 1,240,000 tons per year, as well as increased our production efficiency.

In June 2000, our Board of Directors approved another expansion of the nominal production capacity of the Barra do Riacho Unit by 700,000 tons per year with a project named Fiberline C Expansion Project. The Fiberline C Expansion Project involved the addition of a new pulp line and certain other modifications to existing equipment at the Barra do Riacho Unit in order to further improve our cost-effectiveness. Construction began in the second semester of 2000, and the plant began operations at the end of May 2002, reaching full capacity in 2003. The production volume resulting from the Fiberline C Expansion Project required an increase in the Company's forest base of approximately 65,200 hectares of eucalyptus plantations. To meet this demand, the Company acquired Terra Plana Agropecuária Ltda. in June 2000, with assets comprised of 19,000 hectares of adequate land for planting eucalyptus trees. With a view to supplying wood for the Fiberline C Expansion Project, from July 2000 through December 31, 2001, the Company acquired approximately 44,000 additional hectares of land in a number of separate transactions. Additionally, in September 2002, Bahia Sul Celulose S.A. (currently named Suzano Papel e Celulose S.A.) and the Company signed, jointly with Companhia Vale do Rio Doce (currently named Vale S.A.) and its wholly owned subsidiary, Florestas Rio Doce S/A, a contract for the acquisition of equal stakes by Bahia Sul and the Company of forest assets comprising approximately 40,000 hectares of lands and eucalyptus-planted forests.

In December 2005, our Board of Directors approved another investment at the Barra do Riacho Unit known as Barra do Riacho Unit Optimization. The project was intended to improve the technology and performance of the pulp production process, introducing flexibility to adapt the pulp to different market requirements. These improvements were made by modifying and/or replacing equipment at Fiberlines A, B and C, leading to a sustainable increase in nominal capacity of 200,000 tons/year. The Barra do Riacho Unit achieved a nominal production capacity of 2,300,000 tons in 2008.

In 2008, the plant investment was US\$220 million. However, significant capital expenditures for this project are currently on hold in light of covenants to which we are subject under our financing agreements and the recent global economic crisis that had reduced demand for our products.

See [Business Overview Property, Plant and Equipment Barra do Riacho Unit](#) and [Business Overview History of our Principal Investing Activities Barra do Riacho Unit Optimization Project](#).

Acquisition of Portocel: Barra do Riacho's Port Terminal

As of January 1985, we own 51% of Portocel Terminal Especializado de Barra do Riacho S.A., or Portocel, the company that operates the port terminal of Barra do Riacho. The remaining 49% of Portocel is owned by Celulose Nipo-Brasileira S.A. – CENIBRA, or Cenibra, another pulp manufacturer and one of our competitors. From the privatization of the port terminal in 1985 until May 31, 2008, Portocel increased its storage capacity from 45,000 tons to 222,000 tons.

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Acquisition of Veracel

On October 10, 2000, we acquired a 45% stake in Veracel Celulose S.A., or Veracel, a joint venture to grow eucalyptus trees on plantations and to build a pulp mill. In connection with the acquisition of the 45% equity participation in Veracel, on October 10, 2000, we, Stora Enso OYJ, or Stora Enso, and Odebrecht, together known as the Veracel Shareholders, and Veracel entered into a shareholders' agreement, or the Veracel Shareholders' Agreement, which set forth, among other things, certain agreements among the parties with respect to the management and operation of Veracel and the transfer of the common shares of Veracel.

On January 31, 2003, the Company acquired an additional 5% stake in Veracel, bringing its total stake to 50%. The remaining 50% interest in Veracel is owned by Stora Enso. In connection with the further acquisition by us and by Stora Enso, on an equal basis, of the stake then held by Odebrecht in Veracel on January 31, 2003, the Veracel Shareholders' Agreement was amended. The amended Veracel Shareholders' Agreement has a term of 20 years from its date and can be automatically extended for successive 20-year terms thereafter unless notice to the contrary is given by any party to the Agreement. The Veracel Shareholders' Agreement shall terminate automatically if the ownership by any of the Veracel Shareholders of common shares of Veracel exceeds 50%. The Veracel Shareholders' Agreement provides that Veracel shall at all times during its term have a board of directors comprised of six members, of which (i) three shall be elected from individuals appointed by Stora Enso and (ii) three shall be elected from individuals appointed by us. The directors elected by us (acting jointly) and the directors elected by Stora Enso (acting jointly) shall each have the right, without any action by any other directors, to request the removal of any incumbent officer of Veracel. Either of the Veracel Shareholders may transfer its common shares of Veracel to an affiliate, subject to certain limitations. The Veracel Shareholders' Agreement also requires that each person or entity who acquires shares of Veracel pursuant to the provisions thereof become a party to such agreement. The Veracel Shareholders' Agreement provides that, under certain circumstances, the Veracel Shareholders may be required to make capital contributions to Veracel, on a *pro rata* basis. The Veracel Shareholders' Agreement also provides that, so long as either we or any of our subsidiaries is a shareholder of Veracel, we shall not acquire (or caused to be acquired) any interest in real property in the core area of Veracel. The same covenant applies to Veracel with respect to real property in our core area.

The Veracel Shareholders' Agreement provides further that, if any of the shareholders fails to comply with any of its obligations regarding Veracel's funding needs in connection with the Investment Plan and Capital Contributions, the other shareholder shall have the right to require the defaulting shareholder to transfer all (but not less than all) of its shares to the other shareholder at a discounted market value calculated according to the provisions of the Veracel Shareholders' Agreement.

Veracel grows eucalyptus on plantations in the state of Bahia, which has diversified the sources of the Company's supply of wood for the Barra do Riacho Unit. This equity investment in Veracel achieved two objectives:

- a guaranteed supply of wood for the Fiberline C Expansion Project during the first three years of the new production unit's operation; and

- provided us with the opportunity to expand our business in the future from an operational base in Bahia that could potentially replicate our accomplishments in the state of Espírito Santo.

In May 2003, the Company and its joint venture partner decided to invest an additional US\$940 million in Veracel to build a 900,000-ton capacity mill, or the Veracel Mill, for the production of BEKP in the state of Bahia. Construction of the Veracel Mill started in mid-2003, and operations were begun in May 2005. A total of US\$1.30 billion was budgeted for this project.

The Veracel Mill, from the cornerstone to the start-up of operations at the beginning of May 2005, took 22 months to be completed. On November 6, 2005, the Veracel Mill officially reached its design capacity. The so-called learning curve phase was considered completed after the mill had produced, for 30 consecutive days, an average output of 2,543 tons per day. This was achieved 174 days after the mill's start-up. The quality curve had already been achieved in June 2005 when a level of over 97% of prime grade product had been continuously recorded for a period of 30 days. Both represent significant accomplishments in the industry for a greenfield pulp mill and are two major achievements in the successful development of the Veracel Mill. The first full year

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of operation was 2006, with pulp production at a total of 975,150 metric tons, 8% above the annual nominal capacity of 900,000 metric tons, with 468,348 tons being purchased by the Company. In 2007, Veracel pulp production achieved 1,051,376 metric tons, 8% above the 2006 production and 16% above Veracel's nominal capacity. In 2008, Veracel's pulp production achieved 1,099,330 metric tons, 5% above the 2007 production and 22% above Veracel's nominal capacity. The output of the plant has historically been sold mainly to Veracel's controlling shareholders in proportion to their shareholdings (50% each).

The Veracel Mill has one of the world's lowest production cost for bleached eucalyptus market pulp, due to its modern equipment, low average forestry operations radius (50 Km) and high forest productivity, and is one of the largest single-line pulp production facilities of its type in the world. The project makes use of modern equipment, control systems and processes to preserve the quality of the environment.

Because of its distant location from large urban centers, Veracel Mill contributed to the creation of jobs and income in a region where there are currently few job opportunities.

Guaíba Unit

On May 30, 2003, the Company acquired all of the capital stock of Riocell S.A., or Riocell, a major producer of BEKP, from Klabin S.A. for a purchase price of US\$567 million. Riocell owned and operated a BEKP pulp mill, or Riocell Mill, with a capacity of approximately 400,000 tons per year and owned approximately 40,000 hectares of eucalyptus plantations in the state of Rio Grande do Sul. On January 7, 2004, Riocell was merged into the Company and the Riocell Mill and related forestry assets are now operated as the Company's Guaíba Unit. On September 15, 2004, the Company announced the Guaíba Unit Optimization Project. The systems involved in the modernization of the Guaíba Unit went into operation in November 2005. The Optimization Project provided for an additional production of 30,000 tons in 2006, bringing the Guaíba Unit's nominal capacity to 430,000 tons/year. In June 2006, the Company announced that preliminary studies had been completed regarding the feasibility of the future expansion of the production capacity at its Guaíba Unit by 1.3 million tons/year, which would raise the mill's total capacity to approximately 1.8 million tons/year some time between 2010 and 2015. In June 2007, the environmental impact study was completed and in March 2008, the preliminary environmental license concerning the expansion of the production capacity of the Guaíba Unit to 1.8 million tons/year was issued. Because of adverse market conditions, in October 2008 we announced a temporary suspension of the Guaíba Unit Expansion Project for an one-year period. Subsequent to the October 2008 announcement, in January 2009 we announced that the Guaíba Unit Expansion Project would be resumed only in the first half of 2011, assuming we meet certain other criteria set forth in the Export Prepayment Credit Facility.

Acquisition of Aracruz Riograndense (Boise Cascade)

With a view to acquiring the assets owned by Boise Cascade do Brasil Ltda., currently known as Aracruz Riograndense Ltda., or Aracruz Riograndense, on July 1, 2008, the Company bought shares of Aracruz Riograndense for US\$47 million. The assets of the company, which industrial activities had been discontinued, comprised land with forestry, of which 10.2 thousand hectares was planted with eucalyptus, and included buildings, equipment and an industrial plant.

Our objective in acquiring Aracruz Riograndense was to fulfill the demand for expansion of the Company's forestry base in connection with the Guaíba Unit Expansion Project.

Acquisition of APM

As part of our strategy of diversification into other forest product businesses, we established a joint venture with the Gutchess International group of the United States in 1997 to create a new company, Tecflor Industrial S.A., for the production of solid wood products. In 1998, we acquired all ownership interests of Gutchess International Inc. in Tecflor Industrial S.A., now called Aracruz Produtos de Madeira S.A., or APM, which then became our wholly-owned subsidiary.

Having consolidated the production process and trained its workforce during the preceding two years, in 2001 APM sought to expand the presence of its Lyptus® brand of high-quality sawn wood in domestic and international markets while ensuring that its quality standards were maintained. In 2001, APM established a commercial partnership with the U.S.-based Weyerhaeuser Co., or Weyco, one of the largest forestry companies in the world, for the exclusive distribution of Lyptus® in the North American markets. In October 2004, we sold two thirds of our shares in APM to Weyerhaeuser do Brasil Participações Ltda., a subsidiary of Weyco, for a total purchase price of US\$18.6 million. We currently own one third of the shares in APM and have certain voting rights as set forth in the APM shareholders' agreement.

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APM manufactures and markets Lyptus® using eucalyptus trees, computer-optimized sawing technology and advanced drying and finishing processes.

VCP's Acquisition of our Control and Proposed Upcoming Corporate Restructuring

In early 2009, our control was, directly and indirectly, acquired by VCP, one of the members of our former controlling shareholder group. VCP is a Brazilian publicly-held corporation and one of the main Brazilian pulp and paper companies. It is controlled by VID in association with BNDESPar. VID is a holding company of the Votorantim Group, an industrial and financial conglomerate controlled by the Ermírio de Moraes Family. As a result of the transfer of our control to VCP, we expect to effect a business combination transaction, or the VCP Aracruz Business Combination, that is expected to involve: (1) a mandatory tender offer launched by VCP for our common shares, or Mandatory Tender Offer, (2) a proposed recapitalization which, if approved, will cause the conversion of our Preferred Shares into Aracruz common shares, or Aracruz Conversion, and (3) a proposed corporate restructuring transaction under the Brazilian Corporate Law known as a stock swap merger (*incorporação de ações*) according to which, subject to a favorable vote of a majority of the common shareholders of VCP and Aracruz at separate shareholders' meetings of each company, our shares will be exchanged for VCP shares and the Company will become a wholly-owned subsidiary of VCP, or Stock Swap Merger. The three steps of the VCP Aracruz Business Combination, although planned to take place in the order above, are not dependent on each other.

Set forth below is a diagram that illustrates the Aracruz Conversion and the Stock Swap Merger.

Proposed Aracruz Conversion and Stock Swap Merger

* The existence of a single class of VCP shares comprised exclusively of common voting shares assumes the consummation of VCP's recapitalization approved by its shareholders on May 30, 2009, which resulted in the conversion of all of VCP's preferred shares into VCP common shares at the ratio of 0.91 VCP common share for each and every one of VCP's preferred shares, or VCP Conversion.

The Aracruz VCP Business Combination is being conducted pursuant to Brazilian Corporation Law. It involves securities of Brazilian corporations and is subject to disclosure requirements that are different from those of the United States. It is expected that each of the steps of the Aracruz-VCP Business Combination will be conducted pursuant to exemptions from registration provided under the Securities Act, or registered under the Securities Act. No offers of securities or offers to buy securities may, or will, be conducted by the Company absent registration or an exemption from registration.

In addition, the new Aracruz common shares that will be distributed to holders of our Preferred Shares in connection with the Aracruz Conversion, if approved, and the new VCP common shares that will be

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distributed to our shareholders in connection with the Stock Swap Merger, if approved, have not yet been registered with the Securities and Exchange Commission, or SEC. Aracruz and VCP intend to (1) register with the SEC under the Securities Exchange Act the new Aracruz common shares and VCP common shares resulting from the Aracruz Conversion and the Stock Swap Merger, respectively, in either case if approved and (2) file listing applications with the NYSE for the new Aracruz ADSs and VCP ADSs that will be distributed to holders of Aracruz ADSs in connection with the Aracruz Conversion and the Stock Swap Merger, respectively, in either case if approved. **Neither Aracruz nor VCP or any of their affiliates are asking you to send them a proxy, and you are requested not to send a proxy to Aracruz, VCP or any of their affiliates.**

The Mandatory Tender Offer

The Mandatory Tender Offer is only for Aracruz common shares, which are not securities (i) that are registered, or subject to registration, with the SEC or (ii) that underlie the Aracruz ADSs. Therefore, the Mandatory Tender Offer is not being made in the United States or to holders of the Aracruz ADSs; neither does it seek to buy securities that are registered, or subject to registration, with the SEC. The Mandatory Tender Offer may not, and will not, be made by the Company absent registration or an exemption from registration. The Mandatory Tender Offer involves securities of a Brazilian corporation and is being conducted in Brazil only, pursuant to the Brazilian Corporate Law, and is subject to disclosure requirements that are different from those of the United States.

Under the Brazilian Corporate Law, every time there is a change of control of a corporation the acquirer of control must launch a change of control mandatory tender offer (*oferta pública para aquisição de ações decorrente de alienação de controle*) to acquire all of the remaining common shares held by the target's other common shareholders. Such change of control mandatory tender offer must (i) provide for the payment of at least 80% of the amount paid by the acquirer of the target's controlling stake for the common shares of the target's former controlling shareholder(s) and (ii) extend to its offerees the same other transaction conditions offered to the target's former controlling shareholder(s) in connection with the sale of their controlling stakes in the target.

During 2009, VCP, one of the members of our former controlling shareholder group, acquired sole control of our Company by purchasing two 28% stakes in our common shares, each held by certain of our former controlling shareholders: (i) Arapar S.A. and São Teófilo Representações e Participações S.A. (investment vehicles owned by the Lorentzen, Moreira Salles and Almeida Braga families) and (ii) Arainvest Participações S/A (an investment vehicle owned by the Safra family). Together with these two 28% stakes in our common shares and a 28% stake previously owned by VCP, VCP became our new controlling shareholder with approximately 84% of our common shares. These acquisitions triggered an obligation under the Brazilian Corporate Law for VCP to launch the Mandatory Tender Offer.

Therefore, on May 29, 2009 VCP obtained registration from the CVM to launch the Mandatory Tender Offer with a view to acquiring any and all of the issued and outstanding Aracruz common shares owned by our other common shareholders for a price of R\$17.0031 per common share (equivalent to US\$8.6179, as translated at an exchange rate of R\$1.9730 per US\$1.00, the official foreign exchange rate for May 29, 2009 as published by the Central Bank), which amount corresponds to 80% of the purchase price paid by VCP to our former controlling shareholders to purchase their 28% stakes in our common shares. The Mandatory Tender Offer is scheduled to occur on July 1, 2009 on the exchange of the Bovespa and is being conducted only in Brazil.

After further acquisitions of the Company's common shares by VCP through May 29, 2009, only about 3.5% of our issued and outstanding common shares were owned as of that date by Aracruz common shareholders other than VCP, and will, therefore, be the object securities of the Mandatory Tender Offer.

The Conversion

The Aracruz Conversion is being conducted pursuant to exemptions from registration provided under the Securities Act. The Aracruz common shares that will be issued to holders of the Company's Preferred Shares if the Aracruz Conversion is approved have not yet been registered with the SEC. No offers of securities or offers to buy securities may, or will, be made by the Company absent registration or an exemption from registration. The Aracruz Conversion is being conducted pursuant to the Brazilian Corporate Law, involves securities of a Brazilian corporation and is subject to disclosure requirements that are different from those of the United States. Although the Aracruz Conversion is not being registered with the SEC, the Company will seek to (1) register the new common shares of the Company that will be issued as a result of the Aracruz Conversion, if approved, with the SEC under the Securities Exchange Act and (2) file a listing application with the NYSE for the new Aracruz ADSs that will be distributed to holders of Aracruz ADSs in connection with the Aracruz Conversion.

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Overview

On May 30, 2009, the common shareholders of the Company convened at an Extraordinary General Shareholders Meeting and voted to approve a recapitalization of the Company consisting of the conversion of the Company's Class A Preferred and Class B Preferred Shares into common shares of the Company at the ratio of 0.91 common share for each and every one of the Company's Class A Preferred and Class B Preferred Shares. Pursuant to the Brazilian Corporate Law, corporate transactions that alter the features of a company's class of shares, including the Aracruz Conversion, must be approved by the Company's common shareholders and ratified by holders of a majority of the issued and outstanding class of the affected stock, voting as separate classes.

The Class A Preferred and Class B Preferred Shareholders of the Company were invited, on first call, to convene at a Special General Shareholders Meetings of Preferred Shareholders of the Company scheduled for May 30, 2009, or the May 30 Special Meetings, to deliberate on the Aracruz Conversion. However, the required quorum under the Brazilian Corporate Law to convene the May 30 Special Meetings was not obtained.

As a result, on June 19, 2009 the Company published a second call for Special General Meetings of Preferred Shareholders of the Company to be held on July 10, 2009, or the Special General Meetings, in order to submit the Aracruz Conversion to the approval of holders of the Company's Class A Preferred and Class B Preferred Shares.

Although the common shareholders of the Company have already voted in favor of the Aracruz Conversion at the May 30, 2009 Extraordinary General Shareholders Meeting, their resolution does not by itself have the power, under the Brazilian Corporate Law, to convert the Company's Class A Preferred or Class B Preferred Shares into Aracruz common shares. In order for the Class A Preferred and Class B Preferred Shares of the Company to be converted into Aracruz common shares, both the Class A Preferred and B Preferred Shareholders must approve the Aracruz Conversion at the Special General Meetings voting as separate classes. If only one of the classes of the Company's Preferred Stock approves the Aracruz Conversion, that class will not be converted into Aracruz common shares unless the other class of the Company's Preferred Stock also approves this transaction.

If the Aracruz Conversion is not ratified by the Company's preferred shareholders at the Special General Meetings, VCP, which directly and indirectly controls us, may evaluate alternative methods of effecting the VCP Aracruz Business Combination, if at all.

Set forth below is a diagram that illustrates the effect of the Aracruz Conversion, if approved and consummated, to our capital structure.

Proposed Aracruz Conversion(1)(2)

- (1) Estimated based on shareholdings as of May 29, 2009.
- (2) This chart assumes the acquisition by VCP through the Mandatory Tender Offer of the remaining 3.5% of our common shares. Percentages in this chart are estimates and are for illustrative purposes only. Actual percentages will depend upon, among other factors, the percentage of shareholders exercising appraisal rights.

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Appraisal Rights

Preferred shareholders of the Company who do not vote in favor of the Aracruz Conversion, including those who abstain from voting at the Special General Meetings or fail to provide voting instructions to the Depositary, may exercise appraisal rights pursuant to the Brazilian Corporate Law. The appraisal rights price in respect of the Aracruz Conversion will be R\$0.92 per Class A Preferred or Class B Preferred Share of the Company.

Under the Brazilian Corporate Law, even if the Aracruz Conversion is approved at the Special General Meetings, the Company's management may call another Extraordinary General Shareholders Meeting following the Special General Meetings to submit to the vote of the Company's common shareholders a proposal to reconsider and, as the case may be, cancel the Aracruz Conversion if, at the discretion of the Company's management, the amount that would have to be paid by the Company in respect of appraisal rights could, in the opinion of the Company's management, jeopardize the Company's financial situation.

The Stock Swap Merger

*The Stock Swap Merger is being conducted pursuant to the Brazilian Corporate Law. It involves securities of Brazilian companies and is subject to disclosure requirements that are different from those of the United States. It is expected that the Stock Swap Merger will be conducted pursuant to exemptions from registration provided under the Securities Act. No offers of securities or offers to buy securities may, or will, be conducted by the Company absent registration or an exemption from registration. The new VCP common shares that will be distributed to Aracruz shareholders in connection with the Stock Swap Merger, if approved, have not yet been registered with the SEC. VCP intends to (1) register with the SEC under the Securities Exchange Act the new VCP common shares resulting from the Stock Swap Merger, if approved, and (2) file a listing application with the NYSE for the new VCP ADSs that will be distributed to holders of Aracruz ADSs in connection with the Stock Swap Merger. **Neither Aracruz nor VCP are asking you to send them a proxy and you are requested not to send a proxy to Aracruz, VCP or any affiliate of either of those companies.***

Overview

After the Special General Meetings for the Aracruz Conversion, independently of whether the Aracruz Conversion is approved or not, and as part of the VCP-Aracruz Business Combination, our management and VCP's management intend to call an Extraordinary General Shareholders Meeting of each company to vote upon a business combination under the Brazilian Corporate Law known as a stock swap merger (*incorporação de ações*). Pursuant to the Stock Swap Merger, subject to the approval of both companies' common shareholders, all the issued and outstanding Aracruz shares not held by VCP will be exchanged for VCP common shares (assuming the consummation of the VCP Conversion).

As in most corporate actions submitted to a vote of a corporation's shareholders, under the Brazilian Corporate Law the preferred shares of either the acquirer or the target of a stock swap merger, including the Stock Swap Merger, do not have voting rights in connection with this corporate action.

The Stock Swap Merger is not an exchange offer, since, if the transaction is approved, Aracruz shareholders will not have the option to hold on to their Aracruz shares. If the Stock Swap Merger is approved, the Aracruz shareholders will either agree to have their Aracruz shares exchanged for VCP common shares (assuming the VCP Conversion is consummated) or exercise appraisal rights, to the extent available, as further explained below.

If the Stock Swap Merger is approved, VCP's capital structure will be changed. Set forth below is a diagram that illustrates the effect of the Stock Swap Merger, if approved and consummated, to the capital structure of VCP.

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Proposed Stock Swap Merger (1)(2)(3)

- (1) Ownership interests in VCP assume the consummation of the VCP Conversion with VCP shareholdings as of May 29, 2009.
- (2) Ownership interests in Aracruz assume the approval and consummation of the Aracruz Conversion with shareholdings as of May 29, 2009.
- (3) Amounts of shareholders' equity participation will depend on various factors, including the exercise of appraisal rights.

Exchange Ratio

The exchange ratio for the Stock Swap Merger is 0.1347 VCP common share (assuming the VCP Conversion is consummated) for each Aracruz common share (assuming the Aracruz Conversion is approved and consummated). If the Aracruz Conversion is not approved or consummated, the structure of the Stock Swap Merger could be altered (if not cancelled) to provide for the exchange each class of the Company's stock (common, Class A Preferred and Class B Preferred) for shares of VCP. If this were to occur, the 0.1347 Stock Swap Merger exchange ratio would be adjusted, so that a new ratio to exchange Aracruz Preferred Shares for VCP common shares (assuming the VCP Conversion is consummated) would take into account the effect of the application of the Aracruz Conversion exchange ratio of 0.91 Aracruz common share for each and every one of Aracruz's preferred shares, which effect would have resulted had the Aracruz Conversion been approved and consummated.

It is expected that, if the VCP Aracruz Business Combination is consummated, our shareholders will have their interest in the entity resulting from the business combination reduced in comparison to the interest they currently hold in our Company. See Item 3D. Risk Factors Risks Related to our Proposed Business Combination with VCP. The ownership percentage of our Preferred Shareholders in the entity resulting from the VCP Aracruz Business Combination will be less than their current interest in Aracruz.

Special Independent Committees

In 2008, the CVM approved Practice Bulletin (*Parecer de Orientação*) No. 35 which provided certain guidelines to management of controlling and controlled companies in the negotiation of business combinations, including negotiations of stock swap mergers, involving those companies. CVM Practice Bulletin No. 35 sets forth some procedures that, without the exclusion of others, might serve to contribute to the protection of the target's minority shareholders in business combinations, including stock swap mergers. One such procedure is for each affiliated company involved in a merger to establish certain special independent committees, or Special Independent Committees, comprised, entirely or in part, of independent members who will help negotiate the transaction and make recommendations to the boards of directors of each company.

In connection with the Stock Swap Merger, VCP and Aracruz formed such Special Independent Committees comprised entirely of independent members (see Item 6A. Directors and Senior Management Special Independent Committee) which analyzed the exchange ratios in respect of the Stock Swap Merger.

The Aracruz Special Independent Committee and the VCP Special Independent Committee prepared reports on the terms of the Stock Swap Merger, including its related exchange ratio, that were submitted to the boards of directors of each company. As a result, on June 1, 2009, separate meetings of the boards of directors of Aracruz and VCP were convened to analyze the recommendations made by the Special Independent Committees of each company with respect to the Stock Swap Merger.

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After (i) having been made aware of the discussions between the Aracruz Special Independent Committee and the VCP Special Independent Committee, (ii) having examined the reports submitted by those committees; and (iii) having discussed the conclusions of those committees among themselves, the boards of directors of Aracruz and VCP unanimously decided to set the exchange ratio for the Stock Swap Merger at 0.1347 VCP common share for each and every one of Aracruz's common shares.

The unanimous decisions of each of the boards of directors of Aracruz and VCP were essentially based upon the following:

the VCP Special Independent Committee considered an exchange ratio ranging between 0.0924 and 0.1347 VCP common share for each and every one of Aracruz's common shares to be appropriate, while the Aracruz Special Independent Committee proposed an exchange ratio ranging between 0.1342 and 0.1473 VCP common share for each and every one of Aracruz's common shares;

given the proposed exchange ratios stated above, the Special Independent Committees of each company agreed on an exchange ratio between 0.1342 and 0.1347 VCP common share for each and every one of Aracruz's common shares;

in its report, the Aracruz Special Independent Committee suggested that, within the range it considered acceptable, the exchange ratio should be fixed at 0.1384 VCP common share for each and every one of Aracruz's common shares; and

however, the suggestion of the Aracruz Special Independent Committee stated above was not within the acceptable range set by the VCP Special Independent Committee.

Considering the rationales presented, and acceptable exchange ratio ranges recommended, by the Special Independent Committees of each company, the boards of directors of VCP and Aracruz agreed to set an exchange ratio as high as possible within the range suggested by the Aracruz Special Independent Committee but, at the same time, within the limits set by the VCP Special Independent Committee. Therefore, the directors of VCP and Aracruz decided to submit for approval of the General Shareholders' Meetings of each company the exchange ratio for the Stock Swap Merger at 0.1347 VCP common share for each and every one of Aracruz's common share, since this exchange ratio complied with the recommendations of the Special Independent Committees of both companies.

Nevertheless, in connection with conversions and stock swap mergers, Brazilian Corporate Law does not (1) establish any specific minimum or maximum exchange ratio, (2) require that the boards of directors of any of the involved companies formally determine that the terms of those transaction as a whole are fair, either procedurally or financially, to its non-controlling shareholders, (3) require the formation of any special independent committee or otherwise that the involved companies alter their corporate governance rules or (4) impose any prohibition or limitation on the voting rights of controlling shareholders.

In addition, while the Special Independent Committees were appointed in compliance with one of the procedures recommended by CVM Practice Bulletin No. 35 and took an active role in assisting in the negotiation of the financial terms of the Stock Swap Merger and advising the Boards of Directors of VCP and Aracruz, U.S. holders of Aracruz shares and ADS holders should bear in mind that the role of these Special Independent Committees differs in certain respects from that of a traditional special committee appointed by a U.S. company in connection with a transaction similar to the Stock Swap Merger. In particular, while the Special Independent Committees were involved in the process of establishing the Stock Swap Merger exchange ratio, they did not, however, determine such ratios.

Quorum

Under the Brazilian Corporate Law, quorum to convene an Extraordinary General Shareholders' Meeting of VCP to deliberate on the Stock Swap Merger is at least 25% of the issued and outstanding VCP common shares. A favorable vote of the majority of VCP common shareholders present at a duly convened Extraordinary General Shareholders' Meeting to decide on the Stock Swap Merger will approve this corporate action. It is expected that the Stock Swap Merger would be approved at an Extraordinary General Shareholders' Meeting of VCP, as VID owns all of the issued and outstanding common shares of VCP and has indicated to VCP that it would vote in favor of the Stock Swap Merger.

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Under the Brazilian Corporate Law, quorum to convene an Extraordinary General Shareholders Meeting of Aracruz to deliberate on the Stock Swap Merger and approve this corporate action is at least 50% of the issued and outstanding Aracruz common shares. Assuming the Aracruz Conversion is approved and consummated, VCP would own approximately 44.8% of the Company's common shares. VCP has already indicated to us that it would vote in favor of the Stock Swap Merger. Therefore, assuming the Aracruz Conversion is approved, a favorable vote of Aracruz common shareholders owning approximately 5.2% plus one of the Company's common shares would be required to approve the Stock Swap Merger at the Aracruz Extraordinary General Shareholders Meeting.

If the Aracruz Conversion is not approved, our ultimate controlling shareholder, VID, might reevaluate the structure of the Stock Swap Merger or elect to abandon this corporate action altogether.

Appraisal Rights

Under the Brazilian Corporate Law, target shareholders who do not vote in favor of the Stock Swap Mergers, including those who abstain from voting or do not attend the relevant Extraordinary General Shareholders Meeting, as well as target preferred shareholders, are entitled to exercise appraisal rights, which, under the Brazilian Corporate Law, is generally paid at book value.

However, under the Brazilian Corporate Law a class of shares that meets certain dispersion and liquidity criteria set forth under the law will not entitle their holders to appraisal rights in respect of corporate resolutions that approve a stock swap merger. Of the Company's three classes of share (common, Class A Preferred and Class B Preferred), only the Class B Preferred currently meet the liquidity and dispersion criteria set forth under the Brazilian Corporate Law. As the Aracruz Conversion has not yet been approved, it is not possible to determine at this time whether the Aracruz common shares following this corporate action would still meet the dispersion and liquidity criteria of the Brazilian Corporate Law, such as the Company's Class B Preferred Shares currently do. If, following the Aracruz Conversion, the Aracruz common shares meet those criteria, then none of the Aracruz shareholders, including its ADS holders, would be entitled to appraisal rights in connection with the Stock Swap Merger. If, on the other hand, the Aracruz common shares are unable to meet those criteria following the Aracruz Conversion, then all of the Company's shareholders, including its ADS holders, will be entitled to appraisal rights in connection with the Stock Swap Merger at an appraisal price to be announced by the Company in due course.

In addition, under the Brazilian Corporate Law, even if the Stock Swap Merger is approved, VCP's management may call another Extraordinary General Shareholders Meeting following the approval of the Stock Swap Merger to submit to the vote of VCP's common shareholders a proposal to reconsider and, as the case may be, cancel the Stock Swap Merger if, at the discretion of VCP's management, the amount that would have to be paid by the entity resulting from the VCP-Aracruz Business Combination in respect of appraisal rights could, in the opinion of VCP's management, jeopardize that entity's financial situation.

Capital Expenditures

The Company's capital expenditures for 2006, 2007, 2008 were US\$301.0 million, US\$589.7 million and US\$691.4 million, respectively.

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

	For the years ended December 31,		
	2006	2007	2008
	<i>(in US\$ millions)</i>		
Silviculture (Forest) and other forestry investments (includes land purchases)	219.1	317.8	356.6
Improvements/industrial investments	67.3	212.8	318.9
Other	14.6	59.1	15.9
Total	301.0	589.7	691.4

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During 2006, we invested approximately US\$301.0 million, of which US\$113.1 million was devoted to silviculture, US\$80.5 million to land purchases, US\$25.5 million to other forestry investments, US\$23.4 million to ongoing industrial investments, US\$43.9 million to the Barra do Riacho Unit Optimization and Guaíba Unit Expansion projects and US\$14.6 million to other projects.

During 2007, we invested approximately US\$589.7 million, of which US\$146.5 million was devoted to silviculture, US\$140.4 million to land purchases, US\$30.9 million to other forestry investments, US\$51.6 million to ongoing industrial investments, US\$161.2 million to the Barra do Riacho Unit Optimization and Guaíba Unit Expansion projects and US\$59.1 million to other projects.

During 2008, we invested approximately US\$691.4 million, of which US\$184.6 million was devoted to silviculture, US\$118.7 million to land purchases, US\$53.3 million to other forestry investments, US\$49.3 million to ongoing industrial investments, US\$29.4 million to Barra do Riacho Unit Optimization project, US\$240.2 million to Guaíba Unit Expansion project and US\$15.9 million to other projects.

Due to certain restrictive covenants to which we are subject under our financing agreements (see Item 5B. Liquidity and Capital Resources Indebtedness Export Prepayment Facility Agreement and Secured Loan.), and in view of the current reduced demand for our products resulting from the recent global economic crisis, we have taken measures with a view to preserving our cash position and overall liquidity, including a temporary suspension of our capital expenditures. Although in 2009 we did not budget any capital expenditures for new projects, we plan to incur approximately US\$196 million in maintenance, phase out and pre-contracted capital expenditures in 2009, mainly related to:

the regular maintenance of concluded projects, including forestry and industrial investments to allow those projects to continue operating;

the implementation of phasing out measures for certain projects, including the Barra do Riacho Unit Optimization and Guaíba Unit Expansion projects; and

land purchases that had been contractually agreed upon prior to this recent change in the Company's capital expenditure policy. These capital expenditures will be invested entirely in Brazil and mainly financed by our operating activities and cash reserves.

B. Business Overview

General

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

During 2008, we produced approximately 2,556,600 tons of BEKP (3,106,000 tons including 50% of Veracel's pulp production), representing an estimated 11% of the total worldwide production capacity of hardwood market pulp and 19% of the worldwide production capacity of BEKP for 2008. In 2008, eucalyptus accounted for an estimate of approximately 57% of the total worldwide production capacity of BHKP. In 2008 and 2007, sales to customers located outside Brazil, especially in North America, Western Europe and Asia, accounted for approximately 98% of our sales volume. See Markets and Customers and Competition.

In 2008, Aracruz's sales volume totaled 2,916,000 tons of eucalyptus pulp (2,917,000 tons including 50% of Veracel's direct sales) compared to 2,581,000 tons in 2007 (3,104,000 tons including 50% of Veracel's direct sales).

In 2008, we had net operating revenue of US\$1,825.0 million of eucalyptus pulp compared to US\$1,808.0 million in 2007 and US\$1,632.2 million in 2006.

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From 1979 to 2008, our pulp production volume had a compound annual growth rate of 9% per annum, from 291k tons to 3.1 million tons in 2008 (including 50% of Veracel's pulp production).

Our production facilities consist of the Barra do Riacho Unit in Espírito Santo state, which has three production units each with two bleaching, drying and baling lines, the Guaíba Unit, located in the municipality of Guaíba, state of Rio Grande do Sul, and Veracel, located in the municipality of Eunápolis, state of Bahia, where we have a 50% stake. Our production facilities are equipped with advanced environmental protection resources.

Aracruz maintains a ratio of one hectare of preserved natural ecosystem for each 1.6 hectares of plantations. Despite the condition of self sufficiency in wood requirements, the Company managed to have other sources of wood supply from the Forestry Partners Program, which celebrated its 18th anniversary in 2008. Last year, the total turnover of the program was almost US\$31 million distributed into nearly 3,800 contracts of small, medium and large size areas farms, covering close to 96,000 hectares of eucalyptus forest, all in private farming properties. The program contributes to the generation of jobs in the country communities, encourages the utilization of otherwise idle land, increases and diversifies farm income, and at the same time provides the Company with an alternative source of wood supply. The program helps to reduce pressure exerted by certain society sectors in harvesting native forests to obtain lumber for other purposes, such as grazing fence, charcoal and firewood.

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

economies of scale;

advanced forestry techniques in managing the processes of planting;

growing and harvesting of our trees;

modern industrial plants;

a comparatively short harvest cycle of our trees; and

lower energy and chemical costs.

During 2008, we were able to meet 82% of our wood fiber requirements with our eucalyptus forests. Climate and soil conditions in Brazil enable us to harvest our eucalyptus trees earlier, only seven years after planting, while harvesting cycles of other forest species in the southern United States, Canada and Scandinavia can take from 25 to 70 years. Harvesting cycles of our main non-Brazilian competitors in the eucalyptus pulp market (Spain, Portugal and Chile) are approximately eight to ten years. See [Raw Materials Wood and Competition](#). We produce internally approximately 97% and 77% of our electrical energy requirement for our Barra do Riacho and Guaíba Units, respectively, mainly from by-products of our pulp production process. We also recycle the greater part of the chemicals used at those Units. See [Raw Materials Energy](#).

Business Strategy

Since 2006, Aracruz has adopted the following goals and principles:

Mission

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Aracruz will offer its products obtained in a sustainable way from planted forests, generating economic, social and environmental benefits and, in this way, contributing to the social well-being and quality of life of the Brazilian people.

Vision

Aracruz will seek to be acknowledged as leader in the global pulp market.

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Business Principles

Our decisions and actions are based on ethical values and observe the following business principles, which also guide our Code of Ethics:

Integrity

We have a commitment to integrity:

acting with fairness and honesty;

respecting human rights;

complying with legislation, internal rules, agreements and commitments;

continuously seeking the best corporate governance practices;

rejecting any form of corruption or illegality.

Commitment to shareholders

We create value for all shareholders with a focus on operational excellence by:

investing in continuous improvement and innovation throughout our operations;

seeking to maximize return on investments;

increasing the scale of our business;

managing risks and pursuing a continuous reduction in the cost of capital.

Customer focus

We value long-term relationships by:

offering products that satisfy customer needs;

guaranteeing the safety of our products and the reliability of their supply;

investing in product development.

Valuing our employees

We value our employees by:

fostering a safe, healthy and motivating work environment and rejecting discrimination of any kind;

respecting freedom of association;

offering opportunities for professional and personal development;

fostering professional growth based on merit;

encouraging active citizenship;

seeking to constantly improve quality of life.

Valuing our stakeholders

We cultivate relationships of mutual trust with our stakeholders by:

seeking engagement and cooperation;

being sensitive to their aspirations and concerns;

using dialogue as the first priority to resolve conflicts;

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respecting diversity and freedom of opinion and expression;

being transparent in our actions and communications.

Harmony with the environment

We act in harmony with the environment and we contribute to its protection:

using natural resources in a sustainable manner;

adopting modern technologies and practices to make our operations more efficient and to minimize their impacts;

contributing to the preservation of biodiversity.

Social responsibility

We take our corporate social responsibility seriously by:

disseminating knowledge and fostering the sustainable development of communities;

establishing partnerships, investing in projects and nurturing networks with the private sector, civil society organizations and the public sector;

contributing to the improvement of public governance;

supporting and strengthening the partners in our supply chain.

We encourage our business partners to adopt these principles, as we strive for the sustainability of our supply chain.

Listed below are some of the policies that form our business strategy:

The pursuit of economies of scale resulting from new capacity increases. In 1998, Aracruz carried out the modernization of Fiberlines A and B, as well as the Excellence Project, both of which improved Aracruz's operational efficiency and enabled the Company to reduce costs. In the middle of 2002, the Company invested in the Fiberline C Expansion Project, which increased our nominal production capacity to over 2,000,000 tons per year. Following these moves, Aracruz continued to deliver growth through (i) the acquisition of Riocell from Klabin S.A., which had an updated nominal production capacity of approximately 400,000 tons of bleached eucalyptus market pulp and 50,000 tons of printing and writing paper, and (ii) our investments in the Veracel Mill. In September 2004, Aracruz's Board of Directors approved the Guaíba Unit Optimization Project, which improved operational efficiency and enabled the Unit to increase its nominal capacity from 400,000 to 430,000 tons per year. Following the same value drive, in 2005 the Company approved the Barra do Riacho Unit Optimization Project that projected an increase in the nominal capacity of the three existing Fiberlines by 200,000 tons. This project was concluded in the last quarter of 2007. However, due to changes in specification of the product, and subsequent changes in process on the scope of the project, the expected nominal capacity was reduced to 2,300,000 tons in 2008. These Projects rely on our technology advances and benefit from our existing overhead and management structure, which has absorbed the new activity without significant additional fixed costs.

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The improvement of forestry technology using advanced genetic techniques, which will result in an increase in the forest yield. Worthy of notice were the new achievements in the tree improvement programs of new Eucalyptus species and their hybrids, aiming at obtaining a broader fiber platform in terms of forest productivity and wood quality for specific products. At the Barra do Riacho Unit, the soil monitoring process conducted in the last twenty years revealed that fertility has been enhanced for most of the planted areas, due to application of improvements in nutritional management, especially beginning in the late 1990s. One new hydrologic station was installed in the experimental watershed at the Guaíba Unit. Superficial and underground water quantity and quality monitoring conducted in representative watersheds continues to point out that there are no changes in those parameters which might be associated with eucalyptus plantations. Aracruz biodiversity studies started 16 years ago, both in eucalyptus plantations and native reserves. The updated results have shown that more than 13 thousand birds of 588 different species were identified through the end of 2008, thereby suggesting that the silvicultural model adopted by Aracruz has preserved and maintained the bird communities at the studied locations.

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The pursuit of optimization of transportation logistics. Wood transport to the mills comprise a large portion of our pulp production costs. Improvements in transportation logistics and reductions in costs are a priority for the Company. At the end of 2002, we improved the logistics of our rail transportation. We also launched our Multimodal Transportation Systems, which uses maritime and rail infrastructure, with the main objective to enhance logistics and further integrate our Mill-Port-Forest system. In 2005, coastal shipping delivered 17% of the total wood consumed at the Barra do Riacho Mills. With the entry into service in October 2005 of another tug and barge, the annual shipping potential capacity is estimated to be 2.7 million cubic meters. Last year, 1.9 million cubic meters, or 24% of total wood placed in the Barra do Riacho stock yard, were delivered through this system. According to our projections for 2009, the system is planning to deliver 2.2 million cubic meters. Each barge has a wood-carrying capacity of approximately 5,000 cubic meters. As well as optimizing transport costs, the maritime transportation eliminated close to 76,000 truck journeys along Brazilian Highway No. 101 in 2008, reducing traffic on the road and cutting emissions of greenhouse gases as a result of lower fossil fuel consumption.

The improvement of business process management with state-of-the-art information technology in order to improve efficiency and reduce costs. We use mySAP.com^(R) platform supplied by SAP to control, simplify and integrate our business process within all our sites and also to implement connectivity with our customers and suppliers. All of our information systems are in compliance with Sarbanes-Oxley Act requirements, which includes an IT Continuity Plan. During 2007, we had implemented the new version of ERP mySAP.com (ECC6.0). During 2008, in addition to the regular tests, our U.S. office successfully tested the IT Continuity Plan. In parallel, all business processes were evaluated in order to optimize them and make use of the new functions available.

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

History of our Principal Investing Activities

Guaíba Unit Expansion Project

In March 2008, the Board of Directors approved an expansion project for the Guaíba Unit aimed at increasing site nominal capacity by 1.3 million tons. An estimated US\$2.8 billion of capital expenditures had been approved for this project, including investments in lands, forest and mill.

Some of the project's key factors were:

attractive forest productivity and availability of lands and wood at reasonable cost;

reduction of fixed costs through synergies and scale;

opportunity to optimize and update actual operation;

energy surplus with profitable selling potential; and

favorable export logistics.

Although the project was approved in March 2008, the Company had been investing, with approval of the Board of Directors, in land acquisitions and forest plantations since 2005 in order to form a substantial forestry base and decide on the mill project go-ahead. By investing in land acquisitions and forest plantations, the Company would be able to build a large resource of raw material of its own and therefore be prepared for later investments in the mill projects.

By the end of 2008, after deterioration of the market scenario arising from the global economic downturn, we decided to temporarily suspend the project until favorable conditions emerge again. Because of adverse market conditions, in October 2008 we announced a temporary suspension

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of the Guafba Unit Expansion Project for an one-year period. Subsequent to October 2008 announcement, in January 2009 we announced that the Guafba Unit Expansion Project would be resumed only in the first half of 2011, assuming we meet certain other criteria set forth in the Export Prepayment Credit Facility. At the time the project was

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suspended, the Company had already invested around US\$650 million in land, forest and mill preparation. However, the Company continues to make the necessary maintenance expenditures to avoid the deterioration of the investments already made in connection with this project.

Barra do Riacho Unit Optimization Project

The Barra do Riacho Unit Optimization Project was approved by our Board of Directors in December, 2005. It aimed at improving the technology and performance in the pulp production process and introducing flexibility to adapt the pulp to different market requirements. These improvements were made by modifying and/or replacing equipment at Fiberlines A, B and C with the expectation of a sustainable increase in nominal capacity of 200,000 tons per year.

Due to changes in scope in the original design and specification of the plant, the nominal capacity after the conclusion of the project was 2,300,000 ton (30,000 lower than expected by the project's original design).

The total plant investment was estimated at US\$230 million, or US\$1.350 /ton, with 80% of the items produced domestically and 20% imported.

Implementation of this project commenced in the first half of 2006 and was concluded in the fourth quarter of 2007. Residual payments in connection with this project are still being made, as they were contracted in installments or were due after the conclusion of the project.

Land purchases were not needed for this project. The incremental wood volume for this project has been provided basically by (1) reduction in the average age of the current forestry base and (2) increases in forestry productivity through forestry management implemented in 1999.

Investment in Veracel

On October 10, 2000, we entered into two stock purchase and sale agreements pursuant to which we acquired a 45% stake in Veracel, then a joint venture between Stora Enso OYJ and Odebrecht, to grow and manage eucalyptus plantations and to build a pulp mill. On January 31, 2003, we acquired an additional 5% of Veracel's stock, thus reaching a 50% interest in that entity. This equity investment in Veracel achieved two objectives: (i) a guaranteed supply of wood for the Fiberline C Expansion Project during the first three years of the new production unit's operation and (ii) the opportunity to grow our business in the future from an operational base in Bahia that can potentially replicate our accomplishments in the state of Espírito Santo.

In May 2003, we and Stora Enso approved the construction of the Veracel Mill. The construction of the mill started in the early second half of 2003, and the operational start-up was in May 2005. The Veracel Mill has obtained long-term direct funding from development banks in the amount of approximately US\$650 million, being US\$500 million from BNDES and US\$150 million from the European Investment Bank and the Nordic Investment Bank. The funding of the Veracel Project consisted of 5% internal cash generation, 42% equity and 53% loans from Brazilian and international development agencies. The European Investment Bank and the Nordic Investment Bank loans were fully pre-paid in 2007. The Company is a several guarantor of 50% of the indebtedness incurred by Veracel, including indebtedness in connection with the financing of the Veracel Project. Stora Enso is a several guarantor of the other 50% of such indebtedness. At December 31, 2008, the outstanding amount of such indebtedness guaranteed by the Company was approximately US\$217.5 million.

During 2008, the Company increased its share capital invested in Veracel in the amount of US\$77.2 million. Such capital increase did not affect the Company's interest in Veracel as the other shareholder proportionally increased its share capital investment.

Table of Contents**APM**

In February 2004, the Board of Directors of APM approved a five-year business plan, which comprises the expansion of the APM sawmill nominal production capacity to 95,000 cubic meters per year and investments in the amount of up to US\$10.3 million. The amounts that have been invested in each year are shown below:

Year	Amount Invested
2005	US\$ 1.35 million
2006	US\$ 72 thousand
2007	US\$ 1.35 million
2008	US\$ 318 thousand

Market Overview**General**

Wood pulp is the principal raw material used in manufacturing paper and paperboard. Whether or not a specific type of wood pulp is suitable for a particular end-use depends on the type of wood used to make the pulp, as well as the process used to transform the wood into pulp. Hardwood pulp is produced using hardwood trees, such as oak, eucalyptus, aspen, birch and acacia trees. Hardwood pulp has short fibers and is generally better suited for manufacturing coated and uncoated printing and writing papers, tissue and specialty papers. Softwood pulp is produced using softwood trees, such as pine. It has long fibers and is generally used to add strength to the paper. We do not produce softwood pulp.

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

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

As a result of the variety of wood types and processes used to produce pulp, which have evolved significantly over time, the pulp market has become increasingly specialized in terms of technical characteristics. Many of the physical and chemical properties most valued by printing and writing paper manufacturers and other bleached pulp consumers, such as opacity and brightness, are exhibited by hardwood and, particularly, eucalyptus pulp. In addition, the increasing specialization of paper manufacturers has resulted in many such manufacturers developing their own customized mix of pulp inputs (known as furnish), for use in their paper manufacturing. Furthermore, as more paper manufacturers have come to appreciate the technical characteristics of hardwood pulp and have come to rely on a significant hardwood pulp component in their furnish, the market for hardwood pulp has grown more rapidly than the market for softwood pulp.

Within the hardwood segment, bleached eucalyptus kraft market pulp has demonstrated the highest annual rate of growth in demand from 1998 to 2008. Over this ten-year period, the annual rate of growth in demand for bleached eucalyptus pulp was estimated at 8.9%, while the annual rate of growth in demand for hardwood pulp during the same period was estimated at 5.0%, and the market for softwood pulp for the same period was estimated at a 2.0% annual rate.

Eucalyptus is only one of many types of hardwood used to make pulp. Eucalyptus trees generally grow straight and have few branches. This allows for dense growth, easy harvesting and less need for pruning. Since 1980, eucalyptus kraft market pulp has steadily increased as a percentage of the total worldwide production of bleached hardwood kraft market pulp (from 29% in 1980 to approximately 56% in 2008) primarily due to its high quality, and because of properties such as its softness, opacity and printability.

International Markets

From 1998 to 2008, the worldwide production capacity of bleached hardwood kraft market pulp is estimated to have grown an average of approximately 5.4% per year, from 16.8 million tons to 28.6 million tons. The start-up of new or expanded production facilities has increased the total worldwide capacity for bleached hardwood kraft market pulp by approximately 10.6 million tons from 2000 to 2008. Worldwide demand for bleached hardwood kraft market pulp is strongly influenced by the demand for paper and board products, which correlates to world GDP

growth. Demand for bleached hardwood kraft market pulp has grown in recent years, increasing from 15.0 million tons in 1998 to 24.4 million tons in 2008. Consumption of market pulp is concentrated mainly in Europe, North America and Asia.

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The table below shows the estimated demand for bleached hardwood by region:

	2004		2005		2006		2007		2008	
	tons	total (%)	tons	total (%)	tons	total (%)	tons	total (%)	tons	total (%)
North America	2,740,000	13	2,915,000	14	3,095,000	14	3,345,000	14	3,110,000	12.6
Europe	8,965,000	43	9,080,000	43	9,570,000	43	9,980,000	42	9,955,000	40.6
Asia	8,195,000	40	8,235,000	39	8,850,000	39	9,100,000	39	10,060,000	41.0
Latin America	865,000	4	835,000	4	880,000	4	1,080,000	5	1,370,000	5.6
Total World	20,765,000		21,065,000		22,395,000		23,505,000		24,495,000	

Source: Pulp and Paper Products Council, or PPPC (March 2009).

The table below shows Aracruz sales and market share by region:

	2004		2005		2006		2007		2008	
	tons	total (%)	tons	total (%)	tons	total (%)	tons	total (%)	tons	total (%)
North America	831,300	30	909,300	31	1,016,400	33	1,050,800	31	1,159,926	37
Europe	1,014,400	12	1,122,300	11	1,175,000	12	1,266,100	13	1,078,099	11
Asia	533,100	7	510,800	6	757,400	9	710,500	8	612,134	6
Latin America	71,200	8	48,100	6	63,300	7	73,000	7	68,864	5
Total World	2,450,000		2,590,600		3,012,100		3,100,300		2,919,023	

The market pulp industry is highly competitive and is also sensitive to changes in industry capacity, producer inventories and cyclical changes in the world's economies, all of which may significantly affect pulp prices and thereby our profitability. The price of pulp generally increases as economies expand around the world. Strong demand during most of the 1980s caused the market price per ton of bleached eucalyptus kraft market pulp, delivered in the United States by us, to peak in 1989 at US\$775 per ton. A global recessionary environment and a substantial increase in worldwide pulp supply during the early 1990s led to a sharp decline in the prices of market pulp, reaching US\$410 per ton in December 1993, the lowest price level since 1983.

In the beginning of 2004, prices were depressed but, with an increase in paper demand and adequate inventories, prices reached a peak by June and July at US\$595 (North America delivered). In the middle of the third quarter, the absence of Chinese buyers in the market once more depressed prices which ended 2004 at US\$555 (North America delivered).

The increase in demand in 2005, combined with pulp mill closures, resulted in a price increase in the same year, which reached the list price of US\$635 per ton (North America delivered) in April and sustained itself throughout the year. In 2006, the same scenario allowed an US\$80 per ton price increase over the year, reaching US\$715 per ton in December.

The trend of mill closures and strong demand for hardwood pulp observed in 2005 and 2006 continued throughout the year of 2007. This combination resulted in a tight supply and demand ratio allowing price increase implementation. Regarding BEKP, prices evolved from US\$715 per ton in January to US\$805 per ton (North America delivered) in December 2007.

The positive trend for pulp prices seen in 2007 was sustained for until August of 2008, when the world economy started to show signs of weakness anticipating the financial turmoil. Prices peaked at August reaching US\$860 per tons to close December 2008 at US\$685 per ton. As the real economy continued to be affected by the financial crisis, prices bottomed in April 2009 at the level of US\$550 per ton delivered in North America.

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

(Note: prices are expressed as simple arithmetic average for the year)

Sources: The Company's databank, and for southern and northern hardwood pulp prices, Hawkins Wright.

Domestic Market

In 2007, demand for bleached hardwood kraft market pulp in Brazil achieved 870,000 tons, an annual growth of 43% over 2006. However, this growth was mainly due to a definitional change of the market, resulting from changes in ownership of pulp and paper facilities in Brazil that resulted in the reclassification of previously affiliated pulp to market pulp. In 2008, demand for bleached hardwood kraft market pulp in Brazil achieved 992,545 tons, an annual increase of 14%. In 2008, we supplied approximately 69,000 tons of the aggregated domestic demand for bleached eucalyptus kraft market pulp, compared to 69,000 tons in 2007 and 53,000 tons in 2006.

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

Aracruz Celulose S.A.;

Suzano Papel e Celulose S.A.;

Votorantim Celulose e Papel S.A.;

Celulose Nipo-Brasileira S.A. CENIBRA;

Jarí Celulose S.A.; and

Lwarcel Celulose e Papel.

Together, the six largest Brazilian producers accounted for 85% of total domestic sales in 2008, with Aracruz accounting for 7% of total domestic sales. Our domestic sales volume of bleached hardwood kraft market pulp was 2% of Aracruz total sales volume in 2005, 2006, 2007 and 2008, as a result of our increase in sales in international markets and the effect of other producers increasing their own share of the Brazilian market. See Competition. Although domestic pulp prices are affected to a certain degree by general economic conditions in Brazil, domestic pulp prices have been, and are expected to continue to be, correlated with international pulp prices.

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Eucalyptus Forests

As of December 31 2008, we owned approximately 542,491 hectares of land (not including land owned by Veracel) distributed in the Brazilian states of Espírito Santo, Bahia, Minas Gerais and Rio Grande do Sul. Out of this total, 313,341 hectares are planted with eucalyptus forests. The average distance from the forest to the mills at Barra do Riacho Unit is 204 kilometers, while the distance at Guaíba Unit is 146 kilometers. The average distance from the forest to the mill has an important effect on our transportation cost, and require us to seek ways to reduce the distance through various methods, including accelerating the substitution of low productive forest with more efficient cloned trees near the mills, as discussed in *Raw Materials Wood*. In addition, we are always evaluating opportunities to acquire land with forests closer to our mills, in order to reduce the associated costs of hauling wood from the forest to the mills. We also look to implement logistics systems that may reduce transportation costs, such as transportation by barges using our port facility in the state of Bahia. See *Business Strategy*. The 313,341 hectares of eucalyptus forest is used to supply pulp and solid wood, while the 197,616 hectares covered with natural ecosystem vegetation helps to preserve hundreds of wildlife species (fauna and flora). Another 21,007 hectares are used as roads, facilities and for other activities. Brazilian forest legislation requires that 20% of our lands, at any given time, are set aside for preservation purposes, where native ecosystems (either remaining natural forest fragments or natural restored forest area through planting of indigenous species) are protected.

Throughout 2008, one of our main objectives was to increase the Forestry Partners Program along with the establishment of new plantations to ensure the future supply of wood for our mills. During 2008, approximately 13,500 additional hectares of eucalyptus plantation were established through this program.

Our Barra do Riacho Unit has a tree nursery capable of producing over 40 million seedlings per year and a research facility. At Guaíba Unit, after the 2007 expansion project, the production capacity of tree seedlings went from 21 million in 2006 to 30 million seedlings in 2008.

In 2008, we supplied 9.6 million cubic meter of wood to our pulp mills, of which 7.8 million cubic meters came from our own eucalyptus forests and 1.8 million cubic meters of wood were purchased from the market, including approximately 1.5 million cubic meters purchased through the Forestry Partners Program.

The Company pioneered the use of cloned plantlets from rooted cuttings, a method also known as vegetative propagation, with a view to carrying out large-scale eucalyptus planting. The cloning method results in extremely homogeneous tree fibers, which the Company believes results in a more streamlined industrial process and higher quality pulp. Today, over 90% of the Company's eucalyptus forests are grown from cloned plants. Rather than growing from seeds, clones are the offspring of asexual propagation. By means of this type of generation, the descendant receives the same genetic code of the original tree. Accordingly, the risk of disease and pests are lessened by choosing several parent trees that are well adapted to the region. Other benefits of vegetative propagation include significantly lower bark per cubic meter of wood, and self-pruning trees with fewer branches.

Raw Materials

Wood

We rely exclusively on eucalyptus trees to meet our pulp wood requirements. Eucalyptus is a short-fibered hardwood that has the capacity to sprout after being cut, and so trees are managed to regenerate twice. Eucalyptus trees are among the fastest growing forest species in the world. Climate and soil conditions in Brazil allow eucalyptus trees to be harvested early at six to seven-year rotations as compared to the eight to ten-year rotation in Spain, Portugal or Chile. As part of our growth strategy, we have sought to eliminate the need for external sources of wood and to maximize both the yield and quality of fiber grown on our plantations and in the Forestry Partners Program through advanced forestry and tree-cloning techniques.

Through development of cloned trees, selected on the basis of certain characteristics, we were able to reduce our industrial wood consumption, per ton of pulp produced, from 3.9 solid cubic meters under bark in 1985 to 3.6 solid cubic meters in 2008. The optimal harvesting age of our forest varies from 5.5 to 6.5 years from planting time.

In 2006, 2007 and 2008, our forests were able to fulfill nearly 91%, 86% and 82% of our wood requirements, respectively.

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Energy

Reducing our need for outside sources of energy and chemicals is an important component of our low-cost production strategy. At the Barra do Riacho Unit, approximately 97% of our electrical energy needs in 2008 were met by burning by-products generated from pulp production compared with 96% in 2007, 98% in 2006 and with 79% in 1999. This result, in 2008, is due to our production increase with a corresponding increase in power consumption. In 2008, at the Guaíba Unit, 74.6% of our electrical energy was generated internally using methods similar to the ones used in Barra do Riacho Unit and from the generation of energy from coal. This result is 5.8% higher than 2007 due to energetic efficiency and increase in equipment availability. The remainder of our energy needs were met through purchases of electricity, fuel oil and natural gas from other sources.

Chemicals

We use several chemicals in the pulp bleaching process. The Company has significant dependence on certain chemicals and, therefore, adopts strong measures to mitigate it. Until December 1999, we maintained and operated an electrochemical plant on the same site as the mill at the Barra do Riacho Unit to produce some of the chemicals used in the pulp bleaching process, specifically chlorine, caustic soda and sodium chlorate.

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

As part of the sale of the electrochemical plant, we and two subsidiaries of Canexus entered into a successively renewable contract for the reciprocal supply of raw materials, services and products over a 25-year period. The agreement obligates us to provide a continuous supply of raw materials, primarily water and steam, to the electrochemical plant, and the plant to provide bleaching chemicals to us, at competitive prices. The agreement includes clauses of performance incentives, such as sharing of productivity gains and preference prices. The agreement also may not be assigned by a party without the consent of the other party and includes provisions relating to: (i) the extension of the agreement for an additional 10-year period upon the agreement of both parties not less than two years prior to the expiration of the initial 25-year term, (ii) the suspension of service by each party, (iii) the termination of service and (iv) the termination of the agreement by a party upon 18 months' notice that such party intends to permanently cease operation at its facility. In the event of termination of the agreement or a proposed sale by Canexus, the agreement provides that we have the right of first negotiation for the acquisition of the electrochemical plant. As a result of the sale, we no longer have responsibility for the electrochemical plant and, accordingly, any interruption of the operations of the electrochemical plant could require us to seek alternative sources in the market for certain chemicals essential to our production of pulp.

The chemicals used in the pulp bleaching process in the Guaíba Unit, especially caustic soda, sodium chlorate, hydrochloric acid and chlorine dioxide, are also produced in an electrochemical plant located on site. The nominal capacities of such electrochemical plant are, respectively, 23,605 ton/year of caustic soda, 20,949 ton/year of chlorine, 9,900 ton/year of sodium chlorate, 9,000 ton/year of hydrochloric acid and 5,760 ton/year of chlorine dioxide.

Water

Water is required in the pulp production process and in the cultivation of seedlings. Water is primarily provided by several rivers, which feed into a 35 million cubic meter reservoir on the mill site in Barra do Riacho Unit. In the Guaíba Unit, the water is provided by the Guaíba Lake, beside the mill. The reservoir in the Barra do Riacho Unit holds enough water to supply the mill's needs for a five-year period in the event of a drought (based on statistical information regarding periods of very low rainfall). In the Barra do Riacho Unit, wastewater undergoes a two-stage purification treatment process before it flows into the ocean, and in Guaíba Unit we have a four stage purification process before it flows into the Guaíba Lake.

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Beginning in the latter half of 1998, the state of Espírito Santo experienced a severe drought which reduced our water supply and caused us to pursue alternative long-term sources of water to meet our current operating needs as well as any foreseeable expansion plans. As a result, in May 1999, we, together with the municipal governments of Aracruz and Linhares, a neighboring city, began a public interest project to obtain water from the Rio Doce river through an existing system of canals and rivers. The project was completed in June 1999 and now provides water for the local communities and for the industrial and chemical districts of the Municipality of Aracruz, as well as for irrigation of agricultural activities in the northern region of the state of Espírito Santo. This project has also been supplying us with water for our Barra do Riacho mills based on our needs from time to time.

Pulp Production

When operating at full capacity, the Barra do Riacho Unit mill can process over 23,000 solid cubic meters of timber each day and the Guaíba Unit mill can process 6,700 solid cubic meters of timber each day. The logs are either debarked in the forest or debarked at the mills using tumbling drums and then cut into chips, which are transferred by a conveyor system to the digesters where they are mixed with chemicals and heated under pressure. During this chemical cooking process, the lignin and cellulose are separated. Once removed, the lignin is used as fuel to produce steam and electrical energy for the milling process. The used chemicals are removed at various stages of the production process and recycled within the plant. The cellulose fibers are then washed, bleached using bleaching chemicals (which are produced on site), filtered, pressed and dried. The dried pulp is then cut into sheets, packed into bales and transported by truck to domestic destinations and by vessels to overseas markets. For its offshore shipments, our Barra do Riacho Unit is served by a private port which is administered by Portocel, in which we own 51% of the shares, located approximately 1.5 kilometers from the mill. The Guaíba Unit mill supplies the domestic market by using mostly trucks as transportation mode. All exported pulp volumes are transferred to Rio Grande Port through a dedicated barging system. See Transportation.

Standard Pulp is pulp bleached with regular levels of chlorine. Standard Pulp is in high demand in North America and Asia. Since 2006, Aracruz has stopped producing standard pulp.

Since 2006, we only produce one type of pulp: Elemental Chlorine Free Pulp, or ECF pulp. ECF pulp is pulp bleached with lower levels of chlorine and it is in high demand in Europe, where our customers have preferred pulp that is bleached with little or no chlorine due to the environmental concerns relating to the pulp production process, particularly the bleaching process.

We first produced ECF Pulp in November 1990. During the period from 1991 to 1994, we equipped the Barra do Riacho Unit mill so that it would have the capacity to produce enough ECF pulp to meet the growing demand for this product. From 1993 to 1997, we produced 75% ECF pulp. Commencing in 1998, with the completion of the Modernization Project, we produced 100% ECF pulp.

During 2008, 100% of Barra do Riacho Unit production, or 2,104,000 tons, was comprised of ECF pulp as compared to 2,132,000 tons during 2007 and 2,180,002 tons during 2006. During 2008, 100% of Guaíba Unit production, or 453,119 tons, was comprised of ECF pulp as compared to approximately 436,000 tons in 2007 and 2006.

Transportation

Wood from the forest areas is transported by truck, railroad and sea barge (owned by independent contractors) to our mills for processing into pulp. The average distance from our forest areas to the mills at Barra do Riacho Unit is 204 kilometers, while the distance of our forests to the Guaíba Unit is 146 kilometers.

The pulp produced for exportation at Barra do Riacho mill is transported by truck from the mill to the port of Barra do Riacho (Portocel), which is located approximately 1.5 kilometers from the mill site. This port is used to store pulp and load ocean vessels, providing Aracruz with a convenient access to the Atlantic Ocean. The port is a modern facility that currently has the capacity to handle approximately 10 million tons of pulp and wood per year, moving up to 5.5 million tons of pulp overseas. Warehouse facilities at the port are capable of storing approximately 220,000 tons of pulp (static storage).

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Our integrated, coastal wood shipment project was completed in December 2002. It involves an integrated tug and barge system and two port terminals. This sea transportation system links the far South of Bahia to the mills in the state of Espírito Santo. The port complex of Portocel, adjacent to the mills at Barra do Riacho Unit, receives wood from plantations in southern Bahia via an alternative transportation system that is more efficient and less pollutant than truck-based highway shipments. In 2008, the operation between Caravelas and Portocel was able to transport 1.9 million cubic meters of wood.

Another improvement to our wood transportation operation was the construction and start-up of a four kilometer-long rail spur used for unloading wood shipments directly at the mill's yard in 2003. This improvement, finished in 2003, was important to optimize the receiving process of the wood that comes from the northern part of Minas Gerais state and other areas within the state of Espírito Santo.

At the Guaíba mill, the pulp is exported through the port of Rio Grande, located in the southern region of the state of Rio Grande do Sul. The pulp is loaded in barges at a terminal facility integrated to the mill and then transported by barges along the Lagoa dos Patos. The distance from the terminal at the mill to the port in Rio Grande is approximately 160 nautical miles.

Markets and Customers

Our main markets are in North America, Europe and Asia. Our export sales are made through our foreign subsidiary in Hungary. See Organizational Structure Significant Subsidiaries. The Company does not have any special sales method, such as installment sales. The relative geographic distribution of our sales by volume and percentages of total production for the periods indicated were as set forth below:

	2004		2005		2006		2007		2008	
	tons	total (%)	tons	total (%)	tons	total (%)	tons	total (%)	tons	total (%)
Europe	1,014,400	41	1,122,300	43	1,175,000	39	1,266,100	41	1,078,100	37
North America	831,300	34	909,300	35	1,016,400	34	1,050,800	34	1,159,900	40
Asia	533,100	22	510,800	20	757,400	25	710,500	23	612,100	21
Latin America	21,600	1	8,400	1	10,000	0	4,000	0	200	0
Total Exports	2,400,400	98	2,550,800	98	2,958,800	98	3,031,400	98	2,850,300	98
Brazil	49,600	2	39,700	2	53,300	2	68,900	2	68,700	2
Total	2,450,000	100	2,590,600	100	3,012,100	100	3,100,300	100	2,919,000	100

Our average net prices per ton of eucalyptus pulp for 2004, 2005, 2006, 2007 and 2008 were, US\$458, US\$502, US\$542, US\$583 and US\$625.84, respectively.

In 2006, 2007 and 2008, approximately 2% of our sales volume was sold in the domestic market. One of our marketing strategies is to develop long-term relationships with customers that will purchase our production year after year. Stable, long-term relationships permit us to reduce our marketing expenses, to better understand our customers' needs and to take advantage of our competitive strengths, including the consistency of our pulp and our efficient logistic and technical client support. In 2007 and 2008, our ten largest customers accounted for approximately 80% of our sales, by volume, respectively, and for those years our three largest customers accounted for approximately 61% and 57% of our sales, by volume, respectively. These customers include leading North American tissue manufacturers and leading global manufacturers of printing and writing paper. We believe that the loss of any of these customers could have a material adverse effect on our results of operations.

In 2006, 2007 and 2008, demand for our pulp has been in line with our production capacity. We have long-term sales contracts with some of our customers, including several of our largest customers. These contracts generally provide for sales of specified amounts of pulp at prices announced from time to time by us, which are in line with the prevailing market prices for pulp sold to customers in the geographic area of the purchaser under the contract. Early termination is provided for in the contracts in the event of a material breach, the insolvency of one of the parties or force majeure events of extended duration. Certain sales contracts include provisions that permit us to reduce the quantities to be shipped if sales to the purchaser and our affiliates would exceed a specified percentage of our annual production capacity.

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

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The following table shows a breakdown by end uses of our pulp production in 2004, 2005, 2006, 2007 and 2008:

	2004	2005	2006	2007	2008
Tissue	55%	57%	57%	58%	61%
Printing, and Writing Paper	22%	22%	21%	23%	18%
Specialty Papers(1)	22%	21%	22%	19%	21%
Cartonboard	1%				
	100%	100%	100%	100%	100%

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

Competition

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

Competition is based primarily on quality (particularly consistency of product), service, price and reliability. We and other Brazilian eucalyptus pulp producers have significant cost advantages over producers in other regions. See Raw Materials Wood. We, however, do not generally compete on the basis of price alone. Instead, we emphasize quality, reliability and stable long-term relationships with customers.

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

Bleached Eucalyptus Kraft Market Pulp (BEKP)

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

Producer	Country
Celulose Nipo-Brasileira S.A. CENIBRA	Brazil
Suzano Papel e Celulose S.A.	Brazil
Jari Celulose S.A.	Brazil
Votorantim Celulose e Papel S.A.	Brazil
Empresa de Celulose e Papel de Portugal SGPS, S.A. (Portucel)	Portugal
Celulose Beira Industrial S.A.	Portugal
CMPC Papeles S.A.	Chile
Celulosa Arauco y Constitución SA.	Chile
Empresa Nacional de Celulosas S.A.	Spain
Grupo Rottneros (Miranda mill)	Spain

Management estimates that the five major producers of bleached eucalyptus kraft market pulp in the world (*i.e.*, Aracruz, CENIBRA, Empresa Nacional de Celulosas S.A., Suzano Papel e Celulose S.A., and VCP, which is the direct and indirect owner of 96.5% of our common shares) currently account for 54% of the total world production capacity of BEKP. Management estimates that in 2008, we accounted for 24% of the world production capacity of bleached eucalyptus kraft market pulp, 6% of the world production capacity of chemical market pulp and 12% of the world production capacity of bleached hardwood kraft market pulp.

Bleached Hardwood Kraft Market Pulp

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To the extent that pulp from other hardwoods can be substituted for the slightly more expensive bleached eucalyptus kraft pulp, we also compete with producers of pulp from other hardwoods. Such competition is based more on cost and less on quality or suitability of the pulp for use in higher quality paper products. Although bleached hardwood kraft market pulp is produced in most

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regions of the world, the dominant producers are located in North America, Latin America and Western Europe, which in 2008 are expected to have accounted for 75% in the aggregate, and 14%, 41% and 16%, respectively, of the world's total bleached hardwood kraft market pulp production capacity. Producers in the United States sold approximately 2,082,000 tons in 2006, 2,032,000 in 2007 and 1,832,000 in 2008, while Brazilian producers sold approximately 5,774,000 6,700,000 and 7,834,000 tons respectively, in such periods. Several of our competitors in this market are larger than we are and may have greater economic and/or other resources than we do.

Worldwide production capacity for bleached hardwood kraft market pulp grew approximately 5.6% per year from 1998 to 2008, totaling 28.6 million tons, and is expected to grow at an annual rate of 3% during the period of 2008 to 2011 (or approximately 4.7 million tons in total during this period). Approximately 82% of this growth in capacity is expected to occur in Latin America, where bleached eucalyptus kraft market pulp capacity is expected to grow from approximately 16.1 million tons in 2008 to approximately 20.9 million tons in 2011. Worldwide demand for bleached hardwood kraft market pulp is expected to grow by 2.7% from 2008 through 2011, adding 3.5 million tons to the current demand.

Environmental and Other Regulatory Matters

Our mill and forestry operations are subject to federal, state and local laws, regulations and permit requirements relating to the protection of the environment. Federal Law No. 6,938, dated August 31, 1981, established strict liability for environmental damage, mechanisms for enforcement of environmental standards and licensing requirements for activities that are effectively or potentially damaging to the environment. Environmental laws and regulations also govern the conduct of forest operations and the protection of Brazilian fauna and flora. A violation of environmental laws and regulations may result in fines and penalties which may be material. Federal Law No. 9,605, dated February 12, 1998, provides that individuals or entities whose conduct or activities cause harm to the environment are subject to criminal and administrative sanctions and are liable for any costs to repair the damages resulting from such harm. Criminal sanctions for individuals and entities that commit environmental crimes range from fines to imprisonment (individuals) or dissolution (legal entities). In addition, Federal Law No. 9,605 also establishes that company's corporate veil may be pierced if the shareholding structure impedes the recovery for harm caused to the environment.

The states of Espírito Santo and Rio Grande do Sul have state legislation that requires local manufacturing concerns to obtain various permits including operating permits for manufacturing facilities. Pursuant to those respective state laws, state authorities are empowered to regulate a company's operations by ascribing company-specific environmental standards in such company's operating permit. The operating permits require that we maintain certain emissions, effluent and waste disposal standards.

On February 10, 1998, the state of Espírito Santo issued us a two-year operating permit for Fiberlines A and B at the Barra do Riacho Unit, which was renewed for an additional five years, commencing on February 10, 2000. On July 1, 2002, the state of Espírito Santo issued us a four-year operating permit for Fiberline C at Barra do Riacho Unit, valid until July 2006. On May 6, 2005, as reviewed in July 2007, the state of Espírito Santo issued us a unified four-year operating permit for the Barra do Riacho Unit (Fiberlines A, B and C), which is undergoing a renewal process, as per our request filed in December 2008.

On June 20, 2005, the state of Rio Grande do Sul issued to us an operating permit for Guaíba Unit, valid until June 2009. On March 2009, we have filed a request to renew this permit. The operating permit will be automatically issued if the state of Rio Grande do Sul does not present us with any requirements until the end of June 2009.

Beginning in March 1997, we became subject to an environmental audit every three years in the state of Espírito Santo. The audit is conducted by subcontracted auditors and approved by the *Secretaria de Estado de Meio Ambiente e Recursos Hídricos do Estado do Espírito Santo*, or SEAMA, the state of Espírito Santo environmental department. The audit was not carried out in 2000, since SEAMA has not published the result of the 1997 audit. The 2000 audit was conducted in June 2001. The most recent audits were conducted in November 2004 and November 2007. In the state of Rio Grande do Sul, we became subject to an environmental audit every year, since the 2002 fiscal year. The audit is conducted by subcontracted auditors and approved by the IBAMA. The audit has been regularly carried since 2002. In 2007, we had problems scheduling the audit. The last audit was conducted in March 2008.

Our forestry activities are regulated by the Brazilian federal government and the governments of the states of Espírito Santo, Minas Gerais, Bahia and Rio Grande do Sul. Our operating permit for our forest

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operations in Espírito Santo was renewed for a six-year period commencing on October 4, 2004. In the states of Minas Gerais and Bahia, the licensing process for renewal is still under negotiation and we expect to conclude it in 2009. In the state of Rio Grande do Sul, the Company has obtained four implementation permits from FEPAM to plant 10,000 hectares of eucalyptus in four watersheds. These permits were obtained under a public licensing process that included public hearings.

We also entered into contracts with farmers in the state of Espírito Santo, Minas Gerais, Bahia, Rio Grande do Sul and Rio de Janeiro according to which such farmers have agreed to grow trees to be sold to us. See Eucalyptus Forests. Regarding our operating permit for the Forestry Partners Program, the license was renewed in 2008 and will expire in 2014.

Planting may be carried out only after a well structured project is presented to and approved by the appropriate governmental authorities. In accordance with federal law, at least 20% of rural areas, including our landholdings, must be set aside for the preservation of natural ecosystems to protect wildlife flora and fauna. We currently exceed this requirement, since preservation areas account for approximately 36% of our total landholdings.

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

In 1996, the state of Bahia granted us a permit for the APM site, the sawmill company of which we currently hold $\frac{1}{3}$ (one third) of the shares. In 1998, the state of Bahia granted an operating permit for APM, which has been renewed various times and is currently valid until April 2014.

Aracruz' forest silvicultural management is certified by the Bureau Veritas Certification (formerly BVQI), or BVC, in the standard NBR 14789 Principles, Criteria and Indicators for Plantation Forests of the Brazilian System of Forest Certification (CERFLOR/PEFC System), regulated by the *Instituto Nacional de Metrologia, Normalização e Qualidade Industrial*, or INMETRO, the federal agency for inspection of industrial products. The certification process for each defined scope includes certification audits, public meetings with local stakeholders participation, public reports publication and annual monitoring audits for the maintenance of the CERFLOR certificate.

In October 2003, BVC approved CERFLOR certification covering all of the plantations owned by the Company in the state of Bahia. The certificate issued by the INMETRO was received in March 2004. We initiated this certification process in August 2003, including pre-audit, initial audit and certification audits. The certification audit was publicized through local radio stations and newspapers as well as the sending out of letters to more than 600 persons or entities. Five public meetings were held in respect of the Certification, with the presence of more than 300 people. In October 2004, the first annual monitoring audit for the maintenance of CERFLOR certification in Bahia took place. The certification was maintained and a new public report was made available to the general public on the internet.

The CERFLOR certification for plantations in Espírito Santo state was approved by BVC in June 2005. The certification process was initiated in November 2004 with the holding of six public meetings and an initial audit. The certification audit was held in January 2005. The audit report was made available for the public on the internet for 90 days. The certificate issued by INMETRO was received in June 2005.

In October 2005, we had the second annual monitoring audit for the maintenance of CERFLOR certification in Bahia and the first annual monitoring audit for the maintenance of CERFLOR certification in Espírito Santo. In August 2005, we started the CERFLOR certification for plantations in Rio Grande do Sul. Four public meetings were held in respect of this Certification, with the presence of more than 60 people. The certificate issued by INMETRO was received in May 2006. In September 2005, we started the CERFLOR certification for plantations in Minas Gerais. Two public meetings were held in respect of this certification, with the presence of more than 100 people. The certificate issued by INMETRO was also received in May 2006.

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In 2006, BVC granted to the Company the cha