ARACRUZ CELLULOSE S A
Form 20-F
March 31, 2008
20-F 1 f080331a.htm ANNUAL AND TRANSITION REPORT OF FOREIGN PRIVATE ISSUERS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

o 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, 2007

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

o 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.

Commission File No. 1-11005

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)

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 Stock	New York Stock Exchange

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

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
27,958,116 Shares of Class A Stock
549,205,305 Shares of Class B Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

Yes o No x

If this report is an annual or transition report, indicated 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 o No x

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 x No o

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

Large accelerated filerx Accelerated filer o Non-accelerated filer o

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

Item 17 o Item 18 x

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 o No x

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

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

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INTRODUCTION

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

- U.S. 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;
- consolidated financial statements are to the Consolidated Financial Statements of Aracruz Celulose S.A. as of December 31, 2006 and 2007 and, for the three years in the period ended December 31, 2007, 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 Stock and Class B Stock are to our non-voting preferred stock class A (*ações preferenciais classe A*) and non-voting preferred stock class B (*ações preferenciais classe B*), respectively, which together are referred to as the Preferred Shares; and
- tons are to metric tons of 1,000 kilograms each.
- "Taxa de Juros de Longo Prazo" is the Long-term Interest Rate or "*TJLP*".

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. dollar or *real* amounts of pulp are to market pulp ; and
- 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. 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 , would be , seek , appr project , estimate or anticipate, or similar expressions or the negative thereof or other variations thereof of comparable terminology, or by discussions of strategy, plans or intentions. In addition, all information included herein with respect to future operations, financial condition, financial performance or other financial or statistical matters constitute forward-looking statements. Those forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may not be realized. Such statements appear in a number of places in this annual report, including, without limitation, the information set forth under the headings Item 3D. Risk Factors , Item 4B. Business Overview and Item 5. Operating and Financial Review and Prospects , and include statements regarding our intent, belief or current expectations or those of our directors or our executive officers with respect to:

- general economic, political and business conditions, both in Brazil and in our principal export markets,
- the declaration or payment of dividends,
- our direction and future operation,
- 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, or
- the factors or trends affecting the pulp and paper market (including its cyclical nature and our financial condition or results of operations).

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

We make statements in this annual report about our competitive position and market share in, and the market size of, the pulp industry. We have made these statements on the basis of statistics and other information from third-party sources that we believe are reliable. We derive this third-party information principally from reports published by the International Pulp Statistical Committee, which includes the American Forest Paper Association, the Canadian Pulp & Paper Association, the Finnish Forest Industry Federation and the Brazilian Pulp and Paper Association, or Bracelpa, and reports published by Hawkins Wright Ltd., or Hawkins Wright. Although we have no reason to believe that any of this information or these reports is inaccurate in any material respect, we have not independently verified the competitive position, market share, market size or market growth data provided by third parties or by industry or general publications.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Because we exported 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, 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 consolidated financial statements. Accordingly, we have been presenting our primary U.S. GAAP consolidated financial statements in U.S. dollars since 1994. For this purpose, amounts in Brazilian currency for all periods presented have been remeasured into U.S. dollars in accordance with the methodology set forth in Statement of Financial Accounting Standards No. 52, or SFAS 52.

Pursuant to SFAS 52 as it applies to us, non-monetary assets, including inventories, property, plant and equipment, accumulated depreciation and stockholders equity are remeasured at historical rates of exchange. 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 prepared in accordance with the Brazilian Corporate Law 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 consolidated financial statements as of December 31, 2006 and 2007 appear elsewhere herein, together with the reports of our Independent Registered Public Accounting Firm, Deloitte Touche Tohmatsu Auditores Independentes. The selected financial information at December 31, 2003, 2004 and 2005 have been derived from our U.S. GAAP 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.

			For the year ended December 31,		
	2003	**2004**	**2005**	**2006**	**2007**
		(thousands of U.S. dollars, except number of shares and per share amounts)			
Statement of Operations Data					
Operating Revenues					
Domestic	$42,401	$66,083	$ 62,019	$ 77,431	$ 137,086
Export	1,056,498	1,256,648	1,469,646	1,845,026	2,007,017
Gross operating revenues	$ 1,098,899	$1,322,731	$ 1,531,665	$ 1,922,457	$ 2,144,103
Sales taxes and other deductions	(95,829)	(155,618)	(186,432)	(241,624)	(260,328)
Net operating revenues	$1,003,070	$1,167,113	$ 1,345,233	$ 1,680,833	$ 1,883,775
Operating costs and expenses					

Cost of sales	$592,555	$700,333	$783,578	$1,037,896	$1,190,957
Selling	38,617	53,850	64,430	74,005	78,832
Administrative	22,762	31,072	33,820	57,020	58,708
Other, net	41,962	25,208	16,313	12,514	(38,624)
Total operating costs and expenses	$695,896	$810,463	$898,141	$1,181,435	$1,289,873
Operating income	$307,174	$356,650	$447,092	$499,398	$593,902
Non-operating (income) expenses					
Financial income	(43,037)	(56,123)	(125,439)	(181,733)	(168,037)
Financing expense	108,209	119,976	137,276	149,719	100,864
Gain on currency remeasurement, net	(41,955)	(16,197)	(21,386)	(7,641)	(908)
Other, net	(129)	(76)	(778)	(7)	(61)
Total *Non-operating (income) expenses*	$23,088	$47,580	$(10,327)	$(39,662)	$(68,142)
Income before income taxes, minority interest and equity in results of affiliated companies	$284,086	$309,070	457,419	$539,060	$662,044
Income tax expense					
Current	$106,549	$42,746	$71,086	$30,754	$41,343
Deferred	22,567	27,510	1,142	38,740	155,969
Total income tax expense	$129,116	$70,256	$72,228	$69,494	$197,312
Minority interest	$(37)	$(9)	$(31)	$(544)	$(10,522)

Equity in results of affiliated companies	$(6,844)	$(11,568)	$(44,062)	$(13,705)	$(32,141)
Net income	$148,089	$227,237	$341,098	$455,317	$422,069
Basic and diluted earnings per share(1)					
Common Stock	0.14	0.21	0.31	0.42	0.39
Class A Preferred Stock	$0.15	$0.23	$0.34	$0.46	$0.43
Class B Preferred Stock	0.15	0.23	0.34	0.46	0.43
Dividends and interest on stockholders´					
equity per share					
Common Stock	0.10(2)	0.11(3),	0.05(5),	0.06(7),	0.08(9),
		0.08(4)	0.12(6)	0.13(8)	0.14(10)
Class A Preferred Stock	$0.11(2)	$0.12(3),	$0.06(5),	$0.07(7),	$0.08(9),
		$0.09(4)	$0.13(6)	$0.15(8)	$0.16(10)
Class B Preferred Stock	0.11(2)	0.12(3),	0.06(5),	0.07(7),	0.08(9),
		0.09(4)	0.13(6)	0.15(8)	0.16(10)
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	39,819	38,074	38,022	38,015	36,933
Class B Preferred Stock	535,969	537,711	537,739	537,665	538,747
Total	1,030,696	1,030,693	1,030,669	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, 2003. (3)Including the dividend declared on April 29, 2004.

(4)Including the interest on stockholders' equity declared on October 19, 2004 and November 16, 2004, respectively. The interest on stockholders equity was attributed to the Compulsory Dividend relating to the year 2004, which were declared on April 29, 2005. (5)Including the dividend declared on April 29, 2005.

(6)Including the interest on stockholders' equity declared on April 19, 2005, May 19, 2005, June 20, 2005 and December 20, 2005, respectively. The interest on stockholders equity was attributed to the Compulsory Dividend relating to the year 2005, which was declared on April 28, 2006.

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

(8)Including the interest on stockholders' equity declared on March 23, 2006, June 20, 2006, September 19, 2006 and December 22, 2006, respectively. The interest on stockholders equity was attributed to the Compulsory Dividend relating to the year 2006, which was declared on April 24, 2007.

(9)Including the dividend declared on April 24, 2007.

(10)Including the interest on stockholders' equity declared on March 21, 2007, June 19, 2007, September 18, 2007 and December 21, 2007, respectively. The interest on stockholders equity was attributed to the Compulsory Dividend relating to the year 2007, which is to be declared by April 30, 2008.

			At December 31,		
	2003	**2004**	**2005**	**2006**	**2007**
			(thousands of U.S. dollars)		
Balance Sheet Data					
Cash and cash equivalents	$66,284	$36,474	$34,114	$48,414	$53,321
Short-term investments	285,991	412,110	521,613	531,229	439,940
Accounts receivables, net	223,048	208,336	253,306	285,795	361,603
Inventories	131,486	126,220	173,873	202,704	225,023
Other current assets	35,925	49,973	111,899	132,782	171,513
Property, plant and equipment, net	2,270,369	2,133,896	2,068,547	2,151,212	2,518,700

Investment in affiliated company	382,318	480,940	505,975	516,771	607,429
Other non-current assets	59,012	81,709	94,678	127,021	247,334
Total assets	$3,454,433	$3,529,658	$3,764,005	$3,995,928	$4,624,863
Short-term debt	392,088	152,934	292,018	89,787	96,768
Other current liabilities	121,591	121,872	193,147	197,032	230,951
Long-term debt	979,435	1,222,728	1,010,285	1,155,050	1,312,351
Other long-term liabilities	160,358	217,837	304,132	351,636	597,675
Share capital	909,473	909,473	909,122	909,122	1,410,490
Other stockholders' equity accounts	891,488	904,814	1,055,301	1,293,301	976,628
Total liabilities and stockholders' equity	3,454,433	3,529,658	3,764,005	3,995,928	4,624,863

Exchange Rates

The purchase and sale of foreign currency in Brazil is subject to governmental control. As of March 4th, 2005, the two then existing foreign exchange markets - the free rate foreign exchange market, also known as the commercial market; and the "floating" rate foreign exchange market - were unified to become one single foreign exchange market (the "Foreign Exchange Market"). Transactions in the Foreign Exchange Market are required to comply with the provisions set forth in the Resolution 3,265 and the regulations established by the Central Bank of Brazil.

The Foreign Exchange Market includes purchase and sale transactions of foreign currency and gold-based foreign exchange trades carried out by institutions authorized to operate on the Foreign Exchange Market by the Central Bank of Brazil. From March 1995 through January 1999, the Central Bank allowed the gradual devaluation of the *real* against the U.S. dollar, pursuant to an exchange rate policy that established a band within which the *real*/U.S. dollar exchange rate could fluctuate.

Responding to pressure on the *real*, on January 13, 1999, the Central Bank widened the foreign exchange rate band. Because the pressure on the *real* did not cease, on January 15, 1999, the Central Bank allowed the *real* to float freely. On December 31, 2007, the commercial selling rate was R$ 1.7713 per US$1.00. Since January, 1999 the real exchange rate has been having an erratic trend, where the exchange rate is determined by demand and supply currency flows.

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

	Exchange Rate of R$ per US$			
Year ended December 31,	**Low**	**High**	**Average**(1)	**Year - End**
1999	1.2078	2.1647	1.8158	1.7890
2000	1.7234	1.9847	1.8295	1.9554
2001	1.9357	2.8007	2.3420	2.3204
2002	2.2709	3.9552	2.9309	3.5333
2003	2.8219	3.6623	3.0715	2.8892
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

Source: Central Bank, PTAX. PTAX is the average of the exchange rates negotiated in the commercial rate market on a given day.

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

Exchange Rate of R$ per US$	
Low	**High**

Month Ended		
January 31, 2008	1,7414	1,8301
February 29, 2008	1,6715	1,7681
March 28, 2008	1,6700	1,7456

Source: Central Bank, PTAX. PTAX is the average of the exchange rates negotiated in the commercial rate market on a given day.

We usually pay cash dividends and make other cash distributions with respect to the Class B Stock in *reais*. Accordingly, exchange rate fluctuations may affect the U.S. dollar amounts received by holders of ADSs on conversion by the 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 11,371, to keep a certain amount of their export revenues in foreign financial institutions and use such revenues to make investments and pay obligations of the exporter. The Company may, from time to time and at its convenience, use revenues kept abroad pursuant to Law 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 Dividend Policy and 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 occasionally drastically, intervenes in the Brazilian economy. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil's economy. For example, the Brazilian government has the authority, when a serious imbalance in Brazil's balance of payments occurs, to impose restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil, and on the conversion of Brazilian currency into foreign currencies. The Company's business, financial condition and results of operations may be adversely affected by changes in policy including tariffs, exchange controls and other matters, as well as factors such as:

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

Rapid changes in Brazilian political and economic conditions that have already occurred and that might continue will require the Company's continued emphasis on assessing the risks associated with its activities and adjusting its business and operating strategy. Future developments in Brazilian government policies or in the

Brazilian economy, over which the Company has no control, may reduce demand for the Company's products in Brazil, and adversely affect the Company's business, financial condition and results of operations.

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 and a significant portion of our assets and liabilities 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 decrease. In addition, any significant devaluation of the *real* may produce exchange gains on unhedged debt denominated in *reais*.

In 2003, Brazil started a new cycle of Real appreciation relative to the U.S. dollar and the rate in that year was 18.2% . In 2004 the appreciation of the Real relative to the U.S. dollar was 8.1%, in 2005 the Real appreciated 11.8% and in 2006 the Real appreciated approximately 9.0% . In 2007 the appreciation of the Real relative to the U.S dollar was 17.2%, representing an accumulated appreciation of 49.7% since the beginning of 2003.

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.

Brazil has historically experienced extremely high rates of inflation. Inflation itself, as well as certain governmental measures to combat inflation and public speculation about possible future measures, has had significant negative effects on the Brazilian economy in the past. The Company's cash operating expenses are substantially denominated in *reais* and tend to increase with Brazilian inflation because its suppliers and providers generally increase prices to reflect the depreciation of the value of the currency. As expressed in U.S. dollars, however, these increases are typically offset at least in part by the effect of the appreciation of the U.S. dollar against the *real*. If the rate of Brazilian inflation increases more rapidly than the rate of appreciation of the U.S. dollar, then, as expressed in U.S. dollars, operating expenses may increase and (assuming constant U.S. dollar sales prices) profit margins 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 the 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 BNDES, which is owned by the Brazilian government, indirectly owned approximately 12.5% of our common stock as of December 31, 2007 and has advanced approximately 30% of our total consolidated indebtedness as of such date. See Item 7B. Related Party Transactions. .

Developments in other emerging markets may adversely affect the market price of our preferred shares and ADSs

The Brazilian securities markets are, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions are different in each country, investors' reaction to developments in one country can have an effect on the securities of issuers in other countries, including Brazil. Developments or conditions in other emerging market countries have, at times, significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil.

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

Risks Relating to our Preferred Shares and ADSs

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

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

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

The Brazilian custodian for our Class B Stock, or the Custodian, must obtain an electronic certificate of registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds related thereto. If you decide to exchange your ADSs for the underlying Class B Stock, you will be entitled to continue to rely for five business days from the date of the exchange on the ADS Depositary s electronic certificate of registration. Thereafter, you may not be able to obtain and remit U.S. dollars abroad upon the disposition of the Class B Stock, or distributions relating to the Class B Stock, unless you obtain your own electronic certificate of registration pursuant to Resolution No. 2,689, of January 26, 2000, of the National Monetary Council, known as Resolution 2,689, which entitles foreign investors to buy and sell on 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 abroad U.S. dollars or other foreign currencies upon the disposition of Class B Stock or distributions with respect thereto, and you will generally be subject to less favorable tax treatment on gains with respect to the Class B Stock. If you attempt to obtain your own electronic certificate of registration, you may incur expenses or suffer significant delays in the application process. Obtaining an electronic certificate of registration involves generating significant documentation, including completing and filing various electronic forms with the Central Bank and the *Comissão de Valores Mobiliários*, or the CVM. These expenses or delays could adversely impact your ability to remit dividends or distributions relating to the Class B Stock or the return of your capital outside of Brazil in a timely manner. If you decide to exchange your Class B Stock back into ADSs once you have registered your investment in the Class B Stock, you may deposit your Class B Stock with the Custodian and rely on the Depositary s certificate of registration, subject to certain conditions. See Item 10D. Exchange Controls. We cannot assure you that the Depositary s certificate of registration or any certificate of foreign capital registration obtained by you may not be affected by future legislative or other regulatory changes, or that additional Brazilian restrictions applicable to you, the disposition of the underlying Class B Stock or the repatriation of the proceeds from disposition could not be imposed in the future.

Since November 2006 Brazilian exporters are authorized, pursuant to the terms of Law 11,371, to keep a certain amount of their export revenues in foreign financial institutions and use such revenues to make investments and pay obligations of the exporter. The Company may, from time to time and at its convenience, use revenues kept abroad pursuant to Law 11,371 to pay dividends and any other cash distributions, thus avoiding procedures to remit U.S. dollars abroad.

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

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

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. These features may substantially limit holders ability to sell the preferred shares underlying the ADSs at a price and time at which holders wish to do so. The companies trading at the São Paulo Stock Exchange (*Bolsa de Valores de São Paulo*), or BOVESPA, the main Brazilian stock exchange, had a market capitalization of approximately US$ 1.399 billion as of December 31, 2007, and an average daily trading volume of approximately US$ 2.555 million in 2007. In comparison, the companies trading at NYSE had a market capitalization of US$ 27.1 trillion as of December 31, 2007, and an average daily trading volume of approximately US$ 119.2 billion for 2007.

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 51% of the aggregate market capitalization of BOVESPA as of December 31, 2007. The top ten stocks in terms of trading volume accounted for approximately 50% of all shares traded on BOVESPA.

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

Our corporate affairs are governed by our by-laws and the Brazilian corporate law, which differ from the legal principles that would apply if we 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 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 that apply to U.S. companies do not apply to us. In addition, rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well developed and enforced in Brazil than in the United States, potentially disadvantaging holders of our preferred shares and ADSs. When compared to Delaware general corporation law, the Brazilian corporate law and practice have less detailed and less well established rules and judicial precedents relating to the review of management decisions under duty of care and duty of loyalty standards in the context of corporate restructurings, transactions with related parties and sale-of-business transactions. In addition, shareholders must hold 5% of the outstanding share capital of a corporation to have the necessary standing to bring shareholders derivative suits. Shareholders ordinarily do not have standing to bring a class action.

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

You may not be able to exercise preemptive rights.

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

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

or will enter judgments in original actions brought in Brazilian courts based upon the federal securities laws of the U.S.

Risk Factors Relating to Aracruz and the Pulp Industry

The market prices for our products are cyclical.

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

- 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 2004, the average list price for BEKP (North America delivered) was US$ 563/t. In 2005 the international environment was favorable, marked by continued Chinese economic growth and improved economic performance of the United

States, Europe and Japan. World demand for BEKP registered a growth of 9.5% in 2005. The price of most commodities increased, including pulp. The average list price for BEKP delivered to North America in 2005 was US$ 625/t, 11% above the 2004 level.

Price level analysis concluded that the highest prices (North America delivered US$ 625) of 2005 added approximately US$115 million in net revenue for that year compared to 2004, which average list price for BEKP (North America delivered) was US$ 563/t.

Due to its quality characteristic, eucalyptus is the fiber of choice for different paper & tissue producers thus explaining the growth of its demand in the last several years above average market growth. The average level of demand growth for eucalyptus has increased significantly since 2001, to 11% per year, from 7% previously. BEKP market pulp consumption growth is expected to have reached around 17% or 1,9 million tons, in 2007, comparing to a decline of 8% in northern hardwood and of 0,4% of southern hardwood in the same year. This strong demand permitted price increase implementation for BEKP throughout the whole year 2007 achieving an average of US$ 744/t (North America delivered), that is being the highest level since 1995. The average list price for BEKP delivered to North America in 2007 was 9% above the previous year.

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.

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

The pulp industry is highly competitive. In the international pulp markets we compete with larger competitors that have greater financial strength, higher production capacities and access to cheaper sources of 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 or public prosecution offices may adversely affect our operations.

In September 2001, the legislature of the State of Espírito Santo, where we owned, on December 31, 2007, 171,441 hectares of forest and other land, passed a law temporarily restricting the plantation of eucalyptus forests for purposes of pulp production within the State. In June 2002, this law was declared to be unconstitutional by a provisional decision of the Brazilian Federal Supreme Court, and injunctive relief was granted in response to suits brought by the National Confederation of Industry and by the National Brazilian Confederation of Agriculture and Cattle Raising. The Company believes that such provisional decision will be upheld by the court s definitive decision on the merits. However, there can be no assurance that such definitive decision will be favorable to the Company or that similar laws will not be enacted that would impose a limitation or restriction on plantation of eucalyptus or that would affect our licenses or permits.

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 a 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*) 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 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.

In the second quarter of 2007 a number of Non-Governmental Organizations (NOGs) and the Federal Public Prosecution Office in the State Rio Grande do Sul brought two Civil Public Suits (*Ações Civis Públicas*) questioning the validity of the procedures adopted by Fundação Estadual de Proteção Ambiental - FEPAM in issuing environmental licenses for eucalyptus plantations in that State. A provisional measure was initially granted, to determine that FEPAM ceases to issue environmental licenses for eucalyptus plantations, being the competence therefore transferred to Instituto Brasileiro de Meio Ambiente - IBAMA (Brazilian Environmental Institute). The provisional measure was suspended by the Federal Court of the 4th Region at the request of the

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Government of the State 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.

If we are unable to manage potential problems and risks related to acquisitions and alliances, our business and growth prospects may suffer. Some of our competitors may be better positioned to acquire other pulp and paper businesses.

The Company, as part of its business strategy, made a major acquisition by purchasing Riocell and may acquire other businesses in Brazil or elsewhere. In addition, the Company has made a significant joint venture investment in Veracel and may enter into other similar arrangements or alliances with third parties. Our management is unable to predict whether or when any prospective acquisitions or alliances will occur, or the likelihood of a material transaction being completed on favorable terms and conditions. Our ability to continue to expand successfully through acquisitions or alliances depends on many factors, including the availability to identify acquisitions and negotiate, finance and close transactions. Acquisitions and similar joint ventures or other arrangements have significant risks:

- we could fail to successfully integrate the operations, services and products of any acquired company;
- we could fail to select the best partners or fail to effectively plan and manage any alliance strategy;
- the acquisitions could increase our costs;
- our management s attention could be diverted from other business concerns; and
- we could lose key employees of the acquired company.

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

Any 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 (Moody's), Standard & Poor's and Fitch Ratings (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 theirs an additional notch, to Baa2, which is equivalent to the ratings assigned by Standard & Poor's and Fitch (BBB). However, if the ratings were to be downgraded by the rating agencies, our cost of capital would increase. Any downgrade could also negatively affect our business and the availability of future financing.

We are controlled by a few shareholders, what can cause impasse on certain decisions.

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

Dependence on Few Customers and the Loss of any of them can Cause a Significant Impact over our Operations

The Company's marketing strategy is to develop long-term relationships with customers that will purchase the Company's production year after year. In 2007, the Company's three largest customers accounted for approximately 57% of its sales (by volume). See "Market Overview Markets and Customers". The Company believes that the loss of any of these customers would have a material adverse effect on the Company's results of operations.

ITEM 4. INFORMATION ON ARACRUZ

A. History and Development of Aracruz

We conduct our operations under our legal and commercial name, Aracruz Celulose S.A.. We are a corporation (*sociedade 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 São Paulo, State of São Paulo, Brazil, and our telephone number is 55-11-3301-4111. Our agent for service of process in the United States 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.

Barra do Riacho Unit

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

We commenced pulp production operations in September 1978, using a single production line (***"Fiberline A"***) with 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, known as the 1991 Expansion Project, which added a second production line (***"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 the Barra do Riacho Unit nominal capacity to 1,240,000 tons per year, as well as our production efficiency.

We own 51% of Portocel Terminal Especializado de Barra do Riacho S.A., the company that operates the port terminal of Barra do Riacho, since January 1985. The remaining 49% of Portocel is owned by Celulose Nipo-Brasileira S.A - CENIBRA, another pulp manufacturer and one of our competitors. From the privatization of the port terminal in 1985 until 2007 Portocel increased its storage capacity from 45,000 to 217,000 tons.

In 1998 we acquired all ownership interests of Gutchess International Inc. in Tecflor Industrial S.A. (currently known as Aracruz Produtos de Madeira S.A., or APM), a joint venture between Gutchess International Inc. and Aracruz created in 1997 for the production of solid wood products. In October 2004 we sold two thirds of our shares in APM to Weyerhaeuser do Brasil Participações Ltda., a subsidiary of

Weyerhaeuser Corporation. APM s domestic sales policy remained unaltered and its overseas sales continued to be Weyerhaeuser s responsibility. We currently own one third of the shares of APM. See Business Overview Aracruz Produtos de Madeira.

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, known as the 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 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. See Business Overview Fiberline C Expansion Project. 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, in June 2000, the Company acquired Terra Plana Agropecuária

Ltda., with assets comprised of 19,000 hectares of land appropriate for planting eucalyptus trees. From July 2000 through December 31, 2001, the Company acquired approximately 44,000 additional hectares of land in a number of separate transactions. Additionally, in September 2002, Bahia Sul (currently denominated Suzano Papel e Celulose) and the Company signed, jointly with Companhia Vale do Rio Doce (now called Vale) and its wholly owned subsidiary, Florestas Rio Doce S/A, a contract for the acquisition of equal stakes by Bahia Sul and the Company of forest assets comprising approximately 40,000 hectares of lands and eucalyptus-planted forests. The Company also entered into a three-year wood supply contract with Veracel to provide a total of up to 3.85 million cubic meters of wood for the Fiberline C Expansion Project until the new plantations reach maturity for harvesting. This contract terminated in the first half of 2004. During 2004, we were able to meet approximately 62% of our wood fiber requirements from our own eucalyptus forests. In 2005, 2006 and 2007 we met approximately 90%, 91% and 86%, respectively, of our wood requirements from our own eucalyptus forests. In 2008 we expect to meet approximately 77% of our wood requirements from our own eucalyptus forests, due to the increase of wood coming from the Forestry Partners Program, according to our long term wood supply planning. See Business Overview Eucalyptus Forests .

Our board of directors approved in December 2005 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 in the pulp production process, introducing flexibility to adapt the pulp to different market requirements. These improvements are being 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 plant investment was estimated at US$ 239 million, with US$ 199 million already spent up to 2007 and US$ 40 million expected for 2008, with 80% of the items produced domestically and 20% imported. The additional capacity of 200,000 tons/year should be attained until 2009.

Veracel

On October 10, 2000, we acquired a 45% stake in Veracel, a joi