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**ARACRUZ CELULOSE S.A.**



# 2006 annual and sustainability report

## About this publication

The Aracruz 2006 Annual and Sustainability Report attempts to offer an integrated view of the Company's performance, considered from its economic, social and environmental aspects. In previous issues, these topics were dealt with separately in the Annual Report and in the Social and Environmental Report (the latter was renamed the Sustainability Report as of 2004).

This new report reflects the growing importance of the integration of these aspects – for Aracruz itself as much as for our stakeholders – against a backdrop of increasingly complex challenges in the relationships between the productive sector and society, in the sustainable use of natural resources and in the building of a common future.

The scope of this year's report encompasses the Brazilian fiscal year, from January to December 2006. Our performance in 2006 is presented in this publication from the four key perspectives that reflect our strategy for growth and sustainable productivity: Value creation; Customer satisfaction; Internal processes; Learning and development.

When we planned this edition, which is the 10<sup>th</sup> in which Aracruz reports about its social and environmental actions, we sought to be more closely aligned with the principles of the Global Reporting Initiative (GRI). We have also included a cross index with the GRI and UN Global Compact principles at the end of this publication. This effort will be reinforced in future editions of the report.

All aspects of the sustainability of our operations in the Barra do Riacho, Espírito Santo, and Guaíba, Rio Grande do Sul, units are fully reported on.

The activities of Veracel, a joint venture with Stora Enso that is located in the State of Bahia and in which Aracruz has a 50% ownership stake, are presented in a condensed form on pages 68-71, as well as in the Financial Statements at the end of this edition.

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

Supplementary information is presented on the CD that accompanies this publication and in the online version.

As in previous years, this report was submitted to independent verification by Bureau Veritas Certification in order to guarantee the consistency and accuracy of the information offered.

Aracruz would like to invite readers to send in comments, criticism and suggestions so that we can increasingly satisfy their expectations. Contact information is at the end of this report.

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# 2006 annual and sustainability report



# Administration



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## Board of Directors

Carlos Alberto Vieira – Chairman

Ernane Galvêas

João Carlos Chede

Haakon Lorentzen

Eliezer Batista da Silva

Luiz Aranha Corrêa do Lago

Raul Calfat

Álvaro Luís Veloso

Nelson Koichi Shimada

Sandra Meira Starling

## Executive Officers

1. Carlos Augusto Lira Aguiar – President and CEO

2. Isac Roffé Zagury

3. João Felipe Carsalade

4. Walter Lídio Nunes

## Associate Officers

Carlos Alberto de Oliveira Roxo

José Luiz Braga

## Fiscal Council

Fernando Octávio Martins Alves

José Gilberto Jaloretto

Wagner Braz

## Message from the Management

In 2006, Aracruz was able to take advantage of the favorable conditions of the world economy and the pulp market to proceed with its sustainable development. We consolidated our position in key markets and expanded our presence in rapidly growing ones.

The increase in the price of pulp during the year was due to a favorable ratio between supply and demand in the main consuming centers.

On the supply side, we witnessed the closure of pulp mills in the northern hemisphere. High production costs, aggravated by the appreciation of currencies against the U.S. dollar and the ending of the useful life of some production units, led producers to deactivate their operations. No new pulp lines started up in Latin America, where an increase of 600,000 tons had been expected over the past two years. As a result, there was a reduction in pulp supply of about 4.6 million tons between 2004 and 2006.

On the demand side, it was another good year for the sector. According to the latest statistics from producer associations, the worldwide demand for eucalyptus pulp rose 13%, substantially higher than the market average of about 5%. This boosted world demand for the product to over 11 million tons per year, of which Aracruz supplied 27%, maintaining its position as market leader.

Consolidated sales reached three million tons of pulp and the generation of operating cash (measured by the EBITDA, adjusted for other strictly accounting events and without impact on cash flow) reached a record level of US\$735.7 million, 10% higher than the US\$668.9 million posted in 2005.

As a result, net earnings totaled US\$455.3 million, 33.5% higher than the net earnings of US\$341.1 million in 2005, mainly due to the appreciation of the Brazilian real against the dollar.

We achieved important recognition from the financial markets. Once again, Aracruz was included in the Dow Jones Sustainability Index 2007 (DJSI World), which highlights the best corporate sustainability practices in the world. In Brazil, the Company was included in BOVESPA's Corporate Sustainability Index (ISE), the only listing of its kind in Latin America.

We received investment grade ratings issued by Moody's and Fitch rating agencies, joining the restricted group of Brazilian companies that have been awarded investment grade ratings by the most important international risk classification agencies (Moody's, Fitch and Standard & Poor's). This rating should help reduce Aracruz's cost of capital over the medium-term and increase its market capitalization.

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Veracel, a joint venture between Aracruz and Stora Enso (50% each), exceeded its nominal production capacity of 900,000 tons during the year by 8%. Our Barra do Riacho (in the State of Espírito Santo) and Guaíba (in the State of Rio Grande do Sul) Units set new records, which led to a total production volume during the year of more than three million tons.

We initiated the expansion of Portocel, which will have the capacity to ship 7.5 million tons of pulp per year as of 2009.

All of Aracruz's forests are certified by the Brazilian Forest Certification Program (CERFLOR), as are the chains of custody at the Barra do Riacho and Guaíba Units, which attest to the sustainable origin of our wood.

Unfortunately, the land dispute with indigenous communities in Espírito Santo, whose members are calling for an 11,000 hectare increase in the size of their reservation – nearly all of this from forestlands belonging to the Company – worsened in 2006, with invasions of Aracruz property and the destruction of over 170 hectares of eucalyptus plantations. Aware of the complexity of the situation, Aracruz is seeking to achieve a stable solution based on the clear definition of the legal rights of the parties involved and on dialogue, designed to achieve harmonious coexistence over the long-term.

The confrontations generated by this conflict demonstrated the need to deepen our stakeholder relationships and to increase the transparency of our communication process. Consequently we revamped our corporate website and reinforced the disclosure of our positions on important issues such as biodiversity, climate change, forest certification and the use of pesticides, as well as the indigenous question itself.



Carlos Alberto Vieira



Carlos Augusto Lira Aguiar

In the environmental area, we invested more than US\$16 million to improve our operations. Over the course of the year, we increased our preservation areas by some 15,000 hectares and, at the end of the period, Aracruz was responsible for an area of over 154,000 hectares of native forests, most of which are located in Atlantic Forest domains.

As it celebrated its 15<sup>th</sup> year of activities, our Forestry Partners Program reached a landmark of 88,000 hectares of forest plantations through contracts signed with local farmers in 156 municipalities in eight states. This program is responsible for the maintenance of more than 5,000 jobs and has been helping keep rural manpower in the countryside.

For the third year in a row Aracruz was chosen as one of the best companies to work for in Brazil, a reflection of our commitment to value our professionals and to constantly improve the work environment.

In 2006, the Fundação Getúlio Vargas Projetos of São Paulo prepared a study analyzing the generation of income, jobs, foreign exchange and taxes throughout Aracruz Celulose's value chain, demonstrating the important social and economic role that the Company plays in the regions of the country where it has operations.

For the near future, we are evaluating important capital expenditures, such as the doubling of capacity of Veracel and the construction of a new pulp line at the Guaíba Unit, which will boost the capacity of the unit to 1.8 million tons per year.

As Aracruz progresses, all the questions relating to our role in society and our social license to operate must demand our increasing attention, as will the future of our project as a sustainable source of wealth, environmental protection and quality of life.

Carlos Alberto Vieira, Chairman of the Board of Directors

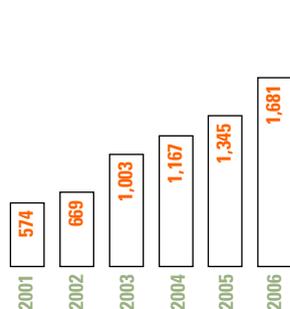
Carlos Augusto Lira Aguiar, President and CEO

# Financial-economic highlights (\*)

## Consolidated data

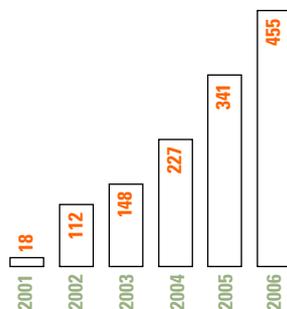
### Net sales revenue

US\$ million



### Net income

US\$ million



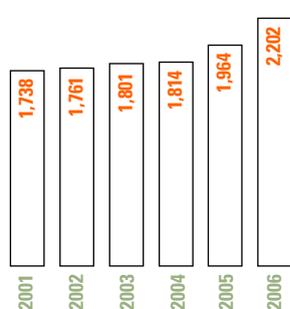
### Assets

US\$ million



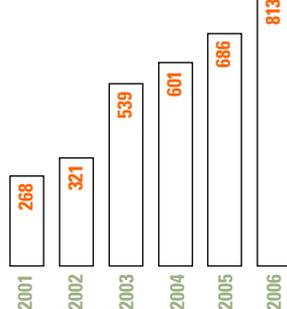
### Shareholder's equity

US\$ million



### EBITDA <sup>1</sup>

US\$ million



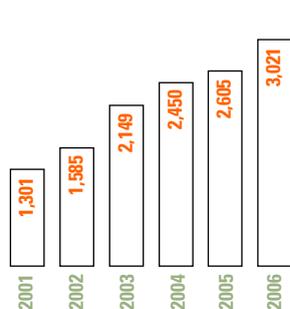
### Production

Thousand tons



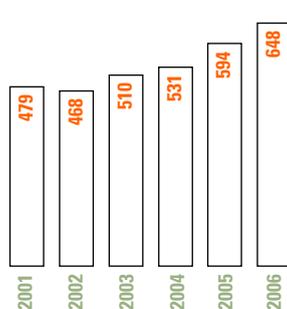
### Sales

Thousand tons



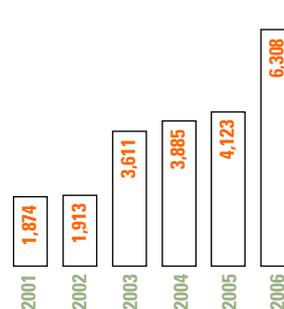
### Average list price of pulp

US\$/t



### Market capitalization <sup>2</sup>

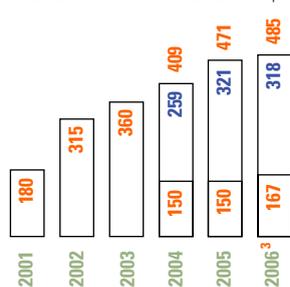
US\$ million



### Dividends/Interest on stockholders' equity

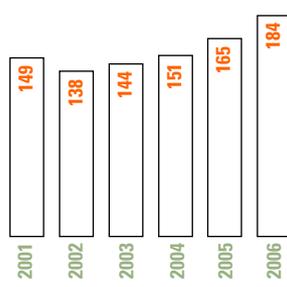
R\$ million

○ Dividends ● Interest on stockholders' equity



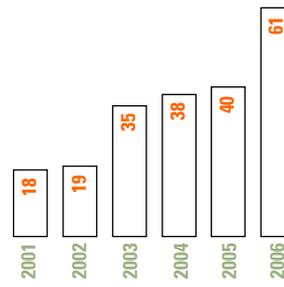
### Cash production cost <sup>4</sup>

US\$/ton



### Stock price <sup>5</sup> – ADR

US\$



<sup>1</sup> EBITDA | Adjusted for other non-cash items. Including 50% of Veracel's EBITDA. <sup>2</sup> Market capitalization | Price per ADR (closing price for each year) x number of company's shares <sup>3</sup> Dividends | Including R\$150 million of supplementary dividends to be approved at a General Shareholder's Meeting, next April 2007. <sup>4</sup> Cash production cost | Including 50% of Veracel. <sup>5</sup> Stock price – ADR | Price per ADR (closing price for each year).

US GAAP (US\$ million)	2005	2006
<b>Income statement</b>		
Net sales	1,345.2	1,680.8
Operating income	447.1	499.4
Income before income taxes	413.3	524.8
Net income	341.1	455.3
<b>Balance sheet</b>		
Cash and cash equivalents	34.1	48.4
Short-term investments	521.6	531.2
Other current assets	539.1	621.3
Property, plant and equipment, net	2,068.5	2,151.2
Investment in affiliated company	506.0	516.8
Long-term investments	2.3	2.7
Other assets	92.4	124.3
Total assets	3,764.0	3,995.9
Short-term/current portion of long-term debt, includes accrued finance charges	292.0	89.8
Other current liabilities	193.2	197.0
Long-term debt	1,010.3	1,155.0
Other long-term liabilities	303.8	350.8
Minority interest	0.3	0.9
Stockholders' equity	1,964.4	2,202.4
Total liabilities and stockholders' equity	3,764.0	3,995.9
<b>Cash flow</b>		
Operating income	447.1	499.4
Depreciation and depletion	211.6	217.8
Depreciation and depletion – inventory movement	(10.5)	(1.2)
EBITDA	648.2	716.0
Non-cash items		
Provision for loss on ICMS credits	7.4	17.5
Other	13.3	2.2
EBITDA (adjusted by non-cash items)	668.9	735.7
Financial (expenses) income and gain (loss) on currency remeasurement, net	9.5	39.6
Cash flow impact of other operating activities, except financial	(141.5)	(116.9)
Sub-total	536.9	658.4
Additions to property, plant and equipment	(147.9)	(301.0)
Investments in affiliate	(69.1)	(24.5)
Proceeds from sale of equipment and investment	0.7	0.6
Dividends and interest on stockholders' equity paid	(139.4)	(251.7)
<b>Net cash flow before the increase/decrease of the net debt</b>	<b>181.2</b>	<b>81.8</b>
Increase (decrease) in gross debt <sup>(1)</sup>	(73.4)	(57.5)
<b>Net cash flow</b>	<b>107.8</b>	<b>24.3</b>
Cash and cash equivalents/short and long-term investments, beginning of period	450.2	558.0
Cash and cash equivalents/short and long-term investments, end of period	558.0	582.3
<b>Production volume (thousand tons)</b>		
Barra do Riacho Unit	2,134.6	2,180.0
Guaíba Unit	417.0	436.0
50% of Veracel	233.9	487.6
<b>Sales volume (thousand tons)</b>		
Year-end inventories (thousand tons)	395.4	423.1
Average list pulp price (US\$/ton)	594	648
<small>(1) Includes gain/loss on remeasurement. (* The Company's financial information have been prepared according to US GAAP.</small>		

## ABOUT ARACRUZ

Aracruz Celulose is a Brazilian company, the world's leading producer of bleached eucalyptus pulp. It is responsible for 27% of the global supply of the product, used to manufacture printing and writing, tissue, and high value added specialty papers.

Capital stock  
**US\$911,761,000**

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

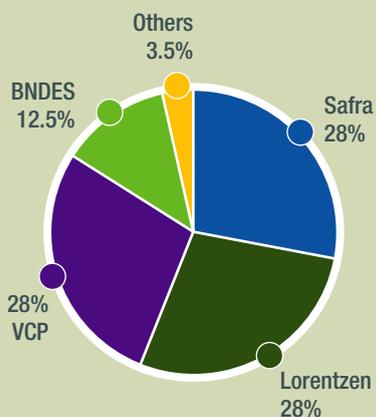
Market value (2006)  
**US\$6.3 billion**

Patrimonial value (2006)  
**US\$2.2 billion**



Aracruz's **forestry operations** are situated in the States of Espírito Santo, Bahia, Minas Gerais and Rio Grande do Sul. They involve some **279,000 ha of eucalyptus plantations**, intermingled with around **154,000 ha of native forest reserves**, which are of fundamental importance for ensuring the balance of the ecosystem.

### Shareholders



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

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

#### Forestry Partners Program – 2006

Contracted area	<b>88,300</b> ha
Planted area	<b>81,700</b> ha
Municipalities benefited	<b>156</b> (69 in ES, 39 in MG, 14 in BA, 8 in RJ and 26 in RS)
Number of contracts	<b>3,615</b>
Average area under contract	<b>24.4</b> ha

More information on the Forestry Partners Program can be found at [www.produtorflorestal.com.br](http://www.produtorflorestal.com.br).



## History

Aracruz (Florestal) established: **Nov 1967**  
 Aracruz Celulose established: **Apr 1972**  
 Fiberline A starts up: **Sep 1978**  
 Portocel created: **Jan 1985**  
 Fiberline B starts up: **Mar 1991**  
 1<sup>st</sup> Brazilian company with Level 3  
 ADRs on the NYSE: **May 1992**  
 Modernization Project: **1997**  
 APM inaugurated: **Aug 1999**  
 Ownership stake in Veracel: **Oct 2000**  
 Fiberline C starts up: **Aug 2002**  
 Veracel construction begins: **Jun 2003**  
 Acquisition of Riocell (now Guaíba Unit): **Jul 2003**  
 Veracel starts up: **May 2005**

## Accumulated investments

more than **US\$4 billion**

## Certifications

### ISO 9002

Barra do Riacho and Guaíba Units: since Jan/93.

### ISO 9001

Barra do Riacho Unit: since Jan/95 – for all activities.  
 Guaíba Unit: Jul/03 – industrial area; Dec/04 – forestry activities.

### ISO 14001

Barra do Riacho Unit: since Oct/99.  
 Guaíba Unit: Nov/96.

### Brazilian Forest Certification Program (CERFLOR, NBR 14789)

100% of the areas under our own management are certified.  
 Barra do Riacho Unit: Bahia Region – since Oct/03; Aracruz Region – since Jan/05. Minas Gerais – since Oct/05.  
 Guaíba Unit: since Nov/05.

### HPP (Highly Protected Risk) Certificate by FM Global

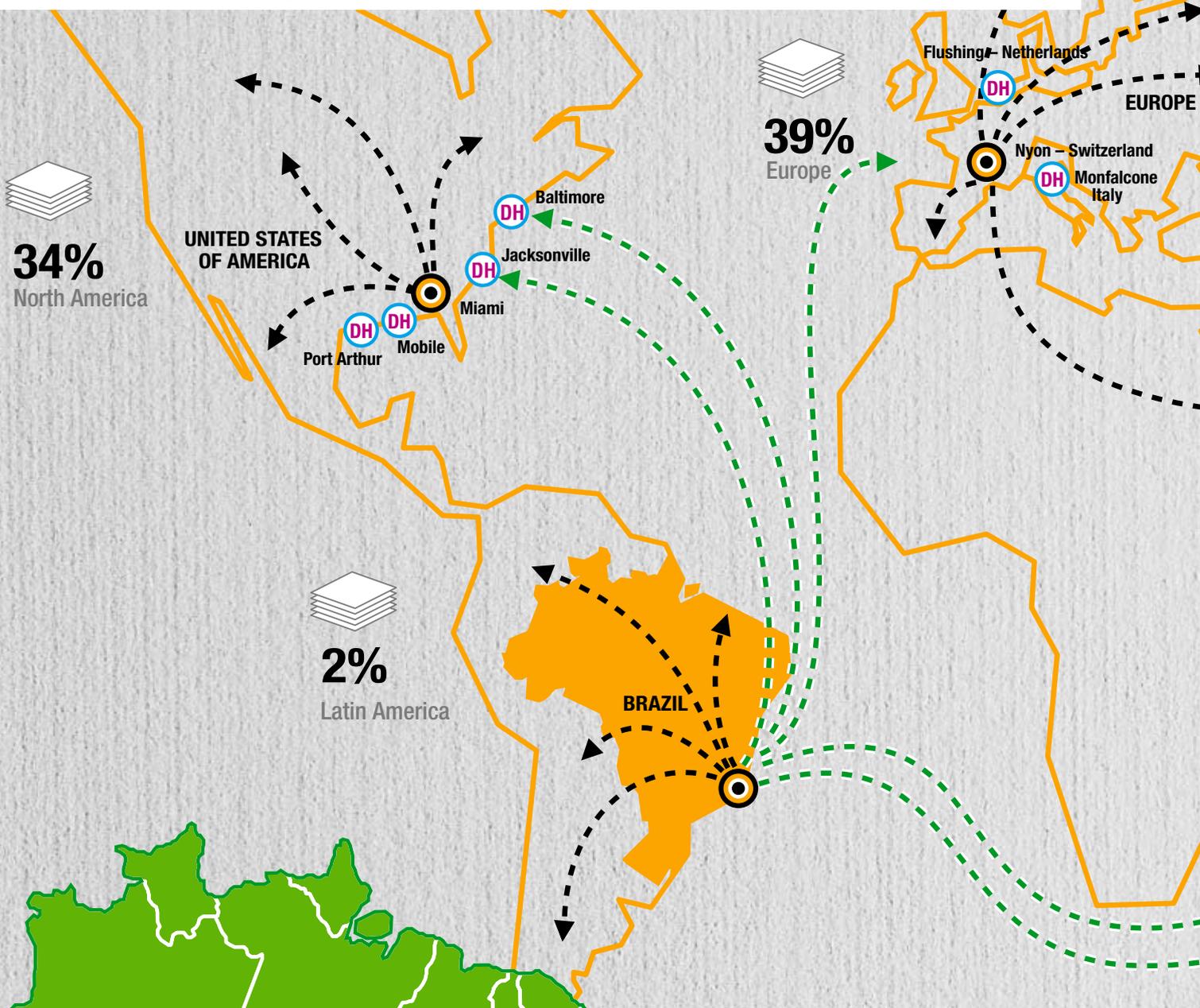
The Barra do Riacho Unit has held this certificate since Dec/03 and Veracel since Nov/05.

### Chain of Custody (CERFLOR)

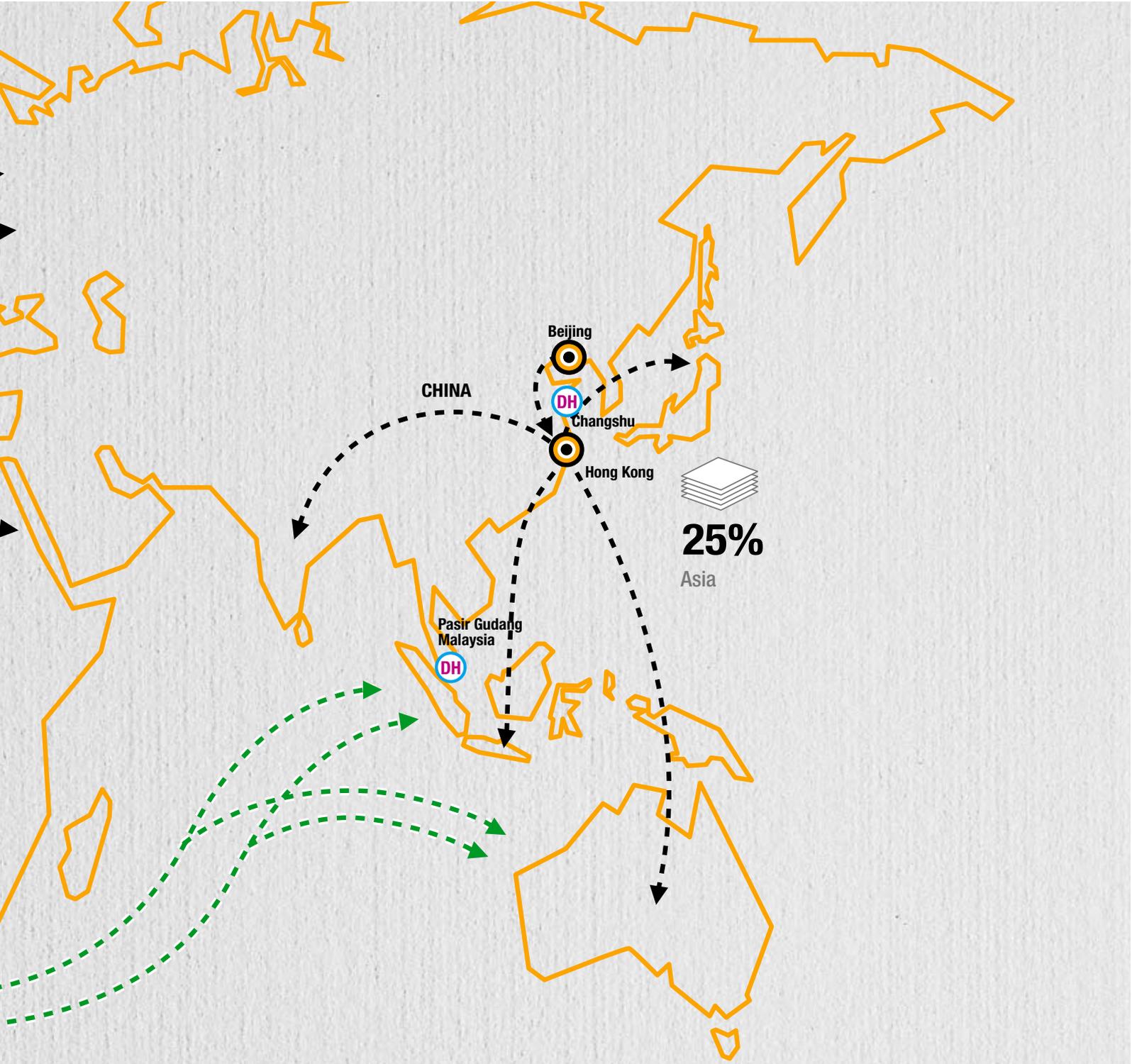
Barra do Riacho – since Jun/06.  
 Guaíba Unit – since Oct/06.



Our forestry operations, production units, port terminals and offices are located in five Brazilian states, and our pulp is exported to the main consuming markets.



-  Sales offices
-  Pulp production units
-  Distribution hubs
-  Barges terminal
-  Logistics operators
-  Forestry operations
-  Distribution per market



**Barra do Riacho Unit**

Houses the world's largest eucalyptus pulp mill, with total annual capacity of **2.1 million tons** of the product, fully integrated with forest plantations and a private specialized port, Portocel, located 1.2 km away from the mill in the north of the State of Espírito Santo.



**Guaíba Unit**

It has annual nominal capacity of **430,000 tons** of eucalyptus pulp per year and is located in the State of Rio Grande do Sul. The unit addresses part of this volume to produce **50,000 tons** of printing and writing papers.



**Veracel**

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

## OUR BUSINESS STRATEGY

Aracruz's long-term business strategy continues to be the achievement of sustained growth and the generation of value.

We are aware that striving for sustainability in every sphere of activity is indispensable to ensuring the permanence of our project. The sustainable use of natural resources and the maintenance of good relationships with our many stakeholders are as vital as the economic aspects of the Company's operations, and they involve learning curves and a multitude of issues. These are factors that allow us to anticipate and understand future challenges and, thus, improve the management of the risks.

Long-term partnerships with our international customers are part of our strategy to consolidate or increase our market share. Our customers use Aracruz's pulp to produce papers that are in daily use in the homes of millions of consumers. And these consumers are becoming increasingly aware of the importance of high environmental and social standards throughout the value chain.

We have a competitive and distinctive position that combines the advantages of low production costs with the benefits of the short wood harvest cycle offered by the country's technological advances and favorable climatic conditions.

The low cost of production also relies on our suppliers. Long-term contracts and continuous efforts to develop local suppliers in the regions in which we operate are fundamental for obtaining competitive advantages for the Company, for its partners and for local communities.

Besides an increase in productivity technological innovation gains and enduring partnerships, low costs can also be achieved by reducing the cost of capital, something that is directly related to our investors' perceptions of the risks of our operations and the returns expected from their investments.

Aracruz has grown at an average annual rate of 10% since 1995. During this period, it has tripled its pulp production capacity, surpassing the 3.1 million tons/year mark in 2006 owing to this clear growth strategy.

The Company's value, composed of the market capitalization (total quantity of shares x value of the shares) plus the net debt, was valued at US\$2.1 billion in 1995, rising to US\$7.4 billion at the end of 2006, more than tripling the value of the Company during the period.

Aracruz intends to supply 25% of the world demand for hardwood market pulp – or 7 million tons – in the next 10 years, which means doubling its production capacity, significantly increasing the generation of value to shareholders and society.



On the next pages, Aracruz Celulose reports its performance in 2006 from the four key perspectives that reflect our strategy for growth and sustainable productivity.

**VALUE CREATION** – what has been done to increase the value of the Company and to ensure that it is an investment that rewards both its shareholders and society, based on the principles of good corporate governance.

**CUSTOMER SATISFACTION** – the initiatives that have been taken to anticipate, satisfy and surpass the needs of our customers, seeking their satisfaction and loyalty in line with a strategy of long-term commercial relationships.

**INTERNAL PROCESSES** – what we have done to increase the efficiency of our internal processes and to improve the quality of the products and services we offer, observing social and environmental responsibility throughout the chain of production.

**LEARNING AND DEVELOPMENT** – the programs conducted to assure a favorable work environment for the people who are responsible for the success of the Company and to support the initiatives that have been adopted for fostering, through engagement, a constructive relationship with all our stakeholders.

What we have done to increase the value of the Company and to ensure that it is an investment that rewards both its shareholders and society, based on the principles of good corporate governance.



# Value creation



The constant striving for operational excellence, coupled with a focus on cost control and value creation, has led to Aracruz's establishing repeated records in terms of production volumes, sales and cash generation, enabling sustainable profitability, as reflected in higher dividends to shareholders.

We know that the way the Company is perceived by society is the result of many factors, including our commitment to sustainability. These factors make up part of our social license to operate and contribute to the maintenance of our market leadership. The image and reputation that result from this perception directly influence the Company's value – permitting cost reductions by anticipating and preventing conflicts, facilitating access to capital and motivating our employees and suppliers.

## GOVERNANCE

Aracruz has sought to base its activities on the best corporate governance practices and to observe the principles of transparency, sustainable growth and management independence.

Following initiatives adopted in the previous year, during 2006 additional measures were taken to ensure a more structured performance from the Company's various management bodies, including:

- The approval of Internal Regulations to increase the effectiveness of the Executive Officers, the Board of Directors and each of the committees that support the Board.
- The establishment of a Disclosure Committee, whose main objective is to set guidelines for the disclosure of results and financial, accounting and audit reports.
- The restructuring of the Sustainability Committee, which is now composed of shareholder representatives and independent members.
- The approval of a proposal to improve the structure of the Company's regulations, seeking to establish clearer hierarchies and levels of approval for the documents that orient our operations.
- The approval of a new version of the Company's statement of Mission, Vision and Principles, more appropriately reflecting the values of the Company and the context in which it operates.

Based upon the proposals that have been approved, the Code of Conduct will be revised in 2007, with a subsequent revision of internal policies and regulations.

All the procedures required under the Sarbanes-Oxley Act (SOX), designed to ensure effective internal controls, were carried out during the course of 2006. The independent auditors, in auditing the control environment based on Section 404 of the SOX, did not encounter any materially relevant deficiencies or weaknesses, issuing an opinion that contained no reservations of any nature.

A private communications channel, managed through an independent company, was also established to receive allegations and information with a guarantee of anonymity. The flow of information is directed to the Audit Committee, which is totally independent of Company management. During 2006, a single anonymous communication was received, concerning a doubt about the Company's internal regulations. The channel itself clarified the query.

**Mission, Vision and Principles** – In 2006, the Board of Directors approved the new, improved version of the Aracruz Mission, Vision and Principles statement. In the course of defining these fundamental underpinnings of our corporate governance, a number of areas of the Company were consulted along with outside stakeholders such as NGOs, customers, other companies in the industry, investors and consultants.

#### **Mission**

To offer products obtained in a sustainable way from planted forests, generating economic, social and environmental benefits and, in this way, contributing to people's well-being and quality of life.

#### **Vision**

To be acknowledged as the leader in the global pulp market.

#### **Aracruz's Business Principles**

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

### ○ 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, focusing on operational excellence:

- 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:

- 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:

- 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:

- seeking engagement and cooperation;
- being sensitive to their aspirations and concerns;
- using dialogue as the first priority to resolve conflicts;
- 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:

- 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.

**Risk management** – The structuring of corporate risk management was carried out during 2006 with the intention of:

- consolidating the evaluation of risks, incorporating those from the Guaíba Unit;
- identifying key risk indicators;
- formalizing the management process and development of a specific policy.

In order to guarantee permanent effectiveness, the Controllershship will now dedicate itself to monitoring the corporate risk management process. The Audit Committee, an independent body made up of members of the Board of Directors, scrutinizes Aracruz's risk management process.

For 2007, besides the continuous dissemination of the risk management culture throughout the executive group, Aracruz's Board of Directors established as top goals the correlation of the risks that have been mapped and the approval of a specific corporate risk management policy.

Details of the risks associated with Aracruz's activities can be found on the CD that accompanies this publication and in the online version of this report available on [www.aracruz.com](http://www.aracruz.com).

## GLOBAL SITUATION

The international situation was favorable in 2006, with continued economic growth. The expectation is that in the coming years economic expansion of the main Asian economies will continue to drive world growth, reinforcing the trend towards a balanced market for most commodities. This trend contributes to the growth of the countries of Latin America, a region that produces and exports commodities, and especially Brazil, notable mainly for agricultural and metal commodities and possessing a major competitive advantage in supplying the world hardwood pulp market.

In the pulp market, the restructuring that took place over the past few years resulted in a reduction in supply of about 4.6 million tons between 2004 and 2006, and this process is expected to continue over the next few years. Other old and economically unviable mills are likely to be decommissioned, causing a redirection of demand to rapid-growth manufacturers, such as those in Latin America. It is expected that demand for eucalyptus pulp from Latin America will continue to grow at about 9% per year, maintaining the pace of the past five years.

The new projects scheduled to start up in 2007 throughout the world should add about two million tons to supply. However, demand for this period is expected to absorb all the additional volume, maintaining a balance between the two market forces and contributing to a relative stability of the sector.

## ECONOMIC AND FINANCIAL PERFORMANCE

The year 2006 represented a new milestone in Aracruz's production capacity. The full operating capacity of Veracel, which produced 975,000 tons (8% higher than its nominal capacity of 900,000 tons), coupled with excellent performances by the Barra do Riacho (in the State of Espírito Santo) and Guaíba (in the State of Rio Grande do Sul) units, led to a new record in sales volume, reaffirming Aracruz's worldwide leadership of the sector with a 27% share of the supply of eucalyptus pulp.

Since Aracruz exports approximately 98% of its volume and its revenues are dollar-denominated, the negative impact of the 9% devaluation of the U.S. dollar against the Brazilian real over the year was more than offset by the favorable rise in the price of pulp (8%) and the growth in sales volume, making it possible for the Company to set a net revenues record of US\$1,680.8 million (25% higher than the amount obtained in 2005).

The cost of products sold (pulp), measured in US\$/ton, was US\$333/ton, which represented expansion of 15% over 2005, basically due to the higher price of oil and some inputs such as chemicals and energy sources.

The generation of operating cash (measured by the EBITDA, adjusted for other strictly accounting events and without impact on cash flow) reached a record level, of US\$735.7 million, 10% higher than the US\$668.9 million posted in 2005.

As a result, net earnings totaled US\$455.3 million, 33.5% higher than the net earnings of US\$341.1 million in 2005.

At the beginning of 2006, Aracruz obtained foreign currency investment grade ratings from the Fitch (BBB) and Moody's (Baa3) agencies. This ratification was in addition to the rating received at the end of December 2005 from Standard & Poor's (BBB-), as well as the local currency investment grade rating awarded by the same agencies several years ago.

The complete analysis of the Company's results in 2006 is presented in the Financial Statements found at the end of this publication as well as in the online version of this report available on our website ([www.aracruz.com](http://www.aracruz.com)).

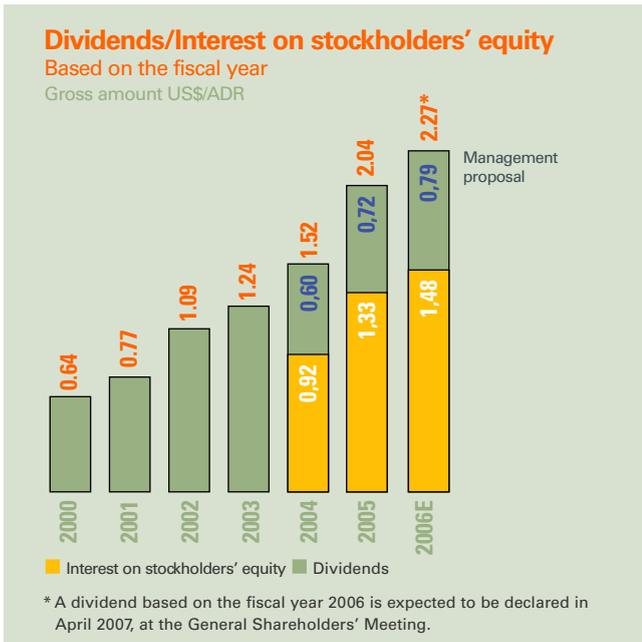
## CAPITAL MARKETS

In 2006, the liquidity of Aracruz's shares (NYSE + BOVESPA) reached an average daily volume of US\$25.6 million, representing an increase of 78% when compared with the volume registered in 2005. This higher liquidity was due to improved performance on the São Paulo Stock Exchange (BOVESPA) and the New York Stock Exchange (NYSE).

The value of the Company's ADSs (American Depositary Shares) listed on the NYSE rose 53% in 2006, higher than the rise in the Dow Jones Index, which was 16% during the same period, and the Standard & Poor's (S&P Paper and Forest) Index, which rose 2%.

Similarly, Aracruz's shares listed on BOVESPA's Corporate Governance Level 1 also posted positive results, rising 41% in 2006. This increase was higher than the performance of the Ibovespa index (33%) for the same period.

Another highlight in 2006 was the selection of Aracruz as the only company in its sector worldwide to be a part of the Dow Jones Sustainability Index 2007 (DJSI World). Each year this index highlights the best corporate sustainability practices globally. The DJSI World 2007 is made up of 318 companies encompassing 58 sectors and 24 countries.



Aracruz was chosen once again to be on BOVESPA's Corporate Sustainability Index, the only listing of its kind in Latin America. For the composition of this index, comprising 43 shares issued by 34 companies from 14 different sectors, all recognized for their commitment to social responsibility and corporate sustainability, environmental, social and financial performances were evaluated.

## DIVIDENDS AND ISE

A total of US\$146 million was distributed in 2006 in the form of interest on stockholders' equity (ISE), in anticipation of the mandatory annual dividend for the 2006 period, being US\$35 million declared on December 22, US\$37 million declared on September 19, US\$33 million on June 20 and US\$41 million on March 23, in compliance with article 9 of Law 9.249/95.

The Executive Directors intend to continuously propose, on a quarterly basis, the distribution of dividends in this form, paying them during the year in reference and thus anticipating the dividends related to the respective fiscal period.

In addition to the various declarations of interest on stockholder's equity (ISE) based on the 2006 fiscal year, Management proposed payment of dividends of US\$78 million, to be submitted for the approval of the General Shareholders Meeting to be held on April 30, 2007. If confirmed, the total distribution related to the 2006 fiscal year will equal approximately US\$2.27 per PNB share.

The amount of the annual distribution of Aracruz's dividends is based upon the Company's generation of cash, and is paid in two ways: i) interest on stockholder's equity, up to the maximum limit allowed by legislation, and ii) the actual dividends.

Over the past few years, as a result of the continuous growth of the Company, the dividends have been paid in increasingly higher unit values. Based on the projected expansion of Aracruz's cash and reserves, Management intends to continue to pay higher dividends, although there are no guarantees that this will continue to occur.

## WEALTH AND EMPLOYMENT

Aracruz's activities make an important contribution to the generation of wealth and employment opportunities. In 2006, the Fundação Getúlio Vargas Projetos (FGV), of São Paulo, conducted a study regarding the generation of wealth, jobs, foreign exchange earnings and taxes in Aracruz's chain of production. The data is from 2003 (the last year for which there is data from the National Statistical Information System).

The value added by Aracruz to its mills and forests and the income from a number of activities associated with its chain of production totaled, in 2003, R\$3.397 billion, representing 0.24% of the Brazilian GDP of that year. In the case of Espírito Santo, in 2003 the impact of the Company's activities represented 15.2% of the state's GDP.

This productive chain has a direct impact on the generation of jobs. According to the FGV study, taking into consideration direct and indirect jobs, Aracruz's activities supported 95,800 job positions, the majority being generated in four sectors of economic activity: forestry, commerce, transportation and services supplied to the companies.

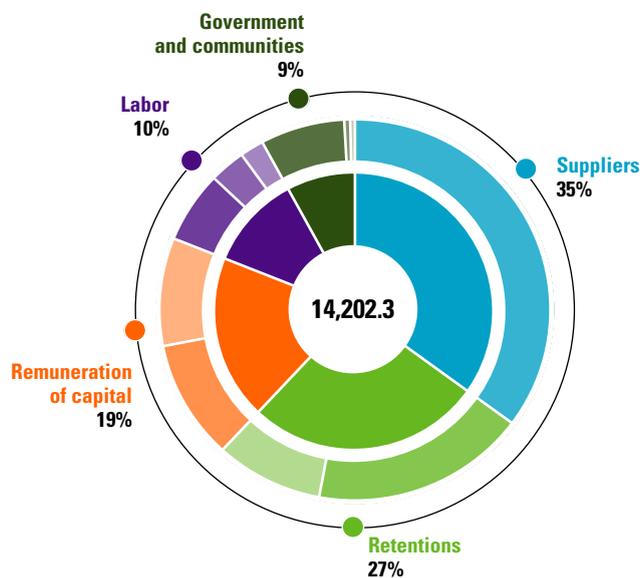


It is important to note that the companies that sell products and services directly to Aracruz also pay salaries and taxes and generate profits. In 2006, there were 182 companies with 80 permanent contracts and another 174 temporary contracts that contributed to a chain of wealth generation throughout the Brazilian economy.

Besides the quantity of jobs it generates, Aracruz is also notable for another very important economic indicator: labor productivity. Taking into consideration the 20 largest economic sectors in Brazil in terms of productivity (excluding the rental and financial services sectors), the average productivity of Aracruz workers is the second highest in the country, behind only the oil refining sector.

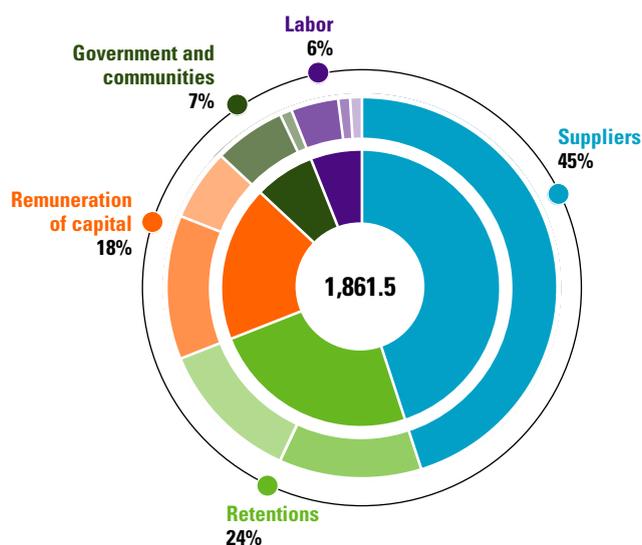
Aracruz's average annual productivity per worker is R\$844,000 (2003), which means that each permanent Company worker (its own or outsourced) produced about R\$70,000 per month – work productivity that is more than 40 times higher than the average of the Brazilian economy.

**Use of resources generated in 1989-2006**  
US\$ millions



<b>Suppliers</b>	<b>4,951.3</b>
• Materials and services purchased	4,951.3
<b>Retentions</b>	<b>3,776.7</b>
• Depreciation, amortization and exhaustion	2,588.2
• Retained result	1,188.5
<b>Remuneration of capital</b>	<b>2,703.2</b>
• Financial expenses	1,485.5
• Dividends and interest (on own capital)	1,217.7
<b>Labor</b>	<b>1,419.8</b>
• Payroll	801.2
• Compulsory benefits, except social security	242.3
• Voluntary benefits	376.3
<b>Government and communities</b>	<b>1,351.3</b>
• Taxes and contributions, including social security	1,232.1
• Infrastructure	66.4
• Community projects, donations and other social demands	52.8
<b>Total resources generated</b>	<b>14,202.3</b>

**Use of resources generated in 2006**  
US\$ millions (\*)



<b>Suppliers</b>	<b>832.8</b>
• Materials and services purchased	832.8
<b>Retentions</b>	<b>455.9</b>
• Retained result	238.0
• Depreciation, amortization and exhaustion	217.9
<b>Remuneration of capital</b>	<b>333.2</b>
• Dividends and Interest (on own capital)	217.3
• Financial expenses	115.9
<b>Government and communities</b>	<b>124.3</b>
• Taxes and contributions, including social security	116.6
• Community projects, donations and social demands	7.7
<b>Labor</b>	<b>115.3</b>
• Payroll	60.7
• Compulsory social taxes, except social security	16.1
• Voluntary social taxes	38.5
<b>Total resources generated</b>	<b>1,861.5</b>

(\*) The chart presents the resources generated in 2006 according to the Added Value Demonstration criteria, based on the results of the year.

### **Generation and use of resources**

From 1989 until 2006, Aracruz's activities generated US\$14.2 billion in resources. A significant part of this amount was reinvested in the business itself, as part of the Company's business strategy.

Since 1995, Aracruz has been growing at an average annual rate of 10%, driving the development of the regions where it has operations in the country.

In 2006, US\$833 million, or 45% of the total of the resources generated, were used to buy raw materials, products and services, first and foremost from local suppliers, generating opportunities and economic development throughout the chain of production.

### **Employment**

Aracruz favors the hiring of employees from the regions in which it has operations as a way of stimulating the economic development of local communities. In 2006, employees from the States of Espírito Santo, Bahia and Rio Grande do Sul represented 78% of the total labor force.

The chart on the following page presents consolidated data regarding Aracruz's workforce in 2006.

### **Retirement**

In order to help employees to prepare for retirement, Aracruz instituted a new program that seeks to help each participant adequately plan his or her retirement. The minimum age for joining the program is 53 and preparation begins two years before the employee's retirement date. It includes sensitization lectures, individual and group assistance, motivational meetings and workshops for planning life after retirement.

The Aracruz Social Security Foundation (ARUS), a closed supplemental pension scheme of which Aracruz is the main sponsor, ended the period with 4,370 active and assisted participants and net equity of US\$203 million.

Employees – consolidated 2006 data	Own Employees	2,361
	Aracruz Celulose S.A.	2,171
	Barra do Riacho Unit	1,665
	Guaíba Unit	487
	International subsidiaries	19
	Portocel – Terminal Especializado de Barra do Riacho S.A.	190
	Permanently outsourced workers	9,298
	Barra do Riacho Unit	6,648
	Guaíba Unit	2,650
	Total direct jobs	11,659

thousand US\$

Labor compensation – own jobs	Wages	60,729
	Compulsory social taxes	30,130
	Benefits	38,572
	Employee profit share	12,997
	Medical assistance	6,637
	Meals and basic food provisions	4,019
	Transportation	4,639
	Professional training	2,578
	Private retirement plan	3,125
	Other benefits	4,577
Total	129,431	

Selected statistics	Nominal average wage	1,456.80
	Basic wage	310.69
	Hours dedicated to training and professional development activities	87,952
	Hours of training and development per employee	37
	Number of beneficiaries assisted by the health plan	7,081
	Number of medical consultations under the health plan	40,698
	Number of occupational health consultations	2,271
	Number of occupational health exams	27,963
	Number of days spent in hospital covered by the health plan	1,314
	Number of meals served	2,272,957
	Own employee turnover index	0.80%
	Percent of employees covered by union collective bargaining agreements	98%
	Lowest salary at Aracruz x country's minimum wage	1.94
	Percentage of women in Company's workforce	12%
	Percentage of Caucasians*	69.6%
	Percentage of Afro-Brazilians and mixed race*	29.6%
	Others (Asian/Indigenous)*	0.8%
Percentage of employees with disabilities – Barra do Riacho Unit	5%	
Percentage of employees with disabilities – Guaíba Unit	3%	

\* According to IBGE criteria.

Average age of employees	38 years
Average time in the Company	13 years

Turnover in 2006	Average		Total
	Admissions	22	259
	Departures	12	147
	Effective average	2,316	2,361
	Average accumulated turnover in 2006	1.5%	8.6%

Education	Completed Grade School	8.3%
	Completed High School	53.4%
	Completed University	29.4%
	Specializations (postgraduate, masters and doctorate)	8.9%

## CAPITAL EXPENDITURES

### New industrial unit

In June 2006 Aracruz signed a protocol of intent in Porto Alegre (State of Rio Grande do Sul) with the government of the State of Rio Grande do Sul and the municipal governments of Barra do Ribeiro, Cachoeira do Sul, Guaíba and Rio Pardo to expand the Company's activities in the state. The objective is to enable a new production line with annual capacity of about 1.3 million tons of pulp. The project calls for the construction of a new production line next to the current mill, which today produces 430,000 tons/year. The intention is to achieve production of about 1.8 million tons per year at the Guaíba Unit in a way that makes this unit competitive on a world scale. The total investment involved is some US\$1.2 billion, and should generate about US\$200 million in tax revenues while placing in circulation more than US\$300 million for services outsourced to local companies and for forestry jobs.

### Barra do Riacho Unit

A project was set into motion to modernize the A, B and C pulp production lines at Barra do Riacho, in Espírito Santo. The objective is to increase production by 200,000 tons/year, raising the unit's annual pulp output to 2.33 million tons. The project should be concluded in September 2007 and represents an investment of US\$192 million.

### Portocel

The first phase of an expansion project for the terminal, scheduled for conclusion in 2009, was initiated, involving construction of two more ship berths, a new pulp barge terminal, a pulp warehouse, dredging to a depth of 12.5 meters, operating improvements and technical adjustments.

The investment in the project is estimated at US\$72.7 million and will increase the terminal's pulp shipping capacity to 7.5 million tons per year in 2009.

These investments are in line with Aracruz's long-term strategic objectives to increase its share of the global hardwood pulp market over the next few years and remain one of the world's lowest-cost producers in its sector. They will be made using funds retained in the Investment Reserve account on a priority basis, as contained in the proposal for use of earnings from the 2006 fiscal year and the Company's Financial Statements from previous years, approved in previous General Shareholders' Meetings.

Capital expenditures during 2006 were earmarked for the projects as follows.



Capital expenditures – 2006	US\$ million
Purchase of land and forests	80.5
Silviculture (forest area)	113.1
Other forestry investments	25.5
Industrial investments	23.4
Modernization projects (Guaíba and Barra do Riacho)	43.9
Investments in Veracel	14.6
Investments in Portocel	301.0
Others	24.5
<b>Total</b>	<b>325.5</b>

## SOCIAL INVESTMENT

Upon implementing our Sustainability Plan, we noted that our social investments, despite generating benefits in the regions where Aracruz has operations, could be more effective in fostering the social development of the communities.

With the help of the Institute for the Development of Social Investments (IDIS) of São Paulo, we completed in 2006 a review of these investments, which showed that planning needed to be more strategic, better focused and aligned, guaranteeing greater synergy between the actions. The results expected from each investment also must be clearer in order to facilitate their assessment and permit greater flexibility in the allocation of resources. Furthermore, it was shown that it was necessary to redefine the role of the Company in the communities where its production is concentrated, seeking to enhance a more citizen-to-citizen relationship and support of

local development. Based on this diagnosis, a Strategic Social Investment Plan is under development, to be concluded in 2007, the results of which are expected to be more widely felt in 2008.

In 2006, Aracruz invested US\$7.7 million in a number of different social projects, with the priority focus being on education and programs that stimulate economic and social development in the regions where the Company has operations in Espírito Santo, Rio Grande do Sul and Bahia.

The most significant results of these actions during 2006 are presented in the pages that follow. The detailed list of the targets and the results of each project are available both on the CD that accompanies this publication and on our website [www.aracruz.com](http://www.aracruz.com).



## Education

### Professional training and teaching and learning process

**Formar** – 876 course teachers and 68 municipal and group coordinating teachers from the public school networks in 19 municipalities in Minas Gerais and Espírito Santo were certified by Formar, a program that seeks to improve elementary school teachers their educational skills.

**University for All** – 55 students from low-income families, of which 15 are hearing challenged, attended a free university entrance preparation course through the project financed by the Company.

**Compaz** – five training and refresher courses were conducted in the fields of police ethics and socio-environmental coexistence for 222 Espírito Santo policemen.

## Environmental education

**Zenzinho Project** – Some 660 public school students from the municipalities of Aracruz, Ibirapu, Fundão, João Neiva, Santa Teresa and Vitória (State of Espírito Santo) participated in the environmental and citizenship activities run by the Morro da Vargem Zen Buddhist Monastery.

**Cover the World in Green** – In 2006, 100,000 native and ornamental tree species seedlings were distributed to encourage ecological awareness and to collaborate in a program to plant trees in Porto Alegre and bordering cities in Rio Grande do Sul.

## Health and special assistance

### Health programs

**Awaken** – Fourteen lectures were conducted on preventive actions and guidance regarding chemical dependence (both legal and illegal drugs) and about citizenship involving approximately 1,085 persons in 14 communities in Espírito Santo and Bahia.

### People with special needs

**Honey for the APAEs** – Four tons of honey were distributed to Associations of Parents and Friends of Students with Special Needs (APAEs), which generated revenues of US\$16,500 improving nutritional standards and generating income for the organization, with benefits going to the disabled, members of their families and specialized teachers.

### Social Inclusion

**Faith through Action** – A resocialization project involving 120 youngsters and teenagers between the ages of 7 to 17, who live in and around the Morro da Gurigica community in Vitória (Espírito Santo). A highlight of this project is the school reinforcement workshops, which has had consistent success in reducing truancy and repeated years. Besides directly helping the young people, the project was attended by 480 family members as well.

**Araçá** – A re-socialization project that helped 476 children, youngsters and teenagers residing in the city of São Mateus (Espírito Santo) through socio-educational activities in art, culture, communication, computers, audiovisual projects, woodworking and a school print-shop. Digital inclusion and sewing courses were run for 260 members of the young people's families.

### Food safety and local productive arrangements

**Family farming project** – Support of rural communities in the Bahian municipalities of Novo Destino, Pouso Alegre, Taquari, Itaitinga, Constelação, Vila Portela, Juazeiro and Espora Gato through the loan of land and other incentives for the production of short-cycle crops.

**Agroforestry system** – Consists of the planting of beans, manioc and corn between rows of eucalyptus trees during the first two years of tree life. The project was implemented in the communities of Assentamento Nova Esperança and Cachoeirinha do Riacho, in Aracruz (Espírito Santo). The initial results support the extension of the model to the Company's other regions.

**Solidarity Apiculture** – In 2006, the Solidarity Apiculture project was set up in eight new communities in the State of Bahia, Espírito Santo and Minas Gerais. More than 750 crates for the production of honey and other items comprising a beekeeping kit were distributed, benefiting some 18 communities.



**Barra do Riacho Community** – In 2006, the Company's main support activities and actions were the reform of the Z-7 "Manoel Miranda" Fishermen's Colony boat yard; training of resident fishermen in marine engine repair and mechanics; refurbishment of the Introduction to Information Technology and Citizenship School (EIC) in partnership with the Committee for Democratizing Information Technology (CDI); creation of a study group composed of companies, government, NGOs and local leaders for the identification of the main existing and potential problems of this community.

**Vila do Riacho Community** – Financial support was provided for the community vegetable garden maintained by the Clube de Desbravadores; maintenance and expansion of construction work to reform the Clube Riachão; implementation of a Community Information Technology Project in partnership with the city governments and the residents association; financing of projects for construction of a Community Commercial Center that will gather in one location agricultural, craft and semi-industrialized production by residents of nearby communities.

### **Social and cultural development**

**Brincarte** – 3,000 wooden toys were produced in workshops run by social projects (Recanto Feliz, Araçá, Meninos da Terra and Art Idéias), generating income for them and distributed to needy children on Children's Day.

**Movies at School** – This activity, which is supplemental to the Demythologizing of the Black Cultural Identity project that was established in 2005, made it possible for 880 public school students in the cities of São Mateus, Conceição da Barra, Jaguaré and Pedro Canário to attend screening sessions of the film *Filhas do Vento*, which deals with racial issues in Brazil. After each screening, the students participated in group discussions regarding current policies on quotas for Afro-Brazilians in Brazilian universities.

**Opportunities** – Aracruz took on 169 trainees, of which 133 were university students, mainly studying Business Administration, Chemical and Forestry Engineering, and 36 were enrolled in vocational training courses, the majority in Chemistry and Pulp and Paper courses.



Also aimed at offering opportunities for the professional development of young people, since 2003 the Young Apprentice Program run at Aracruz Celulose and Portocel in partnership with the National Industrial Apprentice Service (SENAI), the National Commercial Service (SENAC) and the Center for Professional Orientation and Career Paths (COEP) offers assistance to young people between the ages of 14 and 18 from the communities of Vila do Riacho and Barra do Riacho in Aracruz and the municipality of Conceição da Barra (State of Espírito Santo), who are enrolled in and attending school. This year, 57 low-income teenagers living in neighborhoods near the Company participated in the program.

The organization of activities for young apprentices is a legal requirement. However, Aracruz goes beyond and includes classes on health, workplace safety and hygiene, ethics, citizenship and environmental education.

**Volunteer activities** – The Aracruz Volunteer program ended the year with 581 enrolled participants, including employees and service suppliers. A total of 142 actions were conducted, benefiting nearly 20,000 people. The initiatives of the program, which completed its third year in 2006, include visits to senior citizen homes and orphanages, environmental education activities, support of hospital patients and the running of a Christmas solidarity campaign which collected 56 tons of foodstuffs.

The Mini-Company Program continued during the year, an initiative in partnership with the Junior Achievement NGO. The purpose, with the involvement of Aracruz volunteers, is to help students from the community manage a company. In 2006, Aracruz volunteers provided guidance for teenagers of the Primo Bitti School located in Aracruz (Espírito Santo) in setting up a small company, Arte da Hora, whose activity is to produce wall clocks made out of old vinyl phonograph records.

We maintain long-term relationships with customers on five continents whose confidence regarding the supply of high quality pulp in the volumes and within the deadlines required is of vital importance for their growth strategies.



**Training** – Besides running training programs for its own employees, Aracruz invests in training residents of the municipalities in its areas of influence. This is the case with the Professional Training Program for forestry equipment operators, which is run in partnership with SENAI. The Forestry Machinery Maintenance Operator course encompasses 28 municipalities in Espírito Santo and Bahia. Through 2006, nearly 200 operators completed the courses and were hired by Aracruz.

Another partnership with SENAI/ES is the Mobile Action Program run by Portocel, which offers free courses in the field of civil construction and electricity to residents of five Espírito Santo municipalities. During 2006, nearly 300 students received professional qualification certificates.

## INTANGIBLE ASSETS

Aracruz believes that its intangible assets constitute an increasingly important competitive advantage.

The Company has been one of the largest exporters and generators of net foreign exchange in Brazil for many years, contributing to the country's trade balance and the overseas recognition of its business competence.

We maintain long-term relationships with customers on five continents, whose growing strategies rely on the supply of high quality pulp in the volumes and within the deadlines required.

Our employees work in a healthy environment that fosters innovation, as demonstrated by the inclusion of Aracruz for the third consecutive year on the list of the Best Companies to Work for in Brazil, published by *Guia Exame Você S.A.*

The Company enjoyed important recognition from the financial market during 2006, such as continued participation in both the DJSI World 2007 Index and BOVESPA's Corporate Sustainability Index, and the achievement of an investment grade classification from Moody's, Fitch and Standard & Poor's.

The result of this positive perception is partly reflected in the fact that the capital markets attribute to Aracruz a market capitalization (US\$6.3 billion) that is nearly three times higher than its equity value (US\$2.2 billion).

**Media exposure** – Aracruz's exposure in the media increased significantly in 2006, posting a 48% rise in its positive visibility. Negative visibility also increased, although remaining at low levels.

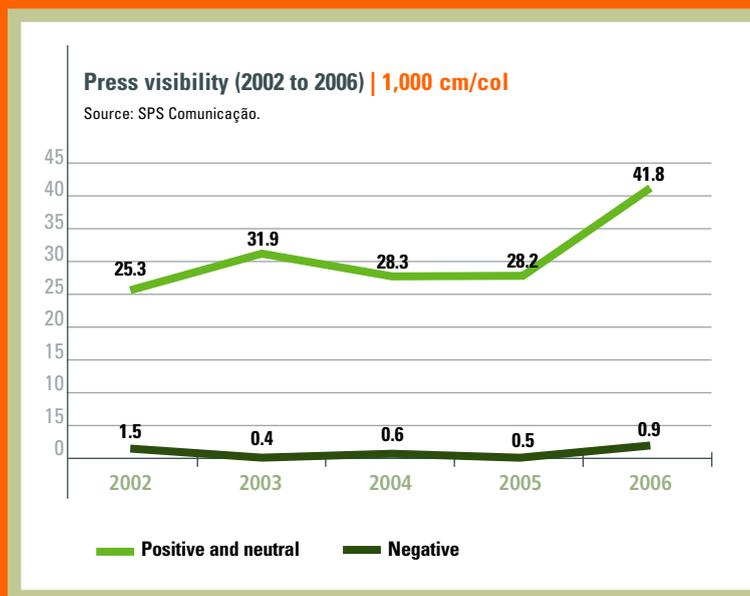
The increase in visibility came about because of a strategic decision to communicate sensitive issues involving our operations in a more transparent and pro-active manner, especially regarding the pressures from movements demanding land, which focus on Aracruz as a priority target.

The intensification and the radicalization of the conflicts promoted by these movements also contributed to the greater exposure of the Company in the media, notably through invasions of Aracruz's areas and installations by Indians in Espírito Santo, and actions of vandalism at its seedling nursery and laboratory in Rio Grande do Sul. The Brazilian news media repudiated these radical acts and reproduced statements of support for Aracruz issued by various institutions of society.

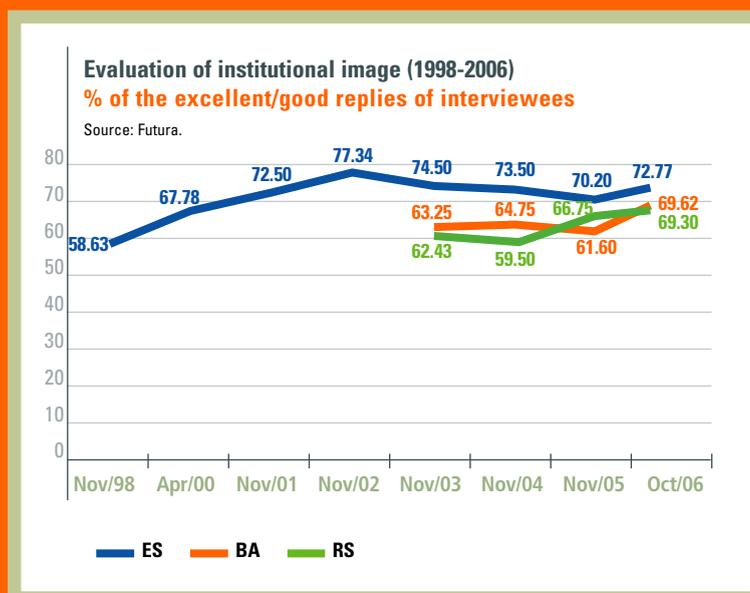
As part of its communication strategy, the Company sought to increase the level of exposure to its different audiences, through advertising and a redoubled effort to inform the press and other opinion formers.

**Image evaluation** – The Company's image continued to be favorable with the surrounding communities in the States of Espírito Santo, Bahia and Rio Grande do Sul. The average positive evaluation across the three states was 70.4% in 2006, compared with 66.8% in the previous year.

The charts show the visibility index in the press and the evolution of its institutional image.



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



The chart presents the assessment of the institutional image conducted in 2006 in the regions where the Company operates. A total of 1,400 persons were interviewed (of which 600 were in Espírito Santo, 400 in Bahia and 400 in Rio Grande do Sul). The interviewees could choose among excellent/good, regular or bad/very bad options.

Our initiatives to anticipate, satisfy and surpass the needs of our customers, seeking their satisfaction and loyalty in line with a strategy of long-term commercial relationships.



# Customer satisfaction



The development of new products designed for specific market segments, the expansion of distribution channels for key markets, the integration of processes and systems and the startup of a new relationship channel via the Internet are some examples of actions we conducted during 2006 to increase the level of satisfaction of our commercial partners.

## PULP PRODUCTION AND SALES

Aracruz produced a total of 3.1 million tons of pulp in 2006, broken down between its three production facilities.

### Pulp production per unit

Barra do Riacho Unit (Espírito Santo) – **2,180,000** tons  
Guaíba Unit (Rio Grande do Sul) – **436,000** tons  
Veracel (Bahia) – **488,000** tons (50% of total production)

Besides setting historic annual and daily production records at the Barra do Riacho and Guaíba Units, the performance of Veracel was also noteworthy, surpassing its nominal annual production capacity of 900,000 tons by 8% while operating at full capacity.

Sales totaled 3 million tons of pulp, distributed principally between Europe (39%), North America (34%) and Asia (25%), with the latter being the market with the highest volume increase over the previous years.

## DISTRIBUTION LOGISTICS

We concluded the first phase of an automation system for management of the logistics chain, enabling greater control over all stages of the process.

A fifth warehouse with capacity of 56,000 tons was inaugurated as part of the Portocel extension plan. Operations using dedicated ships (round trip) between the terminal in Espírito Santo and Flushing, Holland, were initiated, at competitive cost.

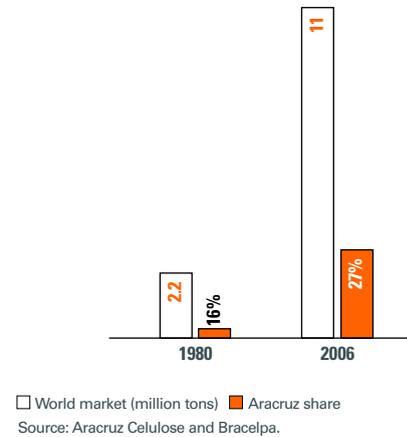
The construction of a third berth at the terminal will permit the shipping of 7.5 million tons of pulp as of 2009.

Operations were initiated in Jacksonville (Florida) the fourth point of arrival in the United States, which will make it possible to reduce the cost of internal freight charges while increasing delivery reliability.

All aspects of Aracruz's distribution logistics were checked and adjusted for full compliance with the requirements of the Sarbanes-Oxley Act.



## Evolution of Aracruz's share of market eucalyptus pulp



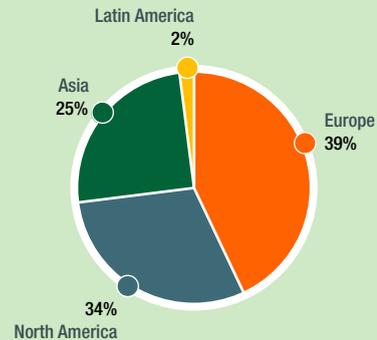
## RELATIONSHIPS

We initiated a further relationship channel with our customers during 2006. An Internet-based tool, the channel offers users online services and information at a different level to that used for commercial relationships. For 2007, expansion of the customer base with access to this channel is scheduled, along with implementation of new features designed to reduce the red tape involving commercial transactions.

During the year, some of our overseas customers were pressured by NGOs concerning the land dispute with Indians in the State of Espírito Santo. Aracruz kept its customers informed of the progress of the issue through its website and the *Aracruz News* newsletter, as well as through personal contacts. Customers expressed their confidence in the way that Aracruz has been managing the dispute, seeking an assured and stable legal solution.

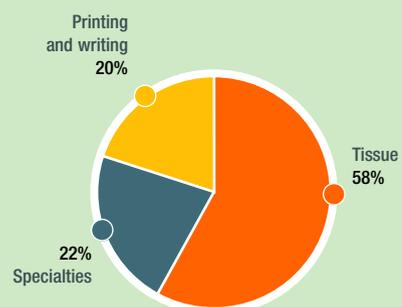
## Geographical distribution of sales

Source: Aracruz Celulose.

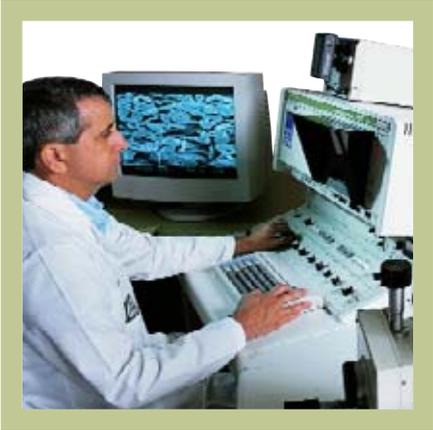


## Sales by end use

Source: Aracruz Celulose.



What we have done to increase the efficiency of our internal processes and to improve the quality of the products and services we offer, observing social and environmental responsibility throughout the chain of production.



# Internal processes



## FORESTRY OPERATIONS

**Nurseries** – The Aracruz seedling nursery at the Barra do Riacho Unit is currently undergoing transformation, with structural, technological and management changes that strive to improve its phytosanitary aspects, increase productivity and enhance the quality of the seedlings as well as offering environmental and ergonomic improvements. Representing an investment of some US\$3.6 million, the project should be concluded during the first half of 2007.

**Wood production** – In 2006, wood supply for the production of pulp totaled 9,574,000 m<sup>3</sup>, of which 8,160,000 m<sup>3</sup> were consumed at the Barra do Riacho Unit (89% from certified forests) and 1,414,000 m<sup>3</sup> at the Guaíba Unit (77% certified).

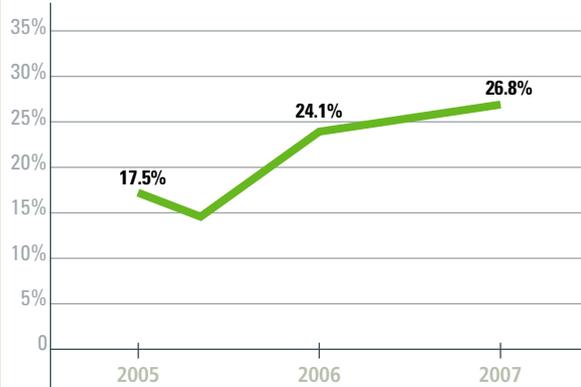
The total area at the Barra do Riacho Unit is 359,000 hectares, of which 212,000 hectares are forest plantations and 126,000 hectares consist of native reserves. At the Guaíba Unit, the land area totals 104,000 hectares, of which 66,000 consist of forest plantations and 28,000 native reserves. Overall, Aracruz maintains a ratio of 1 hectare of native reserves for each 1.8 hectare of plantations.

In terms of forest planning, we perfected a process for analyzing strategic scenarios, which is of fundamental importance for evaluating the Company's growth options. Furthermore, we made progress in improving our road network and different wood transportation modes, enhancing our ability to manage the entire chain of supply.

**Forestry Partners Program** – The Company's Forestry Partners Program ended the year with a total of 88,000 hectares of land under contract, of which 85,000 were within the Barra do Riacho Unit's sphere of activity and 3,000 pertained to the Guaíba Unit. The program encompasses 156 municipalities in the States of Espírito Santo, Bahia, Minas Gerais, Rio de Janeiro and Rio Grande do Sul. In March 2006, the first planting under the program was conducted in the State of Rio de Janeiro, which now has 116 hectares planted in eight municipalities served by the initiative. The program completed its 15<sup>th</sup> anniversary in 2006 and is responsible for the maintenance of more than 5,000 direct and indirect jobs.

Aracruz's strategy is to augment its wood supply through plantations owned by strategic partners. The Forestry Partners Program should be responsible in 2007 for approximately 11% of the total supply of wood, and is expected to stabilize at about 24% by 2011.

### Evolution of Aracruz's wood maritime transportation system



Source: Aracruz Celulose.



**Wood logistics** – The maritime transportation system shipped 1.96 million m<sup>3</sup> of wood during 2006, 43% more than in 2005. This represented the elimination of 75,700 logging truck highway trips, thus contributing to a reduction of traffic on the BR-101 highway along the stretches where Aracruz runs forestry activities. The chart above displays the evolution of the growth of this type of transportation.

Construction work at the Caravelas Terminal in the State of Bahia, which will make it possible for barges to tie up even during adverse weather conditions, thus improving the safety of the procedure, is in a final phase of completion.

The Logistic Operator activity was implemented in the three Barra do Riacho Unit regional areas. A partner specialized in logistics will be responsible for storing and distributing forestry inputs on the Company's and Forestry Partners' lands. As a result of this initiative, optimization of costs, rationalization of resources and improved control of the process is expected.

**Forest certification** – In 2006, the plantations located in Espírito Santo, Minas Gerais and Rio Grande do Sul underwent audits designed to maintain their CERFLOR forest certification (NBR 14789). As a result, 100% of the areas under the direct control of Aracruz are certified through this system, which is recognized by the Programme for the Endorsement of Forest Certification Schemes (PEFC).

The chain of custody was certified by CERFLOR (NBR 14790) at the Barra do Riacho (June 2006) and Guaíba (October 2006) Units, attesting that all the pulp produced by Aracruz contained a minimum of 70% of wood from certified sources.

In June, the Company requested the cancellation of FSC certification of its Guaíba Unit (State of Rio Grande do Sul) forests, which had been obtained before Aracruz acquired this mill. The decision took into account concerns that had been expressed to the FSC by some stakeholders regarding the land dispute between Aracruz and the indigenous communities of the State of Espírito Santo, located

more than 2,000 km distant from the Guaíba Unit. While announcing this decision, Aracruz confirmed its interest in working in the future towards the certification of all its forests by the FSC.

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For more information regarding forestry certification, please visit the section containing the Company's positions on [www.aracruz.com/aracruz/positionings](http://www.aracruz.com/aracruz/positionings)

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**Soil management** – Aracruz's soil fertilization practices seek to guarantee the biological availability of nutrients to satisfy the demands of its forests at different growth stages during each new planting cycle, while maintaining a reserve in the system.

At the Barra do Riacho Unit, evaluations conducted in 2006 based upon continuous soil monitoring indicated an increase in the fertility of the majority of the plantations. This was a result of the improvements in nutritional management carried out at the end of the 1990s, contributing to plantation sustainability and a reduction in fertilizer costs.

At the Guaíba Unit, some 20,000 hectares of land destined for plantation expansion were surveyed and classified. This survey led to the physical-chemical profile of the land, which will permit improved definition of management practices regarding fertilization, preparation and conservation. Studies were also initiated to evaluate the susceptibility of the unit's main land areas to erosion and to model tolerance to potential compacting caused by harvesting machinery.

The results of these studies, conducted in partnership with the Federal University of Lavras in the State of Minas Gerais, will allow improvements in land management practices focusing on soil conservation and sustainable wood production.

**Meteorology and water resources** – Aracruz monitors the climate in its areas through a weather network composed of 32 automated stations at the Barra do Riacho Unit and another four (set up during 2006) at the Guaíba Unit.

Supplementing the Company's meteorological network database is information from public and private research institutions, permitting an increase in the coverage area and the reliability of the information.



## Forestry operations

		UBR (ES, MG e BA)	UG (RS)	Total
<b>Land use</b>				
Eucalyptus plantations	ha	212,401	66,191	278,592
Native reserves	ha	126,060	28,265	154,325
Other uses *	ha	20,053	9,557	29,610
Ratio eucalyptus plantations / native reserves		1.7	2.3	1.8
<b>Eucalyptus</b>				
Seedling production	1,000 un	73,860	20,800	94,660
Seedling planting	1,000 un	70,537	20,151	90,688
Seedling donations	1,000 un	5,785	-	5,785
<b>Native species</b>				
Seedling production	1,000 un	560	-	560
Seedling donations	1,000 un	218	10	228
<b>Harvest</b>				
Average age of wood for pulp	years	6.3	10.0	
Average harvest cycle of own forests for pulp	years			6 to 8
<b>Forestry Partners Program</b>				
Area contracted	ha	85,229.5	3,044.4	88,273.9
Area planted	ha	79,630.3	2,118.9	81,749.3
Number of contracts		3,524	91	3,615
Average area per contract	ha	24.19	33.46	24.42
Number of municipalities		130	26	156

\* Firebreaks, roads and installations

UBR – Barra do Riacho Unit

UG – Guaíba Unit

ha – hectare

un – unit

ES – Espírito Santo State

BA – Bahia State

MG – Minas Gerais State

RS – Rio Grande do Sul State



Climate data, as well as being used for predictions of productivity needed for forestry planning, guide the acquisition of new land, determine the risk of forest fires and help evaluate the effects of management practices on plantation productivity.

During the year, the climate in the Aracruz, São Mateus and the south of Bahia regions was characterized by well distributed rain throughout the period. Although the rainfall at the beginning of the year was lower than expected, the monthly totals did not affect water availability. Bahia was noteworthy for annual rainfall that was 15% higher than the historic average.

Monitoring was conducted of the quantity and quality of surface and subsurface water in 17 representative watersheds at the Barra do Riacho and Guaíba Units, as well as another nine located in Forestry Partners Program areas encompassing different land use situations (eucalyptus, pastures and native forests). The analysis of the data that was obtained did not reveal any evidence of changes in the quantity or quality of the water that could be related to eucalyptus plantations.

At the Guaíba Unit, installation of the first experimental watershed was initiated in order to conduct studies of a complete water cycle of the region's forests, seeking to increase scientific knowledge about the use of water by eucalyptus trees, especially in areas included in the unit's expansion project.

This action is called for under the Conduct Adjustment Agreement (TAC) signed with the Public Prosecutor's Office (MPE) of Rio Grande do Sul in the context of a civil investigation into the legality of silviculture licensing processes in the state.

A TAC signed between the State Environmental Protection Foundation (FEPAM) and the MPE made it possible to authorize the plantations established in 2006.

**Biodiversity** – For 15 years, Aracruz has conducted studies and monitored the flora and fauna of its eucalyptus plantations and native reserve areas. Recently, this work was extended to the Forestry Partners Program properties and the Guaíba Unit.

These studies have allowed the Company to understand better the biodiversity of the areas in which it operates and determine whether the management practices that are adopted are sustainable, the distribution and quality of the preservation areas are sufficient for the local environmental balance and the existence of special environments that need to be protected or conserved. Furthermore, they offer the basis for the continuous improvement of the Company's forestry management system.

In this context, birds play a fundamental role in the studies conducted on biodiversity, since they are recognized as important indicators of environmental quality, reacting to the slightest sign of imbalance.

Aracruz's database already contains records of more than 10,000 birds that have been banded and catalogued during 13 years of research representing over 150,000 man-hours of work. The 10,000<sup>th</sup> bird – a male White-shouldered Fire-eye (*Pyriglena leucoptera*), a type of antbird – was banded on November 17, 2006 at Conceição do Castelo, a mountainous region in Espírito Santo. The species is found exclusively in the Atlantic Forest biome.

The banding data make it possible to verify the permanence of the birds on Company land over time, their spatial displacement and the interrelationship of these factors with the quality of the local environment, both in the commercial eucalyptus plantations and Atlantic Forest reserves.

Overall, there are some 530 bird species that have been catalogued on Aracruz's lands and property belonging to Forestry Partners Program participants. In this total there are 53 species identified on the lists of threatened birds published by IBAMA, the State Environmental Institute (IEMA) and the World Conservation Union (IUCN).

The data from this monitoring indicate that the forest management model adopted by the Company allowed the safeguarding of bird communities in the localities that were studied, as a result of the natural supply of shelter, food and conditions for reproduction.

Based upon this work, it has been possible to develop forestry management techniques that contribute to the conservation of biodiversity, such as the use of eucalyptus corridors to connect fragments of native vegetation.

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More information about this issue is available on  
[www.aracruz.com/aracruz/positionings](http://www.aracruz.com/aracruz/positionings)  
[www.aracruz.com/environment](http://www.aracruz.com/environment)

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List and size of Aracruz's new RPPNs:

<b>Mutum Preto</b> Linhares (Espírito Santo)	<b>378 ha</b>
<b>Recanto das Antas</b> Linhares (Espírito Santo)	<b>2,240 ha</b>
<b>Restinga de Aracruz</b> Aracruz (Espírito Santo)	<b>320 ha</b>
<b>Cassurubá</b> Caravelas (Bahia)	<b>244 ha</b>
<b>Esperança do Beija-Flor</b> Teixeira de Freitas e Vereda (Bahia)	<b>2.925 ha</b>
<b>Total</b>	<b>6,107 ha</b>

**RPPNs** – Aracruz set the creation of five new Private Natural Heritage Reserves (RPPNs) as a target for 2006, which contributed to the expansion of the country's protected areas – one of the goals foreseen in the Biological Diversity Convention – and to the consolidation of the Atlantic Forest Central Corridor.

All five conservation units proposed by Aracruz have already been approved technically, with only some administrative procedures pending for their legal recognition, which will take place during the first half of 2007.

This initiative also contributes to the training and improvement of Bahia and Espírito Santo's environmental agencies, because four of the five have served as pioneering processes for these agencies, which are still validating the procedures for recognizing a RPPN.

Currently there are 37 RPPNs in the Atlantic Forest Central Corridor protecting nearly 11,000 hectares. The five new Aracruz reserves will represent a 48%

increase in the area that is protected by this management category and a 14% rise in the number of RPPNs in this corridor, which is considered to be strategic by Brazil's Ministry of the Environment.

**Watershed** – In order to better understand the relationship between its eucalyptus plantations and the environment, Aracruz initiated in 1993 the Watershed Project, based upon approximately 280 hectares where environmental monitoring of eucalyptus planting cycles was conducted, focusing on the interaction between soil, climate (including water use) and biodiversity. The data was regularly collected and analyzed until the beginning of 2005, when members of indigenous communities invaded the area where the project is located. Since then, the work has been suspended and will remain suspended until a definitive solution to the land dispute has been achieved.

Learn more about the Watershed Project in [www.aracruz.com/environment](http://www.aracruz.com/environment)



The five new Aracruz Private Natural Heritage Reserves will represent an increase of almost 50% in the area that is protected by this management category in Brazil's Atlantic Forest Central Corridor.

**Pesticides** – Eucalyptus trees – just like all other crop species – require the use of pesticides to enable economically sustainable production. Aracruz uses fewer low-toxicity pesticides, most of which (whether chemical or biological) are Toxicological Class IV. One of the factors that help minimize the use of pesticides is that their utilization is guided by the real need for intervention and control, taking into account each stage of the production process. This approach reduces consumption, which is advantageous from economic, health and environmental safety points of view.

The constant research carried out or supported by Aracruz permits greater technological resources to be applied to pest, disease and weed control. In 2006, research conducted by the Company evaluated a spraying alternative known as "ultra low volume" as well as a physical method of capturing pests in the seedling nurseries. The results obtained indicated that these practices are technically feasible and help minimize the use of pesticides.

Aracruz operates an environmental monitoring system involving analysis of soil contamination, sediments and water resources. Different analyses conducted over the year on properties in Bahia, Espírito Santo and Minas Gerais, as defined by the state environmental agencies (CRA-BA, SEAMA and IDAF-ES and IEF-MG), did not discover the presence of any of the active constituents of the pesticides used. These results suggest that the forest protection practices adopted by Aracruz are safe and do not cause environmental contamination.

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More information about this issue is available on [www.aracruz.com/aracruz/positionings](http://www.aracruz.com/aracruz/positionings)

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## INDUSTRIAL OPERATIONS

### Generation of electric energy and fuels – 2006

<b>Barra do Riacho Unit</b>			
<b>Electric energy</b>		<b>MW</b>	<b>%</b>
Self-generated		1,468,061	98.82
Purchased		15,964	1.18
<b>Consumption of fuel</b>		<b>Gj</b>	<b>%</b>
Renewable <sup>(1)</sup>		53,786,783	93.7
Non-renewable <sup>(2)</sup>		3,620,119	6.3
<b>Guaiba Unit</b>			
<b>Electric energy</b>		<b>MW</b>	<b>%</b>
Self-generated		329,677	77.2
Purchased		97,307	22.8
<b>Consumption of fuel</b>		<b>Gj</b>	<b>%</b>
Renewable <sup>(3)</sup>		6,103,340	51.2
Non-renewable <sup>(4)</sup>		5,826,878	48.8

(1) Black liquor (85.8%), biomass (7.4%), hydrogen, non-condensable gases and methanol (0.4%). (2) Fuel oil and natural gas. (3) Black liquor (98.0%), oleic acid (2.0%). (4) Combustible oil (16.74%), coal (82.70%), BTE oil (0.03%), diesel oil (0.22%), petroleum coke (0.02%) and LPG (0.29%).

### Generation and disposal of solid wastes – 2001/2006

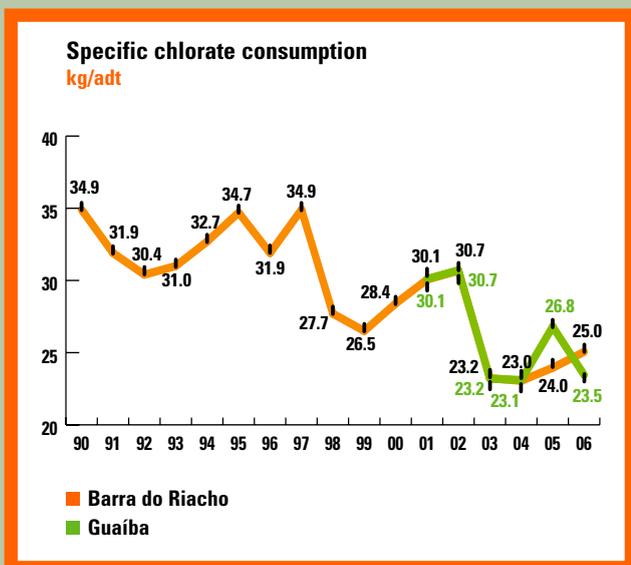
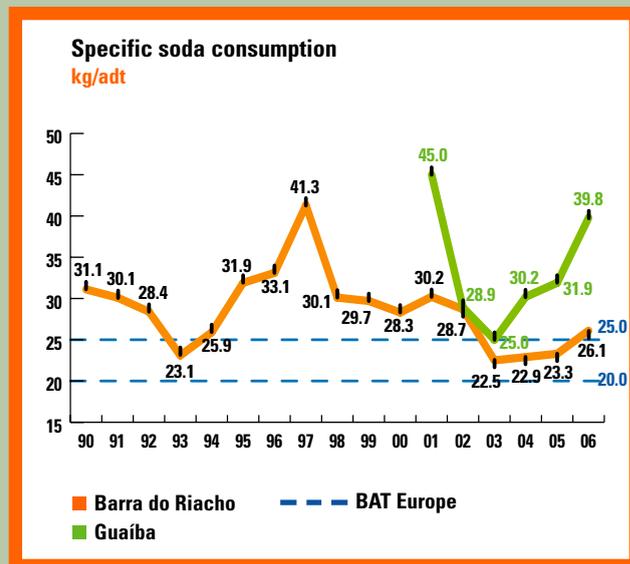
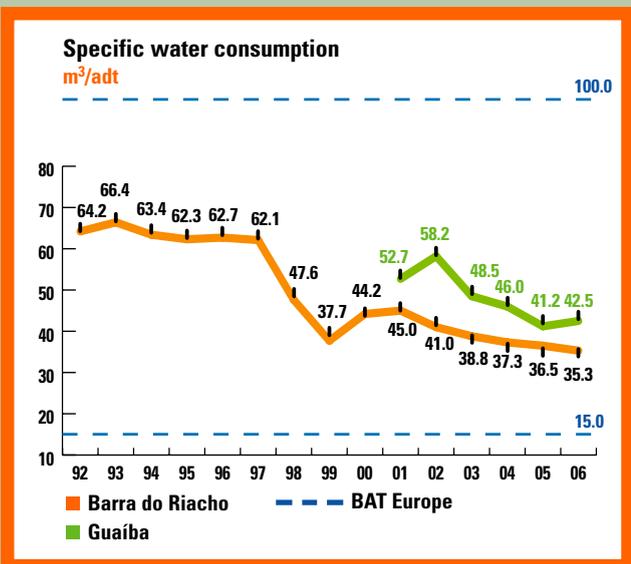
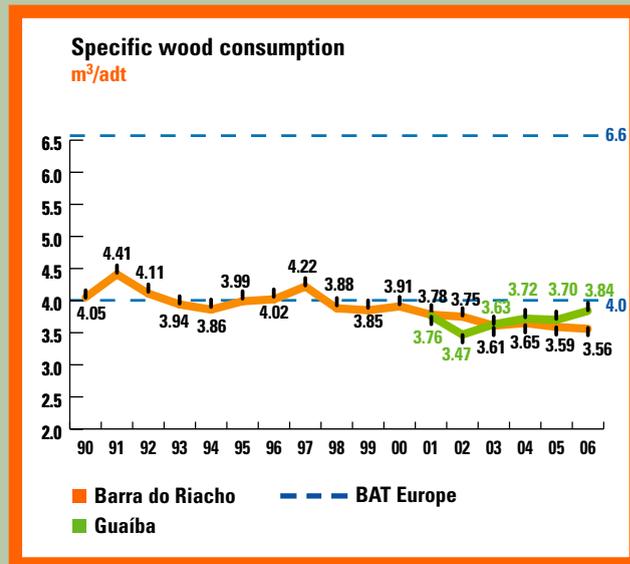
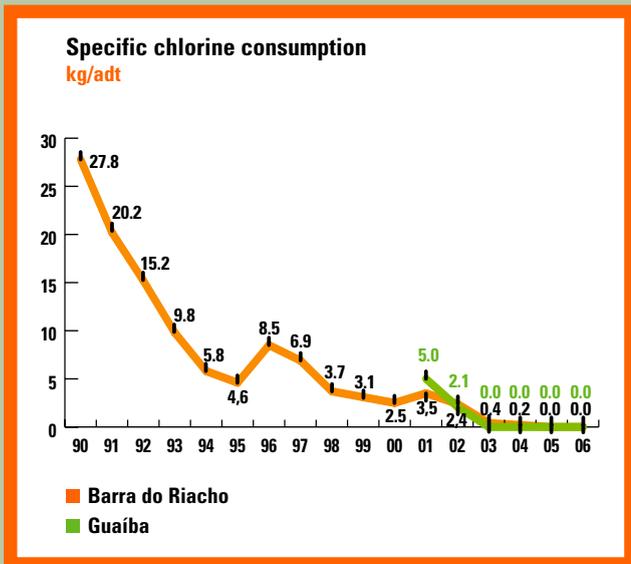
<b>Barra do Riacho Unit</b>						
<b>(Industrial landfill B)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Generation of solid wastes (t/adt)	0.09	0.08	0.05	0.058	0.052	0.041
% of recycled wastes	27.39	17.23	18.52	21.26	25.50	55.20
Volume sent to industrial landfill (t)	81,086	107,932	82,536	95,167	82,172	54,384
<b>Guaiba Unit</b>						
<b>Waste treatment center</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Generation of solid wastes (t/adt)	0.634	0.736	0.612	0.587	0.499	0.490
% of recycled wastes	98.66	98.70	99.48	99.37	99.44	99.41
Volume sent to industrial landfill (t)	2,480	2,850	1,283	1,482	1,174	1,268

Adt – air-dried ton

In 2006, the increase in the percentage of wastes recycled at the Barra do Riacho Unit was mainly due to the following actions:

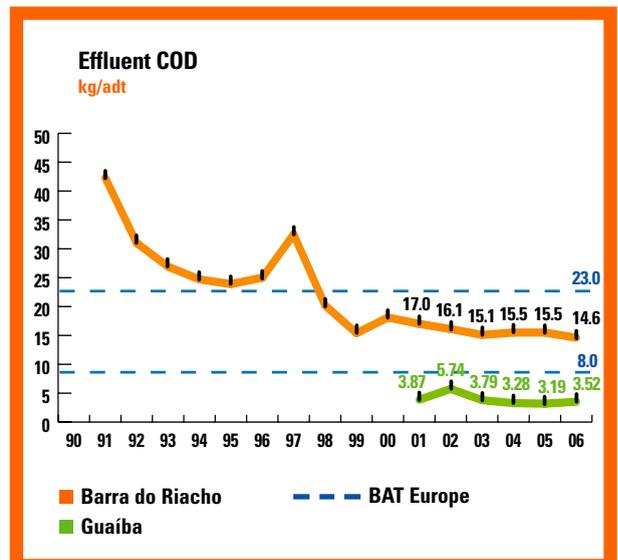
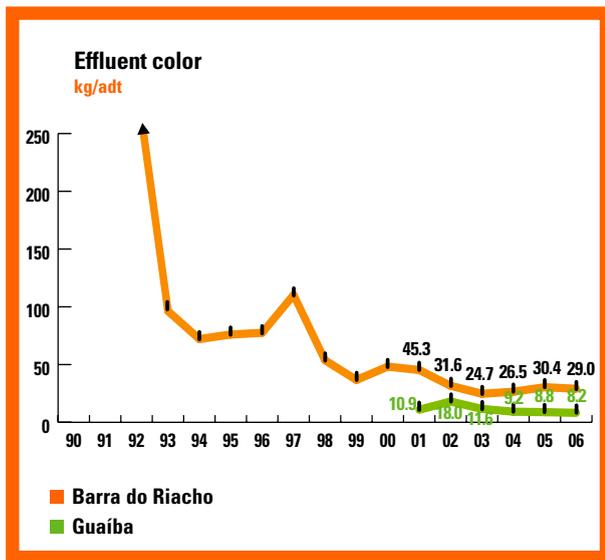
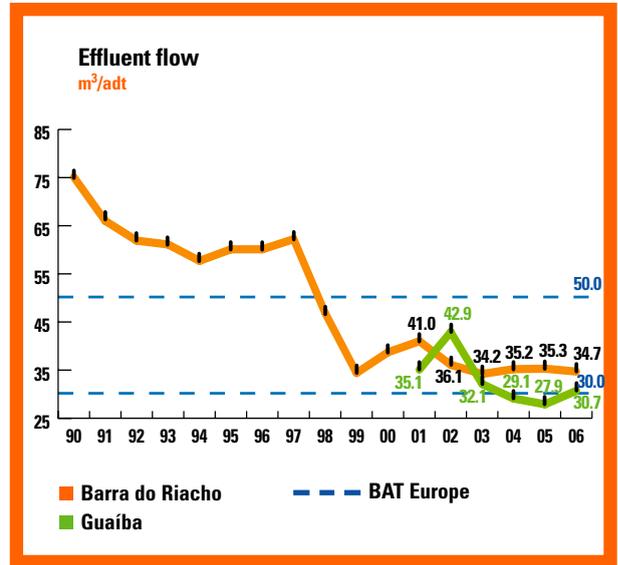
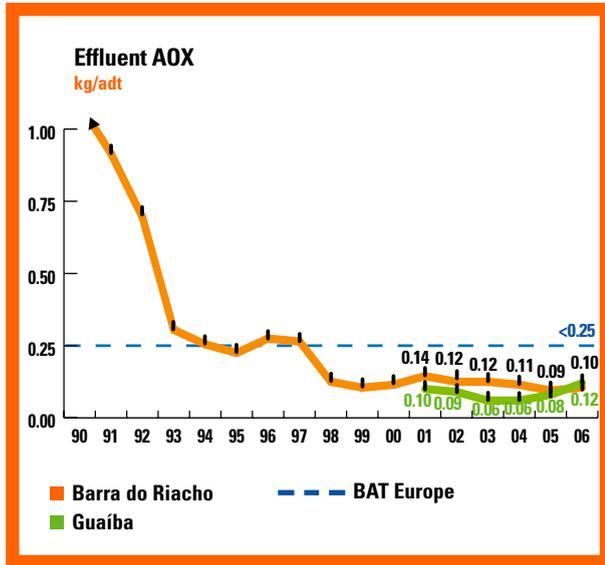
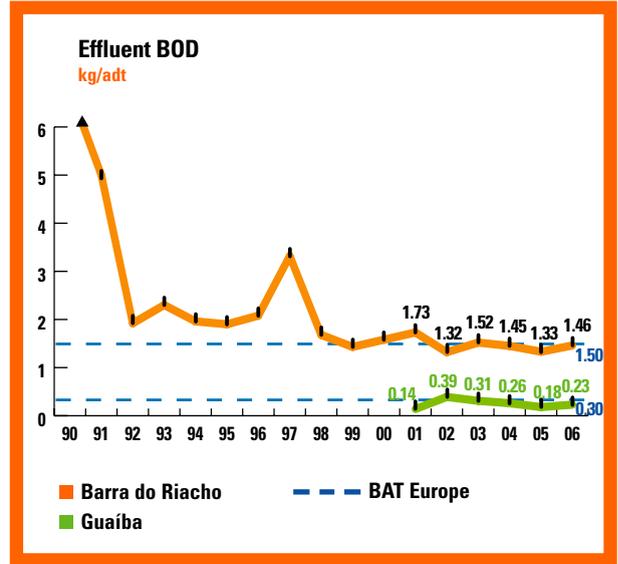
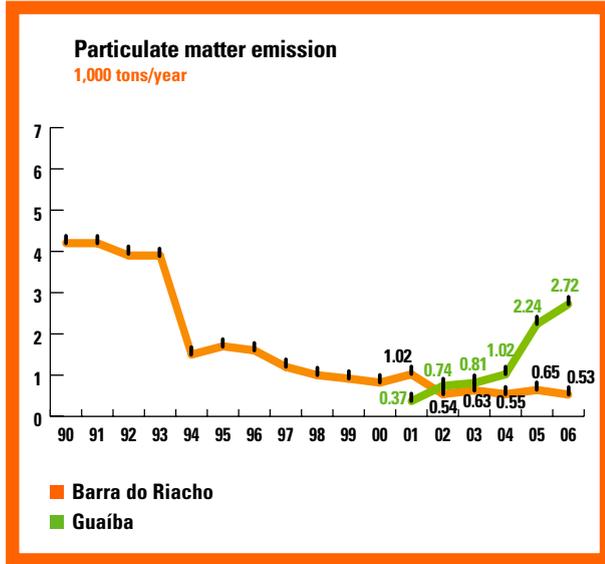
- Joint efforts between the pulp production, wood production and technology areas to take advantage of lime mud as a soil corrective and supply of calcium for our own forests.
- New procedures for the disposal of wastes, such as donation of wood bark (from transportation barges and the cleaning of the log storage yard) that was previously sent to Landfill A.
- Wastes that were accounted for differently in previous years were incorporated into the concept of recycled wastes, such as: discarded pulp that is sold, sand used for paving own roads.
- Some upgrades of the industrial processes were carried out, which contributed to a lower generation of total solid wastes during the year.
- Activities were initiated to reduce wastes stored at Landfill B (lime mud and ash), now used as soil correctives and a supply of calcium, magnesium and potassium for our own forests.

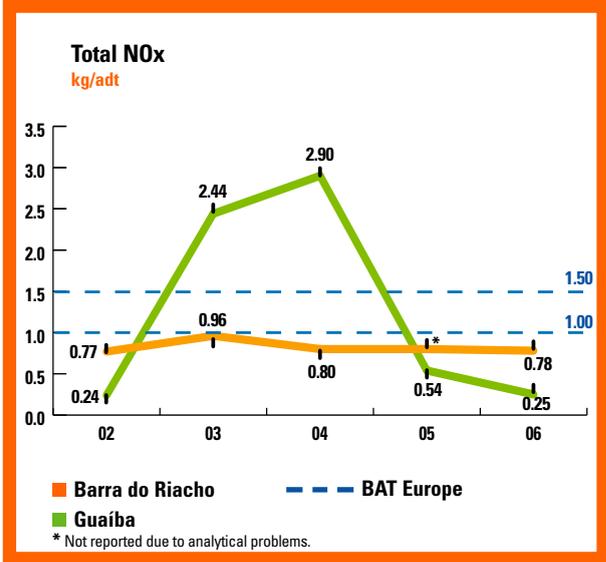
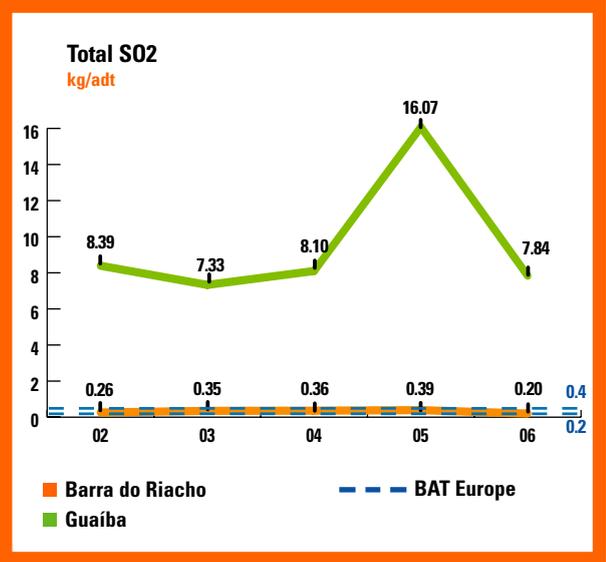
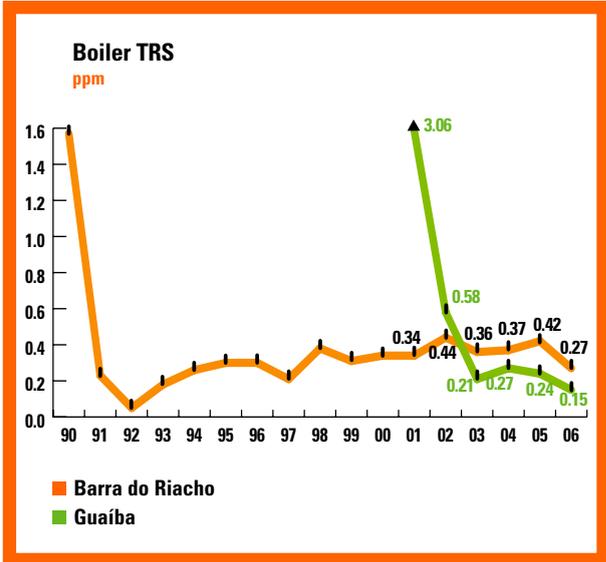
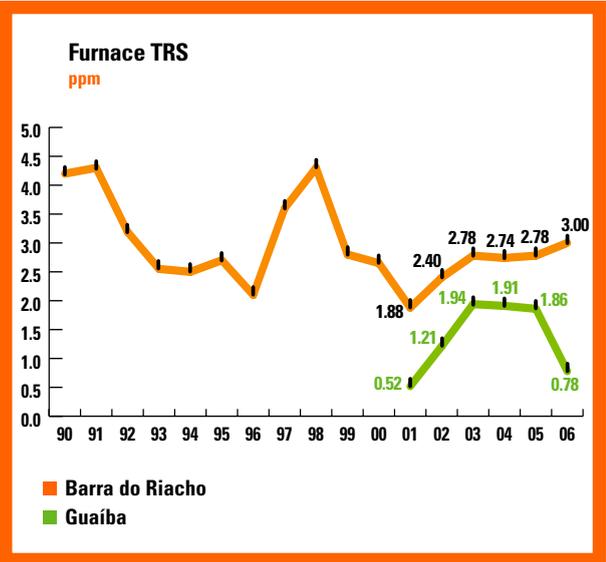
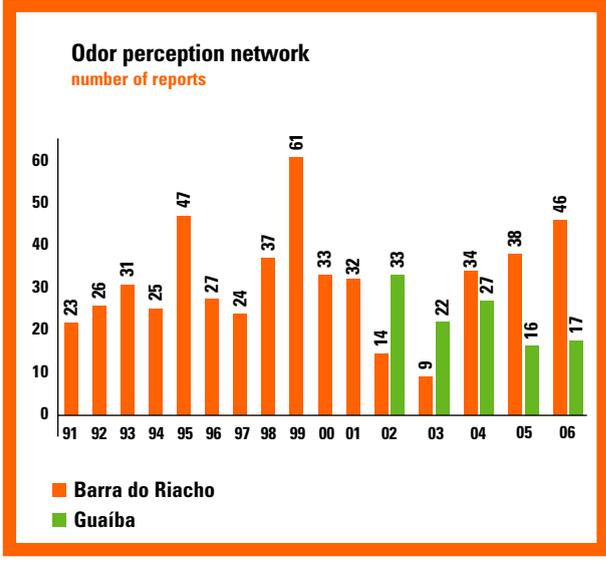
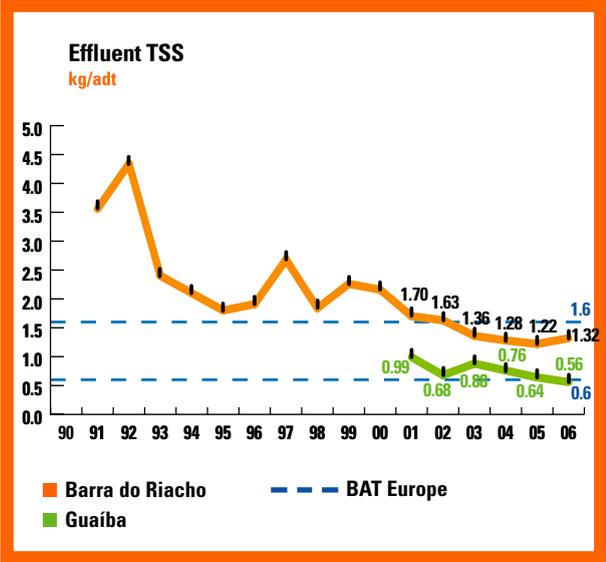
## Consumptions in the production of pulp



Some of the charts indicate the Best Available Techniques (BAT) in Europe, according to the "European Commission's Best Available Techniques in the Pulp and Paper Industry Reference Document". The document does not present parameters for some of the indicators used by Aracruz in this report. To consult the document, please access the following site:  
[ftp://ftp.jrc.es/pub/eippcb/doc/ppm\\_bref\\_1201.pdf](ftp://ftp.jrc.es/pub/eippcb/doc/ppm_bref_1201.pdf)

## Emissions, effluents and residues in the production of pulp





## FINES AND LAWSUITS

### Assessments and notifications

#### Barra do Riacho Unit

In 2006 the unit received nine assessment notifications issued by environmental authorities. Seven of the cases were for in-company faults involving a failure to present documentation required by the appropriate agencies. Of the other two, one consisted of an assessment by the Brazilian Institute of Environment and Renewable Natural Resources (IBAMA-BA), notifying the Company that the license duly obtained for planting in a buffer zone was only valid along with the approval of the Discovery National Park's manager; and the other was an assessment by IBAMA-ES, which notified the Company for allegedly destroying 0.86 hectares of a forest considered to be a permanent preservation area when it sought to adjust the already existing plantings of Cia. Florestas Rio Doce to the current forestry code. In both cases, the Company presented its defense to the agencies and is awaiting a verdict.

#### Guaíba Unit

The unit received an assessment in the amount of US\$13,714 issued by the State Environmental Protection Foundation (FEPAM) regarding atmospheric emissions of particulate materials beyond the borders of the Company's property and the occurrence of odor and noise levels that were the subject of strong local perception. The Company made the respective payment and presented a technical report regarding the events that occurred.

#### Portocel

The port terminal received three assessments and notifications: one notification referred to the fact that the pulp storage activity at Warehouse 5 was without the respective Operating License, a failure due to an internal procedure, for which the terminal made the corresponding payment; two sanitary notifications, without monetary value, issued by the National Sanitary Vigilance Agency (ANVISA), of which one referred to the non-presentation of a plan for the management of solid wastes (PGRS) within the deadline established by notification 042/06 and another referring to an irregularity regarding keeping the terminal free of insects or animals that transmit diseases or whose presence implies risks to individual or collective health. The terminal presented a request for reconsideration and an administrative defense in June and September 2006, respectively, and is awaiting a response from ANVISA.

#### Lawsuits

Aracruz Celulose filed five possession related lawsuits in the State of Espírito Santo to protect its property, as follows:

- Four suits for repossession of property filed against persons who occupied Company land in municipalities in the northern region of the State of Espírito Santo (São Mateus, Montanha and Linhares) and in some cases illegally shipped out forest residues;

- A joint request for an injunction for maintenance of possession together with Suzano Papel e Celulose S.A. and Cenibra – Celulose Nipo-Brasileira S.A. to halt daily disturbances of areas legitimately occupied by the companies and in which they conduct forestry activities, filed against the Association of Small Producers of Charcoal and Firewood Gatherers of São Mateus (APCLSM), whose members threatened to set fire to the companies' lands and remove wood found on them.

The Company was also cited as defendant in the following lawsuits:

- A property repossession suit, for supposedly harvesting eucalyptus trees in areas without paying land lease rights to the authors of the suit. This action is currently under way in the courts, the Company has presented its defense, emphasizing that it has owned and occupied the property in question for 28 years, according to the records of the land registrar's office in Conceição da Barra (State of Espírito Santo), and that the plaintiffs of the suit have never previously claimed possession. Aracruz is awaiting a verdict;
- A public civil suit filed by the Federal Public Prosecutors Office, based on allegations that materials published by the Company containing the arguments of its administrative defense submitted to FUNAI and the Ministry of Justice – in which it is discussed whether land located in the municipality of Aracruz (State of Espírito Santo) are indigenous lands or not – demonstrated prejudice and discrimination. The injunction was issued, not to suspend the publication of the materials as the Prosecutors had requested, but only to make some changes to the content. The Company contested the suit and is awaiting a verdict, having in fact made the requested changes. In its response, Aracruz claimed that it had not engaged in any illicit conduct capable of causing moral damage. All of the information published by the Company is true and based on scientific studies and proven facts. More details on the issue of the relationship with the indigenous communities that generated this lawsuit are presented on page 81.

Portocel filed two suits in the State of Espírito Santo for the protection of its property. One was a property repossession suit in the face of the invasion by Indians and non-Indians of the terminal area on December 12, 2006, and the other was a suit for an injunction to guarantee to all who needed free access to the terminal's operating area.

Mucuri Agroflorestal S.A., a company controlled by Aracruz, filed a property possession suit in the State of Bahia against invaders who occupied company land in the municipality of Alcobaça. Mucuri also was cited as a defendant in a lawsuit for supposedly planting eucalyptus trees in an area belonging to the instigator of the suit, in addition to planting in an area he sold to the company. This suit is currently being judged – Mucuri presented its response and is awaiting a verdict.

The full list of the fines and lawsuits can be found on the CD that accompanies this publication and in the online version of the report.

## WORKFORCE

**Employee profile** – Aracruz Celulose ended 2006 sustaining 11,659 direct employees, of which 2,361 represented its own employees and 9,298 were permanent outsourced professionals.

On average, our employees are 38 years old; have worked at Aracruz for an average of 13 years; 12% are women. More detailed information about the profile of our employees can be found in the table on page 28.

The Company's own employees are represented by seven labor unions in Espírito Santo, Bahia, São Paulo and Rio Grande do Sul, and 98% are covered by collective bargaining agreements established with the unions that represent them. Employees are free to join unions under the provisions of Brazilian legislation.

**Health and safety** – Since 2000, Aracruz Celulose and Portocel and its service suppliers have participated in an In-Company Integrated Accident Prevention Week. In 2006, the event was held in April at the Barra do Riacho Unit, and in November at the Guaíba Unit.

During the year, a team of seven instructors accredited in first aid practices trained 200 of the Company's own and outsourced employees. Three multi-vaccination campaigns were conducted in Barra do Riacho, in the State of Espírito Santo, two in Posto da Mata and another two in Caravelas, in the State of Bahia. Since 2005, Aracruz has signed agreements with municipal governments in its region of operations to vaccinate its own and outsourced employees, covering all vaccines encompassed in the National Vaccination Program.



### Accidents with lost time

Aracruz employees

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

\* Does not include Portocel. Calculated using OSHA methodology.

### Accidents with lost time

Permanent outsourced workers

Year	Frequency rate*
2001	14.82
2002	22.43
2003	19.99
2004	17.30
2005	15.05
2006	1.92*

Does not include Portocel. Calculated using ABNT methodology.

(\*) Calculated using OSHA methodology.

This edition also presents statistics of accidents with lost time involving permanent outsourced workers. Until 2005, the calculation was based on the Brazilian Technical Norms Association (ABNT) methodology and, as of 2006, it is based on the Occupational Safety and Health Administration (OSHA) methodology.

**Quality of life** – Aracruz runs a number of programs aimed at improving the quality of life of its employees.

The Employee Smokers Support Program continued to help employees during 2006. Through the program, the Company offers information, encourages and offers the necessary support (medical, psychological and financial) to those who want to enjoy a healthier life without smoking. During the year, the number of participants in the program totaled 181, of which 58% abstained from smoking.

The Employee Worker Chemical Dependency Support Program had 15 people enrolled (nine employees and six members of employee families) who were sent for treatment by a specialized clinic, while 49 persons (30 employees and 19 family members) received post-treatment assistance. A total of 138 post-treatment meetings were held and 14 sensitization lectures were conducted about the topic in several Company departments, involving 479 persons. These lectures were also held for health workers and teachers in the municipalities of João Neiva and Aracruz, reaching 67 persons. Training in the subject was given to 18 professionals of the Aracruz Infant and Juvenile Court.

Aracruz ended 2006 with 2,361 own employees, who, on average, are 38 years old and have worked for the Company for 13 years.



Through its Professional Rehabilitation Program, Aracruz seeks to reintroduce into the workplace employees who, due to illness, accidents or other reasons have had their original working capacity diminished. During the year, 86 employees were rehabilitated and reallocated to jobs compatible with their restrictions.

The Company runs a program which subsidizes employees' expenses for exercise regimes at gyms and academies. At the end of the year, 325 employees were participating in the program.

## SUPPLIERS

Aracruz ended the year working with 182 service providers, of which 80 had permanent contracts (involving 6,637 employees) and 174 had temporary contracts (involving 1,310 jobs).

The outsourcing process in Brazil has been largely driven by the need to focus on core business and to reduce costs. In order to couple the outsourcing process with its quality policy, Aracruz created a special committee in 1999 to establish rules guaranteeing the standards of quality offered to the Company by its service suppliers.

Competence and specialization in their areas of expertise are among the criteria adopted by Aracruz in the selection of suppliers. The Company also insists contractually on respect for environmental and social issues and emphasizes full compliance with labor legislation, including the prohibition of any type of child or slave labor.

Created in Espírito Santo in 1997 with the objective of developing suppliers from the state, the Integrated Program for the Development and Qualification of Suppliers (PRODFOR) is a joint initiative of the main local companies, including Aracruz and the Espírito Santo Industrial Federation (FINDES), under the coordination of the Euvaldo Lodi Institute (IEL). Since its creation, approximately 325 companies have signed the terms of commitment and undergone the Program's development and qualification process, of which 229 now have valid certificates. Aracruz nominated 20 companies for the qualification process in 2007.

## INFORMATION TECHNOLOGY

**Sarbanes-Oxley** – Satisfying the requirements of the Sarbanes-Oxley Act was one of the main focuses of attention of Aracruz in the Information Technology (IT) area in 2006. Several systems were modified to implement new controls in accordance with a previous survey of processes and risks. All user accesses to the systems were reviewed and a tool installed for the control of access to the SAP-R/3 system, permitting the segregation of functions and,

thus, reducing the risk of unauthorized access. Installation of a tool for the management of corporate risks has been scheduled for 2007.

**Knowledge management** – A portal was developed for our Knowledge Management Pilot Project, including a specific tool. The main objectives of the project, which seeks to protect intellectual property belonging to Aracruz and its customers, are to facilitate research and information recovery, eliminate the dissemination of private information via e-mail, control access to privileged information and create a secure channel for customer information.

**Continuity plan** – We improved the IT Continuity Plan, further reducing the risk of losses in the event of a breakdown in IT services. Measures were implemented to ensure that critical services will continue to function even in the event of a breakdown. A number of contingency tests were successfully carried out, simulating the loss of one of the Data Processing Centers (CDPs) at the Barra do Riacho Unit and the unavailability of overseas offices servers.



## ENVIRONMENTAL MANAGEMENT

The Environmental Committee is responsible for the preliminary critical analysis of the Aracruz management system, the environmental aspects that involve operations and its various stakeholder relationships. The subjects discussed in its meetings are recorded in minutes and sent to the participants, managers and directors of the Company. Matters awaiting a decision by managers are sent to the Operations department.

The list of issues that Aracruz considers to be of priority concern and the composition of the committee can be found on the CD that accompanies this publication.

The Aracruz Environmental Committee was restructured in 2006 and held more frequent meetings that sought to update pending matters regarding routine environmental obligations and compliance with ISO 14001 and CERFLOR regulations.

The committee defined the environmental indicators for some of the Company's processes as well as the committee's own performance indicators, which will be followed up as of 2007. Furthermore, it raised new issues that impact the organization and that will be more intensively followed up in subsequent years, such as climate change.

One indicator of compliance with environmental legislation was defined and will be followed by the Environmental Committee.

A computerized follow-up system for the Company's Environmental Plan was developed during the year and will be available in 2007. This will make it easier to identify potential problems and to adopt corrective measures.



In order to enhance the Company's environmental system, two new computer systems were acquired. The first is ISOSYSTEM EHS – Environment, Health and Safety Management, used to assist the evaluation and control of the environmental aspects and impacts. Also implemented was the CAL Spreadsheet – Control and Evaluation of Legislation and Other Requirements, for monitoring compliance with environmental legislation.

The Company also has a computer system known as Datalic at its disposal for monitoring all requirements of industrial and forestry licenses.

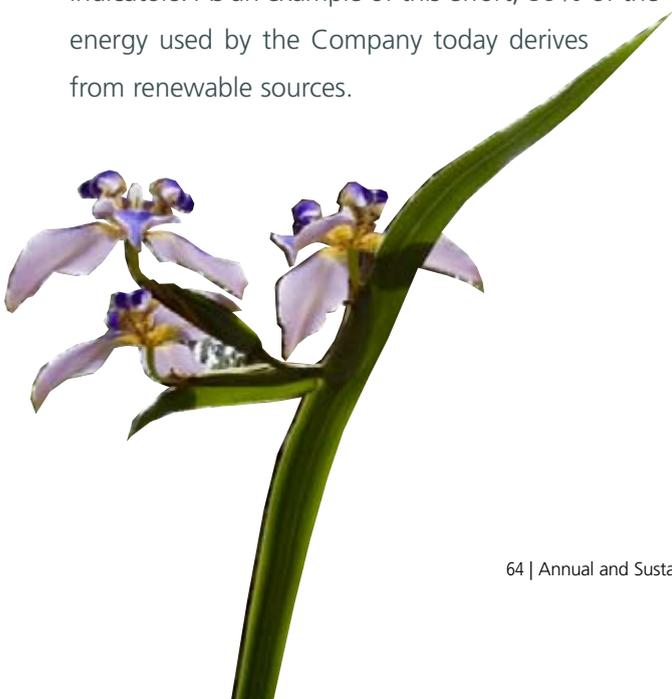
## CLIMATE CHANGE

The consequences of climate change were felt in a number of places around the planet during 2006. Economic reports and scientific studies confirmed the warnings of scientists and researchers from around the world, attaching even greater importance to the subject. Aracruz seeks to make its own contribution by monitoring and publishing since 2003 data about its greenhouse gas emissions and carbon stocks and evaluating opportunities for improving these indicators. As an example of this effort, 86% of the energy used by the Company today derives from renewable sources.

**Carbon stock** – The Company owns eucalyptus plantations used for pulp production and solid wood products as well as native reserve areas, which are very important for maintaining the balance and stability of its sustainable production model. In this context, the sequestration of carbon by the forests is of fundamental importance, because it contributes to the reduction of greenhouse gases (GHGs) in the atmosphere.

**Survey of carbon stock in native reserves** – The first estimates of the total amount of carbon that is sequestered in the natural biomes of the Barra do Riacho Unit were produced in 2004 by the University of São Paulo's Astronomy, Geophysics and Atmospheric Sciences Institute (IAG). In 2006, the information regarding the carbon stock was updated, based on reallocating the areas into different ecosystems and incorporating new areas into the central database, as seen in the following page.

In December 2006, the quantity of carbon sequestered in the native reserves of Aracruz's Barra do Riacho Unit was estimated at 5.17 million tons. The management strategy for these reserves calls for an increase in the carbon stock in coming years as the areas in the initial and medium stages of regeneration evolve into advanced stages and as new areas are incorporated.



Aracruz seeks to improve the system it uses to estimate native forest reserve carbon stock. Consequently, a partnership was formed in 2006 with Australia's Commonwealth Scientific and Industrial Research Organisation (CSIRO) to develop and calibrate a scientific methodology appropriate to Aracruz's situation.

**Survey of carbon stocks in the plantations** – In 2006, as in previous years, Aracruz reviewed all the premises that have been adopted, sources of emissions and internal procedures in order to conduct a survey of GHGs emissions and the carbon sequestration in its processes. This review was based on updated versions of documents accepted around the world for the preparation of GHGs inventories.



**Estimate of carbon stock in Aracruz's native reserves – 2006**

<b>Ecosystem</b>	<b>Biomass (t/ha)</b>	<b>Area (ha)</b>	<b>Total C (t)</b>	<b>% Total C</b>
Advanced stage *	384	12,400	2,383,280	46.0
Medium stage *	92	24,200	1,110,780	21.5
Initial stage *	13	46,400	296,960	5.7
Salt marshes	15	6,100	45,750	0.9
Coastal tidal lowlands	40	5,100	102,000	2.0
Bushland	47	14,500	340,025	6.6
Swampland	135	13,300	896,420	17.3
<b>Total</b>		<b>122,000</b>	<b>5,175,215</b>	<b>100.0</b>

\* Atlantic Forest reserve areas.

**Emission inventory** – The Aracruz 2006 GHGs Emission Inventory, as in previous years, followed the calculation protocol issued by the International Council of the Forest and Paper Associations (ICFPA) (“Calculation Tools for Estimating Greenhouse Gas Emissions from Pulp and Paper Mills”, ICFPA, 2004). The methodology used also followed the GHG emission protocol adopted by the World Resources Institute/World Business Council for Sustainable Development – WRI/WBCSD (“A Corporate Accounting and Reporting Standard”, WRI, 2004).

Aracruz reports the direct emissions deriving from its operations (scope 1), of the generation of energy (scope 2) and from other sources attributable to the Company, such as transportation in vehicles that do not belong to its own fleet (scope 3).

As can be seen in the chart, “Intensity of GHG Emissions”, the Company has been reducing its emissions over the years. From 2005 to 2006, there was a decline of approximately 8% in Aracruz’s specific emissions or in their intensity, taking into account the Barra do Riacho and Guaíba Units.

The results of the 2006 GHGs Emission Inventories and carbon stocks are presented in detail on the CD that accompanies this report and on the Company’s website ([www.aracruz.com](http://www.aracruz.com)).

**Chicago Climate Exchange** – Aracruz joined the Chicago Climate Exchange (CCX) in 2005, and was the first Latin American company to commit itself to GHG emission reduction targets. The targets assumed by the Company with the CCX establish emission reductions of 1% in 2003, 2% in 2004, 3% in 2005 and 4% in 2006, compared to the baseline.

During 2006, the Company’s methodology for the quantification of carbon stocks in eucalyptus plantations was approved by the CCX’s Forestry Committee.

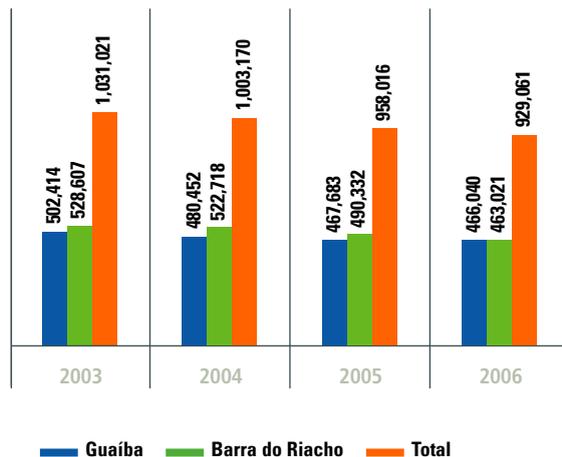
Currently, the Company is undergoing an outside audit by two international verification organizations.

One of these audits relates to the quantification processes for the eucalyptus forest carbon stock and the choice of areas that are part of the CCX project. During this audit, six non-conformities were registered, all of them related to the methodology adopted for this quantification. Five of the non-conformities have already been resolved and the Company will present documentation for resolving the remaining one during the first quarter of 2007.

The second audit related to the checking of information sent to the CCX regarding total GHGs emissions of the Barra do Riacho and Guaíba Units since 2003. Aracruz presented information to the verifying organization for 2003, 2004 and 2005. The data regarding fuel consumption that the CCX has selected as being of priority importance for quantifying GHGs emissions during 2003 and 2004 were approved; the information regarding 2005 is under evaluation.

### Total GHGs emissions (tCO<sub>2</sub>e)

Scope 1 + 2 + 3



**Scope 1: Direct GHGs emissions** – Consists of emissions deriving from sources pertaining to or controlled by Aracruz.

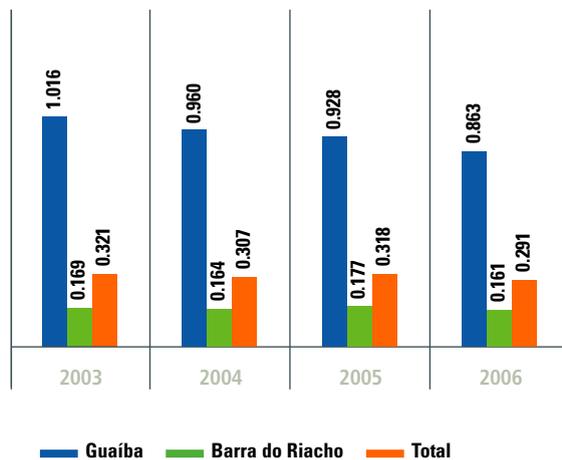
**Scope 2: Indirect GHGs emissions** – Net emissions based on energy imports and exports, such as is the case of imported electricity and steam.

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

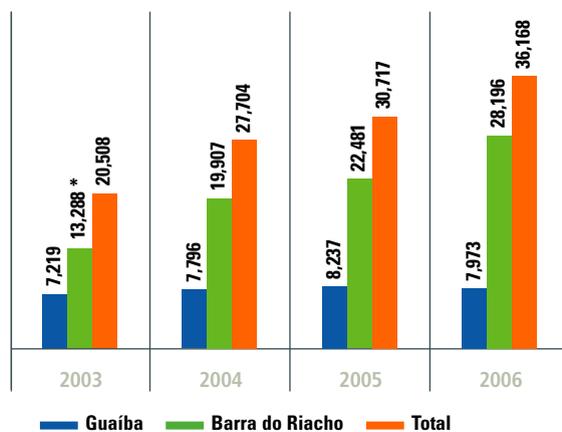
tCO<sub>2</sub>e – equivalent carbon ton.

### Intensity of emissions – (tCO<sub>2</sub>e/t product)

Scope 1



### Stock of carbon in eucalyptus plantations (ktCO<sub>2</sub>e)



\* In 2004 and 2005 this data was incorrectly reported, due to mistyping.

ktCO<sub>2</sub> – carbon kilo-ton.

## VERACEL

Over the past few years, Veracel has reaffirmed its commitment to sustainable development, making investments that have ensured the best environmental practices regarding forestry management and the production and shipping of pulp. Other priorities at the unit are a commitment to social development of the municipalities in its region and a guarantee of positive economic contributions to the community.

All of these aspects reflect the strategic objectives of the Veracel Sustainability Agenda, which follows.

### Competitive operations

Veracel's good operating performance enabled it to exceed its nominal production capacity, reaching 976,367 tons of pulp produced between January 1 and December 31, 2006.

In July, on completing its 14<sup>th</sup> month of activities, the mill celebrated the production of its millionth ton of pulp. The results are based on a joint effort of all of the mill's areas, which efficiently satisfy production demands.

In the forestry area, during the year the following landmarks were achieved:

- Wood harvest: 3,469,564 m<sup>3</sup>sc
- Transshipment: 3,409,242 m<sup>3</sup>sc
- Transportation: 3,285,997 m<sup>3</sup>sc

m<sup>3</sup>sc – debarked cubic meter

Regarding pulp transportation, 985,044 tones were shipped via sea and via highway.

All of these results contributed to placing Veracel among the 500 largest companies in Brazil, according to the Fundação Getúlio Vargas (FGV). Furthermore, the following prizes and certifications attest to the organization's high standards of industrial and forestry activities:

- Recertification of the ISO 14001 Environmental Management system;
- Obtaining of the Highly Protected Risk (HPR) seal of approval, certifying the low risk of interruption of the mill's operations due to industrial accidents;
- The Volvo Traffic Safety Prize;
- The Fundação Getúlio Vargas (FGV) Business Excellence Prize, in the category Greatest Increase in Sales Per Operation.

### Best forestry management environmental practices

The management of eucalyptus plantations seeks to preserve the native fauna through the "mosaic landscape" concept, interspersing planted areas with forest conservation areas, facilitating the dispersal of animals and the maintenance of biodiversity.



Veracel also uses the minimum cultivation technique, which protects against soil impacts. Moreover, the wood that is harvested is debarked in the field because the residues left behind help retain nutrients at the location.

Today, the unit owns 205,364 hectares of land. Of this total, eucalyptus plantations occupy 76,569 hectares. A larger portion of the land – 100,123 hectares – is used for the recovery and preservation of native forests.

### **The Veracel Atlantic Forest program**

This program consists of connecting Atlantic Forest remnants in the region where Veracel is active with the unit's eucalyptus plantations through a mosaic cultivation system.

Within this program, the unit has been recovering 400 hectares of native forest each year. In addition to these areas, more than 620 hectares were recovered in 2006 in compliance with a commitment made to the environmental agencies of the State of Bahia.

### **Veracel Station**

Currently, the Veracel Station (the new name of the Veracruz Station) is developing an initiative involving public use of the reserve, biodiversity research and conservation activities in partnership with Conservation International of Brazil, a non-governmental organization. Examples of these initiatives include the construction of support and accommodation facilities for researchers and the establishment of an environmental education program.

### **Best pulp production environmental practices**

Veracel's production process employs advanced technology, capable of ensuring an environmental performance compatible with international standards, according to the following aspects:

- Low water consumption (27-31) per m<sup>3</sup>/ton of pulp produced;
- Low generation of effluents;
- Effluents processed through an activated mud system;
- Collection and incineration of odoriferous gases (concentrated and diluted);

- Use of electrostatic precipitators that are 99.91% effective for the lime furnace, electricity boiler and recovery boiler;
- Real-time monitoring of smokestacks, permitting the control and minimizing of atmospheric emissions;
- Treatment of solid wastes with a high degree of recycling, reducing disposal in landfills by 85%;
- Ample environmental monitoring (monitoring of the water, air and solid waste emission systems; monitoring of the Jequitinhonha River water quality at three different points along a 20-km stretch; monitoring of the mangrove swamp at the mouth of the Jequitinhonha River; monitoring of the coral reefs and the operations of the Belmonte Marine Terminal in order to ensure protection of marine turtle egg nests in the region, among others);
- An Odor Perception Network made up of 21 volunteers from the community, trained to report any occurrences of odors in the neighborhoods around the mill.

**Strong social commitment, generation of positive economic impact for the region and active dialogue with stakeholders**

For the benefit of the municipalities in its area of influence, Veracel has been promoting projects since 2004 in the fields of health, education and culture, environmental safety and sanitation, supporting

improved infrastructure in these locations for the benefit of over 300,000 persons. These investments were carried out in partnership with the Brazilian National Economic and Social Development Bank (BNDES), and allocated as follows:

<b>Investment</b>	<b>Amount (US\$ million)</b>
Environmental sanitation	6.12
Health	2.66
Education and culture	1.20
Safety	0.28
Others	1.17
<b>Total</b>	<b>11.45</b>

In this respect, Veracel sponsored improvements in public health management and facilities, refurbishing and expanding health clinics and establishing a program to combat leprosy and tuberculosis, which has already prompted 1,900 consultations from the local population. The unit also trained 415 health professionals. In the field of education, it conducted the Veracel Educational Program which among other activities helps train educators and managers of teaching institutions and improves school facilities.

The company has also instituted important projects for drainage, waste treatment and the paving of roads and streets in Belmonte (Barrolândia's headquarters and district), Itapebi, Santa Cruz de Cabrália and Eunápolis (State of Bahia). Furthermore, in September, in order to support child development and combat the sexual exploitation of children and teenagers in the Discovery Coast region, Veracel initiated the Child and Teenager Territory Protection Project in conjunction with the United Nations Children's Fund (UNICEF).

In its dialogue with its stakeholders, Veracel is also promoting the formation of a social network in its region, building partnerships with society for social investment programs and sponsoring forums with NGOs and community leaders.

To maximize the positive impact of the project on the region, Veracel has been developing income-generating projects in partnership with institutions such as SEBRAE, the Beekeepers Association of Eunápolis (ASOAPE), the Eunápolis Furniture Association (Eunamóvel), IEL – Bahia and local municipal governments. It has also initiated a Forestry Partners Program, based on the establishment of planted forests to supply the mill in partnership with farmers in the region. Currently, the program has 95

farmers enrolled from 10 municipalities in the region around the mill.

With regard to its employees, Veracel has implemented projects to foster both individual and team growth. In technical instruction alone, the company invested US\$270,700 during 2006, involving a total of 39,174 hours of training.

During the first half of 2006, the first Organizational Climate Survey was held. The objective was to evaluate the perceptions of the company's own employees of aspects of processes, leadership, company management and commitment.

### **Prospects for 2007**

- FSC certification of forest management and chain of custody.
- Structuring of a social network in the region.
- Establishment of a corporate governance system – mission, vision and organizational values aligned with the Sustainability Agenda.
- Initiation of an action plan based on the Organizational Climate Survey (corporate and departmental).

The programs conducted to assure a favorable work environment for the people who are responsible for the Company's success, and to support the initiatives that have been adopted for fostering, through engagement, a constructive relationship with all our stakeholders.



# Learning & development



## RESEARCH AND DEVELOPMENT

In 2006, our investments in research and development focused on integrating forestry enhancement processes, on sustainable forest management and on the development of processes and products.

In the forestry area, we obtained new, superior eucalyptus clones at the Guaíba and Barra do Riacho Units. We also improved the seedling production systems at the Company's nurseries, mainly by adjusting the use of substrate, small plastic tubes and irrigation techniques.

At the Guaíba Unit, a complete soil survey of the areas under expansion was conducted and a network of automatic weather stations established, which contributed to environmental studies and the improvement of forestry management in the region.

In the field of product and process development, we made progress in our work to differentiate eucalyptus fibers. The Company continued to invest in the application of different treatment routes, designed to distinguish our pulp for use in making tissue, printing and writing and specialty papers. The results obtained in 2006 confirmed the possibility of conferring features to eucalyptus fiber that are of interest to the market, such as greater tensile strength.

## PROFESSIONAL TRAINING AND DEVELOPMENT

Some US\$2.6 million were invested in 2006 for professional training activities, providing 87,952 training hours, which represented an average of 37 hours per employee.

In order to encourage development of professionals who are prepared to face the complex environment in which the Company operates, a Competencies Model was introduced for the executive group as part of a Leadership Development Program. This program seeks to orient the development of the people who occupy key positions in the Company. The competencies model, based on the organization's strategy and current challenges, seeks to assure results (business vision, customer orientation and leadership of people), innovation (doing things differently and development of people) and engagement (influence and communication and the effectiveness of relationships).

The Company continued to run the Arcel Educar Program, conducted in partnership with the Brazilian Education Foundation (FUBRAE) of Rio de Janeiro, the objective of which is to raise employee levels of schooling. The program, which has nuclei functioning in Aracruz and São Mateus (State of Espírito Santo) and Posto da Mata (State of Bahia), awarded 70 diplomas in 2006 for students completing either Grade or Middle School education. Since 1997, when it was established, the Arcel Educar Program has graduated 251 employees in the States of Espírito Santo and Bahia.



In a survey that evaluated the quality of the working environment, 91% of our employees said they identify with the Company and 82% are satisfied and motivated by their work.

The result of the partnership is that currently nearly 92% of the Company's employees have completed at least a high school education.

The Company has established an internal program to give its own employees priority in new recruitments and to make better use of its professionals. Over the year, 66 in-company job openings were made available and 88% of them were filled by persons already on the Company's payroll, who had been given the opportunity to develop themselves professionally. Moreover, Aracruz recruited 259 new professionals externally over the course of 2006, increasing its own workforce.

At the Guaíba Unit, 154 new ideas were registered through the Improvement Suggestions Program, which stimulates employee participation in the solution of problems and the optimizing of the Company's day-to-day procedures. Aracruz earmarked more than US\$24,000 in awards for the participants and, at the end of one year, estimates it has saved US\$3 million through the improvements that were proposed.

## ORGANIZATIONAL CLIMATE

For the third consecutive time, *Guia Exame Você S.A.* classified Aracruz among the best companies to work for in Brazil, a reflection of the result of the Organizational Climate Management program, which seeks continuously to improve the in-company working environment. Based on a random sampling, 500 employees were invited to answer a questionnaire evaluating the quality of the workplace. The results showed that, among other aspects, 91% identify with the Company and 82% are satisfied and motivated by their work. The survey also indicated opportunities for improvement, especially regarding aspects of learning and development and leadership.

Based on the results of the most recent Climate Survey, conducted in 2005, the Company prepared a Corporate Action Plan, presented this year to employees, which focuses on the opportunities for improvements identified in the survey.

A transparent relationship with the communities, coupled with strict treatment of environmental issues, is part of our social license to operate.



## ENGAGEMENT

The growing pressures and challenges in the business environment have signaled the need for Aracruz to develop a more structured approach to stakeholder engagement. Aracruz has been preparing this new engagement model as part of its Sustainability Plan, based on a systematic approach that permits continuous improvement, greater understanding of the issues critical to stakeholders and better preparation of the Company to discuss and consider these issues in its decision-making process.

Based on a mapping of stakeholders we sought to understand the way the Company currently relates to them, and identify opportunities for more substantive engagement.

An internal working group was also created to develop and champion the new engagement approach, based on two pilot projects. These projects – with the community of Helvécia in the south of Bahia and the Espírito Santo Federal University (UFES) – were conducted by previously

trained employees, and the acquired learning will contribute to improve future engagement processes.

Among the knowledge obtained through the pilots, we can highlight the need for the training of our own personnel; the awareness that the communities, once informed about the intentions of the Company, are disposed to a frank dialogue without presenting impossible demands; and the necessity of having lines of communication and support between top management and the engagement teams so that the issues discussed will be considered during the decision-making process.

### Dialogue with NGOs

Aracruz is involved in a number of regional, national and international discussion forums and with several social and environmental non-governmental organizations (NGOs). The Company also works in partnership with some NGOs and seeks to further expand these engagement processes.



**Bahia NGOs** – Our dialogue with NGOs in Bahia, initiated in 2004, moved forward with the discussion of topics such as the formation of ecological corridors; the Forestry Partners Program; the planting of eucalyptus trees in areas surrounding conservation units; local productive arrangements seeking the recovery of the Atlantic Forest; the generation of income and the support of small, community-based businesses; and the social and cultural aspects of the regions where the companies operate.

A total of 18 NGOs that are active in the south of the state participated in the process, along with the Planted Forests Producers Association of the State of Bahia (ABAF), represented by Aracruz Celulose and other companies active in the region, as well as two invited scientific institutions – the Instituto de Pesquisas Tecnológicas (IPT) and the Empresa Brasileira de Pesquisa Agropecuária (EMBRAPA).

As a result of the meetings, the Forum decided on a series of 10 priority items for the Forestry Partners Program in Bahia. A summary of the issues discussed

during the meetings with the Bahia NGOs and the steps taken to resolve them is available on the CD that accompanies this publication and in its online version.

**Espírito Santo NGOs** – In its third year of existence, the Espírito Santo NGOs dialogue made further progress, holding two meetings in which nine organizations participated from around the state.

The issue of conservation units was the most discussed topic, especially the importance of conducting technical studies and holding public hearings before they are created and the need for management plans that avoid use conflicts.

The NGOs stated their concerns about the possibility of inadequate use of the conservation unit model, without due technical justification, regulations or management plans, leading to the generation of conflicts.

Learn more about the Espírito Santo NGOs forum at <http://forumdasongs.org.br/>.



**Dialogue with Rio Grande do Sul NGOs** – The dialogue with the Rio Grande do Sul NGOs was interrupted after the invasion and destruction that occurred in March at the Horto Florestal Barba Negra, with damage to the Aracruz laboratory and seedling nursery. The Company expects to resume this dialogue in 2007, extending it to the other companies active in the region.

### **Participation in The Forests Dialogue**

Aracruz participated on the steering committee of The Forests Dialogue (TFD) in China and United States meetings. TFD is made up of forestry company professionals operating in a number of regions of the world, the World Business Council for Sustainable Development (WBCSD), environmental and social NGOs and research and financial institutes.

The Company also participated in topical dialogues promoted by the TFD about intensively managed forest plantations, in southern China, and poverty reduction, in South Africa.

### **Participation in the Atlantic Forest Dialogue**

Aracruz participated in 2006 in the two meetings of the Forest Dialogue in Brazil about the Atlantic Forest held in Santa Catarina and Bahia. The initiative has the backing of the TFD and involves forestry companies in areas where there are Atlantic Forest remnants and environmental NGOs with national and regional activities.

Two priority discussion subjects were decided upon during the meetings: forestry partnerships and territorial regulation.

### **Positionings**

Information was published on our corporate website ([www.aracruz.com/positionings](http://www.aracruz.com/positionings)) on our approach to the most important sustainability issues for our stakeholders and our business. To date, the Company's positions have been posted on biodiversity, climate change, forest certification and pesticides, joining our position on the indigenous issue, which has been available on the site since 2005. Other position papers are being prepared and will be published during the course of 2007.

Upon publishing these positionings, we seek not only to inform stakeholders about how we understand and address important issues, but also to open a channel of communication for receiving comments and criticism.

### **Financial community**

The Aracruz Investor Relations team continuously interacts with the market through a number of channels, including its Internet portal ([www.aracruz.com/ir](http://www.aracruz.com/ir)). Our quarterly newsletter disclosing results is the primary tool for reporting business performance, along with the Annual and Sustainability Report and other routine mandatory disclosure statements.

During the year, the IR team was in contact with more than 2,000 investors. The majority of these contacts were for additional clarification of current market conditions and trends, information about the Company's results and its investment plans and dividends.

Guided tours of the Barra do Riacho, Guaíba and Veracel pulp mills were organized on behalf of Brazilian and foreign market professionals, involving 18 visits and 116 Brazilian and foreign capital market professionals.

### Visits

During 2006, more than 10,000 visitors were received at the Barra do Riacho Unit and the Caravelas Terminal, the majority of them from neighboring municipal schools, in line with Aracruz's strategy of improving its relationships with the communities around its operations. Most of the visits were from grade schools (43% of the total of school visits and 33% of the total number of visitors); of the total number of students, 62% were from public institutions and 38% were from private schools.

The Guaíba Unit received about 1,800 visitors, the majority of whom had technical interests regarding the facility. Visit highlights were the seedling nursery and the pulp mill, while 529 persons were given a general tour of the installations.

### Presence in forums

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

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

The complete list of the forums and the organizations in which Aracruz had a presence can be found on the CD that accompanies this publication as well as in the online version of this report available on our website ([www.aracruz.com](http://www.aracruz.com)).

**Political donations** – Aracruz believes that the participation of all of organized society is fundamental to the strengthening of democratic institutions and the improvement of public governance.

In 2006, the Company participated in the political-electoral process through donations, all of which obeyed existing electoral legislation and were given only to candidates or parties whose campaign finance committees were registered with the Electoral Justice System.

Aracruz does not seek direct benefits from its participation in the political process and condemns all forms of corruption, refusing to support candidates who have been convicted of this or any other crime. The decisions on providing electoral support are made by a committee, based on criteria previously defined by the Company's rules. All information about Aracruz's support of candidates during the 2006 elections is registered in the electoral courts and can be found at the Brazilian Superior Electoral Tribunal's Internet site, at [www.tse.gov.br](http://www.tse.gov.br).



## COMMUNITY RELATIONSHIPS

We understand that the transparent relationship with communities, coupled with rigorous attention to environmental issues, is part of our social license to operate, and thus is as important as the trust of our employees, shareholders, customers and suppliers.

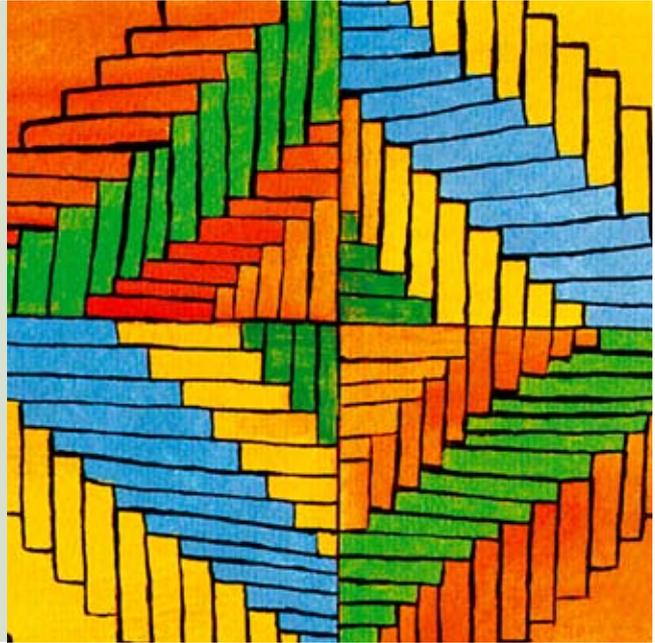
Although we maintain good relations with the majority of the communities where we are present, there are some difficult issues that we are trying to solve to the benefit of all parties. The complexity of some of these questions, together with the political context of the country, requires a major effort to resolve them on the part of all involved.

As we have done in previous editions, some sensitive issues involving our operations are discussed on the following pages.

**Aracruz and the indigenous communities** – This issue, which is the most critical currently faced by Aracruz, was exacerbated in 2006 by an escalation of disputes involving land ownership in Brazil. Land owned by a number of companies was invaded or their activities were paralyzed by actions instigated by indigenous communities, descendants of slave communities (*quilombolas*) and movements of workers in favor of agrarian reform.

In January, an injunction issued by a Federal court in Linhares (State of Espírito Santo) allowing the repossession of Company forestlands invaded by Indians in May 2005 was complied with. The objective of the invasion was to put pressure on the authorities regarding a new expansion of the Indian reservation by 11,000 hectares. During the repossession action, there was resistance on the part of the Indians and a confrontation with the federal police. Several days later members of the communities returned to occupy the same area, disobeying the court decision.

Aracruz respects the indigenous communities and is seeking a stable solution to this dispute, based on a premise of legal assurances and an understanding among the parties.



In March, the National Indian Foundation (FUNAI) presented an opinion in which it recommended the demarcation of the land in question. In the documentation on which it based its opinion, FUNAI recognized that its research into historical files had been inconsistent and had failed to include neutral witnesses, in view of the fact that only members of indigenous communities or persons proposed by them had been interviewed.

In June, Aracruz delivered its response to the opinion, the result of research conducted over eight months by a multidisciplinary group, which researched the historical records and investigated the question of land ownership in Espírito Santo. The study brought together solid evidence such as aerial photos and many documents, including previous FUNAI reports, which showed that Aracruz does not now nor ever did occupy indigenous land, has never removed Indians from their lands and has acquired its land through legal means.

In August, FUNAI sent the request on to the Ministry of Justice, maintaining its recommendation that the lands should be demarcated. At that point, the Ministry of Justice initiated its own analysis, based on the FUNAI opinion and Aracruz's response.

Further events occurred in September, when there were renewed invasions of Company land by Indians and demonstrators linked to social movements in Brazil and abroad. More than 170 hectares of forestland were set on fire, representing damages of over US\$1 million. During the same month, a demonstration in favor of the Company attracted more than 5,000 people in Aracruz (State of Espírito Santo), repudiating the acts of violence carried out by members of the indigenous communities.

In November, a movement in support of the Company, represented by three Espírito Santo labor unions and suppliers, delivered a petition signed by 78,511 individuals, 363 companies and 18 professional organizations to the Ministry of Justice. The objective was to protest against the aggressions,

demand that the government authorities recognize the Company's constitutional rights and request a definitive and legally binding solution.

In December, Indian and non-Indian demonstrators, supported by members of the Brazilian Landless Workers Movement (MST) and some Brazilian and foreign social movements, invaded the facilities of Portocel. The invaders vandalized the port's installations and equipment. A counter-demonstration, organized by labor unions and some of Aracruz's supply companies, contributed to the Indians' decision to withdraw from the port.

The issue was still being considered by the Ministry of Justice at the end of December. The Ministry can accept FUNAI's recommendation, reject it or decide to conduct supplemental studies.

Aracruz respects the indigenous communities, recognizing them as important stakeholders, and is seeking a stable solution to this dispute, based on legal assurances and an understanding among the parties. Since the attempts to resolve the conflict through dialogue and negotiations have failed, the Company now believes that legal procedures represent the only stable way to resolve the question.

More details of this issue can be found on our website [www.aracruz.com/indios](http://www.aracruz.com/indios).

**Charcoal producers** – According to information from the Brazilian Silviculture Society, Brazil consumes

350 million cubic meters of wood annually, of which only 100 million comes from forest plantations; the remainder is obtained from native forests. Nearly half of this consumption goes for firewood, mainly in the rural regions, and about 30% is converted into charcoal. Although modern industrial processes exist, the production of charcoal in the country is carried out mainly in brick and mud ovens.

By virtue of the fact that there is currently a lack of wood in the country, the result of poor planning, insufficient expansion of commercially planted forests and failure of the authorities to control illegal logging, the price of wood and its by-products has risen, resulting in environmental and social pressures. This has attracted some communities to focus on charcoal production, almost always based on the illegal cutting down of native forests, or the (also illegal) removal of lumber from planted forests.

Charcoal workers are an inexpensive labor force and, generally, face inhuman working conditions. There are recorded cases of the use of child labor and the involvement of organized crime in activities for the collection of forest residues and the production and sale of charcoal.

Paper and pulp companies such as Aracruz, which have their own plantations for the supply of their raw material, have been facing problems with these illegal charcoal operations. The charcoal communities put pressure on the companies to authorize the removal of remaining wood residues not used for pulp production

– such as chippings and branches – to be used in charcoal production, even though the companies themselves are increasingly using this material.

The issue has worsened in the past few years – especially in the south of Bahia and the north of Espírito Santo, with direct impact on Aracruz and other companies that operate in these regions – due to theft of the residues and of wood itself and the setting of forest fires.

For a while, Aracruz earmarked its residues for social purposes, donating them to companies and cooperatives. However, the Company also began to experience problems as a result of the growing scale of these donations, such as disrespect for safety rules and the failure to use individual safety equipment by members of the charcoal cooperatives; failure on the part of some of the entities to comply with basic legislation on tax and labor requirements, which subjected Aracruz to co-responsibility lawsuits; invasion of areas that had not been authorized for the removal of wood residues; and an increase in the number of forest fires. These fires are one way of obtaining wood for the production of charcoal as well as a means of putting pressure on the companies to authorize the collection of eucalyptus residues since, in the aftermath of a fire, the wood is useless for the production of pulp.

In view of the complexity of this situation and its importance to the future of our business, and aware that the issue involves important legal and social aspects, Aracruz, together with the other companies in the region and the Planted Forests Producers Association of the State of Bahia (ABAF), sought the cooperation of Consórcio Parceria 21 – which brings together the Brazilian Municipal Administration Institute (IBAM), the Institute for the Study of Religion (ISER) and the Human Development Network (REDEH) – to prepare a regional development proposal aimed at low income communities living around the forestry projects in the extreme south of Bahia. The proposal was approved and the work is currently in an initial phase of development.

#### **Communities descending from ‘quilombolas’ –**

This is another issue that is part of the general context of agrarian conflicts in the country and also affects Aracruz.

The rights of remaining members of *quilombos* (communities of runaway slaves) only obtained legal recognition in the Brazilian Federal Constitution of 1988, which acknowledged as definitive property the land that these individuals had been occupying.



It is the Ministry of Culture, through the Palmares Cultural Foundation (FCP), which has the responsibility of establishing the borders of the lands that have been occupied by the remaining *quilombo* communities and deciding how to demarcate them. This constitutional process awards property deeds to the communities that were already in possession of the land and, thus, does not affect third party rights.

However, Decree 4.887 of 2003 substantially changed the conditions of the constitutional process by establishing that the classification of an individual as a *quilombola* (resident of a *quilombo*) was to be made according to criteria decided upon by the communities themselves, it also redefined the land to which the communities would have rights from land which they had already been occupying, to land “used to guarantee their physical, social, economic and cultural reproduction,” which would have to be expropriated by the federal government.

Because it flagrantly disregards the Constitution’s provisions and impacts the property rights of third parties also recognized by the Constitution, the constitutionality of the Decree is being challenged in the Brazilian Federal Supreme Court.

From the date the Decree went into effect until December 2006, 801 *quilombola* communities were registered by the FCP throughout the country and the institution has estimated that the number could reach 2,500. Judging by the criteria applied in the first studies, the total area to be transferred to the *quilombola* communities – and expropriated by the government, with the payment of indemnities to their owners – is approximately 30 million hectares (3.5% of Brazil’s total territory). At the end of the year, there were 31 *quilombola* communities registered by the FCP in municipalities in which Aracruz has its own eucalyptus plantations: 22 in Espírito Santo, 6 in Bahia, 1 in Minas Gerais and 2 in Rio Grande do Sul.

In 2006, the National Colonization and Agrarian Reform Institute (INCRA) initiated the land expropriation process – against Aracruz and other landowners – for the communities of Linharinho and São Jorge, with the Company filing an appeal contesting the process.

Throughout its history, Aracruz has acquired its land directly from the legitimate owners and occupiers, through unchallenged documentation that has been duly recorded in official land registration offices. This was confirmed by land specialists hired by Aracruz, who conducted an in-depth survey in public files at the municipal and state levels and in land registry and notary public offices, establishing the chains of succession and analyzing the history of the transfer and possession of each of Aracruz's properties.

Independently of the legal case, Aracruz has been seeking to strengthen its relationships with these communities, endeavoring to find ways to help them improve their living conditions.

**Community income** – Aracruz operates in regions whose populations, regardless of origin, face many deprivations. Seeking to improve this situation, the Company supports activities that stimulate the generation of jobs and income, among which are its Community Nurseries and Family Agriculture programs.

The Community Nurseries project is designed to generate employment and income opportunities for needy communities by setting up nurseries for the production and sale of seedlings. In order to make the project feasible, the Company builds the nursery, donates the seeds, plastic bags for saplings and substrate for the seedlings and provides technical assistance and training. The seedlings produced are purchased by Aracruz and used for in-company and third party environmental recovery projects, which involve municipalities and non-governmental organizations.

Aracruz built and installed the Angelim II community nursery in Conceição da Barra (State of Espírito Santo), benefiting families of this community. The nursery production forecast is for 500,000 eucalyptus and about 80,000 native species seedlings per year, which will be acquired by the Company, generating income for the families belonging to the Angelim II Native Seedling Producers Association.

The Family Agriculture Program seeks to support short cycle crops in order to satisfy basic subsistence needs of and generate income for families living in rural communities. Aracruz lends them the land and provides other incentives, such as technical assistance, machinery rentals, etc. The communities of Angelim and São Domingos (in Conceição da Barra) along with São Jorge (in São Mateus) are assisted through this program.

## READERS' PERCEPTIONS

In 2006, our Sustainability Report (2005 edition) was once again evaluated by a number of stakeholders in a survey conducted by CorporateRegister.com from the United Kingdom. Fifty-nine persons posted their comments, including representatives of NGOs, students, corporate social responsibility (CSR) professionals, journalists, consultants, investors and analysts, among others.

The suggestions received through their evaluations have been, wherever possible, incorporated into the report.

The following are some statements from the 2006 survey:

Some outside voices would further strengthen what is already a very strong publication and website.

All features are covered – perhaps GRI in future? The GHGs and carbon stock data is extremely useful and a good example for others to follow in this sector.

Academics

Very credible from the tone of the report. The assurance statement is not useful, however: no stated methodology, no recommendations. So it doesn't improve credibility much. Communications and content both among the best for these reports.

Would like to read more about the Indian land issue. This is an area of risk as well as of ethics for Aracruz, so deserves more space and fuller debate (outside views included).

CSR professionals

A company of Aracruz's significance is more than just any company – you can lobby for issues both in Brazil and in your sector, as Government and peers will listen to you. So with power comes responsibility. I'd like to see the company driving for better standards from others.

NGO

This report gives a picture of a responsible company, but some kind of social audit is necessary. Or at least an assurance statement from another institution that can comment on social and community aspects.

Student

In order to satisfy some of the concerns raised by our readers, in this edition we are seeking to produce a report that is better aligned with the principles of the Global Reporting Initiative (GRI), presenting in pages 94 to 98 a cross-index of the indicators. Along the same lines, on pages 90 and 91 we present two external views regarding this publication.

## MAIN SUSTAINABILITY OBJECTIVES FOR 2007

### Governance

- Conclude the implementation of the Corporate Risk Management.
- Conclude the process of adapting the Code of Conduct to the new version of Aracruz's Mission, Vision and Principles statement.
- Maintain the certification without any reservations for satisfying requirements of the Sarbanes-Oxley Act.

### Stakeholder relationships

- Continue to seek a stable and legally assured solution to the land dispute with the indigenous communities of ES.
- Consolidate the engagement model tested in 2006, expanding the NGO and stakeholder dialogue.
- Contribute to a regional development strategy encompassing the low income communities in the south of BA.
- Present and debate the Guaíba Unit's forest expansion projects and aspects of their sustainability with 20 municipal leaders of RS.
- Bring to 14 RS communities basic knowledge about health, hygiene and domestic safety.

### Social investments

- Approve and implement the Social Investment Plan, focusing on:
  - lines of action and investment focal points;
  - new management structure;
  - a monitoring and evaluation process.
- Contribute to the development of three communities located in the north of ES, through income generation and social promotion programs.

### Environment

- Biodiversity
  - conserve the biodiversity in the Company's 154,000 hectares of existing native reserves as well as future expansions of these reserves;
  - contribute to the enriching of the biodiversity in

areas outside of the Company's properties through partnerships with governments, farmers, NGOs, communities and other institutions;

- conclude the process for creating five RPPNs and prepare their management plans;
- maintain 100% certification of own managed areas through the Brazilian Forestry Certification Program (CERFLOR) as well as certification of the Aracruz pulp chain of custody (C-o-C).
- Climate change:
  - reduce the emission of greenhouse gases by the Guaíba Unit lime furnace;
  - conclude the audit of the project presented to the Chicago Climate Exchange (CCX).
- Continue the work on detailing archeological sites at both the Barra do Riacho and Guaíba Units, adjusting the forest management at these units to protect the sites.
- Sell, for use as soil corrective agents, all dregs and grits (residues from the caustifying process and lime furnace) generated at the Guaíba Unit.

### Responsibility for the supply chain

- Require suppliers to be in compliance with the Aracruz Principles statement, revised in 2006.
- Extend to suppliers an anonymous communication channel.

### Employees

- Remain one of the companies with the best organizational climate management practices.
- Expand the Volunteer Program, extending it to employees who have retired through the Aracruz Social Security Plan (ARUS).
- Keep the accident frequency rate under 25 points (according to ABNT Norm 14.280).

### Customers

- Expand the base of customers with access to the Internet relationship portal and implement new features of this tool.

BA – State of Bahia  
ES – State of Espírito Santo  
RS – State of Rio Grande do Sul

### Barra do Riacho Unit

<b>Liquid effluents</b> (Average values)	<b>License limits</b>	<b>Result 2005</b>	<b>Target 2006</b>	<b>Result 2006</b>	<b>Target 2007</b>
BOD (kg/t)	2.50	1.33	1.40	1.46	1.50
COD (kg/t)	20.0	15.5	15.0	14.6	15.00
TSS (kg/t)	4.50	1.22	1.25	1.32	1.35
AOX (kg/t)	0.19	0.09	0.11	0.10	0.11
Effluent outflow (m <sup>3</sup> /t)	50.0	35.3	35.0	34.7	35.00
Color (kg/t)	50.0	30.4	34.0	29.0	34.00
<b>Atmospheric emissions</b> (Average values)	<b>License limits</b>	<b>Result 2005</b>	<b>Target 2006</b>	<b>Result 2006</b>	<b>Target 2007</b>
TRS C.R. (ppm)	2.0	0.42	0.36	0.27	0.36
TRS lime furnaces (ppm)	6.0	2.78	2.72	3.00	3.00

In 2007, a technological improvements project (PO 2330) will be initiated involving the three Barra do Riacho Unit pulp lines. Also scheduled is maintenance of the Effluent Treatment Station's secondary treatment lagoon, called for under an agreement with the state environmental agency (SEAMA). These interventions could lead to increases in specific loads in the treatment of effluents.

### Guaiba Unit

<b>Liquid effluents</b> (Average values)	<b>License limits</b>	<b>Result 2005</b>	<b>Target 2006</b>	<b>Result 2006</b>	<b>Target 2007</b>
BOD (kg/t)	1.42	0.18	0.23	0.23	0.23
COD (kg/t)	5.71	3.18	3.58	3.52	3.58
TSS (kg/t)	1.77	0.64	1.00	0.56	1.00
AOX (kg/t)	0.13	0.08	0.10	0.12	0.12
Effluent outflow (m <sup>3</sup> /t)	39.4	28.9	30.8	30.7	32.5
Color (kg/t)	no limits	8.8	12.0	8.2	8.80
<b>Atmospheric emissions</b> (Average values)	<b>License limits</b>	<b>Result 2005</b>	<b>Target 2006</b>	<b>Result 2006</b>	<b>Target 2007</b>
TRS C.R. (ppm)	1.8	0.24	0.26	0.15	0.22
TRS lime furnaces (ppm)	5.0	1.85	2.50	1.45	2.30

Due to the increase in production in 2006, there was increased specific consumption of water. Likewise, in 2007, with higher water consumption the specific outflow of effluents also should follow the same trend.

## EXTERNAL VIEWS

In the Aracruz 2006 Annual and Sustainability Report we have sought to offer a more integrated view of our performance, in a manner which we believe is more responsive to stakeholder expectations.

In order to check progress against expectations and to provide some independent commentary that will help readers form an opinion of the information in the report, we are for the first time including statements from external experts. Two outside

readers were asked to consider the current report based on their areas of expertise and comment on information quality, balance and relevance, and whether the report meets stakeholder expectations.

Although we refer to the organizational affiliation of these experts, as it is indicative of their expertise, each is commenting in an individual capacity and not speaking on behalf of their organization.

This report represents yet another step by Aracruz towards even greater transparency. It allows readers to understand much about this company.

The main aspect that was lacking in previous reports was the use of the Global Reporting Initiative (GRI) format, which Aracruz has begun to adopt with this edition. I had always felt that previous reports reflected Aracruz's go-it-alone yet open-to-discussion spirit. I'm glad to see Aracruz join the fold and make itself easier to compare with its peers and with other companies in general.

As a professional working with environmental and social risk at a bank, I am glad to read about Aracruz's dialog with NGOs, in particular with those in southern Bahia. Although I am not very familiar with that situation, the description seems balanced. Likewise, I am pleased with the transparency about fines that the company has received from Brazil's environmental protection agencies. The admission of failures in procedures, in certain cases, is an important example to set for all companies in all sectors. Of course, I'd be happier if there were no fines to report. The description of lawsuits filed against the company and by the company is well handled. All of the above information is important to financial institutions.

Speaking of financial institutions, I'd like to make a suggestion for future reports. I'd like to see the company explain – in financial terms – how investments in sustainability (ranging from forest management to stakeholder dialog) bring financial returns. Too often, companies publish sustainability-related information in the “do good” vein. Sustainability is also about how good environmental and social management protects shareholder value and the jobs of the company's employees and suppliers. Aracruz could show us the way here.

One small point merits improvement. The two tables on solid waste generation at the two mills are difficult to compare. One table doesn't specify how much was recycled while the other doesn't give an idea of waste as a percentage of total production. Both tables need an upgrade. We must remember that there is a vast quantity of material leaving these mills, but only some of it earns Aracruz any revenue. The company should start reporting in terms of material flow and how much of it generates revenue and how much doesn't.

In summary, I am satisfied with this report and look forward to continued improvements.

### **Christopher Wells**

Environmental Risk Manager, Latin America, ABN AMRO  
São Paulo-SP, Brazil. March 2007.

The level of detail and quality of information in Aracruz's 2006 Annual and Sustainability Report greatly impressed me, even though this was the first opportunity I have had to conduct this type of review. Despite the new experience and challenge, I felt quite comfortable reading the report and making some comments and suggestions, and I hope this will help improve the report and its impact on future Aracruz actions in the field of sustainability.

After a careful reading of the report, it is my understanding that Aracruz took all due care to transparently include and present the main topics and concerns considered to be important for the sustainability of the company and its stakeholders, as well as increasingly demonstrating the results and impacts of its actions in the social, economic and environmental areas.

For clarification and transparency, I believe that it would be important to offer elements that provide readers a basis for comparison with other leading companies in the sector. For example, the statistics included in the employee chart require interpretation and/or comparison with other data that will help the reader interpret Aracruz's performance compared to domestic and international best practice.

Within the "Forestry Operations" chapter, it is valuable to highlight the ratio of native reserves to planted forests. However, it is advisable that Aracruz be more transparent with regard to the financial value of these native reserves in the generation of ecosystem services (carbon, water and biodiversity) at the local and regional levels. Why not transform an "intangible" asset into a "tangible and measurable" asset for society?

Given that it is Aracruz's strategy to boost its wood supply through the Forestry Partners Program, it would be important to mention what the company is doing to include these "strategic partners" in the forest certification program, which it considers important for the business.

The report shows in a considerably sparse and at times subjective manner the major advances Aracruz has made in the environmental area, whether through actions and projects or through different partnerships. Regarding partnerships, Aracruz should seek to better demonstrate appreciation of its local and national partners. Regarding actions, Aracruz should consider the possibility of creating an "Environmental Investments" topic to give more visibility and importance to one of the pillars of sustainability.

Finally, the fact that Aracruz is the first Latin American company to commit to greenhouse gas reduction targets is relevant and demonstrates yet again the company's leadership; however, the chosen strategy does not seem compatible with the profile of a leading company that wants to play an important role regarding the global problem. Since there are doubts regarding the contribution of monoculture plantations in mitigating global warming, I think it is fundamental for Aracruz to provide more details regarding the "environmental additionality" of such actions and the real and measurable impact of this and future efforts.

**Miguel Calmon**

Director, Atlantic Forest Program, The Nature Conservancy  
Curitiba-PR, Brazil. March 2007.

## MAIN AWARDS AND RECOGNITIONS IN 2006

- Only company in the forest products sector listed on the Dow Jones Sustainability Index 2007 (DJSI World), which highlights the best corporate sustainability practices in the world.
- Included in the BOVESPA (São Paulo Stock Exchange) Sustainability Index (ISE) in 2007.
- Classified for the third year in a row among the 150 best companies to work for in Brazil, prepared by *Guia Exame Você S.A.* magazine.
- The Best Prize in the Paper and Pulp category, awarded by *IstoÉ Dinheiro* magazine.
- Most Admired Company in Brazil in the Paper and Pulp category, according to *Carta Capital* magazine.
- Awarded the Sector Highlight Prize 2006 by the Brazilian Pulp and Paper Technical Association (ABTCP).
- Chosen Best Company of the Year in the Pulp Sector by Exame Agronegócio's annual survey, published by *Exame* magazine.
- Best Company of the Year in the Paper and Pulp Sector in *Globo Rural's* Agronegócio Annual Review.
- Company of the Year in the Honor of the Year Award sponsored by the National Pulp, Paper and By-Products Professionals Association (ANAVE).
- Export Prize from the Marketing and Sales Directors Association of Brazil (ADVB/RS).
- Received the FIERGS Merit Prize, in the Industry category, awarded by the Guaíba Commercial Industrial and Services Association (ACIGUA) and Sindilojas Guaíba.
- One of the winners of the Top Human Being Prize 2006, awarded by the Brazilian Human Resources Association (ABRH) of Rio Grande do Sul.
- The largest Paper and Pulp sector company in the State of Espírito Santo and the best in the Southeast Region, awarded by the Miguel Calmon Foundation for Social and Economic Studies (IMIC).
- Winner of the Ecology Expression Prize in its 14<sup>th</sup> edition, awarded by the *Expressão* publishing house in Rio Grande do Sul.
- Highlight of the 2<sup>nd</sup> industrial eco-efficiency survey conducted by the Environmental Council of the Rio Grande do Sul Federation of Industry.
- FINDES Consuma Prize by the Superior Environmental Council (CONSUMA) of the Espírito Santo Federation of Industry (FINDES) in the Innovation, Quality and Productivity category.
- Carlos Aguiar, Aracruz's President and CEO, was elected personality of the year in the Paper and Pulp sector at Gazeta Mercantil's 29<sup>th</sup> Leadership Forum. He also received the Regional Business Leader prize in Espírito Santo.
- João Felipe Carsalade, Aracruz's Sales director, received the 2006 Salesman of the Year Prize in the "Exporter" category awarded by the National Association of Pulp, Paper and By-Products Sales Professionals (ANAVE).
- Antonio Villas Boas, manager of Human Resources at Aracruz, was elected one of the 10 most admired HR managers in Brazil according to the Gestão e RH survey.
- Veracel won the FGV Prize, of the Fundação Getúlio Vargas, as the company that obtained the greatest increase in operating sales in 2005.



## Verification Statement

The Bureau Veritas Certification was contracted for Aracruz Celulose S.A., to accomplish an independent verification of its 2006 Annual and Sustainability Report, in order to evaluate the consistence and reliability of the social and environmental information presented. This work was performed in the period of January until February of 2007 at Barra do Riacho Unit (Espírito Santo), Guaíba Unit (Rio Grande do Sul) and head office (São Paulo), and it was driven starting from the policies, procedures and records that Aracruz Celulose S.A. maintains for the rising and analysis of the information presented in the report.

The used methodology was of interviews with the personnel responsible by the areas that contribute direct or indirectly with the data, and verification of as these data are worked for in order to generate the information included in this publication. This verification was therefore, based on the data and information available to the verification team, not being able to Bureau Veritas Certification to be considered co-responsible for any interested part for taken decisions or not with base in this verification statement .

Bureau Veritas Certification understands that Aracruz Celulose S.A. has a system of data collection and information consolidation properly implemented for their processes and initiatives of social and environmental character, and that these are satisfactory for spreading representative information of these processes. Additionally it attests that the methodology for determination of greenhouse gases emissions inventory and carbon stock in Aracruz forests is consistent with the established calculation protocol of ICFPA – International Council of Forest and Paper Associations on November of 2004, reviewed on July 2005.

In this way, Bureau Veritas Certification considers that all the social and environmental information presented in the 2006 Annual and Sustainability Report of Aracruz Celulose S.A. reflect on a consistent and reliable way all collected data in its production units and in the company's head office.

For more information Bureau Veritas Certification is accessible on the website [www.bureauveritascertification.com.br/faleconosco.asp](http://www.bureauveritascertification.com.br/faleconosco.asp) or by phone +55 11 5070-9800.

**BVQI**

March 2007

## GRI CROSS-INDEX AND THE UN GLOBAL COMPACT

### Global Reporting Initiative (G3)

#### Economic performance

	Description	Location	Page
<b>C</b> EC1	Economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Use of resources generated in 2006 (ASR)	26
<b>C</b> EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Climate Change (ASR) Environmental Risks (CD/Website)	64-67
<b>C</b> EC3	Coverage of the organization's defined benefit plan obligations.	Retirement (ASR). Jobs chart – labor compensation (ASR)	27 28
<b>C</b> EC4	Significant financial assistance received from government.	NR	

#### Market presence

<b>A</b> EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Jobs chart - selected statistics (ASR)	28
<b>C</b> EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Use of resources generated in 1989 -2006 (ASR) Use of resources generated in 2006 (ASR) Suppliers (ASR)	26 26 61-62
<b>C</b> EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Jobs (ASR)	27

#### Indirect economic impacts

<b>C</b> EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Use of resources generated in 1989 – 2006 (ASR)	26
<b>A</b> EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Wealth and employment (ASR)	25

## Environmental

#### Materials

<b>C</b> EN1	Materials used by weight or volume.	Forestry operations – wood production (ASR) Consumptions in the production of pulp (ASR)	44 53
<b>A</b> EN2	Percentage of materials used that are recycled input materials.	NA	

#### Energy

<b>C</b> EN3	Direct energy consumption by primary energy source.	Generation and consumption of electric energy and fuel – 2006 (ASR)	52
<b>C</b> EN4	Indirect energy consumption by primary source.	Generation and consumption of electric energy and fuel – 2006 (ASR)	52
<b>A</b> EN5	Energy saved due to conservation and efficiency improvements.	NR	
<b>A</b> EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Generation and consumption of electric energy and fuel – 2006 (ASR) Climate change (ASR)	52 64
<b>A</b> EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Wood logistics (ASR)	45

ASR – 2006 Annual and Sustainability Report

CD/website – Information can be found on the CD that accompanies this publication and in the online version of this report available on our website

NA – Not applicable NR – Not reported

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

## Water

	Description	Location	Page
C	EN8 Total water withdrawal by source.	Consumptions in the production of pulp (ASR)	53
A	EN9 Water sources significantly affected by withdrawal of water.	NR	
A	EN10 Percentage and total volume of water recycled and reused.	NR	

## Biodiversity

C	EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Forestry Operations (ASR)	47
C	EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Biodiversity (ASR)	48-49
A	EN13 Habitats protected or restored.	Biodiversity (ASR) RPPNs (ASR)	48-49 50
A	EN14 Strategies, current actions, and future plans for managing impacts on biodiversity.	Biodiversity (ASR) RPPNs (ASR) Watershed Project (ASR) Fulfilling Aracruz Celulose's sustainability objectives for 2006 (CD/Website) Main sustainability objectives for 2007 (ASR)	48-49 50 50 88
A	EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Biodiversity (ASR)	48-49

## Emissions, effluents, and waste

C	EN16 Total direct and indirect greenhouse gas emissions by weight.	Climate change – Emission inventory (ASR)	64-67
C	EN17 Other relevant indirect greenhouse gas emissions by weight.	Climate change – Emission inventory (ASR)	64-67
A	EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved.	Climate Change (ASR)	64-67
C	EN19 Emissions of ozone-depleting substances by weight.	Emissions, effluents and residues in the production of pulp (ASR)	54-55
C	EN20 NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions by type and weight.	Emissions, effluents and residues in the production of pulp (ASR)	54-55
C	EN21 Total water discharge by quality and destination.	Emissions, effluents and residues in the production of pulp (ASR)	54-55
C	EN22 Total weight of waste by type and disposal method.	Generation and use of solid wastes (ASR) Solid wastes generated (CD/Website)	52
C	EN23 Total number and volume of significant spills.	NA	
A	EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	NA	
A	EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	NR	

## Products and services

C	EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	NR	
C	EN27 Percentage of products sold and their packaging materials that are reclaimed by category.	NA	

## Compliance

C	EN28 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fines and lawsuits (ASR) Fines and lawsuits (CD/Website)	56-57
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## Transport

	Description	Location	Page
A EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	Climate change (ASR) Wood logistics (ASR)	64-67 45

## Overall

A EN30	Total environmental protection expenditures and investments by type.	Environmental Management (ASR) Environmental Management (CD/Website)	63-64
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## Social performance: labor practices & decent work

### Employment

C LA1	Total workforce by employment type, employment contract, and region.	Jobs (ASR) Jobs chart – employees consolidated data 2006 (ASR)	27 28
C LA2	Total number and rate of employee turnover by age group, gender, and region.	Jobs chart – selected statistics (ASR) Workforce (ASR)	28 58
A LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Jobs chart – labor compensation (ASR)	28

### Labor/management relations

C LA4	Percentage of employees covered by collective bargaining agreements.	Workforce (ASR)	58
C LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	NR	

### Occupational health and safety

A LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	NR	
C LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Workforce (ASR)	58
C LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Quality of life (ASR)	60-61
A LA9	Health and safety topics covered in formal agreements with trade unions.	NR	

### Training and education

C LA10	Average hours of training per year per employee by employee category.	Professional training and development (ASR)	74-75
A LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Jobs chart – selected statistics (ASR) Retirement (ASR)	28 27
A LA12	Percentage of employees receiving regular performance and career development reviews.	NR	

### Diversity and equal opportunity

C LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Corporate governance (CD/Website) Jobs chart – selected statistics (ASR)	28
C LA14	Ratio of basic salary of men to women by employee category.	NR	

## Social performance: human rights

### Investment and procurement practices

	Description	Location	Page
C	HR1 Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	NR	
C	HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Suppliers (ASR)	61-62
A	HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Jobs chart - selected statistics (ASR)	28

### Non-discrimination

C	HR4 Total number of incidents of discrimination and actions taken.	NA	
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### Freedom of association and collective bargaining

C	HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	NA	
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### Child labor

C	HR6 Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	NA	
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### Forced and compulsory labor

C	HR7 Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor.	NA	
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### Security practices

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

C	HR9 Total number of incidents of violations involving rights of indigenous people and actions taken.	Aracruz and the indigenous communities (ASR)	81-83
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## Social performance: society

### Community

C	SO1 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	Engagement (ASR) Community relationships (ASR) Social investments (ASR)	76-79 81-86 30-35
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### Corruption

C	SO2 Percentage and total number of business units analyzed for risks related to corruption.	Risk management (ASR) Risk management (CD/Website)	21
C	SO3 Percentage of employees trained in organization's anti-corruption policies and procedures.	NA	
A	SO4 Actions taken in response to incidents of corruption.	NR	

### Public policy

C	SO5 Public policy positions and participation in public policy development and lobbying.	NR	
A	SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	Political donations (ASR)	80

## Anti-competitive behavior

	Description	Location	Page
A	SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	NA

## Compliance

C	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Fines and lawsuits (ASR) Fines and lawsuits (CD/Website) 56-57
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## Social performance: product responsibility

### Customer health and safety

	Description	Location	Page
C	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	NR
A	PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	NR

### Products and service labeling

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

### Marketing communications

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

### Customer privacy

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

C	PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	NA
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Published by the Aracruz Celulose S.A. Sustainability and Corporate Relations Department.  
Graphic project and editing: Adroitt Bernard | Photos: Vitor Nogueira, Carlos Bessa, Paulo Afonso,  
Komatsu, Nilton Souza and Aracruz Celulose's Image Bank | Paper: Printed on VCP's Lumimax paper  
Pre-press: GH Digital | Printing: Laborgraf.