



ARACRUZ

2007

Annual and  
Sustainability Report

## The Company

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

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

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

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

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

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

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

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

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

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

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

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

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

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





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## About this Report

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

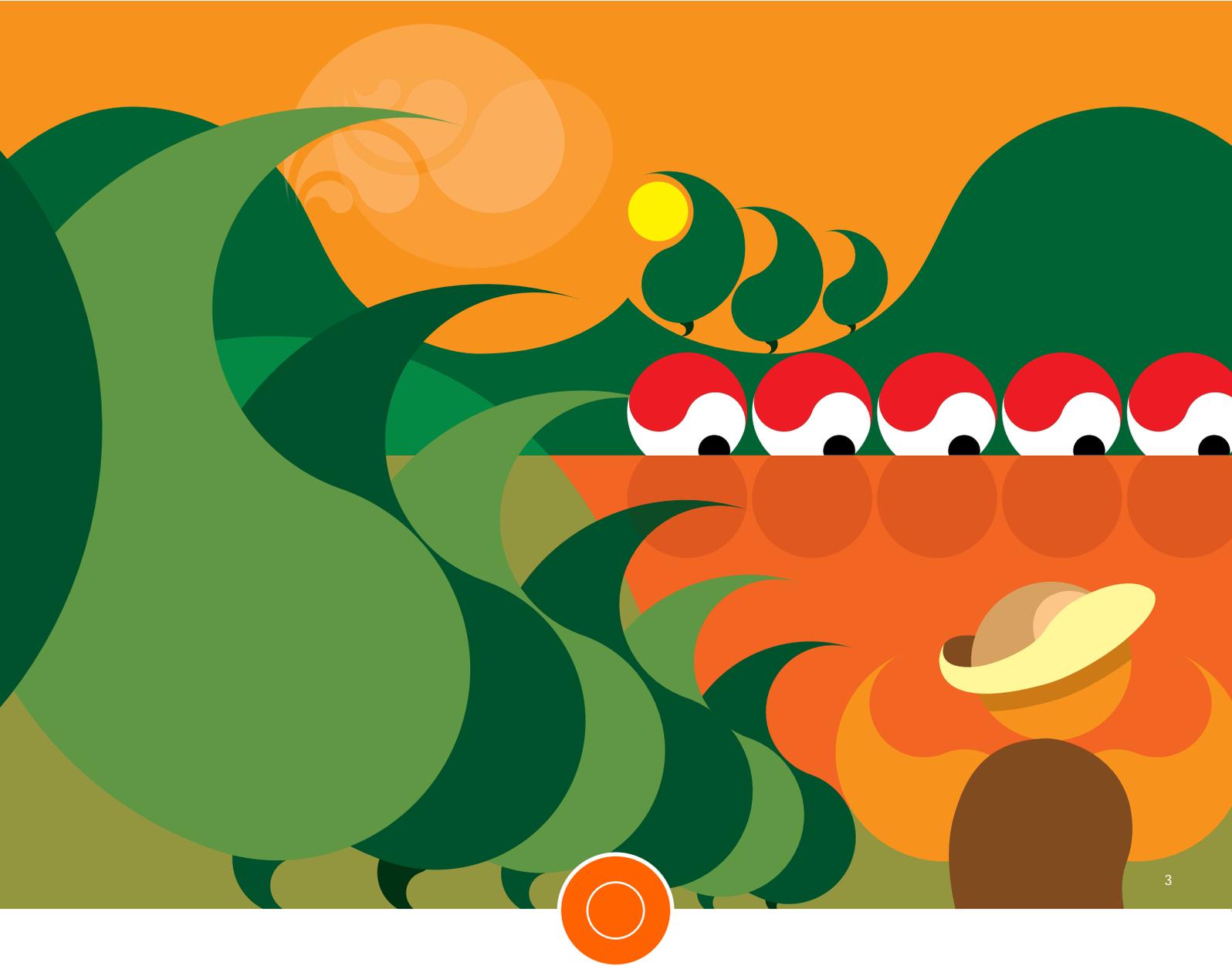
- ❑ **VALUE CREATION:** actions designed to increase Aracruz's value for shareholders and society, based on the best corporate governance practices.
- ❑ **CUSTOMER SATISFACTION:** initiatives that seek to anticipate, satisfy, and exceed the needs of our customers, and contributing to the establishment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

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

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

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

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



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

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

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

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

## Materiality Matrix

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

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

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

### What matters to readers

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

## Board of Directors

Carlos Alberto Vieira – Chairman

Ernane Galvêas

João Carlos Chede

Haakon Lorentzen

Eliezer Batista da Silva

Luiz Aranha Corrêa do Lago

Raul Calfat

Álvaro Luís Veloso

Alexandre D'Ambrosio

Jorge Eduardo Martins Moraes

## Executive Officers

1. Carlos Augusto Lira Aguiar – President and CEO

2. Isac Roffé Zagury

3. João Felipe Carsalade

4. Walter Lídio Nunes

## Associate Officers

Carlos Alberto de Oliveira Roxo

José Luiz Braga

## Fiscal Council

Fernando Octávio Martins Alves

José Gilberto Jaloretto

Wagner Braz

5



1



2



3



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## Message from the Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Carlos Alberto Vieira  
*Chairman of the  
Board of Directors*



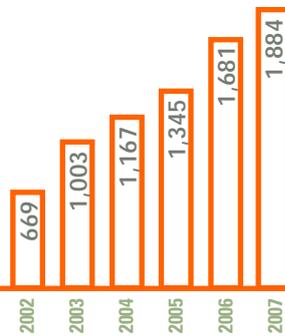
Carlos Augusto Lira Aguiar  
*President and CEO*

# Financial-Economic Highlights (\*)

Consolidated data

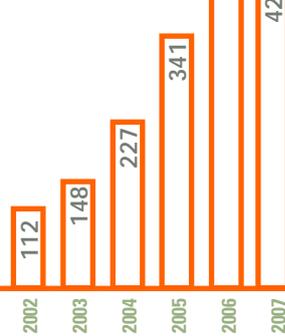
## Net sales revenue

US\$ million



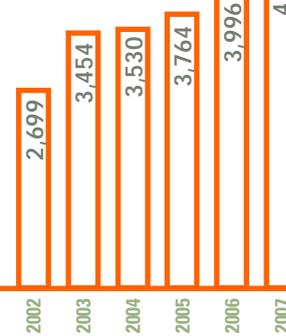
## Net income

US\$ million



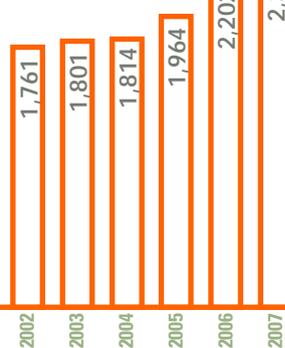
## Assets

US\$ million



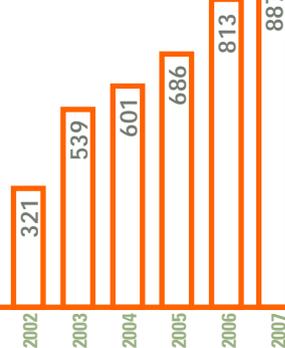
## Shareholder's equity

US\$ million



## EBITDA <sup>1</sup>

US\$ million



## Production

Thousand tons



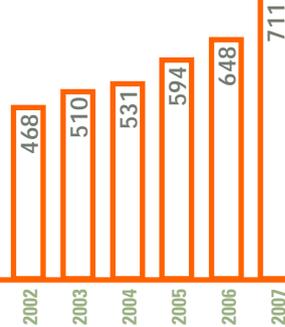
## Sales

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



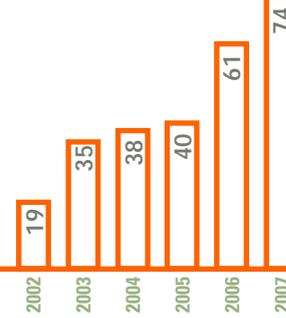
## Cash production cost <sup>4</sup>

US\$/t



## Stock price – ADR <sup>5</sup>

US\$



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

**Income statement**

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

**Balance sheet**

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

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

**Cash flow**

Operating income	499.4	593.9
Depreciation and depletion	217.8	217.6
Depreciation and depletion - inventory movement	(1.2)	2.3
EBITDA	716.0	813.8
Non-cash items		
Provision (reversal) for loss on ICMS credits	17.5	(40.5)
Other	2.2	22.5
EBITDA (adjusted by non-cash items)	735.7	795.8
Financial (expenses) income and gain (loss) on currency remeasurement, net	39.6	68.0
Cash flow impact of other operating activities, except financial	(116.9)	(139.3)
Sub-total	658.4	724.5

Additions to property, plant and equipment	(301.0)	(589.7)
Investments in affiliate	(24.5)	(122.8)
Proceeds from sale of equipment and investment	0.6	0.5
Dividends and interest on stockholders' equity paid	(251.7)	(232.7)

**Net cash flow before increase / decrease of net debt**

	<b>81.8</b>	<b>(220.2)</b>
Increase (decrease) in gross debt (1)	(57.5)	164.3

**Net cash flow**

	<b>24.3</b>	<b>(55.9)</b>
Cash and cash equivalents / short and long-term investments, beginning of period	558.0	582.3
Cash and cash equivalents / short and long-term investments, end of period	582.3	526.4

**Production volume (thousand tons)**

	<b>3,103.6</b>	<b>3,094.7</b>
Barra do Riacho Unit	2,180.0	2,132.5
Guaíba Unit	436.0	436.5
50% of Veracel	487.6	525.7

**Sales volume (thousand tons)**

	<b>3,020.5</b>	<b>3,104.1</b>
Year-end inventories (thousand tons)	423.1	380.7
Average list pulp price (US\$/ton)	648	711

(1) Includes gain / loss on remeasurement.

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

## About Aracruz

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

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

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

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

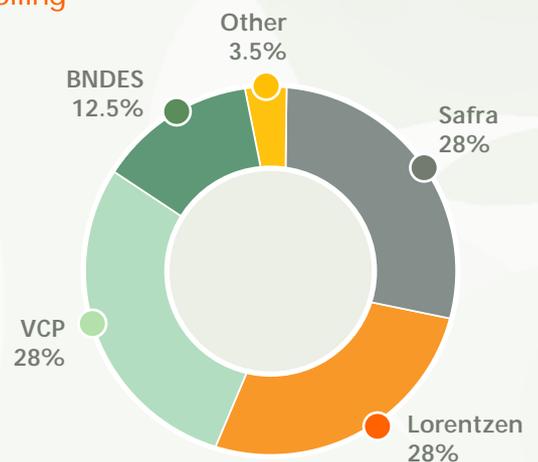
**Patrimonial value (12/31/07)**  
**US\$2.4 billion**



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

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

### Controlling



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



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

### 2007

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

More information on the Aracruz 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**
- UBR (ES) Modernization Project: **1997**
- APM inaugurated: **Aug 1999**
- Ownership stake in Veracel: **Oct 2000**
- Fiberline C starts up: **Aug 2002**
- Veracel construction begins: **Jun 2003**
- Acquisition of Riocell (now Guaíba Unit): **Jul 2003**
- Veracel starts up: **May 2005**
- UBR (ES) Modernization Project: **2007**

UBR – Barra do Riacho Unit	RS – Rio Grande do Sul
UG – Guaíba Unit	MG – Minas Gerais
APM – Aracruz Produtos de Madeira	BA – Bahia
ES – Espírito Santo	RJ – Rio de Janeiro

## Certifications

### ISO 9002

Barra do Riacho and Guaíba Units: since Jan/93

### ISO 9001

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

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

### ISO 14001

Barra do Riacho Unit: since Oct/99.

Guaíba Unit: Nov/96.

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

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

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

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

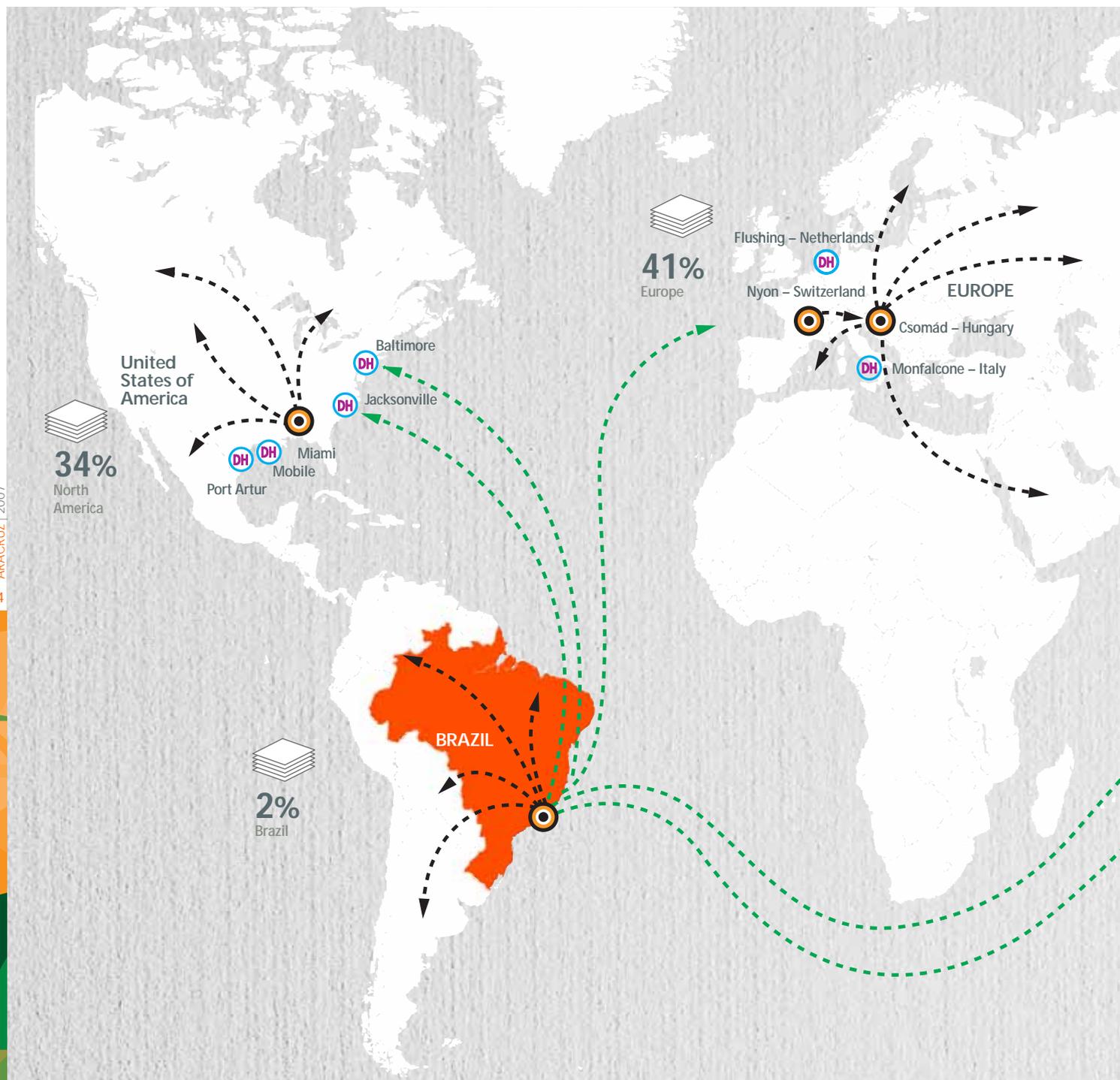
### Chain of Custody (CERFLOR)

Barra do Riacho – since Jun/06.

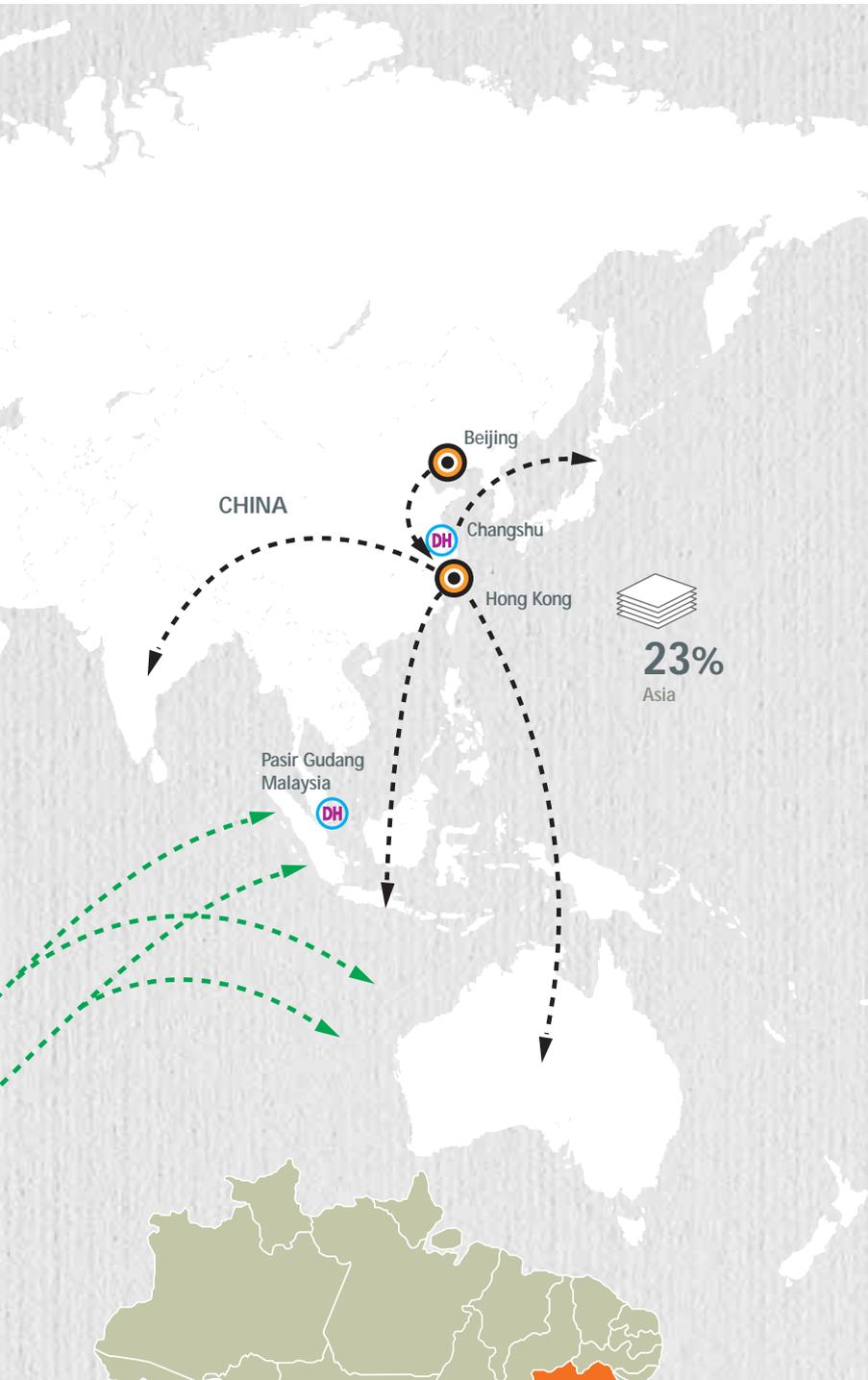
Guaíba Unit – since Oct/06.



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



-  Commercial offices
-  Distribution hubs
-  Logistics operators
-  Pulp production units
-  Barge terminal
-  Forestry operations
-  Distribution per market



### Barra do Riacho Unit

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



### Guaíba Unit

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



### Veracel

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



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

## Our business strategy

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

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

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





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

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

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

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



## Value Creation

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

## Governance

### Code of Conduct

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

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

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

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### Internal controls

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

### Anonymous communication

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

## Services provided by the independent auditors

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

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

## Sustainability Committee

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

## Risk management

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

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

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

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

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## Global situation

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

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

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

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

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

## Economic and financial performance

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

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

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

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

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



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

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

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

## Share information

Dec 31, 2007

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

\* Source: Bloomberg.

## Capital markets

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

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

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

### Dividends and ISE

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

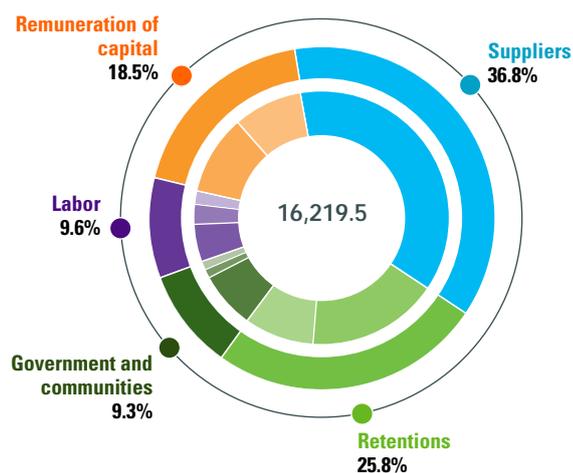
In addition to the different declarations of ISE based on the 2007 fiscal year, Management also proposed payment of US\$113 million in dividends, to be submitted during the General Shareholders Meeting (to be held in April, 2008). If this is confirmed, the total distribution for fiscal 2007 will be US\$269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

### Earnings and employment

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

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

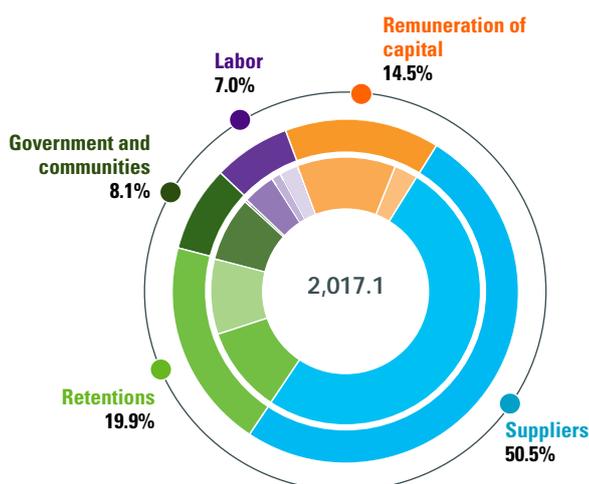
Use of resources generated in 1989-2007  
US\$ million



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

25

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



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

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

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

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

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The complete FGV study is available through our website: [www.aracruz.com/pdf/arquivofgveng.pdf](http://www.aracruz.com/pdf/arquivofgveng.pdf).

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## Jobs

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

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

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

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



### Employees - 2007 consolidated data

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

### Labor compensation (own employees)

US\$ thousand

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

### Selected statistics

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

\*According to IBGE criteria.

### Turnover in 2007

Monthly average

Annual total

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

### Education

Numbers

%

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

## Capital expenditures and investments

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

### Barra do Riacho Unit

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

### Guaíba Unit

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

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

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

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

### Portocel

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

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

#### 2007 capital expenditures and investments

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



## Veracel

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

## Social investments

### Aracruz 'Bem de Raiz' Institute

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

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

## Social projects

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## Intangible assets

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

## Employees' perceptions

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

## Customers' perceptions

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

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

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

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

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

## Ratings

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

## Communication

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

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

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

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

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

## Why Deeply-Rooted Assets?

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



## Media exposure

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

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

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

## Image evaluation

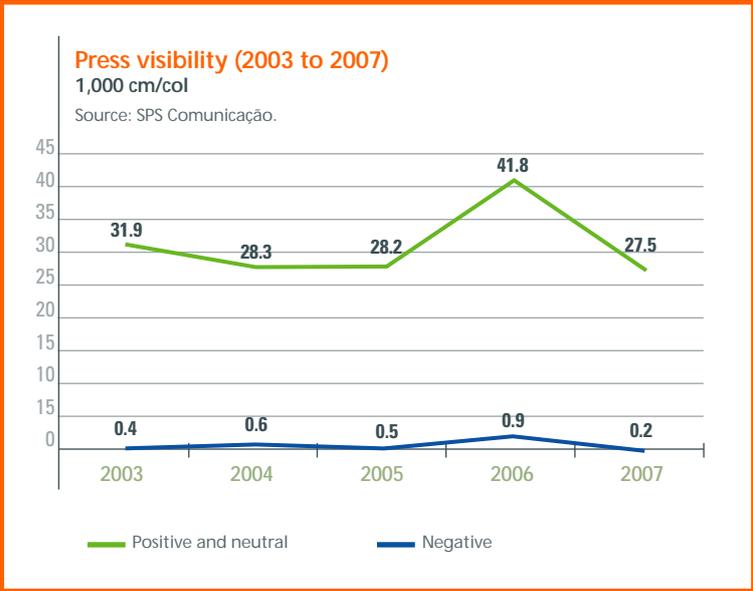
In 2007, Aracruz registered a slight average reduction in favorable image as seen by the people living in communities neighboring the Company's operations. The index of residents rating the Company either "excellent" and "good" decreased slightly from 70.42% to 69.19%, with the decrease coming from residents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

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

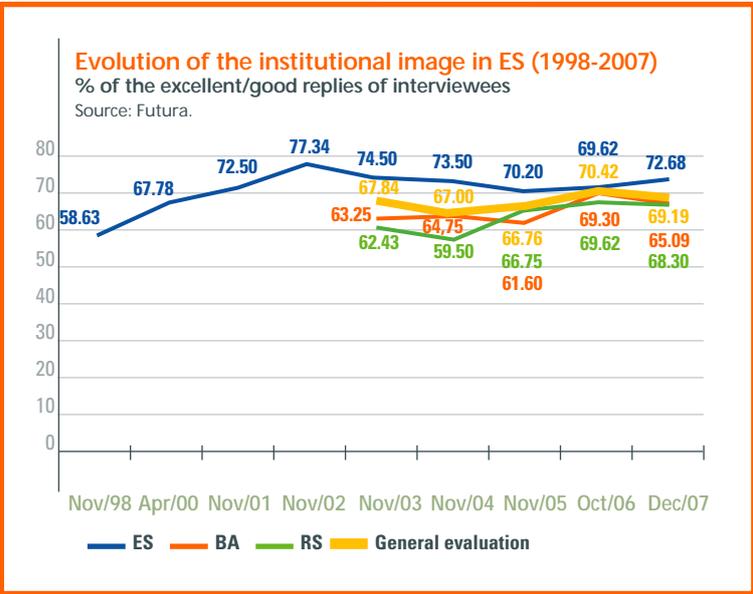
In Bahia, the positive image slipped to 65.09%. The Company is evaluating the survey results to identify the key factors and to structure better links to the community. The training of more than 80 employees in engagement practices was among the efforts made during 2007 along these lines.

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

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



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



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



## Customer Satisfaction

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



## Pulp production

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

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

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

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

## Distribution logistics

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

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

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

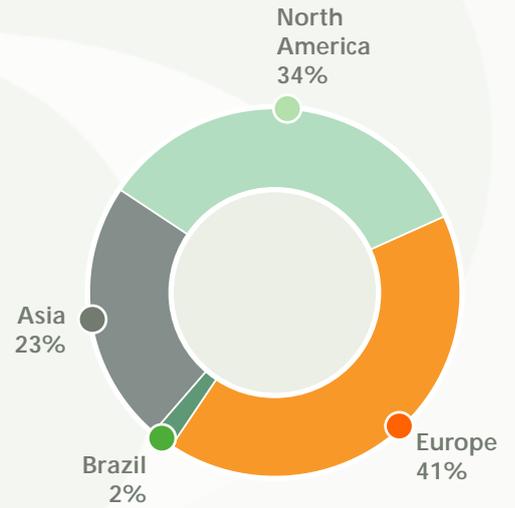
The increase in the ship draft at Portocel to 12.5 meters was confirmed. This will allow the private terminal to efficiently load all types of specialized vessels used to transport forestry products, improving the freight contracting process and making it more flexible.

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



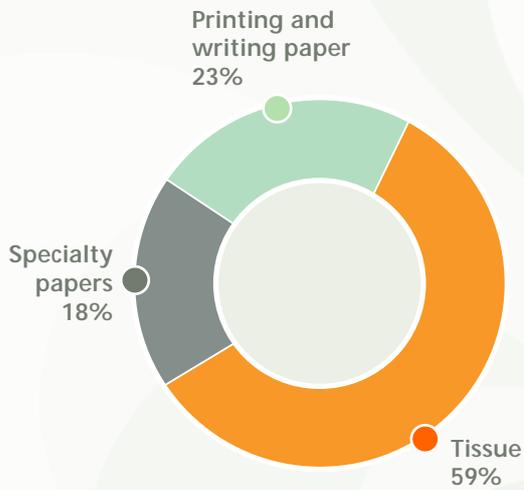
### Geographical distribution of sales

Source: Aracruz Celulose, 2007.



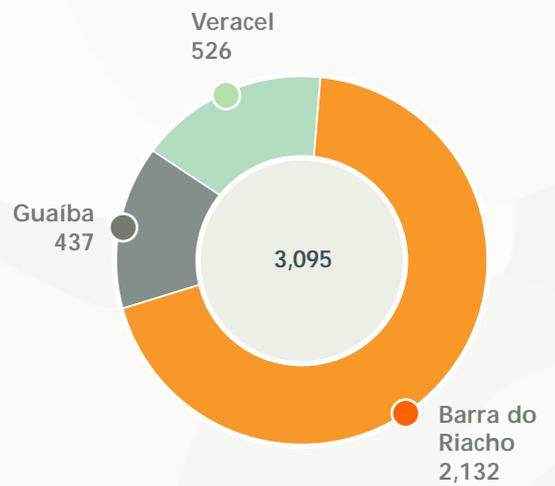
### Sales by end use

Source: Aracruz Celulose, 2007.



### Pulp production per unit (thousand tons)

Source: Aracruz Celulose, 2007.



## Customer relationships

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

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

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

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



## Internal Processes

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

## Research and development

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

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

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

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

## Forestry operations

### Land management

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

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



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

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

### Forestry Partners Program

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

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

### Forestry certification

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

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

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

### Nurseries

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

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

## Forestry operations

### Land use

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

### Eucalyptus

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

### Native species

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

### Harvest

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

### Forestry Partners Program

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

\* Firebreaks, roads, installations.  
**UBR** – Barra do Riacho Unit  
**UG** – Guaíba Unit  
**ha** – hectare  
**un** – unit

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



View of the Guaíba Unit (RS) seedling nursery.



## Wood production

The supply of wood for pulp production totaled 9,494,000 m<sup>3</sup>. Of this total, 7,872,000 m<sup>3</sup> was utilized by the Barra do Riacho Unit and 1,622,000 m<sup>3</sup> by the Guaíba Unit. About 86% of the wood utilized by Aracruz comes from its own plantations, although there is a growing share of wood supplied through the Forestry Partners Program.

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

## Wood logistics

Of the 7,872,000 m<sup>3</sup> of wood utilized by the Barra do Riacho Unit in 2007, 75% were shipped by highway, 21% by water, and 4% by rail. The growing share of maritime shipping made it possible to eliminate 76,200 truck trips during the period, contributing to a reduction of traffic along the BR-101 highway stretch where Aracruz's plantations are located. The number of traffic accidents involving lumber trucks in 2007 was at the lowest level of the past three years.

## Meteorology and water resources

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

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

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

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

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

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

## Biodiversity

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

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



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

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

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

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

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

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



### Integrated management of pests and disease

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

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

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

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

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

## RPPNs

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

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

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

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

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

## The importance of the RPPNs

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

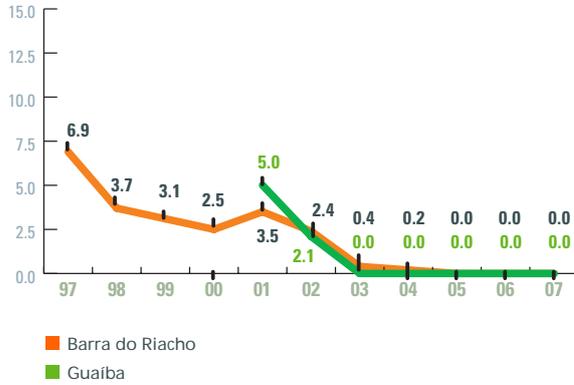
Upon transforming part of property into an RPPN, the owner is favored with a series of advantages, such as exemption from the Rural Land Tax incurring on the area, government protection against forest fires and property invasions, and preference in rural loans and farm mechanization assistance.

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

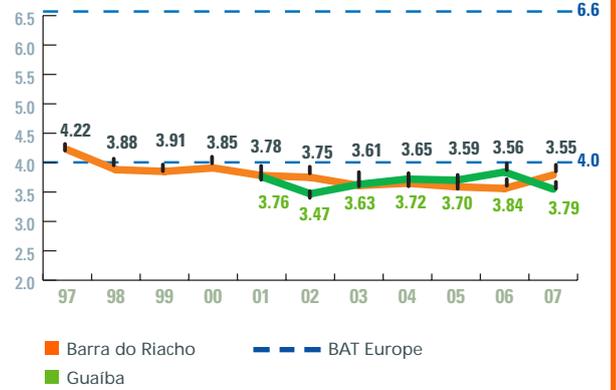
# Industrial operations

## Specific pulp production consumptions

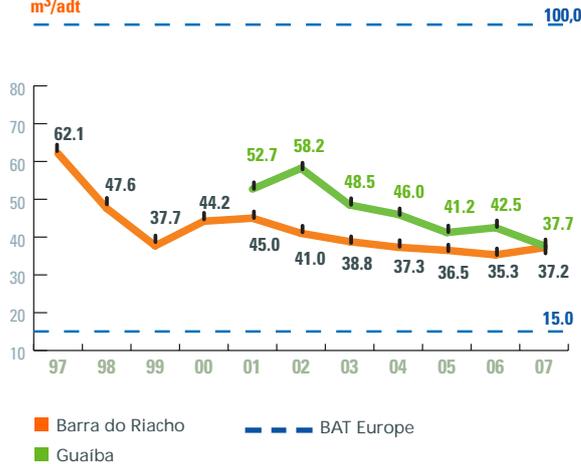
**Chloride**  
kg/adt



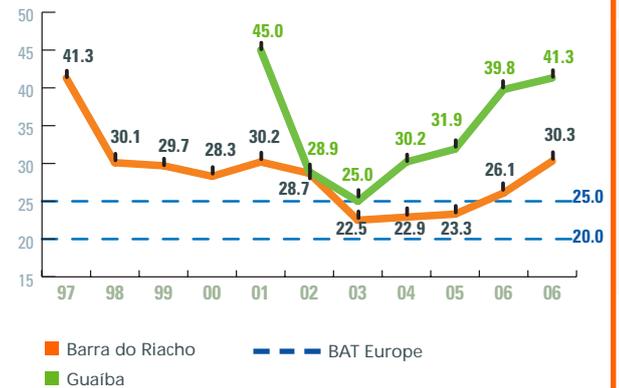
**Wood**  
m<sup>3</sup>/adt



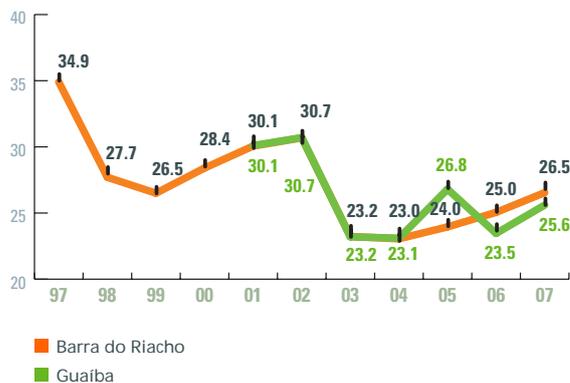
**Water**  
m<sup>3</sup>/adt



**Soda**  
kg/adt



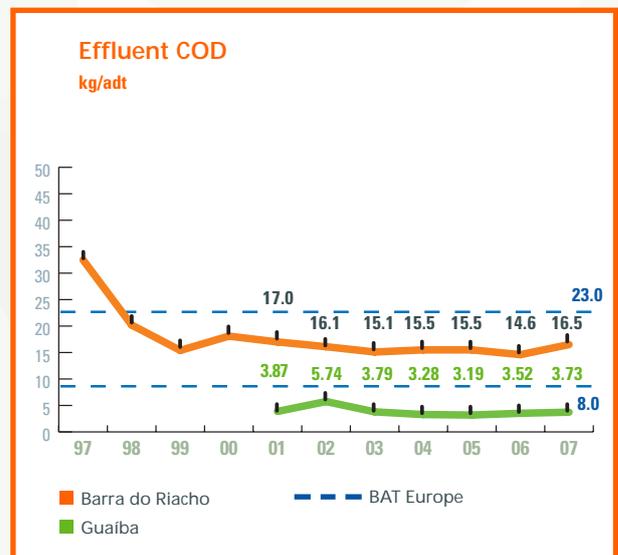
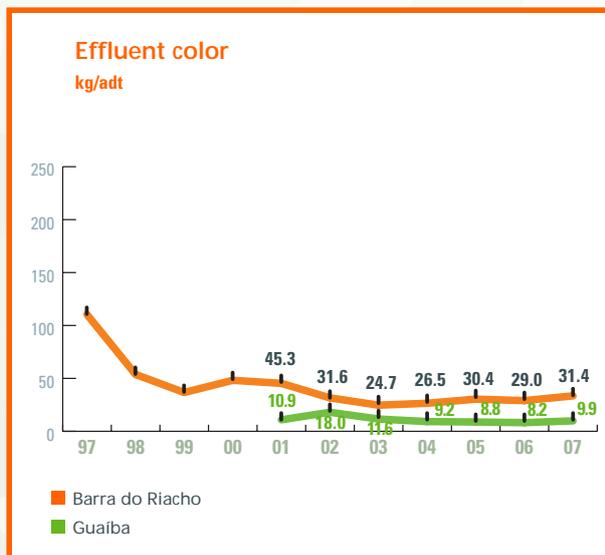
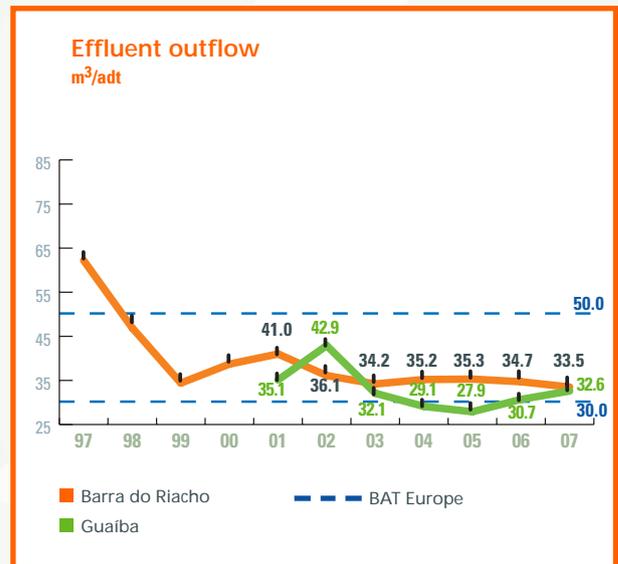
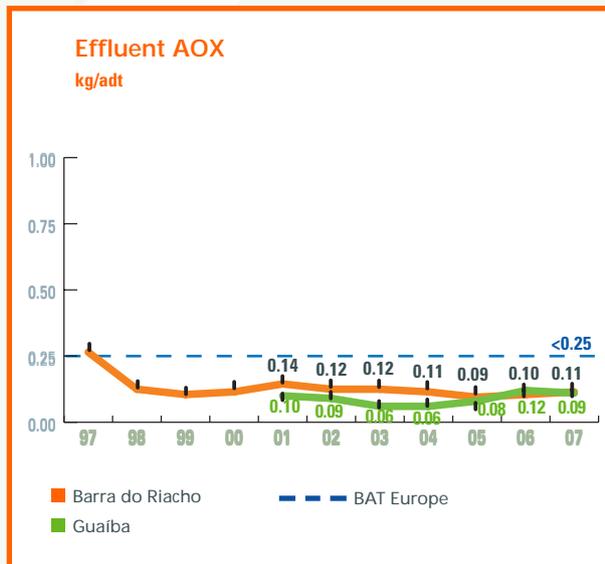
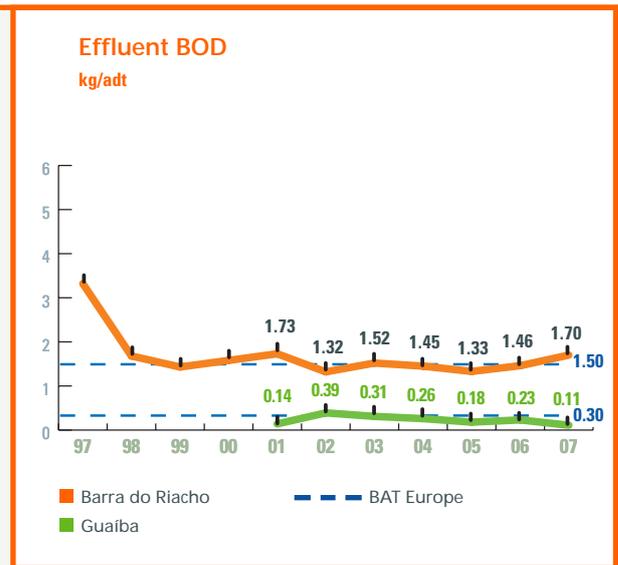
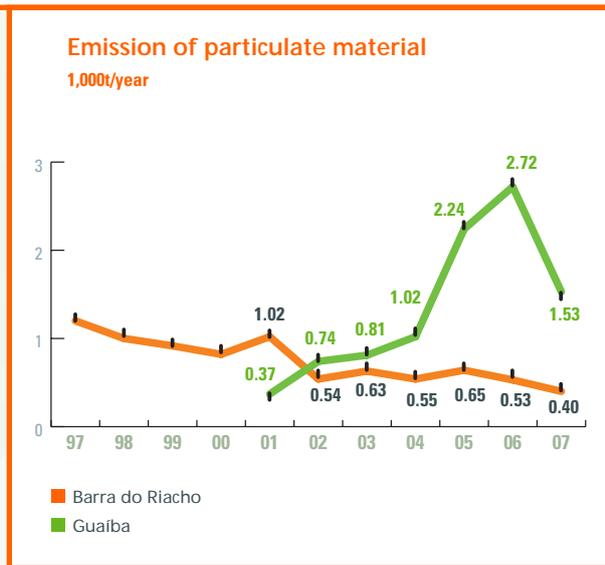
**Chlorate**  
kg/adt



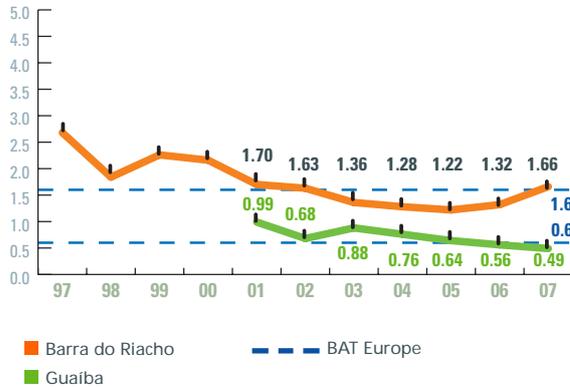
adt – air-dried ton

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

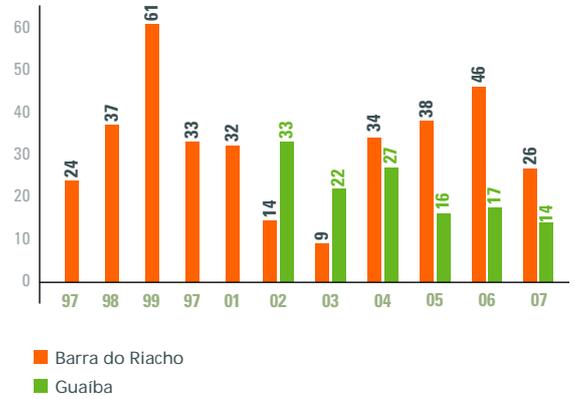
## Emissions, effluents and waste in pulp production



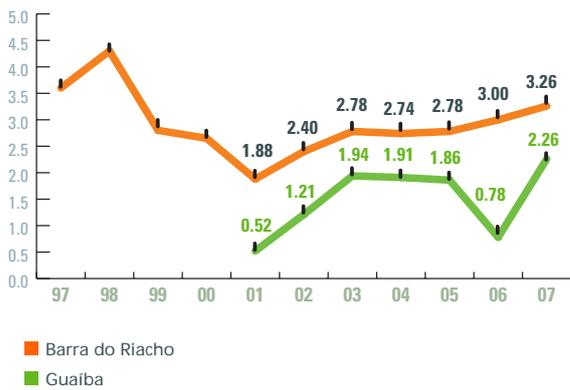
### Effluent TSS kg/adt



### Odor perception network number of reports



### Furnace TRS ppm



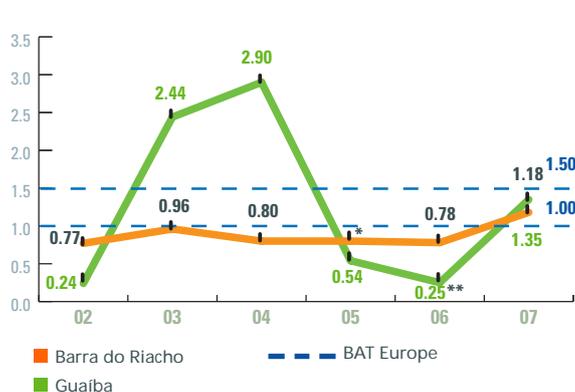
### TRS of boilers ppm



### Total SO<sub>2</sub> kg/adt



### Total NOx kg/adt



\* Not reported due to analytical problems.  
\*\* Incorrectly reported in 2006 due to errors in the calculation.

## Generation and consumption of electrical energy and fuels - 2007

### Barra do Riacho Unit

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

### Guaíba Unit

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

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

55

## Generation and disposal of solid waste

### Barra do Riacho Unit

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

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

### Guaíba Unit

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

## Fines and lawsuits

### Assessments and notifications

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

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

### Lawsuits

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

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

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

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

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

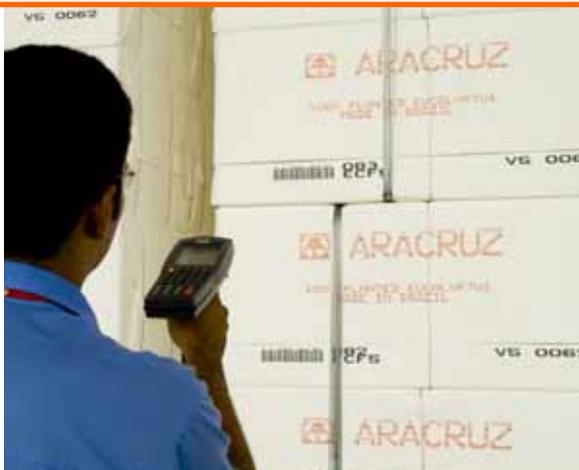
In 2007, Portocel sought an injunction in the Aracruz District Court against the Construction Workers Union (Sintraconst) as a result of some of the defendant's members having prevented other workers from entering the terminal area.

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

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

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### Accidents with lost time Aracruz employees

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

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

### Accidents with lost time Permanent outsourced workers

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

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

## Labor force

### Employee profile

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

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

### Health and safety

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

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

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



## Quality of life

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

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

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

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

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

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

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

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

## Suppliers

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

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

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

## Information technology

### Management systems

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

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

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

### Governance

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

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

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

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

## Environmental management

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

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

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



## Climate change

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

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

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

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

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

### Survey of carbon stock in native forests

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

### In the plantations

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

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

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

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

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

\* Atlantic Forest reserve areas.

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

## Emissions inventory

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

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

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

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

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

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

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

### Direct GHG emissions (tCO<sub>2</sub>e)

Scopes 1 + 2 + 3



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

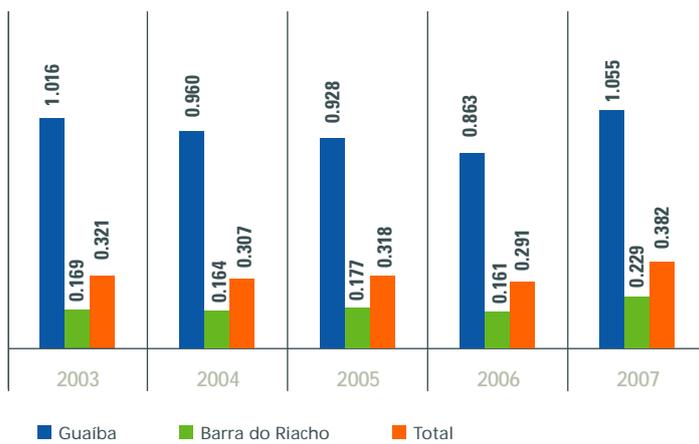
Scope 2: Indirect GHGs emissions - net emissions based on energy imports and exports, such as is the case of imported electricity and steam.

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

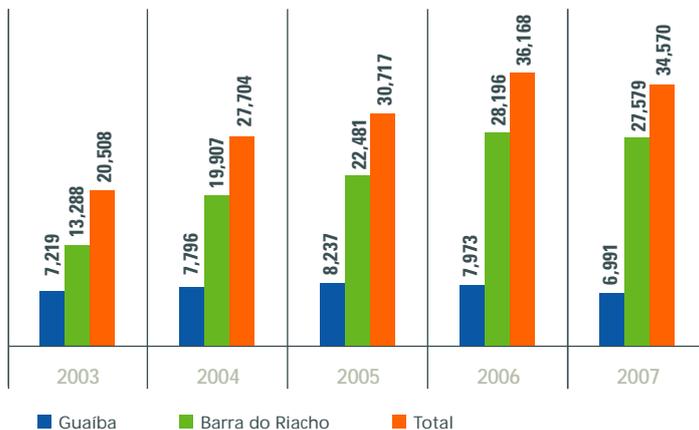
tCO<sub>2</sub>e - equivalent carbon ton.

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

Scope 1



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



ktCO<sub>2</sub> - thousands of carbon tons.

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## Chicago Climate Exchange

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

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

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

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

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



## Veracel

### Competitive operations

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

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

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

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

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

Cut:	3,547,000 m <sup>3</sup> sc
Transshipment:	3,543,000 m <sup>3</sup> sc
Transportation:	3,572,000 m <sup>3</sup> sc

m<sup>3</sup>sc - debarked cubic meters

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

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

### Best environmental practices in forestry operations

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

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

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

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

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



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

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

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

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

## Atlantic Forest Program

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

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

## RPPN Veracel Station

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

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

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



## Best environmental practices for pulp production

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

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

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

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

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

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

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

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

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

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

## Challenges for 2008

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



## Learning and Development

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

## Professional training and development

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

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

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

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

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

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

## Opportunity for young people

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

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

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

## Internal environment

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

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

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

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

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

## Direct Dialogue about the Environment

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

## Environmental Education Program

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



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

## Engagement

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

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



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

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

### Community perception

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Community relationships

### Aracruz and indigenous communities in ES

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

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

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

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

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

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

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

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

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

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

### Aracruz and the 'quilombolas'

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

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

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

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

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

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

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

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

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

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

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

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

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



## Charcoal

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

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

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

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

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

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

## Dialogues with NGOs

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

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

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

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

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

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



## Participation in the Atlantic Forest Forestry Dialogue

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

## Participation in the TFD

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

## Financial community

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

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

## Visits

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

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

## Presence in forums

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

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

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

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## Perceptions of readers

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

## Corporate CSR professional

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

## Student

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

## Academic

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

## Consultant

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

## Sustainability Objectives for 2008

### Governance

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

### Stakeholder relationships

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

### Social investments

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

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

### Responsibility for the chain of supply

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

### Environment

#### □ Biodiversity

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

## Other actions

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

## Employees

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

Barra do Riacho Unit						Guaíba Unit					
Parameter	Unit	BAT		2007 Average	2008 Target	Parameter	Unit	BAT		2007 Average	2008 Target
		IL	SL					IL	SL		
<b>Effluents</b>						<b>Effluents</b>					
COD	kg/adt	8	23	16.5	Keep parameters within BAT limits	COD	kg/adt	8	23	3.73	Keep parameters within BAT limits
BOD	kg/adt	0.3	1.5	1.70		BOD	kg/adt	0.3	1.5	0.23	
TSS	kg/adt	0.6	1.5	1.66		TSS	kg/adt	0.6	1.5	0.49	
Total nitrogen	kg/adt	0.1	0.25	0.27		Total nitrogen	kg/adt	0.1	0.25	0.08	
Phosphorus	kg/adt	0.01	0.03	0.04		Phosphorus	kg/adt	0.01	0.03	0.0029	
AOX	kg/adt	0	0.25	0.11		AOX	kg/adt	0	0.25	0.09	
Outflow	m <sup>3</sup> /adt	30	50	33.5		Outflow	m <sup>3</sup> /adt	30	50	32.60	
<b>Atmospheric emissions</b>						<b>Atmospheric emissions</b>					
TRS	kg/adt	0.1	0.2	0.0050	Keep parameters within BAT limits	TRS	kg/adt	0.1	0.2	0.008	Keep parameters within BAT limits
SO <sub>2</sub>	kg/adt	0.2	0.4	0.1744		SO <sub>2</sub>	kg/adt	0.2	0.4	9.42	
PM	kg/adt	0.2	0.5	0.3994		PM	kg/adt	0.2	0.5	3.51	
NOx	kg/adt	1.0	1.5	1.3491		NOx	kg/adt	1.0	1.5	1.18	
<b>Solid residues</b>						<b>Solid residues</b>					
Residues	kg/adt	0	43	91.2	Keep parameters within BAT limits	Residues	kg/adt	0	43	0	Keep parameters within BAT limits

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

IL - Inferior limit  
 SL - Superior limit  
 PM - Particulate matter emission

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

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

## Prizes and Recognitions for Aracruz Celulose in 2007

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

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

## External Views

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

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

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

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

**Flávio Comim**  
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Cambridge - England  
April 2008

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

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

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

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

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

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

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

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

**Fabio Feldmann**  
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## Verification Statement

### Introduction

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

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

### Methodology

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

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

### Technical opinion

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

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

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

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

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

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

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

## Conclusion

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

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

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

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

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

## Global Reporting Initiative (G3)

### Economic performance

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

### Market presence

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

### Indirect economic impacts

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

## Environmental

### Materials

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

### Energy

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

ASR – 2007 Annual and Sustainability Report

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

NA – Not applicable NR – Not reported

■ – Additional ■ – Core □ – Corresponds with the UN Global Compact

## Water

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

## Biodiversity

EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Forestry operations (ASR)	44-51
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
EN13	Habitats protected or restored.	Biodiversity (ASR) RPPNs (ASR)	48-49 51
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Biodiversity (ASR) RPPNs (ASR) Meteorology and water resources (ASR) Fulfilling Aracruz Celulose's sustainability objectives for 2007 (CD/Website) Main sustainability objectives for 2008 (ASR)	48-49 51 48 88-89
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

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

■ – Additional   
 ■ – Core   
  – Corresponds with the UN Global Compact

## Products and services

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

## Compliance

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

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

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

### Employment

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

### Labor/management relations

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

### Occupational health and safety

 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	
 LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Labor force (ASR)	57-59
 LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Quality of life (ASR)	58-59
 LA9	Health and safety topics covered in formal agreements with trade unions.	NR	

 – Additional  – Core  – Corresponds with the UN Global Compact

### Training and education

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

### Diversity and equal opportunity

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

## Social performance: human rights

### Investment and procurement practices

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

### Non-discrimination

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

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

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

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

## Security practices

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

## Indigenous rights

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

### Community

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

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

### Public policy

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

### Anti-competitive behavior

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

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

## Social performance: product responsibility

### Customer health and safety

	Description	Location	Page
	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	
	PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	There were no reports in 2007.	

### Products and service labeling

	PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	NA	
	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	
	PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Customer relationships (ASR)	41

### Marketing communications

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

### Customer privacy

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

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

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