



Annual Report 2005 Sustainability Report



The Company

Aracruz Celulose is a Brazilian company, the world's leading producer of bleached eucalyptus pulp. It is responsible for 30% of the global supply of the product, used to manufacture printing and writing, tissue, and high value added specialty papers.

Aracruz's forestry operations are situated in the States of Espírito Santo, Bahia, Minas Gerais and Rio Grande do Sul. They involve some 261,000 hectares of eucalyptus plantations, intermingled with around 139,000 hectares of native forest reserves, which are of fundamental importance for ensuring the balance of the ecosystem.

The Company runs a Forestry Partners Program that involves approximately 81,000 hectares contracted in partnership with more than 3,000 farmers in the States of Espírito Santo, Bahia, Minas Gerais and Rio Grande do Sul.

Aracruz's nominal production capacity of bleached hardwood eucalyptus pulp, totaling three million tons a year, is distributed between three pulp making units: Barra do Riacho in Espírito Santo (2.1 million tons), Guaíba in Rio Grande do Sul (430,000 tons) and Veracel in Bahia (450,000 tons, or 50% of the unit's total capacity).

In Espírito Santo, Aracruz operates a pulp making complex that is fully integrated with company-owned eucalyptus plantations and a specialized private port, Portocel, through which most of its production is exported. Environmental control is ensured through modern systems that treat all emissions, effluents and solid wastes.

At the Guaíba Unit, located in the municipality of Guaíba (RS), Aracruz operates a pulp mill that is also equipped with advanced environmental protection measures, with the nominal capacity to produce 430,000 tons annually of bleached eucalyptus pulp. The unit devotes part of this volume to the production of some 50,000 tons of printing and writing paper, to supply the domestic market.

A third manufacturing facility – Veracel Celulose, with a nominal annual capacity of 900,000 tons of bleached eucalyptus 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 of the U.S., Aracruz owns one-third of 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.

Aracruz's commitment to sustainable development is reflected both in the Company's management of its eucalyptus plantations and its preservation of the natural ecosystems. Strict environmental practices at the Company's pulp mill are also subject to a process of continuous improvement.

The Company's standards of social responsibility are reflected in, among other aspects, a significant program of social contributions to neighboring communities in the regions in which Aracruz operates.

Four major shareholders control the Company'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), New York (NYSE) and Madrid (Latibex) stock exchanges.

Aracruz is one of the three Brazilian companies included in the Dow Jones Sustainability Index (DJSI World) 2006, which highlights the best corporate sustainability practices in the world. On the Bovespa exchange, it is among the 28 companies that comprise the Corporate Sustainability Index (ISE).



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Board of Directors

Carlos Alberto Vieira – Chairman

Alvaro Luis Veloso

Eliezer Batista da Silva

Ernane Galvêas

Haakon Lorentzen

João Carlos Chede

Luiz A. Corrêa do Lago

Nelson Koichi Shimada

Raul Calfat

Sandra Meira Starling

Executive Officers

1. Carlos Augusto Lira Aguiar – President and CEO

2. Isac Roffé Zagury

3. João Felipe Carsalade

4. Walter Lídio Nunes

Associate Officers

Carlos Alberto de Oliveira Roxo

José Luiz Braga

Fiscal Council

Fernando Octávio Martins Alves

Octávio Mauro Muniz Freire Alves

Wagner Braz

Message from the Management

The results obtained by Aracruz in 2005 represented new records, with pulp sales totaling 2.6 million tons and net income of US\$341 million. The operating cash generation measured by the EBITDA (adjusted for other strictly accounting events) totaled US\$669 million. Mostly contributing to these results were increases in production and sales and a higher average price in dollars of pulp on the international market.

The international climate was favorable, marked by continued Chinese economic growth and improved economic performance of the United States, Europe and Japan. The price of most commodities increased – especially oil, which rose to record highs.

Brazil's economic climate was impacted by a political crisis and GDP growth that was lower than expected, below the 5% increase registered in 2004.

Despite this, Aracruz continued to implement its strategy of strengthening long-term relationships with customers, maintaining a growth curve consistent with its participation in the world hardwood pulp market – of which it expects to supply about 13% as of 2006.

In order to achieve this goal, we concluded investments designed to increase our production capacity, highlighted by the startup of Veracel in Bahia, which will add 450,000 tons annually to the volume of pulp already produced by Aracruz. For its part, the nominal capacity of the Guaíba Unit (RS) was increased and, at the end of the year, we initiated a project to expand the specialized Portocel terminal adjacent to the Barra do Riacho Unit (ES), designed to increase its handling capacity to six million tons over the next two years. New investments are also scheduled to boost production at the Barra do Riacho Unit and to expand our forestry base.

We continued to implement our strategy to strengthen long-term relationships with the clients and improve our market share.

If 2005 was notable for the conclusion of investments initiated in previous years, it was also important because we had to deal with a number of unusual situations that have illustrated the need to constantly consider the impact of all our actions.

We confronted delicate issues such as the invasion of land by members of Tupinikim and Guarani indigenous communities, who occupied 11,000 hectares of the Company's properties and instigated the invasion of one of the administration buildings of the Barra do Riacho (ES) pulp mill.

Furthermore, the invasion of 8,700 hectares of Company land in Espírito Santo by members of the Landless Workers Movement (MST) raised the question of the legality of such invasions. It should be noted that other companies faced similar problems in 2005, which demonstrates that it is a nationwide issue that requires the active participation of the federal government and all parties involved in order to seek a permanent solution.

All these questions were handled with respect for the law and in a spirit of compromise, which continues to be the hallmark of our actions with regard to the communities. This accords with our principles regarding the importance of sustainability as part of the Company's business strategy.

We joined the Chicago Climate Exchange (CCX), which trades carbon credits, becoming the first company in Latin America to voluntarily accept targets for reduction of its emissions.

The information presented in our Sustainability Report was subject to verification by independent auditors, as in each of the previous two years.



Carlos Alberto Vieira

Carlos Augusto Lira Aguiar

We were honored by a number of significant distinctions in 2005, with the Company's inclusion on the Dow Jones Sustainability Index (DJSI World) 2006 and the Bovespa Corporate Sustainability Index being particularly noteworthy, attesting to our adoption of advanced corporate responsibility practices.

Another very important event was Standard & Poor's raising of Aracruz's foreign currency risk classification to investment grade, which should help reduce the Company's cost of capital over the medium-term and, consequently, increase its market capitalization.

Equally noteworthy was the examination and formal approval by the Fiscal Council and Audit Committee of the audited financial statements for the 2005 fiscal year before they were disclosed to the market.

We were also included for the second year in a row on the list of the Best Companies to Work for in Brazil and, for the third time, considered the Most Admired Company in the Paper and Pulp Sector, by the *Guia Exame Você S/A* and *Carta Capital* magazines, respectively.

These accomplishments, deriving from the efforts of a competent and dedicated team, are additional encouragement for our intention to embed sustainability in all aspects of our business. That is the only way we will be able to maintain the Company's growth, assure consistent returns for shareholders, retain customer satisfaction, promote healthy relationships with the communities and preserve the environment, thus generating wealth and benefits for everyone.

Carlos Alberto Vieira, Chairman of the Board of Directors

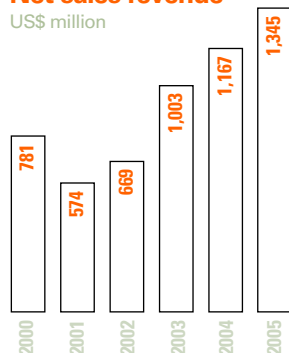
Carlos Augusto Lira Aguiar, President and CEO

Highlights (*)

Consolidated data 2004/2005

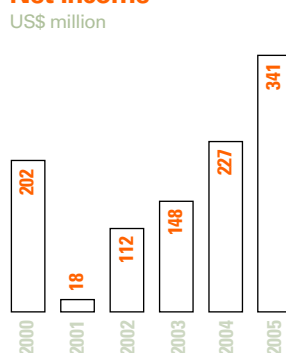
Net sales revenue

US\$ million



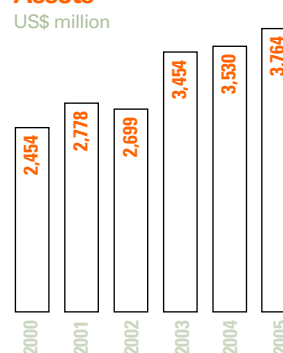
Net income

US\$ million



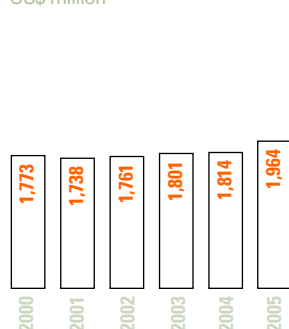
Assets

US\$ million



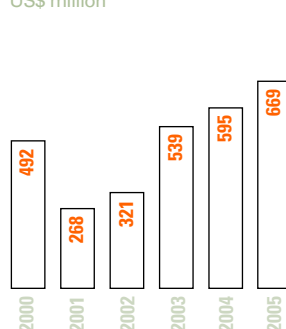
Shareholder's equity

US\$ million



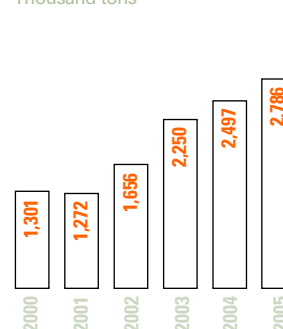
EBITDA ¹

US\$ million



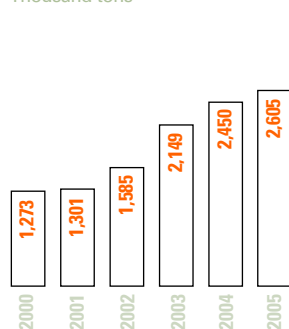
Production

Thousand tons



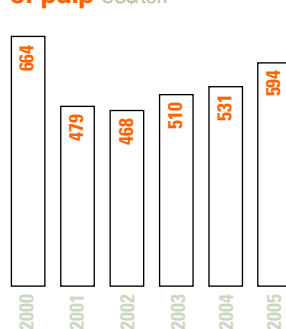
Sales

Thousand tons



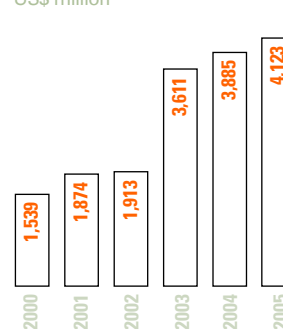
Average list price of pulp

US\$/ton



Market capitalization ²

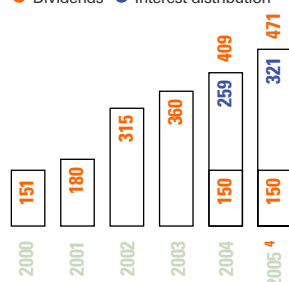
US\$ million



Dividends Based on the fiscal year

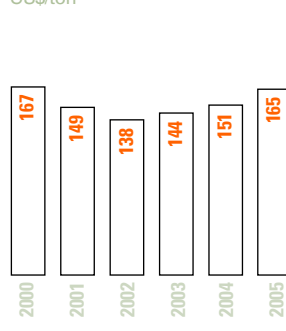
R\$ million

○ Dividends ● Interest distribution



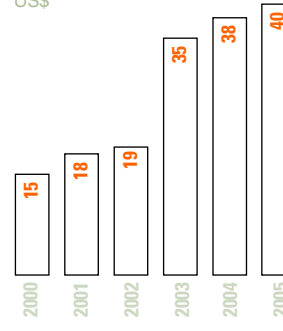
Cash production cost

US\$/ton



Stock price ⁵

US\$



¹ EBITDA | Adjusted for other non-cash items. ² Market capitalization | Price per ADR (closing price for each year) x number of company's shares. ³ Dividends | Including interest distribution. ⁴ Dividends | R\$150 million of supplementary dividends to be approved at a General Shareholder's Meeting, next April 2006. ⁵ Stock price | Price per ADR (closing price for each year).

US GAAP (US\$ million)	2004	2005
Income statement		
Net sales	1,167.1	1,345.2
Operating income	356.7	447.1
Income before income taxes	297.5	413.3
Net income	227.2	341.1
Balance sheet		
Cash and cash equivalents	36.5	34.1
Short-term investments	412.1	521.6
Other current assets	384.5	539.1
Property, plant and equipment, net	2,133.9	2,068.5
Investment in affiliated company	481.0	506.0
Long-term investments	1.6	2.3
Other assets	80.1	92.4
Total assets	3,529.7	3,764.0
Short-term/current portion of long-term debt, includes accrued finance charges	152.9	292.0
Other current liabilities	121.9	193.2
Long-term debt	1,222.7	1,010.3
Other long-term liabilities	217.6	303.8
Minority interest	0.3	0.3
Stockholders' equity	1,814.3	1,964.4
Total liabilities and stockholders' equity	3,529.7	3,764.0
Cash flow		
Operating income	356.7	447.1
Depreciation and depletion	206.9	211.6
Depreciation and depletion – inventory movement	(0.8)	(10.5)
EBITDA	562.8	648.2
Non-cash items		
Provision for loss on ICMS credits	22.9	7.4
Other	9.3	13.3
EBITDA (adjusted by non-cash items)	595.0	668.9
Financial (expenses) income and gain (loss) on currency remeasurement, net	(47.7)	9.5
Cash flow impact of other operating activities, except financial	(79.4)	(141.5)
Sub-total	467.9	536.9
Additions to property, plant and equipment	(94.5)	(147.9)
Investments in affiliate	(99.0)	(69.1)
Proceeds from sale of equipment and investment	18.1	0.7
Dividends and interest on stockholders' equity paid	(198.7)	(139.4)
Net cash flow before the increase/decrease of the net debt	93.8	181.2
Increase (decrease) in gross debt ⁽¹⁾	4.1	(73.4)
Net cash flow	97.9	107.8
Cash and cash equivalents/short and long-term investments, beginning of period	352.3	450.2
Cash and cash equivalents/short and long-term investments, end of period	450.2	558.0
Production and sales volume (thousand tons)		
Production ⁽²⁾	2,496.5	2,785.5
Sales	2,450.0	2,604.6
Year-end inventories	277.8	395.4
Average list pulp price (US\$/ton)	531	594
(1) Includes gain/loss on remeasurement.		
(2) In 2005 includes 50% of Veracel.		
(*) The Company's financial information have been prepared according to US GAAP.		



Executive Summary

Aracruz Celulose is reporting its performance during the period in question from four key perspectives that reflect its growth and productivity strategy.

VALUE CREATION – our actions to increase the value of the Company and ensure that it is a rewarding investment for our shareholders on a sustainable basis.

CUSTOMER SATISFACTION – our initiatives to anticipate, satisfy and surpass the requirements of our customers.

INTERNAL PROCESSES – our measures to increase the efficiency of our internal processes and improve the quality of the products and services that we offer.

LEARNING AND DEVELOPMENT – the people who are responsible for Aracruz's success, the programs that are conducted to ensure a favorable internal climate and to fully support its activities, and the initiatives taken to improve our relationship with society in line with our social and environmental commitment.

Value Creation

The global situation

The Brazilian economy in 2005 performed below expectations, growing approximately 2.5%, or half the previous year's figure. Despite a good trade balance, the appreciation of the Brazilian real against the U.S. dollar negatively affected the export sector's results.

The international situation was favorable, although at lower levels than seen in 2004, with the worldwide economy continuing to grow at a robust pace (4.3%). The volume of international trade increased 7% while the price of non-oil commodities rose 8.6% (compared with 18.5% in 2004).

The average price for eucalyptus pulp was \$594/ton (list price), about 12% higher than the previous year.

Compared with the positive external environment, two factors were primarily responsible for the weak domestic performance: the country's monetary policy and the political crisis. In the case of the former, interest rates remained high in order to contain rising inflation from the third quarter of 2004. The political crisis affected the confidence of businessmen and consumers in view of the risk of changes in economic policy, mainly the possibility of fiscal austerity. However, its most negative effect was to paralyze discussions in the National Congress about fundamental reforms to make new investments feasible and allow resumption of sustained growth.

Unless noted otherwise, currency numbers are in U.S. dollars rounded to next integer. Tonnage refers to metric tons.



We cultivate value

Being among the lowest-cost producers in the world grants Aracruz a strong competitive advantage in the pulp market.

2005's results

The startup of the activities of Veracel, a joint venture with Stora Enso, was one of the main factors leading to the increase in the volume of pulp sales and the subsequent increase in net income and cash generation (EBITDA), supporting a sustainable growth in shareholder rewards in the form of dividends and interest on stockholders' equity, and facilitating the Company's plans.

The EBITDA (adjusted for some strictly accounting events) of \$668.9 million was 14% higher than the \$595.0 million achieved in 2004. The EBITDA margin, of 50%, reflects the Company's competitive advantage as one the lowest-cost producers in the world in the industry.

Consolidated net income, reaching \$341 million in accordance with accounting principles generally accepted in the United States of America (US GAAP), was a record, representing an increase of 50% compared with the previous year.

The complete analysis of the Company's results in 2005 is presented in the Financial Information section at the end of this publication.

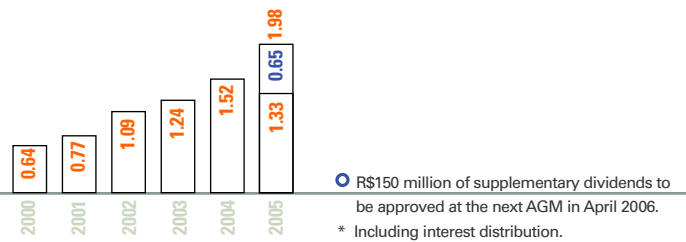
Dividends

Based on 2004's performance Aracruz declared in April dividends in the amount of \$59.5 million. Payment was initiated in May. The distribution of interest on stockholders' equity during 2005 totaled \$131.1 million. The chart on the next page presents the increase in amounts paid since 2000.

Main variances between 2004's and 2005's results

	US\$ million
Higher pulp sales price	115
Higher pulp sales volume	26
Effect price on costs	(50)
Increase of net financial income	52
Higher gains on currency remeasurement, net	5
Equity results of affiliated companies	(32)
Others	(2)

Dividends *
based on the fiscal year
Gross amount US\$/ADR



Statements of the Fiscal Council and the Audit Committee

In meetings held on January 10, 2006, the Company's Fiscal Council and Audit Committee examined and approved the audited Financial Statements for the year ended December 31, 2005, as well as the proposal for the distribution and payment of dividends that will be presented to the AGM by Executive Management.

Risk management

In 2005, Aracruz initiated a process to structure its corporate risk management system in the context of the Sustainability Plan under development and the supplementary risk management currently existing within the Company. The new structure is designed to be an agile and effective tool in the decision-making processes, permitting better corporate governance practices, the integrated treatment of multiple risks (risk portfolio) and support of other strategic management cycles.

The scope of the first stage of this work was the definition and introduction into the Company of the methodology to be used for managing corporate risks, taking into account probabilities and impacts – both financial as well as intangible – on the Company's capital.

Operating risks: the control of environmental licenses

and conditions was computerized, using the Datalic system, which mitigates risks related to the failure to comply with conditions and subsequent loss of licenses.

Financial risks: the impact of currency exchange swings on the Company's cash flow is kept to a minimum, mainly through the use of financial derivatives.

Aracruz seeks to maximize its efficiency in the management of its financial assets and liabilities, striving to reduce the cost of its long-term capital and preserve adequate levels of liquidity and safety. One demonstration of this in 2005 was the reconfirmation of Aracruz's investment rating in local currency by three of the main financial risk agencies – Fitch, Moody's and Standard & Poor's (S&P) – and the raising of the Company's foreign currency risk classification, also to investment grade, by S&P, which meant assigning its credit a moderate rating with no speculative elements – a level equivalent to the largest companies in its sector in the world.

Management of financial assets and liabilities obeys the guidelines of a Financial Policy approved this year by the Board of Directors, which establishes criteria and specific indicators for the management of liquidity, market and credit risks in hedge, arbitrage and opportunity operations. Furthermore, the

Actions carried out during 2005 reinforced the strategy of continued investments that make it possible to obtain a growing share of the international hardwood pulp market.

Financial Policy sets cautionary limits for these operations, based upon best corporate governance practices.

For 2006, the following actions are scheduled:

- Evaluation of the intangible impact of the risks.
- Preparation of a consolidated risk matrix for the 2006-2007 period for the Barra do Riacho and Guaíba Units.
- Preparation of a formal risk management policy and integration with related processes, such as the Sarbanes-Oxley Act, ISO and the Company's Management Program.
- Dissemination of the risk management culture to the entire executive group.

Strategy

Actions carried out during 2005 reinforced the strategy adopted by Aracruz over the past few years of continued investments that make it possible to obtain a growing share of the international hardwood pulp market.

The efforts that have been made to achieve operating excellence in forestry and industrial activities, coupled with its actions as a good corporate citizen, seek to create conditions for Aracruz to continue along a path

of sustainable growth in the forthcoming years.

The Company's strategy is underpinned by two main principles: growth and operating excellence, with the central goal being to maximize the value of the Company for its shareholders.

In order to do this, the following objectives are key:

- **Customers:** to satisfy current demand and to seek continuous growth and long-term relationships whose hallmark is joint development of products and services.
- **Financial results:** to optimize margins; to minimize costs, satisfying market requirements; to maximize investor returns; to ensure profitability and sustainability over the long term.
- **Internal processes:** to assure effective financial management; to assure wood supply; to achieve maximum efficiency of manufacturing units, satisfying market requirements; to introduce enhancements to pulp logistics; to minimize tax liabilities, respecting legal limits and regulations; among others – always striving for cost optimization.

- **Training and growth:** to align people with the corporate strategy; to produce a motivating internal climate; to build effective relationships with stakeholders; to provide and implement technological solutions, among others.

These objectives are broken down into indicators, targets and initiatives designed to ensure implementation of the established strategy as well as to be the basis of future investment decisions, safeguarding the competitive advantages that have been achieved.

Aracruz's average production capacity growth since 1995, of 10% per year, is reflected in the creation of value for shareholders and in the establishment and maintenance of long-term relationship with customers, suppliers, employees and other stakeholders, demonstrating the correctness of the strategy and the success with which it has been implemented.

This consistent growth of production is translated into an increase in the value of the Company (net debt + value of its shares in U.S. dollars x number of shares) of 10% per year over the period, from \$2.0 billion in December 1995 to \$5.3 billion in December 2005.

Sustainability plan

Aracruz's business is linked intrinsically to the question

of sustainability. From an environmental point of view, the continuity of the enterprise depends upon natural resources such as wood, land and water, and from a social point of view, upon relationships with numerous stakeholders, all essential to its growth.

In this context, Aracruz proceeded to put into action the Strategic Sustainability Plan it initiated in 2004. The purpose of the plan is to ensure more structured treatment of the question, establishing processes in response to the growing challenges of the business environment. Since then, an initial diagnosis has been made and tangible links established between sustainability and the Company's business case. Corporate governance and stakeholder engagement were identified as priority aspects and some actions were already taken in this regard during 2005.

Corporate governance

Aracruz bases its activities on the best corporate governance practices and the principles of transparency, sustainable growth and management independence.

Throughout 2005, measures were adopted to assure more structured actions of the various management groups regarding questions of sustainability, emphasizing the following:



- The preparation of Internal Rules for the Board of Directors and each of its Consulting Committees in order to increase the effectiveness of their activities.
- The conclusion of a survey of the Company's regulatory structure, including a proposal for an improved hierarchy merging the mission, values, principles, codes, policies and internal rules, making them converge towards the greater sustainability objective. This proposal is currently in an approval phase and should be implemented in 2006.
- The mapping of the Company's many different processes in order to evaluate existing risks and actions necessary to satisfy the Sarbanes-Oxley Act.
- The approval of the Company's Financial Policy by the Board of Directors.

The implementation of a tool that will make it possible to monitor SAP-R/3 access profiles was initiated, designed to detect a combination of high-risk functions that can be segregated. For 2006, new improvements are scheduled for existing systems along with the installation of corporate tools to manage risks and controls.

We concluded a supplier training program under which 65 service companies were evaluated regarding the economic, social and environmental aspects of their activities. This process sought to intensify the formal

social and environmental commitments of the suppliers.

In 2005, work continued on efforts, initiated in 2003, to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act (SOX) – promulgated by the U.S. Congress in 2002, which is applicable to foreign companies listed on the New York Stock Exchange and also recommended for companies participating in the Bovespa Corporate Governance Level 1 Program.

Problems pointed out by a survey of risks are being resolved through the implementation of new controls and a review of some procedures, designed to obtain certification by the end of 2006, without any reservations on the part of the outside auditors, of the effectiveness of the internal controls attested to by the Company's management.

During the course of 2005, adjustments to the functions of the Audit Committee were also made to adapt them to the requirements of the SOX; a specialist in Brazilian and U.S. accounting principles and finances was appointed and certain aspects regarding the independence of the committee's members were amended.

Services provided by Deloitte Touche Tohmatsu Independent Auditors, as established under Article 2 of CVM Instruction nº. 381/03.

Date services hired	Duration	Nature of the services	Total value of fees (in US\$)	% compared to Accounting Audit
April 2005	12 months	Accounting Audit	260,343.00	
April 2005	12 months	Certification of Self-Management Control	40,425.00	15
May 2005	4 months	Verification DIPJ 2005	5,735.00	2
Various		Technical analyses and tax reviews	27,264.00	11

Procedures adopted by the Company in compliance with Paragraph III, article 2 of CVM Instruction nº. 381/03:

The Company adopts, as a formal procedure prior to the hiring of other professional services not related to external accounting audits, a commitment to consult the Independent Auditors regarding assurance that the provision of these other services shall not affect the independence and objectivity necessary for the performance of independent audit services as well as to obtain the duly required approval of its audit committee.

Summary of the justification report of the Independent Auditors – Deloitte Touche Tohmatsu, in compliance with Paragraph IV, article 2 of CVM Instruction no. 381/03:

The execution of other professional services not related to the external audits described above shall not affect the independence or objectivity in the carrying out of the external audit examinations of the Company and its subsidiaries/associated companies.

The Entity's action policy regarding services not related to external audits is based upon principles that preserve the independence of the independent auditor, including: (a) the auditor must not examine its own work, (b) the auditor must not exercise management functions in Entities in which it performs external accounting audit services and (c) the independent auditor must not promote the interests of the audited Entity. These facts did not occur in the case of the aforementioned services.

Capital expenditures

Aracruz's capital expenditures in 2005 totaled \$217 million. The detailed information on the earmarking of these funds can be found on the table on the following page.

Modernization of Guaíba

Investments in the modernization of the Guaíba Unit in Rio Grande do Sul were made, which increased the installed capacity to 430,000 tons per year of bleached eucalyptus pulp.

The investments in the industrial process generated improvements in the scrubbing, depuration, bleaching, drying and causticizing areas as well as the demineralization plant and wood yard. New wood unloading platforms were installed that make it possible to transport logs longitudinally via truck, offering greater highway safety.

In the forestry sector, the investments propitiated the expansion of approximately 12,000 hectares of land (of which 8,700 hectares consists of forests), the renovation of plantations and the construction of a new nursery at the Barba Negra Farm in Barra do Ribeiro.

Veracel

The Veracel mill began operations producing its first bale of pulp on May 22 after 17 months under construction, which at the peak of the project involved 12,000 workers.

In November, the mill completed 30 consecutive days of its average designed production (2,543 tons a day of bleached eucalyptus pulp), thus reaching full operating capacity and concluding the so-called

learning curve in a world record time for industrial operations of its size. In a process manufacturing facility, the learning curve represents the period during which real time operating tests are conducted, eventual adjustments and repairs to equipment and installations are carried out and the mill is set up to operate continuously at the targeted rate. In the case of Veracel, this period was concluded just 174 days after startup, when a normal period for a plant of this size would be one year.

The unit has nominal production capacity of 900,000 tons per year of bleached eucalyptus pulp and its production is entirely sold to its controlling shareholders, Aracruz Celulose and Stora Enso, in proportion to their stakes in the project (50% each). In 2005, production was 468,000 tons of pulp, of which nearly 234,000 tons went to Aracruz.

	US\$ thousand
Capital expenditures	
Purchase of land and forests	2
Silviculture (forest area)	65
Industrial investments	40
Other forestry investments	4
Modernization of the Guaíba Unit	27
Diverse projects	10
Subtotal	148
Investments in affiliated companies	69
Total	217



Portocel

The specialized Portocel terminal will receive investments of some \$30 million as of the first quarter of 2006, earmarked for expansion of its pulp export handling capacity. In 2005, 4 million tons of the product passed through the port, coming from Aracruz, Veracel and Cenibra. With the scheduled capital expenditures, the terminal should be able to handle 6 million tons/year by 2008, and will also begin to service shipments from Suzano Bahia Sul as of 2006.

Intangible assets

It is Aracruz's policy to strive continuously for consistent relationships with all stakeholders involved in its activities. Over the years, the Company has posted continuous growth and this economic result is directly associated with the positive image its customers, suppliers, investors, communities, representatives of civil society and its own employees have of the Company.

The intangible assets are precisely those that are empirically perceived by its different publics, such as those that generate – or have the potential to generate – economic gains for the Company, strengthening its competitiveness. Among these the strength of its brand, the attractiveness of the

Company for strategic alliances, the level of training and motivation of its workforce and the exclusive use processes are included.

Since 2004, Aracruz has been strengthening its commitment to the sustainability of the enterprise, which presupposes consistency and transparency in administrative, economic, social and environmental spheres.

In 2005, Aracruz obtained two important distinctions recognizing this effort. In September, it was included on the select Dow Jones Sustainability Index (DJSI World) 2006, which highlights the best corporate sustainability practices in the world. It was also one of the companies selected to be on the Brazilian Bovespa Corporate Sustainability Index (ISE), inaugurated on December 1. The ISE is composed of a portfolio of the shares of 28 companies recognized for their commitment to social responsibility and corporate sustainability. The criteria used for selecting companies for inclusion on both indexes include aspects related to corporate governance, environmental management and shareholder relationships.

Customer Satisfaction

We continued to focus on strengthening long-term relationships with our customers in the main centers of consumption. One of the results of this strategy was a consistent rise in our share of the world eucalyptus hardwood pulp market.

We followed up in 2005 on important projects reflecting our strategy of enhanced integration with our commercial partners, striving to add value for them throughout the production chain with high levels of quality and maximum cost effectiveness.

We continued to invest in quality and productivity in the forestry and industrial areas, with the highlight being the startup of the Veracel mill, permitting an increase of 450,000 tons annually in the volume of pulp marketed by Aracruz in support of our customers' growth strategies.

Logistical efficiency

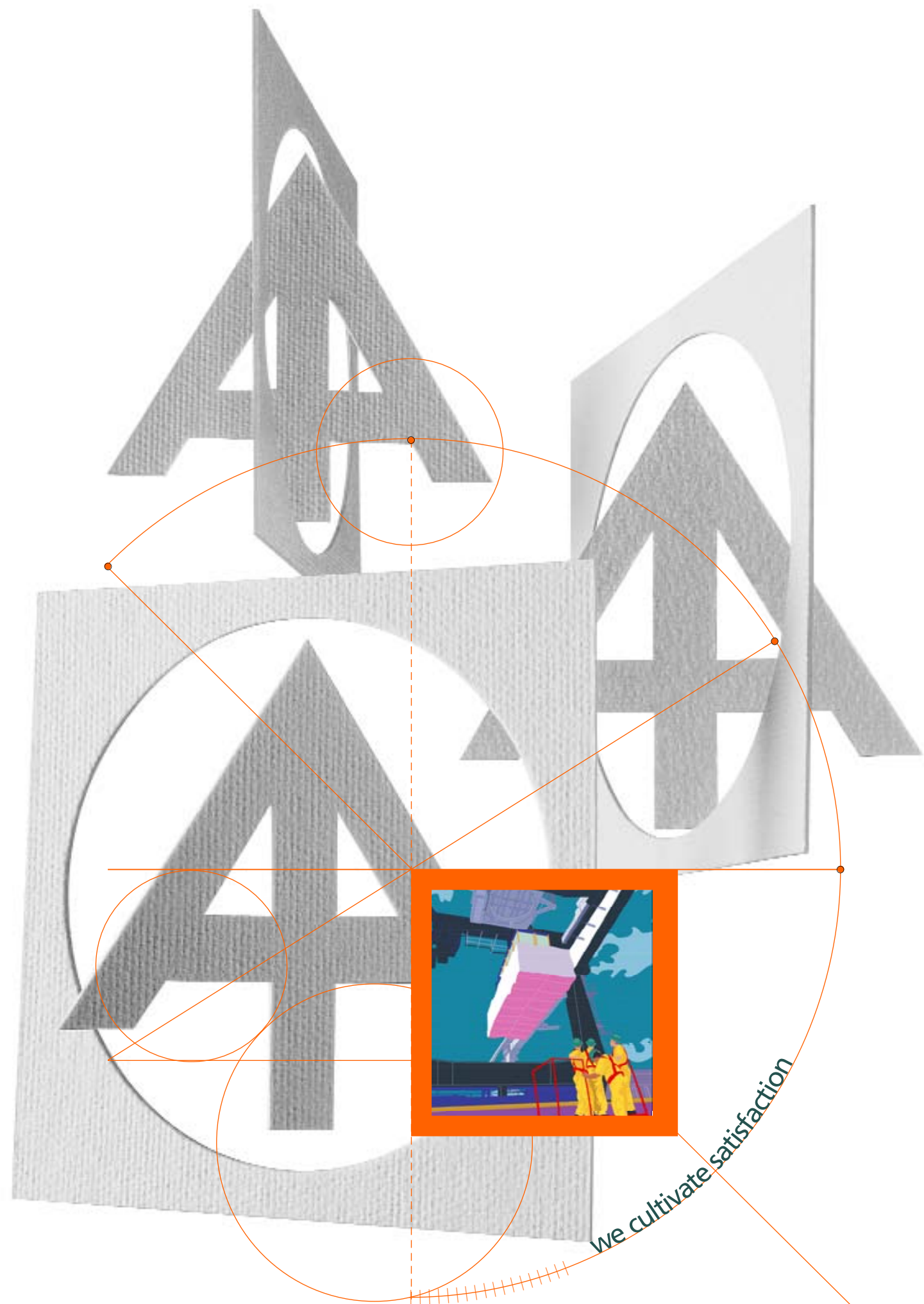
Some \$350,000 was invested in an ongoing electronic integration project for customers and logistical suppliers, which made it possible to achieve higher levels of efficiency and security in the exchange of information, thus improving services to customers.

With the startup of the Veracel mill, the coastal shipping operation between Belmonte, in the State of Bahia, and Portocel, in State of Espírito Santo, also entered into operation. A pioneer project in Brazil, it is conducted in partnership with the Norsul shipping company. Besides economic and social benefits, the operation makes it possible to achieve significant traffic reductions in logging trucks on local highways, with subsequent gains in efficiency and safety.

Furthermore, we kicked off the first phase of a system to upgrade management of the chain of logistics chain, designed to automate all outbound logistical planning – from demand forecasts to production scheduling.

Relationship management

The implementation of an Internet-based customer relationship tool was initiated in 2005. This will make it possible to improve and speed up the exchange of information with our customers. At the end of the year, the system was being evaluated for approval and was expected to enter into operation at the beginning of 2006.



we cultivate satisfaction

Location of pulp production units, distribution hubs and sales offices



--- Sales offices



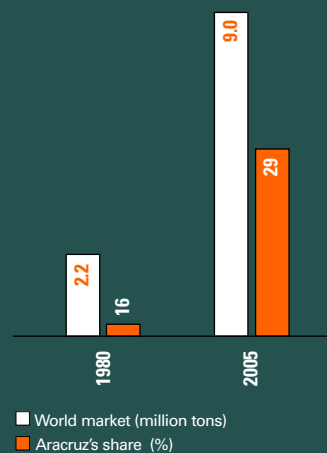
Pulp production units



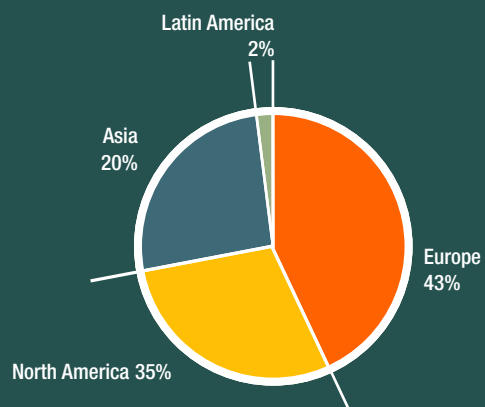
DH Distribution hubs



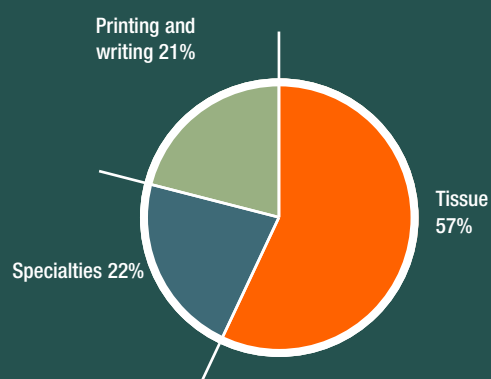
Growth of share of eucalyptus market pulp



Distribution per market – Aracruz



Sales by end-use



Barra do Riacho (Portocel)



Guaíba (Rio Grande)



Veracel

Internal Processes

Wood supply and logistics

As of 2006, Aracruz will once again become self-sufficient in its main raw material, taking into account in this calculation wood from its own plantations and from participants in the Forestry Partners Program. At the end of 2005, it had 260,800 hectares of own eucalyptus plantations and 139,200 hectares of native forest reserves in the four states in which it has forestry operations – Espírito Santo, Bahia, Rio Grande do Sul and Minas Gerais.

During the year Aracruz increased its own forest plantation base by 2,000 hectares at the Barra do Riacho Unit (ES and BA) and 6,000 hectares at the Guaíba Unit (RS). Another 23,000 hectares at the two units were managed through reform or coppicing programs.

Our forestry management integration process is particularly noteworthy. It encompasses the Barra do Riacho and Guaíba Units planning systems, making it possible to optimize the forest resources of both operations. This integrated approach contributes to guaranteeing current wood supplies to our mills and facilitates appropriate analysis of the forestry viability of new industrial facilities.

Two new platforms for receiving wood shipments were installed at the Guaíba Unit, making it possible to increase the length of harvested logs (from 2.3 meters to 3.0 meters) and permitting longitudinal transportation. The main benefits from this initiative included speedier loading and unloading of logging trucks, improved safety during highway wood hauling operations and improved compliance with legislation.



we cultivate efficiency



In the beginning of 2006 Aracruz will once again become self-sufficient with regard to wood, its main raw material.

During 2005, the Barra do Riacho Unit gradually reduced the need to purchase wood from the market and, in 2006, will resume being self-sufficient in wood supply. Despite also having attained wood supply self-sufficiency, the Guaíba Unit has a long-term outside supply contract, signed when it was still Riocell, which expires in 2014.

Forestry Partners Program

The Forestry Partners Program, which involves the planting of eucalyptus trees by partners and represents an important alternative wood supply source for the Company, ended the year with an increase of 14,000 hectares over 2004, totaling 81,000 hectares contracted in 145 municipalities in the States of Espírito Santo, Bahia, Minas Gerais and Rio Grande do Sul.

The program has now been initiated in 13 municipalities in the northwest of the State of Rio de Janeiro. After the definition of the requirements for the licensing process on the part of the government of the state, Aracruz conducted the IV Special Day for Farmers in the municipality of Bom Jesus de Itabapoana. The event attracted farmers from the region, agricultural professionals, technicians and students, marking the effective startup of the program in the state, with headquarters in Itaperuna.

Nurseries

The nurseries used for the production of seedlings were also improved over the year. At the Barra do Riacho Unit, phytosanitary improvements were made in the seedling production process that involved, among other actions, restructuring the production area and specific training for the team.

The production capacity of the Guaíba Unit's nursery was expanded – from 10 million to 30 million seedlings per year. The increase will generate about 200 job opportunities for residents of Barra do Ribeiro, the municipality in which the nursery is located.

Aspects of logistics

As foreseen, a second tugboat and a fourth barge were put into operation by the Barra do Riacho Unit for its ocean-going wood shipping program, which should reach full capacity during 2006. As a result, some 125,000 logging truck trips annually on the local highways will be eliminated, significantly contributing to the reduction of traffic on the BR 101 highway in the extreme south of Bahia and the north of Espírito Santo.

Origin of wood used in Aracruz's units	Barra do Riacho Unit				Guaíba Unit				Consolidated
	1 st Q	2 nd Q	3 rd Q	4 th Q	1 st Q	2 nd Q	3 rd Q	4 th Q	2005
Own forests	75%	86%	96%	96%	86%	86%	81%	76%	87%
Forestry Partners Program	4%	4%	4%	4%	-	-	-	-	3%
Wood purchases on the market	21%	10%	-	-	14%	14%	19%	24%	9%

Also at the Barra do Riacho Unit, a new model was developed for the storage and distribution of forestry inputs used in silviculture, both in our own areas as well as for the Forestry Partners Program. This new model, known as "Logistics Operator", consists of the hiring of a specialized logistics service supplier for these operations. The system was already in operation in 2005 for fuels and lubricants; in 2006, it will encompass silvicultural inputs.

Based on an agreement signed with Suzano Bahia Sul last December, the Portocel terminal's operating capacity will be increased through construction of two new warehouses, of 30,000 m² each, along with a new pier. The total investment is \$30 million and the project is scheduled for conclusion at the beginning of 2008.

Forest certification

The Company has achieved certification of all the areas under its own management (commercial plantations and native reserves) in Espírito Santo and Bahia under the Brazilian Forest Certification Program (CERFLOR). The areas located in Minas Gerais were audited and have been recommended for certification. At the end of 2005 the process was undergoing a public hearings phase.

Moreover, all its own lands in Rio Grande do Sul (commercial plantations and native reserves), already certified by the Forest Stewardship Council (FSC), were audited by the Bureau Veritas Quality International (BVQI) and recommended for CERFLOR certification.

CERFLOR obtained recognition on the part of the Programme for the Endorsement of Forest Certification Schemes (PEFC). Besides CERFLOR and the forest certification systems of a number of European countries, the PEFC has already recognized systems in the United States, Canada, Chile and Australia and has become the largest system in the world in terms of certified areas.

Pulp production

Aracruz's production of pulp totaled 2.8 million tons in 2005 distributed in its three manufacturing sites.

Besides historic annual and daily production records posted by the Barra do Riacho and Guaíba Units, also worthy of mention is the performance of the Veracel mill, which went on stream during the first half of the year. On December 7, the mill produced 3,648 tons of prime quality pulp, setting a world single line production record that until then had belonged to a facility located in China.

Research and technology

Investments proceeded in forestry and industrial research related to genetic improvement, sustainable forest management and the development of processes and products. Of particular note were studies into the use of industrial wastes and the biological control of the eucalyptus snout beetle.

Aracruz continued its strategy of studying alternative ways of using industrial wastes, with the objective being to reduce the volume of solids it sends to landfills. Accordingly, new investments were made to make it possible to use dregs and grits (sub-products that come from the recovery of chemical products from the pulp mill) as soil correctives, which could reduce by some 50% the total volume of wastes sent to the Company's industrial landfills.

The Company also, as a matter of principle, uses pest and disease control practices that have minimal environmental impact. In 2005, a research project was initiated that seeks to achieve the biological control of the pest known as the eucalyptus snout beetle (*Gonipterus scutellatus* Gyllenhal), with the introduction of a natural enemy into the region. The first results of this initiative should be observed in 2006.

Pulp production in 2005

Barra do Riacho Unit (Espírito Santo)

Guaíba Unit (Rio Grande do Sul)

Veracel (Bahia – 50% of total production)

thousand tons

2,134.5

417.0

233.9

Climate change

Aracruz is aware of climate change risks and has been evaluating and publishing statistics about its emissions and carbon stocks, seeking to minimize emissions, maximize carbon stocks and identify opportunities for social, environmental and economic gains.

In 2005, the Company joined the Chicago Climate Exchange (CCX), becoming the first Brazilian company to accept targets for the reduction of greenhouse gas (GHG) emissions.

Also during the year, we introduced a page dedicated to this subject on our website where information about GHG emissions and carbon stocks in native and plantation forests is available, as are the protocols used to estimate these emissions and stocks and the Company's emission targets. The emissions and targets were externally verified.



Learning and Development

Management of people

At the end of 2005, Aracruz was responsible for the maintenance of 10,237 direct jobs, of which 2,249 constituted its own labor force and 7,988 represented professionals linked to permanent service supply companies.

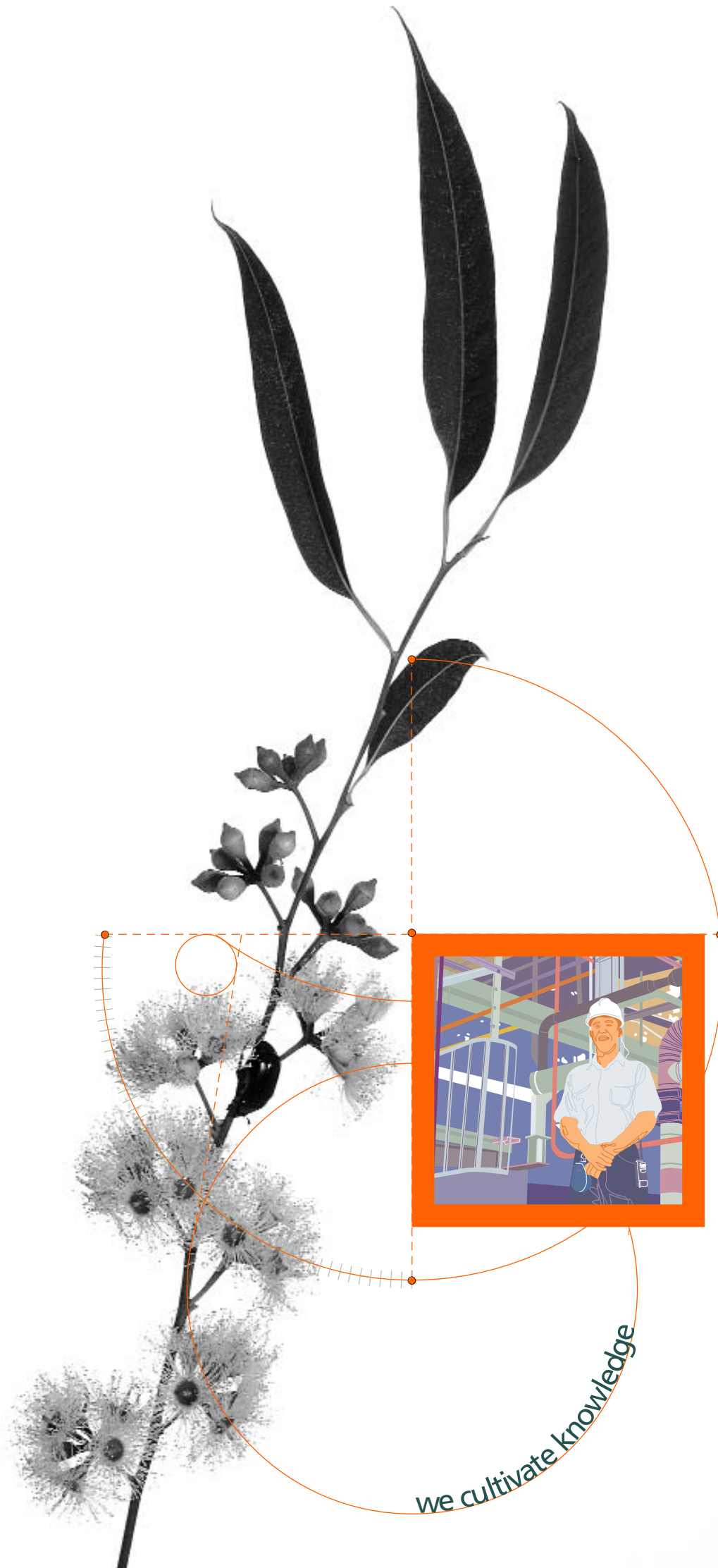
We conducted the 4th Organizational Climate Survey with the assistance of Hay do Brasil. The results indicated a favorability index of 65% among employees regarding the questions evaluated. Participation was voluntary and this year involved 1,871 participants, or 93% of our own employees, which reflects their interest in contributing to an improvement in the workplace climate.

All employees can follow the results and the progress of action plans via the Company's intranet, ensuring transparency to the process.

We invested \$1.7 million in professional development activities, offering an average of 45 hours of training per employee.

At the Guaíba Unit, the Improvement Suggestions Program encourages the participation of employees in solving problems and improving routine procedures. In 2005, 77 ideas were registered, of which 19 were implemented. The Company awarded prizes to the participants and estimates that savings obtained through the suggestions was about \$5 million.

Also in Guaíba, a Professional Qualification Program was run. The project seeks to train local manpower in order to assure the availability of workers for both Aracruz and the general job market. Some \$325,000 was invested in the program, which qualified 602 workers.



we cultivate knowledge

Our Volunteer Program ran 100 actions throughout the year and benefited more than 19,000 persons in the regions where we operate.

Our Volunteer Program, initiated in 2003, had 526 participants from the Barra do Riacho and Guaíba Units, whose actions benefited more than 19,000 persons, in the States of Espírito Santo, Rio Grande do Sul, Bahia and São Paulo.

The Management Development Program (PDGA) was extended to the Guaíba Unit, and attained 63 students during 2005. The PDGA is an executive-level program and its goal is to align managers with the Company's strategies. The program was responsible for the preparation of 10 projects involving improvements in a number of the Company's areas. Conducted in partnership with the Dom Cabral Foundation of Belo Horizonte (MG), the PDGA was also run in the Barra do Riacho Unit, with the participation of 196 managers.

Aracruz also runs the Arcel Educar project in partnership with the Brazilian Education Foundation (FUBRAE) of Rio de Janeiro, whose objective is to raise the level of schooling of its employees. In 2005, 203 students participated, of whom 49 received grade school or high school equivalency diplomas, 10 more than in 2004.

A program to train forestry equipment operators continued during the year in partnership with

SENAI/ES. The Forestry Equipment Maintenance Operator course had 108 participants, of which the Company hired 94. During both stages of the course (training and internship), the participants received scholarships. The annual investment in the program on the part of the Company is \$410,000.

For the second year in a row, Aracruz was included on the list of the Best Companies to Work for, based on a survey of employees prepared and published by Editora Abril's *Guia Exame Você S/A* magazine. The inclusion reflects the result of the Organizational Climate Management Program that produces action plans based on opportunities for improvement identified by in-house satisfaction surveys.

The Internal Environmental Education Program, whose objective is to raise the awareness of Aracruz's employees of the rational use of natural resources and the minimizing of environmental impacts in their social activities as well as on the job, was continued during the year.

In the middle of the year, the Company moved its Rio de Janeiro offices to São Paulo in order, among other reasons, to facilitate travel of its executives to the various operating units, now located in three Brazilian states.

Indigenous communities demanded an increase of their reservation by 11,000 hectares, and FUNAI constituted a group to evaluate the issue.

Relationship with stakeholders

A corporate model of structured relationships with stakeholders, that seeks to better understand the expectations of external stakeholders in order to determine how to incorporate these aspirations into the Company's decisions, was developed. This model is based on the principle of the legitimacy of the involvement of stakeholders and in the endeavor for a dialogue that reduces vulnerabilities. The model will be implemented in 2006.

The Company participated in regularly scheduled meetings – together with other Brazilian pulp and paper companies or on an individual basis – in an effort to develop permanent dialogue on a range of significant topics.

Aracruz made advances in its relationships with non-governmental organizations (NGOs) during the year through stronger and newly established communication channels (NGO Forums) in the states where the Company has manufacturing operations.

Conflicts – Pursuing a process that began in 1998, the Tupinikim and Guarani indigenous communities demanded an increase of the size of their reservation by 11,000 hectares and, with this objective, invaded Company lands in May and the Barra do Riacho mill

in October. After the Company obtained a court order reaffirming the legal possession of the property in question, the occupation of the mill ended without further difficulties. A work group was set up by the federal government's National Indian Foundation (FUNAI) to examine the question of expanding the reservation.

Aracruz took the legal measures it judged necessary and adopted other actions to clarify its position. Among these, it is worth mentioning the communication effort with employees and other strategic stakeholders in Brazil and abroad.

Social responsibility

We continued to support a number of initiatives in the field of social work, focused on education and local production arrangements. The main program was Formar, which since 1997 has been striving to improve the capacity of teachers to teach basic literacy courses. In 2005 the program certified a total of 997 grade school teachers from the municipalities in which the Company operates in Espírito Santo.

The inclusion in production arrangements of families residing in communities next to the Company's plantations made it possible for Aracruz to purchase eucalyptus and native species seedlings from them,

distributing income and generating prospects for a better quality of life in these locations.

We began a process of revision of our social investments designed to adapt the current plan to the growth of the Company, establishing the focus, strategies, methods and measurement of results.

Information technology efficiency

Customer integration – We continued the implementation of a project together with our customers for integrating information regarding stock management, sales and product deliveries and credit data. Furthermore, an exclusive website was created whose principal objective is to supply a distinctive level of service and facilitate the coordination of commercial transactions and processes between Aracruz and its customers, reducing the efforts spent on low added value activities. In 2005, three large customers (two in Europe and one in the United States) began using this solution.

Veracel integration – Integration with Veracel was achieved through the electronic exchange of data encompassing pulp purchases and sales, product quality control data, inventory control and accounting consolidation. A solution is currently being developed for enhancing customer service. Focused on product quality, the program is scheduled to begin as of January 2006.

Infrastructure – A number of actions were implemented that seek to improve the performance, availability, contingency preparedness and security of IT services. In the field of security, the main actions taken were designed to improve Internet access control and reduce the volume of unwanted e-mail messages (spam).



From **plantation forestry**, a renewable natural resource which protects the native forests.



Internationally recognized among the best corporate sustainability practices.



Eucalyptus: source of development
and environmental protection.



Portocel, Brazil's largest
forestry products sea port.



Present in 150 Brazilian municipalities,
Aracruz seeks to contribute to the improvement
of the quality of life.



Advanced forestry techniques aim at sustainability of production.



Logistics efficiency is one of the operational excellence key points.



In harmony with the eucalyptus, 139,000 hectares of native reserves are protected.



Aracruz's social actions stress education, health and social inclusion.

‘Our *social license* to operate depends on the quality of the environment, the welfare of the communities in which we are present and the trust of the stakeholders involved – our employees, customers, shareholders and suppliers, among others. Maintaining and expanding the trust of these publics is a crucial challenge for our sustainability strategy.’

Carlos Augusto Lira Aguiar



2005 Sustainability Report





Market leader, responsible for 30% of eucalyptus pulp global market share.

2005 Sustainability Report

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Complementary information exclusively available on CD and website

Corporate governance

Contributions for the common effort

Evaluation of compliance with targets for 2005

Message from the President

In the new business environment, only companies that manage adequately to integrate economic, social and environmental factors in their business planning to the extent necessary to be considered sustainable will have a place in the market – and, indeed, a future.

Aracruz is a competitive company since it combines the advantages of a low cost producer with economies of scale, advanced forestry technology and the short cultivation cycle allowed by the Brazilian climate.

This outstanding position implies even greater responsibility. Our "social license" to operate depends on the quality of the environment, the welfare of the communities in which we are present and the trust of the stakeholders involved – our employees, customers, shareholders and suppliers, among others. Maintaining and expanding the trust of these publics is a crucial challenge for our sustainability strategy.

In 2005, we received more distinctions than ever before in our history, with three in particular being of great importance: our listing on two sustainability indexes (the NYSE Dow Jones and the Bovespa ISE) and the granting of a foreign currency investment grade rating by Standard & Poor's.

Paradoxically, during the same period we were also faced with one of the most serious conflicts the Company has ever experienced with neighboring communities and social movements. Members of the Tupinikim and Guarani communities, supported by members of non-governmental organizations, invaded an Aracruz plantation area in Espírito Santo and a few months later also invaded the Barra do Riacho mill site in order to pressure the government to expand their reservation.

These conflicts, and the political, social and environmental issues that precede and underpin them, are part of the context of a company that uses natural resources, operates in regions that often lack any governmental support and exports to increasingly demanding international markets that are ever more sensitive to social and environmental questions. We are a Company whose visibility has been raised even further owing to its world leadership in its segment.

Aracruz is aware of this challenge and seeks to face the problems and conflicts of the forestry sector – and its own problems in particular – with transparency and dialogue. This involves a learning process for all the parties involved, since the complexity of issues involved permits neither a single solution nor an absolute truth.

In 2005, we received more distinctions than ever before in our history. Paradoxically, we were also faced with one of the most serious conflicts the Company has ever experienced with neighboring communities and social movements.

In this report we approach sensitive questions such as relationships with indigenous communities, the question of water resources, biodiversity, the use of agricultural defense systems and forestry resources deriving from our operations.

Continuing our Strategic Sustainability Plan that was initiated the previous year, in 2005 we took action on aspects of governance, transparency and stakeholder relationships.

We have continued our dialogue with environmental NGOs in Espírito Santo and have opened new channels for relationships in the south of Bahia and in Rio Grande do Sul. Our volunteer program has reached the Gualaíba Unit and the actions involved, added to those of the Barra do Riacho Unit, have benefited more than 19,000 people. We have made progress in meeting our goal of obtaining forest certification for all our plantations, while the areas under our direct management in Espírito Santo and Bahia are already fully certified by CERFLOR.

We made further strides in maritime transportation, leading to significant reductions in truck traffic and fuel savings. Also in this area, Aracruz was the first Latin American company to set targets for the reduction of greenhouse gas emissions, by joining the Chicago Carbon Exchange (CCX).

However, not all the targets set for 2005 were met within the established deadlines. The results and the justifications for these deviations are presented on the CD that accompanies this publication and on our website www.aracruz.com.br. Our efforts will proceed in 2006 in compliance with the objectives defined and presented at the end of this publication.

In an attempt to make our communication process more transparent, we invited some stakeholders to evaluate our 2004 Sustainability Report. In this new edition, we are seeking to satisfy some of the expectations that were revealed through this appraisal.

This year, once again the Sustainability Report was submitted to independent evaluation, conducted by the Bureau Veritas Quality International (BVQI), seeking to assure consistency and trustworthiness of the information that has been provided.

Carlos Augusto Lira Aguiar
President and CEO

Aracruz invites the readers of this publication to send us their criticism, comments and suggestions, or to visit our operations. Contact names and addresses are available on page 94 of this report.

Sustainability and the Aracruz business strategy

Among the objectives of the Aracruz business strategy, some are intrinsically linked to sustainability in its widest sense, such as assuring or expanding market share; maintaining cost competitiveness; improving access to capital, and obtaining the support and approval – the so-called "social license" – of stakeholders for our operations.

Establishing and maintaining long-term partnerships with our international customers is part of our strategy of assuring or expanding market share. Our customers use our pulp to produce paper for personal hygiene, printing and writing and for special uses. These products are present in the daily lives of millions of consumers, who in turn are ever more aware of the importance that their choices represent for the sustainability of life on the planet. For this reason they have been demanding ever higher standards of environmental and social performance throughout the chain of production.

Being one of the lowest-cost suppliers of pulp is another fundamental aspect of our growth strategy. This is a challenge that we share with our suppliers, in the common conviction that low costs must not mean

diminished social or environmental responsibility, since the perpetuation of our business depends as much on the availability of raw materials as on the integration of our activities with the social fabric of which we are part.

As well as the increase in productivity, technological advances and lasting partnerships, low cost can also be achieved through the reduction of capital costs. This cost is directly related to investor perceptions of the risks of our operations and the return that they expect from investments in our Company. Recognitions such as our listing on the Dow Jones Sustainability Index and on the Bovespa Corporate Sustainability Index, as well as the obtaining of an investment grade rating from risk classification agencies, can contribute to an improvement in investor perceptions and therefore to a possible reduction in our cost of capital.

Thus, for Aracruz sustainability is both a moving target and a permanent objective, whose parameters are continually adjusted by society. Following these changes and ensuring that they are included in the Company's growth plans is part of our commitment to the future.

Corporate Governance

In 2005, we sought to structure and better integrate the actions of the Company, with the aim of incorporating the concept of sustainability in all our activities.

Internal regulations were prepared for the Board of Directors and its internal committees, including the Sustainability Committee. A proposal for organizing the mission, values, principles, codes, policies and internal rules into hierarchies was also prepared. More details on this subject are available on the CD that accompanies this report and in our website.

According to the guidelines outlined in the Sustainability Plan, we mapped risks (more information is available on page 13 of the Annual Report) and made some adjustments to the Company's Audit Committee.

We are continuing the process of adapting Aracruz to the requirements of the Sarbanes-Oxley Act (SOX), which stipulates that companies improve their internal controls, with increased responsibility on the part of directors, which is an obligation for companies like ours whose shares are traded on the New York Stock Exchange.

Of the improvements implemented, the Code of Conduct of the Aracruz Social Insurance Foundation (Arus) and the new versions of Aracruz's Forestry Policy and Financial Policy deserve to be mentioned.

Certification

The certification process of plantation areas in the Barra do Riacho Unit (Espírito Santo) for the Brazilian Forest Certification Program (CERFLOR) has been completed.

The CERFLOR certification process has also commenced in plantations in Minas Gerais and Rio Grande do Sul, the latter of which have been certified by the Forest Stewardship Council (FSC) since 2001. At the end of 2005, the certification of these areas was recommended, while the issuing of the certificates is expected at the beginning of 2006. With this, all the areas managed directly by the Company will have been certified. These areas (equivalent to 229,000 hectares) represent 88% of the wood supply of the Barra do Riacho Unit and 83% of the Guaíba Unit.

CERFLOR is recognized by the Programme for the Endorsement of Forest Certification Schemes (PEFC), a global organization that evaluates the management systems of sustainable forests throughout the world. Currently, 186 million hectares have been certified by PEFC and more than 50 million by FSC.

Recertification audits have also been carried out for ISO 9001 and ISO 14001 in the Guaíba and Barra do Riacho Units.

ISO Certifications

ISO 9002

Certification obtained in January 1993 (Barra do Riacho and Guaíba).

ISO 9001

Certification obtained in January 1995 for all the activities of the Barra do Riacho Unit and in July 2003 for the industrial area of the Guaíba Unit; the forestry activities of the Guaíba Unit were certified in December 2004.

ISO 14001

In October 1999 for the Barra do Riacho Unit, and since November 1996 for the Guaíba Unit.

Brazilian Forest Certification Program (CERFLOR, NBR 14789)

The forestry activities of the Barra do Riacho Unit, Bahia Region, received the forestry management certificate in October 2003. The Aracruz Region was certified in January 2005.

In the Guaíba Unit and in areas of Minas Gerais, forestry activities were recommended for certification in November 2005.

HPR Certificate (Highly Protected Risk), from FM Global

The Barra do Riacho Unit has held this certificate since December 2003 and Veracel since November 2005.

Socio-environmental fines and legal actions

Environmental Fines

Barra do Riacho Unit – The Unit received no notices of infractions nor were any environmental fines incurred during the year.

Guaíba Unit – In 2005, an environmental fine of R\$15,000 was issued by the State Environmental Protection Agency (FEPAM) in relation to the emission of TRS (reduced components of sulfur) above permissible levels. Aracruz appealed, reporting on temporary problems involving TRS emission sources, which did not result in exceeding the total limit for the sources as a whole, as well as problems with the installation of a new electrostatic precipitator in 2005, whose performance was below that guaranteed by the supplier. A plan has been prepared for rectification of the problem, which has been proposed to and approved by FEPAM.

Caravelas Terminal – A summons and a notification of a sanitary infraction were issued to the Caravelas Terminal. A monitoring sample of the drinking water supplied in the Terminal deviated from the required standard: fecal coliforms detected were higher than the legally permitted level. Aracruz identified the cause and immediately carried out the necessary measures to restore compliance with the legally required standard, through the replacement of the chlorine doser.

Legal actions

During the year Aracruz filed 13 suits in the State of Espírito Santo to protect its assets. They were:

- Two of repossession suits were filed against the Tupinikim and Guarani Indians who invaded Company lands on May 17, and its pulp mill on October 6, 2005.
- One repossession suit was filed against non-Indians who violated a court order and entered the mill area during the invasion carried out by the Indians on October 6, 2005.

- Five repossession suits were also filed against other invaders of Aracruz's properties in the Barra do Riacho region.
- In the north of Espírito Santo, two repossession suits were filed, being one against members of the Landless Workers Movement (MST)/Federation of Espírito Santo Farm Workers (FETAES) in the municipality of Montanha and another against third parties who invaded forest areas and stole wood in the municipality of Conceição da Barra.
- The remaining three were for restraining orders, one against Guarani and Tupinikim Indians, another against non-Indians who accompanied the invasion of Aracruz's lands in Barra do Riacho, and the third against members of black communities in Conceição da Barra.

In all cases the injunctions requested were obtained.

For more details about the conflict with the Indians that led to the legal actions, please see page 65 .

The Company was cited as the defendant in a repossession suit, accused of invading in 1991 a small farm known as Santa Cecília, in the Barra do Riacho region, where it allegedly planted one hectare of eucalyptus trees. This suit is currently in the courts, the Company has presented documents that testify to its ownership of the land in question and is awaiting a court decision.

Relationship with stakeholders

Responding to the perceptions of external audiences is very important for Aracruz. The Company thus endeavors to improve its relations with stakeholders at a number of different levels. Moreover, many of our employees interact constantly with stakeholders in communities adjacent to the Company's operations, seeking to resolve some of the most important issues.

However, we recognize that more structured and systematic efforts are necessary to understand and respond to the needs of stakeholders in our business. For this reason we are offering our partners the opportunity to express their opinion about us, and, more importantly, to effectively listen to and understand their anxieties and concerns, taking them into account in our decision-making process. With this goal in mind, we concluded in 2005 the mapping and identification of these strategic audiences, as well as the development of a model that can be used as the basis for a structured relationship process. Training of internal personnel involved in the realization of two pilot projects is scheduled for 2006.

The Annual Report, the Sustainability Report and the Aracruz Internet site are among our main communication vehicles. We seek to provide, relevant information in a transparent manner that can allow stakeholders to form their own opinions about our performance.

Last year we invited some readers to evaluate our 2004 Sustainability Report. The principal messages we received from this evaluation, conducted by independent companies, are listed on the following page. We hope that this new edition of the publication will be the first step towards satisfying these expectations.

Some comments received from our readers

'It's good they are highlighting some difficult issues (e.g. land claim tenure) – it was a positive surprise to see these discussed here.'

Supplier
Petri Lehtonen
Savcor Indufor

'On land rights we would like to see a more proactive strategy expressed with more conviction and passion.'

Investor
David Gait
First State Investments

'They can't solve the problems of Brazil, nor should they – but they must say this. But big companies can command more dialogue with governments. Is Aracruz ready to do more?'

Social NGO
Constance Kane
ex-Oxfam America

'There is room to talk about challenges even more, and express how Aracruz intends to work on the issues.'

Aracruz employee
Ergilio Claudio-da-Silva Jr.

'I know Aracruz is facing difficulties with Indian communities – but when I read the report it does not give details.'

Environmental NGO
Fábio Feldmann

'In the future they will have to give both sides of an argument sufficient space.'

Customer
Ken Strassner
Kimberly Clark

'It would be helpful for Aracruz's website to include a 'perspectives' section – explaining their position on critical topics of debate in the forestry sector, such as certification or plantations.'

Customer
Celeste Kuta
Procter & Gamble

'Dialogue with stakeholders is not a one-way process. Aracruz needs to demonstrate they are not only listening to stakeholders but also acting on what they hear in the development of their strategies and plans.'

Social NGO
Ana Lucia de Melo Custódio
Instituto Ethos

Transparency on the website

We have made advances in the identification of the main sustainability challenges involved in our activities. Based on this, we sought to clarify the positions of the Company – and provide the concrete data to support these positions when relevant – regarding important questions such as relationships with various communities, the land question, the use of agricultural defense systems, biodiversity and climate change.

Subsequently, we will place these positions in the public domain on our institutional website (www.aracruz.com.br). The relationship of the Company with indigenous communities, for example, is already available and has been continually updated since August 2005. The other positions are in the final revision phase and will be published in 2006.

Aracruz has been increasingly using the Internet as a communication tool with its various audiences. The Company's institutional website received around 712,000 visitors, an increase of 37.18% in comparison with 2004. They were responsible for 7.3 million page viewings, 41% higher than in the previous year.

The Company also maintains a Forestry Partners Program website (www.produtorflorestal.com.br). Revamped in 2004, it had more than 311,000 page views in 2005.

NGO dialogue

We believe that NGOs play an important role as agents to improve the relationship between society and business. We have for some time kept channels of dialogue open with these organizations in order to discuss and better understand their points of view.

Even more important than the concrete results of this initiative – such as projects, partnerships and actions – is the possibility of understanding how our business is perceived by different NGOs, what positive and negative points these communities identify and, above all, the opportunity to share our challenges and dilemmas and jointly to seek the necessary solutions.

Espírito Santo

The dialogue that was started in 2003 with the Forum of Environmental NGOs of Espírito Santo continued in 2005. Seven meetings were held in which 23 organizations participated. Among the issues raised were the selection of areas for the implementation of Atlantic Forest Native Species Diffusion Nuclei – a partnership between the NGOs and Aracruz that aims to restore the Atlantic Forest and promote environmental education; the creation of the Association of Environmental Organizations of Espírito Santo (Asambiental), which is the executive body of the NGO Forum; the creation of Private Natural Heritage Reserves (RPPNs) in Company areas; the Cereias Project (partnership between IBAMA and Aracruz for reintroducing animals into the wild); Marine Conservation Units; the Watershed Project, and the use of cartography to identify the Company's preservation areas.

The next meetings will continue discussions, among other issues, about the Atlantic Forest Native Species Diffusion Nuclei, enabled and implemented by members of Aracruz and Asambiental.

Bahia

In 2005, Aracruz and NGOs from the south of Bahia held two meetings. The Bahian Association of Forest Plantation Producers (ABAF) also participated in a third meeting. In these meetings 13 organizations discussed questions such as the creation of another, broader communication channel, including other companies from the forestry sector represented by ABAF; the creation of RPPNs in Company areas; Economic Ecological Zoning; the formation of Ecological Corridors and how to create synergies through the integration of planning and actions between NGOs and companies; the forestry development model and how to add conservation value to forest development programs.

The next meetings will be thematic so that companies can present their projects, policies and social actions, and to allow the NGOs to present proposals, demands and projects for discussion.

Rio Grande do Sul

A process for direct communication was initiated between Aracruz and NGOs in Rio Grande do Sul. Five NGOs participated in the first meeting, during which general subjects such as forestry plantations were discussed. The organizations showed interest in getting to know Aracruz better and, in particular, its forestry management and plans for growth in the state. In the forthcoming meetings, specific questions such as

the consumption of water in plantations, the use of chlorine or compounds in the bleaching process, forest growth in Rio Grande do Sul and its impacts on the Pampa biomass and the mandatory contractual terms for partners and those receiving financial support related to the planting of native species will be discussed.

New meetings will be held in 2006 to discuss the topics, including a visit to the Aracruz Guaíba Unit and the Barba Negra Horticultural and Forestry Nursery in Barra do Ribeiro.

Suppliers

By the end of the year, Aracruz was working with 179 service providers in its various operations. Of these, 77 had permanent contracts (involving 7,988 employees) and 102 had temporary contracts (involving approximately 881 jobs).

Competence and specialization in their areas of expertise are some of the criteria adopted by Aracruz in the selection of suppliers. The Company also demands, by contract, respect for environmental and social questions and emphasizes complete compliance with labor legislation, including the prohibition of any type of child or slave labor.

Created in Espírito Santo in 1997 with the objective of developing suppliers within the State, the Integrated Program for the Development and Qualification of Suppliers (PRODFOR) is a joint initiative of the main local companies, including Aracruz, and the Espírito Santo Industry Federation (FINDES), under the coordination of the Euvaldo Lodi Institute (IEL). Since its creation,



approximately 330 companies have signed the terms of commitment and have undergone the program's development and qualification process, of which 202 now have valid certificates. Aracruz nominated 22 companies for the qualification process in 2006.

Financial community

Aracruz is listed on the São Paulo, Madrid and New York Stock Exchanges. Our Investor Relations team interacts continually with investors through well-established channels, including the website www.aracruz.com.br/ir/. Our quarterly report announcing our results is the main tool we use to report business performance, as well as the Annual Report and other mandatory channels for disseminating information.

During the year, we dealt with investors on 2,113 occasions, an increase of 28% compared with the previous year. The contacts took place in meetings in Aracruz offices, through participation in conferences and seminars, audio-conferences about results, by telephone and e-mail. The majority of contacts sought clarification of current market conditions and trends, Company results, its investment plans and dividends.

We have also endeavored to provide investors with opportunities to get to know our operations better and the context in which we operate in Brazil. As part of this effort, we celebrated a Pulp Day on December 8,

which consisted of a visit of some 100 investors and market analysts who follow the sector in Brazil and abroad to the Veracel (Bahia) mill. The visitors had the opportunity to get to know the entire bleached eucalyptus pulp production process in the industry's most modern pulpmaking facility.

Employees

Organizational Climate

Aracruz was one of the companies listed as one of the Best Companies to Work for, a survey carried out annually by *Exame* and *Você S/A* magazines, based on a survey of employee perceptions. Aracruz participated for the second time and once again was included on the list. This achievement reflects the results of the Organizational Climate Program.

The fourth Organizational Climate Survey was also carried out with the assistance of Hay do Brasil. The results showed that 65% of employees had a favorable evaluation of the Company in relation to the questions appraised. The best dimension evaluated was "Motivation and Credibility", which had a positive index of 75%. The least positive aspect was "Managerial Style", with 57% of approval.

The Organizational Climate process in Aracruz is conducted in an open and transparent manner that can be followed by all employees through our intranet.

Training and professional development

The funds earmarked for professional development were expanded, with \$1.7 million being invested during the year compared with \$1 million in 2004.

- **The Managers Development Program (PDGA):** a partnership with the Dom Cabral Foundation of Belo Horizonte (MG). The PDGA is aimed at executives and is designed to foster the alignment of the management language with the Company's strategy. Introduced in Guaíba in 2005, it benefited 63 students and has resulted in 10 projects that have been applied in various areas of the Company. The PDGA has been previously run in the Barra do Riacho Unit, where 196 persons were enrolled.
- **Arcel Educar:** a partnership with the Brazilian Education Foundation (FUBRAE) from Rio de Janeiro. Its objective is to raise the level of education of employees. Some 49 students completed programs leading to primary or secondary education diplomas.
- **ANDE:** development analysis, which consists of a formal system for monitoring employees, whose results will guide the formulation of Individual Development Plans for the operational and administrative levels. In 2005, ANDE was also opened up to Portocel employees.

- **Internal Recruitment Program:** prioritizes the selection of professionals already working for the Company. During the year, 45 positions were opened for internal recruitment and 93% of these were filled. In addition, 263 were hired externally, expanding the number of employees.

- **Professional Training Program:** we invested \$410,000 in the area of forestry equipment operation in partnership with SENAI (Espírito Santo). A total of 108 people have taken the course, of whom 94 have been hired.

Business citizenship

The Aracruz Volunteer Program was extended to the Guaíba Unit and to service providers, and has trained 100 volunteers.

The volunteers participating in this program have carried out 100 actions that have benefited more than 19,000 people. Support for asylums and orphanages, environmental education actions, assistance to hospital patients and the Solidarity Christmas campaign, which collected 36 tons of food, are good examples of these actions.

Activities and political contributions

As affirmed in Aracruz's Code of Conduct, the Company does not carry out any political party activities; however, it can support parties and/or candidates whose ideas and proposals are consistent with our values and principles as long as any and all such support is carried out in strict compliance with the legislation. There were no elections in 2005 and no contributions of this type were made throughout the year.

The Company does not impose restrictions on the political party activities of its employees, as long as these activities do not interfere with their professional responsibilities, they do not take place in the workplace and do not involve Company resources, material or equipment.

Image and relationships

The issues related to our activities are increasingly the object of discussion in society, and the Company has remained open to dialogue, contributing to the growing exposure of these issues in the media.

Aracruz's image started being systematically evaluated in 1998. Since then the Company has monitored perception in relation to various issues, whether they are environmental (for instance, odors around the mills, air and water pollution), or socio-economic (such as wealth and income generation, support for projects of social interest and stakeholder relationships) in nature.

The charts on the next page present the results of the Company's visibility index in the press for the 2001-2005 period; the results of image surveys carried out in 2005 in Espírito Santo, Bahia and Rio Grande do Sul; and also the evolution of the Company's image in Espírito Santo since 1998.

Mill visits

During the year, 11,666 persons visited our two units – 10,175 visitors at the Barra do Riacho Unit and at the Caravelas Terminal, of whom 6,926 were students from 93 schools and 65 universities; and 1,491 visitors at the Guaíba Unit, in 43 groups, the majority of whom were students from schools in the region.

Presence in forums

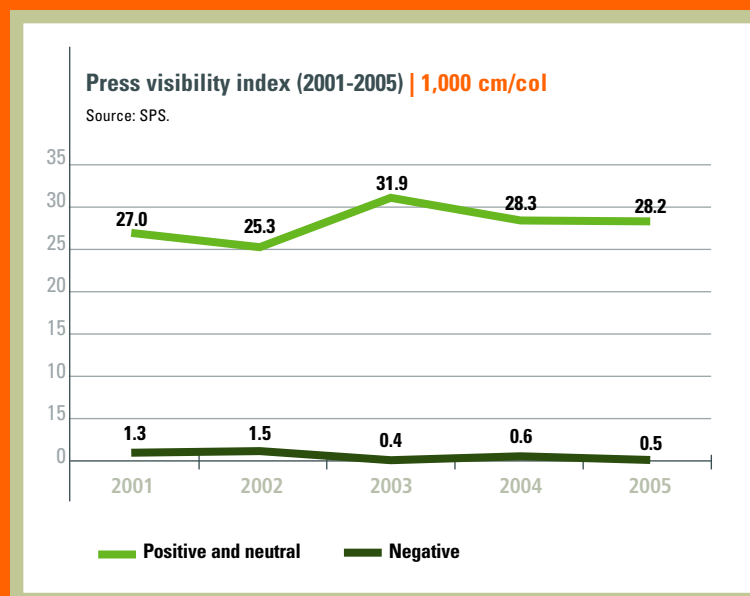
Aracruz has participated actively in the creation of programs, policies and regulations that seek to promote sustainable development.

During the year it was a part of various state and municipal environmental councils in the States of Espírito Santo, Bahia and Rio Grande do Sul, as well as various Brazilian organizations.

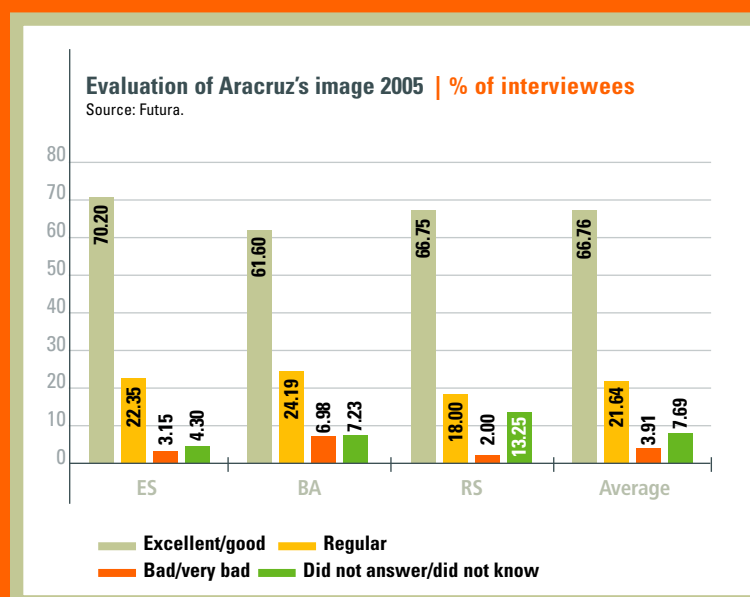
Aracruz also participated in international dialogues promoted by The Forests Dialogue (TFD) and the World Business Council for Sustainable Development (WBCSD) to discuss social and environmental questions related to forests.

The complete list of the forums and organizations in which Aracruz participates can be found in the CD that accompanies this publication or on the Company's website:

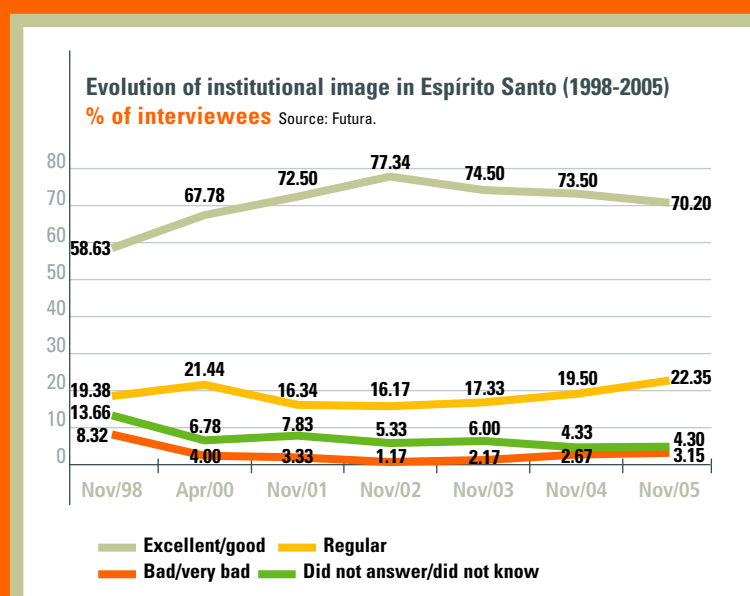
www.aracruz.com.br/ra2005/en/rs/relacionamento_presenca_relacao.html.



The chart compares the positive and negative mentions of the Company in around 100 national and regional circulation newspapers and magazines. The mentions are considered positive when they report on positive issues of those of interest to the Company. The negative reports are those in which the Company is cited in an unfavorable context (such as financial losses, environmental questions, among others) or in which there was no response to neutralize or negate the content.



The chart shows the results of surveys of Aracruz's image in 2005 in regions where the Company has operations. Some 1,400 persons were interviewed (600 in Espírito Santo, 400 in Bahia and 400 in Rio Grande do Sul).



Economic and social performance

Aracruz's activities generated \$12.3 billion in economic resources between 1989 and 2005. A significant part of this sum was reinvested in the business, striving to promote the sustainability of the Company. It is worth noting that since 1995, Aracruz has been growing at an average annual rate of 10%, driving the development of the regions in which it operates and of the country.

Among the highlights of the year were the acquisition of \$584 million – which corresponds to almost 41% of the resources generated – in materials, products and services, giving priority to local suppliers, thereby stimulating the growth of the economy and the generation of opportunities in the regions it influences.

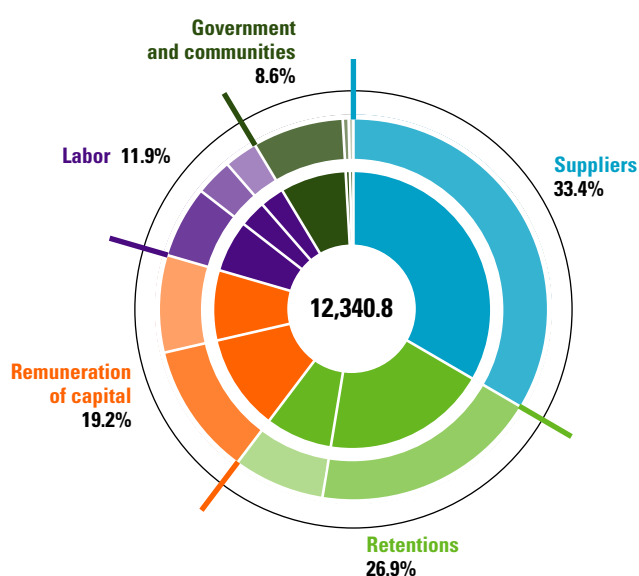
Due to the increase in social demands resulting in part from its own growth, the need was identified for a restructuring of Aracruz's social actions and investments. This restructuring will start in 2006 with the support of an outside consultant.



we cultivate future

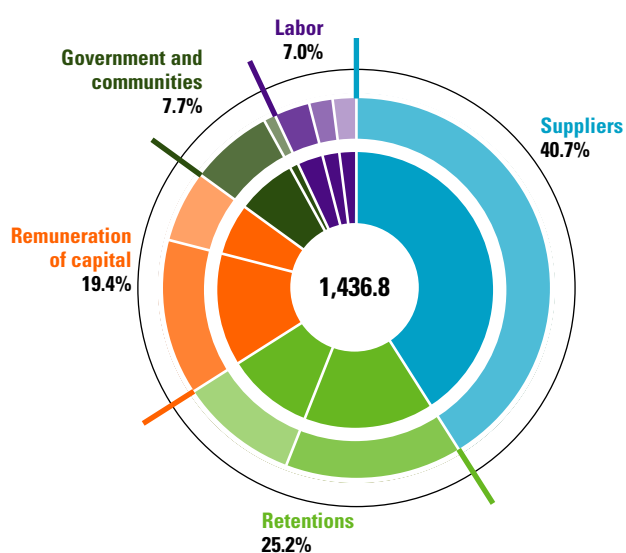


Use of resources generated in 1989-2005 US\$ millions



Suppliers	4,118.6
Materials and services purchased	4,118.6
Retentions	3,320.8
Depreciation, amortization and exhaustion	2,370.3
Retained result	950.5
Remuneration of capital	2,369.9
Financial expenses	1,369.5
Dividends and Interest (on own capital)	1,000.4
Labor	1,463.8
Payroll	740.4
Compulsory benefits	385.6
Voluntary benefits	337.8
Government and communities	1,067.7
Taxes	956.2
Infrastructure	66.4
Community projects, donations and other social demands	45.1
Total resources generated	12,340.8

Use of resources generated in 2005 US\$ millions *



Suppliers	584.0
Materials and services purchased	584.0
Retentions	362.1
Depreciation, amortization and exhaustion	211.6
Retained result	150.5
Remuneration of capital	278.3
Dividends and Interest (on own capital)	190.6
Financial expenses (revenue)	87.7
Government and communities	111.2
Taxes and contributions	106.8
Donations and social demands	4.4
Labor	101.2
Payroll	49.2
Compulsory social taxes	26.3
Voluntary social taxes	25.7
Total resources generated	1,436.8

* The chart presents the resources generated in 2005 according to the Added Value Demonstration criteria, based on the results of the year and not on the cash flow, as reported in previous years.

Employees – consolidated data 2005	Own employees		2,249
	Aracruz Celulose S.A.		2,106
	Barra do Riacho Unit		1,608
	Guaíba Unit		481
	International subsidiaries		17
	Portocel – Terminal Especializado de Barra do Riacho S.A.		143
	Permanent outsourced workers		7,988
	Barra do Riacho Unit		6,333
	Guaíba Unit		1,655
	Total direct employees		10,237
Labor compensation – own employees			US\$ thousand
	Wages and salaries		49,239
	Compulsory social taxes		26,285
	Benefits		25,703
	Employee profit sharing		6,769
	Medical assistance		5,657
	Meals and basic food provisions		3,142
	Transport		2,308
	Professional training		1,663
	Private retirement plan		2,449
Selected statistics	Other benefits		3,715
	Total		101,227
	New hirings during the period		263
	Nominal wage – average (US\$)		1,219
	Basic wage (US\$)		215
	Number of hours dedicated to professional training and development		101,942
	Number of hours dedicated to professional training and development per employee		45
	Number of employees benefiting from health plan		6,890
	Number of medical consultations under the health plan		38,256
	Number of occupational health examinations		2,352
	Number of occupational examinations		27,934
	Number of days spent in hospital covered by the health plan		1,033
	Number of meals served		2,062,261
	Turnover index – own employees		2.24%
	Percent of employees covered by union collective bargaining agreements		98%
	Lowest salary at Aracruz x minimum wage in effect nationwide (R\$619.91 x R\$300.00)		2.07
	Percentage of women on the Company payroll		11%
	Percentage of Caucasians *		71%
	Percentage of Afro-Brazilians and mixed race *		28%
	Others (Asian/Indigenous) *		1%
Turnover calculation 2005	Percentage of rehabilitated or handicapped workers – Barra do Riacho Unit		5%
	Percentage of rehabilitated or handicapped workers – Guaíba Unit		4%
	* According to IBGE criteria.		
		Average	Total
	Admissions	22	263
Turnover calculation 2005	Departures	28	334
	Effective average	2,222	
	Average accumulated turnover in 2005	2%	

Some 98% of employees are covered by collective bargaining agreements.

Jobs

At the end of the year Aracruz Celulose had 2,249 employees and another 7,988 professionals who render services to the Company on a permanent basis, totaling 10,237 jobs. Besides these, Aracruz's activities generate tenths of thousands of indirect jobs.

Some 98% of employees are covered by collective bargaining agreements signed with the seven unions in Espírito Santo, Bahia, São Paulo and Rio Grande do Sul that represent them. Employees are free to join trade unions in accordance with Brazilian law.

Youth opportunities

In 2005, 223 young people were received in the Company as regular and summer interns. 61% of them were college students, mainly from courses in Administration, Computer Sciences and Chemical, Forestry, Civil and Mechanical Engineering, while 39% were high school-level students, with courses in Chemistry, Paper and Pulp, Mechanics and Electro-Mechanics. Of the interns taken on in 2005, 27 were hired.

The Arcel and Portocel Apprentice programs – developed in partnership with SENAI/Espírito Santo – accepted 46 teenagers from low income families living in neighborhoods close to the Company's facilities in Aracruz (Espírito Santo).

Profile of Aracruz's own employees

Average age	38 years	
Completed high school	51%	
Completed college	37%	
Average time within the Company	13 years	
Origin		
Bahia	109	5%
Espírito Santo	1,151	51%
Minas Gerais	229	10%
Rio de Janeiro	106	5%
Rio Grande do Sul	471	21%
Other states	162	7%
Foreigners	21	1%
Total	2,249	100%

Since 2000, Aracruz Celulose, Portocel and their service providers have participated directly in the Internal Integrated Accident Prevention Week.

The program includes classes on health, work safety and occupational health, ethics and citizenship, environmental education, communication and expression and math, as well as professional qualification courses for general maintenance electricians and production assistants in manufacturing and carpentry.

Another program of the same type is the Mini-Company, run jointly with the Junior Achievement NGO, and which involves Aracruz volunteers. The objective is to help students create and manage a company. In 2005, six Aracruz volunteers assisted 25 teenagers from the Primo Bitti School in Aracruz (Espírito Santo), resulting in the creation of the Pizzas Junior company.

Health and occupational safety

In 2005, there was a fatal traffic accident with an Aracruz employee. The use of tools such as the Direct Safety Dialogue (DDS) and defensive driving training, in compliance with Company norms on the safe driving of vehicles, were the corrective and preventive actions taken after the accident. No fatal events occurred with service providers.

Since 2000, Aracruz Celulose and Portocel – and their service providers – have participated directly in the Internal Integrated Accident Prevention Week.

Health and occupational safety

Lost time accident frequency rate
(Aracruz Celulose, own employees)

Year	Frequency rate*
2001	2.22
2002	2.92
2003	2.50
2004	2.61
2005	2.57

* Does not include Portocel and Aracruz Produtos de Madeira.
Basis for calculation: OSHA Methodology.

Quality of life

All of the Company's programs concerned with improving the quality of life of employees are still in force.

- Fifteen people completed the **Employee Support Program for Smokers**, including both employees and spouses. Since the start of the program five years ago, 162 people have undergone treatment, which has an effectiveness rate of 61.7%.

- In the **Chemical Dependency Support Program**, 15 people were referred for specialized treatment. There were also 141 post-treatment counseling sessions and 24 awareness seminars held in various areas of the Company, reaching a total of 759 persons. This type of seminar was held in Alcoholics Anonymous and family member groups in São Mateus and Ibirapu (Espírito Santo) and Posto da Mata (Bahia), reaching a total of 450 people.
- **Professional Rehabilitation Program:** this is to help employees get back on the job whose original professional skills and capabilities have been reduced due to disease, accidents or other reasons. By the end of 2005, there were 82 rehabilitated members of staff.
- **The Work-Out Program:** a physical activity program which subsidizes the cost of employees' physical exercise plans. At the end of the year, 165 employees were enrolled in this program.

Supplemental retirement

Aracruz Social Security Foundation (Arus) is a closed multi-sponsored supplemental private pension plan with Aracruz as its principal sponsor. At the end of 2005, Arus had 4,211 active and assisted participants and a net worth of \$158.8 million.

Aracruz and Portocel have 2,236 employees covered by Arus and in 2005 earmarked \$2.4 million for the entity to reinforce the retirement funds of members and to contribute to the costs of disability retirement and death benefits, offered free of charge. Considering just the Aracruz and Portocel benefits plans, the Foundation disbursed \$5.4 million in benefits to 467 beneficiaries.

Arus obtained ISO 9001:2000 certification. The audit was carried out by Bureau Veritas Quality International (BVQI), and the certification covers the social security process. The certification of the financial process is scheduled for 2006.

Social action

Aracruz actively pursues an intense agenda of social activities in its area of influence. However, we recognize that these actions could be more appropriately structured, based upon better identification of our focus and improved management of the Company's social investments. As part of the Sustainability Plan, in 2006 we will move in this direction, with the support of an external consulting firm.

In 2005, following the example of previous years, we again gave priority to actions in the fields of education, health and social inclusion. In some projects we were the main financiers, while in others we gave a smaller contribution. But in all our actions we looked for partners that could collaborate using their experience and specific knowledge, generating consistent results.

We continued to prioritize actions in the states and municipalities where we have forestry and/or industrial activities. The total invested in these actions during the year was \$4.4 million.

Next is a summary of the most significant results of our social actions in 2005. On the CD that accompanies this publication and on the site www.aracruz.com.br/ra2005/en/rs/desempenho_acao_resultados.html, readers can find a description of each project and the respective partners involved.

Education

Professional training and the teaching and apprenticeship process

- **Manpower training:** in Rio Grande do Sul, a program developed in partnership with the state government, the Guaíba city government, the National Industrial Apprenticeship Service (SENAI) and the National Employment System (SINE) trained 602 workers for jobs in construction and electrical and mechanical positions, to be employed during the Guaíba expansion project during the course of the year. The eight courses offered totaled, during the ten months they were taught, more than 90,000 hours of training, involving an investment of some \$325,000.
- **Employee education level:** 203 employees participated in the Arcel Educare program to raise the level of education, in partnership with the Brazilian Education Foundation (FUBRAE).

- **Teacher training:** The Formar Project certified 997 primary school teachers in the municipalities in which Aracruz operates in Espírito Santo.
- **Primary and secondary education:** some 1,600 students, the children of employees, outsourced workers and others at Aracruz, were the beneficiaries of a partnership with Colégio Pitágoras and the Coqueiral Association for Parents and Teachers. In addition, 360,000 copybooks were donated to 25 municipalities in Aracruz's area of operations in Rio Grande do Sul and 40,000 to Porto Alegre, benefiting more than 130,000 students.
- **Digital space program:** some 1,600 people took a computer course and 41 scholarships were paid to indigenous students for university-level studies through the first semester of 2005. The latter benefits were suspended in May on account of the invasion of some of the Company's land.

Health and special care

Health programs

- **Citizenship Space Project:** 1,929 dental consultations provided.
- **Orientation and prevention:** seminars for rural leaders and eight-hour mini-courses on health, reaching 435 people in Bahia and Minas Gerais and another 805 in Espírito Santo.



People with special needs

- **Solidarity Apiculture:** donation of 2 tons of honey produced on Aracruz's own lands to social institutions in Espírito Santo, Bahia and Minas Gerais, as well as the donation of 5.5 tons of the product to people with special needs in Rio Grande do Sul.

Social inclusion

Needy children

- **Needy children:** 710 children at social risk in Espírito Santo and Bahia were helped through social projects supported by Aracruz. In addition, needy children in Espírito Santo were given around 2,000 wooden toys made by the Artidéias social institution.

Food safety and local productive arrangements

- **Community nurseries:** 271,174 native species seedlings and 94,668 eucalyptus seedlings were produced in community nurseries jointly maintained by Aracruz and local institutions in Bahia and in Espírito Santo.
- **Family farming project:** 10 communities in Bahia benefited from the project carried out in partnership with municipal government and community associations.

- **Indigenous communities:** the support of Aracruz was suspended due to the invasion of Company land by Indians, in breach of signed agreements. The production of eucalyptus and native species seedlings in community nurseries was less than expected due to the closure of the indigenous community's nursery.

- **Apiculture:** the apiculture partnership program was implemented with the opening of eucalyptus plantations for the installation of 284 hives in Espírito Santo and 785 in Bahia.

- **Nutritional supplements:** 200,000 hatchery fish were donated to nutritional supplements projects in the municipalities of Aracruz, Jaguaré, Rio Bananal and Santa Teresa in Espírito Santo and Carlos Chagas in Minas Gerais.

Social and cultural development

- **Culture:** the Recovery of Indigenous Culture project was carried out until May 17, 2005, when it was interrupted after the invasion of Company land by Indians.
- Implementation of cultural projects for the valorization of Gaucho traditions, the Guaíba Book Fair and the Gaucho Quality Program, in Rio Grande do Sul.

Relationship with communities

Aracruz and the indigenous communities

Although Aracruz recognizes indigenous communities as one of its stakeholders, and it has had a period of good relations with these communities, 2005 saw a breakdown in this relationship due to an ownership dispute over Aracruz land claimed by indigenous communities in Espírito Santo.

Members of the Tupinikim and Guarani communities, supported by members of non-governmental organizations, invaded an area of Aracruz's plantations and, some months later, part of the administrative building of our mill at Barra do Riacho with the intention of pressuring the government to increase the size of their reservation.

The Guarani and Tupinikim communities allege they are the legitimate owners of an area of approximately 11,000 hectares owned by Aracruz, basing their claim on an anthropological report issued by the Brazilian Indian Agency (FUNAI) in 1997. According to Brazilian legislation, anthropological reports are only an informational instrument in demarcation cases and not a decision in itself. The document in question contains a number of weak points, not characterizing the lands as being of indigenous property, and therefore cannot serve as the basis for the demarcation of Indian lands.

The lands in question were legitimately acquired from landholders who had possessed them for several generations, as can be seen in documentation registered in notary offices and in Aracruz's possession.

FUNAI only began to identify the Indians in Espírito Santo in 1975, nearly 20 years after Aracruz had started its first plantations. Since then, the reservation has already been increased in size once and the Company fears a new increase based upon an administrative act of the federal government would not close the issue. New expansions could be demanded, generating a total lack of security for the Company and instituting a climate of cyclical disputes with the communities.

Aracruz is making an effort to seek a stable solution to the dispute. This kind of issues should ideally be resolved through dialogue – but when this does not happen, they only can be resolved through a legally constituted independent organisation such as the court system. They cannot be resolved by imposition, such as through invasions. In a legal case, all interested parties can present their arguments and the decision – whatever it may be – will ensure the legal safety the Company needs, opening the way for the reestablishment of a constructive relationship with the indigenous communities.

As a result of the agreements signed, plus voluntary initiatives and commercial activities, Aracruz has disbursed since 1998 R\$26 million to indigenous communities.

To discover more details about this question and to obtain updated information, consult our website www.aracruz.com.br/web/en/aracruz/aracruz_posicionamento_brasil.htm.

Chronology of the dispute

1960s – Aracruz began to acquire land in Espírito Santo from legitimate landholders, as shown in the documentation proving the history of the chain of ownership.

1975 – FUNAI commences the process of identifying Indians in Espírito Santo.

1983 – An indigenous reserve of 4,491 hectares is created, of which Aracruz voluntarily donated a part. In the registration of the donation FUNAI declared that the land belonging to Aracruz was not indigenous land.

1997 – FUNAI proposes the expansion of the reserve to 13,335 hectares, based on an anthropological report prepared by a Work Group (WG). This report contains many weaknesses, such as the insufficient consultation of historical records, the absence of evidence that the Tupinikim Indians inhabited the areas that are claimed, the absence of non-Indian witnesses, and an exclusive focus on Aracruz's lands. The Ministry of Justice considered the WG report inconsistent and stated that it did not justify the intended increase in the size of the reserve, ordering it to be increased by 2,571 hectares.

1998 – Due to their disagreement with the decision of the ministry, members of Indigenous communities invaded Aracruz land. The conflict was ended by the signing of an agreement between the Company and the Indians, monitored by FUNAI and the Federal Attorney

General's office. In this agreement, which was supposed to remain in force for 20 years, the communities accepted the decision of the Ministry and Aracruz undertook to finance community development projects.

1999 – The communities, through their associations, signed a forestry partners contract with Aracruz, which currently covers 1,600 hectares, transforming the indigenous communities into the largest individual supplier of wood to the Company.

2002 – The indigenous communities asked for the Agreements to be revised. Terms of Amendment were signed, increasing the resources given to the communities by Aracruz.

2005 – In May, members of indigenous communities invaded an 11,000 hectare plantation area of Aracruz in order to pressure the government to expand the reserve for the second time, constituting a breach of the agreements in force. The Indians continued occupying the Company's land through the end of 2005.

In October, a new invasion occurred, this time of one of the administrative buildings of the Barra do Riacho Unit, carried out by around 200 members of the Tupinikim and Guaraní communities with the support of other non-Indian groups. The invasion lasted around 30 hours, during which time Company staff were prevented from remaining at their work posts.

The question of forest residues

Due to the current shortage of wood in Brazil, caused by the greater control of illegal logging by the authorities and the insufficient expansion of forest plantations to meet demand, the price of wood and its wood products, such as charcoal, has risen substantially.

As a result of this, forestry companies, including Aracruz, have been coming under pressure from some groups in the extreme south of Bahia to donate the parts of trees not used in the production of pulp, such as tips and branches. These parts – that once are left on the ground have the important role of maintaining the soil's fertility – are used in the production of charcoal, as stated in our 2004 Sustainability Report, often mixed with native wood that has been illegally logged.

In September 2005, the state government began an operation, coordinated by the Center of Environmental Resources (CRA), against the use of illegally logged wood, which resulted in the shutdown of the charcoal furnaces in some areas in the south of Bahia.

In reprisal for these facts, some of these groups initiated actions that resulted in the sacking of buses and trucks belonging to pulp company service providers and the setting of fires in eucalyptus forests.

Due to the complexity of the situation and aware that the issue involves important social and legal aspects, Aracruz, in partnership with other companies in the region, hired the Parceria 21 consortium – formed by the Brazilian Institute of Municipal Administration (IBAM), the Institute of Studies of Religion (ISER) and the Human Development Network (REDEH) – to prepare a proposal for regional development aimed at low income communities located near the forestry companies in the extreme south of Bahia. The results of this study will be presented in 2006.

Aracruz believes that only by stimulating local and community development on a sustainable basis, integrated with the forest-based economy that is predominant in the region, will it be possible to obtain positive and lasting resolution of the issue.

In the north of Espírito Santo, the removal of forest residues in some communities proceeded in accordance with the Terms of the Donation of Forest Wood Residues signed with the Association of Small Wood Gatherers of Conceição da Barra (APAL). This Association is formed of 490 inhabitants of communities in the municipalities of Conceição da Barra and São Mateus and its current production of residues is around 4,500 m³/month.

Environmental performance

In line with its Management Policy, Aracruz made investments in its Guaíba Unit designed to align it with the environmental performance practices of the world pulp and paper industry.

Some \$12 million was invested in the unit, with special attention being paid to modernizing the pulp bleaching process and the treatment of odor-causing gases. Other investments for reducing liquid effluents and mill noise levels were carried out. Improvements were also made in the solid residue treatment center.

At the Barra do Riacho Unit, the mill monitoring program was maintained along with the conclusion of a number of studies and recommendations for action to be taken in 2006 and future years. The 2006 Environmental Objectives and Targets are available at the end of this report.

The environmental performance of the wood production processes reflects the results of the monitoring programs presented on pages 74/76.

The environmental performance of the two industrial units is demonstrated in charts on pages 80/83. Comparisons with the results of other world-class pulp mills (Best Available Technologies – BAT) can be accessed through **ftp://ftp.jrc.es/pub/eippcb/doc/ppm_bref_1201.pdf**.

As part of the effort to incorporate into its management processes the new technology trends in order to improve its environmental performance, Aracruz updated the Carbon Stock Inventory of its eucalyptus and native forests and also updated its study of the Company's emission of greenhouse gases (more detail in item Climate Change on pages 76/79).



we cultivate forests

Forest Operations

		Barra do Riacho Unit (ES, MG e BA)	Guaíba Unit (RS)	Total
Use of soil				
Eucalyptus plantations	ha	212,895	47,907	260,802
Native reserves	ha	122,593	16,585	139,178
Other uses	ha	19,845	9,428	29,273
Eucalyptus				
Production of seedlings	1,000 un	49,360	7,961	57,321
Plantation of seedlings	1,000 un	42,779	7,961	50,740
Donation of seedlings	1,000 un	4,115	4	4,119
Native species				
Production of seedlings	1,000 un	532	140	672
Donation of seedlings	1,000 un	247	2	249
Harvest				
Average age of wood for pulp	years	6.7	10.6	
Average age of wood for solid products	years	17.8	-	
Average harvest cycle of own forests for pulp	years			6 to 8
Average harvest cycle of own forests for solids	years			12 to 16
Forestry Partners Program				
Area contracted	ha	79,284	1,347	80,631
Area planted	ha	72,359	1,138	73,497
Number of contracts	un	3,285	52	3,337
Average area per contract	ha/un	24.1	25.9	24.2
Number of municipalities	un	119	26	145

ES – Espírito Santo

MG – Minas Gerais

BA – Bahia

RS – Rio Grande do Sul



Below, we consider some specific topics of concern to society which are incorporated into Aracruz's work instructions, control parameters, management indicators and the Company's sustainability objectives and targets.

Agricultural defense systems

The use of agricultural defense systems as a way to avoid or reduce economic damages caused by pests, diseases or weeds has been the object of growing attention of society, especially in relation to the cultivation of foodstuffs because it can cause harmful effects to human health when improperly used.

The consumption of herbicides and pesticides in forest plantations is approximately 50 times less than in other forms of agricultural crops, such as citric fruits or sugarcane. In Brazil, the consumption of these products in silviculture is on average around 5 kg/ha/year, while in Aracruz's eucalyptus plantations it does not exceed 2 kg/ha/year.

Like any other farm crop, Aracruz's plantations are subject to the attack of pests and diseases; thus the use of agricultural defense systems is inevitable to protect productivity. However, the Company adopts various practices – such as the biological control of disease and pests, the use of less toxic defensives and

the systematic monitoring of the environment and human health – as a way of preventing these products from causing undesirable effects.

An example of this practice in 2005 was the control of the Eucalyptus Snout Beetle (*Gonipterus scutellatus* Gyllenhal). At the end of 2004, a population explosion of this pest represented damages to the Company due to its capacity to defoliate plants over large areas of plantations. In 2005, the pest was controlled by the use of a natural enemy, a small wasp (*Anaphes nitens* Girault) that preys on the eggs of the snout beetle in a highly specific form. The natural enemy was introduced into the region through inoculation and rapidly multiplied in the laboratory set up exclusively for this purpose. In less than nine months the balance was achieved permitting the harmonious coexistence of the plantations, the pest, and the beetles' natural enemy.

Since the use of herbicides and pesticides is generally unavoidable, Aracruz seeks to use toxicological class IV compounds (green stripe, less toxic), licensed by the Ministry of Agriculture and IBAMA, and which comply with requirements of the Ministries of Health and the Environment and the agronomic prescriptions issued by professionals accredited by the Regional Engineering and Architectural Council (CREA).

Aracruz was the target of accusations regarding the indiscriminate use of agricultural defensives and of damaging human health and the environment. These denunciations were investigated by the competent authorities, such as the Agricultural-Cattle and Forest Defense Institute of the State of Espírito Santo (IDAF-ES), which concluded that they were totally unfounded.

Besides following the parameters that are established in the legislation, regarding the storage, transportation, handling and disposal of the packaging, Aracruz also maintains programs for the monitoring of water and soil to evaluate possible impacts from the use of agricultural defensives. In 45 campaigns conducted between 1993 and 2005, samples were taken at 92 collection points on properties located in Bahia, Espírito Santo and Minas Gerais. Out of the 556 samples collected and analyzed (204 from Bahia, 50 from Minas Gerais and 302 from Espírito Santo), no traces were detected of any of the active agents sought.

Both the Company's own and outsourced workers who apply the defensive systems are examined regularly at clinics and there is no record of any diagnosis of serious or chronic intoxication attributed to the products that are used.

Biodiversity and forest plantations

Balancing economic development and the preservation of the environment is a global challenge that will grow with the continued rise in the population and the consumption of goods whose production involves the intensive use of natural resources.

As a result of this challenge, an important debate has started over the total protection of biodiversity and the sustainable use of natural resources, since the active agents for the production of future medicines and food may be obtained from the forest.

This question is of extreme importance for Aracruz, since its business is intrinsically dependent on natural resources, such as water, soil and biodiversity.

There is a chain of thought that argues that the remaining tropical forest areas should be preserved intact, without any type of human activity. For some, not even ecotourism should be allowed, with forests being totally isolated from society so that they, through their own mechanisms of environmental balance, ensure the preservation of the species.



The advance of agricultural and cattle raising activities, especially in native forest areas, is highlighted as the main factor responsible for deforestation in Brazil.

Aracruz established its first eucalyptus plantations in the 1960s. The plantations were located in the municipality of Aracruz in Espírito Santo, areas that had mostly been deforested. For example, one of the areas that was acquired – of 8,000 hectares – belonged to the Companhia Ferro e Aço de Vitória (COFAVI), which extracted lumber to produce charcoal for its furnaces.

Aracruz currently owns 400,000 hectares of land predominantly within the Atlantic Forest biome, of which 139,200 hectares are fully preserved and protected native reserve areas without any economic use. Studies of biodiversity have demonstrated that the interspersed preservation areas and eucalyptus plantations have been making it possible to maintain and further the development of a number of animal species that are endemic to the Atlantic Forest region.

We are aware of the perception, among part of the community, that eucalyptus plantations have little diversity. However, the biodiversity of eucalyptus plantations cannot be compared with that of native

tropical forests, which they do not aim to replace, but rather to the other crops that society needs for its comfort and welfare. Eucalyptus trees provide an alternative source of wood for various end uses, reducing the pressure on native forests and helping avoid the migration of people from the countryside.

Aracruz condemns the use of wood that has been illegally extracted for any purpose and asserts that Atlantic Forest remnants must be preserved and, whenever possible, restored in order to create or increase connectivity between the remaining forest fragments.

To better understand the interaction between its eucalyptus plantations, the native Atlantic Forest reserves and the environment, Aracruz started in 1993 the Watershed Project for the environmental monitoring of the complete eucalyptus cultivation cycle, as well as the study of the relationship between the Company's plantations, native forests and local fauna. Data on biodiversity, the hydrological cycle of the eucalyptus tree and soil conditions are continually collected, monitored and classified.



Monitoring of biodiversity

As well as the study of birds, which are considered to be excellent bioindicators, the mammals in the Barra do Riacho Unit were also monitored, while a detailed diagnosis of the fauna of the Guaíba Unit was undertaken, involving mammals, birds, reptiles, and amphibians.

Some 456 species of birds were identified (10 of which are threatened with extinction) in the Barra do Riacho Unit, representing 73.5% of the total cataloged for the Atlantic Forest, which shows the appropriateness of the forestry model adopted by Aracruz.

The monitoring carried out in the south of Bahia demonstrated the existence and expansion of a population of the Hook-billed hummingbird (*Ramphodon dohrnii*), the most threatened hummingbird in Brazil. Ten individuals have been sighted over the years, demonstrating the importance of the forest for the conservation of this population. To further guarantee the reproduction and preservation of the species, a eucalyptus corridor was demarcated and maintained to assure the hummingbirds' access to water sources.

In various locations on Company land, or in the plantations owned by our forestry partners, parrots, parakeets and macaws have been found using eucalyptus trees for shelter. The largest concentration

discovered was in the municipality of Sooretama, where around 2,000 Orange Wing Amazon parrots used the eucalyptus as a resting site in 2005.

In the mountain areas of Espírito Santo, research on land belonging to Aracruz's forestry partners has identified 287 species of birds. The most important find was the rediscovery of groups of Amazona vinacea parrots (*Amazona vinacea*) in the region north of the Doce River, where they had been considered extinct.

As part of the program for the restoration of riverbank riparian buffer zones with native vegetation, which began in 1991, the pioneering stage of the evaluation of the benefits of this action for birds and the environment was carried out. Around 4,500 hectares of Company land are already part of this program in the States of Espírito Santo and Bahia. Some 83 species were listed as using riparian buffer zones restored by the Company, of which 21 are forest birds or species that are dependent on the system. One of these, in danger of extinction, is the Red-browed Amazon parrot (*Amazona rhodocorytha*), endemic to the Atlantic Forest.

Research was also completed on the flora in a fragment of the Atlantic Forest. The study was started in 1994 and the 2005 results made it possible to compare the level of conservation and the growth of the fragment, confirming the maintenance of the diversity of plant species over time.

Water resources

The rational use of water resources – despite the fact that it is a recent discussion – is pointed to as one of the most relevant questions for the coming years, while scientists have warned that water could become one of the most expensive and scarce resources in the near future.

The question affects Aracruz directly in two aspects: the consumption of water by eucalyptus plantations and the use of water in its pulp mills.

Use of water in plantations

In 1993, Aracruz commenced a series of research projects on the consumption of water in its plantations and in native forests as part of its Watershed Project, undertaken in partnership with universities and research institutes in Brazil and abroad. This project allows the quantification of the entire hydrological cycle based on constant monitoring. In relation to the consumption of water, the studies highlighted that:

- Aracruz's eucalyptus plantations consume the same quantity of water as native forests. Their efficiency in the use of water guarantees greater productivity than other types of agricultural cultivation.
- The greatest consumption takes place during the rainy season, when the content of the water in the soil is high and sufficient to supply the sources of

water. In the periods when the soil is drier, the consumption due to the loss of water through transpiration is quite reduced.

- The crowns of eucalyptus trees retain less rainwater than tropical forest trees with larger leaves. For this reason, in eucalyptus plantations more rainwater goes directly to the soil.
- The water available for the growth of eucalyptus comes, above all, from the superficial soil layer. Normally, its roots do not go deeper than 2.5 meters and do not manage to reach the water table, which is almost always located at a greater depth.

Further information can be obtained at the site: www.aracruz.com.br/microbacia/ing/index.htm.

The use of water in the mills

The quality of pulp is directly related to the quantity of water used in the manufacturing process because washing is a fundamental stage to obtain a high quality product, which is particularly indispensable for paper that comes into direct contact with the skin or food.

It is a goal of the Company to reduce the consumption of water by its operations, while maintaining the quality of the end product. For instance, in 1993, 66.4 m³ of water were used per ton of pulp produced. In 2005, we reached a record low of 36.5 m³/tsa, which represents a reduction of 45% over the average for the previous 12 years.

Aracruz has followed the effects that the process of climate change may have on diverse forms of life on the planet, and since 2003 has been evaluating its emissions and carbon stocks.

Aracruz is one of the five pulp manufacturers in the world with the lowest specific consumption of water.

See page 81 for a chart that shows the reduction of the specific consumption of water over the last 14 years.

Soil management

In partnership with the Federal University of Viçosa, of Minas Gerais, the Company has started to develop models to determine the quality of soil where eucalyptus trees are grown, taking into account chemical, physical and microbiological factors.

The objective of this work is to define, for each planted stand, a soil quality index that will serve as a guideline for sustainability actions. This index will be taken into account in fertilizer calculations, for estimating production potential and in the adaptation of silvicultural practices.

Special attention has been given to understanding the dynamics and the quality of organic material in our plantations. Various studies are currently underway into this important component of soils, which should make the evolution of silvicultural practices possible in order to improve interaction with the soil.

Climate change

Aracruz has carefully followed the effects that the process of climate change may have on diverse forms of life on the planet. As well as the various social and environmental effects resulting from this phenomenon, the Company's activities are directly dependent on the availability of natural resources, such as water, air and soil.

Aracruz has been evaluating its emissions and carbon stocks since 2003, making the results public. The Company has made efforts to discover solutions to minimize its emission of greenhouse gases (GHGs) and to maximize its carbon stocks, contributing to opportunities for economic gains associated with social and environmental benefits.

The Company has joined the Chicago Climate Exchange (CCX), making it the first Latin American company to adopt targets for the reduction of greenhouse gases.

Based on the results of these efforts, development opportunities for two projects were identified.



- **Carbon sequestration project in Company plantations:** in 2005 the project methodology was developed, which was discussed under the auspices of CCX. The Project is currently undergoing external verification and Aracruz intends to commercialize the credits generated by the sequestration of carbon in its forests in areas proven to have been deforested in 1989, and which now have forest coverage.
- **Increase in the participation of the marine transportation mode for logs:** aiming at the reduction of emissions through the substitution of highway transport by barge transport, which emits much less CO₂. This project was developed, revised and submitted for the evaluation of the Methodology Panel, the UN body responsible for the approval of the projects. In the initial methodological evaluation, the proposal failed. The Company is considering the possibility of redesigning the project.

Survey of carbon stock in the plantations

In 2005, Aracruz reviewed all of the premises adopted, sources of emissions and internal procedures used to survey the greenhouse gas (GHG) emissions and carbon sequestration in its processes. This review was based on updated versions of documents that are accepted internationally for the preparation of GHG inventories.

Designed to compare Aracruz's position with regard to its GHG emissions with other similar companies, a benchmark analysis involving 57 world-class pulp and paper companies was carried out.

The results of the 2003, 2004 and 2005 GHG surveys (emissions and carbon stocks) are reported in detail on the CD that accompanies this report and in the Company's website. Furthermore, details about the projects for obtaining carbon credits as well as Aracruz's classification according to the benchmark that was conducted can also be found in the CD and website.

GHG emissions survey

Aracruz's 2005 GHG survey, as in previous years, followed the calculation protocol published by the International Council of the Forest and Paper Associations (ICFPA) – "Calculation Tools for Estimating Greenhouse Gas Emissions from Pulp and Paper Mills", ICFPA, 2004. The methodology used also followed the GHG calculation protocol adopted by the WRIWBCSD – "A Corporate Accounting and Reporting Standard", WRI, 2004.

As can be seen in the chart Specific GHG emissions (tCO₂e/t product), the Company has been reducing its emissions over the years. From 2004 to 2005, there was a decline of approximately 10% in Aracruz's specific emissions, taking into consideration the Barra do Riacho and Guaíba Units.

Survey of carbon stock in native reserves

Aracruz's native reserves shelter an important collection of Atlantic Forest remnants. In 2004, the first estimates were made of the total carbon in the Barra do Riacho Unit's different ecosystems. This was carried out by the University of São Paulo's Institute of Astronomy, Geophysics and Atmospheric Sciences. In 2005, this information was updated, taking into account the redistribution of the areas between the different ecosystems.

Estimates were made of the total biomass (aerial + underground) of the native forest reserve areas and this value was converted into tons of sequestered carbon. To do this, the study used mathematical equations developed specifically for areas of forest regeneration and the specialized literature concerning the types of ecosystems occurring in Company areas. Three stages of regeneration (initial, medium and advanced) were considered, in accordance with Brazilian environmental law.

The following table updates the information referring to the total biomass in tons per hectare (t/ha), the area in hectares (ha), total carbon in tons (t) and the percentage of total carbon fixed in each ecosystem.

The quantity of carbon stocked in the native reserves of the Barra do Riacho Unit, estimated at 5.1 million tons in December 2005, will increase over time with the growth of areas in initial and medium stages of regeneration.

During 2006, we will improve the classification of the existing native vegetation and develop methodology for estimating carbon stocks at the Guaíba Unit.

More details about the methodology used for the survey of Aracruz carbon stocks are available on the CD that accompanies this publication and at the following site:
www.aracruz.com.br/web/en/ambiente/amb_mudancas.htm.

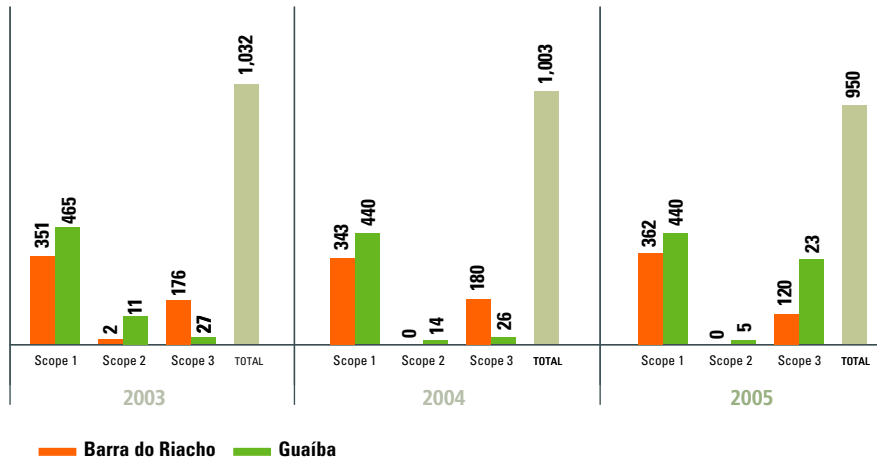
Estimate of carbon stocks in native reserves

Ecosystem	Biomass (t/ha)	Area (ha)	Total C (t)	% Total C
Advanced stage *	384.4	12,600	2,421,720	47.2
Medium stage *	91.8	24,000	1,101,600	21.4
Initial stage *	12.8	44,000	281,600	5.5
Salt marshes	15	6,000	45,000	0.9
Coastal tidal lowlands	40	5,000	100,000	1.9
Bushland	46.9	13,700	321,265	6.3
Swampland	134.8	12,800	862,720	16.8
Total		118,100	5,133,905	100.0

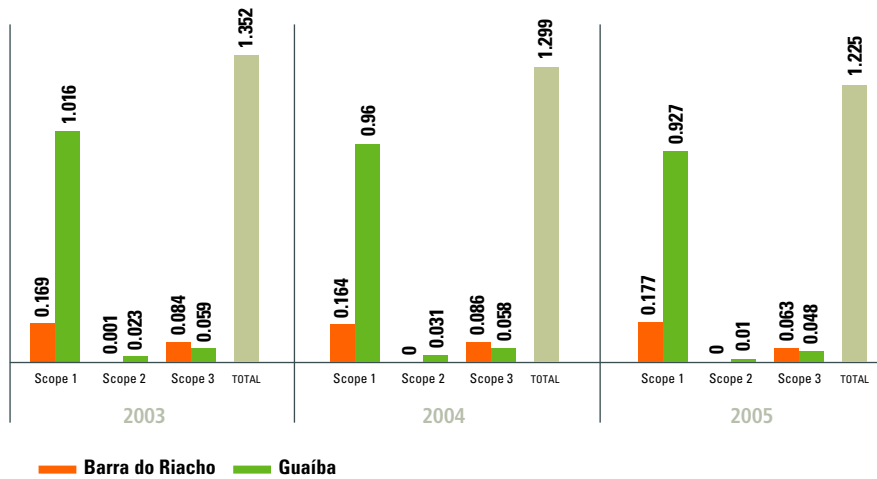
* Atlantic Forest reserve areas.

Note: The new value of the carbon stock of Aracruz's native reserves in 2005, calculated at 5.1 million tons (300,000 tons less than presented in 2004), results from an enhanced ecosystem mapping system.

Total GHG emissions (t CO₂e)



Specific GHG emissions (t CO₂e/t product)

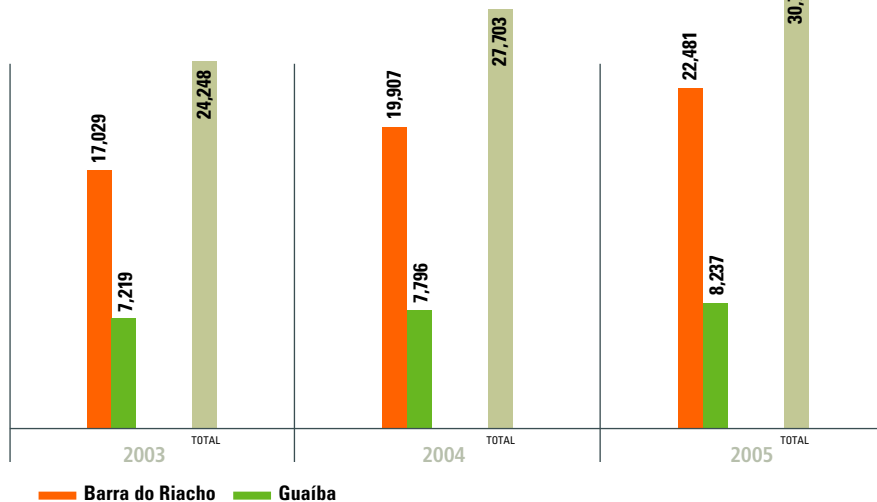


Scope 1: Direct GHG emissions – Emissions from sources that are owned or controlled by the Company.

Scope 2: Indirect GHG emissions – Net emissions from energy imports and exports; for example, imported and exported electricity and steam.

Scope 3: Other indirect GHG emissions – All other sources of emissions possibly attributable to Aracruz's. Examples include employee business travel and product transport in vehicles not owned by the Company, outsourcing of core activities and off-site waste disposal/management activities.

Carbon stock in eucalyptus plantations (t CO₂e)





Industrial operations

Generation and consumption of electric energy and fuel – 2005

Barra do Riacho Unit		
Electric energy	MW	%
Self-generated	1,422,668	97.85
Purchased	29,395	2.15
Consumption of fuel	Gj	%
Renewable ⁽¹⁾	55,066,762	93.7
Non-renewable ⁽²⁾	3,677,610	6.3
Guaíba Unit		
Electric energy	MW	%
Self-generated	360,209	88.6
Purchased	46,298	11.4
Consumption of fuel	Gj	%
Renewable ⁽³⁾	8,110,923	55.3
Non-renewable ⁽⁴⁾	6,550,613	44.7

(1) Black liquor (85.45%), biomass (8.04%), hydrogen, non-condensable gases and methanol (0.21%). (2) Fuel oil natural gas.
 (3) Black liquor (100%). (4) Combustible oil (15.1%), coal (84.3%), BTE oil (0.33%) and LPG (0.27%).

Generation and use of solid wastes

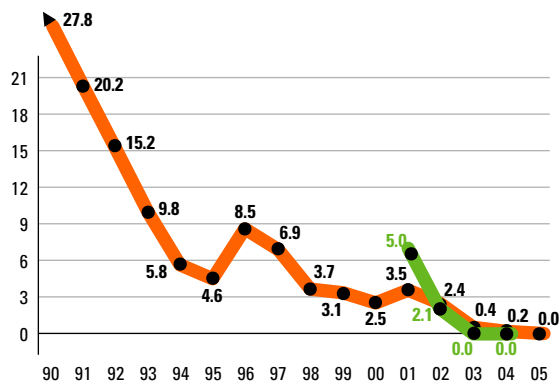
Barra do Riacho Unit					
Industrial landfill B	2001	2002	2003	2004	2005
Generation of solid wastes (t/adt)	0.088	0.079	0.050	0.058	0.052
% of recycled wastes	27.39	17.23	18.52	21.26	25.50
Volume sent to industrial landfill (t)	81,086	107,932	82,536	95,167	82,172
Guaíba Unit					
Waste treatment center	2001	2002	2003	2004	2005
Generation of solid wastes (t/adt)	0.634	0.736	0.612	0.587	0.499
% of recycled wastes	98.66	98.70	99.48	99.37	99.44
Volume sent to industrial landfill (t)	2,480	2,850	1,283	1,482	1,174

Adt – air-dried ton

Consumptions in the production of pulp

Specific chlorine consumption

kg/adt

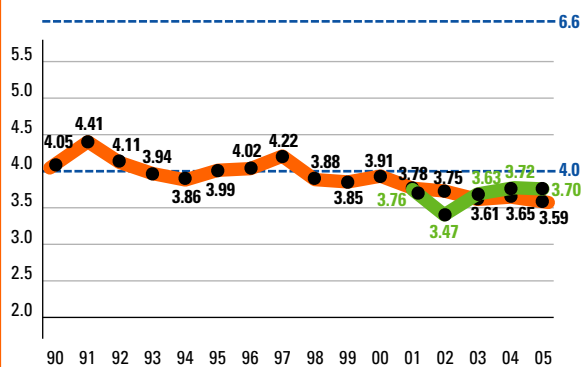


Barra do Riacho

Guaíba

Specific wood consumption

m³/adt



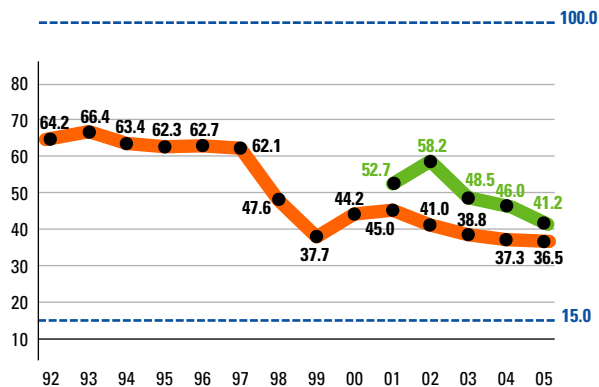
Barra do Riacho

Guaíba

BAT Europe

Specific water consumption

m³/adt



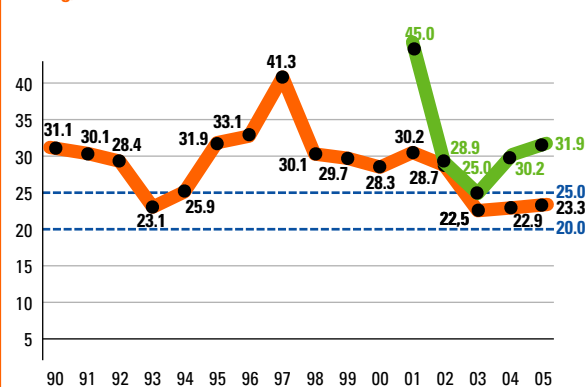
Barra do Riacho

Guaíba

BAT Europe

Specific soda consumption

kg/adt



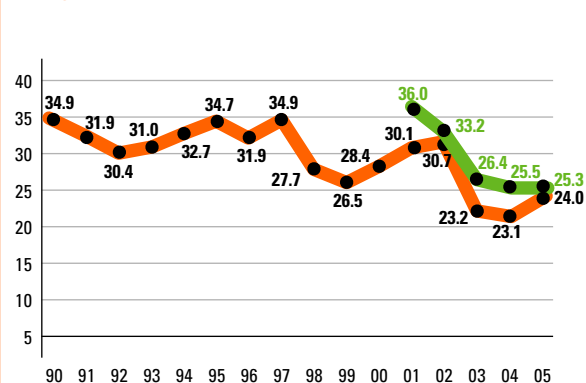
Barra do Riacho

Guaíba

BAT Europe

Specific chlorate consumption

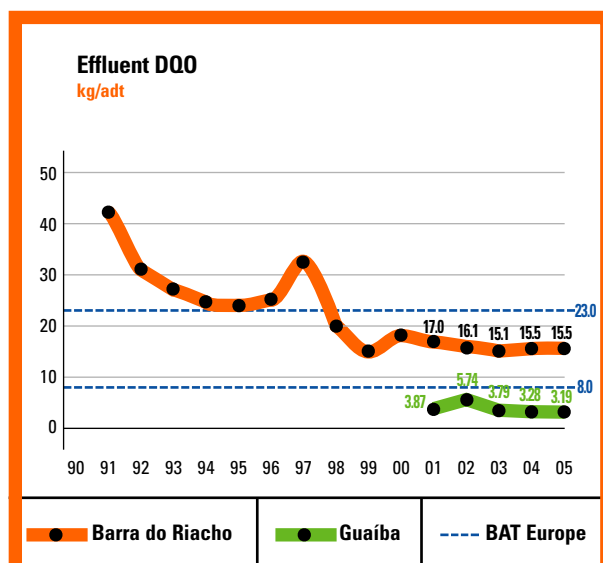
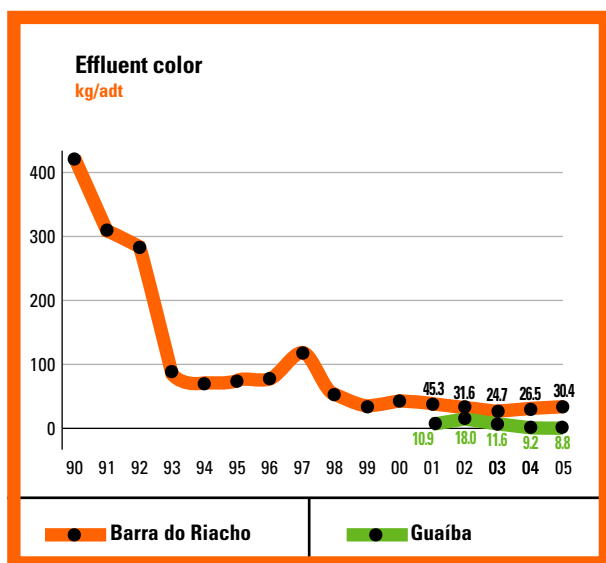
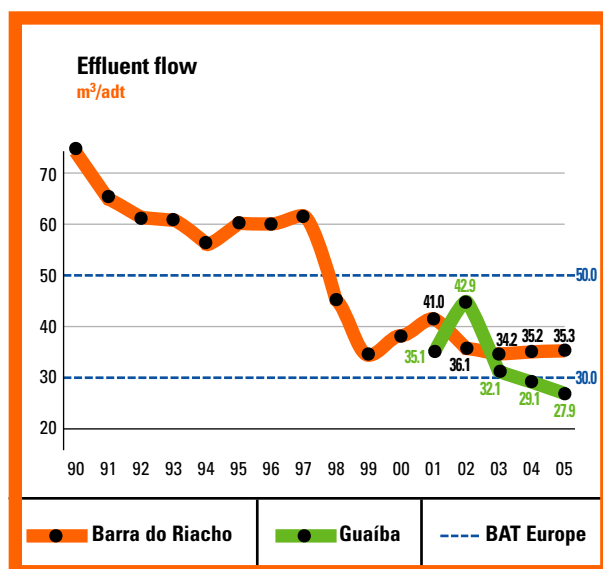
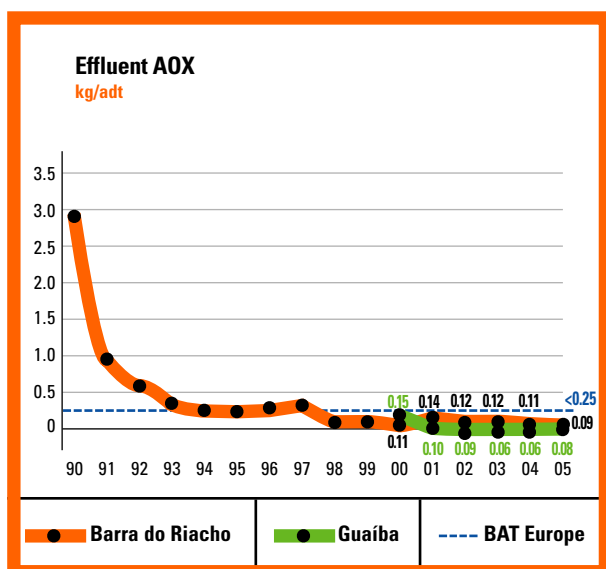
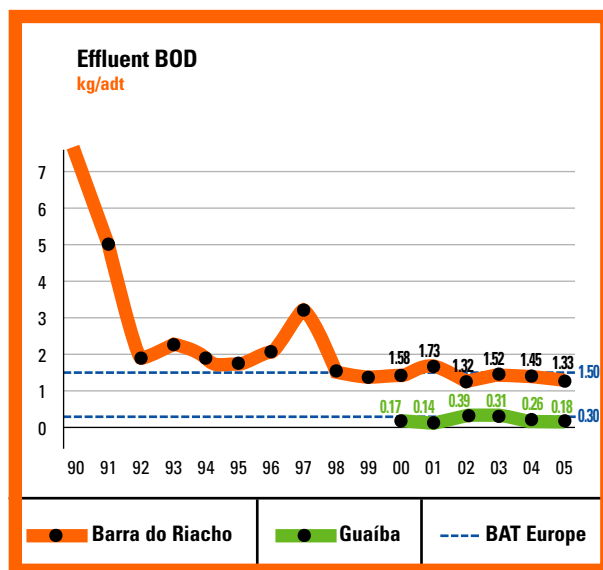
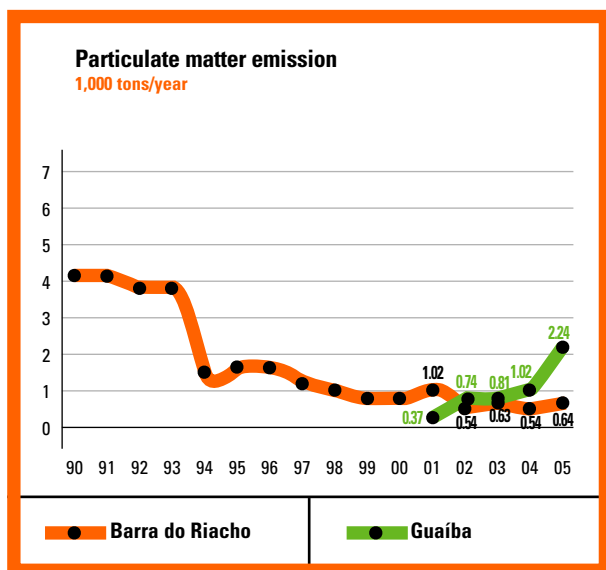
kg/adt



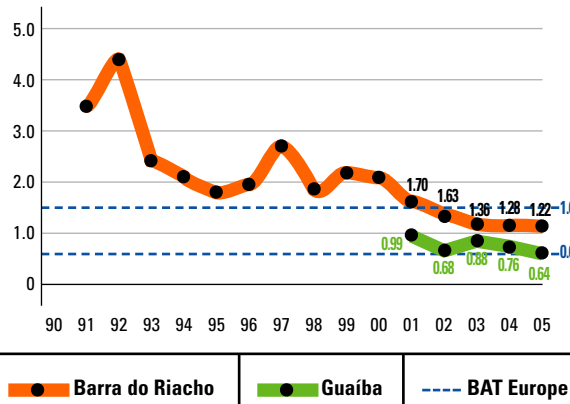
Barra do Riacho

Guaíba

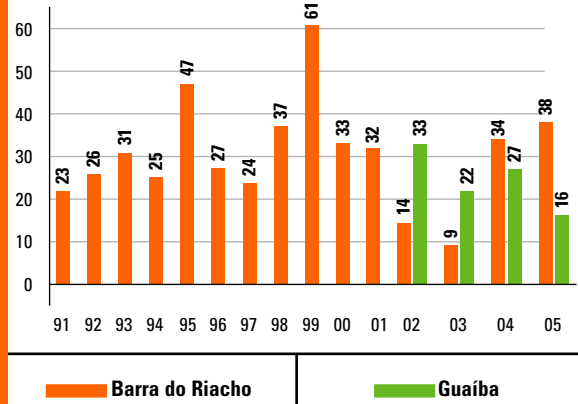
Emissions, effluents and residues in the production of pulp



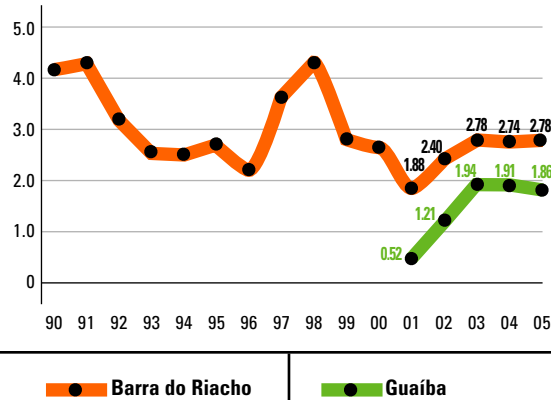
Effluent TSS
kg/adt



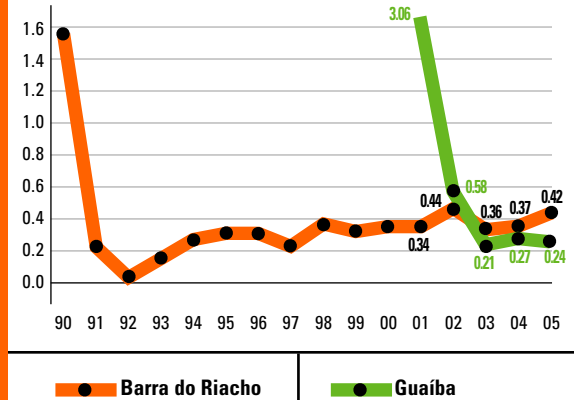
Odor perception network
number of reports



Furnace TRS
ppm



Boiler TRS
ppm





Veracel

Veracel is the fruit of a partnership between Aracruz and Stora Enso (50% each), which came on stream in September 2005 with a production capacity of 900,000 tons of bleached eucalyptus pulp per year.

From the very beginning of the project, Veracel was designed to be a facility equipped with the most up-to-date technology available; however, its essential distinguishing characteristic is the venture's wide-ranging approach to sustainability issues.

One of the objectives of the Veracel Sustainability Agenda, which has been approved by shareholders, is to get the company recognized as an international benchmark in sustainability on the basis of four central tenets:

1. Competitive operation with quality and low cost

Industrial operations, whose tests commenced in May 2005, reached in record time the quality (July) and production (November) learning curves. It also holds the world record for single line daily pulp production, of 3,468 tons of prime quality pulp, obtained on December 12, 2005.

2. Better environmental practices in forest management

Atlantic Forest Program

- Interconnection of remaining Atlantic Forest remnants with Veracel areas through a mosaic-based plantation system, preserving the valleys and planting eucalyptus trees on the plateaus. This interconnection is part of the company's policy for soil use and occupation and is one of the pillars of the Veracel Atlantic Forest Program. Through 2005, Veracel had recovered about 400 hectares of native forest per year.
- Veracruz Station – Biodiversity Conservation Plan – an established partnership between Veracel and Conservation International.

Certification

ISO 14001 in 1996 and CERFLOR in October 2005.

3. Better environmental practices in pulp production

- Low water consumption (27-30 m³/tons of pulp produced) and effluent generation.
- Treatment of effluent with activated sludge.
- Collection and incineration of odorous gases (concentrated and diluted).
- Use of electrostatic precipitators with 99.91% efficiency in the lime furnace, power boiler and the recovery boiler.
- Monitoring in real time of chimneys, which allows the control of aerial emissions.

Social investments resulting from the implementation project (US\$ millions)

Sector	2004	2005
Health	0.4	1.0
Sanitation	1.4	2.1
Education and culture	0.6	0.2
Safety	0.2	0.0
Various	0.5	1.0
Total	3.1	4.3

Source: Veracel.

- Treatment of solid residues with a high degree of reuse, reducing landfill burial by about 90%.
- Wide-ranging environmental monitoring (monitoring of hydro, areas and solid emissions; monitoring of quality of the Jequitinhonha River at three points along a 20-km stretch; monitoring of the mangrove swamps at the mouth of the Jequitinhonha River and the monitoring of coral reefs, among others).
- Odor Perception Network consisting of 20 people from the local community.

4. Social commitment

Veracel is located in a region with a severe lack of basic resources, such as education, health, sanitation and transport. To maximize the positive impact of the project in the region, the unit developed various programs in partnership with the BioAtlantica Institute (IBio), Sebrae, the Apiculture Association of Eunápolis (ASOAPE) and The Nature Conservancy (TNC), among others.

It also maintains an open dialogue with different sectors of society, such as NGOs, members of the State Environmental Council, municipal councils, representatives of the Public Prosecutor's Office, community leaders, representative associations, indigenous villages, among others, as well as holding five public hearings and 39 public meetings for certification in 2005.

See more details in www.veracel.com.br.

Challenges for 2006

Among the actions to be carried out next year by Veracel, the following can be mentioned:

- Preparation for FSC certification.
- A systematic process of dialogue with local communities.
- Structuring of process management.
- ISO Certification of environmental areas, as well as social and quality certification, for both forestry and industrial operations.

Aracruz Celulose's sustainability objectives for 2006

1. Corporate Governance

- Approve the rules of the Board of Directors committees.
- Approve the new versions of Aracruz governance documents (vision, mission, values, codes and policies).
- Continue the structuring of corporate risk management, promoting the dissemination of the control culture throughout the entire executive group of the Company, including preparation of specific policies.
- Complete compliance with the requirements of the Sarbanes-Oxley Law

2. Management

- Develop the Aracruz Sustainability Management System.
- Improve the process of evaluation of the results of service suppliers.
- Obtain certification for the Custody Chain of pulp in the Barra do Riacho Unit and the Guaíba Unit in accordance with CERFLOR criteria.
- Develop information technology systems to speed up and integrate the environmental routines for forestry activities.
- Integrate the carbon credit commercialization processes into the Company Management system.

3. Stakeholder relations

Communication

- Consolidate a regular stakeholder engagement process regarding our Annual and Sustainability Reports.
- Improve the process of communication of the development of forestry operations integrating these efforts with the UBR Good Neighbors Program.

Engagement

- Implement the structured stakeholder relations model.
- Continue the dialogue with the Forum of Environmental NGOs in Espírito Santo and with environmental NGOs in the south of Bahia and Rio Grande do Sul.
- Continue the financial support for the Navy Biological Station, Avidepa and the Bioatlantica Institute.
- Support the Maciar Project, which consists of the recovery of riparian vegetation in the Arroio dos Ratos, the recuperation of Arroio Passo Fundo and the removal of 100m³ of waste from Lago Guaíba in Rio Grande do Sul.



- Donate 245,000 native forest species seedlings and 7 million eucalyptus seedlings to state expansion programs in Espírito Santo and Minas Gerais. Distribute 100,000 seedlings of 20 ornamental and fructiferous species through the Cover the World with Green Project in Rio Grande do Sul.
- Support the Municipal Secretariat to help prepare an Environmental Agenda for Porto Alegre.
- Adopt the José Lutzemberger Park, promoting the integration of the Guaíba community with the mill.
- Support the Book Fair, and integrate employees with the Guaíba community through the cultivation of Gaucho traditions during Farroupilha Week and the Environmental Fair in Espírito Santo.

4. Social Aspects

Education

- Increase the level of education of Company employees, offering primary and secondary schooling to 97 employees; support 1,500 primary and high school students in Aracruz; support the training and digital inclusion of 1,500 persons.
- Expand the scope of the Formar Project to four additional municipalities in the area influenced by Aracruz in Espírito Santo and Minas Gerais, a total of 20 municipalities.
- Distribute 400,000 school notebooks to students in public primary schools in the 25 municipalities where the Company operates in Rio Grande do Sul and also in Porto Alegre.
- Create nine new Environmental Education Nuclei in Espírito Santo and two in Minas Gerais, to systematically monitor the performance of the established Nuclei.
- Expand the Shared Environmental Education Program – the result of a partnership between Fepam, the State Secretariat of Education, the Federation of the Associations of the Parents and Teachers Clubs in Rio Grande do Sul and the Aracruz Celulose, Borrachas Vipal and Gerdau Companies. Establish the Environmental Education Program in the South Zone of Porto Alegre in Rio Grande do Sul.
- Train 400 forestry partners in Espírito Santo in environmental issues; publish and distribute four editions of the Forestry Partner Magazine about environmental issues.
- Disseminate suitable forest management practices in schools in the municipalities where the Company operates in Rio Grande do Sul.



Social Inclusion

- Expand support for social inclusion programs, covering 800 youths and adolescents in situations of social risk in municipalities influenced by Aracruz in Espírito Santo and Bahia through projects like Crer com as Mãos, Araçá, Meninos da Terra and Berimbau.

Social development

- Restructure the company's investment and social action strategy to better define the focus and means of action.
- Support voluntary activities of employees, their relatives, interns and outsourced workers in the Barra do Riacho and Guaíba Units.
- Support community projects aimed at promoting the improvement of the quality of life of communities in municipalities in the Company's area of operations in the Barra do Riacho and Guaíba Units. Donate 2.5 tons of honey produced in Aracruz' forestry nurseries to Apae – The Association of Parents and Friends of Exceptional Children in Rio Grande do Sul
- Continue providing support to community nurseries through the production and sale of 2 million eucalyptus seedlings and 400,000 native species seedlings in the Barra do Riacho Unit.

- Establish the Community Nursery in the coal-mining region of Rio Grande do Sul for the production of native forest species and medicinal plant seedlings. Produce 30,000 native tree and 20,000 medicinal plant seedlings.
- Continue providing support to family farming projects in communities adjacent to the Company's forest plantations in Espírito Santo and Bahia.

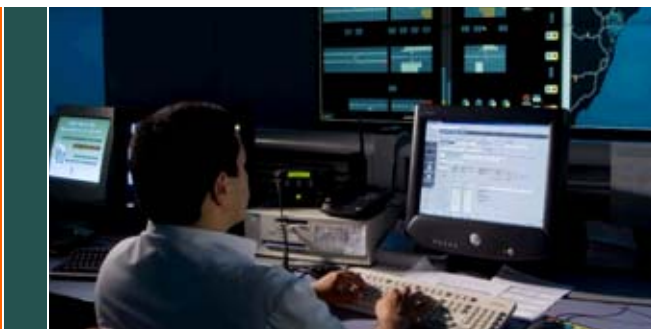
Preventive health

- Assist the workers unions from the forestry sector in the establishment and maintenance of medical and dental offices for 1,500 workers in municipalities in Espírito Santo, Bahia and Minas Gerais.

5. Environmental Aspects

Compliance with legal requirements

- Barra do Riacho Unit – Register 15,000 hectares of existing legal reserves, rehabilitate environmental recovery procedures; rehabilitate 100% of extraction areas that were opened, replant 100% of permanent preservation and legal reserves where environmental recovery activities were carried out.



- Guaíba Unit – Begin the registration process of legal reserves, continue the recovery of permanent preservation areas and restore all mining areas where operations have finished.

Evaluation and monitoring of environmental impact

- Implement the plan for the monitoring of surface water in the Guaíba Unit and carry out semi-annual campaigns for the monitoring of the quality of surface and underground water resources in Espírito Santo, Bahia, Minas Gerais and the Forestry Partners Program.
- Carry out avifauna monitoring programs in Espírito Santo, Bahia, Minas Gerais and the Forestry Partners Program.
- Conduct a survey of archaeological sites existing on Company land in Espírito Santo and Rio Grande do Sul.
- Analyze the results from the Watershed Project and other experiments, for the preparation of a reference document for Forest Management at the Barra do Riacho Unit. Determine the experiments for the coming years and implement those established for 2006 at the Barra do Riacho Unit.

- Evaluate the technological alternatives for the collection and flaring of methane deriving from the composting of solid waste treatment mud at the Guaíba Unit.
- Conduct studies for the reduction of fugitive TRS emissions at the Barra do Riacho Unit.

Management and reduction of environmental impacts

- Create five new Private Natural Heritage Reserves (RPPN), three in Espírito Santo and two in Bahia, with a total of 5,360 hectares.
- Implement an experimental forest replanting station of around 200 hectares, forming corridors that will expand the ecological connection of one of the RPPNs created with the Sooretama Biological Reserve and with the Linhares Forestry Reserve in Espírito Santo.
- Provide up to 900,000 native species seedlings to meet the demands of the Company (development and environmental recovery of its own lands), as well as for donations and extension programs in the Barra do Riacho Unit. Produce 160,000 native species seedlings in the Guaíba Unit.



- Prepare and approve a reference document containing the objectives decided upon for management of the conservation of the soil, landscapes, flora, fauna and physical and social mediums.
- Conduct a study of the best environmental/construction practices for crossing over water sources in the Barra do Riacho Unit.
- Continue to implement plans and models for environmental recovery of the Barra do Riacho Unit.
- Continue to improve the consumption of total active chlorine of the Barra do Riacho Unit reducing it from 41 kg/tsa to 35 kg/tsa in the bleaching process at the Guaíba Unit.
- Reduce the use of water in silviculture activities by 20% and implement a procedure for decisions on the use of herbicides, offering a 10% reduction in consumption.
- Evaluate and define forest fire detection alternatives, train 100% of the members of the forest fire brigades and measure the results of this practice that will be implemented at the Barra do Riacho Unit.
- Continue to restore the former residue treatment center and close the last compost ditch and remove dregs and grits in the Guaíba Unit.
- Implement improvements at the Guaíba Unit's solid waste treatment center and make 100% of the resulting dregs and grits saleable as soil correctives.
- Implement actions based on the results of the identification of chemical compounds causing toxicity in effluent disposed of in the ETE in the Barra do Riacho Unit.
- Implement improvements to the Barra do Riacho Unit's chemicals recovery, solid waste landfills, the treatment and disposal of liquid effluents, water treatment and main seedling nursery at the Barra do Riacho Unit. Implement improvements in the Guaíba Unit's chemicals recovery, paper mill, pulp production and auxiliary power boiler areas.
- Invest in the replacement of the existing air conditioning through the use of gas that helps reduce the greenhouse effect.

The complete evaluation of the targets established for 2005 and those proposed for 2006 can be found on the CD accompanying this publication, as well as on the website www.aracruz.com.br/ra2005/en/rs/objetivos_metas.html.

Barra do Riacho Unit

Liquid effluents	License limits	Average 2004	Average target 2005	Result 2005	Average target 2006
DBO5 (kg/t)	2.50	1.45	1.40	1.33	1.40
DQO (kg/t)	20.0	15.5	15.0	15.5	15.0
TSS (kg/t)	4.50	1.28	1.25	1.22	1.25
AOX (kg/t)	0.19	0.11	0.10	0.09	0.11
Effluent discharge (m ³ /t)	50.0	35.2	34.0	35.3	35.0
Color (kg/t)	50.0	26.5	34.0	30.4	34.0
Atmospheric discharges	License limits	Average 2004	Average target 2005	Result 2005	Average target 2006
TRS C.R. (ppm)	2.0	0.37	0.36	0.42	0.36
TRS lime furnaces (ppm)	6.0	2.75	2.72	2.78	2.72

In 2006, no reductions in relation to the 2005 targets have been scheduled, due to the maintenance that will be carried out on the Effluent Treatment Station to improve its efficiency.

Guaíba Unit

Liquid effluents	License limits	Average 2004	Average target 2005	Result 2005	Average target 2006
DBO5 (kg/t)	1.42	0.26	0.26	0.18	0.23
DQO (kg/t)	5.71	3.39	3.58	3.18	3.58
TSS (kg/t)	1.77	0.78	0.72	0.64	1.0
AOX (kg/t)	0.13	0.06	0.06	0.08	0.10
Effluent discharge (m ³ /t)	39.4	29.8	28.0	27.9	30.8
Color (kg/t)	no limits	9.2	9.0	8.8	12.0
Atmospheric discharges	License limits	Average 2004	Average target 2005	Result 2005	Average target 2006
TRS C.R. (ppm)	1.8	0.27	0.26	0.24	0.26
TRS lime furnaces (ppm)	5.0	1.91	1.88	1.85	2.50

Due to the increase in production, the reduction in the consumption of effluents and the changes in processes, the targets for 2006 were revised, implying greater flexibility than in 2005. The values stipulated as targets are based on the best international operational references in the pulp and paper sector.

Main awards and recognitions in 2005

- Included on the Dow Jones Sustainability Index (DJSI World) 2006. Aracruz was the only Brazilian company to join the list this year.
- Received investment grade in foreign currency from the risk classification agency Standard & Poor's (S&P).
- Joined the Corporate Sustainability Index (ISE) from the São Paulo Stock Exchange, which encounters 28 companies. The 121 companies with the 150 most liquid shares on Bovespa participated in the selection.
- Best Company in the Paper and Pulp Sector on the list of the Best Publicly Traded Companies in 2004 according to *Investimentos* magazine from Agência Estado. In the general ranking Aracruz was in 25th place.
- Best Company in the Paper and Pulp Sector in the Publicly-Traded Companies Highlight Prize, in the ranking of Agência Estado-Econômica.
- Best Company in the Paper and Pulp Sector according to the annual Best and Biggest survey by *Exame* magazine.
- Best Company in the Paper and Pulp Sector in the *Valor 1000* annual survey published by the *Valor Econômico* newspaper. Some 1,000 companies from 27 economic sectors competed for this prize.
- The Dinheiro Best prize from *IstoÉ Dinheiro* magazine. In addition to being the winner in the Paper and Pulp Sector, Aracruz was also chosen Company of the Year, among the 500 companies that participated.
- FINDES/Consuma Environment Prize 2005, in the Management of Solid Residues Category with the project "Use of Solid Industrial Residues".
- Best Company in 2005 in the Paper and Pulp Sector in the eighth annual Best Companies in Latin America, a *Global Finance* magazine rank.
- Most Admired Company in Brazil in the Paper and Pulp Sector in 2005, awarded by *Carta Capital* magazine.



Verification Statement

The BVQI – Bureau Veritas Quality International was hired by Aracruz Celulose S.A. to conduct independent verification of the company's 2005 Sustainability Report in order to evaluate the consistency and reliability of the social and environmental information presented. This work was carried out between February and March 2006 at Aracruz's Barra do Riacho (ES) and Guaíba (RS) Units and at its São Paulo office. The work was based upon the company's policies and procedures for collecting and analyzing the information presented in the report.

The methodology consisted of interviews with the individuals responsible for the areas that contributed directly or indirectly to the data and verification of how the data is used to generate the information contained in this publication. Thus, verification was based upon the data and information made available to the verification team and, consequently, BVQI cannot be considered co-responsible for any decision taken by any person – stakeholder or not – based upon this verification statement.

BVQI understands that Aracruz Celulose S.A. has a properly implemented data collection and information consolidation system for social and environmental processes and initiatives that is appropriate for disseminating information representative of these processes. Additionally, it attests that the methodology used to determine greenhouse gas emissions and carbon stock in Aracruz's forests is consistent with the International Council of Forest and Paper Association's (ICFPA) established calculation protocol as of November 2004.

Thus, BVQI considers that social and environmental information presented in the Aracruz Celulose S.A. 2005 Sustainability Report consistently and reliably reflects all data collected in its production units and at the company's offices.

BVQI

March 2006

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