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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

¨ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the Fiscal Year Ended December 31, 2008

OR

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

¨ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report.

Commission File No. 1-11005

ARACRUZ CELULOSE S.A.

(Exact name of Registrant as specified in its charter)

Aracruz Cellulose

(Translation of Registrant s name into English)

Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

Av. Brigadeiro Faria Lima, 2277, 4th floor

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

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

Title of each class:	Name of each exchange on which registered:
American Depositary Shares (as evidenced by American Depositary Receipts), each representing ten shares of Class B Preferred Stock	New York Stock Exchange

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

None

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

None

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

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

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

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board ¨	Other ¨

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

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

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

Richard S. Aldrich, Jr.

Skadden, Arps, Slate, Meagher & Flom LLP

4 Times Square

New York, NY 10036

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INTRODUCTION

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

- U.S. dollars, dollars, $ or US$ are to United States dollars;
- *reais*, *real* or R$ are to Brazilian *reais*, the official currency of Brazil;
- Brazilian government are to the federal government of the Federative Republic of Brazil;
- audited consolidated financial statements are to the Audited Consolidated Financial Statements of Aracruz Celulose S.A. as of December 31, 2007 and 2008 and, for the three years ended December 31, 2008, together with the corresponding Report of Independent Registered Public Accounting Firm;
- the Company, Aracruz, we, us and our are to Aracruz Celulose S.A. and its consolidated subsidiaries (unless the context otherwise requires);
- our preferred shares and our common shares are to our authorized and outstanding preferred stock and common stock, respectively;
- Class A Preferred Stock or Class A Preferred Shares are to our class A non-voting preferred stock (*ações preferenciais classe A*);
- Class B Preferred Stock or Class B Preferred Shares are to our class B non-voting preferred stock (*ações preferenciais classe B*);
- Preferred Shares are to our Class A Preferred Stock together with our Class B Preferred Stock;
- tons are to metric tons of 1,000 kilograms each;
- COFINS is the *Contribuição para o Financiamenteo da Seguridade Social*, a Brazilian federal social contribution;
- CPMF is the *Contribuição Provisória sobre Movimentação Financeira*, a Brazilian federal social contribution that used to be charged to bank transfers and withdrawals at the rate of 0.38% and that was discontinued in January 2008;
- ICMS is the *Imposto sobre Circulação de Mercadorias e Serviços*, a Brazilian state value-added tax;

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

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

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

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

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

Unless otherwise indicated,

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

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

FORWARD-LOOKING STATEMENTS

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

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

inflation and fluctuation in exchange rates;

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

existing and future governmental regulation;

the declaration or payment of dividends;

our direction and future operation;

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

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

the implementation of our financing strategy and capital expenditure plans;

our level of indebtedness and leverage;

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

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

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

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

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

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

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

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

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

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

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

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

(1) Holders of Class B Preferred Stock have no dividend preference. Holders of Class A Preferred Stock are entitled to an annual preferential dividend.
(2) Including the dividend declared on April 29, 2004.
(3) Including the interest on shareholders equity declared on October 19, 2004 and November 16, 2004, respectively. The interest on shareholders equity was attributed to the mandatory dividend relating to the 2004 fiscal year, which was declared on April 29, 2005.
(4) Including the dividend declared on April 29, 2005.
(5) Including the interest on shareholders equity declared on April 19, 2005, May 19, 2005, June 20, 2005 and December 20, 2005, respectively. The interest on shareholders equity was attributed to the mandatory dividend relating to the 2005 fiscal year, which was declared on April 28, 2006.
(6) Including the dividend declared on April 28, 2006.

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

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

Exchange Rates

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

(i) the commercial rate exchange market, and

(ii) the floating rate exchange market.

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

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

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

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

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

Source: Central Bank.

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

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

Source: Central Bank.

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

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

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risk Factors Relating to Brazil

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

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

currency fluctuations;

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- inflation;
- exchange control policies;
- monetary policies;
- liquidity of domestic capital and lending markets;
- price instability;
- interest rates;
- tax policy; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The market value of securities of Brazilian issuers is affected to varying degrees by economic and market conditions in other countries, including other Latin American and emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Brazil, the reaction of investors to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Developments or conditions in other emerging market countries have, at times, significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil. In addition, events taking place in the world s main financial centers may have an adverse effect on the securities of issuers in other countries, including Brazil. For example, the occurrence in 2008 of the global economic crisis has had a global impact on the world economy and capital markets, including in Brazil. Such crisis is evidenced by instability in securities value and capital markets, instability of most currencies, a widespread reduction in demand, a credit crunch, inflationary pressure, and other factors that could adversely affect our financial condition and diminish investor s interest in securities of Brazilian issuers, including ours. Future crises in other countries could adversely affect the trading price of our shares and ADSs, and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all. There can be no assurance that the Brazilian securities markets will not continue to be affected negatively by events elsewhere or that such events will not adversely affect the value of the Company s Preferred Shares or ADS.

Risks Relating to our Preferred Shares and ADSs

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

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

The preferred shares underlying the ADSs have limited voting rights.

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

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

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

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

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

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

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

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

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

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

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

You may not be able to exercise preemptive rights.

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

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

Risk Factors Relating to Aracruz and the Pulp Industry

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

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

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

The market prices for our products are cyclical.

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

- worldwide demand for pulp products;
- worldwide production capacity;
- the strategies adopted by major pulp producers; and
- the availability of substitutes for our products.

All of these factors are beyond our control.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our principal lawsuits include the following:

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

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

Social Contributions. We are contesting in local federal courts changes in the rates and rules for the calculation of PIS and COFINS determined by Law No. 9,718/98. In November 2001, the Company was granted a favorable judgment. After analyzing certain unfavorable legal decisions on similar legal actions of other companies and their implications for Aracruz s case at that time, the Company decided to cancel, on August 29, 2003, part of the legal action, regarding the rate increase and changes to the taxable revenue basis of these social contributions, and decided to pay the accrued amount in installments according to a special installment tax collection program called PAES, enacted by Law No. 10,684/2003. Notwithstanding, due to a judgment issued by the *Supremo Tribunal Federal*, or the Brazilian Supreme Court, in a similar legal action, which considered the modification in the rules for the calculation of PIS and COFINS to be unconstitutional, the Company requested and was granted a provisional remedy allowing it not to pay the PAES installments related to such modification. Taking into account decisions of the Brazilian Supreme Court in regard to the unconstitutionality of such taxes, that have been followed by other administrative and judicial courts, indicating that the jurisprudence on the matter is consolidated, the Company is convinced that it is very unlikely that an unfavorable decision will be issued. Nevertheless, considering a late 2007 pronouncement of the *Instituto dos Auditores Independentes do Brasil*, or the IBRACON, the Company recognizes a provision with respect to such legal actions which equaled approximately US$75.4 million as of December 31, 2008.

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

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

We currently have a significant level of indebtedness. In 2008, due to a sharp devaluation of the *real* against the U.S. dollar, we suffered significant losses in connection with certain of our derivative financial instruments. On November 3, 2008, we recorded a total loss of approximately US$2.1 billion related to such instruments. As of December 31, 2008, our total indebtedness, including the payment of obligations under our derivative financial instruments, amounted to US$3,913 million, 90.6% of which represented long-term debt payments.

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

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

- increases our vulnerability to general adverse economic and industry conditions;
- requires us to dedicate a substantial portion of our cash flow from operations to payments of our debt, thereby reducing the amount of our cash flow available for working capital, capital expenditure and other general corporate purposes;
- limits our ability to borrow money to fund future working capital requirements, capital expenditures and other general corporate requirements;
- limits our flexibility in planning for, or reacting to, changes in our business and the retail industry;
- makes it more difficult for us to meet our debt service obligations in the event there is a substantial increase in interest rates;
- restricts our ability to make certain types of investments, pay dividends, or sell all of our assets or merge or consolidate with another company; and
- places us at a competitive disadvantage compared to our competitors that have less debt.

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

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

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

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

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

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

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

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

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

- subject to certain exceptions, limitation on capital expenditures by the Company and its subsidiaries;
- subject to certain exceptions, limitation on incurrence of additional indebtedness;
- subject to certain exceptions, limitation on prepayment of indebtedness;
- the maintenance of minimum debt service coverage ratios; and
- the maintenance of maximum debt to adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA, ratios.

See Item 5B. Liquidity and Capital Resources Indebtedness Export Prepayment Facility Agreement and Secured Loan.

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

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

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

- elect the majority of the members of our Board of Directors and remove them;
- exercise overall control over our management;
- set and modify our internal policies and business plan; and
- decide upon any resolution that requires shareholder approval, including related-party transactions, corporate reorganizations (such as mergers, significant acquisitions and recapitalizations), the sale of all or substantially all our assets and the delisting of our shares and ADSs from the Bovespa and the NYSE, respectively; and declare the amount and timing of any dividend payments.

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

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

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

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Risks Relating to our Proposed Business Combination with VCP

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

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

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

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

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

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