ARACRUZ CELLULOSE S A
Form 20-F/A
October 19, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F/A
AMENDMENT NO. 1

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

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the Fiscal Year Ended December 31, 2005

OR

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

OR

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

Date of event requiring this shell company report ..

Commission File No. 1-11005

ARACRUZ CELULOSE S.A.
(Exact name of Registrant as specified in its charter)

Aracruz Cellulose
(Translation of Registrant s name into English)

Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

Av. Brigadeiro Faria Lima, 2277, 4th floor
01452-000 São Paulo, SP, Brazil
(Address of principal executive offices)

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

Title of each class:	Name of each exchange on which registered:
	New York Stock Exchange

American Depositary Shares (as evidenced by American Depositary Receipts),
each representing ten shares of
Class B Stock

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**
38,022,178	**Shares of Class A Stock**
539,141,243	**Shares of Class B Stock**

If this report is an annual or transition report, indicated by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934.

Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

Item 17 o Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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

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

EXPLANATORY NOTE

The Company is amending its Annual Report on Form 20-F for the year ended December 31, 2005 (the Annual Report) to provide clarifications requested by the Securities and Exchange Commission in respect of the significant rights, terms, privileges and conversion features of its preferred issuances and in Note 11 to the Consolidated Financial Statements of the Company and to make conforming changes in several other items.

No other changes are being made to the Annual Report, as originally filed, although Exhibits 12.01, 12.02, 13.01 and 13.02 have been refiled in their current form. The Annual Report, as amended by this amendment, continues to speak as of the date of its original filing, and the Company has not updated the disclosure as of a later date.

TABLE OF CONTENTS

INTRODUCTION

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

- U.S. dollars, $ or US$ are to United States dollars;
- *reais*, *real* or R$ are to Brazilian *reais*, the official currency of Brazil;
- Brazilian government are to the federal government of the Federative Republic of Brazil;
- consolidated financial statements are to the Consolidated Financial Statements of Aracruz Celulose S.A. as of December 31, 2004 and 2005 and, for the three years ended December 31, 2005, 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 (the context otherwise requires);
- our preferred shares and our common shares are to our authorized and outstanding preferred stock and common stock, respectively;
- Class A Stock and Class B Stock are to our non-voting preferred stock class A (*ações preferenciais classe A*) and non-voting preferred stock class B (*ações preferenciais classe B*), respectively, which together are referred to as the Preferred Shares; and
- tons are to metric tons of 1,000 kilograms each.

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

Unless otherwise indicated,

- all references in this annual report to percentages, tons and U.S. dollar or *real* amounts of pulp are to market pulp ; and
- amounts in *reais* stated at a particular date and followed by U.S. dollar equivalents have been converted using the *reais* to U.S. dollars commercial selling rate in effect on such date.

FORWARD-LOOKING STATEMENTS

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

- general economic, political and business conditions, both in Brazil and in our principal export markets,
- the declaration or payment of dividends,
- our direction and future operation,
- the implementation of our principal operating strategies, including our potential participation in acquisition or joint venture transactions or other investment opportunities,
- the implementation of our financing strategy and capital expenditure plans,
- the development of solid wood products, or
- the factors or trends affecting the pulp and paper market (including its cyclical nature and our financial condition or results of operations).

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

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Because we exported substantially all of our production in 2005, operate in an industry that uses the U.S. dollar as its currency of reference and this is the currency in which cash is primary generated and expended, representing the economic environment in which the Company conducts its operations, our management believes that the U.S. dollar is the Company s functional currency and the most appropriate currency in which to present our consolidated financial statements. Accordingly, we decided to present our primary U.S. GAAP consolidated financial statements in U.S. dollars beginning in 1994. For this purpose, amounts in Brazilian currency for all periods presented have been remeasured into U.S. dollars in accordance with the methodology set forth in Statement of Financial Accounting Standards No. 52, or SFAS 52.

During 1997, the 36-month cumulative rate of inflation in Brazil fell below the 100% threshold, and our management determined the Brazilian economy to have ceased being a highly inflationary economy as of the fourth quarter of 1997. Accordingly, our management reevaluated our economic profile and operations and determined that the U.S. dollar should remain as our functional currency, in accordance with the criteria established by SFAS 52. Our transition from a highly inflationary environment to a non-highly inflationary accounting environment as of and from January 1, 1998, had no financial reporting effect on our results of operations and financial position, because our reporting currency (which has been, since 1994, the U.S. dollar) was also our functional currency under highly inflationary conditions according to SFAS 52.

Pursuant to SFAS 52 as it applies to us, inventories, property, plant and equipment, accumulated depreciation and stockholders equity are remeasured at historical rates of exchange, and other 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.

The following table presents our selected financial data as of the dates and for each of the periods indicated. Our U.S. GAAP consolidated financial statements as of December 31, 2003, 2004 and 2005 appear elsewhere herein, together with the reports of the Independent Registered Public Accounting Firms, PriceWaterhouseCoopers Auditores Independentes, Rio de Janeiro, Brazil (2002 and 2003) and Deloitte Touche Tohmatsu Auditores Independentes Rio de Janeiro, Brazil (2004 and 2005). The selected financial information at December 31, 2001 and 2002 has been derived from our U.S. GAAP consolidated financial statements, not included in this annual report. The selected financial data should be read in conjunction with Item 5. Operating and Financial Review and Prospects.

	For the year ended December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
	(thousands of U.S. dollars, except number of shares and per share amounts)				
Statement of Operations Data					
Operating Revenues					
Sales of eucalyptus pulp					
Domestic	$ 23,579	$ 17,126	$ 42,401	$ 66,083	$ 62,019
Export	583,365	700,622	1,056,498	1,256,648	1,469,646
Total sales	$ 606,944	$ 717,748	$ 1,098,899	$ 1,322,731	$ 1,531,665
Sales taxes and other deductions	(32,589)	(48,765)	(95,829)	(155,618)	(186,432)
Net operating revenues	$ 574,355	$ 668,983	$ 1,003,070	$ 1,167,113	$ 1,345,233
Operating costs and expenses					
Cost of sales	$ 420,606	$ 468,875	$ 592,555	$ 700,333	$ 783,578
Selling	23,253	28,242	38,617	53,850	64,430
Administrative	22,012	22,302	22,762	31,072	33,820
Provision for loss on ICMS credit	10,754	45,093	23,178	22,859	7,440
Other, net	14,807	8,968	18,784	2,349	8,873
Total operating costs and expenses	$ 491,432	$ 573,480	$ 695,896	$ 810,463	$ 898,141
Operating income	$ 82,923	$ 95,503	$ 307,174	$ 356,650	$ 447,092
Non-operating (income) expenses					
Financial income	(54,749)	(61,611)	(43,037)	(56,123)	(125,439)
Financing expense	70,215	82,014	108,209	119,976	137,276
Loss (gain) on currency remeasurement, net	18,029	(14,888)	(41,955)	(16,197)	(21,386)
Other, net	(171)	(212)	(129)	(76)	(778)
Total *Non-operating (income) expenses*	$ 33,324	$ 5,303	$ 23,088	$ 47,580	$ (10,327)
Income before income taxes, minority interest and equity in results of affiliated companies	$ 49,599	$ 90,200	$ 284,086	$ 309,070	$ 457,419
Income tax expense (benefit)					
Current	$ 35,722	$ (23,988)	$ 106,549	$ 42,746	$ 71,086
Deferred	(2,992)	8,415	22,567	27,510	1,142
Total	$ 32,730	$ (15,573)	$ 129,116	$ 70,256	$ 72,228
Minority interest	$ 43	$ 64	$ (37)	$ (9)	$ (31)
Equity in results of affiliated companies	$ 1,195	$ 6,076	$ (6,844)	$ (11,568)	$ (44,062)
Net income	$ 18,107	$ 111,913	$ 148,089	$ 227,237	$ 341,098
Basic and diluted earnings per share(1)					
Class A Stock	$ 0.05	$ 0.11	$ 0.15	$ 0.23	$ 0.34
Class B Stock	0.02	0.11	0.15	0.23	0.34
Common Stock	0.01	0.10	0.14	0.21	0.31

Dividends per share					
Class A Stock	$ 0.06 (2)	$ 0.08 (3)	$ 0.11 (4)	$ 0.12(5), $0.09(6)	$ 0.06(7), $0.13(8)
Class B Stock	0.06 (2)	0.08 (3)	0.11 (4)	0.12(5), 0.09(6)	0.06(7), 0.13(8)
Common Stock	0.06 (2)	0.07 (3)	0.10 (4)	0.11(5), 0.08(6)	0.05(7), 0.12(8)
Weighted-average number of shares outstanding (thousands of shares)					
Class A Stock	40,651	40,395	39,819	38,074	38,022
Class B Stock	536,512	536,768	535,969	537,711	537,739
Common Stock	454,908	454,908	454,908	454,908	454,908
Total	1,032,071	1,032,071	1,030,696	1,030,693	1,030,669

(1) Holders of Class B Stock have no dividend preference. Holders of Class A Stock are entitled to an annual preferential dividend.

(2) Including the dividend declared on March 30, 2001.

6

(3) Including the dividend declared on April 30, 2002.

(4) Including the dividend declared on April 29, 2003.

(5) Including the dividend declared on April 29, 2004.

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

(7) Including the dividend declared on April 29, 2005.

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

	At December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
	(thousands of U.S. dollars)				
Balance Sheet Data					
Cash and cash equivalents	$ 20,125	$ 25,474	$ 66,284	$ 36,474	$ 34,114
Short-term investments	405,493	248,455	285,991	412,110	521,613
Other current assets	215,199	250,487	390,459	384,529	539,078
Property, plant and equipment, net	1,913,191	2,000,071	2,270,369	2,133,896	2,068,547
Investment in affiliated company	80,893	87,107	382,318	480,940	505,975
Other non-current assets	143,296	87,220	59,012	81,709	94,678
Total assets	$ 2,778,197	$ 2,698,814	$ 3,454,433	$ 3,529,658	$ 3,764,005
Short-term debt	325,855	182,680	392,088	152,934	292,018
Other current liabilities	99,425	55,824	121,591	121,872	193,147
Long-term debt	537,183	611,091	979,435	1,222,728	1,010,285
Other long-term liabilities	78,004	88,656	160,358	217,837	304,132
Stock capital	853,954	909,476	909,473	909,473	909,122
Stockholders equity	883,776	851,087	891,488	904,814	1,055,301
Total liabilities and stockholders equity	$ 2,778,197	$ 2,698,814	3,454,433	3,529,658	3,764,005

Exchange Rates

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

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

Responding to pressure on the *real*, on January 13, 1999, the Central Bank widened the foreign exchange rate band. Because the pressure on the *real* did not cease, on January 15, 1999, the Central Bank allowed the *real* to float freely. On May, 2006, the commercial selling rate was R$2.3005 per US$1.00. Since January, 1999 the real exchange rate has been having an erratic trend, where the exchange rate is determined by demand and supply currency flows.

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

Year ended December 31,	Exchange Rate of R$ per US$ Low	High	Average(1)	Year-End
1999	1.2078	2.1647	1.8158	1.7890
2000	1.7234	1.9847	1.8295	1.9554
2001	1.9357	2.8007	2.3420	2.3204
2002	2.2709	3.9552	2.9309	3.5333
2003	2.8219	3.6623	3.0715	2.8892
2004	2.6544	3.2051	2.8639	2.6544
2005	2.1633	2.7621	2.4125	2.3407

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

(1) Represents the average of the exchange rates (PTAX) on the last day of each month during the relevant period.

	Exchange Rate of R$ per US$ Low	High
Month Ended		
December 31, 2005	2.1800	2.3735
January 31, 2006	2.2116	2.3460
February 28, 2006	2.1177	2.2217
March 31, 2006	2.1067	2.2238
April 30, 2006	2.0892	2.1542
May 31, 2006	2.0586	2.3711

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

We pay cash dividends and make other cash distributions with respect to the Class B Stock in *reais*. Accordingly, exchange rate fluctuations may affect the U.S. dollar amounts received by holders of ADSs on conversion by the depositary of our ADSs, or the Depositary, of such distributions into U.S. dollars for payment to holders of ADSs. For additional information, see Item 10D. Exchange Controls. For information on dividends, see Item 8A. Consolidated Statements and Other Financial Information Dividend Policy and Dividends.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risk Factors Relating to Brazil

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

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

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

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

The year 2005 was characterized by high interest rates, with the main objective of controlling inflation rates, and also by the continuous appreciation of the Real. The high interest rates that started to decrease in September 2005, contributed to the weak growth of Brazil in 2005, around 2%.

The following table shows the SELIC (Sistema Especial de Liquidação e de Custódia) interest rate per month for the dates indicated.

January, 2005	1,48%
February, 2005	1,38%
March, 2005	1,22%
April, 2005	1,53%
May, 2005	1,41%
June, 2005	1,50%
July, 2005	1,59%
August, 2005	1,51%
September, 2005	1,66%
October, 2005	1,50%
November, 2005	1,41%
December, 2005	1,38%
January, 2006	1,47%

February, 2006	1,43%
March, 2006	1,15%
April, 2006	1,42%
May, 2006	1,08%

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

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

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

In 2002, the depreciation of the *real* relative to the U.S. dollar totaled 52%, due in part to the continued economic and political uncertainties in emerging markets and the global economic slowdown. In 2003 Brazil started a new cycle of Real appreciation relatively to the U.S. dollar and the rate in that year was 18.2%. In 2004 the appreciation of the Real relative to U.S. dollar was 8.1% and in 2005 the Real appreciated 11,8%, representing an accumulated appreciation of 33,7% since the beginning of 2003.

Inflation and certain governmental measures to control inflation may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Brazil has historically experienced extremely high rates of inflation. Inflation itself, as well as certain governmental measures to combat inflation and public speculation about possible future measures, has in the past had significant negative effects on the Brazilian economy. The Company s cash operating expenses are substantially denominated in Reais and tend to increase with Brazilian inflation because its suppliers and providers generally increase prices to reflect the depreciation of the value of the currency. As expressed in U.S. dollars, however, these increases are typically offset at least in part by the effect of the appreciation of the U.S. dollar against the Real. If the rate of Brazilian inflation increases more rapidly than the rate of appreciation of the U.S. dollar, then, as expressed in U.S. dollars, operating expenses may increase and (assuming constant U.S. dollar sales prices) profit margins decrease. In addition, high inflation generally leads to higher domestic interest rates, and as a result the Company s costs of Real-denominated debt may increase. See Item 5. Operating and Financial Review and Prospects Brazilian Economic Environment.

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

The Brazilian government has exercised and continues to exercise substantial influence over many aspects of the private sector. The Brazilian government owns or controls many companies, including some of the largest in Brazil. For example, Banco Nacional de Desenvolvimento Econômico e Social BNDES, which is owned by the Brazilian government, indirectly owned approximately 12.5% of our common stock as of December 31, 2005 and has, through a subsidiary, advanced approximately 20% of our total consolidated indebtedness as of such date. See Item 7B. Related Party Transactions.

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

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

For example, in 2001 after a prolonged recession followed by political instability, the Argentine government announced that it would no longer continue to service its public debt. In order to address the deteriorating economic and social conditions, the Argentine government abandoned its decade-old fixed dollar-peso exchange rate, allowing the peso to float to market rate levels. In 2002, the Argentine peso experienced a 237% devaluation against the U.S. dollar. The situation in Argentina, one of Brazil s largest trading partners, negatively affected investors perceptions of Brazilian securities.

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

Risks Relating to our Preferred Shares and ADSs

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

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

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

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

11

ADSs once you have registered your investment in the Class B Stock, you may deposit your Class B Stock with the Custodian and rely on the Depositary s certificate of registration, subject to certain conditions. See Item 10D. Exchange Controls. We cannot assure you that the Depositary s certificate of registration or any certificate of foreign capital registration obtained by you may not be affected by future legislative or other regulatory changes, or that additional Brazilian restrictions applicable to you, the disposition of the underlying Class B Stock or the repatriation of the proceeds from disposition could not be imposed in the future.

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

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

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. These features may substantially limit holders ability to sell the preferred shares underlying the ADSs at a price and time at which holders wish to do so. The São Paulo Stock Exchange (*Bolsa de Valores de São Paulo*), or BOVESPA, the main Brazilian stock exchange, had a market capitalization of approximately US$482 billion as of December 31, 2005, and an average daily trading volume of approximately US$667 million in 2005. In comparison, the NYSE had a market capitalization of US$21.4 trillion as of December 31, 2005, and an average daily trading volume of approximately US$56.1 billion for 2005.

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 30% of the aggregate market capitalization of BOVESPA as of December 31, 2005. The top ten stocks in terms of trading volume accounted for approximately 51.3% of all shares traded on BOVESPA.

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

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

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

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

You may not be able to exercise preemptive rights.

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

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

Risk Factors Relating to Aracruz and the Pulp Industry

The market prices for our products are cyclical.

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

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

All of these factors are beyond our control. After reaching a peak in the middle of 1995, market pulp prices continued to fall through the first quarter of 1999, due primarily to a significant drop in demand, although market prices began to increase beginning in the second quarter of 1999 and continued to increase through the second half of 1999 and early 2000. In the second half of 2000, market prices of pulp were flat for the whole period. Weak demand and excess inventories in the hands of pulp producers caused eucalyptus pulp list prices to fall at the end of March 2001. Market conditions remained difficult through 2002, with Europe being the most challenging market. In 2002 the average list price of BEKP in North America decreased 8% compared to the average list price in 2001; this was primarily due to the slowdown in the growth of the major economies which began in 2001 that continued to negatively impact the global demand for paper throughout 2002. Global product availability was limited due to pulp production curtailments as a result of inventory adjustments, maintenance and bad weather conditions in the Northern Hemisphere. At the same time, pulp demand remained relatively stable in the majority of the markets, except in Asia and especially in China, where demand was above levels of the previous year. Consequently, global pulp inventories were driven down to below the historic level. In 2003, shipments of BEKP increased the most when compared to other grades. From January to November 2003, deliveries grew 14%, mainly to Asia and Western Europe. This compares with relatively flat shipments of northern hardwood and a 9% decline in southern hardwood. Over the course of the fourth quarter, an increase of approximately 300,000 tons in the aggregate stocks (5.5 million tons at the end of December) put pressure on pulp prices, resulting in a $10 $20/ton erosion of list prices in December. In 2003 the average list price for BEKP was US$ 540/t. In 2004, the average list price for BEKP (North America delivered) was US$ 563/t. Demand for BEKP continued strong through the first quarter of 2005 as expected, with shipments registering an increase of 7% until February 2005. This strong demand permitted the implementation of price increases, the average list price for BEKP (North America delivered) in the first quarter of 2005 was US$ 595/t. In 2005 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, including pulp. The average list price for BEKP delivered to North America in 2005 was US$ 625/t, 11% above the 2004 level.

A sensitivity analysis shows that the highest price levels realized in 2005 added approximately US$115 million in net revenue this year, compared to 2004.

In the first quarter of 2006, the average list price for BEKP (North America delivered) was US$ 649/t.

Discounts from list prices are frequently granted by sellers to significant purchasers. It is possible that market prices for pulp will decline in the future, or that there will not be sufficient demand for the Company s products to enable it to operate its production facilities in an economical manner.

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 signifi