



General

1. The first priority for Souza Cruz must be to maintain the profitability and growth of the Tobacco business and to generate a flow of funds from this activity which is sufficient to support the dividend payments and to provide surplus funds for investment in other businesses capable of providing long term sustainable growth.
2. In determining the strategies and action programmes for these other businesses, Souza Cruz will need to be rigorous in ensuring that they can meet the Group's criterion that each activity should have the potential for fast rates of self-funded organic growth through achieving competitive leadership in a defined market or market segment which is growing rapidly or where growth can be achieved through gains in market share.
3. Souza Cruz should also take into account the Group's preference for developments in Financial Services, Retailing and Paper/Pulp and should give special consideration to the potential for developing Paper/Pulp as the other major activity in Brazil, complementary to Tobacco.
4. As a precautionary measure, in view of the growing difficulties that the Brazilian government is facing to control inflation and finance its domestic public deficit, Souza Cruz should prepare a contingency plan aimed at minimising the effects of a hyperinflationary economy on its financial assets and operations.

The plan should describe the proposals for proactively protecting the value of Souza Cruz's financial assets and should also identify the key criteria for establishing when each of the proposals should be activated.

Financial Guidelines

5. Consideration should be given to developing BTN inflation adjusted accounting (decreed method based on indexed Government bonds) for possible use in the 1990 Budget and 1990-1994 Plan.
6. Returns on Equity: Souza Cruz should aim to achieve an overall 16% return on equity with tobacco providing higher returns than the other businesses. The measure should be based on local published figures adjusted by fixed asset and stock revaluations.

As a minimum, Souza Cruz should maintain its comparative position when judged against the other major Brazilian companies, both in terms of return on equity and also in earnings per share.

7. Dividends: The overall dividend objective continues to be distribution of the maximum allowed under the foreign registered capital regulations. Failing this, Souza Cruz should aim to distribute at least 60% of attributable profits on a Brazilian accounting basis.

The dividends to be paid by Contab (gross of 25% withholding tax, before blocked funds reduction and valued at estimated exchange rate at date of receipt) should be as follows:-

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
US\$(millions)	54	57	66	75	87	100

Where possible, dividends should be monetary corrected, with the rate of distribution agreed in the light of the prevailing inflation.

Since the levels are considerably below the maximum permitted under FRC regulations, ways to enhance these payments should be sought.

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8. Debt/Equity : Souza Cruz should aim at having no borrowing at the year-end other than those resulting from the beneficial use of small subsidised short-term borrowings.

Specific Priorities

9. For Tobacco, there should be a continuing aim to maintain the current dominant position in Brazil, based on a market share for cigarettes of 80% and associated strength of distribution.
10. Particular emphasis should continue to be given to negotiating with the Government, to maintain cigarette prices at levels where it is possible to earn profits and cash flow sufficient to support the payment of dividends at the maximum rate permissible.
11. There should be continuing emphasis on increasing Souza Cruz's share of the international brands segment, aiming to reduce the current strength of Marlboro. A review should be prepared showing the results on the initiatives already in place to extend the market for Lucky Strike, Barclay and Capri.
12. In view of the increasing importance of the lower price market sector and the expected market downgrade, Souza Cruz should give further consideration to possible ways of increasing share at this end of the market.
13. Opportunities for increasing cigarette exports should continue to be pursued in line with guidelines agreed through the Tobacco Strategy Review Team.
14. There should be continued emphasis on innovation and on introducing to Brazil new products and processes developed elsewhere in the Group.
15. There should also be continuing emphasis on applying resources to improving product quality ahead of any increase in media spend. There should be tight control on promotional expenditure ensuring that tests produce unequivocal results before committing to a full launch. Consideration should also be given to the potential for reviving brands with a residue of goodwill (e.g. Minister).
16. Leaf Stocks should be held at the minimum level needed to ensure that the required volume and quality of cigarettes can be maintained, taking into account any improvements which occur in the availability in Brazil of high quality leaf.
17. There should be increased emphasis on finding an alternative source of acetate tow in order to reduce the dependence on a single supplier for a key component of the company's major product. Souza Cruz should pursue this matter vigorously and become more knowledgeable about the whole acetate tow market in order to be able to consider different options for overcoming the problem.
18. Plans should be prepared for a smoothed ten year programme for updating and replacing ageing manufacturing equipment.
19. Plans for a new factory should be prepared in good time to react quickly if a favourable sales trend should become established. However, capacity should be expanded only to meet demand for volumes which can be sold at acceptable levels of profitability.

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20. For Leaf Exports, a high priority should be given to increasing the Souza Cruz share of the world market.
21. Plans should be prepared for the supporting activities covered by SC Fluminense, SC Florestal and SC Trading, showing the justification, objectives and planned results from these activities.
22. For Paper, the first priority should be to prepare plans for accelerating the rate of expansion for Pirahy and for improving the performance to a level where the business has a cash flow sufficient to pay a dividend and to support its own growth. Options for further expansion of the Paper/Pulp activities to a size comparable to that of Tobacco should also be considered as a possible main direction of strategic development for the company.
23. Pulp : For Aracruz, the priorities should be to ensure the Group's access to an appropriate share of the output from the mill and to ensure that the business provides an appropriate contribution to Group profits.

Souza Cruz should also continue to evaluate opportunities for further investments in Pulp as profitable ventures which will also ensure the Group's access to pulp supplies.
24. For Fruit Juice, the immediate priority is to prepare a complete strategy review of the business, considering whether it is possible to improve performance to acceptable levels or if not, what options are open to divest either the whole business or the straight juices element.
25. For Bioplanta, the central objective should be to reach breakeven by 1990, after which the business should become profitable and a net generator of cash. The strategy for the business should be reviewed and proposals made for its future development or disposal.
26. For Polo, the ultimate aim continues to be divestment, once multiple sources of supply for polypropylene film have been developed in Brazil. Souza Cruz should also seek additional partners to reduce the commitment to the business.

RS/DJA
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