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ABV - Q2 2005 AmBev - Companhia de Bebidas Das Americas Earnings Conference Call

Event Date/Time: Aug. 11. 2005 / 10:00AM ET

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PRESENTATION

Operator

Good morning ladies and gentlemen and welcome to your AmBev Second Quarter Earnings Release Conference Call. [OPERATOR INSTRUCTIONS]. It is now my pleasure to turn the floor over to your host, Joao Castro Neves, CFO and Investor Relations Officer of AmBev. Sir the floor is yours.

Joao Castro Neves - *AmBev - CFO and Investor Relations Officer*

Thank you. Good morning everyone and welcome to AmBev's Second Quarter Results conference Call. I am Joao Castro Neves, CFO of AmBev and with me today are, Luiz Fernando Edmond, our General Executive Officer for Latin America, Juan Vergara, our Executive Officer for Hispanic Latin America or HILA as we call it, and Carlos Brito, our General Executive Officer for North America.

I would like to start the call by sharing a brief overview of what was an outstanding second quarter for AmBev. Luiz Fernando, Juan and Brito will provide you the details about our operation in Brazil, HILA and Canada, and then I will go into more specifics regarding second quarter financials.

Through the second quarter strong performance in each of our 3 regions, resulted in a 39.5% increase in the EBITDA per share, and a 27.8% increase in earnings per share before goodwill amortization. Please note that both of these figures have been adjusted for the staff bonus that was issued in May. We saw significant EBITDA growth in our Brazilian, Canadian and HILA operations, although the strong performance in the HILA region was offset by the appreciation of the Brazilian Reais versus the local currencies.

Our performance was a result of sharp focus on growing or continuing to grow out top line, improve our distribution systems and to continuingly permanently reduce our costs, as well as maintaining our financial discipline. I am confident that these initiatives will continue to be effective and successful over the second half of 2005. With that, I'd like to turn the call over to Luiz Fernando.

Luiz Fernando Edmond - *AmBev - General Executive Officer for Latin America*

Thank you Joao. And good morning everyone. I am pleased to provide you details regarding our Brazilian operation, where both strong volume growth and margin enhancement contributed to a 48.4% increase in EBITDA. And then EBITDA margins improvement to 42.9% versus 35.6% in second quarter. We deliver our fourth consecutive quarter of double digit beer volume growth, which came in at 14.3% for second quarter '05.

This result was a combination of a variable boost market extension of 9.6% during the second quarter, and the consolidation of our market share at what we consider our target range. The latest Nielsen reading just came out recording number of shares at 68.1% in July. While we celebrated the achievement, we emphasize that we are still pursuing an even greater share.

Net revenues per hectoliter were in line with first quarter, despite some [trade governments ICMS] tax rate adjustment, following our December 5% price repositioning. Second quarters net revenues per hectoliter were BRL128 versus BRL128.6 in the first quarter. In addition to price adjustment our highlight in the quarter was [indiscernible] deriving top line growth through AmBev management initiatives such as the premium segment, direct distribution systems and price management tools.

We are particularly enthusiastic about ongoing efforts to develop the premium segment in Brazil. And we have recently taken several vital steps such as launching the first TV campaign [indiscernible]. Introducing a brand [indiscernible] the first [indiscernible] in Brazil. And of course starting the launch of [indiscernible] in Sao Paula with very encouraging results so far.

These initiatives coupled with the variance in design of sales force, which considerably increases the penetration of our brew brand are paying out. Volumes in beer brands have significantly outperformed the mainstream brands in the first semester of this year.

I would like to take this opportunity to commend our team, who's discipline and hard work allowed us to leverage the federal Brazilian economic environment, and deliver growth beyond our general expectations. At this point, AmBev's operating in [indiscernible] and we are fully prepared for what we expect to be a tougher second half of 2005. While the Brazilian economy continues to perform strongly, the second half of this year will bring tougher competitors with '04, so both beer volumes and macro economic indicators, such as personal and household income levels. Tougher comparisons have already been [indiscernible] July volume figures, the 2.7% improvement over last year's July figures means the lowest year-over-year growth rate so far in 2005.

Our experience and our skilled teams prepare to continue to drive consumption successfully despite this tough comparison. As we have said before, one of the tougher priorities for the Brazilian operation is to maximise the [indiscernible] capture from economic growth, ensuring that we continue to expand our piece of the growing pie. We are confident in our bid to succeed in this initiative and as you read in the SEC filing we are revising our full year volume estimate upwards to 6%, a 1 percentage point increase over our previous guidance.

Although this can seem conservative, it is important to mention that this market performance is stronger than expected, our supply chain will be prepared to deliver as much as we need. Despite external challenges, that our competitors may have been facing, so far we have experienced no significant change to the comparative environment. We believe, however, that the industry's starting to change in the long term as this [indiscernible] is no longer a option for brewers.

The quarter-on-quarter growth combined with the successful [indiscernible] initiative will deliver 24.7% net revenue increase. In addition the larger volumes that [indiscernible] was put into the additional investor efficiencies and successful [indiscernible] initiatives, increasing year gross margins by 480 basis points to 67.5% and EBITDA margins by 810 basis points to 44.9%.

I'm also proud to report that we have delivered on our commitment to maintain sales and marketing expenses in nominal terms, contributing to an increase in Brazil Beer and Gator of 52.2% to BRL798m.

As well as in beer, soft drinks grew in double digit increments. For the second quarter Brazil soft drinks volume growth was 10.1%. We produced the new largest serving sizes, namely with [indiscernible] 2.35 liters and the 2.35 liters bottles which also contributed to volume growth. These new offerings will [indiscernible] serving volumes, the most significant segment of the Brazilian soft drinks market.

The latest Nielson reading recorded 16.8% market share in soft drinks for the month of July, the third consecutive increase. We also improved net sales by hectoliter over first quarter '05 by 2.2% to BRL83.5. We have this in mind to continue this trend in the third quarter, and [indiscernible] improving in successful sales and execution has boosted the [indiscernible] in our pricing strategy. As a result we maintain a historical price gap with the market leaders. We are excited with the prospect of having full liters in place for the soft drinks industry some time next year.

Just like in the beer industry establish they will provide a fair playing field for the industry reducing the discounting pressure for the smaller informal competitors. Net sales for CSD and Nanc increased 19.1% in the second quarter, and this beer segment industrial efficiencies and higher volumes that [indiscernible] our [indiscernible] structure improving both gross and EBIT margins. Gross margins reached 47.4% and EBITDA margin reached 32.3%. I'd like to stress that although our first half EBITDA margin for CSD and Nanc reached 31.9%. We are maintaining our previous guidance of margins closer to 30% due to an expected increases in aluminum and sugar price in the second half of this year.

In conclusion, I would like to reiterate my pride in our sales force, whose continued diligence has brought strong results and prepare them for a continued improvement in the second half, against very strong over year comparisons. I'll now hand the call over to Juan.

Juan Vergara - *AmBev - Executive Officer for Hispanic Latin America*

Thank you Luiz. And good morning to everyone. I'm also happy to report that our HILA business unit also delivered double digit volume growth for the second quarter. However, despite solid results in local currency, and another outstanding quarter for Quinsa, with strong appreciation of the Brazilian Reais, impacted HILA's performance in Reais terms. In U.S. dollars Quinsa EBITDA grew over 22%, with outstanding performance in beer, outstanding performance in soft drinks, and outstanding performance in [indiscernible]. And therefore consolidated 55.2% accumulative EBITDA in the second quarter 2005.

We also delivered positive results outside of Quinsa's operations and I'd like to focus on a few stand outs, Venezuela, Ecuador and Peru. Our Venezuelan operation delivered volume growth of nearly 35%, and with sustainable volume and sheer growth has now achieved an all time market share high of 14.5% nationwide, with high [indiscernible]in Caracas our focus market. Both of these numbers are measured by independent market [indiscernible].

On top of this the more rational pricing environment gain is helping us improve profitability in Venezuela. In Ecuador, volumes grew by 81.1% in the second quarter as a result of the Brahma rollout, which continued to generate encouraging results. We have had particular success in the coastal region and specifically in the city of [indiscernible] the biggest market in the country, and we are now testing ways to replicate this success in the other regions.

We also have large driver in Peru, where we are now playing a game we know, which is servicing consumers through points of sales the other way. Within the second quarter, we initiated sales of locally brewed Brahma [indiscernible] 1.1 Liter returnable glass bottle, focusing exclusively on the supermarket channel in Lima. Results so far, obviously in this smaller portion of the market, I think we're well ahead of our initial expectations and we are now initiating the rollout of Brahma 630ml returnable bottles, to compete against the Country's most popular [indiscernible] beer package. We are confident that AmBev is on track to successfully occupy an important position in the profitable Peruvian beer market.

The challenging competitive situation in Central America continues, in this region, we're the only operation dealer that did not deliver beer volume growth. Coupled with softening anticipated market volume growth, our competitors in Central American markets have significantly increased marketing efforts, including exclusivity agreements and pricing activity. Nevertheless, we remain confident about the profit potential in Central America, especially as we see the excellent brand equity we have been able to establish in this market.

It is important to say that, as much as we celebrate each battle we win, and maintain a positive score thus far, we do learn with battles we lose. So we know that lots and lots of work needs to be done in all HILA Beer market. But first we're actually starting from a higher ground than anticipated in our initial business plans, and second we know now what needs to be focused.

Regarding soft dinks in HILA-ex, the second quarter volume declined in our Peruvian and Dominican Republic operations, this is mostly, attributed to market volume decreases in both countries. On the other hand, while we're not just watching those market volumes descend, we have made unbelievable progress in improving our sales and distribution systems in these 2 countries, and both are not only ready but eager to have beer in their portfolios.

Peru we've just talked about, is already on the move, gradually rolling out, and we will begin Brahma sales into the Dominican Republic in a matter of weeks.

Finally, I'd like to re-emphasize that excluding the impact of foreign exchange rates, our official [indiscernible] HILA operation delivered solid results for the second quarter. We are very encouraged by Quinsa's success, and our recent Brahma launches and we are more than ever, not only excited with the prospects in this region, but extremely committed to grab our fair share, which we will do, with hard work, focus and continued press [indiscernible].

And to boost this effort, we have just completed what we call the aggregation process, by which all functional areas like supply people, finance and IT will begin to oversee those main functions in all countries, allowing first an acceleration of further best practices implementation, but most important, allowing our general managers and their teams in each country to fully focus on the end game, which is sales and revenue growth. Just as we learned in Brazil a few years back. I will now hand the call over to Brit.

Carlos Brito - *AmBev - General Executive Officer for North America*

Thanks Juan. And good morning everyone. Let me now talk a little bit about AmBev business in North America, and give you an update on our progress in Canada, specifically on some initiatives like revenue management and cost control.

The challenging Canadian beer market, that we discussed last quarter has shown little improvement, although we have enjoyed the very good summer weather so far. This challenging environment is demonstrated in Labatt's second quarter net sales year-over-year, which declined by 2.6% in Canadian dollar terms.

In our domestic business we continue to experience pressure from the discount segment, particularly in Ontario. In response we have taken a very proactive approach to the market, focus on the retail revenue management, execution initiatives and brand support. All this in order to preserve our profitability levels.

In the second quarter we advanced the revenue measure programs in closing the price gap between our mainstream brands and the discount segment in Ontario. Once this program evolves a resulting package and brand alternatives, exports and different price points in between. Labatt [indiscernible] for example was [indiscernible] at Canadian 27/40 [indiscernible] to compete in this segment, trying to get people to up trade, and we're very pleased with the results so far. We also introduce new packaging presentations, secondary packing for a core branded lower priced points, such as 15 bottle cases of Budweiser at CAD21.45 all in.

I'd also like to stress that the pressure from discount segments concentrated in the progress of Ontario, which is one third of our business. In Quebec we are Labatt's most profitable operations, and in the West we had big momentum and we've seen share growth in the first half of this year. We intend to capitalize and accelerate this growth for the second half.

In terms of brands, let me point out that we have some very [indiscernible] working for us, in that we have a great portfolio of brands to work with, and a very good momentum behind some of them, like Stella, [indiscernible] Bud and Bud Lite. Also Brahma was [indiscernible] although in its early days, it's also going very well, and we're very encouraged by profits of this brand in Canada.

Labatt's export runs were negatively impacted by the exploration of a co-packing packing agreement with Guinness, we're limited to product exports to the U.S. Exports of the Labatt brands showed good progress in the second quarter, after disappointing first quarter, despite a weak U.S. beer market in tough competition, price competition in mainstream brands in the U.S. We remain dedicated to delivering the targets that were mapped out at the time of the AmBev Labatt combination. And we're committed to delivering our 15% growth in EBITDA this year. And with that we have made major progress with our cost reduction and efficiency programs.

The zero based budgeting approach as we rolled out [indiscernible] and has been readily accepted by the Canadian leadership team and the overall Labatt team. And AmBev ownership mindset developing rapidly in Canada, and the synergies we announced when the deal was done of CAD85m to be achieved at the end of the year 3 of the combination, is now likely to be achieved at the end of next year, that is year 2. Also the [indiscernible] last quarter we aligned the North American compensation system so that it strongly resembles a Latin American compensation system that has worked so well for us for a number of years.

In other words, a couple of points, employees now receive a bonus if Labatt delivers its profit targets, and each individual works towards a set of personal goals, aligned with the Company goals, which define his or her individual bonus.

On the production side, we've transitioned the Company's footprint from 8 to 6 plants. [indiscernible] we recently closed Labatt New Westminster Brewery in the west, and we'll close the Toronto Brewery at the end of this year. Net net and constant of the cost control and revenue measurement initiatives that are being implemented by our highly motivated and competent team, will successfully derive sustainable long term profitable growth in North America. And with that, I'll turn the call back to Joao.

Joao Castro Neves - *AmBev - CFO and Investor Relations Officer*

Thank you Brito. I'll bring you now some details on AmBev's consolidated results from EBITDA to net income. The total EBITDA in the second quarter '05 was BRL1.4b. Accounting for depreciation of BRL257m roughly 7% of our net sales, or 4.8% on our average property, plant and equipment in the quarter. We get to an EBIT of BRL1.160b.

Provision for contingencies this quarter, amounted to a BRL4.3m positive, a consequence of 2 major reversions. 1 of them was BRL67.3m related to credits off ICMS taxes, and other was BRL18m related to legal disputes with consumers. And that also booked a provision of BRL89m [indiscernible] we're disputing in Brazil.

The numbers of other operating income and expenses was a loss of BRL182m. The main components of this amount are, the consolidated goodwill amortization on BRL334m, formed by BRL196m related to the Labatt transaction, BRL71.9m of goodwill related to transaction at Labatt level prior to the AmBev/Imbev business combination and BRL74m of goodwill generated in transactions in Latin America. Also we booked a gain of BRL242m related to foreign exchange impact on AmBev investments in Labatt, because the Canadian operation has negative equity in Brazilian GAAP. So the strong depreciation of the Reais in comparison to the Canadian dollar benefited our P&L this quarter.

Regarding financial results, AmBev booked a BRL251m loss in the second quarter '05. Annual interest expenses amount to BRL163m implying an annual interest rate of 8.7% in relation to the average gross [indiscernible] during the quarter.

The impact of foreign exchange variations on our assets generated a loss of BRL30m, and the impact on liabilities presented in most parts by our debt denominated in foreign currencies, was a gain of BRL366m. Nevertheless, the impact of foreign exchange rate on our debt was offset by our hedging instruments on that.

The net results of non operating income and expenses was a gain of BRL9.5m, generated by a reversion of the provision in Canada, related to the closure of one of Labatt's brewing facilities.

Earnings before taxes then reached BRL741m in a first share basis, earnings before taxes were BRL11.3m, it's BRL63.6m increasing in relation to second quarter '04, adjusting for the effect of stock bonus implemented on May 31.

Net income reached BRL305m in a first share basis, and net income was up BRL4.65, a 35.6% decrease in relation to the second quarter '04. However, when we look at the net income per share before goodwill amortization, the figures increase to 27.8% increase in comparison to last year.

Finally, I wanted to touch on our hedging strategy for the currency exposure of AmBev's costs of goods sold. You recall that during the last couple of months, July and August, the full currency exposure for the first 5 months of 2006. This is in line with our strategy to protect our results from volatility, relieving the Company from a pressure to increase prices should unexpected currency fluctuations happen in the short term.

With that, we are now open to your questions.

QUESTIONS AND ANSWERS

Operator

Thank you, the floor is now open for questions. [OPERATOR INSTRUCTIONS]. Your first question is coming from Robert Ford of Merrill Lynch. Please go ahead.

Robert Ford - *Merrill Lynch - Analyst*

Good day everybody, and congratulations on the strong quarter it truly was exceptional. First question, Luiz you mentioned that you're still pursuing greater share in Brazil, pricing was a little bit flat quarter-on-quarter to the brewer, my understanding is that there's some ICMS adjustment, so where do you see pricing for the remainder of the year given your objective to continue to take your share higher?

Luiz Fernando Edmond - *AmBev - General Executive Officer for Latin America*

Hi Bob. As you know we don't comment on our pricing strategy for obvious reasons. But our expectations is, despite the ICMS adjustment that some state governments have implemented in the last few months, we really believe that we can maintain net revenues flat for the rest of the year. Market share has been stable for the last 3 to 4 months, around 68% and we have very strong program to the market now, and we believe we could be increasing our market share. So of course, you know, our market share range has always been around 67 to 70%, so our expectation that we can gain market share in the next few months, and then we can prepare for price increases ahead, maybe not this year, but we don't comment in details what we intend to do in terms of pricing. I think the importance here is that next year should be flat for the rest of the year.

Robert Ford - *Merrill Lynch - Analyst*

Okay. Thank you very much. And then with respect to the dividend policy going forward, given that the ImBev is pursuing a half a million euros dividend [indiscernible] buy back of AmBev's shares, it is fair to assume you that AmBev want the buy back of those shares, and you're in a position where you're I think you're 1.1 times [indiscernible] EBITDA, so is it fair to assume that the 100% of free cash flow is going to be paid out in the form of dividends whether it's a percent of capital or a straight dividend?

Joao Castro Neves - *AmBev - CFO and Investor Relations Officer*

Hi Bob, here's Joao. Yes, we're maintaining what we stated in the beginning of the year, which is that we'll make a full use of external capital, which will probably be related at this point to the amount of net income, that we have, the [60%]. Then we will use the extraordinary dividend on top of that, and we have mentioned that the range between 300 to BRL600m for share repurchase. Which pretty much is in line with what you said, which means that assuming most of our free cash flow generated this year.

Robert Ford - *Merrill Lynch - Analyst*

Great. Thank you very much. And then 1 other question if I might? And that's with respect to Peru. Prior to the launch of Brahma brews several [indiscernible] to put it politely, and I was just wondering if you can discuss the remaining hurdles that you face, Juan, and your near term outlook for the 630 whether it's been well received in terms of the way it's tested so far, and how you see that market evolving and you see how the competitor response developing in Peru in the near term?

Juan Vergara - *AmBev - Executive Officer for Hispanic Latin America*

Hi Bob, as far as the competitor response are we obviously do not underestimate any competitor especially [indiscernible] in Peru. We decided to go ahead with the 630 we are in no way giving up from the legal battle since we have the legal ground to fight for the free exchange of bottles in that market. Very important is we had a big legal battle we won, actually yesterday, in Ecuador where the ruling in Ecuador yesterday was the [indiscernible] in that country, and obviously we're talking within the [indiscernible] is something that now can be registered, which is just common sense. So we were not facing, once we started sales, [indiscernible] countries running we're not facing any different [indiscernible], but we expect a continued fight for the 620ml [indiscernible], but we decided not to wait and went ahead with [indiscernible].

Robert Ford - *Merrill Lynch - Analyst*

Great. Thank you very much.

Operator

Thank you. Your next question is coming from Jose Jordan of UBS. Please go ahead.

Jose Jordan - *UBS - Analyst*

Good morning. The first question's for Mr. Fernando. Just to clarify that you said July volumes were up to 1.5%, and then I'd be interested in your outlook, it was interesting to note that [indiscernible] actually gained share in July as well, and I guess you both gained from [indiscernible] and all the others. So what's your outlook, where do you see the market as far as [indiscernible] behavior in the market has it changed or not, and has the attitude of customers towards carrying those brands changed at all as a result of all the [indiscernible] or whatever?

Luiz Fernando Edmond - *AmBev - General Executive Officer for Latin America*

Hi Jose. Our understanding that [indiscernible] produce and operate [indiscernible], we expect them to increase market share for July, which they did, so they are operating regularly, we are not seeing price increases, not across the board, with some specific region and that impacted the national price -- average national price so we don't see any change in the market for the very short term. Mainly the long term things could change but then [indiscernible] still operating in a very normal way delivering, discounting in some places, marketing, so we are not assuming any advantage in the very short term for our volume.

Jose Jordan - *UBS - Analyst*

So your volume increase was 2.5% in July?

Luiz Fernando Edmond - *AmBev - General Executive Officer for Latin America*

Yes we had positive volume in July, due to market share compared to higher than last year, so we had some positives when you compare the market share with last year, the [indiscernible] so we had an average of almost 13% in the first half in July, only 2.7%. So [indiscernible] it was positive for us, we expected [indiscernible] had a problem in the market [indiscernible] we should have expected more volume than that, so it was positive but not compared to any positive effect coming from [indiscernible] at this point.

Jose Jordan - *UBS - Analyst*

Great. Thanks. And my second question's for Carlos Brito. This decision by [indiscernible] to become an income trust, most people would interpret that to mean that they're going to be raising prices as a result of the fact that they're up against their market share limits to get the [federal tax rebate]. What have you seen in the market as evidence of this theory, if anything?

Carlos Brito - *AmBev - General Executive Officer for North America*

So far nothing. We think that the fact that they're now [indiscernible] is good [indiscernible] in the sense that they're going to be worried about earnings and worried about paying their dividends and stuff. They lost their tax break retracted to [indiscernible] this year, so it was just out 2 weeks ago, the Government sent them a letter saying that the tax rate was lost, and that was 25% of their EBITDA for year '04. So that for them of course it's an impact, and in that respect as they said they would lose that only next year in April. So they lost that the year before. And no, they hadn't moved prices but they haven't discounted prices, so that's positive. We've had this for of 36/40 all in for [indiscernible] for now 7 months in a row, and that has been the new floor for the discount side.

Jose Jordan - *UBS - Analyst*

So do you expect to see any changes in their pricing policy anytime in the next 6 months there?

Joao Castro Neves - *AmBev - CFO and Investor Relations Officer*

No, I don't think so.

Jose Jordan - *UBS - Analyst*

Okay. Thanks a lot.

Operator

Thank you. Next question is coming from Alex Robarts of Santander. Please go ahead.

Alex Robarts - *Santander - Analyst*

Hi. Good morning. A couple of questions, and the first 1 is on Canada, the profitability really shaping up better than we've been expecting. I wanted to understand more the cost structure. COGS and SG&A per hectoliter, interest [indiscernible] down about 3 or 4% in the quarter, do you think we can expect this magnitude of decrease looking out in the next 6 months? And related to that have we seen most of the $60m in synergies, or is there still a portion that we could perhaps see also in 2006? I'm assuming the 15% EBITDA growth in Canadian dollars, that target is still in place, and in the event that, let's say, next year that's not achieved, it is going to be like the Brazilian compensation system, so that if it's less than 15%, your employees will still get a portion of their bonus?

Carlos Brito - *AmBev - General Executive Officer for North America*

Hi Alex. Some of the costs you're right. Pretty much so far this year, the first quarter we had a reduction of 3% year-on-year in COGS per hectoliter, in the second quarter 3.5%, so for the first half 3.4%. So I don't have the numbers here for the third quarter, and we'll at this point try to avoid any guidance, but that's been consistent for the first half in terms of COGS. In terms of 15% we're committed to continue to follow along this track, and we feel we're on track to deliver that for '05. For '06, of course, we'll communicate that when the time comes towards the end of this year when we have our budget ready. But you're right the compensation will be linked to whatever target we have, and this year's 15%.

The other question you had was again on the?

Alex Robarts - *Santander - Analyst*

The synergies have we seen most of them really this year?

Carlos Brito - *AmBev - General Executive Officer for North America*

Synergies, as I said in my opening statement, the commitment we have of CAD85m [indiscernible] year 3, which would be '07 we're saying now, we're giving a guidance that's it's going to be achieved by the end of year 2, that is next year. So it's going to be a combination of '05 and '06, mostly in '05 you're right.

Alex Robarts - *Santander - Analyst*

Mostly in '05 okay. That was the clarification. And the second question really relates to the HILA market, looking here with the [SAB Miller] [indiscernible] deals and the strategicals in these markets. How does this particular transaction shift or impact your thoughts in these markets? Might we see the Brahma brand launched in some of the larger markets, Columbia, I'm thinking Chile as well, and basically do we get into a EBITDA positive in Peru next year, or some sense of maybe where you see EBITDA positive -- or when you see that as being a positive margin in Peru?

Juan Vergara - *AmBev - Executive Officer for Hispanic Latin America*

First on EBITDA, we decided not to provide any specific guidance on EBITDA. We have a number of operations -- start up operations and we [indiscernible] the investment funded by [indiscernible] operations so we decided not to provide specific guidance on EBITDA. I'm not saying that our [indiscernible] will not be a [drain] to the overall AmBev results nor a major contributor in the short term as we expect to continue investing in the region as a whole. Obviously we have known for a long time that even our financial discipline, and given our investment parameters [indiscernible] would not be a vehicle for markets where we're not present today, including Columbia. That said we have obviously used that line to develop plans, not only for Columbia but for the markets, which that is our push button, went to push the button would obviously then be affected by many variables, but we remain committed to our strategy for our growing significantly in HILA, and in the long term HILA becoming a significant contributor to Latin America in general.

Alex Robarts - *Santander - Analyst*

So there is a possibility that we could see further Brahma brand launches in the HILA-ex or is that something that's really still under debate?

Juan Vergara - *AmBev - Executive Officer for Hispanic Latin America*

No not under debate, it's under timing analysis. The plans are ready, but obviously when you push the button to do stuff [indiscernible] it's critical.

Alex Robarts - *Santander - Analyst*

Great. Thank you very much.

Juan Vergara - *AmBev - Executive Officer for Hispanic Latin America*

Thank you.

Operator

Thank you. Your next question is coming from Joaquin Lopez-Doriga of Deutsche Bank. Please go ahead.

Joaquin Lopez-Doriga - *Deutsche Bank - Analyst*

Hi. Good morning gentlemen. I was wondering if perhaps you could give us a better idea how much of the tax burden during the quarter was actually cash taxes and how much was non cash?

Joao Castro Neves - *AmBev - CFO and Investor Relations Officer*

Hi Joaquin, this is Joao. I don't have the actual information right here for cash/non cash. I could definitely call you and give Pedro -- have Pedro call you with those figures.

Joaquin Lopez-Doriga - *Deutsche Bank - Analyst*

Absolutely. We can follow up afterwards. Thank you.

Operator

Thank you. Your next question from Lore Serra of Morgan Stanley. Please go ahead.

Lore Serra - *Morgan Stanley - Analyst*

Good morning. I wanted to go back to the volume picture in Brazil for a quick second. You raised your guidance from 5 to 6% but that isn't betting on not too much growth at all in the second half of '05. And as you mentioned you still have some recovered -- even though you've maintained the current level of market share, you still have some market share gain to get you back, so I don't want to read too much into July's sales either, I would concur it would seem a little bit low given that, I know you did have some very strong market share gains right into July. So could you help us understand are you anticipating a second half of 2005 where the market growth is negative, and that's why your guidance is a flat second half '05?

Luiz Fernando Edmond - *AmBev - General Executive Officer for Latin America*

Hi Lore. As you probably know we have a very strong demand model that we use here in Brazil, and we have revaluated all the variables that we use. We have reintroduced all these variables again for the third time this year, and we believe in this model very much. So based on this scenario, we decided to increase our forecast for the year from 5 to 6%, maybe it's still conservative, but we'd prefer to have this conservative number and [indiscernible]. We are prepared to deliver more than that, to produce more than that, but at this point in time, and based on the model, we prefer to maintain the guidance at a 6% level. That means that second half will be tough, really tough. We have interest rates that are very high level, income has been losing -- we have been losing purchasing power in Brazil, there's an inflation and wages not increasing at the same pace, so this is why the model is giving this 6% as an output. Of course the main [indiscernible] the impact [indiscernible] that could change, but for the time being we believe second half of the year, almost flat compared to last year. So that's why we are maintaining the guidance, maybe conservative for some of you, but that's what we believe will happen.

Lore Serra - *Morgan Stanley - Analyst*

Okay. Great. And just to jump to Canada for a second. A couple of questions maybe I'll just ask them 1 at a time. You [indiscernible] from the beginning in Canada about the problems in Toronto and the discount brands, but it seemed to hurt you more this quarter on that, and I was just wondering do you see a slowdown outside of Toronto, and when we look at that 2+% decline year-on-year a very large decline in Ontario and a more normalized level outside of Ontario?

Carlos Brito - *AmBev - General Executive Officer for North America*

Hi Lore. Yes, you're right, it's not only Ontario but it's also what we call the FLANAC region, which together with Ontario is 40% of our volume. So we have 2 Canadas for the time being, we have 2 scenarios. We have the West and Quebec where for the first half of the year our share is up, and the momentum is a positive momentum, and our brands are very strong. Then we have 40% where FLANAC in Ontario where we have some issues with the discount brand in Ontario, and with Molson in the [indiscernible] of Canada. So that's what we need do especially in Ontario. We need to stabilize these trends and regain, what I call our, what I refer to our fair share in the discount segment, we don't want to [indiscernible] because we don't like that segment, but we believe that we need to recover some share that we lost in the last year.

So in January, for example, we had 26% share of segment in Ontario, now we're up to 29%, we think 33 or 34% should be our fair share without leading anything. So in the share and the share total market for discount segment in Ontario is stable for now the seventh month in a row at 30% against a Canadian average of 23% year to date. So that's where our problem is, and the fact that we've not been able to grow our top line on the Canadian business countrywide is because in Ontario 85% [indiscernible] Ontario.

Lore Serra - *Morgan Stanley - Analyst*

Great. Okay. And once again in Canada and [indiscernible], we obviously don't have a lot of history when we look at the Labatt operation. When we look at 2004 as a year, second half profitability was a lot higher than the first half profitability was. The operation had about a 37% EBITDA margin versus much lower levels in the first half of '04. And 2 questions. 1 is that the normal seasonality of Canada, should we expect to see the margin go up sequentially, as we're getting in the third quarter? That's what I would think the business seasonality would be. And second, do you think -- you've made it very clear in this call, that 16% is your number for the year, but if you think about the variables to get to that 16%, and the growth you need to deliver in the second half of the year, is revenue going to help at all, or is it really going come of [indiscernible] costs savings? I'm wondering can you get the volume or pricing as you get into the second half of '05?

Carlos Brito - *AmBev - General Executive Officer for North America*

We think volumes are going to be a bit better during the second half. And I could expand on that, but I just don't time, but to make a long story short, we believe that [volumes] with initiatives and everything we could see volumes a bit better, not a whole better, but a bit better than what our trend was for the second quarter going into the second half. And also the cost initiatives are really delivering more than we had anticipated. In every month we get a positive surprise, so the [indiscernible] Labatt team and really understood the situation after we had to shift gears a little bit to continue to grow the EBITDA. So that's pretty much the basis for the second half.

Lore Serra - *Morgan Stanley - Analyst*

Great. Thank you.

Carlos Brito - *AmBev - General Executive Officer for North America*

You're welcome.

Operator

Thank you. [OPERATOR INSTRUCTIONS]. Your next question is coming from Andrea Teixeira of JP Morgan. Please go ahead.

Andrea Teixeira - *JP Morgan - Analyst*

Hi. Good morning everyone. I just want to get more a sense of perhaps what's wrong regarding the share dividend in the ongoing shares. Is that continued from the last conference call to be the focus to use that as a currency for potential acquisitions? Thank you.

Joao Castro Neves - *AmBev - CFO and Investor Relations Officer*

Yes. Exactly. As we mentioned basically as we mentioned in the last quarter, we still see opportunities to grow through acquisition, Juan quickly mentioned on this, and the proof of the matter is that a lot of the players out there do place a value in having AmBev [voting] share. We saw that in Quinsa, we saw that in London market so, I said before, this is now everything that we have to use for those acquisitions that are still out there and that we will pursue.

Andrea Teixeira - *JP Morgan - Analyst*

Great. And that obviously means as well as some of the markets that you're already present on?

Joao Castro Neves - *AmBev - CFO and Investor Relations Officer*

In all the HILA countries that we -- not in all, but in most of the HILA countries we operate, there is definitely still a chance to either grow in countries where we already operate, and we are in our second or third player, or in new markets such as new markets in Central America, for example, that would we currently do not have an operation.

Andrea Teixeira - *JP Morgan - Analyst*

Great. And also can you [indiscernible] these discussions more for him. In sense of the synergies, I know you explained in previous questions but can you just tell us how much of the CAD85m you had accomplished into the second quarter this year?

Carlos Brito - *AmBev - General Executive Officer for North America*

No, Andrea we're not going to get into detail to that extent. Again, what I can say is that the commitment for 3 years is going to be delivered. That's our commitment, that by the end of the second year that is '06, and that most of it will come in '05 and will be '05 numbers.

Andrea Teixeira - *JP Morgan - Analyst*

Okay. Fair enough. Thank you.

Carlos Brito - *AmBev - General Executive Officer for North America*

You're welcome.

Operator

Thank you. Your next question is coming from Celso Sanchez of Citigroup. Please go ahead.

Celso Sanchez - *Citigroup - Analyst*

Hi. Good morning. A couple of questions. First on Canada. Can you help us understand a little bit some of the context that goes into your comments Molson [indiscernible]. I'm just trying to understand the brand movements across the breadth of Canada, it sounds like the U.S. brands, the Budweiser the Coors Lites are doing very well, while the mainstream Labatt brand as well as the Molson brands seem to be lacking quite a bit. Can you help us understand what you think is driving that, and if it continues at that pace, is there some room even in this very difficult environment, for some price differentiation on the Budweisers or the competitor Coors Lites of the world, something you've talked about quite a while ago, that hasn't seemed realistic in the recent months, but maybe is now looking ahead?

Carlos Brito - *AmBev - General Executive Officer for North America*

I can tell you a couple of things. First price is given by consumers as you know, and you're right, we're seeing the consumers are willing to differentiate from brands. As we research more and understand that we're going to be reflecting that on the price structure that we have. So that comes from the market place, all we need to do is identify those [indiscernible] and reflect that in our pricing architecture. In terms of brands, you're right, Budweiser continues to be the number 1 brand in Canada, and the Lites segment, Coors Lites does have an important share, and the Bud Lites growing very rapidly this year, it's high double digits so that's pretty encouraging to us.

But Canada, you have to remember, Canada evolved from a regional business. That's the history of the beer market in Canada. So there are many regional brands that are very important. For example, to give you 1 example, in our portfolio, Kokanee is a very important player, is the second biggest brand in Western Canada, and that's a brand that if it comes to Toronto it's going to be hard to see. If you go FLANAC Canada the other side of the country you're going to see that [indiscernible] that's [indiscernible] main stream brand over there as opposed to a super premium brand over here. So it is a market, where regional brands still play a role. Of course companies try to have national brands as much as possible, because of all the synergies and marketing support and investment, and that's where maybe the American brands, because they're newcomers are [indiscernible] advantage. It continues to be a regional business to some extent.

Celso Sanchez - *Citigroup - Analyst*

Just following up on that context, you will notice this week that [indiscernible] launched a 6 pack of [indiscernible] lager which -- I don't know if this is a correct interpretation, but it seems to me that certainly an indication of some degree of brand equity, not just -- obviously the price discount's still there, but on a 6 pack was something new to them. So are you concerned that these price bands -- regional price bands, in this case of [indiscernible] brand equity as well, and to me it would be a bigger issue and more reflective maybe of what we're seeing with the old [indiscernible] Canadian mainstream brands like [indiscernible] or Molson.

Carlos Brito - *AmBev - General Executive Officer for North America*

What [indiscernible] did is really they followed our moves, in that we were the first to come with a 6 pack of Labatt [indiscernible] to LCBO which is the government liquor stores, that only deal with smaller [indiscernible] and they followed us, and they also got their product in a similar kind of format. So it wasn't [indiscernible] move into the LCBO government liquor stores.

Celso Sanchez - *Citigroup - Analyst*

So in your mind it's not too much of a comparison.

Carlos Brito - *AmBev - General Executive Officer for North America*

No, we're not going to overlook any competitor activity, I'm just saying that that specific move, follows our move of getting that 6 pack into that kind of environment. But of course we worry very much about all competitors and all competitor activity. We're not overlooking any of them. And [indiscernible] in the discount segment is a player here in Ontario that we have to watch out, for sure.

Celso Sanchez - *Citigroup - Analyst*

And if I could ask another question, but on Brazil beer now. Super premium segment the regional growth and certainly [indiscernible] more money in that visibility behind it, is this something we should be factoring in. It seems to me if this continues growing strongly, certainly that should have some effect on pricing again just reiterating some of the comments about the volume growth outlook in '05 for the second half. Flat pricing this year would actually probably not reflect some of that strong Super Premium growth or have I missed something?

Luiz Fernando Edmond - *AmBev - General Executive Officer for Latin America*

Could you repeat that?

Celso Sanchez - *Citigroup - Analyst*

The super premium brands it seems to me that if they're growing as strong as they are and they become perhaps more of a [indiscernible] that should be reflected, to some extent, in sequential increases in prices [indiscernible] the end of '05?

Luiz Fernando Edmond - *AmBev - General Executive Officer for Latin America*

Actually they are. When you see net sales flat you have to consider that ICMS is increasing in Brazil, so as expected this will increase the prices in December, and state government take some time to reflect that into the taxes, so the super premium is growing and offsetting part of this ICMS as well as an increase in direct distribution. So maybe we don't have enough visibility on that, but we have for example, [indiscernible] by 48% Skol Beats by 25% the same with Bohemia. So we are really increasing volumes, we are not making any further discounts in this premium brand. We continue to have the same policy of [indiscernible] brands connect with the leading brands in each region. So we expect in the future, that of course, we can help us increase our prices and this is what we call the environmental initiatives. We are spending a lot of time and focusing a lot on the premium segment, not only with Bohemia but with [indiscernible], with Skol beers and other brands, as well as [indiscernible], but of course we don't see that reflected just because the ICMS increase, compared to the first half -- to the first quarter.

Celso Sanchez - *Citigroup - Analyst*

Okay. Thank you.

Operator

Thank you. Your next question is coming from Andre [Cassio] of [indiscernible]. Please go ahead.

Andre Cassio - - *Analyst*

Good morning everybody. I'd like you to comment again about the 6% volume guidance. I'd like to know if in your forecast [indiscernible] you're taking account of the decline in interest rates in Brazil, and if so, on a [indiscernible] just have an idea if you have [indiscernible]?

Luiz Fernando Edmond - *AmBev - General Executive Officer for Latin America*

I don't have the numbers here to mention [indiscernible] basically all these variables, we use a flat interest rate for the rest of the year. Even if the government decides to reduce it. Whereas last year according to the economic environment, according to the political environment that we have now in Brazil, it's not clear for us that they will decrease enough, we consider flat. But this is only 1 of the variables that we have.

Andre Cassio - - *Analyst*

Okay. So you're very conservative on that front?

Luiz Fernando Edmond - *AmBev - General Executive Officer for Latin America*

Not very conservative, maybe conservative.

Andre Cassio - - *Analyst*

Okay. Thank you.

Luiz Fernando Edmond - *AmBev - General Executive Officer for Latin America*

Thank you.

Operator

Thank you. Your next question is coming from Marcio Kawassaki from Fator. Please go ahead.

Marcio Kawassaki - *Fator Corretora - Analyst*

Good morning. I just have 1 question about the taxes. I notice that they have increased a lot in this quarter, I'd like to know what's happened, and can we expect this high level for the next quarter?

Joao Castro Neves - *AmBev - CFO and Investor Relations Officer*

Hi Marcio, this is Joao. Basically our tax structure, as we've mentioned in the past, is subject to the foreign exchange variation. So following us for a while, you know that in the previous years we have gained from that, they now have depreciated. This year was a depreciation and given the tax structure, we're giving back some of that gain. In terms of where we expect it to be we've mentioned in previous quarters an effective tax rate before the goodwill amortization between 20 to 25%, and we feel this is still an appropriate range to work with.

Marcio Kawassaki - *Fator Corretora - Analyst*

Okay. Thank you.

Joao Castro Neves - *AmBev - CFO and Investor Relations Officer*

Welcome.

Operator

At this time there are no further questions. I'd like to turn the call back over to Joao Castro Neves for any closing remarks.

Joao Castro Neves - *AmBev - CFO and Investor Relations Officer*

Thank you very much. And once again thank you to everyone, we are very pleased to close this conference by saying that we are happy of course with our results so far. But what matters really is the future and we are prepared to the challenging figures that we have or had. So thanks again for your attention, and we see you next quarter.

Operator

Thank you, that does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day.