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PRESENTATION

Operator

Good morning ladies and gentlemen. And a welcome to the AmBev Investor Relations Third Quarter Earnings Conference Call. At this time all participants have been placed on a listen-only mode. And the floor will be opened for your questions following today's presentation. It is now my pleasure to introduce your host Mr. Castro Neves. Sir, you may begin.

Joao Castro Neves - *AmBev - CFO*

Okay, thank you. Good morning everyone and welcome to AmBev's third quarter results conference call. I'm Joao Castro Neves, AmBev's CFO. And with me today are Luiz Fernando Edmond, the Chief Executive Officer for Latin America, Juan Vergara, Executive Officer for Hispanic Latin America and Carlos Brito, Chief Executive Officer for North America.

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

During the third quarter strong performances in each of our three regions resulted in a 36.1% growth in the consolidated EBITDA. Beer volume maintained its growth in all three business units. And our earnings per share presented a strong growth of 81.2%, already adjusted for the stock bonus that was issued in May, and excluding goodwill amortization.

Our performance was the result of a sharp focus on growing our top line, improving our distribution systems, continuing to reduce costs and ensuring and maintaining our financial discipline. I'm confident that this initiative will continue to be effective and successful over the fourth of 2005.

With that, I'd like to turn the call over to Mr. Edmond.

Luiz Fernando Edmond - *AmBev - CEO Latin America*

Thank you Joao, and good morning everyone. I'm pleased to provide the details regarding our third quarter '05 results. And during this quarter AmBev delivered solid results in Latin America, both in Brazil and in the HILA operations. I'll address Brazil now and Juan will comment on HILA later.

Beer volumes in Brazil increased to 3.4% when compared to the third quarter '04. And this was result above our expectations, and it is a major consequence of the action we had to do in the month of August and also the higher market share this year. AmBev managed to achieve 68.3% market share in September, our highest level since July 2003. Of course, our market efforts are also impacting our volume in share, and brand health indicators are very strong, thanks to the new positioning and a new campaign that we've recently launched for our main brands.

We are particularly happy with the recent results for Brahmas preference indicator, that reached the highest level in Sao Paulo in many years. This is especially important for Brahma, as Sao Paulo is its most important market and where we stand undisputed leader.

Important to say, however, that the Brazilian beer market is experienced a general slow down in volume growth, evidenced by our performance during the month of October, when volumes grew by roughly 2% versus last year. Not bad, but not as good.

Now the rest [indiscernible] month of August, and our volume slowdown was less intense than expected. We are raising again our volume growth guidance for the full year 2005 to 7%, up from the previous 6% estimate.

On the pricing front, I wanted to highlight that we are on track to deliver real growth in net revenues per hectoliter. We are now at BRL130.9, and the year-to-date performance reflects a 9.4% increase in relation to last year. Our revenue management initiatives are at full power, with better performance in our premium portfolio, and all the redistribution centers, as well as our packaging mix.

Our premium brands are outperforming the growth of the mainstream portfolio. With Original by 37% and Bohemia growing by 20%, year-on-year. Supported among other things by the larger Bohemia [indiscernible], which was completely sold out in less than two months, and it also highlights how strong an individual packed line is.

In terms of packaging mix, greatest sales of cans in supermarkets have also helped to increase our net sales per hectoliter. That also affects our sales expense line which we'll talk about shortly. This means a higher market share in the supermarkets channel for AmBev.

AmBev's direct distribution structure sold 47% of our beer volume, compared with 45% in the second quarter and 41% in third quarter of last year. We continue to increase efficiency across the board in our distribution structure. We stick to our market leader responsibility of adding value to the beer [indiscernible]. We are glad to see the continuous improvement in our sales and distribution muscle.

That makes me feel, every day, that we are healthier than the day before. We feel we are ready to react to any new challenge in the market place, including the presence of new entrants in the local market.

As well as in the beer, the soft drinks business also delivered healthy growth. Differently from previous quarters, during this quarter we managed to grow the gap in volume growth between us and the Coke system. Our soft drinks volume grew by 6.2%, compared to 7% from the Coke system in the same period.

Our new multi-serving presentation of PET 2.5l represented a significant part of our incremental volume. The new multi-serving presentation also helped us protect our market share, which grew to 16.7% compared to 16.3% in the third quarter '04, while big brands declined in the same period from 32% to 29.7%.

Additionally to the improvement in our packaging portfolio we are also enthusiastic about implementation of [meters] in soft drinks, which should come already 2006. Just like in the beer industry, when established they'll provide a fair playing field for the industry, reducing the discount pressure from former competitors.

On the first slide, I wanted to highlight the outstanding job of our industrial and procurement departments. They help with us maintain benchmark margins in both beer and soft drinks, even back of higher aluminum, sugar and PET resin prices.

Regarding operating expense. During this quarter we had two major effects impacting our business. Firstly some [three] marketing initiatives have a different timing, which increased the proportion of our sales and market budget spend during this quarter.

Secondly, the higher revenues generated an increase in sales expenses related to our agreements with some supermarket chains, which established some promotional funds, they are determined by the amount invoiced to those clients.

Finally, I remark that the higher than expected revenues generated this year is result of initial guidance for sales and market expenses. They are up, rather than a flat amount in relation to 2004, we should experience a slight increase, not higher than 5%. That is fully explained that promotion funds tied to agreements we have with some customers like supermarkets, especially supermarkets. And however, it's important to mention that the high expense will not affect our profitability.

I'd like to [recommend] my pride in all the Brazilian team whose continued diligence has brought strong results and prepared us for a strong full year 2005.

I'll now turn the call to Juan.

Juan Vergara - *AmBev - CEO Hispanic Latin America*

Thank you Luiz and good morning everyone. Our HILA business unit delivered a 9% profit growth in dollar terms during the third quarter, which translates into a profit decline in reais terms as result of the strong appreciation of the Brazilian currency.

Quinsa's total EBITDA in dollar terms increased by 33% during the third quarter. In terms of volume, Quinsa operations delivered 6% growth in beer, and an outstanding 21% volume growth in soft drinks. On top of increased volumes, Quinsa also delivered EBITDA margin expansion of 190 basis points.

During September Quinsa launched Brahma in Chile. And we are enthusiastic about the opportunity to increase the number of countries where Brahma is present. We surely envision promising prospects for the brand in the Chilean market.

In the HILA-ex operations, the roll out of beer start-up continue on track. Beer volume at HILA-ex operations increased by 35% during the quarter, driven by the roll-out of Brahma in Ecuador, the introduction of Brahma in 630ml returnable glass bottles in Peru, which allows us to compete in this dominant packaging segment in that market. On Peru, it is worth mentioning that, limited by supply, our efforts are still concentrated in the core region of Lima where initial market share estimates are very encouraging.

Also volumes were positively impacted by the launch of Brahma in the Dominican Republic. We are also [suggested] with the Brahma positioning in the Island, and foresee strong growth prospects for the brand.

Finally, our Venezuelan operation continues to deliver consistent volume growth. Though in this quarter, we were capable of retaining our market share above the 14% share level we achieved last quarter, while we implemented a price increase with reduced price gaps to the market leader. In addition to the strong volume growth, I'd like to also highlight that beer net revenues per hectoliter in HILA-ex have raised over $63 per hectoliter in the third quarter, which is 12% higher than that of Brazil. This is certainly strong evidence of deep profitability of beer markets in that region.

On the other hand, the challenging competitive situation in Central America continues. The region, with the exception of El Salvador, delivered volume decline. Mainly as a result of increased competition at the expense of the profitability, higher taxes, and the negative impact of hurricanes. With an unexpected dramatically turn around in the very short term but volatile environments are no news to us, and given the solid brand equity [indiscernible] to sustain we remain strongly committed to build, and we will build, a profitably operation in the region.

Regarding soft drinks in HILA-ex, we're still experiencing tough times. Soft drinks volumes decline in the back of increased price competition in both Peru and the Dominican Republic. In the case of the Dominican Republic, a general and severe market volume decrease had a further negative impact in our business. But despite the current and anticipated fourth quarter difficulties in soft drinks, I'd like to emphasize that we remain strongly, and I repeat strongly, committed to profitably growing soft drinks.

The soft drinks platform is a fundamental piece of our sales and distribution strategy for the whole HILA-ex region and we will succeed in implementing our strategy in the region.

I will now hand the call over to Brito.

Carlos Brito - *AmBev - CEO North America*

Thanks, Juan. Good morning everyone. The third quarter was an encouraging one for AmBev in North America where we saw a return of industry volume growth and also made some very good progress in our cost cutting initiatives, both fixed and variable.

Let me cover a little bit in terms of year-to-date, of some plus and minuses in our business in North America. The third quarter EBITDA margin reached 41% versus 37% last year. And year-to-date we're delivering 85% EBITDA margin versus 80% year-on-year versus last year.

The cost side remains a positive for us and as we said in the last call we continue to be committed to delivering on the synergies that we announced at the time of the Labatt and AmBev combination. In two years as opposed to the three years that we had announced.

Also the industry was a positive one, in the third quarter, it grew by 3.2% related to a very strong summer that we had this year in Canada. Especially central Canada. The other good point on the positive side is that the minimum price for the Ontario Province was raised by the provincial government, by 13% after 12 years of being flat. Also our share of lites, in the lite segments across the country grew in the last four months for the first time in the last couple of years.

Also on a positive side, after six, what we call priority brands, that we support, five year-to-date grew market share and won lost share. The five that grew is Bud, Bud Lite, Kriek, [kroken] and Stella and the one that lost share is Blue. Those have forced some other unsupported brands that lost also some share.

On also the positive side, the discounts segment in Ontario in the last quarter was at 29% in year-to-date it's at 30%. I'd say a positive sign that says that is has been stable at the 30% level for the past nine months.

And then, on the challenging side, or negative side, we will continue to suffer this year on the double whammy hit that we took in Ontario by the growth of the discount segment from 25 to 30% year over year. And now our loss of share within segment in that Province, within discount segment. That came from 34 to 28%. So that's the double whammy that is responsible for 90% of our top line challenges.

Also on the negative side, the price environment worsened over the third quarter, due to continued aggressive and irrational, we would say, price activity by our major competitor, Molson. Again, at Labatt's we think that that is not the way to go, we're not going to play this discount game. We believe that the only way to achieve true, meaningful and sustainable revenue growth over the long term is to create and grow brand equity and to out-execute your competitors.

While there may be a few bumps in the road over the short term, we believe our path is the one their market leader must take. We're not willing again to sacrifice our profitability, or brand equity, by responding to this irrational price-emphatic tactics in a domestic market.

On the export side, revenues were negatively impacted by two factors. One, the challenging overall U.S. beer market. And two, the impact of the strengthening Canadian dollar versus the American dollar. As a consequence, year-to-date revenues have decreased by 0.4%.

Net net, I'm proud to say that the North American EBITDA grew year-to-date by 14.7% year-on-year, despite the challenging price environment. This is a result of a strong focus on implementing the cost reductions and initiatives laid out by the time of the merger of Labatt and AmBev. Also a careful, a very careful measuring of our top line that's under pressure. And also the very hard work of our highly committed Canadian team.

However the under-performance of the top line, due especially to the price environment, will certainly make it more difficult than originally thought for us to deliver on the 15% growth targets established for this year for Labatt. Though we're facing a difficult price environment in the short term in North America, we remain confident that our long term objectives of Labatt will create significant value for the AmBev shareholders. Yielding implementation of revenue management and cost initiatives, and also to grow and all of that.

I'd like to pass the call over to Joao Castro Neves.

Joao Castro Neves - *AmBev - CFO*

Thank you, Brito. I'd wanted to take the chance to review the most relevant impacts on the lines from EBITDA through net income.

First we have in the third quarter total depreciation and amortization expenses, including the [percentage] allocated to cost of goods sold, of BRL248m. This figure represents a significant increase in relation to last year and the main reason for that is the higher amortization of deferred assets, as mentioned in our release yesterday.

The merger of InBev Brasil, [Companhia de Brasil de Bebidas] into AmBev generated deferred assets in the amount of roughly BRL8.9b. Third quarter '05 was then the first quarter to impact by the full charge of the amortization of those deferred assets. Which sum up BRL89.2m, or 36% of total depreciation and amortization. Nevertheless, the impact of those expenses in AmBev's net income was limited to BRL11.6m while they provided for ex-benefit of BRL54m, which is an effective cash gain.

Second, I wanted to briefly comment on the BRL20m non-operating gain related to the sale of Red Rock brand of soft drinks in the Dominican Republic to PepsiCo. Red Rock is a very traditional brand in the island, developed in the past by Embotelladora Dominicana, and the leader in the flavor segment in that country. However, our decision was to leverage the marketing capabilities of PepsiCo, while we concentrate our efforts in building a strong and efficient distribution system in that country, which is obviously a core element in our full beverage strategy.

Third, I want to highlight total goodwill amortization in the quarter, which amounted to BRL279m. The major driver for that was the amortization of our investment in Labatt, representing BRL197m, fully in line with the guidance given in the first quarter this year.

Finally in fourth place, AmBev booked in the third quarter '05 a provision for income tax of BRL150m. There were two major positive impacts reducing the tax charge. First, there was a BRL48m benefit related to a provision for the amortization of goodwill generated in the merger of InBev Brazil into AmBev. Second, there was a non-recurring benefit of BRL103m, and that was related to the merger of Companhia Brasileira de Bebidas, CBB, into AmBev.

For the last five year we have incurred roughly BRL300m in amortization expenses related to the goodwill generated by contribution of the shares of [Abasca] to AmBev in 1989. That goodwill amortization however, was not tax deductible. When Companhia Brasileira de Bebidas, the name given to Abasca after 1999, was merged into AmBev last May, we were entitled to take a tax credit for the whole of those past expenses.

Well, concluding my speech, I highlight that AmBev report a net income in the third quarter of BRL399m. And earnings per share, excluding goodwill and adjusting the share basis of the third quarter for the stock bonus incremented last May, increasing by 81.2%.

Okay, we'll open now for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. The call is now open for questions. [OPERATOR INSTRUCTIONS]. Our first question is coming from Joaquin Lopez with Deutsche Bank.

Joaquin Lopez - *Deutsche Bank - Analyst*

Hi, Joao, Fernando, Juan. Good morning everyone. I have a couple of questions, first one is in Brazil. I don't know if you can give us a bit more detail on the non-recurring special projects that were behind the increase in the administrative expenses?

Joao Castro Neves - *AmBev - CFO*

Yes, I can give you some color on this, this is sort of thing, this is Joao. Some of them, non-recurring projects. One of the is the actual the surveillance [oxley] project for this year. As well as we had the update of the SAP that we did when we combined Brahma and Antarctica. We now going into the new version of SAP. So those are probably the two main projects that are worth mentioning that are non-recurring.

Joaquin Lopez - *Deutsche Bank - Analyst*

Do you expect a little of the tail end of these projects to perhaps 4Q or have we seen all of it already?

Joao Castro Neves - *AmBev - CFO*

You have seen most of it.

Joaquin Lopez - *Deutsche Bank - Analyst*

Okay. Then the second question was on Canada. I also wondered if you could share with us any specific initiatives you've thought about to re-ignite top line growth, perhaps brand repositionings or [special] rationalization to focus more on certain brands?

Carlos Brito - *AmBev - CEO North America*

Yes, hi Joaquin. This is Brito. Now of course where we get to the planning stages for next year. I wouldn't like to go into lot of details. Of course we're very confident that we have better plans for '06. And mostly because now we have a base, I wouldn't say a better base, but a more current base to plan -- to base our plan on.

For example, in Ontario now we have a minimum price, we have the discount segment stabilized at 30% for now nine months, it's still very high but at least it's not growing anymore. And it's clear for us what kind of environment we'll face next year, it's getting clearer and clearer. So that's a better basis for planning for next year, that's all I can say right now. It's better for next year, the plan, than we had for this year.

Joaquin Lopez - *Deutsche Bank - Analyst*

Thanks, thank you very much guys.

Operator

Thank you. Our next question is coming from Andrea Teixeira with JP Morgan.

Andrea Teixeira - *JP Morgan - Analyst*

Hi, good morning everyone. I just wanted to, if you can, Brito, just continue talking about the gains, the market share in Quebec and what have you done and all. It's the best market for you so if you can more -- explain more about what you did in Quebec during this quarter?

And also if you can talk about, actually this is more for Joao, in terms of how, if AmBev is start doing the buy-back now that the results were released, if the buy-back is resumed or -- and how much of that is of the 500m is left. Thank you.

Joao Castro Neves - *AmBev - CFO*

Let me start by your second question, Andrea. Basically, since the announcement, AmBev is just putting in place the right structures to start a buy-back, so actually they have not started yet and it should probably start during the fourth quarter. Okay, so I have not started but will probably start soon during the fourth quarter 2005.

Carlos Brito - *AmBev - CEO North America*

Okay Andrea. [In terms of] Quebec. You're right, it's a very profitable province, not only for us, but for the market as a whole. Yes, we have momentum going for us in Quebec in terms of sales, execution; we have a great mover there. Yes, we have brands that are performing even better than the average of Canada, for example Bleue, which is the Blue, the French version of Blue, it's performing much better than the English version, which is Blue. So that helps the full picture. But it's also a more volatile market place where you have big chain stores that could move the market as they decide to promote more or less beer. So it's also very volatile type market place.

Andrea Teixeira - *JP Morgan - Analyst*

So you -- but in general you feel that the market share is stable the way it is right now for Quebec?

Carlos Brito - *AmBev - CEO North America*

Oh yes, yes it is.

Andrea Teixeira - *JP Morgan - Analyst*

Okay, right, thank you.

Carlos Brito - *AmBev - CEO North America*

Pleasure.

Operator

Thank you. Our next question is coming from Alex Robarts with Santander.

Alex Robarts - *Santander - Analyst*

Yes, hi. Two questions, and I guess first just wanted to go back to Canada, and it's to clarify. So, on this minimum price increase of 13%, as I understood it, is that going to be just for the Province of Quebec -- I'm sorry, of Ontario, and does that really imply that you go up from the CAD24 for the 24 pack up to CAD27, is that basically as how you're explaining that?

Carlos Brito - *AmBev - CEO North America*

Hi, Alex. No, no, no, maybe I misled you when I said that. But the reality is that in January this year, I'm sure you remember that, we were the first ones to get the price of Lucky, our discount brand, up from the CAD24 a case to CAD26.40 all in, deposit and taxes, for 24 bottles. The whole market followed in the next month or two months and that has been the unofficial floor for all this year.

And then what the Government did, the Provincial Government did is that they raised the price from the CAD24 to the CAD26.40. Most find that to be 13% because the Government, when that raise the price they talk about the liquid price so they take taxes and the deposit out. But in terms of the all-in price now that the prices seen in the market place the new floor. So at least that price is not going to go down. That's the good news.

Alex Robarts - *Santander - Analyst*

So okay, so legally we can't say that the value brands go below the CAD26.40 price.

Carlos Brito - *AmBev - CEO North America*

Exactly.

Alex Robarts - *Santander - Analyst*

Okay. I'm just curious, do you think that this could basically happen in any of the other provinces. I can appreciate that it's a pretty political process here, but is there any room for that? And I guess of tied to that question, is really just your view on this -- on the 15% Canadian dollar EBITDA growth target, and it looks like 18.5% is really what you'd need for the fourth quarter to achieve that. And I'm wondering, it sounds like you're a little bit more cautious. And what specifically would you be looking for in trying to put through in the fourth quarter to get up toward that level, particularly given that it's seems to me that Hawkley's back in -- starting October and it sounds like there's some pretty good momentum generally in the industry?

Carlos Brito - *AmBev - CEO North America*

Yes, you're right. Just go back first for -- to your first question. You have 10 provinces in Canada, and if I'm not mistaken the minimum price which is called the social reference price, SRP, which is something that comes from the prohibition days. It's something that you have in most of the provinces. I would say out -- seven or eight out of 10.

Different Provincial Governments make different decisions on pricing every year. Ontario was the province that, for 12 years didn't move the price for their own reasons, and this year decided to move, so that was good news for us. Other provinces, they move prices every year. And some others do it every other year. So I mean it's something that highly unpredictable, but it's something that it does exist and it's a reality that we need to take into account. So that's your first question.

The second question. Yes, where we had a commitment of 15%, we continue to be committed to 15%. Year-to-date we have 14.7% but in the last quarter we grew only 13%, and October has proved to be a very tough month. So given the kind of volumes and pricing we saw in October, and again most have been very, very irrational, especially in Ontario, we think it's getting harder and harder to get to the 15%.

Also, because -- Alex, as you know, we're not going to do anything stupid just to get to the 15%. So, we're still committed to get there.

It's getting tougher because October's not a good month for us because of all the Molson activity in Ontario specifically. But we're not going to cut margin or do anything that could compromise next year to bridge a gap if there is a gap. So, but commitment's getting more stretched.

Alex Robarts - *Santander - Analyst*

Fair enough, and just the last question was in Brazil and I wanted to drill into the supermarket trends on the promotion front. As I understand that, more volume sold in the supermarkets basically triggers these extra reimbursements on the promotional fund, and is that basically -- was that the main driver of the [Stallion] expense increase? And I guess if there's anything else, it would be interesting to hear. And why do you think that -- or could that occur into next year? Do you think that you could give us some color on where you would like to see those Stallion marketing expenses in ‘06 versus '05?

Luiz Fernando Edmond - *AmBev - CEO Latin America*

Hi Alex, your understanding is exactly what happened. We gained some market share, additional market share, supermarkets. They was not, let's say, budget. And these additional volumes, they trigger more expenses in terms of the agreements we have with the supermarkets. They are based on the invoice that we make with them.

So, if we are able to maintain this market share level, the supermarket, of course, for next year in terms of our sales expenses, they should be in line with this new level that we are facing now. So, it's too early to say.

Last quarter is the most important quarter for the supermarket channel. We'll have to see what happens and then we can go back on that point next year, okay.

Alex Robarts - *Santander - Analyst*

It's not a floating fee element or any structural change in how the supermarkets are doing business with you?

Luiz Fernando Edmond - *AmBev - CEO Latin America*

No, it's more like the performance of our brands than anything else. It's -- were executing very well the supermarkets, in a very good moment in terms of relationship with them. So, it's not anything structural. I mean there's no trend in terms of supermarkets increasing their share of the total market, it's just all the brands performing better in this channel than we had previously budgeted.

Alex Robarts - *Santander - Analyst*

Okay, thank you.

Luiz Fernando Edmond - *AmBev - CEO Latin America*

You're welcome.

Operator

Thank you. Our next question is coming from Jose Yordan with UBS.

Jose Yordan - *UBS - Analyst*

Hi, good morning. I just wanted to ask one quick question about Canada. You answered, I think, most of that question, but how much do you think the closure of the Toronto plant, which I think it's slated for today, how much will that help you to counteract some of the irrational competition from Molson in Canada with a view to making your 15% goal?

And then second question, just a general, if you can update us in how October volumes fit throughout the AmBev world?

Carlos Brito - *AmBev - CEO North America*

Hi, Jose. I don't have the numbers here with me. We had two plant closures, Toronto and New West, that were performed this year. But I can follow-up that I'll ask Pedro to get this specific number for you that in fact in terms of fixed costs savings on a yearly basis.

In terms of October, again, a very tough month, especially because Molson decided to have a very heavy discount program of along the four weeks of the month in Ontario. So, 90% of our shortfall was Ontario. 95% of shortfall was Ontario. I'd just like you to have an idea, they promoted Molson Canadian and Coors Light, the two top brands in the province, for the whole of the month on a 24 pack and 12 pack that covers 80% of the volume in terms of package presentation. And because of that, our October year-over-year volume fell by 3.5% in October.

So, a very tough month for us, but again we decided not to respond just because we think that's the way to go.

So, we're not willing to compete on that fashion. Of course, we didn't know it was going to be for the whole month because we always see pricing every week. So, every week we thought, well, this is going to be the last week. But then, they went for the whole month.

Now, for November, they are back with the 24, not back with the 12 packs. So, it continues to be in the marketplace, but we already see some better volumes in November because of that because the market's coming back to a normal situation.

Jose Yordan - *UBS - Analyst*

How about in the rest of at the end of [Regents Gate]? Can you comment on volume please?

Carlos Brito - *AmBev - CEO North America*

The volume in Brazil was 2% over last year basically, year-on-year, for beer.

Jose Yordan - *UBS - Analyst*

Okay. Thanks a lot.

Operator

Thank you. Our next question is coming from Robert Ford with Merrill Lynch.

Robert Ford - *Merrill Lynch - Analyst*

Hey, good morning everybody. Congratulations on the quarter. I had about two questions, but I just added a third because of what you just said, Carlos. It just seems to me that you might have a little bit of a prisoner's dilemma problem with the continued discount and a big -- and the gain in the volume offset, it seems to me that somebody needs to send a statement to go back to something that's a little bit more rational in terms of the industry as a whole. I mean, at what point do you just get tired of it and go tit for tat or send a strong discounting message of your own?

Carlos Brito - *AmBev - CEO North America*

Well hi, Bob, you're right. We can only do what we can do. So, they know what kind of company we are. They know what kind of behavior we have in the market place. All we can say is that in our accounts, because we share the same kind of market reality with them, the kind of promotions their doing not -- these promotions are not cash flow-wise or EBITDA-wise, their negative. So, the volume lift they get is not enough to compensate for the kind of pricing.

And then on the 24 pack, they had a discount of more than 15% during pretty much the four weeks of the month, and then you need a huge volume lift for that kind of thing and, of course, they didn't have that kind of lift.

So, it is EBITDA negative, it's not accretive, and we think at some point they'll reach the same conclusion and start behaving more rational and invest behind the brands and execution. That's the healthy way of growing a market. So --.

Also we believe that because Molson have 60% its profits, mostly Coors, coming from Canada, the Canadian business unit. I think they'll get more and more focused on getting profits out of that unit.

The other thing is that Molson is also active in the U.S., and what they seek to do in the U.S. market place is a bit of -- it's a bit of a price war in most of the main markets that is really a lose/lose proposition because the market for the domestic brands is flat. At some point, somebody gains shares, but then somebody else recoup shares.

So, everybody's making less money, the industry is the same size, and everybody has landed with the same kind of share they had prior to the price war. So, I hope they learn from that.

Robert Ford - *Merrill Lynch - Analyst*

Well, I'll you what. I don't think the market's going to crucify you if you bring the quarter -- if you come out of it with much better pricing for the industry as a whole.

Carlos Brito - *AmBev - CEO North America*

Say it again, Bob.

Robert Ford - *Merrill Lynch - Analyst*

I said I don't think the market's going to crucify you if you bring the quarter, just to send a strong message and get better pricing on the back end for the industry.

Carlos Brito - *AmBev - CEO North America*

Well, yes, I agree, thanks.

Robert Ford - *Merrill Lynch - Analyst*

Okay, in addition -- to boost the number, in addition to you, who else is beginning to take share and why? And is it worthwhile addressing that more directly?

Luiz Fernando Edmond - *AmBev - CEO Latin America*

That varies from region to region, but without saying, in this quarter we approach the ones that gain market share. So, other companies in the same level -- we took some market share from Molson, mostly in Sao Paolo regions, and in Rio de Janeiro.

So, in the other areas, there are some variety, but in average for the country I think this is the biggest impact, in Sao Paolo, in Rio. In Sao Paolo taking some share from Molson, and in Rio from [indiscernible] and Metropolis.

Robert Ford - *Merrill Lynch - Analyst*

I'm trying to understand why you're taking share in supermarkets. Could you explain it to me?

Luiz Fernando Edmond - *AmBev - CEO Latin America*

Usually during winter periods, we needed to have less investments in the supermarkets, so we were more focused on the strong season, on the summer periods. And then we decided to invest a little more in the supermarkets that paid out. We had a better [curve] during the year investing in a more proportional way during all the year as we had a very good performance in the first semester. We failed to maintain the level of investment in the third quarter and it was very positive.

So, that means that we are -- it doesn't mean that we are losing profitability, it's the opposite. It's -- this investment that it returns in terms of margins. So, we are maintaining the same profitability with more volume.

In the same way, during the last two or three years, we were able to recover the can margins, and we have almost the same margins in cans now that we have in the returnable bottles.

So, by diluting our distribution costs, managing better our price points, we became, with cans, as high as the return on botlles are now. So, we don't lose any profitability when the mix shifts towards cans anymore.

Robert Ford - *Merrill Lynch - Analyst*

And with respect to -- okay, thank you very much. The last question had to do with [flow meters] and soft drinks, and that is despite the fact that we haven't seen anything in terms of a flow meter initiative yet in 2005, you're taking share and I'm wondering why are you taking share [former] versus tax evaders right now in Brazil? And how will -- how much could that accelerate going into 2006 when we actually see better compliance?

Luiz Fernando Edmond - *AmBev - CEO Latin America*

Yes, Coke introduced during last year and continued to do that during this year, introducing more and more packages or increasing volume. And with a bigger number of presentations in the market, then we decided we had to launch our own in-home packages. So, we added this 2.5 liters PET during the second quarter and they started to perform much better now.

So, we are following their strategy and it's working. And it's working for them and it's working for us. And with better price points, with better relations price per leader, we have been able, we've been very effective to gain market share against the B brands. That's basically price points and relations against the B brands following Coke's strategy that did very well too.

Robert Ford - *Merrill Lynch - Analyst*

I also understand that some of the tax [analysts] are doing some cross checking of either market estimates of share with actual tax receipts and that is resulting in better enforcement. Is that actually correct, or is that a matter of fact, [indiscernible]. They're really just new packages in the trade?

Luiz Fernando Edmond - *AmBev - CEO Latin America*

I really believe it's the new packages in the trade.

Robert Ford - *Merrill Lynch - Analyst*

Great. Thank you very much and again, congratulations.

Operator

Our next question is coming from Tania Sztamfater with Unibanco.

Tania Sztamfater - *Unibanco - Analyst*

Hello everybody. On your Brazilian operation, I'd like to know if you could give us some color on the potential of dilution of fixed costs considering what kind of spare capacity do you have for 2006 that could be diluted? And what is the occurrence percentage of the cost that is fixed?

Joao Castro Neves - *AmBev - CFO*

Can you repeat --?

Carlos Brito - *AmBev - CEO North America*

Can you repeat the last part?

Tania Sztamfater - *Unibanco - Analyst*

Yes, what is your current spare capacity in Brazil, and what percentage of your total cost is fixed currently?

Joao Castro Neves - *AmBev - CFO*

Current costs?

Carlos Brito - *AmBev - CEO North America*

Fixed.

Tania Sztamfater - *Unibanco - Analyst*

Yes.

Joao Castro Neves - *AmBev - CFO*

Yes, well, in terms of the spare capacity, we've been around 75%. So, what we've been saying all along is that we could be growing around 5% for the next couple of years without needing to add any major specific capital expenditure.

And you're also right in the sense that all this additional volume that we are getting this year is definitely helping the variable cost on a pack leader basis. So, you are seeing a decline even in real terms. So, we're expecting, we're going to be -- in nominal terms, will be flat in real terms.

So, it's an important enough portion that is helping us to offset for some specific commodities that were going higher this year against last year, such as sugar and aluminum.

Tania Sztamfater - *Unibanco - Analyst*

Okay.

Joao Castro Neves - *AmBev - CFO*

So, if that continues for next year then, once again, we would be getting additional help, that dilution.

Tania Sztamfater - *Unibanco - Analyst*

Okay. Do you have -- would you be able to give an amount of how much of your total costs is fixed? So, that is the amount that could be still diluted on your --

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Joao Castro Neves - *AmBev - CFO*

Between 5 and 10%.

Tania Sztamfater - *Unibanco - Analyst*

Okay.

Joao Castro Neves - *AmBev - CFO*

Yes.

Tania Sztamfater - *Unibanco - Analyst*

Okay, only one more question. On your direct distribution, I'd like to know if you could give us a number for participation of your direct distribution in total sales for soft drinks in this quarter?

Joao Castro Neves - *AmBev - CFO*

It was around 55%.

Tania Sztamfater - *Unibanco - Analyst*

Okay, and then just finally on direct distribution, I imagine that if you continue to maintain a higher market share in supermarkets, that will lead out to a higher participation of direct distribution in your beer distribution. Given that, would you be revising this 50% participation target, or do you believe that 50% is fair enough for you to stabilize there?

Joao Castro Neves - *AmBev - CFO*

What I would say is that we mentioned that also was always a magic number for us. But, again, it was a magic number for beer, so we've been above that. In soft drinks, we still have at least this 300 basis points to go in beer. So, we're still not there.

Tania Sztamfater - *Unibanco - Analyst*

Okay.

Joao Castro Neves - *AmBev - CFO*

Okay.

Tania Sztamfater - *Unibanco - Analyst*

Alright, thank you.

Joao Castro Neves - *AmBev - CFO*

Yes.

Operator

Thank you. [OPERATOR INSTRUCTIONS]. Our next question is coming from Andrew Holland with BRKW.

Andrew Holland - *BRKW - Analyst*

Yes, hi, two questions if I may. First one relating to your stake in Quinsa. It's now up to 56.4% of the economics, can you tell us what your percentage share of the voting rights in Quinsa is?

And secondly, on Peru, you say you've now introduced the 630ml bottles, can you update us on the state of your dispute with [Nevaria] over using those bottles in Peru? It sounds as though it may have been resolved. Is that the case, please?

Joao Castro Neves - *AmBev - CFO*

First on -- Hi, Andrew. First on Quinsa, our volume is 50%.

On Peru, the introduction of the 630ml is different from the legal dispute. The legal dispute is over the existing 620ml bottle, out of which the vast majority of the bottles in the market belong to the consumer and the retailer. And that dispute continues and we still believe that we're going to go all the way into fighting for our rights in those bottles.

In the meantime, we could not wait, so we went in with our 630ml bottle.

Andrew Holland - *BRKW - Analyst*

Right, thanks. Sorry, can I just clarify. Did you say that your voting stake in Quinsa is 50%?

Joao Castro Neves - *AmBev - CFO*

Yes.

Andrew Holland - *BRKW - Analyst*

Has that gone up from -- or what was it, shall we say, this time last year?

Joao Castro Neves - *AmBev - CFO*

Same thing.

Andrew Holland - *BRKW - Analyst*

Right, okay, thank you.

Joao Castro Neves - *AmBev - CFO*

Thank you.

Operator

Thank you. Our next question is coming from Robert [Wurtzmeier] with Morgan Stanley.

Robert Wurtzmeier - *Morgan Stanley - Analyst*

Hi, good morning, I've got two questions for you. First, in Canada, for Brito, I guess we've been seeing in the market the discounts that you're talking about by Molson, but when they reported results this quarter they said revenue per barrel was up 1% in local terms, basically in line with what you guys had. So, can you shed any light on what's happening? Did they take pricing up in other areas to offset the discount?

Carlos Brito - *AmBev - CEO North America*

Well, what I don't know in what currency they report, because if they report in U.S. currency --

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Robert Wurtzmeier - *Morgan Stanley - Analyst*

I understand, but they mention in local terms in Canadian --

Carlos Brito - *AmBev - CEO North America*

Alright, local terms, okay. Well, in Canada -- I don't have the answer, but there could be regional mix. We have different margins in different prices. It could be package mix, but again -- and I said the problem was not overall. It was Ontario, which is 30% of the market. But in Ontario there was -- very heavy promotions during the year -- during the month of October.

Robert Wurtzmeier - *Morgan Stanley - Analyst*

Okay, and the second question just on Brazil. Do the additional payments get sort of, I guess, triggered the supermarkets? Do they get automatically reinvested in issues that might drive volume, or are they simply just more money the supermarket keeps?

Luiz Fernando Edmond - *AmBev - CEO Latin America*

There are different types of investments. Some of them are directly related to volume, others don't. So, in terms that they don't return in terms of more investment or more, let's say, counterparts from them. But it's -- usually it's something that you pay after you make the volume.

So, based on volume and based, of course, on price too.

Robert Wurtzmeier - *Morgan Stanley - Analyst*

Thank you.

Operator

Thank you. Our next question is coming from Celso Sanchez with Citigroup.

Celso Sanchez - *Citigroup - Analyst*

Hi, good morning. On Canada, the stratification of pricing that you started in Alberta a couple of months ago, can you give us an update on how that's working with respect to Bud, Coke and Blue, and also what the competition's done in response to that?

Carlos Brito - *AmBev - CEO North America*

Well, that's too early for us to complete, because it was just two months ago. But it seems that it's going well. Of course, some retailers they have to, not learn, but they have to accept the concept of different price points. So, we cannot say that if you visit the market you're going the stratification everywhere, but more and more retailers are getting to the conclusion that if consumers value a brand more than others, we all should charge more for this brand as opposed to having a similar price point for all brands with different brand equity.

So, it was a long habit, a 20-plus year habit of tagging one brand price point to the other. Now, we're beginning to change that, and I think they'll -- more and more points of sales will get there.

So, we think it's an initiative that's here to stay.

Celso Sanchez - *Citigroup - Analyst*

So, just to clarify, when the points of sale are reluctant to embrace the concept at least yet, does that mean they raise all three brands to the highest brand's price, or do they actually keep the price differential themselves?

Carlos Brito - *AmBev - CEO North America*

Yes, you're right. Some will do that, but that's the minority. Some will raise, for example, all brands, not only ours but also the competitors' brand, and Molson didn't move prices.

So, it is one of those situations where there is some instability when you change the rules of the game, and we're trying through our sales force to share with retailers the rationale behind stratification so they can all -- that they can join our effort and make more money.

Celso Sanchez - *Citigroup - Analyst*

And just like as a follow-up on this Molson thing, just to make sure that -- because we're kind of keeping an eye on this Ontario thing, it's saying -- it's a subtle point, but I just want to make sure I'm clear because it seems to me -- because it affected their third quarter numbers as well. So, the discounting -- we understood the discounting in Ontario on those main packages to have ended in mid-October, right after Thanksgiving. So, that would have affected both third quarter and potentially fourth quarter for your competitor.

Carlos Brito - *AmBev - CEO North America*

No, no.

Celso Sanchez - *Citigroup - Analyst*

Is that correct there?

Carlos Brito - *AmBev - CEO North America*

No, no, no. You're right, that's a very good point, because when I responded to the question early on, it just came to my mind that we're talking about apples and bananas, just because the pricing -- the discount activity was merely in October I mentioned, and the third quarter results they mentioned the 1% increase -- of course, October's not part of that. So, yes, there is a disconnect there in between the two information.

Celso Sanchez - *Citigroup - Analyst*

Okay, but just, again, to be clear, from what you were seeing in discounting was it started mid-September, ended mid-October? Does that – is that what you --

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Carlos Brito - *AmBev - CEO North America*

: No, the discount -- the added discount is started at the beginning of October in Ontario.

Celso Sanchez - *Citigroup - Analyst*

Okay, okay.

Carlos Brito - *AmBev - CEO North America*

And that's why it didn't affect their third quarter.

Celso Sanchez - *Citigroup - Analyst*

Okay, so this is on-premise or off-premises selling?

Carlos Brito - *AmBev - CEO North America*

Off-premise.

Celso Sanchez - *Citigroup - Analyst*

Okay, thank you, and if I could just follow-up on Brazil just to make sure I understand. Does that mean with the bigger share in supermarkets, I guess you said more cans and therefore this wipes out the effect, but doesn't that mean then the revenue [parameter] for Brazil in the third quarter might have actually been bigger, might it even have been higher given that supermarkets you get a lower realized price there?

Joao Castro Neves - *AmBev - CFO*

You're right to think like that, but we have some tax increases happening. So, they should offset the better mix and we believe it's going to be in line with the third quarter.

Celso Sanchez - *Citigroup - Analyst*

And just to understand better how these promotional expenses are paid out, are they paid out almost like a bonus? If you make your numbers for a quarter you get paid it all the next quarter, or is it a smooth curve? How does that work?

Joao Castro Neves - *AmBev - CFO*

Yes, this is part of the agreements we have, but we have year agreements that based on the in-prices we have. Then, if we can't decide on a month per month, if you pass them on. So, we have kind of a confidential agreements with stage one of them, they are different. Of course, we cannot give any more details on that.

Basically, they are volume based and that's why when we've sold more, we have to pay more. But in terms of profitability, we don't lose anything.

Celso Sanchez - *Citigroup - Analyst*

I'm just trying to understand, the first six months which were so strong, would that have been already an indication back in June that this was going to happen, or was it really something that just hit finally in September, something like that?

Carlos Brito - *AmBev - CEO North America*

Well, as long as we started updating the guidance on the volume, we knew that on this verbal portion there would be an additional increase. I think what we also mentioned a couple of times in the previous conference calls and is still the same guidance, it's on the marketing expenses will be flat in annual terms, year-on-year.

So, this additional increase that you see is specifically on this variable portion on the sales expense.

Celso Sanchez - *Citigroup - Analyst*

Okay, thank you.

Joao Castro Neves - *AmBev - CFO*

Okay.

Operator

Thank you. Our next question is coming from Anthony [Buccow] with Bear Stearns.

Anthony Buccow - *Bear Stearns - Analyst*

Good morning everyone, a couple of quick questions. The export volumes to the U.S. were negative in the quarter. Can you give us some detail on what's going on there?

And secondly, with Brahma launching up or ramping up for a big launch in the U.S., how will those volumes be accounted for? Will they come through the Canadian division or will it come from Brazil? Thanks.

Carlos Brito - *AmBev - CEO North America*

Well, the exports to the U.S. would come through the Canadian division. Of course, it's a very small part of our business given the margins that we had in Canada compared to the margins we have in the export business for the U.S.

The fact of the matter is that our Blue family of Canadian brands that we sell in the U.S. they sell that core domestic pricing -- Bud pricing -- Budweiser pricing, sometimes slightly above, but most of the times at that kind of price point as opposed to an import price point.

So, it is a very important volume for us because it brings efficiencies of scale, but in terms of margins and in very small compared to the Canadian markets.

Anthony Buccow - *Bear Stearns - Analyst*

Right but Brahma, for instance, is there -- how would those volumes -- will they be -- they will be accounted for through Canada is what you're saying?

Carlos Brito - *AmBev - CEO North America*

No, no, no. Brahma is definite. I mean, I was talking about the Canadian brands.

Anthony Buccow - *Bear Stearns - Analyst*

Okay, Canadian brands specifically.

Carlos Brito - *AmBev - CEO North America*

They flow through the Canadian P&L.

Anthony Buccow - *Bear Stearns - Analyst*

Right.

Carlos Brito - *AmBev - CEO North America*

Brahma brands would enter the U.S. -- would flow part of the margin through the Brazil operation, part of the margin pull would be within the [in bound part] of the U.S. operation.

Anthony Buccow - *Bear Stearns - Analyst*

Okay.

Carlos Brito - *AmBev - CEO North America*

With another company. And Brahma in Canada would flow through Labatt Canada.

Anthony Buccow - *Bear Stearns - Analyst*

Sure. Any distribution goals for next year for Brahma in the U.S?

Carlos Brito - *AmBev - CEO North America*

Well, Brahma in the U.S. right now we are doing two tests markets. We're not done yet with the pilot markets. We're doing one in California, one in Florida.

We did have some challenges and issues with supply chain, and also with pricing with Corona, because we targeted our price to be too little -- a little above Corona, but with the Corona promotions, especially during this summer, we were not just a little over Corona, but we were $2 - 3 at a 12 pack over Corona, which is, of course, too much.

So, we're still learning what's the right price point, and still investing behind awareness of the brand in those two test markets before we decide on further new markets.

Anthony Buccow - *Bear Stearns - Analyst*

I agree. Thank you.

Carlos Brito - *AmBev - CEO North America*

You're welcome.

Operator

Thank you. Our next question is coming from Andrea Teixeira with J P Morgan.

Andrea Teixeira - *JP Morgan - Analyst*

Hi, just a follow-up question regarding again Canada. Just for Brito, can you just explain a little bit better how the retailers can manage the new minimum price? How -- I didn't understand on the last comment that you made in terms of, well, they can adapt in a different way, or they can shift the mix. So, can you explain it a bit better how the change will take into effect, in your view? Thank you.

Carlos Brito - *AmBev - CEO North America*

Okay, Andrea. This is a very good question. In Canada, each province is a different trading environment. So, in Quebec, for example, you have an open trading environment, just like we have in Brazil, where retailers can decide on the kind of mark-up they're going to put on the products. In Ontario, because the distribution channels are owned by the breweries, or owned by the Government, you pretty much have control over the price to consumers.

The other example is Alberta, where the question came from in terms of price stratification. In Alberta, what you have is also an open trading environment. The Government's retail operation was privatized many years ago, and therefore in Alberta, where we are doing the price stratification, retailers can also decide at what kind of price points they're going to price the products.

So, again, different provinces, different realities in terms of price to consumers and who control them.

Andrea Teixeira - *JP Morgan - Analyst*

So, in your view -- the changes, obviously the price, but you might have some time lag in terms of how it's going to be effective really positive for you, given the fact that most supermarkets are very aggressive with the price and the price discounts, right?

Carlos Brito - *AmBev - CEO North America*

Yes, again, two different situations. In Ontario where the minimum price was raised by 15%, and the price we have in the marketplace has been a new floor, that's the market where Molson is discounting very heavily in October, but of course they're discounting above the minimum price. Nobody can legally sell below the minimum price, but that's Ontario where we have control over price to consumers. So, Molson knows at what price on the off-trade their products are going to be sold at.

In Alberta where we're trying the stratification model, retailers have to be -- the final price has to be -- the final price is set by retailers. We can, of course, try to tell them what kind of rationale we think they should use, but that's up to them to decide.

Andrea Teixeira - *JP Morgan - Analyst*

So, in other words the CAD26.40 that you had -- let's say CAD26.40, which is sort of the base price, is now 13% higher, or you can still sell it for CAD26.40 which is the minimum price.

Carlos Brito - *AmBev - CEO North America*

No, no, no. That CAD26.40, again, it's Ontario, okay. It was above the minimum price, now the minimum price moved to CAD26.40.

Andrea Teixeira - *JP Morgan - Analyst*

Okay, great.

Carlos Brito - *AmBev - CEO North America*

CAD26.40 is already the, let's say, the minimum price in the market place. It was not the official minimum price, but it was the unofficial price you would see in the market place, and now it's the official minimum price.

So, it's officially now the floor.

Andrea Teixeira - *JP Morgan - Analyst*

Okay, perfect. Yes. Now I understand, thank you.

Carlos Brito - *AmBev - CEO North America*

Yes, it's a little confusing, I realize.

Andrea Teixeira - *JP Morgan - Analyst*

Okay, thanks.

Operator

At this time, I'd like to turn the floor back over to Mr. Joao Castro Neves for any further closing remarks.

Joao Castro Neves - *AmBev - CFO*

Well, I'd like just to thank everyone for their time. It was a pleasure, once again, to present our third quarter results to you, and see you again next year for the fourth quarter end year results. Thank you.

Operator

This does conclude today's teleconference. You may now disconnect your lines at this time and have wonderful day.