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ABV - Q4 2005 AmBev - Companhia de Bebidas Das Americas Earnings Conference Call

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PRESENTATION

Operator

Good afternoon ladies and gentlemen. My name is Melissa and I'll be your conference facilitator today. At this time, I'd like to welcome everyone to the AmBev Fourth Quarter 2005 Earnings Release Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer period. [OPERATOR INSTRUCTIONS] Thank you. And it is now my pleasure to turn the floor over to your host, Joao Neves, CFO and Director of Investor Relations. Sir you may begin your conference.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Thank you. Good afternoon everyone and welcome to AmBev's Fourth Quarter Results Conference Call. I am Joao Castro Neves, CFO of AmBev and with me today are Luiz Fernando Edmond, General Executive Officer for Latin America and Miguel Patricio, General Executive Officer for North America.

I would like to start the call by sharing a brief overview of what was a good fourth quarter for AmBev. Luiz Fernando and Miguel will then provide you with details about our operations in Brazil, HILA, and Canada. I will wrap up providing specifics regarding the fourth quarter financials.

During the fourth quarter, our performance resulted in a 6.6% growth in the consolidated EBITDA. Operational results were even better as Brazil and HILA depreciation diminished the contribution of our international operations. For example, in Canada why results in [inaudible-accented language] presented a drop of 9.5%, local currency entered a growth of 5.5%. Beer volume maintained its growth in all Latin American core markets and our earnings per share excluding goodwill amortization presented a growth of 7.4% already adjusted for the stock bonus that was issued in May.

For the full year 2005, our EBITDA reached $6.3 billion. It's a growth of 39% over 2004. And even healthier as our margins reached the record level of $39.5, 170 basis points over 2004. You will see throughout the call that margin expansion was widespread

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across most operations. I am confident that these initiatives will continue to be effective and successful over the first quarter '06.

With that I'd like to turn the call over to Luiz Fernando.

Luiz Fernando Edmond - *AmBev - CEO Latin America*

Thank you Joao and good afternoon everyone. The outstanding results AmBev achieved this year was a result of hard working from a pool of very talented people. Our strong culture in which every single AmBev employee act as a member assures that every year we deliver a profitable growth. Looking forward, we believe our people put us in the best shape ever to continue delivering strong growth.

I'm pleased to provide you details regarding our fourth quarter '05 and year results. During this quarter, AmBev delivered solid results in Brazil. We finished the year with our 69.4% beer market share, delivering an average of 68.3% for the whole year. Beer volumes achieved a 4.3% growth in fourth quarter '05 with a near growth of 8.2% for Brazil, above our 7% expectancy. Volumes were boosted by strong performance of our core and premium brands, the outstanding execution of our market programs and also the fair scenario resulted by the flowmeter implementation.

Looking forward, we don't expect 2006 volume growth to reach 2005 levels. The fourth quarter '05 is all down, is a better proxies for market behavior than the other nine months of 2005, which were boosted by local [inaudible-accent language] in 2004. We expect the first quarter of '06 still to capture some of the 2005 momentum, but volume guidance for the full year of 2006 is around 3% growth year on year.

And the pricing [shrunk], our net revenues put together grew by 7.3% when compared to the fourth quarter '04 and by 0.7% in relation to the third quarter '05. Fourth quarter '05 net revenues collect together were R$131.7 compared to R$122.8 in the fourth quarter '04 and R$130.9 in the third quarter '05. Also net revenues per hectoliter for the year increased by 8.7% compared to 2004.

Brand and revenue management, a strong performance of the premium segment leaded by 28% in Bohemia and a 44% growth for Original in 2005. In our direct distribution strategy continues to increase net revenues beyond inflation. In December, we made an average price repositioning of 5% in average, which is the main reason for 50 basis points market share loss in January. This loss is in accordance to our expectations and similar to what we experienced the last time we positioned price.

Looking forward, by maintaining our approach with a number of these products, creative market campaigns and good respected in the premium segment, we could achieve again our 50 to 100 basis points in net sales per hectoliter for 2006 on top of inflation.

Also we believe EBITDA margins might reach 47 to 49% levels in the Beer Brazil business for 2006. We are very proud of our business and we are firmed the commitment to blacklist at and take and necessary measure to assure the continuous growth both in terms of share and profitability of operations. We see the change from Molson to Femsa, a normal part of the consolidation of the industry across the globe. And we don't expect any significant change in the competitive landscape as both Femsa and Molson are formal players. But again, most importantly, we should prepare to face any kind of competitor in the Brazilian market.

Our soft drinks business delivered healthy growth. Nevertheless, we could have done better. Our volumes were 5.7% higher compared to fourth quarter '04. Here we have 2005 growth of 6% above our 5% expectancy. The secret is driven by an increase of market share, reaching 17.5% in the fourth quarter '05 versus 16.9% in the last quarter '04 and a market increase of 1.7% according to Nielsen.

For the whole year, we've been able to maintain our market share while raising our EBITDA margins even further to 31.5% for the year, above our 30% estimates. Our soft drinks revenues per hectoliter present a growth of 4.3% over fourth quarter '04,

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reaching 79.5. The main drivers for growth for price reposition performed throughout the year, revenue management initiatives and increase in direct distribution. Compared to third quarter '05, revenues per hectoliter dropped mainly due to introduction in higher share of multi-serve packages.

We are enthusiastic about implementation of flowmeters in the soft drinks business, which should come already in 2006. Just like in the industry, it's established they will provide a fair playing field for the industry, reducing the discount pressure from informal competitors. Looking forward, we expect to explore opportunities we missed this year in terms of market share. Our launch of PT to 2.5 liter is in the right direction since multi-serve presentations are growing at the faster pace than the market average, being the preferred package from the consumer's standpoint.

Commodities mainly sugar and aluminum are adding some pressure on the cost side. While being able to keep rough EBITDA levels up to now, this increase led us to partially offset the impact by anticipating our price initiatives. Revenues for 2006 are expected to grow by 11 to 13% and EBITDA margins to reach 31 to 32%.

On the cost side, our procurement and industrial departments made an outstanding job. While glass continued to increase productivity levels, we've been able to manage our costs by being efficient on our opportunities in capturing synergies with AmBev that allow AmBev's costs per hectoliter to drop, despite the higher foreign exchange hedge, sugar and aluminum prices. Of that, cost control is a key driver for reaching our record margins growth and we continue to improve in the monitoring and capturing of opportunities in 2006.

Regarding our SG&A, given the competitive landscape in which we operate, AmBev will not be providing detailed breakdown anymore, but will be, we will keep commenting the major effects. For the year, we had a growth of 21.7%, which excluded depreciation and amortization, yield a growth of 14.9%. The increase is pretty much explained by the higher volume, which yields certain variable expenses, the increase in direct distribution, and several non-recurring projects such as ERP upgrade, Sarbanes-Oxley adequacy, and corporate restructuring initiatives such as CBB merging into AmBev. We'd like to highlight that exclusive of these effects, we managed to keep our fixed costs slightly below inflation, which restates our commitment to tight cost control.

Our HILA operations presented mixed figures. While Quinsa delivered an awesome result with a EBIT growth above 40% in U.S. dollars for the quarter and volumes growth of 50%, HILA-ex faced a much tougher competition, competitive landscape. Nonetheless, we are proud for reaching for the first time more than one million hectoliters in beer. Although delayed, we were very pleased with the beer launching group and good year even as well with volumes and market share increase. On the other hand, the soft drinks market were disappointing with volume lower than expected, mostly affected by market declines and market share losses. Central America, Dominican Republic their beer operations faced a tough and aggressive competition there most affected by market and share declines too.

Looking forward, we affirm the commitment with the Original of the [word] which continues to present good margins and encouraging prospectus for the future. Since AmBev is in the early stage in these operations and is still in the launching phase of the beer production in two significant markets, we don't expect any significant contribution to the AmBev results for 2006, EBITDA margins between 0 and 2% and revenues growth of 15 to 20% are reasonable numbers to expect. Regarding Quinsa, we maintain good expectations with EBITDA growth forecast of 8 to 10%.

In conclusion I would say that we are very enthusiastic for 2006 and I'd like to reinforce our belief to all AmBev employees whose capacity and focus once again led us to achieve amazing results and reassure our commitment for financial discipline by which unless we have better use for funds, we will continue to distribute all our cash flow to the shareholders.

I will now turn the call to Miguel.

Miguel Nuno da Mata Patricio: [inaudible-accented language] or good afternoon. Let me begin by saying what a pleasure it is to join you on this call in my new role as CEO of North America for AmBev. But before I review the results with you, let me tell

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you a little bit about myself. I joined AmBev seven years ago from Phillip Morris as the Head of Marketing for AmBev. And prior to the combination with Interbrew, I was Chief Marketing Officer for the company. I then moved to Canada and took on the role of Head of Marketing for North America. At the end of 2006, I was appointed President of InBev's Belgium operation but following [agreed] this promotion to CEO I was asked to return to Canada to lead the North American operation, a role I am very proud to fill.

I'm passionate about growth and passionate about building great brands. And these will be my focus in Canada. I have a great leadership team to support me and I'm very much looking forward to working with them.

Today I'm presenting results for the fourth quarter and the 2005 fiscal year end, year end would like to address three main topics, the Canadian competitive landscape, improvements that we have already implemented in Canada, finally just for improving performance in '06. Beer market, continue the graphic behavior from discount brands and what we considered to be rational pricing tactics from our main competitor combined to create a challenging market for AmBev.

Let me talk a little bit about our two key markets and firstly Ontario. We reported in November there was a change in market dynamics in Ontario. Molson came out with aggressively LTOs, limited time offers in October. That certainly hurt us at a time when we decided not to be so aggressive on price. Obviously it took us some time to react and we came back well in December and outperformed Molson.

The industry in Quebec was very weak in Q4, down 3.5% versus last year. There was also far more pricing activity in the quarter compared to prior years with Molson using Coors Light as their lead. Again, we have responded to the challenge but the combination of the weak industry and price competition put pressure on our Q4 results.

On the brand side, we saw some volume performance from our growth brands in Q4. For example, Bud Light grew 69%, Stella 22%, and Keith's 11%. Strength in these areas was offset by declines in the Labatt Blue and other minor Labatt brands.

In fact, we have an excellent story to tell. Budweiser remains number one brand in volume in Canada and by our estimates 30% larger than the number two brand in America. Labatt's now has five of the top ten brands in Canada within its portfolio and has control of them. Alexander Keith's is the number one domestic specialty brand in Canada and the number one draft beer in the largest draft market in Canada, namely Ontario. Stella Artois is the number one import specialty draft brand in Canada and has grown by 23% in '05. And in just one year, Bud Light has grown from the number 19 brand in the country to number 12 with volume growth of well over 50%.

On the export side, sales of the Labatt Blue family of brands [inaudible-microphone inaccessible] market, the segment in which our brands compete. Although volumes were down by almost 10% in the quarter, this was driven by lower inventories in one of our major retailers in upstate New York. Depletions were down only 2.9 in the quarter with a strong performance from Blue Light.

Back and look at '05, I have to say it was an amazing year. Delivered 12% EBITDA growth, a tremendous result in a very challenging industry environment. However, it's true. We did miss our aggressive target and bonus will be affected. It was a year of intense internal focus and a significant amount of change for our Canadian business. I'm very proud of the resilience shown by our beer people during this period of change when we implemented a new organization structure, a new job grading and a variable compensation scheme and a target setting cascading. While the salaried working, workforce restructuring early in the year was not an easy task, it did allow us to address the market with a leaner operation, operating structure. Our new compensation structure, which is more focused on variable compensation and stock ownership, tightly links employee priorities with our shareholders' priorities and is linked to expand profit growth targets.

'05 also saw the introduction of CBB. CBB is far more than a cutting and a cost control process. It brings about an entirely new value system and business focused mindset, which will only strengthen over time. Our disciplined approach to costs has allowed

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us to reduce Q4 SG&A expenses by 12%. Our new management system crafted on the above model was therefore in place by the end of the year. And we started '06 with a new consumer focus, market driven external focus.

Finally, I wanted to address our commercial plan for '06, a plan focused on revenue growth and a sales execution required to achieve growth. We have developed a commercial plan that takes a more disciplined approach to our market. We have a broad portfolio, offering consumers a wide range of choices and as a result, it offers us choices as well. Our new commercial plan involves being more selective in our approach to growth, prioritizing by segment, by brand, by geography. Accordingly, in the past couple of months, we have restructured our sales team to bring about a more tailored and focused approach to our priorities in each one of the markets, including more precise metrics to guide us and increase accountability in sales execution. The plan involves being highly selective in what we develop and also how we develop in terms of channels, our brands and SKUs. But for obvious reasons, I cannot go in detail in a public call.

The light segment is key to our revenue plans in '06, with Bud Light taking a leading role. Of course, we are also going to leverage AmBev's global flagship brands to capitalize on consumer's growing appetites for premium brands. We will continue to support growth of Stella Artois, but we will also launch Brahma in selective markets in '06 after success trial launch in Alberta in '05. Brahma will fill a hole we have in our portfolio, the clear bottle, a segment which represents a 4.1 share of the market in Canada.

I would like to stress that our focus on revenue growth doesn't mean we are going to abandon our drive behind cost reduction. We intend to make further progress in '06 and complete the play on a number of files started in '05.

Looking ahead into '06, the induced, the industry in general in the first two months of '06 has been better than we expected. And while the pricing pressure continues, we are on track to achieve our first quarter targets.

With that, I wanted to conclude my, by saying how excited I am by the challenge ahead. We have a great team in Canada and I'm delighted to be leading them. I'm confident that AmBev will be able to successfully and profitably navigate through the tough competitive landscape in North America.

Fall back to Joao.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Thank you Miguel. While now I'll be guiding you on the main lines between EBITDA and net income. We achieved an EBITDA of about $1.9 billion in the quarter and a net income of close to $700 million, $697. This is a 51.7 increase over the fourth quarter of 2004. For the year, as I said, EBITDA reached $6.3 billion and a net income that totaled $1.5 billion, which is 33.1 above 2004.

Other operation expenses in the quarter presented a loss of $170 million in the quarter. We are, we had gains of $82 million related to exchange rate variation in the foreign investment, in the foreign investments we have since they held, depreciated from 2.22 to 2.34. We had also gains of $52.2 million related to the recovery of tax credits. Mid-year losses are linked to the goodwill amortization, mainly Labatt's investment in Labatt, which accounts for $196. In Labatt Latin American investment, which adds to $32 million.

Financial results presented a loss of $318 million, which is in accordance to our expectations. Our net debt grew $52 million in Reais, totaling R$6.1 billion. It's important to comment on the debt restructuring that took place in Labatt by which we achieved a five-year loan with last restricted province, helping and causing [fetch] to raise our rating to investment grade. Also, our longtime partner BNDS, announced on December a new operation up to $119 million with InBev, which helped us finance our capital expenditures.

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Next year, capital expenditures are expected to reach between something between $500 and $550 million throughout our operations, Labatt, Canada, Brazil and HILA-ex. Non-operation expenses presented a loss of $60 million, mainly connected to a non-cash loss of $36.4 million related to Qunisa's share buyback.

Income tax totaled an expense of $175 million, which yields an effective tax rate of 20%. When adjusting for goodwill amortization, effective tax rate adds to 15.9%. We presented in the quarter abrupt share provision of $82 million directly linked to our excellent performance this year. Minority participation in other subsidiaries presented a loss of $17.7. Net profits per share amounts to $10.67, an increase of 51% compared to fourth quarter '04 figures adjusted for the stock bonus on May 31st, 2005. Net profits per share excluding goodwill amortization amounts to $14.45, a 7.4% gain over the stock bonus adjusted 2004, fourth quarter 2004 figures.

Our performance was the result of the excellence of our people financial discipline. In order to translate this performance into value for our shareholder, we presented a strong dividend policy, by which we return more than $2.7 billion in 2005, being about $1.3 billion in interest on owned capital, $980 million in dividends and $487 throughout share buyback. This is in line with our guidance of giving back to shareholder most of our cash flow generated in 2005.

We have also just announced a new buyback program of R$500 million and dividends of $390 million. Our people may come back proud of holding investments then over the past years in recruiting, training, and assuring our employees grow within the organization. I would also like to add that people has always been AmBev's strength and if it is what gives certainty of another excellent results to come.

Thank you and now we are open for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. [OPERATOR INSTRUCTIONS] We'll pause for just a moment to compile the Q&A roster. Your first question is coming from Robert Ford with Merrill Lynch.

Robert Ford - *Merrill Lynch - Analyst*

Hey good day everybody. Well my first question had to do with some news on the tape this morning with respect to share buybacks. There was something on Bloomberg about repurchasing 984 million preferred and 374 million common, which would be a number bigger than R$500 million. Is that, is that incorrect?

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Well this, as we do in every program Bob, good afternoon first, but as we do in every quarter, we announced the total that we could buy but at the same time we also announced the amount that we are, we are actually going to buy, which is the R$500 million that I mentioned to you. That is how much we're going to be buying. The other numbers you referred to would be the total, the max amount that we could buy if we wanted to.

Robert Ford - *Merrill Lynch - Analyst*

So you can buy 1.2 billion in stock but you're going to schedule more like 500 million?

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Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

No, it's not more like, the program is for R$500 million.

Robert Ford - *Merrill Lynch - Analyst*

Okay.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Okay.

Robert Ford - *Merrill Lynch - Analyst*

I was trying to, I backed out a number with respect to the incremental amortization associated with the CBB merger. But I wanted to find out from you exactly what it is year on year because it's spread around through different business units, I can't break it out. I wanted to confirm that it is a non-cash item that has any kind of benefit because of its deductibility and I wanted to get your guidance on how we should model it going forward?

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

You mean modeling the D&A separately?

Robert Ford - *Merrill Lynch - Analyst*

Yeah and, or just trying to understand this component of G&A, because this is one that it's not like the goodwill associated with the Labatt acquisition.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Right.

Robert Ford - *Merrill Lynch - Analyst*

It's goodwill but you're spreading it around the different business units and it's in the operating runs. So my sense is it's about year on year we're looking at about, what R$127 million?

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Yes.

Robert Ford - *Merrill Lynch - Analyst*

But I don't know if you're depreciating it on a straight-line basis or in line with the economic, some type of economic return measure?

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Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Right and I think first let me talk at once, I understand the issue. I mean when you look at our SG&A and we look, you really look at our SG&A on a cash basis, you see that the percentage we mentioned is increased. It dropped significantly when you take out the D&A. I think Bob this is a very detailed on the D&A and I don't have all the numbers here to. I suggest we follow up with Juan and myself and Pedro afterwards, but the concept is we will be explaining as we talk about SG&A what's the impact of D&A so that you have a clear view on the SG&A cash.

Robert Ford - *Merrill Lynch - Analyst*

Is, that would be very useful. Thank you very much. And to confirm, these are non-cash exceptions.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Non-cash items, yes.

Robert Ford - *Merrill Lynch - Analyst*

Great and there is an economic benefit to running it through the income statement like you were doing, right?

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Exactly. And that's--

Robert Ford - *Merrill Lynch - Analyst*

We can talk about it--

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Yes except when we did the merger of CBB into AmBev, we actually disclosed the amount of financial benefit we were getting. We can send that back to you.

Robert Ford - *Merrill Lynch - Analyst*

Great. I just, just was confirming that then. Did, there's a big spike in a, in the CSD business in particular. And you talk a little bit about that, about investing in the business, clearly you're preparing for the flowmeters. But is that the kind of level of investment that we could expect in the first quarter as well, that 70% type of increase in SG&A?

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

No, I mean why don't we go ahead and speak a little bit about that SG&A which I think is the point of concern from what we read on the initial answers to, from you guys to the release. Basically we mentioned between 1% growth, I think is better Bob to look on year-on-year basis. If we look at total Brazil, which is the one I think we saw more questions, when we take out the D&A effect, we have about a 14.9% growth. If we take out the effects of volumes and the new, the exhibition standards that we are adding, this go, this goes down to about the 6% SG&A increase, which is very close to the inflation. And if we, if we take the

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project such as we have to build SAP this year. We did the important project on SOx that is non-recurring. The cost of doing restructuring such as the CBB into AmBev merger, this goes down to about 4.5%. So ex products is really 80% of inflation of the 5.7% inflation that we had last year.

Not breaking down between beer and soft drinks but you, what you do see in soft drinks as we announced early in the beginning of last year, we build the site to increase our marketing investments, marketing only I'm saying, for soft drinks. And we did that and with the other results, we're able, even with that increase, to achieve the margins that we had put ahead for us. So you should not see, you should not see the same sort of pattern that you saw in the fourth quarter and some things going forward.

I would say that going forward, we will continue to have SG&A growing at or below inflation. What you see when you see the consolidated figure approaches volume impacts. And so depending on how much volume you got and how much more you're increasing their exhibition center in the mix, you may see a little bit more than that. So to facilitate and always explain taking out the volume effect what happens to the total. But again going forward you should not see that. You'll see below inflation with exception of how much volume we add to the business.

Robert Ford - *Merrill Lynch - Analyst*

Great thank you. And then just one last question if I might and that, that's with respect to Canada Miguel Patricio and my understanding was Canada Labatt had over 500 SKUs and I was, I'm curious as to any dynamics, any changes in terms of that SKU count. I understand that you're reallocating some of the brand investments, the right fuse to use a term that's been used in the past in the soft drink business. And I'm curious as to how many brands you've dropped in terms of or have you seen reductions in terms of the ad spend behind them? And if you could comment a little bit more on the more recent pricing dynamics in Ontario and Quebec I would find that very useful. Thank you.

Miguel Nuno da Mata Patricio: Bob well you are right. We have a huge amount of SKUs and in order to be more efficient in our, in our plants, we have to reduce the amount of complexity and SKUs are definitely one of the ways. We reduced this year about 70 SKUs in the business. And we are still looking forward to make it less complex, not only, not only on the SKU level but a lot of programs regarding efficiencies on our plant. We had an outstanding year on the supply chain parts and SKUs was definitely one of the things.

Robert Ford - *Merrill Lynch - Analyst*

And then the, when you dropped those SKUs, how much do you think it hurt in terms of volume if at all? And if you could give us a sense of what the competitive dynamics are like in your two major markets?

Miguel Nuno da Mata Patricio: I don't think we, that's why we were not radical on reducing the number of SKUs, although it sounds a lot, the base is pretty high. So these amount of SKUs were SKUs not brand. So types of packaging that were, we have in Canada six types of sizes of cans that you multiply by the number of brands. Sometimes you have volumes that are not, that are so low that it doesn't any sense to have an SKU for a specific type of can or bottle. So we did not reduce the number of brands, we reduced the number of SKUs or [lanexed], let's put it types of packaging etc.

Robert Ford - *Merrill Lynch - Analyst*

And you don't include kegs in those six different can presentations, right?

Miguel Nuno da Mata Patricio: No.

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Robert Ford - *Merrill Lynch - Analyst*

And more recently, what's the pricing been like?

Miguel Nuno da Mata Patricio: Pricing?

Robert Ford - *Merrill Lynch - Analyst*

In terms of the industry pricing, do you continue to see aggressive discounting behavior from Molson and--?

Miguel Nuno da Mata Patricio: Yes. It's been very, very, very aggressive. So we see a lot of upside from our competitors on discount both in Ontario and in Quebec. The news, Ontario is not, is not new although we've, we've seen more price, as priced but Quebec is definitely new. We suffered during the last quarter in Quebec because of the price and discount activities. And we see the beginning of the year just the same, the same upside from our competitors. So well as I mentioned before, the low volumes we had in the fourth Q with especially because of October when we did not have LTO especially in Ontario. But well in December we had to LTO a little bit to come back and to increase our market share. And during this first quarter, we are seeing a lot of price activities yet.

Operator

Thank you. Your next question is coming from Jos Yord n with UBS.

Jos Yord n: Hi good morning Joao. Just have a couple of questions. Can you quantify those two projects you talked about that Sarbanes-Oxley, your systems' changes and all the administrative costs of doing the merger with CBB and I'm assuming with InBev Brazil as well. Can you quantify what, how much money are we talking about in Reais?

And then my second question is you had previously guided to relatively minimal share buybacks at the AmBev level basically to keep the, to keep the share count the same as the result of the shares that you issue every year, just basically to buy those back. And that's somewhere in the $200-$300 million Real level. So obviously there's a bit of a step up here in the buybacks at the, at the AmBev level. And I'm wondering what does that imply for your strategy under your displayed on how you plan to return the cash to shareholders? Is it going to mean, is it a one-time thing now because you think the stock is really cheap or is it, or is it, is there going to be a lower dividend, cash dividend in the future and more share buybacks going forward? Which of course would accelerate the sort of disappearance of AmBev as a stock in a few years' time. Just trying to understand what the, if there's a figure changing strategy?

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

No problem. Well definitely no [inaudible-accented language]. Regarding the project, if we take all the additional projects, non-recurring projects that we see in '05 such as the ones that we mentioned, altogether the SOx, the new SAP version, the corporate restructuring, we're talking about an additional amount of about R$25 million.

Jos Yord n: That's all in the fourth quarter?

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

No, no this is, this is, this is a bigger portion of it was in the fourth quarter. But I'm giving you the total yearly figure.

Jos Yord n: Okay.

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Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Okay. So that's the first question. The second question I think well first as I said in the beginning, when we look at the payout overall, I think we achieve our guidance of paying out mostly, most everything I mean we generate about $3 billion and paid out about $2.8 through the IOC, the dividend from the share buyback. What you see different now from what you saw last year was this, with this announcement of 500. Sometime, sometime between now and 2009, the firm, the [Bemberg] family, we will exchange their shares for AmBev shares. And I can actually use [inaudible-microphone inaccessible] shares. So we're deciding to stock to buy some of those shares and keep them in treasury so that when time comes, we'll have the shares to exchange for the cancelled shares held buyback.

Jos Yord n: I see, so it's, so when you have enough shares in treasury to give the Bemberg's their exchange shares, you'll go back to paying to keeping the share buyback at AmBev to a minimum.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Yes. And let me plead. For 2006, we'll have the same guidance of excess cash that we have will be returned to shareholders. The difference from last year, so we continue to use IOC. First of all I think it's important to formation. Let's say we, our net income next year go to $2 billion, $2.5 billion whatever that is. Half of it we can, we can pay in IOC. We will do that. So IOC will continue to be our first alternative, the first to return cash to shareholders. Okay, so that's point number one. The same thing as we did in 2005.

Point number two is we could for the remainder of cash flow that we're going to be generating, we're going to continue to use dividends in share buyback, but this time around, now that we can use treasury shares to buy back portion in Quinsa, the buybacks that we're making it now that we just announced, we will keep those shares in treasury and use them in the future to exchange for the back shares.

Jos Yord n: Okay. Thanks.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Okay.

Operator

Thank you. Your next question is coming from Lore Serra with Morgan Stanley.

Lore Serra - *Morgan Stanley - Analyst*

Great I also have a couple questions. When, let me just finish up on the cash distributions question, Joao you announced the dividend of R$400 million just now. And if I'm not mistaken, the last couple of years your first half distribution has been more like R$900 million, but that's included the interest on capital. And I'm not sure if I'm comparing apples to apples. So it, does the 400 compare with the 900 or that you, that you paid out in the beginning of '05 or not?

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

No, it does not. Basic what you saw, this is the cash versus fiscal year. That's a problem. So part of the 900, most of the 900 that you saw in the first quarter of last year, they were related to 2004 results. Okay, and you have to remember also that this year,

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we did something that is, was not on the pattern. Because we had the February, we had the September and we had the December portion. So we had the additional 600+ in December. So if you take the 400 that you just saw yesterday plus what we did in December, that $1 billion is more comparable to the 900 that you saw in February/March last year.

Lore Serra - *Morgan Stanley - Analyst*

Okay.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Okay.

Lore Serra - *Morgan Stanley - Analyst*

Okay, one just general question also for you Joao, I guess I'm wondering how we should look at some of your guidance numbers. And I'm going to guess the number that you've commented on in the press is the 2.5 to 3% number. And you said last year we were conservative. So I guess I'm not really sure. Should we think of all your guidance as conservative? I mean I could pick apart that assumption and say what you're really saying about the market if your market share is higher going into this year than last year and the World Cup is there. So, I guess as a general statement of philosophy, what is your guidance? How does it relate to your internal targets? How does it relate to your real expectations? How should we view those numbers?

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Well let's, I'll, let me break it down into two. I mean the very first one, the probably the one number that people look at the most is the volume for Beer Brazil. The Beer Brazil I would say 2.5 to 3. Let's say it's much more in line of around 3 rather than between 2.5 to 3. Okay, so I think the volume number we should work closer to 3 than the 2.5. Okay, I mean around 3, which is anywhere between 2.5 and 3.5. So and I think Luiz can comment on that a little bit more later.

And then for the rest, it's, it is true that we were happily surprised by the market in 2005 as well as by our own share performance in 2005. But I would say that the guidance that we released today gives a good picture of what we expected, of what we expect for 2006. I'm not going to comment on how does that work with my internal targets. What I can say is as we've been talking about in the last few quarters regarding internal targets, I think the one change we made and we've comment on that is we don't, we're not having that 15% real growth over nothing any longer. We think that was probably not a bad system. But of course we still have the most stretch targets that we can have for every business unit. And what we have now is minimum achievements, target achievements, over performance achievements that we think if we look at the long term, there's a better model than when we, the one we had before.

Lore Serra - *Morgan Stanley - Analyst*

Okay [inaudible] I'm sorry.

Luiz Fernando Edmond - *AmBev - CEO Latin America*

This is Luiz speaking. That, just make a comment that because maybe we are talking about Latin America, not necessarily about AmBev, because if you compare with the guidance we gave in Canada, we are not conservative and we're not, did not deliver everything that we believe that could deliver last year. So we had a guidance of 15% growth and we did not achieve this growth.

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So I wouldn't mean that AmBev is being conservative. Maybe you're referring to Brazil, specifically to Brazil, not even to Latin America. I think if you take the numbers that we issued this morning and yesterday and regarding the point of growth, you have to compare market share and market growth separately. Because last year we had easier accounts in terms of market share. Well we're still at lower levels. We started the year at 67 market share level. This year we were starting at the 69 level. And we don't believe we have much room to grow further than the 70, 71% in the short term. So we want to leave it the same kind of volume growth base it on market share growth.

Of course the market could surprise us, could be much better than we expect. So we have all the, for certain companies in Brazil that can provide us some the forecast and this is based on this kind of forecast. Exactly as we use every single year. And of course if you, if you start taking the World Cup as, what if Brazil is the world champion again? What if the weather is very good during the week and that helps work up still more? We prefer not to have this kind of expectation. And of course, we are prepared to produce and to deliver more volume if it comes. So maybe you are more referring to the volume piece than the rest of the figures.

Lore Serra - *Morgan Stanley - Analyst*

Okay. That's fair. I guess maybe if could ask a question on pricing in the fourth quarter. I guess you didn't release the direct distribution mix. I'm not sure if you, you're going to release that. But I guess given that you had I think a better mix in the quarter in terms of one ways and direct distribution and you mentioned that you took some pricing actions. We didn't see that much of it flow through in, in terms of revenue practically around a sequential basis. You mentioned the year on year was more sizable. So could you just talk a little bit more about is, there was some other factor that I'm not thinking about properly? And you referenced in your opening about you took pricing and you've seen a little bit of shift in market share. Can you talk a little bit about where you see the market right now in terms of who's following pricing and not?

Luiz Fernando Edmond - *AmBev - CEO Latin America*

We slightly increased prices the mid-December, more to the end of December than from the beginning. We in average as you know we have this long-term commitment to maintain prices in line with inflation. We did different price increases for different packages and different channels and different regions. So I would say the fact of this increase in December is very low. We'll see most of it during the first quarter this year. And of course as happened in the past, whenever we increased prices, we know that some market share losses are expected. We knew that. We are prepared for that. And in terms of our competitors, [inaudible-accented language] will say that at this point in time they've increased the prices. Most of them have fall price increases. In the same average, they had, in the previous years, it's around 60 or 70% of the absolute increase that we give to the market. So it's pretty much in line with what happened this last four or five years.

Lore Serra - *Morgan Stanley - Analyst*

Okay and I guess and maybe just to get back to this issue of why you didn't see a more of a sequential increase in pricing. And I guess I've estimated in the past that just mix alone, more direct distribution, and more cans in the fourth quarter could give you, I don't know, 200 basis points of pricing sequentially. Maybe that's wrong or maybe it didn't happen this year. Could you help me understand that?

Luiz Fernando Edmond - *AmBev - CEO Latin America*

Yes I understand your, first I would say that maybe the can mix that you estimated was really lower than your expectations. We, not many in that, we lost share in cans, but we had a much better performance in terms of returnable bottles in '05. And, you know, it's more profitable than supermarkets and then, and then in cans. So maybe this is one of the effects that you, that you see.

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Then direct distribution was in line with our average increase of direct distribution if you compare '05 with '06. So I don't know how you forecast that, but we believe that the effects should be exactly the same that you had in previous years. And we maybe one difference is on '04, we increased prices in the beginning of January, of December sorry. And this year because our increase was a little, let's say later because no holidays, we decided to postpone a little bit, I think one week to ten days. And of course December the volume is huge. And delaying this increase in the same days could have affected our net revenue.

But again, we've, we are, we keep in line with our guidance, with our commitment, and you should see the full increase now reflect in the first quarter numbers.

Lore Serra - *Morgan Stanley - Analyst*

Okay and I guess just last question, I understand that you closed up the SG&A right now so you don't want a lot of specific questions. But you had opened it up through the nine months of the year and you'd also opened up your guidance. So as we think about the fourth quarter that really missed versus the trend lines let's say during 2005, should we think about it as being mostly the one-time project of seeing the fourth quarter as I guess you were sort of implying earlier in the year or did you possibly run above your sort of budgeted numbers in terms of some of the other line items over the course of the year? And I guess what I'm wondering is did you have a bunch of these projects that sort of hit you in the fourth quarter? Because if I think of where you were trending on the other lines, it implies an admin cost that really jumped up a lot in the fourth quarter?

Luiz Fernando Edmond - *AmBev - CEO Latin America*

I'll let Joao comment on that. But I think maybe you guys are not used to have this kind of volume increase that we had in '05. And maybe you, we've never realized it and we never disclosed it with details. The kind of variable expenses that we have there are related to volume.

So when you face this kind of increase that we have in '05, you have some important, let's say lines and expenses. They are variable. Basically some supermarkets agreement that they are related to volume, direct distribution expense is being, the increase of the direct distribution share and the increase of the volume in direct distribution on the, let's say the base we already have in the past. And maybe this is one of the next [monies] that maybe when you take the whole, the full number and you can maybe you are surprised.

But again you should take the variable portion of that and in some of the products that we have, again, we continue to be in line or below inflation. And we continue to be trying to find new opportunities to reduce these expenses as a long, long term discipline that you, you know we have.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Yes I think I, the only thing I would add to that and [inaudible-accented language], this is the biggest growth we had since the health plan, so that's the biggest growth in the last ten years. It does make a difference and it does give us that, those sort of good problems of running after trucks, buyers and all of that. But going back specifically to your question, yes I mean those are yearly projects, but where most of the expenses did hit the fourth quarter. So again, it's definitely not a trend. The trend is for us to keep back G&A at or below inflation, excluding this volume impact that Luiz just mentioned.

Operator

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

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Andrea Teixeira - *JP Morgan - Analyst*

Hi, good afternoon everyone. I just wanted to know more about this SG&A. I'm sorry for keep going back to this question. But in terms of the SG&A line for the CSDs, which also if you exclude those R$25 million, it doesn't look like this project made any huge impact. It looks like also that you're increasing investments in the CSD business and resulted in an increasing volumes and also increasing in market share. But looks like if you made a more of a long-term investment towards the end of the year. Is that correct? So we should assume a higher level of investments in the CSD business?

And the other question is regarding Labatt more for Miguel and regarding this performance of the mainstream brands. I understand from the prepared comments that you had that a very good increase in Budweiser and Stella and because of the investment behind the premium brands. But can you comment also on the mainstream and what is looking like for the mainstreams brands in the first quarter of '06?

And also lastly, the third question is regarding how the funds are being performing in Brazil in the first quarter of the year? Okay, thanks.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Yes, Miguel why don't you take the first question, I mean the Labatt question and then we go back to SG&A and volumes if you will.

Miguel Nuno da Mata Patricio: Sure well the mainstream or the core premium segment is in Canada as you know is in decline or has been in decline for awhile. Everything else is growing. So the import segment, the domestic segment, the light segment, the discount segment. During the first quarter of '06 or till February, we did not, we do, cannot see any difference from '05. So the decline is or the trends continue, continue more or less the same.

Andrea Teixeira - *JP Morgan - Analyst*

And how about market share?

Miguel Nuno da Mata Patricio: But that's in mine? [Inaudible]

Andrea Teixeira - *JP Morgan - Analyst*

Is that is due 42% in market share for let's say overall for Labatt?

Miguel Nuno da Mata Patricio: And 42, 20, 42%.

Andrea Teixeira - *JP Morgan - Analyst*

Yes, no my question is regarding the market share for Labatt. How is it, does it stand right now?

Miguel Nuno da Mata Patricio: Well we finished, we finished '05 with, in our, in our numbers with about 0.8 percentage points behind last year. And that is about 41%.

Andrea Teixeira - *JP Morgan - Analyst*

Okay.

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Miguel Nuno da Mata Patricio: But just finalizing the question you made before, so there was a first month January and February Caracu is above last year, Budweiser is above last year, Bud Light is above last year. Blue is not above last year, but we the other brands are in a very positive trend.

Andrea Teixeira - *JP Morgan - Analyst*

But in terms of going forward for 2006, we should not expect that the premium brands we lost that the mainstream yet?

Miguel Nuno da Mata Patricio: Well we do not, our as I said our goal for '06 is going to be much more on the, external forecast rather than internal forecast right. And so in other words, we'll be obsessive by execution, by growing brands than and we, we want to bring some kind of [subliminalization] to the volumes. With that in mind, I don't believe that the mainstream segment or the core premium will have a different, a different trend this year. So, we have to get better and that's how we're planning the other segments of the market.

Andrea Teixeira - *JP Morgan - Analyst*

Okay thanks.

Luiz Fernando Edmond - *AmBev - CEO Latin America*

Hi Andrea. This is Luiz. Regarding your question on the investments, market investments for the soft drink business. I think first of all it's fair to say that in '04 we take some, we took some of the investments we had in the soft drinks to put behind our beer brands to help recovering our market share. Then we started to go down in 2003. So it was a decision that we took.

So when you compare '05 with '04, you have this difference that was, let's say that soft drinks were kind of financing the beer market share. The, you have to take the soft drinks margin that increasing year after year. And we decided that we should support our brands more than we were doing in the past. We are facing tough competition from Coke. They are over investing in Brazil. It's clear that Brazil is one of their priorities globally. And we have to guarantee there are, there are brands that are not losing performance for the future.

So we decided based on very profitable business that we have, we should not maintain our investments only in line with inflation since our margins are increasing more than inflation at this point in time. So yes, you'll see some additional investments in soft drinks, maybe higher than inflation. It's reasonable. Not much higher, but higher than inflation because we are, let's say we combine the investment that we had in beer back to the soft drinks again.

Andrea Teixeira - *JP Morgan - Analyst*

Okay.

Luiz Fernando Edmond - *AmBev - CEO Latin America*

But we kind of fought with the first quarter. As you know, we are not disclosing the volumes specifically for the month, for competitive reasons we don't want to help our competitors to know what is exactly is happening with us. And we have, we still have some good comps in terms of market share. We started the year with this 6 to 9% level compared to the 6 to 7 something last year. So with the volumes, we believe we'll do slightly above our guidance for the whole, for the full year. It is around 3%. So we believe the first quarter we should be slightly above the, this 3% guidance for the full year.

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Andrea Teixeira - *JP Morgan - Analyst*

Okay, great. Thank you very much Luiz.

Operator

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

Alex Robarts - *Santander - Analyst*

Yes, hi everybody. First of all, I would just like to say that I think that was very helpful. And we appreciate giving that very extensive and comprehensive guidance that you are giving for this year.

And I guess with that, I'd like to kind of take a few questions regarding the Canada operation. And I guess Miguel you've talked about this new commercial plan that you're going to be doing this year. And it seems like the focus is really on revenue. And I'm just trying to square that priority on revenue growth with this guidance that you're giving us here essentially for really flat top line growth in Canada. And I guess if you put the numbers together with your margin for Canada it looks like there's going to be a, quite a sharp deceleration in that EBITDA growth in Canada this year.

So I mean is this, is this basically this top line guidance is it basically saying that, look no matter how long these guys discount, I want to keep my price level where it is. Or is it kind of the combination of you taking some price on, in some brands and then lowering price in other brands, getting a kind of a flat effect on the top line. Or is it really kind of you see volume really being quite sluggish? And I guess are you kind of taking into account and should we be taking into account what I understand to be a pending smoking ban that's due to I guess come in, in June in province of, in Ontario I guess is the smoking ban came in, in '04. And it looks like in Quebec you're getting one starting in June.

Miguel Nuno da Mata Patricio: Yes well, Alex you, I think you touched all the points so. Let's go. First for volume, we had an outstanding market or industry last year. I think we had one of the highest growths ever in the Canadian market. The market grew by 1.2%. And that was mainly because the summer was just amazing. We had a very, very, very hot summer. But we've seen Ontario in Quebec, which is basically where volume and profitability in the market is. So we are not expecting growth or spectacular growth in the industry this year. So it's going to be close to, in our model to even.

Second you also mentioned price. Yes, we all know that the price situation in Canada is pretty tough. So we do not have high expectations on price increases. We do not have room for a lot of price increases. Of course that we'll always do when we can on specific SKUs and specific products on specific regions. But we cannot have the level of price increases we had in the past.

But yes there's going to be a tough year, but we are, we are pretty positive. So because as I said before, we haven't even began the external, the external forecast as I said. We had a great year on internal, on the internal agenda. We got leaner and better. We believe we're the 12th percent EBITDA growth but basically because of internal issues. As you know, we are, we have a lot o knowledge and know how on execution. And I believe that this is going to be the year of vacation for us. So all my appetite is on growth. But because of their execution, because of better plans.

We have a totally new sales team. Last year we did not have a head of sales. We had the provinces reporting directly to Brito. Now we promoted Trent that was the director for the west region. He is now in charge of the whole country region. Now we'll have to get synergies on province by province. So we'll have much more centralized decisions. We have the other five provinces we have in the country, four new directors in place. So we have a new team, very motivated with a lot of knowledge that we built during here in '05 on research, on route to market. And well we are ready for the fight.

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Alex Robarts - *Santander - Analyst*

Okay, I mean but does this guidance kind of assume that the smoking ban goes ahead in Quebec?

Miguel Nuno da Mata Patricio: Yes.

Alex Robarts - *Santander - Analyst*

Okay.

Miguel Nuno da Mata Patricio: Yes. And again volume is going to be pretty hard to achieve or to have a positive volume this year because last year was not a, was not a normal year in terms of weather.

Alex Robarts - *Santander - Analyst*

Okay. Fair enough. I guess I'd like to just then kind of go into Brazil and the revenue per hectoliter guidance that you're giving us for '06 and regarding the 0.5 to 1% above inflation guidance. What kind of direct distribution number are you looking for in this guidance by year end? And secondly, how do you see, related to this number, that the piece that's in the premium, how much of your volume do you think this year is going to be in that premium segment? And I guess I would include the [Shulpy] and the draft beer in that, in that as well?

Miguel Nuno da Mata Patricio: Well in terms of direct distribution increase, we reached this 50% level last quarter. And it all blends in place where most probably maintain a growth rate seen in 2005. So we have a model that this more focus on the big urban centers. Of course, we can improve this model to go to other areas, but at this point in time we believe that we that we still have some room to grow in these urban areas. And the growth should be in line with what happening in '05.

Alex Robarts - *Santander - Analyst*

I'm sorry. So the direct distribution proportion does not change then in your view in '06?

Miguel Nuno da Mata Patricio: No that's not the case. I mean we increase the direct distribution during '05 from 43% to 49%. So 5 to 6 percentage points increase during the year. We expect the same type of increase during year '07. Okay, so that is, we should expand or should gain margin during '06. Maybe, maybe less than that. Maybe more like 4% growth, 4 percentage points growth. But still we believe there is some room to grow in these urban areas [inaudible].

The second question was in terms of premium. We have spent money, time, focus, and the question is difficult to say because we still have a lot of space to grow premium. And there is, when you compare Brazil to other countries and even in Brazil, we've a lot of categories. We have a lot of space to grow premium.

Of course we have this challenge of not losing market share in the mainstream brands, there where the competition is more, let's say more focused. So it's our challenge is to grow premium without losing market share in the mainstream segment because the kind of market share we have which we don't pay attention is very vast, enough money to mention segment. We will not be able to, let's say to compensate what we gain in the premium, putting more money and profits with the kind of losses we can have in the core brands.

So our internal focus is to at least grow premium at twice the speed that we are growing the mainstream brand. But it's difficult to give a guidance on that. We did that very well with the, but we delivered more than that in '05. We have a lot of plans in place

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now. We had to wait and see if we can continue to grow in the same pace. But I'm very sure that we can. And we'll do everything we can. And I have very good brands now to run for it.

Alex Robarts - *Santander - Analyst*

Okay so I guess if you look at year end and you take that premium portfolio together with the draft, I mean I'm estimating that you, that probably that's about 7 or 8% of your total beer volume in Brazil. Is that a safe assumption?

Miguel Nuno da Mata Patricio: Difficult for me because I should take exactly the brands that you are, that you're comparing because for example the [Shulp] thing we want increase as fast as Bohemia, as Original, and the base is very high in terms of Shulp. So I we should, we can follow up on, maybe in the next few days. And have more, better numbers and compare numbers to give you, let's say a better, a better guidance, a better answer.

Alex Robarts - *Santander - Analyst*

Okay. Fair enough. Thank you very much.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Thank you.

Operator

Thank you. Your next question is coming from Alexandre Falc o with Ita .

Alexandre Falc o: Yes hi everyone. Actually my question is [Verden], Femsa, and the acquisition here of Kaiser. What do they see in, both on short term and long term strategy? Should this, should change AmBev's view of the market? Do you see some real threat here regarding distribution and points of sales? I'd like to, first analyze on that please. Thank you.

Miguel Nuno da Mata Patricio: You know Femsa has a long history in the beverage industry. And we respect that. Though they usually to compete in the beer market in different kind of market, let's say more organized than ours. And [Bava's] in a strong protected position to not only defend but also grow market presence.

We have a great team and an excellent market process and programs. The most valuable brands in the market, in the mainstream segment, in the premium segment and a very, very efficient distribution network. Not only the direct distribution system but third parties distribution system is a very strong one. So all these showing our track record. Delivering results year after year, even in adverse market conditions in macroeconomic conditions, we deliver extraordinary results here in Brazil.

So Femsa is a formal and responsible player that favors the development across the industry. I think they can add on that. And they avoid this kind of a predatory practice that still come on in this market. But again the [Bava] is prepared to defend its market share, its market position in any kind of situation. We have this very strong portfolio, not only beer and we believe we're a very strong portfolio of soft drinks too. So we know how to use it and we'll use it if necessary. So that's all I can say.

I won't comment in their strategies and what is happening in the market. Right now, I think they are trying to understand the situation they have and of course in the future we make comment more and more details on that, okay.

Alexandre Falc o: Okay and actually I'd like to, I don't know if you were hearing some rumors of SAB taking over [Skeen] here in Brazil. I'd like to liberate a little bit about of course I know you guys don't talk about other player's strategy, but do you think

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that with biggest or bigger competitors the market should become more or less hostile in terms of tax evasion? Do you see this is a good thing or on the contrary is more competition to you guys?

Miguel Nuno da Mata Patricio: I'll say the answer would be very, very similar to the one I gave in [inaudible]. They are formal. They have a history in the industry. They play fair. So I think what is more like a long term, not necessarily as short as Femsa is a threat. We feel prepared for that as well as we do for Femsa. But again, if a competitor would play with the same kind of tools, the same kind of behaviors that we, that we do. So it's much easier when you can face competition using the same kind of tools. It for a long time we had to play against other companies that were not playing exactly the same game that we did. So, of course we don't like to comment on rumors. We don't know if it's really going on. But again we feel very prepared for that.

Alexandre Falc o: Okay. Thank you.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

You're welcome.

Operator

Thank you. Your next question is coming from Celso S nchez with Citigroup.

Celso S nchez: Hi good afternoon. If I could just ask a couple of questions about Canada, Miguel I know you said that if I heard you correctly that your main competitor is getting more aggressive. Is that right in Ontario? The numbers that we've been seeing actually I thought things were actually, had bottomed and that they had not only raised prices on some packages, but on packages that I think I would have thought would be more constructive for the market rather than less and on brands in terms of timing. That all seem to point to a better environment in '06 than at end of '05? Is that--?

Miguel Nuno da Mata Patricio: Well I said that on the quarter, so they began, they began October with basically the whole mess on LTOs both on Canadian and Coors Light.

Celso S nchez: All right.

Miguel Nuno da Mata Patricio: That was really what made the difference in the quarter.

Celso S nchez: Right.

Miguel Nuno da Mata Patricio: Then they continue on LTOs till the end of the year but was more on a normal, a normal thing. I think that the big difference is in Quebec. In Quebec, well Molson is selling the Coors Light, sold in January and in December at the floor price, 19.56 pack for a 24 pack for 19.56.

Celso S nchez: Right.

Miguel Nuno da Mata Patricio: So that is totally un-normal. That is, that is the new thing.

Celso S nchez: And that's not just the supermarket channel issue. That's the overall market issue.

Miguel Nuno da Mata Patricio: No, it's a supermarket issue, but well supermarkets are and convenience stores are growing and growing more on importance in Quebec. So you're right, it's in the supermarket. But that's what's making with this price, there's a huge shift of course to supermarkets.

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Celso S nchez: Okay.

Miguel Nuno da Mata Patricio: Except for front of promotion right.

Celso S nchez: But in terms of Ontario, is it fair to say that, I mean from what we've seen, the promotional activity in terms of the holidays they've used to promote around or the events in terms of the Super Bowl and the brands they've used and the SKUs they've used seem a lot more sensible than they certainly have over the last year or so. Is that fair to say? That things have actually gotten better there?

Miguel Nuno da Mata Patricio: Well we, in terms of, in terms of pricing, we all brewers raised prices in January, right?

Celso S nchez: Right.

Miguel Nuno da Mata Patricio: So which is, which a good, is a very good thing. But LTOs, LTOs are increasing. So at this moment, we have or last week we had Canadian on LTOs, in fact, to get together which is Coors Light and Molson Canadian--

Celso S nchez: Right.

Miguel Nuno da Mata Patricio: Both together in an LTO. And Budweiser non-LTOs as well. So it's a moment of the year that there's not a lot of, normally not a lot of LTO promotion going on. And the year began just crazy. So like with a lot of LTOs in Ontario and also, and also in Quebec. In Quebec, on top of what I said, Molson Canadian had a promotion of 15 packs for the price of 12, not Molson Canadian, Coors Light, 15 for the price of 12, etc. So it's being very at the moment there's a lot of promotion going on unfortunately.

Celso S nchez: And it's not Olympic or we thought that the Canadians coming off of the Coors Light promo around the Super Bowl was more Olympic related, is that, do you think it's worse? I mean it's more permanent than that?

Miguel Nuno da Mata Patricio: I don't know. I hope it's not permanent.

Celso S nchez: Okay.

Miguel Nuno da Mata Patricio: It's, if it's Olympic related just because has the, well the hockey players on the pack but we saw that in January and we saw that in February. So I don't know if that's just an excuse or at least a mindset. I hope it's a mindset.

Celso S nchez: Okay and then on brands, on stratification, I know there was some experiments beginning or towards the end of last year and I believe Alberta for just to test the pricing points for I think Budweiser, [Cocani], just slight differences in prices opposed to the normal 35/50 or whatever it was on a, on the Q4. Is that--?

Miguel Nuno da Mata Patricio: Well we did that but so far they haven't followed the price increases.

Celso S nchez: Okay.

Miguel Nuno da Mata Patricio: So we and again we were expecting them to be more, to have, to have more, we thought that, we though that they more in favor of increased prices in a place like Alberta, more rational in prices. But well so far they haven't followed. We had prices, we stratified the prices. So we increased Cocani more than Budweiser and less than Blue. But so far they haven't increased the prices.

Celso S nchez: Okay and then if I could just follow-up on Brazil a little bit on the segmentation side. Obviously very impressive growth I think was mentioned brought up not just in your comments but by one of the questioners with respect to the Bohemia and [O'de Chanel] and that roll in the mix. And I just, this is to go back to one of the questions that's been raised before, that as

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well as the direct [distributionship] as well as the timing of the price increase, I just wondered would we, whether just a much higher level of cans or something like that in the third quarter than normal? I do remember you mentioned something like that? But I just would have thought also that there was more, would be more sequential revenue for [inaudible] improvement? So the role, I guess the question is the role of super premiums is it growing tremendously but still not making enough of a dent in the price mix or--?

Luiz Fernando Edmond - *AmBev - CEO Latin America*

If you compare fourth quarter with the third quarter, we had some [medals] increase.

Celso S nchez: Right.

Luiz Fernando Edmond - *AmBev - CEO Latin America*

Most of it was, you have several effects, some of them positive, some of them negative. And then we had, compared to other years, we had less [ten] in the mix than some years before. For example, I'll say 100 basis points less than '04. That it's negative, the negative effect. Okay, then we postponed the price increase if compared to 2004. You know so what we did that in the beginning of December in the first, in the first half of December. This year we did that in the second half of December. And we are implementing the, we did implement the can price increase let's say in a slight new way, a little less in more weeks that we usually to do. So we did increase the whole thing at once. We did that week by week, week by week business. So that was negative too. And then it had all these premium that was positive. It had the direct distribution and a positive effect. Net, net in December we increased the net revenues compared to the third quarter and again, in the first quarter of this year, you'll see another increase than mostly the effect of the price increase we gave during December. So we'll see the full price increase during the first quarter.

Celso S nchez: Okay and just one small follow-up, the direct distribution number of 49% that you gave before, is that the one for soft drinks and beer together or is that just beer?

Luiz Fernando Edmond - *AmBev - CEO Latin America*

Yes, that's right.

Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Together.

Luiz Fernando Edmond - *AmBev - CEO Latin America*

Together.

Celso S nchez: Together. Thank you.

Operator

Thank you. At this time, I would like to turn the floor back over to Mr. Neves, the CFO of [inaudible].

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Joao Castro Neves - *AmBev - CFO and Director of Investor Relations*

Well I'd like to thank everyone and I will see you next quarter. Thank you.

Operator

Thank you. This concludes today's AmBev Conference Call. You may now disconnect.

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