Operator:

Good morning, and thank you for waiting. We would like to welcome everyone to AmBev's 2Q07 Earnings Conference Call. Today with us we have Mr. Luiz Fernando Edmond, CEO for Latin America; Mr. Miguel Patrício, CEO for North America; Mr. Graham Staley, CFO and Investor Relations Officer and Mr. João Castro Neves, CEO for Quinsa.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After AmBev's remarks are completed, there will be a Q&A section. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of AmBev's management, and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of AmBev, and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Graham Staley. Mr. Staley you may begin your conference.

Graham Staley:

Thank you, Nelson. Good morning everyone, and welcome to AmBev's 2Q results conference call. I am Graham Staley, CFO of AmBev, and with me today on the call are Luiz Fernando Edmond, CEO for Latin America and Miguel Patrício, CEO for North America, and I have also invited João Castro Neves, CEO for Quinsa, to join us on this morning's call to share his perspectives on Quinsa's results.

As usual, I will start the call by sharing a brief overview of the quarter. Luiz Fernando, João and Miguel will then provide you with details about our operations in Brazil, Quinsa and Canada, and then before opening up for questions I will deal with a few specifics regarding the 2Q financials. So let us get started.

During the 2Q, our consolidated EBITDA reached more than R$1.8 billion, which represents growth of 16.5% compared to the same period in 2006. If we exclude the effect of AmBev's stake increase in Quinsa from the 2Q07 results, EBITDA would have shown a growth of 11.7%. Our earnings per share growth, excluding goodwill amortization, was 13.1%.

The Brazilian business delivered a good performance, and despite pressure on comparable volumes given last year's World Cup, delivered an EBITDA 13.2% higher than the same period last year. Volumes grew 4.6% for beer and 10.4% for CSD & Nanc.

Quinsa had a good 2Q also, and, as a standalone business, saw EBITDA growth of 23.5%, in USD and Brazilian GAAP.

In Canada, Lakeport impacted positively on volumes with a small dilution of net revenues per hectoliter. This effect, together with better package mix and gains on the cost side, yielded a 12.9% EBITDA growth, in CAD. As detailed in our press release, we made a small adjustment to the way we report bonus in Canada in this quarter. This had a positive impact on EBITDA in the quarter of CAD$7 million.

Hila-ex operations, although still showing a loss, posted a big improvement in comparison to last year following the restructuring of the business, with EBITDA improving by R$16 million.

Our combined operations delivered net income of R$449 million, 7.2% lower than the 2Q06. As in the 1Q07, this result was negatively impacted by higher goodwill amortization, attributable to the second part of the Quinsa transaction, and a step up in the amortization curve for the Labatt goodwill. The strengthening of the Real also resulted in an incremental charge of R$84 million, when compared to the 2Q06, relating to the translation of our investments in overseas subsidiaries.

Finally, I would like to highlight the year-on-year improvement of over R$900 million in net cash provided by operating activities. This is due to our improved trading performance, but also our increased focus on working capital in all of our markets.

With that brief introduction, I would now like to turn the call over to Luiz Fernando.

Luiz Fernando Edmond:

Thank you Graham, and good morning everyone.

I will now provide you with details regarding the Brazilian and Hila-ex operations.

Starting with Beer Brazil, we were able to grow our volumes 4.6%. Excluding Cintra, growth would have been 3.2%, despite the difficult comparables due to the World Cup in the 2Q06.

Our revenues per hectoliter grew 4.7%, driven by the price increase in January 2007, premium brands development and direct distribution growth. Without Cintra, we would have grown 5.6%, despite a more aggressive competitive scenario.

Market share has been improving over the last four months – as you should know, it was already announced that we gained share again in July – but we still have not recovered what we lost in the 1Q. So, I would like to take this opportunity to say that we are not satisfied with the current market share level, and we are working hard to keep delivering growth month after month. At the same time, we will maintain a healthy balance between growing volume and net revenue per hectoliter.

SG&A for Beer Brazil, excluding depreciation and amortization, grew 8.6%, driven by higher expenses on the expansion of direct distribution and higher freight expenses due to higher volume. We also have Cintra's SG&A in our results. We are investing in our brands in line with our expectations.

Putting this all together, we ended the 2Q07 with an EBITDA for Beer Brazil 11% higher, with margins 70 bps better than last year, which is a solid result, considering the tough comparables.

CSD & Nanc operations posted strong volumes, 10.4% higher than last year, on the back of a very successful H2OH! launching. Revenues per hectoliter grew 8%, attributable to a better package and product mix, and some price adjustments done throughout the year.

The average market share for the quarter was flat with the same period last year, at 16.8%. In July, we achieved 17%.

Due to the huge success of H2OH!, we saw some price reactions from our competitor, especially in the São Paulo region, even though we grew volumes more than 20% year-on-year in that market place.

We also saw that competitors opened the price gap to our major soft drink brand, Guaraná Antarctica. We have already reacted, and are watching the results to decide on new actions.

The mix shift towards H2OH! led to an increase in COGS per hectoliter of 11.4%.

SG&A expenses, excluding depreciation and amortization, grew 0.6%. As anticipated, the SG&A line did not follow the growth trend of the 1Q. The lower selling expenses in the 2Q, as a result of the World Cup last year, almost offset the higher expenses from the volume increase and direct distribution.

The higher volumes and healthy operations yielded a great 28% increase in EBITDA, with a 230 bps increase in EBITDA margin, reaching 33.7%.

In Hila-ex, as you might have seen in the results, we improved R$16.4 million in the bottom line. The initiatives on our organization structure, revenue management and innovation are leading us in the right direction . For example, we recently launched Brahva Beats in Guatemala and Brahma Light in the Dominican Republic,.

We are getting close to breakeven, but we are still not satisfied. We will keep up the efforts in the region in order to have positive results in the very near future. We have our team motivated and committed to it.

As a summary, I would like to remark that these results were not achieved by chance. We have very stretched internal targets and it is fascinating to follow the performance of our people, whom I would like to congratulate for another great quarter.

I will now turn the call to João Castro Neves.

João Castro Neves:

Thank you, Luiz. Good morning everyone.

The region continued to grow at strong rates, laying the base for another very good quarter for the company.

Consolidated volumes grew 6.7%, with very strong performances in Argentina and Bolivia. Organic growth was actually higher, around 10.1%, even though we had to dispose of three brands in Argentina at the end of last year, given the Antitrust decision. .

Sales prices grew, in average, 16% throughout the region, strongly helped by local currency appreciation, contributing to a net revenues increase of 23.8%. The Company performed particularly well in the beer premium segment on a consolidated basis.

Important for this performance was the Stella Artois brand, which is doing very well throughout. It was recently launched in Chile to strengthen our business there.

In terms of the individual beer markets, Argentina continued to perform very well, despite the loss of three brands we just mentioned. In fact, we sold more volume during the 1H07 without the three brands than we did last year, with them. Price increases were also introduced, which allowed the Company to partially keep up with inflation and to keep profitability virtually unchanged, despite higher labor and energy costs. Premium brands, such as Stella Artois and the dark beers that we have launched in the last 12 months, had an excellent performance, growing 82% compared to last year.

The Bolivian business continued to perform outstandingly, despite an uncertain operating environment, with volumes increasing more than 18% in the quarter. We are in the process of doubling capacity at our Santa Cruz plant to meet the increase in demand of the past few years. This will increase our total capacity in the country by approximately 25% and should be completed towards the end of the year, before the season.

In Chile, we are receiving a very good market response to the launching of Stella Artois, which is already being sold in cans, long neck and 1 liter bottles. This introduction is aimed at top image on-premise points of sale and selective supermarket outlets. With this introduction, we are focusing on the premium segment of the Chilean market, which is the largest in Latin America in relative terms, accounting for an estimated 10% of the total market. We have also introduced two new dark beers to the Brahma brand, aiming at a fast-growing segment of the market.

The beer market in Paraguay was the exception in our region, in that it declined compared to 2006. This was the main reason for a 4% decline in our volumes in a more competitive environment. In spite of that, net revenues have grown, based on a 6% price increase which was in line with inflation, a strong appreciation of the local currency and a better sales mix. Brahma continued to increase its preference and share of the total portfolio.

In Uruguay, industry volumes and Quinsa’s market share have remained stable in the quarter, with higher sales prices given that, among other things, our premium brand Patricia is growing at a faster pace than the rest of the portfolio.

Talking about soft drinks, the recovery of the economy in Argentina has helped both the industry volumes and the mix of premium brands at the expense of B brands. Basically people are up-trading.

Our brands have gained market share, especially in the Pepsi brand, due to strong execution at the point of sale, new product developments, and also important investments behind the brand. At the same time, in Uruguay CSD volumes were fuelled by market growth, by the introduction of the H2OH! – the flavored water brand – in November, which already accounted for 25% of its segment in the quarter.

In summary, we have been able to deliver excellent results based on this good execution at the point of sales and strong brand positioning, but also, discipline regarding our pricing strategy.

We kept and will keep our focus on cost efficiency, despite the increase in labor, energy and transportation costs. Discipline is inherent to the Argentinean business model at this point. We achieved an EBITDA growth of 23.5% in USD in the quarter, reaching US$95.1 million, with a margin of 45.7%.

I am very excited with the results that we have been delivering so far, I am enthusiastic about our prospects for continued growth, but nevertheless, we know we have challenging goals to meet in a more difficult environment.

It will get tougher in the future, as comparisons become more difficult and challenges multiply, but we will continue to work hard to deliver our targets.

I now invite Miguel to take over.

Miguel Patrício:

Thank you João, and good morning everyone.

I will now talk about the Canadian operations.

Before I start, I would like to highlight that all results will be quoted in CAD, to exclude any effects of currency.

First of all, we are proud to mention that this is the 11th consecutive quarter of profit growth in Canada, in both local currency and organic terms, since the closing of the AmBev-Interbrew deal. Despite the challenges we face in the tough Canadian market, Labatt remains committed to continuous improvement of the bottom line.

In a like-for-like basis, Labatt delivered EBITDA organic growth of 6.2%, excluding the EBITDA contribution from the Lakeport brands, which was CAD7.5 million, and for the reclassification of bonus expenses from SG&A to the profit sharing provision, of CAD7 million.

The earnings improvement in the quarter was driven by: 1)a n organic increase of roughly 2% in domestic net revenues per hectoliter, excluding the performance of our Lakeport portfolio; 2) continued reduction in COGS per hectoliter, driven by a strong ZBB discipline in our fixed industrial costs; and 3) savings on our overheads, mainly driven by the business aggregation allowed by the shared services center we implemented in Canada last year

On the negative side, volume growth remains a tough challenge; the industry was flat in the quarter and the combined portfolio of Labatt and Lakeport delivered a volume decline of 0.9%.

The Lakeport deal represents a great addition to the Labatt portfolio of brands, giving us our fair share of the discount segment in the province of Ontario, the largest market in Canada, and the one in which discount is the largest segment. At this time, Lakeport is fully integrated into our operations.

On top of discount, we have also made strides in the Light segment. After more than five years of share losses in Light, we have now stabilized our portfolio and we are confident that we can grow share in this fastest-growing segment in Canada.

We have also been successful in improving the profitability of our brand portfolio, delivering continued margin expansion. Note that our gross margin grew 300 bps in the last two years, from 2Q05 to 2Q07. We acknowledge, though, that it is imperative to effectively grow the top line, which we will continue to pursue in a disciplined manner.

In Western Canada, the region where we have a leading share position, we continue to gain ground in the market while creating value for the beer category.

Unfortunately, that is not the environment we experience in the Central and Eastern regions. In Ontario, Quebec and Atlantic Canada, we continue to face tough price competition. This challenge represents a true chess board. We have fought hard to maintain our market share in these markets, but at the same time we have kept a rigid eye on our bottom line, since uncontrolled strides down the path of discounting might compromise long-term prospects.

Going forward, I expect to see continued price competition, especially in the regions I just mentioned. That obviously translates into more pressure on both the top and bottom line, but I am confident that Labatt still has reasonable opportunities for cost reduction, to ensure sustainable profit growth.

I will now ask Graham to proceed with the highlights below EBITDA.

Graham Staley:

Thanks, Miguel.

I would now like to guide you through the main lines between the reported EBIT of R$1.5 billion and the net income of R$449 million, as shown on page 19 of our release.

Other operational expenses amounted to R$444 million in the quarter, compared to R$243 million last year. There are three main items driving this increase.

Firstly, we recognize amortization of the Labatt goodwill based on the future earnings curve. As a result, the charge for the quarter increased from R$242 million last year to R$282 million this year 2007.

Secondly, the 2Q contains two months of amortization of Quinsa goodwill, amounting to R$39 million, and relating to the second part of the acquisition transaction in August 2006. I would like to point out that there will be a change to the way we account for this amortization in the future, given the recent incorporation of BAH.

Following incorporation, Brazilian GAAP requires us to report the goodwill amortization in SG&A depreciation and amortization expense in Brazil. This charge will amount to approximately R$58 million per quarter, going forward.

Finally, we recognized a foreign exchange translation loss on overseas investments, which amounted to R$121 million in the quarter. This is a non-cash, non-tax deductible expense, dependent of course on movements in the value of the Real.

Our net financial result amounted to an expense of R$337 million, mainly impacted by higher interest expenses associated with the Quinsa debentures, which were issued in the 2H06. Our net debt stood at R$8.7 billion at the end of the quarter.

The provision for income tax and social contributions was an expense of R$295 million. The year-on-year increase is the consequence of higher income before taxes, and the inclusion of the InBev Brazil/AmBev merger fiscal benefit in 2Q06, which lowered last year's income tax charge.

On a comparable basis, as shown on page 21 of our release, the inclusion of the InBev Brasil/AmBev merger fiscal benefit would have adjusted the income tax charge to R$207 million in the 2Q.

Earnings per thousand shares in the quarter amounted to R$7.20, a decrease of 3.2% compared to 2Q06 figures. Excluding goodwill amortization, earnings per thousand shares increased 13.1%.

Cash flow remains a top priority for AmBev, and we are delivering good results. As I mentioned earlier, net cash provided by operating activities in the quarter increased by over R$900 million year-over-year.

We remain committed to distributing all excess cash if we cannot identify value enhancing alternative uses within the business. Our payout strategy remains unchanged: interest on capital to the limit and the rest divided into dividends and buybacks.

I would like just to make a few comments on the recently issued bond denominated in Reais. We had an opportunity in the market for this issue, with a 10-year maturity, in order to refinance part of our short term debt. Since we already generate strong cash flow, we chose to give priority to the interest rate rather than the amount of the issue, in order to optimize the creation of shareholder value.

The result was that R$300 million was raised, with an all-time lowest rate for a corporate issue, namely less than 70 bps above the comparable Brazilian government security.

Finally, regarding Sarbanes-Oxley compliance, I am very happy to communicate that we recently received confirmation from our independent auditors stating that, in their opinion, AmBev maintained, in all material respects, effective internal control over financial reporting as of December 31st, 2006.

This represents two years of hard work by many people across the whole Company. We are very pleased to have full SOX compliance, which clearly demonstrates our commitment to financial discipline and good corporate governance.

With those comments, I will now hand back to Nelson and open up for questions.

Robert Ford, Merrill Lynch:

Good day, everybody. Thanks for taking my call, congratulations on another solid quarter. I have a question with respect to Canada; regarding Patricia, I was just looking at some quick numbers, forgive me if I have made a mistake, but I am curious: you have been in Canada for a long time now, and as you take a look at the price structure, if you look at cost of goods sold and SG&A per hectoliter in Canada, it is about 45% higher than the price you get per hectoliter for beer in Brazil, they dwarf the cost structure in Brazil.

And with respects to cost of goods sold, I am just curious: it is almost R$100 per hectoliter, and I was wondering if you could dimension the differences, and where do you think you can bring the cost structure in Canada, given the dramatic disparity in costs.

Miguel Patrício:

Robert, basically, the biggest contributors for what you just mentioned are, first, royalties. We have the AB brands in our portfolio, and Budweiser is the number one brand in Canada, so royalties are a big part of that.

The second one is secondary packaging. In Brazil, you basically sell in crates, or 65% of the volume is in crates, and that does not affect the COGS side. So, secondary packaging is definitely another reason.

The third one is a high share of the imports. These are the basic three reasons; I would not like to comment on the amount, but I think that these are basically the three reasons why it is more expensive than when you compare it with Brazil.

Robert Ford:

But if you look at the price per hectoliter, it seems as if you get more than twice the price of beer in Canada versus Brazil; it should compensate for some of those things, no? And given the pricing differential, one would hope that the EBITDA margins could be similar or greater than those of Brazil. Am I exaggerating, or is the royalties, packaging and the distances that you have to ship Kokanee and Alexander Keith's so big that they offset the price advantage?

Miguel Patrício:

I would not disagree with you, the realities of the two countries are very different, but I think that is one of the reasons why we continue optimistic about reducing costs in Canada going forward.

There are still opportunities, we are looking at them all the time, and we have some left, but yes, there is room to continue extracting costs from the operations, Robert.

Robert Ford:

Thank you very much. And if I may, just one other question: how do you see the role of Lakeport now, as the competitive dynamics continue to remain really tense. You mentioned that you don't want to see price discounts by the market, but simultaneously you seem to have acquired a very powerful asset.

Miguel Patrício:

It is definitely a very powerful asset, the brand is growing, but I would not like, Rob, to comment the actions on pricing and other things for the future, because, of course, I would be disclosing information about what we are going to do. But it is definitely a very powerful brand that we have in our portfolio, and the brand is performing very well, we are very happy with the results.

As I said before, we are now fully integrated with Lakeport, so today it is another brewery that we have in our portfolio, so now we have seven breweries, and one of the brands that we have in our portfolio. And we believe that, from the Lakeport side, we have a lot to extract from costs as well; a lot of efficiencies to bring from the brewery we have with Lakeport as well.

So, we are measuring these things, and of course, focusing on the continued growth of Lakeport in one side, and maximizing the profitability on the cost side on the brewery we have that today produces Lakeport exclusively.

Robert Ford:

Let me ask the question in a much more innocuous way, and that is: is the way you tactically deployed Lakeport in the 2Q predictive of the way it will function in your portfolio, going forward?

Miguel Patrício:

I apologize, but I cannot talk about it. I cannot say it. I apologize about that.

Robert Ford:

I understand. Thank you very much.

Lori Serra, Morgan Stanley:

Good morning. I wanted to ask a bit about the Brazilian beer business. You mentioned in the opening comments that you had gained some share back in July; I wonder if you could share those figures with us.

And, I guess in the 1Q conference call, when you talked about the market share performance, you sounded pretty confident that with tactical sort of small changes, you could gain back market share. I am wondering if three months later you think that you might have to take more aggressive marketing actions to achieve your share goals.

Luiz Fernando Edmond:

First of all, I think we continue to be very confident that we can recover share. We are working very hard, but in the same way we always did, not giving up profitability, not giving up prices, and not dramatically increasing our SG&A or sales expenses to recover the share, although the competitive environment has deteriorated a little bit since the end of last year, and especially in the beginning of this year.

Of course that, as the market is growing, competitors seem to have more resources to invest in the market, especially not increasing prices in the same pace as in the past.

So, our expectations are, of course, based on historical data and behavior of our competitors. Again, we are not happy with the share we have today. We are, in average, when you compare the actual share, which is 67.5% in July, to the average of last year, which was 68.8%, we are still 1.3% below the average.

So, we will continue to work hard, using our tools, using our market knowledge, using our brands, and introducing some new initiatives that have been developed for some time now – but, of course, take some time to mature and roll-out.

And of course, when we look ahead, we believe we can continue to recover. We are not happy with the pace we are recovering, but we continue to believe that the right way to do it is guaranteeing our profitability, and implementing surgical, tactical and long-term structural initiatives.

So, I do not see why we should give up the level of profitability we have today in order to recover share faster than we are, since we believe we have the right tools and the right market programs in the portfolio.

Sometimes, it takes longer than we expect for competitors to react, but we know that they have their own pressures, they have to deliver good results too. So, as they start to do that, we see our performance improving.

And we have to deal with the specific situation we have in some markets. For example, in Rio, which is the worst performance we have today, and recover some specific markets that are not doing well at this point. I am pretty confident that we can continue to grow at the level of profitability that we have today.

Lori Serra:

Thanks for that. And I just wanted to understand a little bit more your comment on SG&A spending. I know it has been a bit uneven, and it is obviously difficult to forecast quarterly numbers; but we do see a pretty large rise in your SG&A in the quarter, given you were comping the World Cup expending, which was, as you said a year ago, pretty elevated.

So, if we look here today, if I am doing the map right, your cash SG&A is up around 12% or 13%. I am wondering if this is a timing issue, just sort of fine and loaded, or whether this is the year where we are going to see SG&A expenses grow at revenue or above it.

Luiz Fernando Edmond:

Year-on-year, if you look at only beer, it is around 80% growth, and there are several effects into this SG&A. So, first of all, you have to consider Cintra, which's SG&A numbers are included this year and not included last year, and would represent around a 2% additional expense.

You have the volume effect. So, although last year the 2Q was very positive, with the World Cup included, this year, even with the tough comp, we had a 3% increase only in the brands we had last year. It would represent around 1% or 2%.

We have the direct distribution, it continues to expand maybe another 1% out of this 8%, and we have some inflation. So, especially the media, to acquire the TV spots and announce on TV became slightly more expensive, since Brazil overall is expanding, is growing.

Not only in the beer industry, but in many industries, more brands are being advertised, giving TV networks more chances to increase prices.

Altogether, I would say that this 8% is in line with our expectations and, going forward, I believe that the 2H of the year will be in line with this kind of growth we had in the 2Q.

Lori Serra:

Thank you very much.

Alex Robarts, Santander:

Hi everybody. I guess I wanted to start off with Quinsa. The question relates really to the lack of, I guess, operating leverage in the beer assets, and EBITDA growing slower than the sales in beer. It seems to be really focused on the labor cost in Argentina.

Is that really going to be kind of an issue that we should be following more attentively in the 2H of the year? And you seemed to mention earlier in the call that you see some kind of challenges up ahead. I am wondering if you could give us some more color about that.

João Castro Neves:

First, to start with the challenges, I think the business model that we have in Argentina is a countrywide government business model, it is a business model where the government will work to increase salaries on real terms. So, they will "sponsor" the labor unions.

You are in a country where 50% of the formal jobs are unionized jobs. So, given that the government, for last year and this year, was pushing for salaries going up, let us say, between 18% and 26%, depending on the industry, on an inflation that is between 10% and 15%, salaries really went up on real terms.

The upside of that is that we are having a very strong volume growth. So, it is a model where we are having higher volumes, given these higher real salaries, but this will, in a way, impact our cost.

So, I do not expect that it will decline our beer EBITDA margin in the year, but I do not expect a strong growth either, given this sort of situation, because when you talk about salaries, you are not talking just about the unionized employees that work for the Company, but you are also talking about truck drivers, that will impact our distribution cost, that will potentially impact the margin of our distributors.

So, this is a big issue. What we are tying to do is to benefit, at the same time, from the higher volumes, and we are trying to contain, as much as possible, on the cost side.

To give you an idea – you probably know, or have heard, or have read – we have already had two important strikes this year in Argentina, given that we are trying for the costs not to have all this impact that I have just mentioned.

I think that other companies in the region are also having this problem; I do not think they are fighting as hard. If other listed companies were fighting in the same way we are fighting, people would have a net-net better benefit, but we are taking care of ours.

So, I think, at the end, that is one of the main challenges. It is really; it will impact reasonably, it will not allow us to expand it a lot, but I do not expect a contraction, we are working not to have a contraction in the year. That is risk number one.

We have a second risk, which is not impacting us as much as this one, but has an important impact, which is the energy crisis. Given that the country has been growing 7%, 8%, 9% for the past four years, it does not have enough energy, mostly gas, to meet all of the demand. This is impacting our cost structure, also. The Government is sending good signals regarding the 2H, they are optimistic that they will have enough energy.

To guarantee that we are not going to loose any sales, we have been buying or renting generators, so, a slight impact on CAPEX and OPEX. That is the second one.

I would say that in Argentina those are probably the two biggest risks, given that the first one also impacts our distributors.

I would summarize saying that this will not have the same impact in the year than it had in the quarter.

The other thing is, when you look at Argertina as a whole, and not just the beer business… Of course soft drinks has been expanding its margin, and we think it can continue to expand, but when you put both businesses together, the business mix of the soft drinks growing faster than beer, it will end up impacting our total EBITDA margin. That is why we are talking about them in separate terms.

Alex Robarts:

OK. That is helpful. And we kind of talked a little bit about this last quarter, but the market share in soft drinks, in Argentina, clearly… It seems that you are gaining in share, and I think you said last quarter that it looked like the B brands were the source of that gain.

Is that still the case, or have you seen some gains versus the Coke bottlers?

João Castro Neves:

If you look at the last three or four years, we have gained on average 0.6% to 0.9%, close to 1%, and that is where we are this year against last year.

But this year, in particular, both us and Coke have been gaining share; B brands have reached close to 25% or 26%. So, it is very close to a... not an "all-time low", but a low given compared to the last four or five years.

So, they have been a source of growth for both of us. We have to remember here that with price controls, people are being able to up-trade, both in beer and soft drinks; our premium brands are growing a lot, because people have enough money to go either from B brands to A brands, or from a brand that they like to more premium brands.

This has happened in the 2Q, and I would say that until the end of the year, we should expect that trend to continue.

When I look at the published volumes from the industry and I look at ours, this will confirm that we are growing faster than the industry, even when we include the A brands.

Alex Robarts:

OK. And I guess that the last, that was more of a clarification back in Canada, and I think… I think what I have heard was that excluding Lakeport, the growth was 6.2%. I just wanted to make sure what did that 6.2% refer to?

And I think you have also said that the Lakeport portfolio was down 1% in volume, and if that is true, if you could give us an explanation about that.

Miguel Patrício:

OK. Alex, confirming what I have said, I said that Labatt EBITDA organic growth was 6.2%, and that excludes the reclassification of the bonus that Graham mentioned before, that accounts for US$7 million, and that excludes the Lakeport brand, which accounts for US$7.5 million.

In terms of volume, what I said before is that in the quarter the industry was flat, and the Labatt portfolio and Lakeport portfolio combined delivered the volume of a 0.9% decline.

Alex Robarts:

And was Lakeport faster or slower than your overall kind of…

Miguel Patrício:

It was faster.

Alex Robarts:

OK. Thank you.

Andrew Holland, Dresdner Kleinworth:

Hi. Two questions. Just an answer to the earlier question on Canada. You highlighted the fact that you have got several breweries in Canada, following the acquisition of Lakeport. I just wondered whether you were sort of hinting that there may be scope for further capacity reductions to boost margins in that market.

And secondly, could you give an idea of when you plan to introduce zero-base budgeting in Quinsa? I believe I am right in thinking you have not already done so; and what you might think the sort of cost saving potential from doing that could be, and when do you get the benefit?

Miguel Patrício:

Regarding the breweries, or regarding Canada, the Lakeport brewery is in Hamilton, it is pretty close to our brewery in London. However, we are running almost at full capacity today in Hamilton. And we closed, last year, a plant here in Toronto.

So, at this time, this is the footprint that we believe we have to run with. We do not have any intention to close any of our breweries. Of course that we will always be looking for opportunities for the future, but at this moment we do not foresee any brewery closure.

João, go ahead on the Argentinean part.

João Castro Neves:

Well, quickly could you just repeat the second part? You mean if we are bringing the same sort of programs to Quinsa, was that what you referred to?

Andrew Holland:

Yes, and just on sort of why InBev platform... Obviously you have been rolling out ZBB first in Canada, and at the InBev level, in Europe. I am just wondering when that program is likely to be introduced into Quinsa.

João Castro Neves:

Sure. Well, first of all, I think we have briefly mentioned this in the previous quarter: we are in the process of implementing both the shared service concept, as well as the ZBB concept here at Quinsa.

You also have to take into consideration that we have been here at Quinsa not on a full-control basis, since 2003. Do, a lot of the programs that we see at the InBev level, as you have mentioned, to use the same words, they are not so new here as they were maybe to Canada, or they are maybe to some of the zones of InBev.

But we definitely see the benefits of fully implementing these programs; we are in the process of doing that, but I think this is a comment, when I compare to Miguel's situation or to Canada, we are right now at the process, in terms of when we look at capacity or plants, we are, I would say, expanding, growing, either new plants or further expanding existing plants, in terms of CAPEX or in terms of total production.

But the concept and the culture of being as lean as possible is something that we are working on, and I am sure we will yield further benefits to our results.

Andrew Holland:

Can you give an idea of when you think those benefits might come through? Is that a 2008, or even 2009, prospect?

João Castro Neves:

Yes, most of those programs will be implemented by the end of this year. I think, the counterpart – of course I think some of that will already help our results in 2007, from the future side – but I think the harder figure benefits will be more into 2008.

Andrew Holland:

OK. Thank you.

Lori Serra, Morgan Stanley:

Hi. I have two follow-ups, one in Canada, one in Brazil. Let me ask Canada first.

My question on Canada, is to understand whether you see the competitive environment worsening. I know that one of the benefits of having bought Lakeport was to see some share of the growth in the value segment of Ontario, which has been, as you have pointed out many times, the fastest growing part of the beer market in eastern Canada.

So, to see a 0.9% decline in the combined portfolio, obviously, I think, implies weakness in the ex-Lakeport portfolio.

At the same time, you acknowledged on the call that you are doing very well with light beers, and a year ago you had pretty good volume growth.

So, I know there is a lot of stuff there, and there are things that are hard to sort of fully disclose, but can you give us a sense of whether this is just a tough comp for the 2Q, or whether you see the competitive environment really worsening in Canada.

Miguel Patrício:

Hi. I do not see reasons to believe that the 2H of the year is going to be better, or even equal to what we had in the 1H. I see every day more… especially price competition in place. Definitely, we have different models, ourselves and our competitors. The results are very different, year to date, and I receive news every day of the market being more competitive in pricing. Especially this year, Quebec has been the ground on this account. Our competitors are being very, very aggressive on that region.

Well, you mentioned competition; if you look at our model, year to date – so, the 1H of the year – if we compare numbers, the EBIT growth of Labatt, excluding Lakeport and excluding the bonus that I have mentioned before, we are about 13.7% above last year, in EBIT. And our competitors are 1.5% below last year.

So, it is definitely a different model. We definitely have different models of operating in Canada. I wish we had a more stable market place in terms of pricing, but to tell you the truth, I do not see any reason to believe that is going to happen.

My expectation is that the 2H is going to be harder than the 1H.

Lori Serra:

Thanks, that is very helpful. And I guess a similar question on the soft drink market in Brazil.

You mentioned during the opening comments about sort of stepped-up activities from the successful launch you have had in H2OH!, and some more from market activities.

I would love to understand better how much of that you think is just sort of normal, kind of competitive dynamics, versus a signal of a more price-based market in the 2H07.

Luiz Fernando Edmond:

Lori, to be honest, it is difficult to predict what is going to happen in the 2H of the year, since… The H2OH! launch was very successful, really transformed the market in Brazil, creating a new segment. We achieved market share in the Rio market, in the São Paulo market. If you take the diet segment, we took 1/3 of the segment only with one brand, which was very significant.

And, of course, our competitors were very concerned about that and started to react, not only with their flagship brand, but with a lemon brand, and flavored brands. Because I believe they did not know how far we could go with the launch of H2OH! and, of course, it took them some time to react, launching their own brand to compete against H2OH!.

I think part of the price activity was related to this market share pressure in the short term not to lose market share. And I think they did; they were successful in keeping, and even growing their share, while we launched H2OH!.

So, from now on, I would expect a more rational behavior. Of course we are implementing new initiatives, with the package portfolio, with the price points, with more packs. Specifically in some markets, not across the country. But we have to wait and see.

As I said, we are monitoring specifically the activities against Guaraná Antarctica, which is our biggest and most profitable brand. We have not given up any share on Guaraná

Antarctica, we will fight to get back the share we lost, which was compensated by the other brands, but we will fight to get it back, since it is the most important brand we have.

And, specifically, not letting them open the price gap. So, of course, as followers that we are in the soft drinks, we will try to set our price in the right reference to guarantee the share level we have always had with Guaraná Antarctica.

It is difficult to predict; there are some sugar pressures. But on the other hand, the currency is favorable. At this point, we are very profitable, the business is performing very well, the volume is growing, the market is growing, but market share-wise, specifically in Guaraná Antarctica, we are not happy.

So, we have already implemented initiatives, and if they work it is enough for us But let us see how the reaction is in the next two or three months; maybe during the 3Q results' announcement I can get into more details for you.

Lori Serra:

Terrific, thank you very much.

Celso Sanchez, Citigroup:

Good morning. I just wanted to ask some questions on Cintra. I think I understand correctly that the volumes that you have for Cintra could go away if a buyer is later this year – for some reason, October stands in my mind.

Can you please confirm if that is true, and what your expectation is of the impact that that might have on your operational costs if those volumes go away? It seems to me, as already commented, that the COGS per hectoliter, certainly in beer, also reflected some cost with Cintra, even though that was not specifically cited in the press release.

Can you give us…?

Luiz Fernando Edmond:

I will explain you Cintra's situation, and them Graham can expand on the COGS results.

Mr. Cintra has, until October 28, the rights to sell Cintra to anyone, if he wants to. So, during the negotiation period, we decided that he would have this alternative, with a period that finishes in the end of October.

At this point, he is unable to sell the brand, we have the rights to acquire the brand at a US$10 million cost, meaning that we would, then, incorporate the brand into our portfolio. Of course, still having to discuss with the antitrust authorities what the outcome of this discussion will be.

But in the meantime what happens is: we have Cintra as any of our brands, with revenues, costs, shares, and everything else. So, at the end of October, if we sell the brand, it will not belong to us anymore; and if we keep the brand, then going forward the Cintra brand will be definitely incorporated to our portfolio.

I know sometimes it is difficult to explain that, because we do not have the rights of the brand but we have the results of the brand until October 28th. If we keep the brand, that is the scenario going forward in terms of revenues, volumes and everything else. If we sell the brand, then you can consider that as a negative impact in our results, since the Cintra volume is a positive contributor to our EBITDA.

Is that OK for you? Do you have any questions on that, or can we move to the COGS?

Celso Sanchez:

Actually, if you do not mind, before we do: obviously that is a positive contributor to the revenues, but obviously it also have costs components. And presumably the operation was run at a margin lower than yours, so the point is: it is dilutive to margins as long as it incorporated in your results, not just at the SG&A, but also the COGS level, correct?

Luiz Fernando Edmond:

It is 100% included in our results, so consider as we had Cintra 100% of the Quinsa operations now incorporated into the AmBev operations, that is what you have to do. So, 100% of every single number, volumes, revenues, COGS, SG&A, are now incorporated to our results.

Celso Sanchez:

Right; and presumably, again, I said dilutive meaning at a lower margin, because presumably the operation that you have acquired and Cintra was the less profitable.

Luiz Fernando Edmond:

Absolutely right.

Celso Sanchez:

And actually, Graham, if you could quantify the extent to which the COGS... Was the COGS disproportionably affected by that? Because I guess it was a little bit higher than I thought it was. Or, conversely, the gross margin did not expand quite much as I thought it might this quarter.

Graham Staley:

Good afternoon. There is not a huge impact of Cintra in the COGS story here. COGS per hectoliter in the quarter, I think, were up 2.8%. When you look at 2Q versus 1Q, you see that the growth over the quarter was closer to 5%, 4.7% or 4.8%, I do not remember.

The story there is that there is a number of factors. One of the factors is not commodities, there is no significant change on commodities, but we do have new 18-packs on beer, and obviously there is freight cost and packaging cost associated with that.

There were some pressures on some of the adjuncts we use in production of beer. Again, these are small items, but when you add them together you have an impact. Cintra, of course, added some fixed costs as we took on to breweries, and those fixed costs find their way into the COGS.

I suppose, if you look at the quarter, thinking about this a little bit more, we are building up, ready for the summer. And so we are incurring costs, some fixed costs that reflect in costs of goods sold, in preparation for the summer, we have to carry those COGS during the 2Q.

And there is some general increase on pressure on COGS, because as Luiz was saying, as the economy grows and prospers, and as resources become more a lit bit more scarce, even people resources. that put a lit bit of pressure on COGS.

Against that, working in favor of 1Q, it was a big amount in terms of volume, I think it was more than 10% higher than the 2Q in terms of volume. So because some these COGS are fixed in nature, there was some extra absorption on fixed costs on a per-hectoliter basis in the 1Q compared to the 2Q.

So, when you add all those together, probably six or seven items, that gives you that increase cost of goods versus the 1Q. But nothing in isolation is of any concern for us, and we will look forward just to continue to work on that, as we go through the year.

Celso Sanchez:

Still talking about COGS, if we could a little bit more, going to the 2H of the year, obviously you disclosed in the past that you have a hedge in place, we have an idea of the terms of that. The increment of volume for Cintra, have you accounted for that, at least until October 28th? And was it actually hedged on volume or not? I guess, if you could offer any perspective, presumably you have already worked your way into 2008, I imagine.

Graham Staley:

I mean, to be honest, Cintra volumes is not a significant enough factor to influence the hedging strategy. You know, you always have ups and downs on hedging strategies and there is no significant difference there.

In terms of 2008, yes, we are willing to consider a strategy for 2008. We will certainly in the 3Q give the same sort of disclosure we gave last year in 3Q, so that you that you can build that into your financial models.

But the environment still remains positive for us, in terms of currency and sugar. Aluminum is one that we are sorting out carefully, because that is bobbing around a little bit.

But we will give you full disclosure in the 3Q, so that you can build that into your models for 2008, but no change to forecast for 2007, what we disclosed in the 3Q06 still remains and we still expect a good upside in cost of goods, for both beer and soft drinks in the 2H07.

Celso Sanchez:

Pretty good. Thank you.

Trevor Stirling, Sanford Bernstein:

Most of the questions were answered but one very quick. You mentioned that the Cintra volumes and revenues were included in this quarter’s numbers. Are the Cintra volumes included in the Nielsen quoted share of 67.3?

Luiz Fernando Edmond:

No, they are not.

Trevor Stirling:

OK. Could tell me what is the underlying market growth was for the quarter?

Luiz Fernando Edmond:

We do not disclose that, because the market growth... You have to take the Nielsen reports, they are in line with the share reports but not necessarily the real market growth. So, it is a research that they give the number. But we prefer not to disclose that, because you can take it as a 100% certain number, and it is not necessarily, so, we do not like the comparisons.

To be honest, if you tell everyone that has ever looked at these numbers, they will compare the figures we have, which are absolutely real, because they are in our reports, in our accountings, and when you compare they not necessarily will match. They can match over the year, they can match over the months, but not necessarily in a quarterly basis.

Sometimes they are positive, sometimes they are negative, we respect Nielsen, we use them a lot. Sometimes we do not like the results, sometimes they match 100%, sometimes they do not. So, we prefer not to disclose this market growth, since we do not have an industry market growth, like in other countries.

Unfortunately, in Brazil the industry has never gone into an agreement to share the real numbers and, of course, AmBev is the only one that is a public and listed company, so we have to, but that is all we can say.

Celso Sanchez, Citigroup:

Sorry, just a follow-up, I did not have a chance to ask João this, on the Quinsa and on Quilmes, actually in Argentina, one of the things that strikes me is not so much the cost savings potential, but rather the revenues side in terms of some of the more focused mechanisms that you have been using for a while in Brazil, the marginal contribution of the macro base dropping.

Can you give us a bit of a feel for where you are in that process? Do you feel that the sales incentive structure is where it needs to be now, or are you still working your way towards one that is more in line with sort of the AmBev possibility goals rather than just volume goals?

João Castro Neves:

OK. Well, Celso, I think two comments there. We are definitely moving, we are doing things in this 2H, for example, in terms of promotion, in terms of incentives to the sales forces, incentives to distributors, things that we have done in the past in Brazil that we have never done here.

So definitely there are new things, new tools that we have been using On the last call I think we mentioned some of the revenue management techniques, and going through the details on prices and things like that.

Now we are going on to the variable remuneration of the salespeople, and going on to the sort of promotions that will be an incentive to them. So, this is still going on. I think the 2H will demonstrate further advantages from that, as, for sure, next year.

But I also think that in this 2H, especially by what did in the 1H, at the same time that we have been working together with the government, of course, to fight inflation, and we try to do our part to help that, we have at the same time been working with them to find some possibility to recover for the cost pressure, that we are not just facing, but is actually impacting our results.

The government does understand that, and besides all the revenue management techniques and promotions and incentives to the sales force, we have been also finding some room to discuss, and sometimes implement, price increase that in the beginning of the year we did not think would be possible.

So, we are benefiting from both plans, in most cases we continue to have the same policy that we adopted in the past in Brazil, which is to have prices to grow in line with the inflation. We have prepared ourselves to have prices below inflation in Argentina this year, but we continue to work to have a net impact to be in line with the inflation.

Celso Sanchez:

In other words, mixed benefits, or whatever?

João Castro Neves:

Whether it is from a new price increase that the government will allow us to do, whether it is from the growth that I mentioned of 82% coming from Stella and from the dark beer. For the dark beer that we have launched last year, which is doing really well in this semester and composed 82%, we have a price which is well above our Quilmes Cristal brand, which is, you know, a mainstream here, that if we compared to Brazil, has this kind of Skol price position.

So, we have Quilmes at 100%, and you have both Quilmes Boch and Quilmes Stout at above 110%, above 115%, and you would have Stella at 135%. So, when you have this volume growing at 82% against last year, you also benefit from that.

So, it is a combination of this growth and the up-trading to premium brands. Also the other initiatives that we mentioned, but also working with the government to find some price increase to recover also from some or all of the cost hikes.

So, these three things together will help us to probably have better pricing results on a net price per hectoliter, that we had thought about in the beginning of the year.

Operator:

Thank you. This thus concludes the Q&A session. I will now turn the floor back to Mr. Graham Staley, for any closing remarks.

Graham Staley:

Thank you, Nelson. I would just like to thank everyone for attending this morning and for your insight and your questions. I looking forward to speaking to all of you again during the 3Q release and conference call, which I think will be on November the 8th. Thank you very much and have a great day.

Operator:

Thank you. This thus concludes today's AmBev 2Q07 earnings conference call. You may disconnect your lines at this time, and have a wonderful day