AMBEV

AmBev First Quarter 2002 Earnings Results

05/07/02

Date of Transcription: May 13, 2002

Operator: Good morning ladies and gentlemen. At this time, I would like to welcome everyone to the AmBev conference call to discuss the first quarter 2002 earnings results. The audio for this conference is being broadcasted simultaneously through the Internet and the website www.Ambev-IR.com. We inform that all participants will only be able to listen to the conference during the company's presentation. After the company's remarks are over there will be a question and answer period. At that time, further instructions will be given. Should any participant need assistance during the conference, please press star zero for an operator.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of AmBev management, and on information currently available to the company.

Forward-looking statements are not guarantees of performance. 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 operator 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'll turn the conference over to Mr. Telles, Co-Chairman of the Board of Directors. Mr. Telles, you may begin your conference.

Marcel Telles: Thank you and good morning everyone. Participating with me in the conference call today is our CFO, Felipe Dutra, our Sales Director, Carlos Brito, our Soft Drinks Director Juan Vergara, and from our Investor Relations Department, Dana and Alexandre.

Before getting into the results of the first quarter I would like to announce some recent management changes. Our Sales Director, Carlos Brito was promoted to a newly created position, Director of Operations, which continues to report to AmBev's CEO, Magim Rodriguez. Brito will oversee three areas: Human Resources that we call people here, all manufacturing, and all the logistics. Our Direct Distribution Director, Luis Fernando Edmond, who previously reported to Brito will become the new Sales Director.

So, now let's move to the results. This quarter was a hard one as it was expected. Brazilian beer and soft drinks volumes were 12% and 7%, respectively, below the year ago quarter.

However, despite weak volumes we grew our consolidated EBITDA by 14%. This was our 11^{th} quarter in a row with double digit EBITDA growth. Also, our EVA grew 21% to reach $116 million compared to $96 million in the first quarter of 2001.

Flat volumes in April are the evidence of a gradual recovery and point to stable volumes for the full year.

We also successful maintained in our revenues per hectolitre in the same level of the first quarter of 2001; however, we are still not comfortable with consumers' prices and we are still very focused on capturing cost reduction opportunities.

Although we are very, very excited by this strategic alliance with Quinsa that we see as accreative for shareholders of both companies. I would like to reemphasize that our growth strategies continues to be focused in Brazil and based primarily on 1) increasing per capita consumption; 2) improving revenue management; 3) developing the soft drink business taking advantage of the know-how acquired in the beer business and the synergies that we have with this business; 4) maximizing the efficiency of our distribution network; and finally, managing our costs to ensure the profitability levels that we are capable of achieving.

With Quilmes, we see huge potential for shareholder value through first our strengthened competitive position in Latin America, and also huge synergies, not only on the cost side, but also long term, top line growth.

I will now ask Brito to talk about our beer business.

Carlos Brito: Hello, everyone. Good morning. In the first quarter, although beer volumes were down 12%, we increased our EBITDA by 17% and EBITDA margins by 2% points reaching 39%. In April, our sales regained some momentum and volumes were flat with April last year. We maintain our internal target of stable beer volumes for this year.

In this first quarter, we also kept our net revenues at R$92 per hectolitre level. In terms of market share, we did lose some share this quarter from 68.5% in December to 67.5% in March, all of it to Kaiser, our competitor.

One thing to mention is that Kaiser was for sale recently and invested a lot in marketing and supermarket pricing activities as shown by Nielsen in this first quarter. We decided not to react since we believe this was an effort to sell the company. Most of our share loss took place in supermarkets, our least profitable channel.

The recent share loss also reflects what happened in the end of 2001 and beginning of this year when we let our prices to consumer grow more than our prices to retailers. We’re confident, though, that are execution of rolling back consumer prices should begin to yield some results share-wise pretty soon.

Our internal target continues to recover the share we lost while keeping the profitability levels we achieved; or to put in a different way, we’re going to bring increasing levels of quality to our new EBITDA level.

In summary, our focus for 2002 is to regain control of the prices to consumers by rolling them back where they should be, increase the vision of our product even further, and continue to devise every way of using the AmBev brands and market execution capability to possibly block the recent growth in the low price beer brands.

Now Juan will walk you through our soft drinks results.

Juan Vergara: Thank you and good morning. Soft Drink volumes in Brazil declined 7% in the first quarter; volumes of the core brands that were Antarctica, Pepsi and Sukita, those outperformed portfolio as a whole declining only 4.1%; and Guaraná

Antarctica remained flat in the quarter when we compare that to the same period last year. Net sales for hectolitre grew 10.5% during the quarter. We have continued to successfully close the price gap between Guaraná Antarctica and the market leader as well as the gap between Pepsi and Guaraná Antarctica. We are substantially there on the single serve, but we still have room to grow on the PET two litres bottles.

The dollar affects our cash costs of goods sold per hectolitre which was nearly 10.9% above last year at R$36.4. EBITDA from the soft drink segment was R$21.4 million. That's 0.4% below the first quarter of 2001. EBITDA margins of 8.8% for the quarter were slightly below last year's first quarter of 9.1%.

On the innovation front, during the first quarter we added three premium price brands to our portfolio. Gatorade by AmBev, which is undergoing normal caterpillars process, is now handled nationally by AmBev through its regular channels and also through authorized sales and distribution system.

On CSD's, we introduced Pepsi Twist in Rio Grande do Sul, in the south of Brazil in January, and Mountain Dew in the city of Campinas, state of São Paulo, during March. Both of those exclusively in single serve presentations. (The results in the South) have pretty good as forecasted, and we have now rolled out Pepsi Twist through the state of São Paulo, end of last month - April.

Regarding our efforts to take Guaraná Antarctica global, we had a very successful launch in Portugal June last year, and we now launched Guaraná Antarctica in Puerto Rico and Spain during the beginning of this year. And we will also be re-launching it soon in Japan with Arai Shoji, very long-term partner that has been representing our Guaraná Antarctica in Japan for over 20 years.

I will now pass it on to Felipe.

Felipe Dutra: Thank you and good morning, everyone. I'd like to start by discussing our costs this quarter. The Real devalued an average of 18% against the dollar in the first quarter, comparing to the same period last year. This was by far the most important impact on our costs per hectolitre. We're presenting an increase of 12% from last year's first quarter.

On a per hectolitre basis, raw material and packaging costs increased 20% and 10%, respectively. Additionally, labor costs per hectolitre increased 27% being highly impacted by lower volumes as most of our labor costs is fixed.

Our selling expenses rose 19% in the quarter compared to the year-ago quarter since promotional spending on our beer and soft brands was higher in order to support the higher level of net revenue per hectolitre.

For example, the Brahma brand is sponsoring promotions associated with the World Cup, as well as Guaraná Antarctica, which is the official sponsor of the Brazilian national soccer team. However, as a percentage of sales, they remain practically stable as 11% of sales.

Additionally, we had nonrecurring expenses, around R$15 million related to the creation of the shared services center. We reported net financial expenses of R$129 million compared to R$77 million in the first quarter of 2001.

Our interest expense was R$43 million above the first quarter of last year reaching R$98 million. One of the reasons for this is the higher average level of net debt, which rated R$2.2 billion compared to R$2 billion in December, and R$1.5 billion in the first quarter last year.

Increasing net debt despite cash generation provided by operations activities of R$400 million during this quarter is mainly from mandatory dividends of R$180 million and the buyback program that amounted to R$275 million.

Despite this higher level of leverage, we reinforced our commitment to our capital structure targets as follows: net debt to EBITDA below two times. We are at the 1.1 times level and net interest corporate ratio above five times. We are currently at this 23 plus times. And finally, the net debt to equity at the 65% range. We are a little bit higher due to the recent payout of mandatory dividends and share by debt quarter. By year-end, we expect to be within our comfort range.

This year we expected to pay down R$1.5 billion in short term debt of which nearly R$280 million have already been paid down as of March 31st. The proceeds of the bond will fund R$560 million of this short-term debt reduction. And the remaining amount of the short-term debt payment will be financed by our cash flow generation.

Our debt continues to be fully hedge, and also as we said last quarter, considering that we would prefer to avoid the impact of clearancy, volatility, on consumer prices in 2002 and that we found the spot price of R$2.3 level attractive, we have now fully hedged our available cost exposure against currency volatility for 2002.

Giving you a brief overview of some of the many items that affected or net income, which fell slightly this quarter to R$223 million, the net financial results, I've already mentioned above, provisions that total R$39 million, R$30 million above the year ago quarter, related to write downs of obsolete bottles, crates and assets. Our non-operating loss of R$6 million was registered during the quarter on the sale of assets and profit sharing and contribution, which totaled R$25 million this quarter.

Thank you and we will now take any questions that you might have.

Operator: At this time, if you would like to ask a question, please press star then the number one on your telephone keypad. If you would like to withdraw your question, press star two. If you are using a speakerphone, please pick up your handset before asking your question. One moment while we compile the Q&A roster.

Your first question comes from Carlos Laboy of Bear Stearns.

Carlos Laboy: Yes, good morning. I was hoping you could give us some additional detail on the mechanism by which the Quilmes shares can be put to you in the future by the majority owners. Maybe some color on the valuation parameters of these transactions and some detail on how the Quilmes' debt gets treated as you acquire control of this or some of these puts get exercised.

Marcel Telles: Carlos, good morning. Marcel here. I'll have to apologize to you and to all the others that would like to know more about the transaction. The fact is that we're filing until the end of the week, until Friday, the SEC and for the sake of fair disclosure, we don't want to comment on any details of the transaction until the documents and other information are public.

After that, not only our Investor Department will be fully available as we'll try to reach both investors and analysts in the more organized fashion. But in this conference call, and again I apologize to you and all others, we won't comment anything other than you already have seen in the press release.

Carlos Laboy: Okay. Thank you. Perhaps Brito can talk to us in a little bit more detail about the difficulty that you would seem to have encountered in the supermarket channel.

Carlos Brito: Yeah, hi Carlos. As I mentioned in my brief speech here, introductory speech, we've seen a lot of activity in this first quarter from the Kaiser brand, and we believe that activity was highly had to do a lot with the fact that they were for sale and they were trying to, I think, put their share up. I don't see this Kaiser price activity as sustainable because, of course, they have similar costs as we do, and we've also got impact from point exchange and costs and everything.

Also they had, if you look at share voice in terms of marketing expenditures, they hold a 45% share voice in the first quarter which is completely disproportionate to the share they have in the marketplace, and we also think they invest a lot of their yearly budget market-wise in this first quarter.

So, on the Kaiser front, we sit at now with the Molson acquisition. From what we know about Molson Canada, we think they're a much more rational player and we think the supermarket activity will be less and less as we go to the second quarter. That's our belief.

Carlos Laboy: Thank you.

Carlos Brito: You're welcome.

Operator: Your next question comes from Marco Vera of Deutsche Bank.

Marco Vera: Hi. Good morning. You guys are reiterating in the press release a flat volume growth expectation and making the numbers work is obviously not easy. Can you please elaborate on what it is that you are seeing out there which feeds into this confidence and why you would be expecting such increased levels of growth going into the second half? Whether this is supported by empirical evidence or simply what you're seeing out there? And also an update as to how you're doing in consumer prices rollbacks.

Carlos Brito: Yeah, hi, Marco. This is Brito again. In terms of volume, we had anticipated that this first quarter was a very unfavorable comparison to last year because last year we had a first quarter that was really much better than all the others quarters of 2001. So, from now on we're going to have a, I wouldn't say easy comparison, but at least not as an unfavorable comparison as we had in the first quarter.

Not only that, but we also believe that the rolling back of prices at consumer levels at point of sales would also start to give us some incremental volumes and we started all this rolling back activity of consumer prices we started this mid-February and March. So, I think by next quarter when we have our next conference call I believe we will have some numbers to share with you on how well those activities are performing, and how well volume is performing.

But right now we continue to believe that we'll be able to work this year with flat volumes despite the first quarter, and that our rolling back of consumer prices will start to yield some results pretty soon. So, by the next conference call I believe we'll have some more numbers to share with you.

Marco Vera: Do you have a number, I'm sure an estimate for year to date rollback in the average pricing to the end consumer?

Carlos Brito: We have, but, again, it's still a very non-consolidated number because, again, different activities in different regions started in different times so we had things starting in February, some others in March. So, if I add those numbers it's going to come up to something very hard to draw any conclusion from. So, again, I'd rather share those numbers with you as we have two or three months of these activities by next conference call.

Marco Vera: Thank you.

Carlos Brito: Thank you.

Operator: Your next question comes from Lore Serra of Morgan Stanley.

Lore Serra: Great. Yes, I guess it's a follow on to this question. Could you give us a sense of some of the techniques you're using in order to rollback pricing? And I guess a second question I have is given that you've seen April volumes turn flat when, you know, these programs you're talking about are just being put into place, does that make you reassess that goal of taking pricing down to the consumer level by 6% to 9%? I mean is it really as broad based as that or is it really much more an issue of specific market, specific products, and maybe not such a broad based price decrease that you need to see in the market?

Carlos Brito: Right now as we unfold this program to other regions, we're doing as you said in a very focused way because we don't believe in spreading discounts all over the market across the board. We've seen that in the past. It doesn't work. What works is to use a database of point of sales and try to see which point of sales, which regions we lost share to our competition, which point of sales are important to our competitors, and try to be very specific in addressing those point of sales with some discounting policy. And while doing the discounting policy, we tried to get the point of sales with us to use this margin as well, and also some of our distributors' margin as well.

So, that's the way we're doing very careful because we want to make sure that first discounting activity that's very focused is getting to the consumer, so we've got to make sure that's not going to stop in the wholesaler or the point of sale level as we've seen in the past.

Lore Serra: Okay. But, are you using similar techniques that you used last year like the coolers and the price banners?

Carlos Brito: Yeah, exactly right. Exactly right. Point well taken. When I said we're doing this in a very focused way is because we believe because it worked in the past. When you do that in point of sales that we call Anchor point of sales, you do have the capacity of influencing at the point of sales and how to price our products. And since our products always command a higher margin than competing beer brands at the point of sale level, there is room there for the point of sale to reassess it price points and it's heavily influenced by it's neighbors via those banners.

Also, we have the cooler program that continues to be rolled out. We have approximately 80,000 coolers in the marketplace and we continue to rollout this program. This first quarter we had 7,000 additional coolers installed, and our goal continues to be to reach 150,000 coolers by in the next 15 months or so.

Lore Serra: Great.

Carlos Brito: So, putting all those activities together, again, we want to block these low price beers in a profitable way because blocking those guys with price activities across the board is the easy way of doing it. Anybody can do it. But we think with our brands, with our market execution, and with our systems with information from 500,000 plus point of sales we can do it in a profitable way. That's our target.

Lore Serra: Okay. And just one quick follow up and another question. You're still sticking to the view that you need to reduce consumer prices by 5% to 10%? And then, that's one question, and the other is just in Argentina I was impressed by how profitable you were given the adversity in Argentina and the quarter. And if we just look at the existing operation in Argentina could you give us a sense of what you think is feasible for full year in terms of EBITDA for this franchise if it were to operate if it were to operate on a stand alone basis? Thanks.

Carlos Brito: To answer your first question, yeah, it continues to be 5% to 10% consumer price rollback, again, in the focus point of sales and the anchor point of sales. And that continues to be our target.

In terms of Argentina, Marcel can help you out on that.

Marcel Telles: It's a forecast and we're in such a volatile situation, but we were working with a forecast of around $6 million for the full year in EBITDA.

Lore Serra: Thank you.

Operator: Your next question comes from Alex Robarts of Santander.

Alex Robarts: Hi. Santander. Good morning. I wanted to first of all ask a little bit of some, get some more color on the strategy as you talked about to block the discount brands. I mean clearly the roll back is something that you guys are doing. In Chile and Argentina, we also see brewers will near monopoly market shares work really with segmenting their own products of portfolio, and I'm wondering has this occurred to you and is this maybe an idea that you could pursue as far as broadening your own beer product portfolio to get products that are in price points down by where Bavaria, Schincariol, Belco and these other brands are operating. I mean is that something that you've looked at?

Marcel Telles: Marcel here. I see that you've pointed to a very smart market strategy cemented by Quilmes against basically our sales sense and Warsteiner in Argentina, and it's a smart move when you have competitors that basically play on a level playing field. So, both our sales and Warsteiner, we're going to pay taxes; we have to be accountable to our shareholders and so on.

Here in Brazil the problem with the price brands quite frankly is that they evade taxes. And when you evade taxes in a country where taxes are 100% of your net revenues - - the amount you pay in tax totally is exactly same amount you collect in net revenue, there's no way you can do a portfolio strategy just because you can't afford it. So, we'll basically, Brito will elaborate on that, but we'll basically stick to our point of having the best brands at an affordable price with different positioning and having a superb execution both in terms of marketing and the point of sale because quite frankly competing in price with someone that can give and can sell their view of the beer whole price is very, very tough. Maybe Brito wants to say more.

Carlos Brito: I think just to give you some color as you said on the kind of activities we're doing, for example we do have this database of 500,000 plus point of sales that we do research on a quarterly basis with information from all our beer brands and the other guys' beer brands. And based on that database, we do run per region about 50 models on how our beer brands behave share wise at a different price point levels. So, as to get to what the ideal price point to consumer that our beer has to have in that specific region to be able to recover what was lost in the past few months.

So, again, it's a very point of sale by point of sale, region-by-region, brand-by-brand type of work because, again, we want to block these guys and recover our share while keeping the profitability levels with concrete. So, it's a tough way of doing it, but that's the way AmBev does it. So, we'll never do it in a different way.

Alex Robarts: Okay. And I guess the second question is really on the cost side perhaps for Felipe. You know, the sales basically in the quarter was up 10%; SG&A up 19 as you mentioned, but cost of sale excluding depreciation flat. And this is really where we saw the EBITDA coming from. And then as you talked about the labor and raw material all those increased, but there was an item that really explained the whole difference called other, and that fell, I guess in your press release, it says 18%. And that was about 12% of the total cost of cash costs of sales. What was going on in this account that you call other? Maybe you could kind of help us a little bit to how to look at that going forward and what is inside other?

Felipe Dutra: Inside others we have the electricity costs from the energy rationing. We had to generate using mobile generators and so on. That's what affected the others item.

Alex Robarts: Okay. I'm sorry? Yeah. So, last year other increased during the year every quarter about 50%. Do you think then going forward now you'll see kind of a similar kind of a 20% decrease every quarter in that item?

Felipe Dutra: I'm not sure I follow you, Alex. You mention about the cost of goods sold or SG&A?

Alex Robarts: No, about this other item. In other words, this piece of cost of sales that you're saying decreased because of the electricity rationing program difference. Correct?

Felipe Dutra: Correct, from the cost of goods sold.

Alex Robarts: Right. So, going forward then are we going to be expecting this other line item in costs of sales to be kind of decreasing in this 15% to 20% range? Because I mean last year other increased 50%, so I'm just wondering if that, I mean increase that, so should we expect that kind of decrease for the rest of the year?

Felipe Dutra: On a hectolitre basis, the other items inside the cost of goods sold decreased 8% comparing to first quarter last year. Right now is R$4.6 per hectolitre and we expect we will remain almost the same for the entire year.

Alex Robarts: Okay. So, on an absolute basis, I mean not on per hectolitre, you would expect that other to basically end up the year around 16% or 15% to 20% lower than other on an absolute basis last year. Is that a fair assumption?

Felipe Dutra: On absolute figure, you have to take into account the volumes. Right.

Alex Robarts: Right.

Felipe Dutra: Then we'll flow following the volumes.

Alex Robarts: Okay.

Marcel Telles: You can use this per hectolitre figure and times your assumption of volume to determine what will happen in absolute terms. You're right.

Alex Robarts: Okay. So, the trend is downward. That was what I was going for.

Marcel Telles: Thank you.

Alex Robarts: Thank you.

Marcel Telles: As volumes increase.

Alex Robarts: Okay. Okay. Thank you very much.

Operator: Your next question comes from Ricardo Fernandez of CLSA.

Ricardo Fernandez: Yeah. Good morning. You mentioned that you hedged all your variable costs at 2.3. How much is that going to cost -- or how much will that cost during the year? And I'm assuming that's going to be shown in financial expenses.

And the second question was regarding the net debt reduction. Taking into consideration $345.5 million that has to be paid for the Quinsa transaction. Is that still within reason or, you know, can you shed some light on how exactly you can do that for this year?

Felipe Dutra: Hi, this is Felipe. Starting from your first question, basically the 2.3 achieved rates is the spot price exchange rate. If we entered into forward agreements, the cost of being hedged would be the interest rate differential between Brazil and U.S. Adding back the cost of being hedged, the average exchange rate should be close to 2.40, 2.42, instead of the 2.30 which is the, or was the spot price at the time we did the hedge. Right?

Ricardo Fernandez: Okay.

Felipe Dutra: Okay. And your second question is related to the capital structure after the Quinsa deal and we're still maintaining this R$1 to R$1.5 billion short-term debt pay down despite this deal. In the next quarter, US$ 346 million will be used to acquire part of the shares.

Ricardo Fernandez: Okay. And does this preclude anymore buy back programs or is there room for any further buyback programs under this net debt reduction plan?

Felipe Dutra: This buyback program is driven by our capital structure targets. Then we will have to think about the AmBev, let's say new entity after Quinsa and we will be booking Quinsa results line by line according to our stake in that company which is 37.5%. Then basically we have our commitment in terms of leverage and in terms of capital structure, and we will maintain that.

Ricardo Fernandez: Okay.

Felipe Dutra: And then if we have additional room for additional buyback program or despite any consideration about the attractive price or not for our share we would say step away from the buyback program for a moment until we reach our right leverage again.

Ricardo Fernandez: Okay. I believe the last one is going to expire I think in the middle of May. Do you think you'll be in a position to make a decision to continue with it or will you basically stop to see what the company's going to look like after the Quinsa transaction?

Felipe Dutra: We must take into account the new balance sheet for AmBev after the Quinsa deal, and we stopped the buyback program last March since the negotiations started to gain additional speeds. Then we stopped by March 20th and since then we are away from the market.

Ricardo Fernandez: Okay. Thank you very much.

Felipe Dutra: Thank you.

Operator: Your next question comes from of Banco Itaú.

Marcel Telles: Hello?

Operator: Mr. Luis Cordoniz, you can go on with your question.

[Short Pause]

Operator: Your next question comes from Carlos Laboy of Bear Stearns.

Carlos Laboy: Yes. I had a follow up question with regards to direct distribution, if you could give us an update on the proportion of volumes under direct distribution. If I'm not mistaken, I think that we saw a drop actually to 25.9% from 27.4%, and if you could clarify that for us please.

Carlos Brito: Carlos, could you say it again? You're asking about the amount of volume that we do today to direct distribution as a percentage of total volume?

Carlos Laboy: That's correct. I think we saw ion the press release 25.9%, but in the fourth quarter of last year I think the number had reached 27.4%.

Carlos Brito: Well, yeah, I'll read it from the press release it says direct distribution accounted for 32.4% of total sales volumes during the quarter.

Carlos Laboy: In beer?

Carlos Brito: No, this is total company.

Carlos Laboy: No, no, I was wondering if you could give us some insight on the Brazilian beer volumes under direct distribution.

Carlos Brito: I don't believe - - let me check the beer volumes here. Okay. It's here. Direct distribution accounted for 24.9% of volumes in the quarter compared to 22% in the first quarter last year.

Carlos Laboy: Right. But was there a drop off of fourth quarter levels from 27%? I just thought that was odd.

Carlos Brito: Well, the fourth quarter and, again, I could check that number again for you, but on the top of my mind it comes that in the fourth quarter supermarkets in our channel mix is more important than in the other quarters. And since most key accounts are done through direct distribution, that could be one of the reasons why that percentage of direct distribution would go up every fourth quarter and then would come back to it's normal average yearly participation in the next quarter.

Carlos Laboy: Okay. That's helpful. Thank you.

Carlos Brito: Thanks.

Operator: Your next question comes from Celso Sanchez of ING.

Celso Sanchez: Hi. I have a couple of questions regarding profitability or expense trends. On the beer side I was wondering if you could elaborate a bit more on the selling expense increase and how you see that trending over the course of the year. I understand there was obviously World Cup related front end loading of expenses, but do you imagine that that increase goes in line with the increase in the sales in the Brazilian beer business? I'm talking specifically over the course of the rest of the year, do you think because of the cooler implementations and IT and so forth that that would also keep that level relatively raised and perhaps squeeze margins a bit that way? That's the first question.

Carlos Brito: Yeah, this is Brito. No, I don't think so. I think this quarter we saw, let's say, a rise in the selling expenses because first thing, as you said, some up front expenses leading to the World Cup and to some sponsorship activities that we have planned for this year concerning those events. Also, as a way to support our price level, since the Kaiser drop in pricing, instead of dropping our prices, what we did was we increased some level of activity in some supermarket channels in order to protect our pricing level and some of our volume.

And, again, as we believe Kaiser now is sold, it's the new owner's a rational player, we believe they're going to get back to normal pricing activity as they have in the fourth quarter. This first quarter of this year was completely different than what they had last two quarters. So, we believe it was a very localized movement. Again, they were selling the company, and we believe they're going to be back on track this quarter and that we won't be able to protect our price level the way we did in some chain stores this first quarter.

Celso Sanchez: And you don't see - - are you seeing any signs of a reversion to sort of the normal if you want to call it that strategy from Kaiser or are they still - -

Carlos Brito: Yeah. Yes, at least what we've been hearing in the marketplace is that they've been trying to raise their prices at the end of March/beginning of April. I don't know how successful they're going to be in this first month, but that's what we hear in the marketplace.

Celso Sanchez: How big is the gap right now roughly between their prices and yours?

Carlos Brito: Kaiser it's an interesting case because on the returnable bottle business, which is our main business, beer they are like 5% to 10% below our price, but on the can side, which is a supermarket business, they can be all the way to 20% below our price, and that's a very price sensitive type channel. And, again, this 20% Kaiser price differentiation to our price is not normal - - it's not what we've seen as average of last year. It's not sustainable because they pay taxes as we do. They face the same kind of costs that we do, and it's not sustainable. So, we think as we hear in the marketplace that they'll try to get back to the price points they had in the prior year.

Celso Sanchez: When that period of irrational behavior from Kaiser ends do you feel comfortable that your selling expenses as a percentage of sales can be flat in spite of the consumer rollback efforts that you're going to be making?

Carlos Brito: Yeah, we believe so because most of the rolling back of consumer prices we'll be dealing within the revenue management activities and not within the selling expenses items.

Celso Sanchez: Okay. And if I could just follow up on the soft drink side, I guess I'm not understanding the cyclicality within the year of soft drinks opposed to beer. I would have thought that the fourth quarter and first quarter would have somewhat similar EBITDA margins. I know last year the first quarter was a bit of a surprise because we had some front-end marketing. I wonder is this something we should expect going forward that usually the fourth quarter is that much better than the first quarter or was there again some one offs this year that affected the EBITDA margin?

Juan Vergara: Traditionally it has been a better quarter, but today we're targeting EBITDA margins in the 10% range for the year.

Celso Sanchez: Okay. And is there any sort of improvement over the course of that year that you see driven by - - I don't know the new products or perhaps by marketing expenditures that you've already done with respect to the World Cup, what would be the main drivers in your view?

Juan Vergara: Well, we have certainly the new products will add better profitability but it's too early to tell, we're still on a limited market basis. There's still room for revenue management even though we have closed the overall gaps to the market leader. In one way, like I said, there's room for closing the gaps on PET two liters, and even on the one-ways there's still room for improvement on revenue management between channels. And, again, we'll probably grow our volume somewhat this year and we expect some maintain SG&A stable versus last year.

Celso Sanchez: I'm sorry, your volume targets for this year roughly are what?

Juan Vergara: We expect to grow in the 2% to 3% range.

Celso Sanchez: Thank you.

Juan Vergara: Thank you.

Operator: Your next question comes from Jose Yordan of UBS Warburg.

Jose Yordan: Good morning. I just had a couple of questions. One was just a clarification from before. Did you say you're going to consolidate Quilmes proportionately, and if it's true will it be in Luxemburg GAAP, Brazilian GAAP? That was my first question.

Felipe Dutra: Yes. Jose, this is Felipe. We are going to book proportionately, and in terms of GAAP we are working in order to have a reconciliation from Luxemburg GAAP to Brazilian GAAP, and book as Brazilian GAAP equivalent on a quarterly basis.

Jose Yordan: Okay. And then a question about the buybacks. You said you had been out of the market since May 20th. Am I to assume that you cannot be in the market until the deal closes - - until the deal closes basically?

Felipe Dutra: We are not in the market since March 20th. And we're still out of the market until we release all the final documents and make it available for the public.

Jose Yordan: But, the deal doesn't need to close for you to be able to get back into the market?

Felipe Dutra: Yeah, the deal is subject to the antitrust authority's approval. We have to wait until then.

Jose Yordan:	Okay. You can't buyback at all until that approval comes?
Felipe Dutra:	We don't think so. We're still working with the lawyers on that.
Jose Yordan:	Okay.
Felipe Dutra:	But at least until we make the documents available publicly we will not be in the buyback.
Jose Yordan:	Okay. And just one final quick question. Can you tell us what your CAPEX program is for the year?
Felipe Dutra:	It's nearly R$450 million for the year.
Jose Yordan:	Okay. Thanks.
Felipe Dutra:	Thank you.
Operator:	Your next question comes from Maria Karahalis of Goldman Sachs.
Maria Karahalis:	Good morning - - almost good afternoon. You've answered actually most of my questions. I have two questions I guess I would consider as follow-ups at this stage. The first is with respect to costs during the quarter, there was an inconsistent increase between raw materials cost and packaging costs, which for the most part seemed to be skewed by currency movements. Can you talk about the underlying costs in dollars if that makes more sense for raw materials and packaging as to why one increased 20% and the other one 10.5%? And the second question I have is can you give us an update on your initiatives to increase per capita consumption in beer?
Felipe Dutra:	Okay. In terms of dollar-linked costs of goods sold, we have nearly 45% linking to dollars. On the raw material we have basically malt, which is 100% linked to dollars. And in the packaging, we have the can and besides that the fiscal incentive is we have on the syrup for soft drinks, we book as a cost reduction in the raw material line. And since the volume of soft drinks dropped, we also had this effect on the raw material line.

And besides the currency valuation also the amount price went up in dollar terms.

Maria Karahalis: Thank you, Felipe.

Felipe Dutra: You're welcome. Brito?

Carlos Brito: Yeah, Maria, the second question regarding the per caps, first thing I could mention a couple. First the Bohemia brand, the growth - - it's growth comes - -it's a very interesting kind of growth because it doesn't - - from what we know in the marketplace, it doesn't come at the expense of our brands. It does add up to our brands in point of sale. So, for us it's increased volume and it's too early to say but we think it's also increased per caps in that point of sale.

Also the more coolers we place, according to the numbers we have from the previous coolers, that also helps the drink ability, as you will, or per caps so that continues to be in place. We also have in place a program of launching a couple of different packages - - brand package combinations that would go after some very specific consumption occasions as outlined by Miguel in a previous contact with you.

And also I should point out that lot of our marketing investments in media and TV and everything is also for the first time targeting and trying to explore new consumption occasions. When I spoke about the Bohemia brand, the one thing I forgot is that we're taking Bohemia now nationally, so that also should help, since Bohemia today is sold only in a couple of places.

And this is only to give you a feel for some of the initiatives already in place. Other than that, we do have a lot of different tasks that are being run in the marketplace supported by consumer search and that will give a result and guidance to what we should do, but that will be further down the road.

Maria Karahalis: Thank you, Brito.

Carlos Brito: You're welcome.

Operator: Your next question comes from Pablo Zuanic of J.P. Morgan.

Pablo Zuanic: Yes, good morning, everyone. A couple of questions. Regarding guidance, guidance was for flat year volume for the year, so you're still working then with flat volume guidance for the full year or flat for the next three quarters? And the same question in terms of guidance. You had talked about R$200 million in cost cuts for the full year. Is that still so and where are those cuts coming from? If you can answer that first please.

Marcel Telles: That's Marcel here. The R$150 million will come through all the year so that's basically should be achieved by year-end. And again, quite frankly, we don't have a very precise schedule because it's a mix of initiatives. Those numbers came basically from what things that we sold last year that were not yet mapped in the synergies of the merger, and also by the rolling back of a lot dumb of things that we had to do because of the energy rationing.

So, in terms of energy most of those things are already in place like having the right logistics, the right plants producing the right products, not using the mobile generators and so on. The others are everywhere from distribution to manufacturing; those are things we mapped during the year and didn't execute.

Pablo Zuanic: But, on that point of those 150 how many would be reflected in the volume since you had to handle with energy rationing?

Marcel Telles: I don't have the precise figure. Our Investor Relations will get back to you, Pablo. I don't have the right figure. It's not relevant. My guess is you have something like 20 or something already coming from just getting back to our right logistics.

In terms of volume guidance, our volume guidance is a few flat volumes for the whole year.

Pablo Zuanic: Okay. Now, another question comes in terms of the deal if I may ask. This filing that you're doing on Friday only refers to the conversion of the controlling shareholder shares or will there be anything where they're finding at all referring to the minority shareholders?

Marcel Telles: We're going to file either all those documents or another form. Felipe?

Felipe Dutra: 13D.

Marcel Telles: The 13D, one or the other, but you have all the information about all the steps of this transaction.

Pablo Zuanic: Okay. And just one more follow up question on the same subject. I mean obviously the strategy of putting competitive pressure on Quinsa Argentina worked in your favor in the end. Will we expect the same thing in Chile eventually in terms of starting to put competitive pressure there to CCU?

Marcel Telles: In Chile, Chile is basically a market that will be managed from Argentina. So, this decision will be taken from Argentina and not by ourselves.

Pablo Zuanic: Okay. Thank you very much. That's all.

Operator: Your next question comes from Robert Ford of Merrill Lynch.

Robert Ford: Hi. Just wanted to confirm an article that came out last week in local press, which placed industry beer volume growth for the month of April at 5% in positive terms. Is that a good number for the industry? A correct number?

Claudio Brito: Well, it's too early to say. Nielsen will have to tell us that, but I think 5% is a little optimistic for the month of April. It was a good month, but I don't know where this information came from.

Marcel Telles: That information would mean if we had almost 70% of the market and those flat volumes the whole market will have to grow at 15% or something like that so you could get to this 5% average. That doesn't seem reasonable.

Robert Ford: Okay. Fair enough. And then I have some difficulty understanding how you're losing market share to the supermarkets which are principally one way channels, the way I understand it, but there’s no material mix in the packaging - - or no material change in the package mix. Can you explain that to me?

Carlos Brito: What you’re saying is we’re losing market share in the supermarket channels, but that’s not reflecting our mix.

Robert Ford: Exactly, or it doesn’t seem to be.

Carlos Brito: Okay. Yeah. You’re right. There is a second thing in there and that is that the can segment is growing, so despite losing ground or share in the can segment it’s mainly supermarkets, but not only supermarkets. The can segment has still been growing at a much lower pace than in the previous years, but that could be the net - - what you’re seeing could be the net of these two effects: moving shares on the supermarkets that is on the can side of our business, but also having the can as an industry trend continue to grow, at a slower pace for sure, but still growing.

Robert Ford: What a horrible thing. I hate beer in a can.

Carlos Brito: Same here.

Robert Ford: How do POS margins compare versus the beer brands? You said they were higher. How much higher are they for your brand versus the beer brands? And that’s my last question. Thanks.

Carlos Brito: For instance, if you take our returnable bottles on an average bar on premise in Brazil, the market has a marginal brand of let’s say R$14 per case of returnable bottles, and could have on the beer brands a R$9 to R$10 or R$8 to R$10 margin per case.

So, that’s the kind of differential that we always try to tell the point of sale hey if you have all those difference in the money you make with my beer, why don’t you support my beer (a); why don’t you decrease my price a little bit, still making more money on my beer, but get your point of sales to be more competitive in terms of the neighborhood; or three, get more present space to my beer since you spend the same energy cooling the beers, but you make 50% more selling my case of beer where the same costs of selling the other guys’ beer case.

Robert Ford: Great. That makes sense to me. Thank you.

Carlos Brito: Thanks.

Operator: Your next question comes from Luis Cardonez of Banco Itaú.

Operator: Go ahead with your question, sir.

Operator: Your next question comes from Alex Robarts of Santander.

Alex Robarts: Right. Just a follow up here on CAPEX and coolers. In the R$450 million number, are you , I'm assuming you're including the coolers. If you could just - -

Felipe Dutra: Yes.

Alex Robarts: Okay, you are. And remind us then how you will be - - because this is going to be a 55% increase here in the cooler placement going forward, and remind us how you will be accounting for that as far as the amortization. I mean I guess there are various ways you can do it, one year, three years, perhaps you can just give us some color about that.

Felipe Dutra: We amortize those investments in five years, Alex.

Alex Robarts: Okay.

Felipe Dutra: And we book as an investment. We maintain as our asset we start a specific target per cooler, per point of sale and we are able to reallocate it from according to the performance. This is how it works.

Alex Robarts: Okay. And then the expense - - the amortization will come out of SG&A?

Felipe Dutra: As depreciation inside SG&A.

Alex Robarts: Okay. Thank you.

Felipe Dutra: You're welcome.

Operator: Your next question comes from Marco Vera of Deutsche Bank.

Marco Vera: Just a clarification on Pablo's question. Pablo asked about the minorities in Quilmes and you guys answered that the 13D would have info about all the steps of the different transactions. But, that's not a step that was included in your press releases. Is there another step that is yet to be disclosed?

Marcel Telles: I didn't understand his question as referring to the minority. I understood a question referring to the step and the specific formula agreed to

Marco Vera: Oh, okay. Yeah.

Marcel Telles: For the shareholder that would convert shares into AmBev

Marco Vera: Okay, great. So, it was not included there, so I have another question for you. I mean you guys now have - - and it's outside the contractual option agreements that are already established. I mean you guys now have more options to invest future cash; you can keep buying back your own shares as actively as you've had over the recent past. You can buy Quilmes B shares; you can buy Quilmes A shares in the market.

And what are your thoughts, Marcel, on how you make the capital budgeting decision? I mean are these three options put on the same relative valuations spreadsheet to see what adds more shareholder value, or there is a level of AmBev share buy back just remain untouched going forward?

Marcel Telles: It seems we'll have to educate ourselves on that. The only other thing that I will add to this equation is the exposure level that we want to have in Argentina. So, other than the mathematical side of the equation, there is also the exposure level that was part of the reasoning in the transaction, and will continue to be something in our minds.

Marco Vera: Great. Thank you.

Operator: Your next question comes from Marcello Luna of Top Sports.

Marcello Luna: The questions here are about both of beer and soft drinks businesses. The first one is looking to AmBev's current marketing strategy, I would like to ask you to comment on, and if possible later provide information on, the efficiency of marketing campaigns and sponsorship projects in terms of the investment made and the resulting impact on sales and on brand awareness, having been measuring monitoring results of this market initiative.

And then, the second one is looking into the future, could you comment on the strategy for the different Brazilian markets as a result of distribution channels, competition and growth potential throughout Brazil? And are there any specific regions the subsidiaries would focus on aside from southeastern Brazilian markets?

Marcel Telles: Let me take the marketing question, and then maybe Brito can elaborate on the sales side. Marketing expenditures we basically have two types of marketing expenditures - one that is promotions are our point of sales activities. Those are much easier to account for and to measure immediate results on either sales or market share. And of course we do that and we treat those things as specific projects we have to monitor.

Media and brand expenditures are somewhat different. We've been working for a while with a U.S. firm, and basically we have a set of measures for our marketing media side activities and how a specific commercial rate in several attributes. Having said that, unless you really have something that is a blockbuster or radically change the position or the perception of the brand, this is a much, much more long-term than anything else.

On a specific case like the launching of Bohemia that's easier to account for because you're creating a positioning, it's a launching you can measure sales so I think the answer in a nutshell is when is it a specific promotional point of sales activity, it is relatively easier to measure results, cash results, and we do it when it's media and basically TV commercials and so on, we have a set of measures that we use to measure against other commercials being them powers from other people, and the reaction or the changes in reaction of perception of the consumer relating to the positioning of our brand. But, the bottom line will have to be measured on a much, much longer term.

Marcello Luna: Sorry. Just again on the first question. Could you comment on anything specifically sponsorship - - cultural and sports sponsorships campaigns if you have been monitoring this kind of business?

Marcel Telles: Juan can talk about that.

Juan Vergara: Well, there are trackable and non-trackable activities, obviously, in language what Marcel said, but if we take for example the case of soft drinks where there are various ways of using sports sponsorships just for image, just for brand awareness or promotional uses. And obviously when we're looking at something as big as the Brazilian team in a World Cup year, we tend to use it for all of those fronts.

In the case of soft drinks where we have been doing trackable promotions, both to consumer and customer starting last month, where we see that Guaraná Antarctica is outperforming our core portfolio and our core portfolio is outperforming the overall C to Z portfolio, so probably not only that but it's part of the package and it's working.

Obviously, this is an 18-year program and we do not expect everything to kick in and give us all the results on the first year of the program, but so far so good. We're very happy and we're getting good results out of it.

Marcello Luna: Okay.

Carlos Brito: Referring to your second question, the way I understood it, is yes, beer is the very regional business in Brazil, and we try to manage it accordingly. In the sense that you do face the very different competitive landscapes in different regions and that we have different strengths of our brands or different strengths of the competition, and we try to manage our pricing investments in this initiatives in other things according to this different landscape. So, that's the way we're doing our business and that's the way we will continue to manage it in a very regional basis.

Marcello Luna: Okay. Thank you. Just last quick one. Is there any public available information on the results that you've been monitoring in terms of the promotions related to the World Cup or other different promotions in Brazil?

Juan Vergara: Not public. No. Did I answer your question?

Marcello Luna: Sorry, I didn't get.

Juan Vergara: Did you ask if there was any public information and the answer was no there's no public information.

Marcello Luna: Okay. All right. Thank you.

Operator: Your next question comes from Celso Sanchez of ING.

Celso Sanchez: Hi. Just a very quick follow up. Could you give us some color on the performance of Antarctica - - I'm sorry, not - - yeah, Antarctica brand beer and how that - - if the trend sort of been declining short overall in the portfolio or has it stabilized? Can you give us a sense of that?

Marcel Telles: Brito's getting the numbers here.

Carlos Brito: Yeah, the Antarctica share has stabilized pretty much compared to December to March. That's the comparison we've been using here, and December the brand has 14.4% share and in March it had a 14.2%, and that's due to rounding. So, it was really 0.1 % point loss that's in December to March. So, that looks stable in the short run - - in the short-term.

Celso Sanchez: Okay. And is there any consideration as to perhaps that you might position that at any point at all to fight the higher priced, low priced brands if there is such a word, or if Kaiser to continue on the strategy it's had that you might use Antarctica to fight back with that brand or no?

Carlos Brito: No, no. We don't believe that, again, in having a low price beer because of the reasons Marcel already mentioned in terms of tax evasion that our competitors or some of our competitors do, we don't do that so of course it's very hard to compete in the same kind of low price level that they have.

What we try to do is use the market execution in our brands, again, very locally, very focused, and sometimes yes we do have a brand in some region, one of our three brands, that we do price a little differently than our top brands, but never at the kind of price levels that big brands do have.

Marcel Telles: Just to complement on Brito's answer, I mean, beer is very, very regional in Brazil due to historical factors and so on. So, you've got to be careful when you look at Antarctica because in at least three big states or three big capitals in Brazil it's a brand that has about 50% market share, so you can never use a brand that's considered premium in one region as a discount brand in the other. Of course you can use your portfolio accordingly to regional preference, but we, one thing we are very proud of is to have very strong brands and brands that commence a high degree of preference for market share although in different places and regions.

Celso Sanchez: Okay. Thank you.

Operator: Your next question comes from Jose Yordan of UBS Warburg.

Jose Yordan: Hi, just a follow up to a question I asked you earlier about Chile but it seems like Venezuela is almost a mirror image of Argentina in terms of recent devaluation. You've been stepping up direct distribution, getting huge increases in market share and so for, and my question is now that you're on a roll is it a possibility that you'll be looking to buy Polar sometime in the next year or two?

Marcel Telles: I don't have any indication that Polar is even considering a space.

Jose Yordan: All right. Thanks.

Operator: Your next question comes from Pablo Zuanic of J.P. Morgan.

Pablo Zuanic: Yes, I have two follow-ups. In Chile CCU, obviously, has Heineken as a competitor and a partner, but in your case Heineken is going to be a competitor in Brazil and a partner in Argentina. Is that sustainable? I mean is that okay with you guys?

Marcel Telles: We don't have a problem with it. I don't know if anti-trusts authorities in Brazil will, but as you said they are partners of ours in Argentina although we still only have a minority stake there and they are together with Molson in Brazil. So, I don't know how it will be seen by anti-trusts authorities in Brazil will see it, but, having said that, we're comfortable.

Pablo Zuanic: Hello?

Marcel Telles: Yes. Did you get the end of the - -

Pablo Zuanic: Yes.

Marcel Telles: Was there another question?

Pablo Zuanic: Yeah, I'm sorry. The second question would be again I feel like I understood the first time I asked the question, but I guess I did not and basically the only difference yes or no. If I am a holder or a B share at Quinsa and look simple right now, will I learn anything on Friday on that SEC filing about the conversion of my shares and not controlling of the shareholders?

Marcel Telles: No, you won't learn anything.

Pablo Zuanic: Okay. That's good. Thank you.

Operator: Your next question comes from Ricardo Fernandez of CLSA.

Ricardo Fernandez: Yeah, thanks for giving me another chance here. In terms of revenue per hectolitre for the rest of this year do you think we'll be seeing the 92-93 level or do you think there will be an increase, maybe a modest increase because of self-distribution? And then the follow up to that one is typically when you take on a new territory what kind of revenue hectolitre of growth or gains do you see, and obviously what kind of cost per hectolitre increase do you see?

Carlos Brito: Well, this is Brito. The first thing, yeah, we do foresee keep net revenues in the R$92 per hectolitre levels and not increases, just keep it at this level while we're gaining the share we lost. So, that's the first thing.

Second thing is that as you add up different territories, it's very hard for me to tell you right now what's going to happen because it depends a lot on the mix of channels that we inherit in that territory. So, knowing that the direct distribution costs to supermarkets are much cheaper - - much lower than non-premise routes depending on the mix on how this volume is going to be inherited or added to the existing operation. That will make all the difference in the resulting costs.

Ricardo Fernandez: Okay. But, you're typically looking for obviously the little more dense urban areas where you have the *lanchonetes* and things of that nature versus, you know, replacing distribution to super markets?

Carlos Brito: Yeah, that's true, but, again, as we replace distribution depending if the distributor let's say that we are adding to our existing distribution has a mix of beer and soft drinks in a different way or regional supermarkets or bars in a different way, it could add up differently - - the drop size that he has, the share he has in the marketplace with the brand that we're adding up to the existing distribution. It's a very case-by-case situation that could go either way. Always of course with an advantage to the existing distributor cost of course, but in terms of the resulting cost could always go different ways.

Ricardo Fernandez: Okay. But what I'm surprised to see is that if you're going to keep growing your self-distribution why can't you have a slight or modest increase in revenue per hectolitre? Supposedly you're really cutting out a middleman.

Carlos Brito: Well, that's right, but as we've shown in some other conference calls, at the pace we're doing it's a very modest increase on the top line on a quarterly basis. It doesn't make a difference when you look at a whole year or two years, but on a quarterly-by-quarterly basis its much more revenue management than the adding of direct distribution.

Ricardo Fernandez: Okay, makes sense. Thank you very much.

Carlos Brito: You're welcome.

Operator: At this time, if you would like to ask a question please press star, then number one on your telephone keypad. At

	this time, there are no further questions. Are there any closing remarks?
Marcel Telles:	Thanks everyone. See you again in the next quarter. Bye-bye.
Operator:	Thank you for participating in today's conference. You may now all disconnect.