AMBEV
AmBev Second Quarter 2002 Earnings Release
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Operator: Good morning ladies and gentlemen. At this time, we would like to welcome everyone to AmBev Conference Call to discuss the second quarter 2002 earnings results.

The audio for this conference is being broadcasted simultaneously through the Internet in the web site 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 this conference please press star zero for an 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 management and on information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks and 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.

I'll now turn the conference over to Mr. Marcel Telles, Co-Chairman of the Board of Directors. Mr. Marcel Telles, you may begin your conference.

Marcel Telles: Thank you very much and hello everyone. Participating with me on the conference call today with me is our CFO, Felipe Dutra. Our former sales director, Carlos Brito who is now the Director of Operations responsible for Human Resources, manufacturing and logistics, our newly appointed Sales Director, Luiz Fernando, our soft drink Director, Juan Vergara and from our Investor Relations, team, Dana and Alexandre.

There are two important measures we have taken to protect ourselves against the current volatility in the market and the uncertainty expected for 2003. First, we have fully hedged our US dollar exposure as we are all aware of. And second, we have intensified our cost cutting efforts.

We are committed to reducing our cash SG&A, excluding direct distribution by, R$100 million in the second half of 2002 compared to the second half of 2001. And in 2003, we expect to cut from 150 to R$250 million in SG&A costs compared to the full year 2002.

This quarter, we grew our EBITDA by 23%, faster than the 14% in the first quarter. In this first half EVA grew 35% and reached R$125 million. I would like to highlight that this second quarter was a twelfth consecutive quarter in which we achieved double digit EBITDA growth.

Regarding the strategic alliance with Quilmes, we are optimistic about having a positive outcome from Argentinean anti-trust authorities this year, although we haven't had any formal guidance from them with respect to their ruling on the deal.

Overall we are confident that we are well positioned to manage through this period of macroeconomic turmoil and can maintain focus on our strategy. So we continue to believe that AmBev's gross profits are and remain extremely sound.

I will now ask Luiz Fernando to talk about our beer business.

Luiz Fernando: Thank you Marcel. Our Brazil beer EBITDA rose 22% this quarter, and EBITDA margins were up by 1.2 percentage points to 37.3%. In the second quarter our Brazilian beer volumes fell 2% as the market continues to be weak . As we grow for the rest of this year, our comparisons get easier. With a flat consumer environment, we still believe flat volumes for the year are feasible.

Net sales per hectoliter do remain at around R$92 . In line with our strategy, pricing, and specific point of sales we are targeting is trimming down. For example, Skol consumer prices are down 1% on average and we should now see this effort extend itself to our other brands. We will continue to execute this strategy to roll back prices at the consumer levels at the strategic points of sale.

Market share reached 68.8% in July. A growth of 1.3 percentage points from the 67.5% of March 2002. And this shows the initial success of our efforts. It is also explained by lower discount levels in supermarkets by our competitors. We're seeing the price gaps between our brands and the lower priced brands continue to narrow. The volumes of our super premium brand Bohemia doubled. We've expanded distribution to new areas and we continue to have high expectations for the prospects in this still very small segment of the Brazilian beer market.

Volumes in Argentina were down 18%. This is partially a reflection of the difficult base for comparison. As we had a promotion which boosted volumes in the second quarter of last year. Since March we gained market share in Argentina going from 16.9% to 17.5% according to Nielson. Obviously the economic situation will continue to negatively impact our business there.

In Venezuela volumes grew by 5% which is due to market share gain from 5.5% to 7.1% year-on-year following the growth of direct distribution and the launch of Brahma Light. However the economic and political instability has begun to affect the beer market significantly. With strong declines beginning from June.

Now Juan will drive you through our soft drink reserve.

Juan: Good afternoon. This quarter our soft drink volumes were 2.6% above last year's second quarter. And a couple of important details within that performance which we think deserve a highlight. First, our core portfolio volume, which comprises not only Guarana Antarctica but also Pepsi and Sukita grew by almost 4% precisely 3.94%. Second, our functional beverages volume more than doubled reflecting once more the successful extension of the partnership of Pepsi for the distribution of Gatorade. And last but certainly not least during the period in which we took full advantage of the Brazilian National Soccer Team sponsorship and with the team delivering it's fifth world championship Guarana Antarctica's volumes grew by 10%. Looking forward we expect to build on this positive trend. And for the full year we expect soft drink volumes growth of approximatley 3%.

On the revenue front we have been raising our prices along with the market leaders and will continue to do so. Our net sales per hectoliter grew by 15% and 7% compared to the year ago quarter and last quarter respectively. Further increases will take place as we come across new opportunities.

Additionally we continue moving forward on our objective which is full alignment of Pepsi prices with those of Guarana Antarctica. The market continues to react extremely well to Pepsi Twist launched in the first quarter and partially rolled out during the second quarter. This product is available now in both regular and light versions.

Finally as you probably have noticed we are very, extremely enthusiastic about Guarana Antarctica in both in Brazil and abroad. Following the successful launches of Guarana Antarctica in Portugal, Puerto Rico and Spain we have expanded distribution in Japan making very good use of the teams present and performing during the World Cup.

Second, the sponsorship of the Brazil National Soccer Team certainly leveraged the brand equity of Guarana Antarctica, something which is absolutely crucial to our domestic premium pricing strategy.

Thank you and I will now pass it on to Felipe.

Felipe: Thank you Juan and good morning everyone. This quarter our cash cost of goods sold per hectoliter rose 7% compared to the same period last year. Due to the fact that 43% of our cost of goods sold are linked to US dollars. However our hedge strategy allows us to maintain the cash cost nearly flat as compared to first quarter 2002. Despite the 23% currency devaluation during the first half of this year.

Our cash SG&A expenses excluding direct distribution rose 26% in the quarter or an absolute increase of nearly R$55 million over the same period last year. This increase breaks down as follows. First, R$12 million of the increase was incremental expanding on sales activities due to POS, an iniciative related not only to the World Cup but also to our strategy to roll back consumer prices by 2 to 3% while maintaining our price to the retailers, flat. Second, R$34 million of the increase was because the quarterly allocation of marketing expenses based on volumes made last year's comparison base very low. To give you a better understanding of this, I'll give you some additional figures.

Last year's total marketing budget was R$373 million and we booked R$62 million as expenses in the second quarter. This amount represented 17% of the annual budgets. During 2002, our marketing expenses will reach R$388 million and we booked R$96 million as marketing expense for this period representing 25% of the annual budget. So, quarter on quarter marketing expenses were R$34 million higher while the marketing budget for this full year 2002 is only R$15 million higher than last year.

And finally the remaining R$8 million SG&A increase is from the implementation of the new shared services center and information technology projects which are expected to enable future cost rationing.

Our net financial results was an expense of R$97 million which is R$40 million better than last year's second quarter. Our foreign currency debt has been and will continue to be fully hedged. Therefore the foreign exchange losses of R$800 million was offset by gains on swaps and cash offshore of the same amount.

Given the volatility of the Brazilian economy we have been facing during the last month mainly and it's consequences on both foreign exchange rates and local interest rates, we are expecting significant volatility on our future net financial results. Given the fact that the local coupon yield rose dramatically, this increase may cause our net financial results to suffer some wide swing in the short term. Although any extraordinary gains or losses should be offset until the final maturity of each transaction.

Net debt declined from R$2.2 billion in the first quarter to R$1.9 billion right now. And our credit ratings remain comfortably within our targets during the same period.

Giving you a brief overview of some of other items that affected our net income which increases to nearly R$360 million, I'd like to call your attention to the following. Other operating income of R$82 million that represent a non cash gain on our malting assets in Argentina and Uruguay whose functional currency is the US dollar. Non-operating expenses of R$42 million mostly related to provisions for potential losses on sales of assets.

Income tax and social contribution benefits of R$97 million mostly due to tax reductions associated with profits in offshore subsidiaries, which are not taxable in Brazil, generating a gain of R$253 million. This gain is a direct result of our hedging strategy in which the company maintains cash invested abroad to compensate for dollar debt exposure and the future payment to Quinsa as previously announced.

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

Operator: If you would like to ask a question at this time, please press star then the number one on your telephone keypad. To withdraw your question press star then the number two.

We'll pause for just a moment to compile the Q&A roster.

Your first question comes from Jose Yordan with UBS Warburg.

Jose Yordan: Hi good morning. I just wondered if you could clarify or give us a little additional guidance on how that whole formula of allocating the advertising expense for the year. How did you decide last year to do 17% of that annual and this year 25? Has there been any change there or just in general how should we treat that going forward? Is it simply just gain a quarter out of every quarter? Take a quarter of the annual budget or just, you know, how should we look at this is my question.

Felipe: Hi Jose, this is Felipe. Last year for instance we booked 21.8% during the first quarter and this 17% during the second quarter end up by 38.5% of the total budget, which was in line with the total expected volume for that year. We were not facing the drop that we incurred during the second semester. For this year we booked nearly 20. To be more precisely 19.5% during the first quarter and this 25% during the second quarter which end up by 44.5% of the total marketing budget in line with the expected volume for the year. Then I think the difference between 2001 and 2002 is that during 2001 we were expecting a different sazonality curve that we incurred. That means substantial volume for the second quarter. And that's not the case for 2002. The balance, no sorry, the volume is more balanced during the first and second half of this year.

Jose: So it's based basically on your budgeted volumes for each quarter of that year and that's how you...

Felipe: Yeah that's right.

Jose: And then I would just have a follow up on the subject of marketing expenses. Those additional R$150 to R$200 million of EBITDA, of cuts for next year. How much of that is coming from advertising and how much is coming from administrative and so forth? How should we look at where all that is coming from given that you guys are already pretty lean in terms of administrative costs anyway?

Felipe: Basically there is none from marketing expenses. The R$150 to R$200 will come mainly from administrative expenses and cost savings from costs of goods sold. And also being more efficient in terms of direct distribution costs.

Jose: Okay thanks.

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

Joaquin Lopez: Hi actually this is Joaquin Lopez from Deutsche Bank. I was just wondering if you could give us, I know, you spoke about Quilmes briefly a few moments ago. But I was wondering if you could, you know, more or less give us how comfortable you are with deal terms remaining absolutely intact given all the noise that's going on with Heineken, etc. And my second question would be on the soft drink side. I mean so far you've done a fair amount of price re-basing already to close the gap versus Coke. Could you be more, a little bit more specific on how the relative prices have varied by brand and what your targets are for relative price re-basing in the near future? Thank you.

Marcel: Okay this is Marcel about Quilmes. And then Juan will speak about soft drinks. I rather you ask this question directly to Quilmes during their conference call and basically because I think the main issue here is the

Heineken suit against Quilmes which we are not part of in it. The only thing I could tell you and that's my feeling is that the people, we think, Quilmes, are very very confident in their arguments and in their reasons in this suit. So, but I would like you to ask specifically to them as they are the party, and we are not a party in this process. Juan will comment on soft drinks.

Juan: On soft drinks pricing, first when we look at Guarana Antarctica which is a brand with immense equity, pretty much close to the equity market leader. We see no reason for this brand in the immediate to long run have a discount to the market leaders. So we've been moving gradually and that obviously varies by package, by channel, by city. So we feel even though we have most significantly, we see still lost opportunities for that brand in different geographies, in different channels, in different packages which demands not only an internal process but a process of convincing the trade that they can operate at those price levels. At the same time, we have established our policy that our portfolio in general has to follow that pricing strategy, mainly Pepsi. And we have been gradually moving our packages. You know so that we have gaps that they vary significantly from package, to geography, to channel etc. but that range from zero selling at the same price to 10% to 15%. Our target is to close all those gaps.

Joaquin Lopez: Thank you.

Operator: Your next question comes from Maria Kallahalis from Goldman Sachs.

Maria Kallahalis: Good morning. I was hoping you could comment a little bit on the health of the consumer in Brazil in light of the volume numbers for beer. And perhaps talk a little bit about how you expect to achieve a flat volume figure gross number in 2002. How much of that has to do with the industry and how much of that has to do with reclaiming market share please?

Marcel Telles: Maria this is Marcel and Brito will help me. Consumer confidence of purchase power in Brazil at the moment is rather difficult to assess. For our specific industry, I think we have elections as a factor that will begin to affect more and more. It's usually a beer consumption occasion. We also have the weather. The weather this year is basically the opposite of what it should be. And then we have very cold weather in the first quarter and we are experiencing extremely good weather in the past two months. And of course you have the mood swings due to the economy, the outcome of the elections and everything. So my feeling at this time you have more than the normal factors affecting the consumer and sometimes the available income is not the most important as how he feels about the future of the economy, of himself and so on.

And so having said that, I mean, and Brito will expand on that, we had a good July. So and as we said previously we have some easy comps in the second semester particularly in the last quarter. So we still are confident about our targets of flat volumes. And having said that, those are our internal personal targets. We are very committed to them. But Brito will expand on that.

Maria Kallahalis: Thank you.

Brito: Hi Maria this is Brito. The second quarter was the time when I did the transition with Luiz Fernando our new Sales Director. So I will still pick up some of the questions for this second quarter. Just adding to what Marcel has already covered. As you said we're recovering some of the share we did lose in the last couple of months and that's what we expected and we anticipated that in the last conference call. Of course we thought our competitor wouldn't be able to hold the kind of pricing investment that we're putting in the marketplace. And we're beginning to recover the price. We're still not there yet in terms of the relative price we used to have in relation to our price if you look at last year. But they are getting closer. And I think also the market could surprise us in terms of elections and so it looks like it's going to be a tough year.

So July was a good month. If you compare to last year, we had a four plus percent volume growth this July. I don't expect this 4% to be for the whole third quarter because July and August are easy comps. But then September it's not that easy comp because of the price increase we had in October last year, which anticipated some of our customers anticipated some of the volume for September. But I think that it's going to be a quarter on the positive side. And that of course is very encouraging to us. That's also pretty much what we said last call in terms of this year being very different from last year in which we're going to have a second quarter with positive comps as compared to last year's negative comps for the second semester. So yes, that's it in terms of volume.

Maria Kallahalis: Brito can you please talk a little bit then about relative pricing today in beer? And keeping two things in mind, one, that your competition is beginning to increase pricing and where you expect them to go. And secondly your roll back strategy and how that is affecting pricing in the market to consumer, please.

Brito: Okay. Well first in terms of price to consumer, Nielson has shown this month for the first time, I mean, it has shown for the past few months that our pricing to consumer was stable. But this month it showed for our main brand Skol, a reduction of 1% average Brazil to the consumer. So that for us again is also very encouraging because a lot of the things we've been doing since February pretty much are beginning to take shape and are beginning to show up in the numbers. So and our past experience shows us that every time the premium brand begins to have pricing going up or down, in this case going down, that will also affect pretty soon, the other brand. Because the premium brand is always the one to cap and also to show the guideline to where the other brands are going. So that's very encouraging. In terms of our competition, we've seen them of course increasing prices that's not throughout the country but it's pretty much more than half of the country. Again, they're not there yet to the kind of relationship they used to have to our pricing as we've seen pretty much in the three first quarters of last year. So they still have some room to grow we think. And we're looking very carefully to first, the price to the consumer because when we intend to roll back and Skol is already showing signs of that. And also we are looking very carefully at our competition because, of course, they're feeling the pressure on the cost side and they have to do some things they’re already doing on the price front.

Maria Kellaholis: And the price gap today you would estimate is? Let's say if Skol is indexed at 100.

Brito: I would say that in terms of Kaiser or Molson it's still like 10% and in the past it used to be five to ten. Now it's ten. Not on average. And on the canned side it's moving a little faster. But it's still around 10%, ten to fifteen, and in the past it used to be more like ten. So I think these are the kind of gaps we're seeing now as opposed to what we used to see in the past.

Maria Kallahalis: And with respect to Schincariol. Anything to comment there?

Brito: Schincariol is also raising prices but again in a very shy mode, you know, only in a few places. I think they're going to be the last one to do any kind of move. We expect Molson to do it. They're doing, Schincariol has always delayed reaction in that respect. But since they are also linked to the dollar costs, it is expected that at some point, that pressure will also be felt by them as well. Of course you have to remember that they, I mean, they share the same cost base as we do. So we know a little bit about their economics.

Maria Kellaholis: Great. Thank you very much.

Operator: Your next question comes from Peter Vichi from Millenium Investments.

Peter Vick: Hi I have a question for Marcel. Could you please elaborate on AmBev's expansion plan going forward?

Marcel Telles: I assume you are speaking about international expansion. In this side, I mean we are totally happy with our strategic alliance with Quilmes. When you look at it now we have this, we'll have together this dominant position in the Southern Cone from Chile, Paraguay, Bolivia, Argentina, Uruguay and Brazil. So right now it's a time where we can't divert money and efforts to the northern part of South America. So we're basically focusing in the Andean Pact, where we already have our operation in Venezuela, that's been doing quite well recently. And we are very interested in markets like Colombia, as you all know that we look at that in the past and Ecuador and Peru. In most of those markets we see opportunities for a field operation, build a plant, start direct distribution, evolving gradually as we did in Argentina. So we basically are committing the talented people that we have in place in Uruguay, Paraguay and Argentina. A lot of them will be looking at those opportunities and we are willing to put money behind our efforts. So that's basically it. The Southern Cone marching in alignment to the vision that we have for the industry in

Latin America and now focus on the northern part of Latin American and, as I said, Venezuela, we're already there. We'll be looking particularly to Peru, Ecuador and Colombia in the future.

Peter Vick: Okay thank you Marcel.

Marcel Telles: Thank you.

Operator: At this time I would like to remind everyone in order to ask a question please press star one on your telephone keypad. To withdraw your question, press star then the number two.

Your next question comes from Pablo Zuanic from JP Morgan.

Pablo Zuanic: Hi everyone. Just I want to follow up in terms of the pricing on the Schincariol issue. As we know Schincariol is expanding capacity of 30% over the next ten months I understand. And my concern is as they increase coverage of the “on premise” segment they may make it more difficult for you to be able to increase prices at the bar level if they're able to maintain their price. Because that gap between the two brands I imagine has a limit. And as they increase coverage that may restrict your price and flexibility at the point of sale and also in terms of executing revenue management techniques. If you can just comment on that Marcel, more specifically, if you may please.

Brito: This is Brito, just two comments and I think Marcel will add to it afterwards, Pablo. First you are right in the sense that as they build more plants they get closer to the market and of course they're going to be more present on the “on premise”. On the other hand, the efforts we're doing in terms of direct distribution we think will always enable us to have an even better execution than we have today. And as we know we do have a target of going to direct distribution especially in the main markets and the main cities where you face your competition head to head more than in the interior. It's easy for them to get there before they get to the interior. So you're right on the one hand in terms of they having more presence countrywide. But also as we increase direct distribution we're going to, in terms of execution level, be able to produce much more than we do today. So I'm confident we can balance out this trend with the other trend we have.

Marcel Telles: Pablo, one interesting thing about Schincariol is that they have been moving towards direct distribution also. So what happens with that is that of course, long run, they will be competitive, short term they will have the same type of disruptions that we have while implanting the system. But the more important thing is that most of the tax evasion was done for a loophole that a distributor can use but not, but you cannot use when you go directly to the market. Which was basically getting an injunction in which instead of the factory charging the VAT, the ICMS for the three parts of the chain, the factory, the distributor, and the retailer. The injunction will grant the distributor the right to only pay his taxes, a factor to only pay his taxes and the retail should pay their taxes, which in one million points of sales, we know, that's totally impossible. Other part of retail is the by far the largest in the tax in the tax pool that was one of the most used ways to evade taxes. When you go direct, if you want to do that, the bottom when the injunction is rejected, goes to the factory instead of going to the distributor. And I think this is a risk that they will not be willing to take. So this is something in our advantage. And we see more and more of this, Schincariol as we saw in Kaiser's case when you reach the ten something percent of market share you go more and more in the direction of a more formal form in terms of spending more on marketing, evading less taxes and so on.

Pablo Zuanic: Okay and a follow up question in terms of trying to understand the strategy of rolling back prices. Is that still being done through the banner concept, choosing one of the three brands at a particular bar or is it being done more in terms of permanent discounts on certain brands and certain points of sale?

Marcel Telles: Yeah both of them. When we have our pricing strategy, some places we do use a lot of the banner things, especially in big cities and in some of the mid size cities we do use some discounts as well. But in a very focal manner. Only in a few points that really matter whether the competition makes a volume or point of sales that will influence the neighborhood. The other thing that's important in our tool kits to go against the low price beers is our cooler program. This quarter we sold 8,000 more, totaling now 85,000 already in the marketplace. And our goal continues to be to reach 120, 130 by year-end this year. So I mean this also is a very important part of it. The other thing as you might remember is the technology side of it. As we implement some new PDAs to our sales people, some new equipment, we're going to be able to use, as we already are in some places, we are in the roll out phase, use more and more information to price correctly per point of sale our products. And we think that's also very powerful in choosing those few point of sales where we're going to be discounting and making sure that this is carried out all the way to the consumer.

Pablo Zuanic: Thank you Brito. Just let me follow up, just two small questions to Felipe. Why is the cost of sales up 7% if you had the hedge showing at the cost of sale level? And the other question is for Marcel. According to the 13-D file as part of the deal with Quinsa, your offer is valid for one year, which means until April of next year. So if the Quinsa board for whatever reason hasn't approved the deal, does that mean that the offer is off?

Felipe: Hi Pablo this is Felipe. Your first question is related to the cost of goods sold increase, cash profit. Quarter-on-quarter, yes we are fully hedged, that's why basically we were able to maintain second quarter in line with the first quarter. However, when we entered into the hedge transaction by beginning of 2002, the exchange rate was higher than the exchange rate during the second quarter of 2001. That means our internal currency devaluation that happened, but was much lower than the currency devaluation to the market. If we were exposed to the market exchange rate, our cost of goods sold should be at least R$1 per hectoliter higher than it was, because of this hedge benefit.

Marcel Telles: As for the Quinsa contract, one year was basically just because we thought it was a good term for getting it through the anti-trust and so on. And this is something that can be extended at any time.

Pablo Zuanic: Okay thank you Marcel.

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

Lore Sera: Good morning. Yes, I wanted to ask a bit more about your pricing strategy and I know it's hard to have more than a short term view given the volatility in Brazil. But, you know, on one hand you have this program of rolling back prices that is important to you. On the other hand your raw material hedge as far as I understand terminates at the end of this year. So assuming that you, the Real doesn't recover materially from where it's trading right now into next year, do you think you have flexibility in order to adjust industry prices to reflect the weaker Real? And if so would you start thinking about making some of those adjustments as you get into the warmer weather in the fourth quarter?

Marcel Telles: That's me, Marcel. The difficult thing here is to at what exchange rate are we going to be next year. So in the present exchange rate I think that if we had to raise our prices we'd have the space to do it in the market and we think it could be done in a smaller and much more organized way than we had to do in 2001. So I wouldn't be worried about regaining price to compensate for variable cost increases at this level around three, and so on. And also be as we are hedged until next year I think we put this, we could do it in an organized way so not to affect consumer prices or get huge increases in the margins of the retail. Having said that I mean, if it's a totally different exchange rate, I wouldn't know how to answer.

Lore Sera: But when do the raw material hedges roll off?

Marcel Telles: By year end.

Lore Sera: By year end. Okay. And the second question, I just wanted to go back to this issue of cost reduction. Maybe Felipe, you can talk a little bit more about where you're getting the cost reduction in the second half of the year, the R$100 million of SG&A's. Because it seems like the marketing will help but it won't get you the full R$100 million. And also if you can talk about, you know the R$150 to R$200 million of reduction for next year. You talked about cost of goods sold being one of those issues and once again if the Real's weaker I don't see where you're going to get those efficiencies. So if there's any way you could give us a little more color behind where some of the R$150 to R$200 million is coming from next year. That would be helpful.

Felipe: Okay I've got the 2002 and Brito will comment on the 2003. Basically during 2002, you are right. Part of this marketing issue will help us to reach this R$100 million savings but is not the material part of it. We will have some savings from administrative areas as well. The shared services center has just started and we'll be collecting part of the benefit throughout this year. And also from the variable cost side, we have some successful negotiations in place with suppliers in order to get better price for instance, that we account for the bigger part of this R$100 million during this second quarter comparing to last year.

Brito: Hi Lore this is Brito, now in my new position. In terms of next year, I think a lot of this savings or some of it will come from annualized effects of things that we're going to be introducing in the second half of the year this year. But also a little more than that. We're now in the process of, just to give you one example of the way we staff our plants. We think a lot of the things we've been doing in a decentralized fashion could be done through a centralized organization. And we're going through a study of this right now to implement for next year.

The other thing as Felipe already mentioned is that as we started with the shared service center, now we have a place to migrate over things that can be done in a centralized fashion. Now we're seeing more and more stuff being controlled, monitoring, buying things and procedures. A lot of procedures that are still decentralized that now we do have a structure that we can use in order to centralize these services. Another example is that we're trying to streamline the way we have interface between our plants and our direct distribution centers. We still see some duplication there of functions so we are also in study to streamline the interface between direct distribution admin and plant admin. So just to give you a feeling of the kind of initiatives we are dealing with, part of it for the second quarter this year but most of them for next year.

Lore Sera: Perfect. And once again, I hate to ask these questions but on a preliminary basis, what kind of a Real are you using for your 2003 budgeting purposes?

Marcel Telles: You hate to ask, I hate to answer. Around three Lore.

Lore Sera: Okay thanks.

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

Alex Robarts: I guess the first question relates to the more formal part of the competitive landscape. I guess now with the Molson-owned Kaiser, and I'm thinking about the 7% beer volume growth that you'll need in the second half of the year to get the flat full year guidance. And comps are definitely easy and I know that on the pricing side, things seem to be going okay. But I'm wondering if you could perhaps give us some color or kind of describe how you think the competitive environment might shape up kind of toward the end of the year, early next year with Molson in the market. I mean, specifically kind of I'm curious to hear your views you know in terms of the channels particularly bars and restaurants, brands as well. I mean Bavaria, Santa Cerva, kind of give us a, thought there as far as the region that you think that they could be, you know, trying to penetrate. And I guess overall ad spend levels. I mean do you think that that might also be something that you'll have to be kind of analyzing a little bit more aggressively. And I mean are you on track to complete the full handing over of Bavaria brand to Molson by October?

Brito: Yes, let me start by, this is Brito. Let me start by your last point, Bavaria today is a known issue in the sense that we already agreed with Molson in the way we're going to make the transition. So by October it should be finished. Molson decided to step in and did pay some of the distributors to have the early consumption of the brand. So Bavaria by October should be completed and right now it is already 80% completed. Just to give you this information.

In terms of ad spend as we had also mentioned in the first two conference calls of this year, we think they were overspend on Molson and Kaiser for the Molson acquisition. They were totally overspent in the market side and in the price in the market side. They were getting share of course. And we think getting the company ready to be sold I think. Not with Molson, a completely different mindset from what we hear. And we think they're beginning to recover pricing, but again still not at the level they used to have in terms of a relative pricing to our pricing. You know that in our business pricing is a very powerful lever. So we think that even with the volume per share they're losing right now, the economics still work for them in terms of keeping this price up. That's what we expect and that's what we think makes sense when you read what they're thinking about the future of their Brazil business. So we hope they continue that way.

In terms of volume as we said the comps get easier as we go towards the end of the year. We're still confident we could get this flat volume for year-end in terms of your average year. On July we had four plus percent. I'm not saying the third quarter is going to be four plus percent because the September comp is not as easy. But again it's different from what we've seen in the other months so it gives us some reassurance that it is possible be it through the market or share gain to get to the flat volume. I think that's pretty much it, what you asked.

Alex Robars: I guess also about brands and then clearly we're going to have Bavaria trying to get into other areas of the country more national as well as Santa Cerva seems to be getting some momentum at least in the kind of walking around the city and such in terms of advertising in Rio. I mean is this kind of segmentation that sounds like there is going to be more pressures as far as brand segmentation? And have you kind of thought about how you might want to deal with this environment later on or perhaps is it something kind of a work in progress.

Brito: Well when Molson came to Brazil, what we expect really is the opposite. I mean we do expect them to develop the premium market because that's what they did in Canada. So if we -- if Canada is any head to what they like to do in the marketplace, they'll like to develop the premium segment in which we're also trying to do with our Bohemia brand. And not to develop this sub premium brand. Just going to Bavaria, I mean Bavaria has always been national so now with their distribution it will continue to be national as it was when it was being distributed by ourselves. The problem now with Bavaria is of course the increased prices and the gap to the premium brand got smaller and smaller. They are going to have of course more of a difficult time in selling the brand in the marketplace. In terms of Santa Cerva, it's only a Rio phenomena pretty much. And why is that in Rio? Because Kaiser is a known issue in Rio sales force. They have to sell something so they're selling Santa Cerva in Rio where Kaiser almost doesn't exist with the very low kind of pricing. On the other hand we do think that if they want to make money in Brazil they will have to focus behind Kaiser support for the brand. And if they start having all these different brands as you mentioned it can be very hard for them to find ad money to put behind those brands. And to sell and to build brands as they do in Canada so well. So we do expect them to come to Brazil to develop in the super premium category and not do the opposite. So that's our review based on what they told analysts and reporters in Brazil and abroad.

Alex Robars: Yeah okay. That's good. I guess the second question relates to the R$92 per hectoliter guidance and I know that for the rest the year there are a lot of forces here. But one of the things that seems interesting you've got kind of a play off between this packaging shift toward the returnable glass which is I think interesting as far as minimizing dollar input cost of cans and clearly kind of a weak environment. It's good to kind of continue doing that. And then the upward pressure coming from direct distribution would kind of serve to help you on the Real per hectoliter levels. So could you kind of give us a sense of where you think these two forces or trends fall here in the next couple quarters.

Marcel Telles: I think it's easier to talk about these two different forces when you look at the margin line and not the revenue per hectoliter line. Because the returnable has a lower revenue per hectoliter line but on the other hand a much better margin per hectoliter. So of course the revenue per hectoliter at R$92 continues to be a commitment for the remainder of this year and we're doing a lot of initiatives on the side of revenue management to keep it at this level and still be able to use our tool kit against the B brands or the price brands.

In terms of direct distribution of course that will continue to go forward helping the net sales per hectoliter. And we like the returnable business so we've always said that as a market leader we have to have cans in the marketplace of course. But what we try to do is always price it accordingly in keeping our pricing disciplined. So as not to develop this can market ahead of what the market trend already is. So we're always trying to follow the market trend but not accelerate the market trend by having the wrong pricing. And we're very happy to see returnables growing again in our packaging mix. Because it's very good. First because it's an entry barrier, and second because it's where the good margins are.

Alex Robarts: Right. Got you. Just the last thing here quickly. You know we've got the elections coming up here in October. I guess this is more of a judgement call maybe you can share with your thoughts -- share your thoughts with us on this. But in case that Serra doesn't win this election, is there a kind of a sense that you might have with the two other candidates in terms of their views on taxes? I mean is the taxes in the beer sector -- I know the ICMS is pretty high, but is that something that you've heard of being discussed by any of these economic plans that they might have looked to raise taxes in some sectors? And second just your view on these other candidates in terms of what they might bring in terms of the GDP growth. I mean I know you guys aren't experts on the political scene there but it would be great to hear your comment there.

Marcel Telles: We'll really skip this. This answer just because it would be an educated guess and each one of us here will have a different opinion so I will try to do is work with middle of the road scenario and focus on the things that are at our hand like expenses, like improving distribution, like having a better assessment and a better way of serving the point of sale. So we totally focus on internal things for next year. Of course we think we are reasonably good in dealing with microeconomic fluctuations just because we are Brazilians and we've been here for so long. But we don't really have a company guess about any candidate.

Alex Robarts: Okay. Fair enough. Thanks.

Operator: At this time I would like to remind everyone if you would like to ask a question please press star then the number one on your telephone keypad. To withdraw your question press star then the number two.

Your next question comes from Celso Sanchez from ING.

Celso: Hi. I just wanted to follow up a little bit on the pricing rollback. Just to make sure that I'm clear, I'm not sure did I hear correctly that I think the target is about 1 to 3%? And if that is the case, is that slightly lower than what it was a few months ago or is that just a short term target and you still have a target of about 5% as I recall over the longer term? That's the first question.

Brito: Okay well this is Brito. Our target continues to be 1 to 3%. And what I was saying minutes ago is that we do feel encouraged because now Nielson is beginning to show in their numbers the price to the consumer towards the Skol brand or leading brand to have diminish or decrease by 1% July over June. So after being stable for a couple of months. Now it's beginning to decline. And because it's the leading brand, we do expect as we've seen in the past -- at least in the past it works out this way -- to have some influence on the pricing guidelines at the trade level for the other brands. So that's what we've seen in past, we'll see if it happens again, but we've put most of our efforts behind the Skol brand because it is our leading brand and because it influences the marketplace. So we're beginning to see that 1 to 3% reduction we think.

Celso: And then to just confirm again that the understanding that I had was incorrect and it has been 3% not something a little bit higher than that previously.

Brito: No it has always been from our studies inside the company 1 to 3%.

Celso: Okay. And then the second question is can you elaborate a little bit more on where the share gains are coming from specifically from Kaiser, from Schincariol or from other brands? And has the evolution over the last few months been pretty steady or has it been sort of choppy in terms of the market share gain?

Brito: Well in the past three months I would say the share gain has come mostly from Kaiser or Molson, Kaiser and Bavaria as they well positioned their prices. This month of July, Nielsen numbers showed good trend also at the bar or “on premise” channel in which let's say the one percentage point we gained in July, 30% of that one percentage point gain came from the bar as sector. Which for us is very good because that's where our contribution margin is and that's where we had lost some ground in the past few months. So we're beginning to see a reversion there. But getting back to the question, most of the share or almost all of it at this point is coming from Molson, Kaiser. Which goes back to the last conference call in which we said we did expect that to happen as they repositioned their prices.

Celso: Okay. And just finally on the PDAs you had said the roll outs continuing and that the hedge on the raw materials cost should certainly help for year end if for whatever reason the currency gets even weaker. Where do you feel that you are in terms of the roll out and the ability for you to leverage the PDAs for their best ability in terms of you know sort of more surgical pricing like depending on what you had to do in 2001? Are you most of the way there?

Brito: We do have a target of having 50% of our let's say "on premise" volume covered by the PDAs by year end. I mean not covered by the PDAs because today the new PDAs cover more than that. But I mean PDA with intelligence residents in the PDA. That's what I'm saying. And in fact we feel the places where we already have this thing working at full power is not only at the pricing level, but you can use the pricing level in a better fashion. Also in terms of the control, but also at the mix level. When you do have the sales rep sell our mix, we do see that a lot of our products like the Iced Tea, the isotonics gets a very good pool. As we use the PDA it helps the sales reps be more effective and be more efficient.

Celso: Okay thanks.

Operator: Your next question comes from Alexandre Touche from IAU Bank

Alexandria: Hi. I would you like to have more details about your strategy for premium beers, specifically Bohemia. And how much do you think that Bohemia could represent of AmBev's total revenues? And when are you expecting that Molson could bring premium beers to Brazil?

Brito: In terms of Molson we don't know of course all we know is what we hear in the press and from analysts that they do intend to make money in Brazil and if you look back in Canada they do have premium brands. So that's all our stake in terms of Molson.

We're still in the process of getting Bohemia to be a national brand. We expect by October of this year to have it nationally and today it represents 1.9% if I'm not mistaken, 1.9% of total beer market in Brazil. So it doubled it's share as compared to last year's. And it's a very important brand in our revenue management strategy in, also, our premium brand categories our premium beer.

Alexandria: And what's your target for Bohemia represent of AmBev's revenues?

Brito: We don't have a target yet for Bohemia but we do have an expectation in terms of what this premium segment could represent in the Brazilian market. We know that in the US it represents roughly 20% of the market. We know that in countries like Argentina it represents 10 to 15%, or at least it used to represent 10 to 15% of the total market. And today in Brazil it represents less than 5 or close to 5. So we think that Brazilian market tends to be like all those markets. We should expect the premium brand to grow a lot in the next few years.

Alexandria: Okay thank you very much.

Brito: Thank you.

Operator: You have a follow up question from Jose Yordan from UBS Warburg.

Jose Yordan: I just have a quick follow up. We just saw an article in O Global yesterday that was actually stating that you have in fact begun to build plants in Columbia and Peru. And I'm just trying to see if there's any kernel of truth in that or if it's just translating your statements of interest in those countries into you know a story that you're building plants already.

Marcel Telles: There is no physical action yet. Maybe the news come from us making exploratory trips to those markets looking at land and this kind of thing but we haven't really begun to do anything yet. But as I said it's the next logical move for us.

Jose Yordan: Great and if I could just have a quick follow up on the accounting of the hedge, of the raw material hedge. It seems like you mentioned in the press release that cash costs for the beer business in Brazil were stable because of the hedge but then when you look at the Brazil soft drink business, the cash cost went up. And why is there a different treatment of the hedge for this soft drink business?

Juan: It's not really different. You know you see that increase in variable cost, partially explained by a couple of things. It's dilution of fixed costs which is a result of lower volumes when we compare the second versus the first quarter. And second it's the effect of the improved mix, which is good for us. As we grow our can volume within our mix, we are not only improve margins, but we also improve our cost per hectoliter which is higher but that is an equation that we like and that we will continue to pursue.

Jose: So it has nothing to do with the raw material hedge? It applies to just other factors?

Brito: Yes.

Jose: Okay thanks a lot.

Operator: Your final question comes from Pablo Zuanic from JP Morgan.

Pablo Zuanic: Sorry just a follow up question regarding Quinsa. According to the 13-D filing again, if Quinsa were to have any financial problems or cash shortfall over the next six months, they were supposed to issue twelve million class B shares in return for the cash injection that you would do. But my understanding is that as the deal hasn't closed you haven't paid the US$346 million either, and I suppose that if the deal hasn't closed you couldn't make this cash injection either. So what happens if you know come February the deal hasn't closed and for some reason Quinsa is not able to roll over it's loans due in February?

Marcel Telles: Pablo, let me just clarify this 12 million shares issued. That's basically an option that we have to either buy those shares in the market if they want to raise cap so we can buy through this IPO, but it’s not linked to anything. And it doesn't have anything to do with the financial state of the company or anything. It was just agreed that we could raise our participation in the company that begun at 37 or something up to an additional 12 million shares and that those 12 million shares could be either bought in the market place. Or if Quinsa was ever going to raise cap we could buy directly from them. But it was something that had more to do with our total amount of shares at this stage of the strategic alliance then to Quinsa or anything.

Pablo Zuanic: Okay I understand but if the deal hasn't closed and the company is not able to roll over it's loans, would you be willing to lend them money directly?

Marcel Telles: This is answering something that I don't think is on the table Pablo.

Pablo Zuanic: Okay thanks very much.

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

At this time there are no further questions.

I would now like to turn the call back over to Mr. Telles for final remarks.

Marcel Telles: Well thank you very much. We'll see you next quarter.

Operator: This concludes today's teleconference, you may now disconnect.

[END CONFERENCE CALL]