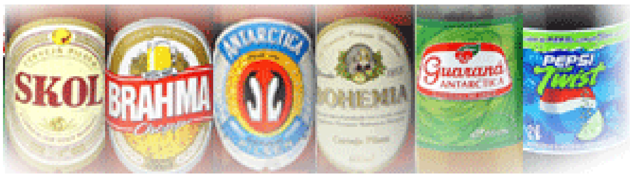

American Beverage Company
Compañia de Bebidas de Las Américas
Companhia de Bebidas das Américas
AmBev

Transcript
Second Quarter 2004 Earnings Conference Call
August 13, 2004 - 11:00 am US ET

Operator

Good morning ladies and gentlemen. At this time we would like to welcome everyone to the AmBev conference call to discuss the earnings results for the second quarter of 2004.

[OPERATOR INSTRUCTIONS].

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

Forward-looking statements involve risk, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. The future results and shareholder values of AmBev may differ materially from those expressed and are suggested by these forward-looking statements. Now I will turn the conference over to Mr. Carlos Brito, CEO for Brazilian operations. Please, Mr. Brito, you may begin your conference.

Carlos Brito - AmBev - CEO for Brazilian Operations
Thank you and good morning everyone. Thanks for joining us at AmBev's second quarter results conference call. I have here with me Luiz Fernando, our Sales Director, Miguel, Marketing Director, João, our Soft Drinks Director, Juan our International Director, Bernardo, our Logistics and Procurement Director and finally, Felipe, our CFO.

As already stated in our earnings release, the Company is quite pleased with the achievements obtained in the second quarter this year. Not only the results themselves were very positive, representing a consolidated EBITDA growth of 33%, but also a few other elements make us excited about the outlook for the second half of the year.

First, we have been able to implement the consistent market share recovery, sustaining at the same time AmBev's benchmark industry margins. Second, we see signs everywhere that the Brazil economy is improving and growing. We think this growth is finally making its way to the beer market.

According to Nielsen, July was the first month this year in which year-over-year, the market increased by 3.2%. This makes us very optimistic about the prospects for the second half of this year. Third, AmBev has implemented in its Jaguariuna plant in mid July, the first flow meter in the country. The clock is ticking now for the six-months mandatory implementation period for all brewers countrywide. January 21 next year is the deadline for the flow meters to be implemented.

Finally, we should have the AmBev-Interbrew alliance closed by the end of August. Both companies have already called for shareholders meetings, in which all payment matters related to the transactions should be approved. At the beginning of September, AmBev should start to consolidate Labatt and its financial statements.

Given all those perspectives, we at AmBev are very motivated and committed to deliver both the consistent market share recovery in Brazil, going back to the 67%-70% market share range, along with real EBITDA growth. And also turn to the Canadian beer market, delivering the growth and synergies that we made public a couple of months ago.

I will pass it now to Luiz Fernando, our Sales Director.

Luiz Fernando - AmBev - Sales and Distribution Director
Thank you Brito, and good morning everyone. I would like to start my speech emphasizing AmBev's consistent market share recovery. Despite the 7.3% decline in volumes in the second quarter, the Company firmly remains on its way back to a minimum 67% share. After the bottom level reached last November, when AmBev was at 62.6%, we ended July at 66.4%, according to Nielsen.

On top of our share increase, we were also pleased to see some market volumes recovery in July. Our volumes increased roughly 6% compared to July last year, and we believe this performance will be repeated in August.

Together with market share, net revenue per hectoliter also shows improvement in comparison to the first quarter this year, increasing from R$116.2 to R$117.4. The pressure caused by tax increases in the South and Southeast of Brazil has been more than offset by careful pinpointed price readjustments, the regularization of new PIS-Cofins taxation and some new revenue management initiatives.

On the operational side, AmBev has reshaped the most part of its sales force in the direct distribution system. The former portfolio criteria, establishing across the board separate sales forces for Antarctica, Brahma and Skol, has been replaced. This initiative is dedicated to better combine our portfolio.

To give you an example, Bohemia, that used to be sold with Antarctica, has been combined with Skol in Rio de Janeiro, where Skol is the absolute leader, while Antarctica and Brahma are being sold together by the same salesman. As a result, a significant increase in Bohemia coverage has already been observed, as well as in other brands, which are having a very good performance.

It is important to observe that such model is only feasible in regions where all the three brand's portfolios are managed by the same operator. The new portfolio strategy is expected to provide strong support for the Company's revenue management and market share initiatives.

Finally, direct distribution levels has remained stable compared to the first quarter this year, although there was an increase of 7.1 percentage points compared to the second quarter of 2003. The 50% target remains effective, but AmBev has been very cautious to avoid changes in the sales structure that could delay market share recovery.

I will pass you now to Miguel.

Miguel Patricio - AmBev - Marketing Director
Good morning everyone. As Luiz just mentioned, AmBev remains firm on its way back to the 67% to 70% market share range. Together with seamless execution at the point of sale, our efforts in improving preference for our brands are definitely paying off. AmBev's internal research shows us great improvement in the preference for our brands.

There were a series of successful campaigns, like the "Summer Passion" with Zeca Pagodinho, and "Happy Hour Time" and the time for "NãnãNãNã" for Brahma, and the "Boa" campaign for Antarctica and also great execution for Skol. AmBev has been successful in improving the equity of its brand and fixing them in consumers' minds.

In addition to its promotional campaigns, the Company remains as well with the responsible consumption initiatives. During the second quarter, we hit hundreds of thousands of points of sales with "Ask for ID" campaign, dedicated to educate bartenders not to sell alcohol to young people below the legal drinking age.

We do acknowledge that the efforts I just mentioned implicate higher sales and marketing expenses, as Felipe will comment, and, as we mentioned in the first quarter conference call, that we were observing an easing off in promotions and advertisement expenditure. That expectation did not prove to be totally correct and our competitors kept on consistently investing in their brands, demanding AmBev to rationally do the same. Nonetheless, we have been able to maintain profitability and the consistent market share recovery observed in Brazil is a rewarding sign that our strategy succeeded well.

Lastly, I would like to comment on AmBev's innovation phase. In the second quarter, we have introduced Dark Bohemia and Bohemia Weiss in our regular sales portfolio that already represents about 10% of total Bohemia sales. And we also launched an innovative and very successful packaging for the Skol brand that's called Big Neck. It's a 500ml one way bottle, with a redesigned shape to improve drinkability.

I invite now João to take over.

João Castro Neves - AmBev – CSD-Nanc Operations Director

Thank you Miguel, and good morning everyone. I am happy to say that AmBev Brazil CSD continues to grow results and gain participation in our Company's total results. EBITDA now represents about 12% of the Company's EBITDA, and grew over 100% when compared to last year. This improvement is explained by both revenue and cost, almost on an equal basis.

It is important to highlight once again that our focus strategy is still paying off, as mentioned in our last call, especially in a moment when we do not want to distract our beer execution. Therefore, we have to sharpen our focus even further and have been doing so by integrating even further sales programs and tools with the beer division.

One good example is the full implementation of our Thomas research for the CSD division, which will help us and our sales force to focus on the most meaningful points of sales in the same way we have been doing for beer, with the same sales systems and, of course, the same palmtop.

In terms of volume, the market is yet to show the growth patterns that we expected at the beginning of the year. According to Nielsen, the market came down about 6% in the quarter, while our volumes were down by 2%. Given our strong first quarter volume-wise, we are still 1.7% above last year in a market that is down between 6% and 7% for the semester, which put us at a market share slightly above that of last year despite the price initiatives that have been taken in the marketplace.

The focus on the core portfolio and better marketing mix than last year's is improving the brand indicators of our main brands, but there is still more work in the pipeline. I would like to summarize by saying that industry volume is still a concern, but it's definitely a better environment in terms of an industry searching for profitable ways to grow the market. As you can see, both tubaínas and non-returnable packaging are stable when compared to the growth in the past years. Better execution in CSD by applying the beer knowledge, especially in coolers and the Thomas research as mentioned, is definitely a plus, as well as our focus on the core portfolio, which is now above 85% of our brand mix. And last but not least, better cost control and very positive effects from commodity prices, especially sugar, and the dollar are definitely helping.

Thank you and I will pass on to Juan.

Juan Vergara Galvis - AmBev – COO for International Operations

Thank you and good morning. AmBev's international operations continue to grow profits consistently and, as a result of that and also as desired, this part of the business continues to gain relevance within the Company's overall results.

Our EBITDA this quarter represented nearly 14% of total Company operational earnings, versus less than 5% last year, with positive contributions being posted across the board from North and Latin America, down to Argentina.

Starting with Quinsa, the top contributor to our consolidated international results, once again delivered respectable growth. The synergies generated by the Quinsa-AmBev alliance, together with positive economic recovery in the Southern Cone and great management boosted results, and placed Quinsa as one of the most profitable beverage companies in the world.

AmBev's other international operations are also contributing with positive results, leveraged by initiatives to make sure that all the relevant know-how which we have developed in Brazilian operations is replicated as quickly as possible in every other country.

In the Dominican Republic for example, to standardize sales practices, revenue management initiatives, together with very tight cost control, we have been able to grow an already high market share and to sustain the profitability of the new Dominican operations, regardless of the difficulties experienced by the country during the second quarter.

Moving west to Guatemala, it continues to perform above our original business plan, but nevertheless, we will remain working at full force to continue growing distribution and brand equity, both of which are today at impressive levels, especially when we remember that this operation is less than twelve months old.

Additionally, Cerveceria Rio in Guatemala has successfully launched Brahva in Nicaragua, where we have rapidly achieved almost nationwide coverage. And we estimate our current market share slightly higher than 50% after two months of operations.

Our Venezuelan operation is delivering record volumes, while our focus remains on selected markets with efforts leading to very basic fronts. On the consumer level, our marketing guys are playing their part to improve the preference of Brahma and this has been a great year. They have produced some of the best ever advertising marketing program in Venezuela. And on the sales front, we continue to invest in direct distribution and proprietary sales technology throughout the country.

Finally, in Peru and Ecuador, our short term focus remains centered on building a world class distribution platform while we do our homework to fully, and I mean fully and deeply, understand local consumer needs and opportunities. And there are many. Today we are more convinced than ever that the opportunity for AmBev in these two countries is material and to say the least, quite exciting.

On the distribution front, which basically improves by the minute with the implementation of, I would say nearly all of AmBev's sales technology in both Andean countries, we are beginning to see good results both in our soft drinks business in Peru and in the beer business in Ecuador.

In summary, our Latin America growth is in line with plan and we will maintain that course.

Thank you, and I will now hand it over to Bernardo.

Bernardo Paiva - AmBev - Logistics and Supply Director
Thank you Juan. Good morning everyone. Today I will be talking about AmBev's cost performance in the second quarter. Costs of goods sold in the second quarter 2004, presented significant improvements compared to last year as a result of our ongoing efforts to reduce costs. Cash COGS per hectoliter decreased by 7.2% in the case of beer and 10% in the case of CSD and Nanc. On a sequential basis, cash COGS per hectoliter for beer increased by 3.6%, a change fully explained by the Real depreciation observed in the second quarter, and the lower dilution of fixed costs caused by the 7% volume decrease. Cash COGS per hectoliter for CSD and Nanc remained stable.

The year-on-year performance is partially explained by the implied foreign exchange rate difference between the two quarters. In the second quarter 2003, the implicit exchange rate in our hedging policies was R$ 3.31 per dollar, while the effective exchange rate for AmBev in the second quarter 2004 was R$ 3.01. Also the commodities, there was some positive variations, corn and sugar, for example. But also some losses when we compare the second quarter 2003 with the second quarter 2004, notably oil and aluminum. On a sequential basis, oil, PET resin and glass have pushed our costs up.

It is important to highlight, however, that a reasonable amount of this good performance comes from internal improvements. On this matter, I would like to share with you three initiatives that have been helping us to keep production costs down.

First, the manufacturing project, a broad effort launched last year aiming to streamline production management by spreading best practices, which has enabled us, for example, to improve in the last twelve months packaging line efficiencies by 590 basis points.

Secondly, the centralization of activities that was executed across regional operations. Besides leveraging our Shared Service Center by centralizing further activities and enlarging the portfolio of Agrega, our joint venture with Souza Cruz for MRO supplies, we have launched new initiatives, such as the implementation of the freight center and the consolidation of the national purchase center.

Finally, the development of new technology and valuable engineering to reduce packaging costs. We keep looking for opportunities to work on specifications and implementations of new technologies and machinery that enable us to meet those market needs and keeping costs down.

As outlook for the second semester, we believe that our actions will continue to generate good results, enabling our COGS per hectoliter to remain stable at the levels of the second quarter for both beer and CSD and Nanc. The risks we foresee are mainly related to the exchange rate and to some commodities behavior, particularly oil, which can affect both our energy and PET resin costs. On the positive side, we are looking forward to leverage on the synergies to be captured after the closing of our combination with Interbrew.

Thank you very much. I will pass it to Felipe.

Felipe Dutra - AmBev - CFO
Thanks Bernardo and good morning everyone. I have some comments to share with you regarding SG&A and capital structure today. We experienced in the second quarter an increase in our SG&A figures by 38% roughly, as a consequence of higher direct distribution as well as sales and marketing expenses. In the case of direct distribution, most part of the increase observed was caused by, first, as Luiz has already said, the extension of our direct distribution system, which represented in the second quarter close to 42% of our total volumes, 710 basis points higher than last year. Second, a higher level of fixed costs, increasing operating leverage in one hand and, in the other hand, making profitability more sensitive to volumes. And third, a higher share of sales to small bars and restaurants. This effect, however, is positive for AmBev, for the on-premise channel is the most profitable one.

In the case of sales and marketing expenses, there was an increase of 66% compared to the second quarter last year. In 2003, we had sales and marketing expenses in the second half of the year abnormally higher than in the first one, mainly due to our response to the new launch of one of our competitor's brands.

On the other hand, our budget for 2004 forecasts a much more stable trend across the year. As a result, we had in the first semester of 2004, much higher comps, representing increases in sales and marketing expenses of roughly 50% to 60%.

For the second semester, however, that should not be the case. We expect further increases in sales and marketing expenses for the third quarter. But in the fourth one, we should observe a decrease instead, since the sales and marketing expenses peaked during the fourth quarter 2003.

For the whole year, sales and marketing expenses should remain between 20% and 25% higher than in 2003. Nevertheless, as already mentioned, we are pleased to see those investments reflect into a consistent market share recovery, which, by the way, did not compromise AmBev's benchmark margins. Finalizing SG&A, administrative expenses in Brazil increased by 6% compared to the second quarter 2003, reaching R$95 million.

Moving now to Ambev's debt position, net debt in the second quarter increased by R$ 440 million, reaching R$ 4 billion. Such increase was the consequence of the buyback programs performed by AmBev this year, which currently represent an aggregate amount of roughly R$ 1.1 billion. We have been constantly using buybacks and dividends to rebalance our capital structure, given the leverage target set to optimize our weighted average cost of capital. Going forward, this trend should continue and, of course, we will have to take into account any acquisition opportunities that may arise in the future.

The Company's policy has always been that AmBev's US dollar debt remains fully hedged. On the variable costs side, the strategy chosen this year has been based on short-term operations, which were in general no longer than 30 to 45 days.

We thought it was the best option given current currency stability and hedging costs for longer term instruments. The implicit exchange rate in our hedging policy in the second quarter this year was R$ 3.01 per dollar. For July, the implicit exchange rate was R$ 3.05 per dollar, and in August, we have 30% of our exposure hedged at R$ 3.05 per dollar as well.

In relation to commodities, we have all our malt needs already covered for the rest of the year. For aluminum, we have 75% hedged and sugar, roughly 40 plus percent. In general, the prices we set are slightly better than current market prices.

Thank you again for your attention. We open now for the Q&A session.

Operator Thank you, the floor is now open for questions. [OPERATOR INSTRUCTIONS]. Thank you. Our first question is coming from Jose Yordan from UBS. Please go ahead.

Jose Yordan: Hi, good morning. I am interested in a little more detail about the cost savings that you might be able to get out of combining the sales forces in the places where you have done so far. And maybe you can give a little more color as to how long that process will take and again what sort of annualized savings would be over time. And then if you can comment after that whether you see any movement in the government to implement flow meters in the soft drink business.

Luiz Fernando: Hi Jose, this is Luiz speaking. First, let me tell you that the strategy is not to reduce costs. Of course, if we can reduce costs, we will do that, and actually we did. We have introduced this new sales force approach in 80% of our direct distribution volume and not at all in our third party distributors. And our results are encouraging us to increase coverage, to better manage our portfolio, our premium portfolio, so we can combine, for example, Bohemia that used to be with Antarctica, with Skol in Rio, with Brahma in São Paulo and to leverage coverage negotiation at the point of sale.

So, first thing, we are looking for increases in our net revenue, volume and market share, and then we have been able to have some cost reduction I would say, from in the sale costs that will be 25% of our direct distribution costs. For on-premise, we can reduce from 2% to 3%, so that would be a 1% reduction in our direct distribution costs.

When we go to the third party distributors, I don't believe we can have the same reduction since we are pushing them to increase their execution and to have a better sales force in the market place. So it's not focused on reducing costs, but to leverage volume and market share. Okay?

Jose Yordan: Okay, great.

Luiz Fernando: So João will answer the soft drinks.

Juan Vergara: Regarding flow meters for CSD, we've been working with ABIR, the Brazilian association for soft drinks. And we expect that it should follow the same steps as beer, and therefore be implemented during 2005 towards the last part of the year, and therefore only impacting 2006 and beyond.

Jose Yordan: Great. Thanks a lot.

Operator: Thank you. Our next question is coming from Juliana Rozenbaum of Itau. Please go ahead.

Juliana Rozenbaum: Hi, good morning. You just updated us on your hedge strategy and I was wondering if you planned to reduce hedging on either costs or debt after beginning to consolidate Labatt.

Felipe Dutra: Going forward, once we consolidate Labatt, we will have a natural hedge, which means the current exposure we have in terms of costs of goods sold, which is close to US$ 500 million, will be covered by the equivalent EBITDA contribution we will be getting from Labatt in hard currency, which means we won't need to have any additional hedge to cover the cost of goods sold exposure. But from the debt side, of course we will need to keep the existing transactions and, going forward, we should keep the same policy and keep the US dollar debt exposure fully covered.

Juliana Rozenbaum: Okay, and as a follow up, can you elaborate a bit on pricing and volume expectations and the strategy for beer in Argentina?

Juan Vergara: That certainly is a question that should be asked to Quinsa's management. We can say that, like I said in the opening remarks, that Quinsa is having a fantastic year for several reasons. The economic recovery and great synergies and great management, but that is a question that at this point in time should be addressed to Quinsa's management.

Juliana Rozenbaum: Okay, thank you.

Operator: Thank you. Our next question is coming from Robert Ford of Merrill Lynch. Please go ahead.

Robert Ford: Good morning everybody. My first question had to do with Labatt. I was hoping you could elaborate on the agreement that you have with Anheuser Bush, especially the time remaining on that distribution and production agreement as well as any potential exit clauses. I was also curious with respect to the profitability of Bud versus Labatt Blue in Canada.

Carlos Brito: Hi Bob, this is Brito. We did not have access so far to the contract held between Anheuser Bush and Labatt because they have a confidentiality agreement. What was put in our agreement were some reps and warrants that there was no material impact to the transaction coming from this contract that was not open to us. So that's the way we dealt with it.

And the second question about margins. Of course we did have some insight in the margin situation, the contribution margin, when we did our research in Canada. But, at this point, for some competition reasons and stuff, I wouldn't like to be that clear about it, maybe in the future. But so far we did have an insight and we did our due diligence over there, but that's all I can say so far.

Robert Ford: Okay, fair enough Brito. And then, with respect to the move to consolidated sales forces. In the past you had defended separate sales forces because it allowed you to perhaps better structure relationships with the point of sale, and as a result, you allocated more volume because there were more sales people in the trade. You talk about getting greater leverage with the POS, how has it changed in terms of the execution?

Luiz Fernando: OK. First I understand, you know, that for the last three years, we developed several different technologies using sales as a strong tool to help us in the execution. So we've learnt a lot from that and we are not changing the sales force segmentation aspect and the sales force arrangement so fast.

I mean, we've been understanding, discussing and testing, making pilots in different regions and different situations, in different market share situations, to guarantee that this new model could be applied in a more profitable and a more efficient way.

In the past we had one single organization. I mean, we had one sales force for each brand, for each brand portfolio and that was all we had. For different situations, we need different approaches. I mean, for example, Bohemia could help us a lot to increase our super premium, our net sales. So we were always fixed to help Bohemia, together with Antarctica, in all markets. And in most markets, we don't have Antarctica as the first brand, as the most important brand.

So basically we are very satisfied with the model that we are implementing. We are being very careful in implementing this in different market situations. And in terms of beer execution, I can assure you that, for example, with Skol, that uses exactly the same structure as Brahma and Antarctica in all markets, we are leveraging a lot the execution of Skol, giving more time for the sale force, more time for execution, even they are more focused on our most important brand in Rio, for example. And the same happened with Brahma in São Paulo, or with Antarctica in Ceará. So I think it is something that has to be seen in the market place. I could discuss that a lot, but we are very happy with this new model, we are very satisfied with that. And more than that, we are not reducing one sales force. We are putting the three together and combining them into two different sales forces, with different focus, with different approaches in the market place. But we are not reducing one third of our sales force, let me clarify that.

Robert Ford: That's good to know. And lastly, one last question, that is if there was a desire on behalf of certain parties in control at Quilmes or the share control of Quilmes, to tender for the remainder of the float or a substantial portion of the float, and you had a divergent view, could you block a potential tender?

Felipe Dutra: Our approach, mutual approach, I think from AmBev side and BAC side is to decide at the board level what is the best for the Company. And I understand the Company has a buyback program in place. We are close to a point in which the Bembergs will have the chance to accelerate their put, but of course we cannot speculate on that since is their decision to be taken after our closing here with Interbrew. Therefore, we cannot speculate on this tender approach. I think the share buyback should continue the way it is.

Robert Ford: And Felipe, just-– not speculation, but would you have to both be in agreement if there was a decision to push a tender...

Felipe Dutra: Yes, yes.

Robert Ford: You do?

Felipe Dutra: Yes, yes.

Robert Ford: Great, thank you very much.

Operator: Thank you. Our next question is coming from Dan Kwiatkowski from Schroeders. Please go ahead.

Dan Kwiatkowski: Good morning. A question on pricing in Brazil in beer. Are you considering a price increase in the second half, and on what factors does an increase in pricing depend? I gather last year you raised prices in the low season so that you wouldn't be losing market share in the high season. Have you changed approach in any of those respects?

Carlos Brito: Hi, it's Brito. In terms of price increase, what we have this year is that we had a spillage, let's say, price from last year. I'll say it in a different way. When we increased prices last year, we had in mind that inflation for that year would be much higher than it ended up being. For the first half of the year you saw the inflation accelerating and then decreasing in the second half, and we took the decision in a May-June time frame. So we had the advantage that the price kind of spilled over to this year. This made us more comfortable in terms of pricing.

What we have been doing though, is… We've been doing small adjustments region by region, package by package, brand by brand, as we call it revenue management initiatives, and trying to cope with the different opportunities offered by the market place. And also some tax challenges that we had, that we faced in different states. But our long term view continues to be that on average for the year, price will continue to follow or to be pegged to inflation pretty much. That continues to be our long term guidance, let's put it this way.

Dan Kwiatkowski: So in the second half, you are expecting to put through a price increase at some stage?

Carlos Brito: Again, not across the board-type price increase, we don't foresee that. Of course tha scenario could change according to taxes, costs and other things. But we continue to improve on our sales per hectoliter as witnessed in the second quarter. And this year we decided to do it because of the advantage we have from the price increase of last year, to do it in a different fashion, and do it slowly by region, by package, and not across the board one-time.

Dan Kwiatkowski: Okay, thanks very much. And second question, just to make sure I understood. You hedged the third quarter, your COGS at R$3.05? Is that what you said?

Felipe Dutra: The hedge covers only 30% of August exposure, which means we have no hedge going forward other than this one.

Dan Kwiatkowski: Okay, great. Thanks very much.

Felipe Dutra: And as I think Juliana asked earlier, once we have the closing with Labatt by the end of this month, we will have to rethink the hedge strategy for the end of the year.

Dan Kwiatkowski: Okay, thanks.

Operator: Thank you. Our next question is coming from Tobias Stingelin from JP Morgan. Please go ahead.

Tobias Stingelin: Yes, hello everyone. I have three quick questions. Just to make sure that I understand this issue with the restructuring, or the streamlining of your brand management. Right now, you are just combining your portfolio, let's say, just where you have direct distribution, right?

Luiz Fernando: Mostly where we have 80% of direct distribution volume, and in some distributors that we are using as a pilot to understand how they react to that, and we believe we can implement that starting next year, but that will take at least two years to be implemented in 100% of our volumes.

Tobias Stingelin: Okay, and basically you are saying you are not reducing personnel, so the only thing that you are doing is you're saying to your sales force that they can carry also, let's say Bohemia. All of your three different sales force, they can also go to the point of sale. If you continue to visit the same point of sale every two days and they will basically start, they will be able to sell for instance, Bohemia?

Luiz Fernando: Tobias, we have not reduced one of our sales forces. I mean we are rearranging our portfolio into two different sales forces. Basically having the leader brand in each market carrying the super-premium brands that we have and the second sales force carrying the second and the third brands, together with some soft drinks. So we are not reducing the sales force, we are just recombining, giving the brands a higher coverage or giving the sales force more time to execute, but not necessarily reducing the number of people that we have. But of course, if we can reduce that, we do, but not necessarily. The idea is to reduce one of our sales forces.

Tobias Stingelin: Thank you. The other two questions right now are to Felipe. If I can have an update about your last share buyback program was announced in June, it was a R$ 500 million share buyback and after that, I wondered if there were some big transactions, like some big block trades also from people inside of the company selling shares. Can you just let us know right now where do you stand in this program? And can you also give your cash balance right now?

Felipe Dutra: Right now, I can't tell you. I mean, I may tell you as of the end of last quarter. By the end of the last quarter you will get the numbers from the press release and once we finish the existing buyback program, the board may decide to renew or to go for a new one. And this decision should be taken in the next month.

Tobias Stingelin: Okay, if I could just make the final question. Right now that you approaching the closing of the deal with Interbrew, on the 27th, will the market be aware of the exchange ratio that will be used for exchanging the AmBev share for the ON shares? Or will it pending still from additional definition coming from-–

Felipe Dutra: Oh, it's to be discussed with CVM the way it will be calculated, on an average basis or not and the way it will be translated from Euros into Reais. We can imagine several different ways, the treatment including basing all the calculations at the closing date or either on the announcement date, but we have no idea at this stage.

Tobias Stingelin: Okay, just to clarify something. I agree that there is this concern about exchange rate and pricing and so on. But just from a share exchange ratio, if we take the 141 million shares that the controlling group will receive and if we divide it by the number of ON shares that they will be delivering and we multiply times 80%, we get to something like 13.74. This ratio, assuming that BAC it's not involved in the transaction, this ratio can be fixed already or can it change?

Felipe Dutra: Well I'm not sure if I followed your math here. However, the whole idea is that the voting shareholders will have the chance to sell their shares at 80% of the implied price. And what we mean by implied price will depend on several things. And-– I think what is really uncertain, the uncertainty here is much more the reference in terms of Interbrew share price instead of the number of shares. The number of shares was already set, as you mentioned.

Tobias Stingelin: Thank you very much.

Felipe Dutra: You're welcome.

Operator Thank you. Our next question is coming from Lore Serra of Morgan Stanley. Please go ahead.

Lore Serra: Hi yes. My first question relates to the sales and marketing expense trends in the competitive environment. You mentioned in your opening comments that the environment got worse into the second quarter than you had been anticipating and you stepped up your spending. I am wondering if you could clarify what is it you saw and where you put the additional spending?

And I guess related to that, if you could give us a sense of… I understand what you're saying in terms of the trend line of the spending leveling out into the fourth quarter. But I guess I'm wondering if it's fair to conclude at this point that the sort of semi-permanent level of sales and marketing investment for AmBev should be higher going forward than it's been in the past? Or whether you think that 2003's average levels or even going back before then are feasible spending levels as the market normalizes? Thanks.

Carlos Brito: Hello Lore, it's Brito. Starting from the last part of the question. I think going forward what we will see, of course, we have some scenarios in our mind, but also of course, these could change. But the scenarios that we have today in our minds, I would see that the marketing going forward should be something in real terms, in between what we have this year and Felipe already gave the guidance of 22% to 25% on top of last year, 2003.

So we don't see, let's say going forward, or next year, the 2003 levels. But we see in real terms the 2004 levels. That's one scenario we're working on at this point. This is no guidance, it's just a scenario that we have in our minds. So it could be the same in nominal terms, which in real terms is a decrease. But that again could change very quickly depending on the kind of market we see out there and in that respect we will always try to optimize and spend less than we spent this first half of the year.

The other question you had was?

Lore Serra: What you saw in the competitive environment and where have you put the extra spending.

Carlos Brito: On the second quarter?

Lore Serra: Yes.

Miguel Patrício: Hi Lore, this is Miguel. Basically today we follow weekly the steps of our competition in terms of investment. There is data available to see weekly what is the investment on media. So, we can respond very fast if the competition goes above our expectations. So we have been following consumer preference and also the amount of GRPs, the amount of media that they have been investing and try to reduce or to equalize what they are doing. Basically, the investment on television has been higher than what we were expecting.

Lore Serra: Okay, and on a separate question is, we are approaching the closure of the deal, I am wondering if you can give us an update on the integration of Labatt. And I guess there are two questions or two sub-questions there. One is, as I understand you obviously can't talk specifically about the franchise, given that Interbrew hasn't reported the first half results, but we've obviously seen Molson have some troubles in the market. If you could give us any outdated views you have in terms of how the operations are going at Labatt.

And secondly, if you could give us a sense of how many people you expect to move up to the Canadian franchise as you integrate or start to manage that franchise, and a timeframe. That would be helpful.

Carlos Brito: Lore, hi. This is Brito. You asked pretty much the same question when you were here in May if I'm not mistaken, and that position hasn't change because, again, we haven't had the closing. When we have the closing by the end of this month I think we will be able to speak much more openly about the North American, or the Canadian assets, and how we intend to tackle it and how many people are, you know, going to get transferred and this kind of thing. But first let's work towards the closing. And once we have that, some formal announcements will be made that will answer part of your questions and then we can be more open about that after the closing in September.

Lore Serra: Okay, fair enough. Thanks.

Operator: Thank you. Our next question is coming from Alex Robarts of Santander. Please go ahead.

Alex Robarts: Yes, hi. The first question is really on this beer market trend in Brazil. I mean, obviously you know, you're looking here in the second half for Brazil beer at very easy comparable numbers, and, kind of taking the 6% beer increase in July, compared to a-- obviously a slower industry rate. Do you think this is just really a comp issue here in this difference? Do you think that comps are going to be an important aspect of the overall volume growth in the second half of the year?

And just kind of related to that, how confident do you think these July numbers might indicate a change in trend as far as this demand and such, you mentioned that there were signs that you like to see, that you are seeing, that the economy is improving and that could impact beer demand. So maybe you could just give us some color there.

Carlos Brito: Hi Alex, this is Brito. Again, as I said in my opening statement, the economy is showing signs of recovery and resuming growth everywhere and is finally getting to our business, in our point of view. July is the proof of that. Okay, it's one month, but it's the first month that Nielsen has shown growth year-over-year. And we see so far in August the same rate of growth year-over-year. So 6% in July, so far in August, 6%. So we think we have a couple of things working for us in the second half.

First, as I said, easy comp, second, the economy is in much better shape, third, our share recovery as compared to last year in the same quarter and half of the year, and fourth, we have to believe that the weather is going to be better, having in mind that we had a very unseasonal summer last year that we don't think should be expected this year. So all these things will work together and that is why we are optimistic about the trends or the numbers for the second half of the year for all those reasons.

Alex Robarts: Great. Just to understand how that premium segment is moving, Carlos, including chopp, I guess you have talked about a number of 7% of your total portfolio volume coming from that premium segment. I mean, has the growth in that premium segment been similar to the trend that you have seen overall in the beer portfolio? Has it been faster, slower, and kind of just the thoughts now with Bohemia getting stimulated through these joint distribution with Skol. Might that accelerate and become a bigger piece of your overall portfolio?

Carlos Brito: Yes, premium has grown quarter-over-quarter on a sequential basis. If I'm not mistaken, I can confirm those numbers later on, it grew from 5% of the global portfolio to 6% approximately. We think it's going to grow because of two things. First, this new rearrangement of the sales distribution of our sales forces, that will give more coverage to the super-premium brands. And the second thing is the innovation pace that's focusing a lot on the super-premium segments. So put one and the other together, and the economy moving forward, I think that also will help the super-premium segment to increase participation in our total portfolio.

Alex Robarts: 6% excluding chopp or with chopp?

Carlos Brito: It is including draught sales, it's including draught. Then again, Pedro can give you the numbers later on. Sorry, I don't have the numbers here with me, so I am speaking a little bit from the top of my mind.

Alex Robarts: Fair enough, fair enough. And just the last question here. You talk to us, just kind of shifting toward Labatt, I don't know how much you can comment on this at this point, but you talked about 190 million in synergies with Interbrew and Labatt back in March. And you know, a big piece of that is really related to Labatt Canada specifically and, do you feel that four months kind of along, do you feel that the 120 is still the fair number? And obviously the biggest piece of the 120 is the 56 million that you talk about related to the production costs synergies. Basically the low hanging fruit stuff and is that still, is 56 something that you're still kind of comfortable with? And does that come in really this year? I know it's four months of Labatt, I mean, could a good chunk of that 56 come through in 2004?

Carlos Brito: Well, just a couple of things. First, I'm sorry but I can't comment a lot on a deal that's not closed yet. Second, even though I can't comment a lot, I wouldn't think a lot of the synergies are going to be coming this year because, you know, you have the closing and then you have all the transition period. And third, I think we do have a track record as a Company of delivering synergies that we have announced. So we feel very confident from the numbers we saw at the due diligence stage, that we can deliver and we will deliver the synergies this time once again. So that's what I can say at this point.

Alex Robarts: Okay, thank you.

Operator: Thank you. Our next question is coming from Carlos Laboy of Bear Stearns. Please go ahead.

Carlos Laboy: Good morning. I wanted to take a step back and take a broader view of things this morning. We are seeing a weak beer category in Brazil, you know, for this decade so far, since 2000. And I was hoping you could review for us what are the top two or three initiatives that you've got in place to grow your beer category over the next couple of years. And as a category leader, what do you do differently, the operative word being differently, over the next two to three years to grow this category? You are doing a great job of beating back the competition, taking share, but what makes the category grow?

Carlos Brito: Hello Carlos, this is Brito. I think a couple of things that we've said before in other conference calls, we continue on the same track to think that. One of them being the occasions, the opportunities that we have. Beer is still very much dependent, heavily dependent on one occasion in Brazil and we do have some other occasions to explore and I think that is one of the things we will learn a lot from InterBrew because in the countries they operate, from what we know, how beer is consumed in many other occasions, less concentrated than it is in Brazil. So that's one thing.

The other thing is innovation. We are accelerating that, accelerating the pace of innovation and we think the consumer expects that. That has been important in any consumer goods-type market, to grow the market, where you address different needs with different products. That's another thing.

Distribution is another thing. Although we are market leaders, we still see everywhere we look, we see gaps in distribution that we should cover and what we told you in terms of the reconfiguration of the sales forces and their focus is exactly to address these gaps.

The fourth thing is that in Brazil in the past few years, we have decreased our capital income, our disposable income. And for the first time this year, year-over-year, we have seen a recovery in the per capita disposable income. So that's another thing.

And I guess the last but not least, the country's resuming growth, which we haven't seen for a while, the country has been going sideways for many years and now I think we do have some basis to bet on the growth. And we're very optimistic, starting with the second half of the year. So I'm sure I could list some other you know, things, but these would be the main things that we've said in the past, and that we continue to work and that we think that through that, because we have seen it in other countries, we can do it in Brazil, for our market.

Carlos Laboy: Thank you.

Operator: Thank you. Our next question is coming from Gustavo Hungria from Banco Pactual. Please go ahead.

Gustavo Hungria: Thanks, but all my questions have already been answered. Thank you.

Operator: Thank you. Our next question is coming from Manuel Ramos of Credit Suisse in Boston. Please go ahead.

Manuel Ramos: Good morning everyone. I have two quick questions. I saw in your press release that you paid a syndicated loan in July. I think the amount is like US$365m.

Felipe Dutra: Yes, that isn't correct, US$315.

Manuel Ramos: Okay, and my question regarding that is was that paid with cash in hand and are you expecting to carry a lower cash balance going forward as a result of this?

Felipe Dutra: That's correct.

Manuel Ramos: Okay, so can we expect something lower than US$400m, or around that?

Felipe Dutra: Maybe around that. What changed in terms of AmBev going forward is that we have always been forced to carry an extra cash position to defend ourselves against Brazilian volatility. And now, by having Canada, we will always have the window there to borrow money, if needed, which means at AmBev level we should not have the historical cash position here inside the Company.

Manuel Ramos: Okay, and the second question I have is I think in the past you said that you have a target net debt to EBITDA of around two times. Is that the correct number and will that still be the case after you integrate Labatt?

Felipe Dutra: That was the target I think up to Labatt integration. We may go a little bit further, like 2.5 times.

Manuel Ramos: Okay, thank you very much.

Felipe Dutra: You're welcome.

Operator: [Operator's instructions]. At this time there are no further questions in the queue. I would like to turn the floor back over to Mr. Brito for any closing remarks.

Carlos Brito: Thank you. Well, thanks everybody for your time and attention, and I hope to see you all next quarter at our conference call. Thank you very much.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day.