



American Beverage Company
Compañía de Bebidas de Las Américas
Companhia de Bebidas das Américas

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**Transcription
Third Quarter 2003 Earnings Conference Call
November 12, 2003**

Operator: Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the AmBev conference call to discuss the earning results for the third quarter of 2003.

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, limited to two questions per person. At that time, further instructions will be given. Should any participant need assistance during this conference, please press *0 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's management and on information currently available to the company.

Forward-looking statements involve risks, uncertainties and assumptions, because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future. The future results and shareholder values of AmBev may differ materially from those expressed and or suggested by these forward-looking statements.

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

Marcel: Thank you and good morning everyone. Today I have with me on the call from our management team, Luiz Fernando, our sales and distribution director; Miguel Patricio, our beer marketing director; Juan, who is currently our CSD & NANC director, and recently appointed COO for International Operations from 2004 onwards; Brito, currently our director of operations, and also recently appointed COO for our Brazilian operations beginning in 2004; Felipe, our CFO; and, from our IR team, Tobias and Fernando.

Once more AmBev reported a double digit EBITDA growth in the quarter. EBITDA for the Brazilian operations in the quarter grew by almost 17% yoy, despite another very challenging environment, characterized by a 12.3% decline in beer sales volumes in Brazil, the negative impact of our currency hedging policy on dollar-linked variable costs, inflationary pressures and the increase in the cost of some commodities.

We reinforce that this positive performance is evidence again that we are on the right track by sticking to AmBev's strategic drivers and long-term strategy. As we have been doing in the last conference calls, let's provide you an update about how we continue to improve our strategy to deliver sustainable growth during the next years.

During the third quarter, we advanced again in:

(i) Improving revenue management by shifting our mix towards higher contribution margin products. In the beer segment Skol accounted for around 56% of our sales mix versus 55% in the year ago quarter. On soft drinks, our core portfolio now accounts for about 85% of the sales versus 78% in the year ago quarter. Luis Fernando and Juan will elaborate more on that;



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(ii) The second point was maximizing our distribution and execution efficiency, which, as you know, is of paramount importance to dominate the point of sale. During the quarter we increased the percentage, as we sell directly to 37% from 31% in the year ago quarter, and we also installed close to 32,000 additional coolers;

(iii) And finally, the third point of improving productivity and reducing costs. As anticipated on our second quarter conference call, on a sequential basis cost of good sold per hectoliter for both beer and soft drinks declined, indicating that our efforts on that front are paying off, and Brito will talk more about what we have been doing.

Concerning beer sales volumes in Brazil, we were expecting a single digit decline during third quarter. Nevertheless, besides the delay in the price realignment of our competitors, our volumes declined higher than expected due to the sluggish economic environment, unusually low temperatures and, massive market investments from one of our competitors that in September alone invested more than we did invest in our leading brand Skol up to that date. However, as already evidenced in other opportunities in the past, like in the Bavaria case, the quotient combining low prices and high market investments is not sustainable in the long run.

The company has already several actions in place that should translate into market share recovery without compromising profitability or reducing prices, reducing price is not a great strategy in our view. And we prefer to invest in the market to reinforce our leading position and the strength of our brands.

Moreover, the company counts with the strength of its people, which always becomes more evident during challenging times.

Finally, regarding our international operations, once more we are very pleased with our performance and excited with the prospects going forward. International operations generated an EBITDA of R\$56 million in the quarter, with Quinsa's proportional consolidation contributing with R\$58 million. Quinsa's conference call just ended and hopefully you also had the chance to share, as we do, its management enthusiasm about the company's prospects going forward.

We would like to highlight as well that during the last months we have been also further consolidating our international expansion strategy. We started to sell in Guatemala and results have been very encouraging to date. We announced the acquisition of some assets in Peru, which will grant Pepsico's franchises for northern Peru and Lima, as well strengthen our beer business. Finally, we also increased our economic stake in Quinsa to 48% given the purchase of 12 million class B shares.

Now I will pass the conference to Luiz Fernando, who will elaborate on the sales and market activities.

Luiz Fernando: Thanks Marcel.

We posted a 12.3% volume decline in third quarter 2003 compared to the year-ago quarter. Our market share declined to 66.1% in September 2003 from 70.1% in June 2003. Before we address how we have been evolving in our long-term strategy concerning revenue management, distribution and execution at the point of sale, let's address some issues behind the volume and market share decline.

We were expecting a single digit volume decline for beer in Brazil during the quarter; however, the decline was above our expectations due to a combination of factors including: (1) unusually low temperatures during the quarter. We do not like to blame weather for a weak performance,



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however, it is impossible to deny that it has a negative impact on sales volumes. (2) the sluggish economic environment that still prevailed during the quarter. Although there are some signs that the economy is smoothly starting to improve, during the 3Q03 unemployment rates were at record levels and real wages continued under pressure. (3) a postponement in the price realignment of our competitors. As the market leaders, we lead the industry in adjusting our prices to compensate inflationary pressures and higher taxes. It takes on average two to three months for competitors to follow, which leads to a temporary market share erosion. This time was no exception to this rule; the difference, however, is that competitors postponed a little longer the price increase, as well as they raised prices by a smaller amount in some cases. And, finally, volumes declined more than expected due to massive marketing investments from one of our competitors.

The first two factors, weather and the economy, are factors beyond AmBev's control, and they explain an important portion of the volume decline (some estimates indicate that the market as a whole declined around 4.3% during the quarter). Concerning the other two factors, namely our pricing policy and the competitive environment, we believe that we have great tools to manage them. I will discuss some of these tools shortly; however, let me first provide a brief update about our volume forecast going forward.

In light of the higher than anticipated volume decline during 3Q03, and considering that volumes for October were weak on a year-over-year basis, given the very strong volumes for October 2002 due to good and hot weather and inventory build-up before our price adjustment, we expect overall volumes for 2003 to slightly decline relative to 2002. However, we will continue to do our best to revert this trend.

For 2004, we expect that the situation will improve, primarily as we believe that the economy touched bottom during 3Q03, and there are several indications that the scenario is improving. Industrial production is increasing, which could fuel a decrease in unemployment rates, translating into purchasing power recovery under a low inflation scenario. Moreover, there are several other signs, such as the trade balance, the strong performance of the agricultural sector (actually, our volumes in country areas have been better than in big cities), and forecasts about GDP growth that should translate into a rebound in 2004.

Now going back to the short-term, you might be willing to understand what the company is doing to recover its market share without compromising profitability. In first place, it is important to mention that as a public company focused on results and in creating value to shareholders, we do not take any action without deeply understanding its consequences and before making a detailed analysis of all the information that we have from the market. We have very sophisticated tools to manage our distribution and execution at the point of sale and we are using this intelligence as we successfully did in the past. We know that you would like to get as many details as possible about our strategy going forward, however, although we are very committed to transparency, given the competitive environment prevailing in Brazil right now -- we are in the middle of the re-launch of a product -- we cannot provide you a lot of details about what we will be doing, but we assure again that we will act on a rational basis, without jeopardizing profitability.

Let me give you some examples of what the company is doing to address the market share issue. We have the Festeja, the beer festival in place, and it has helped a lot in reducing prices to consumers and the price gap without affecting our prices, and we already decided to extend this campaign until December 2003. At this moment, 180,000 pos already adhered to the Festeja.



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Moreover, we have also some other initiatives in the pipeline, which should further improve our position and relationship with the POS. This combined with the fact that there will be no additional price increase and some indications that some competitors recently announced a price increase, should translate into market share recovery during the coming months.

Moreover, we just run a simplified version of our Tomas research and we identified exactly, at the point of sale level, where we lost market share. Thus, we know where we have to concentrate our artillery.

Finally, as planned due to seasonality, we also increased our marketing investments comparing to the previous quarter.

Since the creation of AmBev our market share has fluctuated between 67% and 70%. Thus, we are clearly not comfortable with the 66% that we achieved in September and with some additional slight market share erosion -- around 100 basis points -- that we might witness during October.

Now talking about our strategic pillars, we continue to improve on the revenue management front as well as on distribution and execution at the point of sale.

On the revenue management front, this quarter, in the mainstream segment, we sold more of our higher margin brand -- Skol - which increased its weight in our sales mix to 56% from 55% in the year-ago quarter.

Still on the revenue management front there are some other good news. During the quarter, sales of Skol Beats also continued to increase significantly. Volumes increased by over 60% sequentially. Antarctica Original, which was relaunched during second quarter 2003, saw an increase in volumes of 23% yoy. Sales of Brahma Light, although still very small, are well ahead of its business plan and, as we continue to develop the super premium market, we just launched another special edition of Bohemia called Bohemia Weiss.

In a summary, although the superpremium segment has been also negatively impacted by the overall environment, its performance has been above the mainstream segment. During the quarter volumes decreased by roughly 8% including draft sales. However, excluding draft volumes, which are extremely impacted by weather, the volume decline goes to 5%.

Concerning distribution and execution at the point of sale, direct distribution for beer increased by more than seven hundred basis points compared to the year-ago quarter and three full percentage points compared to the previous quarter. Direct distribution accounted for almost 33% of our beer sales volume and roughly 37% of total volumes.

Regarding beer net sales per hectoliter, they reached r\$120/hl in the quarter and the sequential increase is explained by AmBev's revenue management initiatives, including the price realignment, a shift in the sales mix and higher sales through direct distribution.

In summary, we believe that we have the right tools in place to recover our market share without compromising profitability based on proprietary data, a clear strategy and AmBev's people.

I will now pass it over to Juan.

Juan: Thank you and good morning.



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This quarter I will start talking about the soft drinks business and then I will also provide you a brief update about our progress in the international front.

In soft drinks, we continue fully committed and focused on the right fews strategy. Which is working.

With EBITDA of R\$63 million -- 20% higher compared to the year-ago quarter - our EBITDA margin achieved roughly 23% in the quarter compared to 21% last year's third quarter.

This third quarter our net sales per hectoliter grew by 14% and 3% compared to the year-ago quarter and the previous quarter respectively.

Despite the sluggish economic environment, which affected total soft-drinks market sales and despite our focus on higher value added products, our total CSD volumes remained essentially flat yoy.

On the other hand, our core portfolio, Guaraná Antarctica and Pepsi brands, grew in volume by 8% this quarter, and grew in importance in our mix. They now represent 85% of our sales, compared to 78% in third quarter last year.

Again, we basically did nothing different, but stuck firmly to our right fews strategy, which, once again, means: focusing on few but profitable brands, few programs in complete synergy with beer and maximization of profitability rather than volume at any cost. Which -- looking forward -- is exactly what we will continue to do.

Now, talking about our international operations, let's start with Guatemala. On September 18, after about two-month teaser campaign, Cervecería Rio (our company in Guatemala) launched its Brahva brand in the metropolitan area of Guatemala city. With nearly a month in the market now acceptance has been fantastic. This very positive consumer response to our launch led sales to exceed our volume projections by a 2:1 factor in those areas where we have effectively initiated sales.

In light of limited product availability, which is normal following the start-up of a new plant, distribution today is limited to 12,000 clients in the metropolitan area (out of a 70,000 beer-selling client universe in Guatemala), and returnable glass introduction per point of sale was limited.

Our partnership with Cabcorp (Pepsico's) distributing in Guatemala has been key in allowing us to very rapidly penetrate all distribution channels, and has allowed us to reach an estimated 40% share of market within the geographical area where we are currently serving, that's according to our estimates.

As anticipated, our competitor has responded to our launch by discounting and promoting two of its flanker brands, Sol and Victoria, and has maintained the positioning of its flagship Gallo brand. This strategy has not affected our launch, and we obviously expect to see further action by the competitor over the next few months. National distribution in Guatemala will be initiated during the fourth quarter as increase in production volume will allow us to distribute unrestrictedly.

As of today, the combination of a world-class CSD distribution network with AmBev's beer know-how has produced very, very promising results.

Regarding the Peruvian market, as anticipated, we bought some assets of Embotelladora Rivera, which granted AmBev Pepsico's franchise agreement for Northern Peru and Lima.



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The purchase price of some of Rivera's assets was set at roughly US\$32 million and we will use local (Peruvian) financing to partially fund the transaction. The acquisition of these assets is expected to significantly improve AmBev's business plan for the Peruvian beverage market as a whole.

Concerning Quinsa, as Marcel mentioned before, we are very excited with Quinsa's prospects going forward.

I will now pass it on to Brito.

Brito: Thanks Juan.

Total cash cost of goods sold per hectoliter increased 24.8% in third quarter of 2003 versus the year ago quarter. As discussed in our press release, the increase in cash COGS is primarily a consequence of our currency hedging policy, which explains around 85% of the increase reported in the quarter. Eliminating the impact of the currency hedge, AmBev's cash COGS were negatively impacted yoy mainly by an increase in some commodity costs (barley, corn, sugar and pet resin) and inflationary pressures on real-denominated figures.

On a sequential basis, as anticipated in our second quarter conference call, AmBev reported a 5% decline in cash COGS per hectoliter. Adjusting for the change in the sales mix resulting from higher sales of non-returnable presentations during third quarter 2003, the sequential decline in cash COGS per hectoliter would achieve 7.4% quarter over quarter.

The sequential decline is the result of several factors including better prices of commodities and efficiency gains such as: 1) an increase in 4 percentage points in line efficiency, allowing a reduction of approximately 400 ftes over second quarter; 2) further reduction of fixed costs at the plant level through centralization; 3) new entries to the "open energy market"; and, 4) savings in transportation due to centralization and spot negotiations.

Looking ahead, we expect a good fourth quarter, even though some commodities such as pet resin seem to have reached their lows and are now showing an upward trend. Some of the factors that should help us going forward are: 1) larger volumes, allowing economies of scale and leveraging even higher line efficiency; 2) the impact of actions taken in third quarter, which will show up during the full fourth quarter; and, 3) more migrations to the "open energy market".

In this context, we remain confident that we will reach our target of generating real savings on the cash COGS front and on the SG&A front of between R\$200 million to R\$250 million in 2003 versus 2002.

I will now pass it on to Felipe.

Felipe: Thank you Brito, and good morning everyone.

Our consolidated EBITDA reached R\$778 million in the third quarter 2003, up 21% compared to pro-forma EBITDA in the year-ago quarter. Besides the initiatives on the revenue management front explained previously by Luiz Fernando and Juan, and on the variable cost front explained by Brito, AmBev's operating profitability also benefited from AmBev's commitment to keep a tight grip on expenses during the quarter and improvements again in the performance of our international operations.

Concerning cash SG&A excluding direct distribution, on a nominal basis they decreased by roughly R\$8 million yoy. By adding the impact of inflation and adjusting for expenses that were



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postponed during 1H03, but occurred in 3Q03, AmBev reported real savings on the cash SG&A front of R\$54 million.

Direct distribution costs in Brazil increased to R\$146 million from R\$113 million in the year-ago quarter as the percentage of direct sales in Brazil increased significantly to 37% from 31% one year ago, as Luiz mentioned a couple of minutes ago. On a per hectoliter basis, direct distribution expenses increased by 19% to R\$24 from R\$20 in the third quarter of last year, and this increase is primarily the result of higher freight costs and higher direct sales volumes to the most profitable channels, and by that I mean bars and restaurants, which present a higher distribution cost per hectoliter relative to direct distribution to supermarkets.

Concerning our financial results, during the quarter we reported net interest expenses of R\$ 82 million for the Brazilian operations. It is worth mentioning that as assets must be recorded at the lower of market value or accrual basis. Had the company been able to reflect its assets at market value it would have reported an increase in interest income of R\$99 million.

As we anticipated, there was a slight change in the company's debt profile, as the syndicated loan maturing in 2004 migrated from long-term to short-term debt. On September 30, 2003 our net debt for the Brazilian operations was R\$2.34 billion. Taking into consideration our gross cash flow generation over the last twelve months, net debt to EBITDA was below one, evidencing the company's strong credit profile.

Concerning our hedging policy of variable costs, we remain hedged until the end of the year at an implicit exchange rate around R\$3.30. We are not hedged for our variable cost exposure going forward 2004.

However, in terms of our US dollar debt exposure, we remain fully hedged, as always.

Finally, concerning our efforts to level field the game in the Brazilian beer industry, recently the IRS published the final specifications for the flow meters to be installed by the industry. Right now we are in the process of assuring the certification of the first supplier and, once this phase is concluded, beer producers will have six months to install the equipment, which we expect to take place until the end of the first half of 2003.

We are very confident that our efforts to reduce tax evasion, which have unbalanced the competitive environment and harmed the Brazilian society, should start to pay-off.

Despite our enthusiasm about the flow meters, our business plan remains supported on our strategic drivers. However, a reduction in tax evasion will promote a more balanced competition in the marketplace.

Now we can move to the Q&A session. Thank you.

Operator: Thank you very much. The floor is now open for questions and comments. If you do have a question or comment please press the numbers 1 followed by 4 on you phone at this time. And as a reminder, there is a two question limit per person. Please hold while we poll for questions. Our first question is coming from Robert Ford of Merrill Lynch.

Robert: Hey, good morning, guys. My first question was with respect to the former Panamco franchise in Brazil. And I was wondering if you could discuss how Coke is changing the way that that business was run with respect to new packages, new products - I understand they've launched Coke with Lemon - how that's impacting Pepsi Twist and the changes that they're making to their beer operations. That's my first question.



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Juan: OK. Let me answer. This is Juan here. First, I'll talk about the soft drinks.

What we've seen is a good competitor first. We see a very smart revenue management, which we'll use as a benchmark. As you know, we've been learning a lot, benchmarking them outside of Brazil. So, now we're looking very close to them in Brazil. That doesn't mean we'll do everything that they're doing, but we certainly feel that we're going to have a much more - at least in their area, a much more ordered market.

I won't comment on the results. You know the results. I'll just talk about pricing and revenue and revenue management. As far as Lemon, which you mentioned, it's very early to tell. We haven't really felt an impact yet. It's too early to tell. It is probably early to tell for the Coke system, our Pepsi X introduction in Porto Alegre, which just took place a few weeks ago. Did that answer all your questions?

Robert: No. No, it didn't. I was curious with respect to the impact, I guess, of all the different packages, if any. And I didn't hear that addressed. And the other issue was how they're changing the way they manage the beer part of the business.

Juan: OK. Now, we're referring - to answer your soft drink question, so now I will turn it onto Luiz Fernando to talk about beer.

Brito: Yes. Well, in terms of beer - this is Carlos Brito. In terms of beer, what we are trying to do is really - first, what you see in the marketplace is that they're focusing a lot on the soft drink side of the business because they inherited the business with a very low EBITDA margin as compared to the other countries you operate. So, from what we see in the marketplace they are focused on what Juan just described.

In terms of beer, we know that Molson has been developing some of the areas direct sale force, a sales force dedicated to the Molson beer brands, with Coke distribution as a complement.

So, Molson would sell the beer and Coke trucks would continue with product handling and delivery. So, we expect at some point that they'll come to São Paulo with the same kind of strategy. That's it from the São Paulo area, where they operate.

Robert: Great. Thanks, Carlos Brito. And then with respect to what you're prepared for in terms of a sustained period of higher advertising spend for Schin - and I understand that what they spent in the last couple months is an incredible sum, clearly not sustainable over time. But what are you preparing AmBev for in terms of what Schincariol is capable of doing in terms of their advertising and promotional budget for a longer period of time.

Miguel: Well, we have already planned to increase our marketing expenses for the fourth quarter. And actually currently for the last two weeks we have been on air various fronts. And they haven't been that strong. We have a good investment till the end of the year, and we are pretty comfortable with our answer in terms of marketing to Schincariol. For next year, we still haven't finalized our plans. I think with beer it'd be too early to talk about 2004.

Marcel: Robert, this is Marcel. I would like to remind that, of course, a huge investment is important, but also the quality of the investment is important. Last year we had Kaiser Molson's brand, to share our voice, almost equal to the sum our three brands.

And when you look at the performance of the brands, the preference of the brands, we basically won on all aspects. Having said that, we, quite frankly, never saw in Brazil this kind - this level of GRPs concentrated in just one month. So, it's been effective. It was coupled with a good campaign. It was a good campaign - but again, it's not sustainable in the long run. So, I think



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that, as Miguel said, in those months we already have both the market investment and the quality in the commercial that we are going to make it live.

And, of course, for next year again we have to keep the market investment up, but what we think is a reasonable level. And again, this has affected us positively in the GRPs that we are going to be using.

Operator: Thank you. As a reminder, I'd like to remind everyone that there is a two-question limit per person. Please hold while we poll for questions.

Our next question is coming from Alex Robarts of Santander.

Alex: Yes. Hi. Question one is really on the beer volume trends here going into the end of the year. I mean, clearly in August you talk about 2% volume growth for the full year.

Now we're seeing that the guidance is being lowered to slightly negative. And I'm just trying to get a sense of how negative that will be. And it seems to me - I mean, the bet is on Festeja. And I just wondered if you could give us a little bit of color about that. You talk about the impact of that happening in November 180,000 points of sale kind of being involved here. How much of your volume is actually covered by these 180,000 points?

I mean, is the incentive then really of the point of sale to say, well, with a 5 to 10% price decrease at, say, Brahma, whatever brand, I will get the volume stimulated enough and that's really the proposition that you're putting to these points of sale?

Luiz Fernando: Yes. Let me answer your first question just last year volume for the year. We believe it's too early to say how much a slight decline is going to be because it depend a lot on December. November has began much better than October. The weather is much better than we had in the third quarter. We believe it's too early to say how it's going to be this quarter. So, we're going to be working hard to change the strength. We believe there's room to improve the volume. But at this point, compared to the volumes that we did last month, we believe we're going to be under last year. It's very difficult to recover this volume, but we'll be working hard. Sustaining is one of the actions that we are taking in the market. This one has already 180,000 points of sales, represent something around slightly 50% of our volume.

The price discounts are really between 5 and 10%. And when we compare volumes between point of sales with Festeja action and point of sale without this action, we have improves of 5 to 20%. So, on average, lets say, the POS have 10 to 15% increase in their volumes when use Festeja, the price discounts based on Festeja. So, it's been very effective the action.

We don't have to reduce our prices. That's very important. So, we convinced point of sales to reduce their consumer prices based on all the ads that we're doing, helping them to attract consumers to their point of sales to generate traffic. So, it's been very effective, but again volumes in November and December will depend a lot on basically the weather condition, revenues and etc.

Alex: OK. The second and final question really just turning to the international operations, and clearly the initiatives that you talk about with Guatemala and then with Rivera. Specifically, do you think you'll get to be EBITDA positive in Guatemala in 2004? And does the soft drink operation in Peru do they get consolidated as of, I guess, fourth quarter? And do you think they can give you some positive EBITDA into 2004, just the soft drink bit?

Juan: Well, the answer to results, yes, we expect positive contribution EBITDA for both this year. And we'll probably be giving better guidance early next year on that one.



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As far as consolidation, yes, we will consolidate fourth quarter, being Peru in November and December only, and Guatemala for the full quarter.

Alex: Great. Thank you.

Operator: Thank you. Our next question is coming from Lore Serra of Morgan Stanley.

Lore: Good morning. My question is on market share. I understand that you don't want to be too specific about market actions. But can you give us some idea of when you're expecting to get back to your target zone of 67 to 70%? And I guess part of what I'm wondering about is whether there's any concern that there's been any semi-permanent damage to the market with this lag that we've seen on the low price competition. And I guess, as part of that, if you can talk about updates in terms of where price gaps are that would be helpful. Thanks.

Marcel: Lore, this is Marcel. Let me start on that and then a few of the others can elaborate here. I think that in a sense this should be seen as something positive. We are - we have seen a competitor investing, maybe over-investing in markets, but at the same time taking price. That's what we've seen in October and now in the beginning of November. So, in a way or another our efforts are paying off already in terms of people recognizing that this will be a market where sales expertise dominates the point of sale. And obviously marketing will become a much important tool than price by itself. So, this is only a caveat to see it from another angle.

I think about how far we go. I think Luiz Fernando already expressed that we can expect to lose an additional even 100-point in share. And, again, we're prepared to live with that and gradually recall our share. I think that in the summer you'll begin to see some positive signs already. But there's no magic answer to that.

Again, I would like to bring you back to the Bavaria times and a lot of analyst and investors kept asking me what's going on. "Is Bavaria going to change the whole market environment in Brazil?" And remember, we talk a lot going from 8 to 10%, but Bavaria came from 0 to 10% of the Brazilian market, was one of the best campaigns and one of the most massive investments in market. In the end, and when you have this combination, and we always said, this doesn't add up. It's going to take time, but we'll respond in our own way. We want double marketing expenditures. We won't lower our price. We'll concentrate on doing the basic things that we know how to do. Of course, with (regulated vigor) and very, very strongly - I mean, everyone here is in a kind of war mode and so on. And the company performs very well on this kind. We won't do anything stupid. We do what we know how to do. And the time that it will take it's the time that it will take.

Having said that, I think that we will see a positive trend beginning this summer. I don't know if Miguel or Luiz want to complement on that.

Miguel: Yes. Of course, if you compare with the last price increase that we did last two years, it took us like three months, four months to recover the good level - the good market share level. This year not only our competitors took some more time to increase their prices, but we have this new campaign coming up at the same time. So, maybe I think more than three or four months, but I'm sure that we're going to get there.

We have some advantage at this moment. We have increased our prices already. So, we don't see in the coming months any need to increase our prices. Our competitors are increasing their prices. Of course, depending on how much they increase their price and how fast we can recover market share faster or slower, and of course that will depend on our actions in the market. We



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believe they are starting to bring some results already. So, we can't say for how long it's going to take, but we are very confident.

Lore Serra: OK. And let me just ask a follow-up and then a different question. Some of the market share you lost is to the competitor that you guys are referencing. But there's also - it seems like an equally large size market loss to the very low end of the market. And I'm just wondering if you've seen - I know there's a bunch of brands down there and I know some of them have moved pricing. But have you seen sort of a general trend on the very low end?

And then the second question I wanted to was really a question to Brito, or maybe a clarification of what he said. In your press release you reiterated the 200 million to 250 million real goal.

And if I added up the numbers correctly in the first three press releases you sort of realized on your own accounting about 150. So, you're expecting about 50 to 100 in the second - in the fourth quarter, rather. And I think I heard Brito say that there were no new programs in place, but I just wanted a clarification on where the additional savings were going to come from. Thanks.

Luiz Fernando: Well, Lore, it's Luiz. To answer your first question, what we saw is that some specific brands, some one or two specific brands that we have been fired they really have an important growth during these price increases that we did. But what happened is that they increased the prices of - they're increasing the prices at this moment. We believe it took them some more time this year because as the market volume was very bad - the weather and the economy and everything - they were not very comfortable to increase their prices. And now they are doing that. So, the price gap tends to decrease. And so, we believe that we can recover this market share better. So, I don't think there is any trend at this moment.

Brito: Lore, this is Brito. Yes, we're committed to the R\$ 200 million to 250 million this year. Your accounts year to date is right, is 150 roughly. And we expect to be able to reach the annual commitment with the fourth quarter.

Most of the difference coming this time from variable cost, based pretty much on what we had said. Also, last conference call that commodities are beginning to behave the way we wanted and that the already accounted for in the third quarter versus second quarter. And we still see a trend in terms of lost of cost of goods sold going for the last quarter of the year. Don't forget the last quarter of the year is very important in terms of volume, which impact many of the costs on a per quarter basis, and also that during the third quarter we did pressure a lot some of our big suppliers trying to get more of existing negotiations, and mostly for the fourth quarter. So, that's where the difference is going to come from. And at the end of the year we expect the balance to be pretty much like half/half, 60 from SG&A and 40 from cost of goods sold, R\$200 million to R\$250 million commitment.

Lore: Thank you.

Operator: Thank you. Our next question is coming from José Yordán of UBS.

José: Good morning. I have two questions. The first one is - and I know you guys don't like to give specific numbers, but if we were to assume that next year there's no price increase in Brazil on a nominal basis or on a per package basis, how much - what's your estimate or a range of your estimates of where revenue per hectoliter could be at the end of 2004?

And then my second question is regarding the - your famous 15% growth target that you presented in the analyst meeting in March, you basically had mentioned at the time that this



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growth target was going to be based on Brazil results only. And I believe sometime between then and now the basic comparison has changed to basically the consolidated pro forma numbers including Quinsa on the base last year as well as on the number this year. Can I ask you when that changed and whether - and how you feel you're doing versus that new target and what's your chance of meeting the 15% target by yearend are at this point?

Marcel: OK. This is Marcel here. I think we have a change. And I remember some people asking me about - it's not a commitment. It's just something that we have in place, and it's our target. But someone comment with me on the Site Visit about it and asked about how Quinsa would be treated. And our answer was basically that the growth in Quinsa will be added to our Brazilian growth, meaning that of course we can't concentrate only in Brazil because if it was the other way around everyone would be asking for us to deduct the loss. And also, we cannot add the whole of Quinsa's proportional EBITDA because of course there was a cost of capital to capture reduced EBITDA. So, our internal (picture concern pile) for all our bonus is basically the EBITDA growth in Brazil from 2002 to 2003 plus the consolidated proportional EBITDA growth of Quilmes for other period. And I spoke so much that I lost your first question. What was it?

José: How much would revenue per hectoliter rise? Where would it be in December and, therefore, if there were no price increases in Brazil based on your current pace, sort of ...

Marcel: I'd rather forget it again. We cannot be specific on that. I just say that probably our best bet on our EBITDA growth in Brazil - again, of course, the cost cutting will always be in place. The revenue enhancement mechanisms will always be in place. But, quite frankly, next year should be a volume year. This one was a year that was pretty flat after another couple of pretty flat years in terms of volume.

And the revenue level was the most important one. Luiz mentioned it. We feel very comfortable with the pricing level we have right now, and we don't see having to adjust it, even to get to our commitment to keep up with inflation until around midyear. So, I think that for next year the thing that should benefit us is, number one, volume, secondly the exchange rate. And, quite frankly, I'm feeling a little bad here inside AmBev because if we miss the 15 target by a very few margin it will be the bad hedge that I did for variable cost this year. Inflation will be much lower, of course. And basically we now fell the beginning what seems to be a consistent GDP growth. I mean, in the beginning we were seeing basically wealth being created in the interior. Now we see in that wealth being transformed into buying consumer goods. And we see output growing again. So, as I said, don't pay that much attention to revenue next year. And again, we would be very uncomfortable to give any guidance. But the real question about next year is the volume, which we think is going to be very favorable.

José: OK. Thank you.

Operator: Thank you. Once again, the floor is open for questions. If you do have a question, please press the numbers one followed by four on your touch-tone phone at this time. And as a reminder, there is a two-question limit per person. Please hold while we poll for questions.

Our next question is coming from Bernardo Araújo of ARX Capital.

Bernardo Hey, good afternoon. My question goes to Juan and is about the international business. I would like to know if it is reasonable to think in the long and middle term that international will be able to work at a same level cost efficient that goes on in Brazil, like in terms of EBITDA margins around 38, 40%. Thanks.



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Juan: Well, if you look at Quinsa and some of Quinsa's operations, it is doable. Now, we have a very comprehensive program of what we call international best practices, which we took as a base all the work that we did for the merger, the AmBev merger. And we're in the process of setting up a program to take all those practices to all our countries. So, we'll do what we know how to do and hopefully we feel we will see the effect of - I hope we'll get to Bolivia's 55%, but we'll work on that.

Bernardo: Thanks a lot.

Juan: Thank you.

Operator: Our next question is coming from Celso Sanchez of ING.

Celso: Hi. My first question relates to the hedging loss in the third quarter. It was not as steep as I would've thought, given the strength of the currency. And I think I understood that the - it might have had something to do with the below budgeted volumes and, therefore, there might be a heavier allocation to the hedge loss in the fourth quarter. And I recognize that all your cost savings projections are net of that hedge loss. But I was just wondering if you could clarify for me will we see more hedge loss in the fourth quarter given that the accounting allocation issue was affected by the unusually depressed third quarter volume?

Felipe: This is Felipe here. Basically during the third quarter we unfortunately aligned some of our hedge positions in a FX rate that we were expecting to incur. Based on that we were able to incur on an FX rate of 3.27, which is lower than the guidance we gave during the second quarter conference call, which was around 3.33. Lower losses from the FX operations during the third quarter was basically due on that initiative. Going forward, we're still trying to do the same for the fourth quarter. At the present moment most probable FX rate that we will be incurring is around 3.30 level. And again, we'll be trying to leverage - to average down this FX rate for the fourth quarter. And there is no further adjustments to be done either for the fourth quarter or 2004 based on lower than expected volumes.

Celso: OK. If I could follow-up then, my second question would be can you discuss a little bit - and I missed the very beginning of the call - perhaps you already did so - but a little bit of the health indicators or progress with Brahma Light in terms of its positioning in the market, its acceptance and its price point and how that has changed, if at all, since its new launch in September.

Miguel: Well, we just introduced Brahma Light in São Paulo city about three months ago. Volumes are pretty good, are about 30% above our expectation. And we just have Brahma Light currently in cans and longneck bottles. So, we are very pleased with the volumes. The trends continue to be positive.

So, every month we have higher sales. But it's still a niche product and it the markets we'll see what's going to happen and when we are going to introduce it nationally. The price is 5% above Skol, and that means it is 70% higher than the regular Brahma in terms of contribution margin.

Celso: I'm sorry, I didn't get the last part.

Miguel: And that means 5 - the price is 5% above Skol, and that means 70% higher in terms of contribution margin when compared with regular Brahma. And just to add on the niche product and new products, we are just introducing Bohemia Weiss this month on the super premium area. Bohemia Weiss is a wheat beer and has been extremely successful and extremely good for



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the image of Bohemia. And the price is very high. It's about R\$4 per bottle, and it's doing extremely well.

Celso Sanchez: Thank you.

Operator: Thank you. Once again, if there are any final questions, please press one followed by four on your touch-tone phone at this time.

Our next question is coming from Gustavo Hungria of Banco Pactual.

Gustavo: Hello, everyone. I have actually two questions. The first one is regarding volumes. Since you're saying that perhaps next year is going to be the volume year, I just would like to understand if you have any targets for that or if you would say that the historical long-term relationship with GDP could be better for next year.

And my second question is regarding the capital structure of the company. I remember that back in the second quarter you were mentioning that a net debt over EBITDA below two would be good enough for you to maintain your credit profile. So, I would just like to understand if you are going to be more aggressive perhaps on dividends going into next year or on the buyback program. And, by the way, if you have any plans to re-open the buyback program anytime soon. Thank you.

Felipe: Hi. This is Felipe. We - as part of our strategy in terms of capital structure management, we recently announced the 100% of the net earnings dividends based on the seven first month of the year. And we're still keeping our ongoing share buyback program in place. By yearend we should keep our leverage in terms of net debt to EBITDA around one. However, going forward, we see huge cash flow generation, very low capex, meaning that in one or two months the current leverage of the company we should be much more aggressive in both fronts.

Regarding your first question in terms of next year's expectations, it's true that we yielded in the past the correlation between GDP and volumes growth, which gave us 1.5 times. However, there is no statistical evidence that that should occur on a regular basis. That said, we also - there's a much more deeper study on what was volumes in Brazil and basically volumes can be explained, with 92% level of confidence based on four different drivers, which are demographics - we have a very end population in Brazil, definitely a positive trend - the level of consumer confidence that was higher. By the beginning of the year we saw some slowdown during the second and third quarter, but we believe it will recover going forward. That's our expectation on that front. The third driver is real disposable income that has to deal with GDP growth and lower inflation. We expect much more positive scenario going forward. The level of GDP growth we see on average based on market expectations is around 3.5%. And the final driver is the only one that we really again command as a market leader, which is the real price level. That's something we want to maintain and we are committed to maintain stable going forward, not negatively affect volumes.

Gustavo: OK. Thank you.

Operator: Thank you. Our next question is coming from Greg Handel of Transamerica.

Greg: Hi. Yes. Hi. I'm just wondering who the competitor is that is taking - or that is taking market share in the Brazilian beer market, if you can comment on that.

Luiz Fernando: It's Schincariol. Schincariol is a local family-owned company that was already in the market. And the re-launched themselves as Nova Schin that means new Schincariol. And also, we believe we are not comfortable, of course, with losing share. We think it's pretty natural



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because they invested a huge amount of money just saying the words that Marcel said before. They invested in one moth what we have been investing through the whole year for our leading brand. So, with such a huge investment we believe is natural to gain a certain amount of market share. However, we are pretty comfortable that with our actions in place we'll recover.

Greg: Thank you.

Operator: Thank you. At this time, I would like to turn the floor back over to Marcel Telles for any closing remarks.

Marcel: I just want to thank you all for staying with us during this conference. And see you everyone again next year. Bye-bye.

Operator: Thank you. This does conclude today's teleconference. Please disconnect your lines at this time, and have a great day.