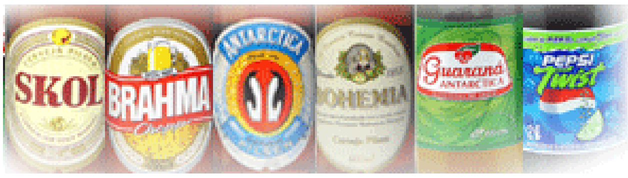



American Beverage Company
Compañía de Bebidas de Las Américas
Companhia de Bebidas das Américas
AmBev

# Transcript

Third Quarter 2004 Earnings Conference Call
November 3, 2004 - 4:30 pm US ET

**Operator**
Good afternoon ladies and gentlemen. At this time we would like to welcome everyone to the AmBev conference call to discuss the earnings results for the third 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**
Good afternoon every one and thank you for joining us at AmBev's 3Q results conference call. Here with me I have Luiz Fernando, who will discuss our Brazilian business, Juan Vergara, who will discuss what we now call Hispanic Latin American business or HILA, and also Felipe Dutra, who will give you further details on the financials.

We are pleased to report that our strategic imperatives – meaning people, culture, strong brands, financial and cost discipline and execution at the market place - are showing results in both our top and bottom lines. Consolidated EBITDA for the quarter was R$1.1 billion, already including one month of Labatt results. EBITDA for Latin American operations was R$977 million, which represents growth of 26% for "old AmBev". Consolidated EBITDA margin was 39%. We have also regained market share in our core Brazilian beer business through disciplined execution –volumes increased by 17%, and as of September, our Brazilian market share was 67% according to ACNielsen. Net sales per hectoliter were R$120, up from $R117 in the second quarter of 2004, an increase that can be attributed to successful implementation of sales initiatives. Recovery of the Brazilian economy and consumer confidence is finally benefiting the beer market. We are confident that we will continue to gain share and are also doing what we can to help develop the Brazilian beer market as a whole. We want to have a larger slice of an even bigger pie.

Our Soft Drinks and International Operations segments are demonstrating exciting growth potential; these two segments are continually improving their importance within AmBev's profit pool.




In our Soft Drinks segment, our market share decreased by 50 basis points, and this was primarily due to our continued focus on higher margin products. Our focus on specially selected efficient products, or the "right few," combined with improved execution and distribution contributed to 70% EBITDA growth year on year. We are continuing to implement practices that have proven to be successful in the beer market in our Soft Drinks business, particularly in sales technology and supply chain management, and expect to sustain such superior profitability in this segment in the future.

Quinsa had an outstanding quarter in the Southern Cone, which was a major contributor to our HILA EBITDA of R$114 million. Quinsa's successful performance and a general macroeconomic recovery in the Southern Cone allowed for an EBITDA growth of 106% in our international segment. In addition, AmBev launched Brahma in Ecuador in the first days of October, which was well received by the market. Our operations in Northern Latin America are showing strong growth potential and we will continue to seek opportunities in the Latin American market.

This quarter was the first quarter that we have consolidated Labatt's results into AmBev's. We are moving up a steep learning curve in Canada and the more we learn about the Canadian market and Labatt, the more enthusiastic we become about our prospects over there. The pricing environment among the value brands in Canada represents a tough challenge, but we do have experience in succeeding in markets with large price gaps. We know we must develop an effective strategy to overcome this challenge, but let me say that, as always, that we don't like to compete on the basis of prices.

We have succeeded in all of our strategic drivers this quarter. We are on track to achieve our 2004 targets and will be in a strong position entering 2005. I will now turn the call over to Luiz Fernando, who will discuss our business in Brazil and Hispanic Latin America.

**Luiz Fernando - AmBev - Sales and Distribution Director**

Good afternoon everyone. As Brito mentioned, our Brazilian business has seen a good third quarter, with both beer and soft drinks posting a healthy set of results.

The beer business over the quarter benefited from a particularly strong September, with a 17% volume increase over 3Q03. At this point, we are optimistic about 4Q04. Therefore, you should expect a full-year volume growth slightly better than the already announced 3%. Our market share now stands at 67%, up 0.7 percentage points since last quarter, according to ACNielsen; and given the very good volume performance, we estimate that this figure may even be slightly higher.

Net sales per hectoliter reached R$120 as we have anticipated. This 3% increase from R$117.4 in the second quarter of 2004 can be attributed to the successful and diligent execution of sales initiatives: carefully targeted price adjustments that were implemented in sales districts on a case by case basis, new sales technologies, an increased amount of sales completed via direct distribution, and the restructuring of the sales force in the territories where we have direct distribution channels.

We are energized about the results so far of the new sales force organization. As already explained last quarter, instead of having sales teams dedicated to one exclusive brand, we now have two multi-brand sales teams for each direct distribution territory where we operate our three major brands. One force is in charge of the region's number one and premium brands, the other is responsible for the number two and number three brands. Our sales forces completed the transition very smoothly and there were no disruptions in our sales execution. This new structure is in place in 90% of the direct distribution centers and will be rolled out to third party distributors within the next 2 years. This multi-brand strategy has increased the sales team's performance and reduced around 5% our sales costs.

We are continuing to drive profitability through the streamlined direct distribution program. We had significant improvement in direct distribution volumes, which grew for beer from 38.3% in 2Q04 to 40.7% in 3Q04. With this improvement, we were able to reduce our fixed costs per hectoliter, and Brazilian direct distribution expenses per hectoliter were 7.3% lower than the same quarter in 2003 and 10.9% lower than 2Q04 as a result.

Our Brazilian CSD and NANC business has profited from the successful application of pricing techniques learned from our experience in the beer market. This improvement in price positioning, in addition to a disciplined emphasis on the higher margin products within our core soft drinks portfolio - such as Guaraná Antarctica, Pepsi-Cola, Pepsi Twist and Gatorade - has led to a volume increase of 3.7% and a net revenue per hectoliter increase of 2.7% over 2Q04 to R$79.2.

We remain excited with the potential of the soft drinks business and the increasingly important role it is playing in AmBev's strategy to drive long-term sustainable growth. We continue to look for ways to leverage the significant synergies between this and our core beer business. We are confident that, through the consistent execution of our best practices initiatives, such as responsible pricing practices, strong corporate marketing and brand building campaigns, highly trained and committed sales team supplemented by our new sales structure will enhance our market leadering position. I will now pass it to Juan.

**Juan Vergara - AmBev - COO for International Operations**
Thank you, Luiz, and good afternoon to all. I will now comment on the operations outside Brazil, the Hispanic Latin America which, going forward we will now refer to as HILA. Strong HILA results were largely driven by organic growth at Quinsa and continued solid results in Northern Latin America. This quarter, we are pleased to report a 104% growth in revenues and 106% growth in EBITDA in the HILA division. Our EBITDA remained in the 10% range of total Company operations.

Quinsa, where we have now increased our financial interest to 52.54% this quarter, was the main profit contributor, with improved volumes and EBITDA margin since last quarter. While the debt restructuring in Argentina presents a challenge, we do not believe that this will have a detrimental impact on the beverage market, and we continue to see growth potential in all 5 of Quinsa's markets. Beverage Associates Corporation - BAC, the holding company that represents our partners in Quinsa, elected not to exercise its rights to exchange its Quinsa shares for new AmBev shares. Their decision indicates to us that BAC's Southern Cone profit expectations are in line with our own high expectations.

Our initiative to replicate our successful Brazilian lessons in other countries is succeeding and we see evidence of this in the strong contribution from our joint venture business in Central America and, our controlled affiliates in Ecuador, Peru and the Dominican Republic, as well as significant improvements in our Venezuelan operations.




I'd now like to highlight some of the successes in each region.

About one year ago, we began operations at Cerveceria Rio in Guatemala, our joint-venture with Cabcorp. Our strategy to combine our expertise in delivering high quality beer at the best cost possible and our technology in driving beer sales, together with Cabcorp's strong distribution platform in the region is a strategy that is working for us, as evidenced not only by our strong mid twenties share position and strong brand equity indicators - both obtained in less than one year - but,most importantly, by the profits being posted by this operation since its early months and by the successful expansion of operations into Nicaragua just a few months ago.

We are now looking forward to the first half of 2005, when our beer operations in the Dominican Republic will be in place. Both Guatemala and the Dominican Republic contributed strongly to both net sales and EBITDA.

In Peru, our soft drinks distribution system upgrade is advancing quickly. During the last quarter we introduced new AmBev sales tools to our direct distribution system in Lima and we initiated direct distribution in key areas in the north of the country previously called by a distributor. This transition was not only smooth but coverage and volumes reacted favorably. On the beer front in Peru, the construction of our new beer plant in Lima is now advancing at full speed and we expect to begin beer sales through our rapidly improving soft drinks distribution system in the first half of 2005.

We launched the Brahma brand in Ecuador in early October, and we are very, very encouraged by the market's response so far. Sales of Brahma successfully took off in Ecuador, supported by a very well orchestrated and executed marketing plan by the local team. Most important, customer and consumer demand is being well serviced by a fully restructured AmBev Ecuador direct distribution system in Guayaquil, Quito and the most relevant markets in the interior of the country. Brahma has already reached over 70% of the points of sale in Guayaquil and over 50% in Quito in a month.

Finally, we are encouraged by our strong improvements in Venezuela. Our focus on superior customer service, branding and advertising to drive sales in Caracas led to 47% growth in volumes in Venezuela. We are pleased to say that our continued investments in direct distribution and proprietary sales technology in Venezuela are paying off and we are now reversing the trend of negative earnings andwe now expect our Venezuelan operations to be EBITDA positive in fourth quarter of 2004.

HILA results are in line with our plan and we are well-positioned for growth in a number of Latin American markets, where we will continue to apply the drivers that made us a leader in Brazil in order to seize all the opportunities that we can catch outside of Brazil.

Thank you, and Brito is back now to comment on Canada.

**Carlos Brito - AmBev - CEO for Brazilian Operations (future CEO for North America)**
Thanks Juan. I would now like to provide an update on Canada. As you know, we began the integration process in Canada on August 27, when the AmBev – Interbrew (InBev) combination was completed. As I said earlier, our people are one of AmBev's most important assets and we believe that taking time to get to know our colleagues in Canada is a crucial step in a successful transition process. We have spent the last few months focusing on getting to know the Labatt

people and we have also spent time familiarizing ourselves with Labatt's internal structures, processes and practices so that we are able to complete the integration in the smoothest and most efficient manner possible.

We have been studying the Canadian beer market structure and Labatt's place within this competitive landscape. Again, the more we learn, the more enthusiastic we are about the possibilities in Canada. As part of the integration process, AmBev is carefully preparing a detailed budget for 2005, and our goal is to maximize the capture of synergies next year.

Labatt's domestic performance in September of 2004 was strong. While we have been able to sustain the same domestic volumes compared to last year, net revenues per hectoliter increased by 6%, driving net sales up. Labatt also benefited from the normalization of Quebec operation after last year's strike. Since no extraordinary freight expenses were incurred this year, profitability margin recovered to the regular level expected on this part of the year.

On the export operations to the US, volumes decreased by 24% in this month of September, a decrease mostly caused by the decision to discontinue the co-packing for other brewers operating in the US. Volumes of Labatt's proprietary brands sold to the US decreased by 7%, and net revenues per hectoliter reached C$65.8.

Labatt's consolidated EBITDA margin in September was 39%, which is the expected profitability at this part of the year. Indeed, there are some comments I would like to make about this EBITDA margin. First, there is a high volatility in EBITDA margins in Canada throughout the year; as we have previously disclosed, EBITDA margin for the cumulated results from January through May this year was 20%. Second, as Labatt's currently books marketing expenses on the timing they occur, a single month analysis is subject to significant volatility. Finally, we acknowledge that in parallel to the integration process we must address immediately the challenge regarding value brands, particularly in the province of Ontario. We are dedicated to defining a consistent strategy to face the value brand segment, which will be incorporated into our 2005 budget, and we are committed to continue to build the profitable and sustainable beer market in Canada.

We are excited about our prospects and are on track to deliver on the plan we presented at the time of the AmBev – Interbrew (InBev) alliance announcement.

I invite now Felipe to take the lead.

**Felipe Dutra - AmBev - CFO**
Thank you, Brito and good afternoon everyone. As we have discussed, during the third quarter, we have moved forward on our goals to increase distribution efficiency, drive net sales and increase market share by implementing programs such as direct distribution in key regions, as well as employing successful promotional and marketing activities. These programs have impacted our SG&A expenses, which were up 23% quarter-on-quarter in Brazil. I'd like to take this opportunity to discuss how these incremental expenses have helped us move forward on our long-term strategic growth drivers.

Sales and marketing expenses for the quarter increased by 34%. Our sales and marketing techniques executed over the quarter, such as trade programs focused on customer service and relationship, as well as improved advertising campaigns, have helped AmBev to regain beer market share in Brazil. We are currently at 67% share and are looking to push that further to




70%. We have offset the incremental sales and marketing expenses by improving our gross margin. As we said in August, we expect our Q4 sales and marketing expenses to slightly decrease quarter-on-quarter.

Our direct distribution expenses increased by 28%, but these investments have been more than counterbalanced by the increase in net sales for the quarter, as “middleman” costs have been significantly reduced. We conducted a greater proportion of total sales through our direct distribution channel - 43.3% in 3Q04 versus 37.4% in 3Q03. Also important to mention is that we increased the amount of higher-margin sales to small retail outlets in the direct distribution sales mix. Whereas distribution costs are higher for this channel, they are more than offset by higher net sales, making small retail outlets the most profitable sales channel.

Administrative expenses increased by only 5%, a figure that we are proud of, as it is less than the accumulated inflation in the Brazilian market. We are constantly focused on improving cost reduction initiatives and our Shared Services Center in Brazil is an example of how we are taking active steps to reduce administrative costs across the company.

I will now briefly touch on Cost of Goods Sold, which, on a per hectoliter basis for Beer Brazil was R$42.9, down 6.5% from 3Q03 and 1.9% from 2Q04. Cost of Goods Sold benefited from improved efficiency and a higher dilution of fixed costs this quarter due to higher volumes. We do not foresee any pressure on beer costs in 4Q04 and we expect COGS per hectoliter to be in line with 3Q04, with a slight benefit from increased volumes and therefore additional fixed cost dilution, as well as a slightly more favorable FX rate.

In the case of CSD & Nanc, the outstanding gross margin of 46.4% was in no small part due to our advanced cost management platforms, which have enabled us to make significant improvements and cost savings in the sourcing of critical components, such as PET resin and sugar. As you should have noticed, COGS per hectoliter decreased in the 3Q04 by 3.6% in comparison to the 2Q04. For the coming quarter we expect little negative impact on COGS per hectoliter from the PET resin price rise, with any such impact likely to be offset by a higher dilution of fixed costs.

AmBev’s net debt position increased by R$2.3 billion and is currently at the R$6.4 billion level. This increase is a consequence of the merger of Labatt into AmBev and also a decision to slightly increase the company’s leverage, implemented through the buyback programs performed in the 3Q. AmBev’s policy has always been to fully hedge its US dollar debt, and this quarter is no exception. At this time, we are still in discussions about the possibility of restructuring Labatt’s debt and we will update you on this topic in due course.

We are presently in the process of refining the cost management structure in Canada, and remain positive about the opportunities for reducing costs. We look forward to sharing our complete plan for Canada next year.

Thank you very much and we will now open the call for the Q&A session.

## Questions and Answers

**Operator**
Thank you. The floor is now open for questions. [OPERATOR INSTRUCTIONS]. Our first question is coming from Robert Ford of Merrill Lynch. Please go ahead.

**Robert Ford**
Hi everybody and first of all congratulations on the quarter. My question had to do with your rollout of your new sales force restructuring effort. Historically, I thought the wisdom was that if you have separate sales forces for every brand you drive a relationship need on behalf of the proprietor and perhaps a little bit of charity sale for value brands. So the understanding was that prior you want to spread this around. Can you explain how you're growing your volumes with the new structure and how much better is that volume growth than the 17% average for the quarter?

**Carlos Brito**
Hi Bob, this is Brito. Just to comment on what we call the “Projeto Marcas”. At some point we reached the conclusion - and we did pilots for almost 2 years - that 3 sales forces in most market situations was not an ideal thing to have. One of the reasons being that we had soft drinks in all 3 sales forces and therefore a lot of SKUs to be sold by 1 sales rep. So what we decided to pilot, and the results are really good, especially for beer and especially for the premium segment, is that we decided to have one sales force with our leading beer brand - Skol in most markets - and with Guaraná Antarctica - our own soft drink, with also high margins - and products like Gatorade. I mean, the leading beer with the high margin products.
In the other sales force we would have the two other beer brands - for example, Brahma and Antarctica - and the whole of our other soft drinks and non-alcoholic beverage products.
That provided a couple of things. First, the first sales force described with the leading brand provided more focus and therefore increased sales for that brand, the leading brand.Second, the second sales force described provided more coverage for the #2 and #3 beer brands because having these two beer brands combined increases scale and you're able to afford to cover more point of sales than before. That was also good news for #2 and #3 beer brands.
That also provided us with a lower cost of sales structure and the challenge we continue to have is a little bit on the soft drink side because beforehand you used to have three sales forces selling the whole of our soft drinks and now you have Guaraná being sold by both, but Pepsi only being sold by the second sales force, which is one thing we have to address.
So again, great news for beer, neutral for soft drinks and positive on the cost side.

**Robert Ford**
And how much better are they, Brito, than the run rate that you had in the quarter?

**Carlos Brito**
You mean for the beer?

**Robert Ford**
Yes, for the beer.




**Carlos Brito**
It's kind of hard to tell you a number for average of the country. First because we're not throughout the country and we're not there yet in terms of having these two sales forces approach. We're still in the roll out phases.
And second, because, again, different regions, different results. But I can tell you that for the super premium brands, that's a 10% volume increase.

**Robert Ford**
Okay. You talk a lot about the favorable shift in channels. Can you talk a little bit about packaging trends for returnable, non-returnable going into the fourth quarter and is there any reason to believe that this year things might be a little bit different going into the December quarter? And perhaps beyond, into the January quarter post implementation of flow meters?

**Carlos Brito**
Are you talking about the packaging mix?

**Robert Ford**
Yes, packaging mix.

**Carlos Brito**
We have been very happy that in the last 5 years - and this year has been no different - we've been able to keep returnable bottles at 70% of our total package mix and cans at around 25%.
Of course, every year in the fourth quarter, cans go -- you know they go up to 27%, 28%, taking share away from returnable bottles. But then in January, February, we normally go back to the average of the year.

**Robert Ford**
Is this year going to be the same? Is there any reason to believe it might be a little bit different?

**Carlos Brito**
No, no. It's going to be the same.

**Robert Ford**
It's going to be the same. Post flow meter, you think it goes faster back to returnables or do we see pricing pressure on some of these non-returnable packages?

**Carlos Brito**
Well, again, flow meters are good news overall no matter what kind of package or channel you're talking about. It's going to be implemented by law until January 21, 2005. So that's going to be a different road, we think. It could be both things. I mean, it could be our competitors being less aggressive in the market place because now they have to comply 100% with taxes and/or prices being less pressured from the same competitors in the market place.

**Robert Ford**
Great. Thank you very much.

**Carlos Brito**
Thank you.

**Operator**
Thank you. Our next question is coming from Jose Yordan of UBS. Please go ahead.




**Jose Yordan**
Hi, good afternoon. I just had a couple of questions of clarification. Luiz Fernando was saying that the volume growth for the year that you're saying volume growth should be a little above the 3% for the year. That would imply about a 10% volume growth in the fourth quarter and of course last year's comparables were just as easy in the fourth quarter as they were in the third. Considering that you just did a 17% growth on the easy comps, why could the fourth quarter not be closer to the 17% than to 10%? Is there any reason and perhaps you can tell me what's been happening in October so far to shed light on what we should expect for fourth quarter?
Then the second question is kind of related to that. Did I hear Felipe say that selling expenses in the fourth quarter would be less than the third quarter, that is less than R$175 million? And if so, that would be a big drop over last year.

**Felipe Dutra**
Hi Jose, this is Felipe. The point is: sales and marketing expenses during the fourth quarter should be slightly lower than the fourth quarter last year. Not the third quarter.

**Jose Yordan**
Okay, okay. Thanks.

**Felipe Dutra**
But for the full year you should expect marketing and sales expenses to be around 25% higher than the full 2003.

**Luiz Fernando**
Jose, this is Luiz. First your mathematics is absolutely right. If you compare last quarter with the third quarter, it's reasonable to have a 10% increase. That will drive us to a 3% or slightly over 3% increase for the year. But, you know, it will depend a lot on what happens in December. So September volumes were great. But everything happened perfect during September – weather, economy, market share. So we wouldn't expect everything to repeat exactly as well as it did in September in December – the most important month of the year. So we expect to be really at 10% or slightly over 10% for the last quarter this year. It could be, but…

**Jose Yordan**
Can you share with us what happened in October?

**Luiz Fernando**
In October, we're still closing the numbers because today it is November 3. But it's going to be in the high teens.

**Jose Yordan**
Great. Thanks a lot.

**Luiz Fernando**
You're welcome.

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

**Lore Serra**
Thanks and congratulations on a strong quarter. I had a couple of questions. Let me try to break them up and the first is more a follow on to the volume growth. You mentioned that September was strong, which is clear in terms of where the quarter ended and October also strong. I guess what I'm trying to understand is how much of this is the market coming back versus the market share data versus some of the weather factors that you mentioned. I guess the Nielsen data isn't so reliable because it's hard to believe that the market grew 4% over the third quarter. And your market share on a year-on-year basis is more level. So if you could comment on what you're seeing in the last couple of months. Is a differential factor, are you gaining more market share than Nielsen is estimating do you think, or do you think it's weather related, or you're seeing just a very powerful economic recovery?

**Carlos Brito**
Hi Lore, this is Brito. I think it's a combination of all the factors you mentioned. Of course, when you look year-to-date, you saw for example May, which was extremely bad for us and the weather didn't help at all. You saw September, extremely good for us at the other extreme with the weather helping a lot.
Now taking out the weather factor, I think the economy is helping a lot and finally the purchase power gain got to our sector. Since July we've been seeing year-on-year volumes up on a monthly basis and I think it's also our share is up. We do have some internal controls within our Company in terms of share performance and market-related performance. We think there could be some delay in Nielsen numbers. There could be, but we will see. So we think it's a combination of everything. But September specifically the weather played a big role in helping the other two factors – the economy and the share growth.

**Lore Serra**
Okay. I wonder, as you're approaching the heavy selling season now, could you comment on what you think is the right pricing strategy for you guys? I mean, you've talked about pricing with inflation. The last time you did anything major in terms of pricing was about a year ago though you mentioned in the press release tightening some of the discounts on Antarctica. Could you comment a little bit on your pricing strategy?

**Carlos Brito**
Yes, well of course we're not going to comment all the details because this is a competitive sensitive issue. What we can say is that last year, when we put through our price increase, we had a scenario in terms of inflation that didn't materialize in the second half of the year. But because we put our price increase in June/July time period, we kind of put a price increase more than what inflation actually was and therefore there was a spill -- an overspill of pricing from last year into this year. And therefore this year we decided to have a much more revenue management-type approach in dealing with price than an across the board-type price increase as we had last year. Just because of the way things were last year and the fact that inflation in the second half last year got tamed down.
We continue to hold our long-term guideline in that our pricing will go line-in-line with inflation, on average, for the year. So again, when you look average of '04 on top of average for '03, you will see that we're going to be adhering pretty much on average to that long-term guideline. So that's as much as I can say about pricing.
What we will do for the fourth quarter this year is to watch very closely what the trade is going to be doing in terms of their margin because there is always the possibility that if volume keeps growing every month, that at some point they would try to gain back some of the margins. And for competitive reasons they have been losing because of competitive action with competing bars, okay. So that's something that we need to watch out as always because that could impact our volume for the quarter. But other than that, that's pretty much what I can say at this point about pricing.

**Lore Serra**
Okay and just a question on cost. You mentioned your cost outlook for the fourth quarter. I think if I understood Felipe correctly he was saying that COGS per hectoliter should be flat sequentially and beer maybe better depending on dilution of fixed costs and stable on soft drinks. But could you give us a sense, even if it is preliminary, of what your raw material view, at least for key commodities is for 2005?

**Felipe Dutra**
For 2005 we have already entered into some forward agreements to cover commodity prices exposure. Mainly aluminum and sugar in a very favorable price as compared to the current market prices. But I think it's too early to forecast those for the full 2005 year since we are still working on that.

But in general sense, we expect better aluminum price and it is a work in progress.

**Lore Serra**
Okay. Thank you.

**Carlos Brito**
You're welcome.

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

**Alex Robarts**
Hi. A couple of questions on Canada. Carlos, you characterized the volatility of the margins there from an EBITDA perspective and I'm wondering is that mostly because of how you're allocating the marketing expenses? In other words, it seems like you're expensing them as you spend them. And so is it safe to assume that second half of the year is going to always be a better margin in that EBITDA perspective than a first half because you're spending the marketing earlier in the year? Maybe you could give us some color about that volatility idea.

**Carlos Brito**
Yes, you're right Alex. The way they do it today - which we're going to change for next year - but the way it is being done today, you have exactly the problem you described. I mean, in the first quarter you put the money up front, and that affects margin. And then in the second quarter where you don't have the same kind of spending level that will drive your margins up.

As you know, at AmBev we have a different treatment for marketing expenses in that we tag that to the volume curve to give a real sense of what's behind the volume in terms of marketing support. So we're going to be adopting the same methodology for next year. But this year, you're going to still see some volatility.

**Alex Robarts**
So next year the marketing-volume curve is going to be in effect. Is that right?

**Carlos Brito**
Yes.

**Alex Robarts**
And just kind of trying to understand the volume trend here. I guess just looking at the 9-month statement from InBev this morning; it looks like the first 6 months you're tracking in Canada the




first 9 months. I guess the statement is slightly below the industry at 0.8%. I'm wondering could you give us a little bit of color of why you think you are tracking below? Is it this Ontario idea? And I think just related to that, Carlos, just some characterization of these value brands in Ontario. I mean, obviously value brand in Brazil is probably a different concept than in Canada given the minimal price requirement in certain provinces.

**Carlos Brito**
Yes, in terms of market share, one thing that we might add for you, the complete understanding of the picture for this year is that we dropped the Carlsberg co-packing volumes that we used to have in Canada. And according to the figures - I don't have these in front of me - but from top of my mind that was responsible alone for 0.6 percentage point in our total market share in Canada. So that's one thing to consider.
The other thing you rightly mentioned is that in the province of Ontario we did lose some share because of the value brands. But it's also right to say that we did also gain share in the other provinces. So for the balance of the year, year-to-date, our share is at 41.7% versus last year at 42.1%. So 0.4 percentage point below last year, but keep in mind that, if I'm not mistaken, that Carlsberg represented 0.6 percentage point of our market share last year.

**Alex Robarts**
The notion of the value brands is that pretty much [unaudible] in other provinces it's actually priced at a premium to you guys. I mean, did they seem to be the threat and how might you think about kind of going after them? Maybe could you share some thoughts about that with us?

**Carlos Brito**
Yes. As you said, we deal with the same kind of problem in Brazil. Of course because of different reasons, but the same kind of problem. I mean, price gap in Brazil is because of taxes and everything. In Canada, just because some regional competitors like Lake Port and some others in the province of Ontario decided to compete on the basis of prices and that, of course, generates the same kind of price gap. And right now it's affecting our business in Ontario but again we do have plans for '05 to try to deal with this kind of situation.

**Alex Robarts**
Okay and the final thing here on Canada, you told us in September that you were really on track for the EBITDA number similar to what the Citibank projection had. I guess looking at my numbers, which seems to be around the $520 million level,is that kind of safe to assume where you might end up for 2004 in Canada and does the recent strength of the Canadian dollar at all impact that estimate?

**Carlos Brito**
Yes, again what we've seen so far year-to-date is that we are on track in Canada to deliver on the EBITDA number that we used when we disclosed our transaction, which is around $650 million Canadian dollars for EBITDA '04 for the Canadian business.

**Alex Robarts**
Okay and you're assuming I guess about a 1.20? I mean do you have that on the top of your head and what you're doing with your Canadian dollar assumption? Is it about 1.20?

**Carlos Brito**
That's a good question. Let me see if Felipe can help me out here. I don't know it from the top of my mind.

**Alex Robarts**
Okay, I can follow up offline.




**Carlos Brito**
Okay. Thank you very much. I don't have this in front of me.

**Alex Robarts**
All right. Thanks.

**Carlos Brito**
Thank you.

**Operator**
[OPERATOR INSTRUCTIONS]. Our next question is coming from Tobias Stingelin of JP Morgan. Please go ahead.

**Tobias Stingelin**
Yes, thank you. Congratulations to everyone and just a follow up question related to Canada. I was impressed with the magnitude of the price increase year-over-year and the Company says very clearly that it has a unique go to market platform in Quebec. Can the Company maybe provide a little bit more details about this platform and if it is possible to export, or to replicate the same type of platform to other provinces?

**Carlos Brito**
Hi Tobias, this is Brito. Let me just explain to you. Our net sales in Canada for the month of September were 6.3% up, impacted by two components: one is the price increase of 2.6% and the other is the recoup in the Quebec volumes that we had this year. The Quebec provinces, because of lower taxes, enjoy a higher net sales and therefore a higher margin.
So as volumes in Quebec recovered from last year on a year-over-year basis, our Company-wide average net sales did increase as well. So two-thirds of the 6% was mainly because of Quebec volume recovery post-strike and one-third is because of price increase.

**Tobias Stingelin**
Okay. So we cannot assume that there is something special in Quebec that can be replicated to the other provinces that could allow such an important increase in revenues per hectoliter?

**Carlos Brito**
No, no. Quebec has just a different tax rate at this point and because of that we do enjoy higher net sales per hectoliter and therefore higher margins over there.

**Tobias Stingelin**
Thank you Brito. Can I just follow up? Right now you are still CEO for Brazil so you have to make sure that the targets in Brazil are met. But you're also involved already a lot in Canada. Your role right now has been really making sure that the Company has a very tight budget for 2005? How can you see exactly that Labatt is being prepared to be fully managed under AmBev, let's say?

**Carlos Brito**
Yes, I will be in Canada beginning January 1. So I'm still wearing the old AmBev hat and I'm here in charge with my team to deliver our 2004 targets. At this point we are on track to deliver those numbers.
At the same time we're also participating in the build up of the budget '05 for Canada. So yes, we're participating in that process as well.




**Tobias Stingelin**
Thank you. Can I just make a final question right now to Felipe? Regarding the Company strategy related to free cash flow for share buybacks or dividends. Right now that the Company has this big reserve in balance sheet related to the capital increase relating to Labatt, should we expect more dividends in 2005 or is the strategy still rather to focus on share buybacks? Thank you again.

**Felipe Dutra**
Well, the strategy will not change based on the higher reserves that we have right now. In fact the higher reserves will help us to pay higher interest on own capital going forward. Then, however, we expect to be capped by the 50% of retained earnings threshold instead of the shareholders' equity times TJLP. Going forward we should continue with our strategy of combining dividends above the minimum required as well as the buyback program. No change in this front.

**Tobias Stingelin**
Okay. Thanks again.

**Felipe Dutra**
You're welcome.

**Operator**
Thank you. Our next question is coming from Denis Parisien of Standard New York. Please go ahead.

**Denis Parisien**
Hi guys. Congratulations on the quarter. I'm wondering if you could do me a favor and breakdown the increase in debt on your balance sheet. How much was from the incorporation of Labatt Canada and how much was organic to AmBev?

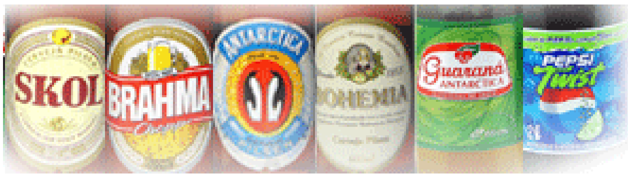
**Felipe Dutra**
Hi. We incorporated $1.2 billion Canadian dollars as a result of the Labatt merger into AmBev.

**Denis Parisien**
Okay. Thanks.

**Felipe Dutra**
You're welcome.

**Denis Parisien**
And if I might follow up, on the international operations in the press release you discuss 30% market share in Venezuela and talk about trying to, I guess, roll that success in Caracas. I'm sorry, it's 30% in Caracas. You talked about trying to rollout the success you've had in Caracas into the rest of the country. What is your market share in all of Venezuela and how are you going to go about branching out to the rest of the country the success that you've had in the capital?

**Juan Vergara**
Okay let me just first comment on, just to make sure that you got that number right. That 40% plus growth is volume all over Venezuela. Share in Caracas today we estimate at about 30%. Our share nationally today is in the 12.9% range. We will probably begin to roll out some of those strategies to other markets. We're in the process of defining when and where and I guess we won't discuss that in the open light here.






**Denis Parisien**
Thanks for that and can you discuss any of the details of your strategy in Peru? When do you think you're going to be rolling out your product there and what kind of products are you going to roll out and what do you expect your sales to be in Peru next year?

**Juan Vergara**
Let's see. We are already building the plant. So that's proceeding at full speed and we expect to go live with beer during the first half of 2005. We're not going to give any guidance today as far as numbers, nor as far as brands. Basically because we will take the time that we have while we build the plant, as we have done in other greenfield operations, to do all the homework, understand the consumer better and fine-tune concepts and campaigns. So that's a call we will make at the last minute. We'll have obviously more than one option. Today we're fully focused on, obviously, growing the soft drink business and most important on growing the quality of our distribution, which is improving very rapidly in Peru.

**Denis Parisien**
Thanks. It seems that you're spreading obviously the strategy to grow -- diversify geographically and spread your wings significantly across the region and you've got some significant start ups going in Peru, Ecuador. You're trying to roll out from Caracas into the rest of Venezuela. You're going into the Dominican Republic with a greenfield beer facility. Are we expecting to see significant increase in stuff like sales and marketing costs?

**Juan Vergara**
Yes, your question cut off in the middle. Can you take it from the half onward please?

**Denis Parisien**
Sure, just with respect to your expansion in HILA, I'm just wondering, should we expect to see significant increase in SG&A and then sales and marketing expenses as you roll out in different countries various greenfield and expansion at brownfield and greenfield expansions across the region?

**Juan Vergara**
You should expect growth for sure. We're not going to make any further comments at this point in time. But definitely, you should expect growth out of those markets, yes.

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

**Dan Kwiatkowski**
A couple of questions regarding your Brazilian beer operations. One, can you describe the competitive environment right now in terms of what you are seeing from competitors in terms of marketing spending? The second I'll come onto later.

**Carlos Brito**
This is Brito. In terms of marketing spending what we know is that Kaiser is looking for a new advertising agency. So they are looking -- they are in the process of transition from one type of communication to the next. So, not much to say about it.
In terms of Schincariol, we know that they will be launching a line extension from their mainstream brand called Nova Schin. They're calling it Nova Schin II and I think they're going to use this launch as an umbrella for a new campaign to try to reach for the overall target audience. So we are on the look and trying to see what their next move is going to be. But from what we hear in the market and also the newspaper, it's going to be the launch of this new segment called Nova Schin II, which is a beer with tequila and lemon, from what we understand.

**Dan Krytovski**
Sounds good. Second question is: you've obviously reached your market share target of 67% for the full year. I mean, at what point do you decide that it's more profitable to go for price than volume?

**Carlos Brito**
Again, price is set by the market and we learned this lesson last year in the second half as we put more prices than the market was willing to pay. I think we learned our lessons and we will always try to do what's best in terms of value creation. We don't see 67% as being our ceiling by no means. I mean for the last four years we've been fluctuating between 67% and 70%. What we think it is going to be very important again is the flow meters that are going to be introduced in January next year. That could change the landscape for the better, be it price-wise or marketing investments.
So again, we'll always act in the sense of maximizing value creation and we think flow meters could act in our favor.

**Dan Kwiatkowski**
Last question. How actively are you looking at the Mexican market in terms of an opportunity to enter?

**Carlos Brito**
I think that Mexico is one big hole when you look at the Americas together with some other big markets and we'll always be looking at markets like Mexico. But again, having said that, it's a tough market to enter and we need the right strategy.

**Dan Kwiatkowski**
Okay. Well thanks very much.

**Carlos Brito**
Thank you.

**Operator**
Thank you. We have time for one last question. Our last question is coming from Celso Sanchez of Citigroup. Please go ahead.

**Celso Sanchez**
Good evening. Just wondering if you could elaborate on a couple of small things first. One is the co-pack you referred to in the press release said something about a brewer in the United States, but I heard you talk about Carlsberg. Are they one and the same? Am I confusing them? That's the first question.

**Carlos Brito**
No, no, Carlsberg is the one that we used to co-pack for the Canadian market. For the US, it was Guinness.

**Celso Sanchez**
Okay. That's okay. So basically you have dropped both of those going forward?

**Carlos Brito**
Yes.

**Celso Sanchez**
Okay. Then the second question is if we could get a better feel for the Quebec impact last year. Obviously the recovery you said helped both in the volume front and on the revenue per hectoliter. What kind of volume fall of last year, or conversely, what kind of volume increment did you get just recovering those volumes? Can you give us a sense of that?

**Carlos Brito**
Yes, so sorry I don't have the numbers here in front of me. What I do have is market share impact.

**Celso Sanchez**
Okay.

**Carlos Brito**
Sorry, not the market share impact. What I do have is the dollar amount impact that we had last year because we increased logistic costs, being freight or cost of servicing the market and that was around $30 million Canadian dollars. That was the impact of the Quebec strike last year.

**Celso Sanchez**
Right. That's what you disclosed earlier this year if I remember correctly?

**Carlos Brito**
Yes.

**Celso Sanchez**
Okay. Is it possible to get the other number if I call you offline?

**Carlos Brito**
Yes, I'll try. I don't have it here in front of me but I'll ask our IR guys to get it to you, Celso.

**Celso Sanchez**
That would be great and on that same basis, can you give us a sense of the Molson trends? They have obviously had problems and not just in Brazil but in Canada. Is your sense that they are losing share in Quebec to you, or are they also doing well? Do you have any sense of that at all relative to your share in that particular province?

**Carlos Brito**
I think first I would have to say that Molson is a very tough competitor. We respect them a lot. I think in Canada they are suffering the same kind of pressures we are suffering from the value brands. I think they're losing share in some provinces, as we are, and gaining some others. But I think they've made a statement about that, much more precise. But I don't have the figures here in front of me. Sorry about that.

**Celso Sanchez**
Okay then just the last question if I could ask on the CSD business. It's been a lot more profitable for a lot longer than I would have expected, which suggests to me it's no longer -- you know if I thought before that is potentially just a couple of spikes, it clearly seems to be a trend. Can you elaborate a little more? I know the "right few" strategy is something you've talked about for a while. But can you elaborate a little more what might be behind a margin that seems to be double that of some of the stronger Coke bottlers in the country? Is it just the hedging impact and if that is the case, is that -- I mean it clearly isn't just that. But how much of the profit improving would you attribute to that and how much would you say, or what would you say a reasonable target is for a soft drink business in Brazil now?

**Carlos Brito**
I think the kind of margins we're seeing, we expect to have them going forward. I think when you compare us in the soft drink business to Coke bottlers you have to think two things.
First, that 60% of our volume is made from our own brands. So I mean we don't pay concentrate to anybody and that is a very, very important thing when you talk about profitability.
The other thing is that the huge scale that beer provides to soft drinks makes the whole logistics and delivery for soft drink much more favorable than for some of the Coke bottlers that don't have this kind of scale going for them.
Other than that I think you just said: the "right few" was a great strategythat Juan started years ago and João followed through in the sense that we decided not to support all the brands that we had in the past, but only a few profitable brands. And yes that's pretty much it.
We expect this kind of margin to continue.

**Celso Sanchez**
Okay. So when you say this kind of margin, you're talking sort of 30%?

**Carlos Brito**
Yes. Yes, around 30%. You're right.

**Celso Sanchez**
Okay. Thank you.

**Carlos Brito**
You're welcome. Thank you very much.

**Operator**
At this time I would like to turn the floor back over to Mr. Brito for any final remarks.

**Carlos Brito**
Well I would like to say thank you to all the participants. It was a pleasure to have this conference call along with you. We're very excited about this third quarter that we just announced and we are on track to deliver on our targets for '04. And we're very optimistic about '05 because not only the macros are pointing to the right direction, but we also think we're going to finish up the year on a good tone. So thank you very much and I'll see you all next quarter.

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