AMBEV

AmBev Fourth Quarter Earnings Release

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Operator: Good morning. My name is Sharet and I will be your conference facilitator today. At this time, I would like to welcome everyone to the AmBev conference call to discuss the results of the fourth quarter 2001. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer period. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad and questions will be taken in the order they are received. If you would like to withdraw your question, press star, then the number two on your telephone keypad.

Today we have simultaneous web cast that could be accessed at the site www.ambev.com.br. That was B as in boy, R as in Robert. There will be a replay facility for this call in AmBev's web site.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from those anticipated. Any forward-looking comments as a result of the macro-economic conditions, market risks, and other factors.

Now I will turn the conference over to our host, Mr. Marcel Telles co-chairman of AmBev board of directors. Mr. Telles, you may begin your conference.

Marcel: Thank you and good morning, everyone. Again, participating with me on the conference call today is our CFO Felipe Dutra, our sales director Carlos Brito, our soft drinks director Juan Vergara and from our investor relation department, Dana and Alexandre.

2001 was a challenging year. We started out prepared for growth and economic stability in our market. But instead we faced a strong devaluation of the Real and the rationing and the slow agony of our neighbor Argentina with all implications on our market. We did achieve our financial targets, EBITDA close to US$ 2 billion and EVA of 355 million Reais, but did not consistently advance our long-term strategic initiatives, specifically revenue management.

We increased our revenues per hectoliter by modeling our cost. But we didn't do so as precisely or as effectively as we were able to do in 2000. The result was that the final consumer felt price activities, which is against our strategy.

Increases in consumer prices in the third straight year of stable per capita income in Brazil undermined the beer market, which is part of the reason for the decline in volumes this quarter. Next quarter, due to all that and to other factors, we may see an even stronger decline.

While we extracted synergies from the merger, the drive for operational efficiency lost focus as currency and electricity supply issues dominated our attention.

Building on the lessons from last year in 2002, we will impose upon ourselves the following challenges. First, focusing totally again in revenue management and second capturing productivity and efficiency improvements that are totally within our control.

While performance against financial targets is essential, our long–term strategic plan is what's most important. The opportunities AmBev represents are huge, but we must be sure to raise the bar for our performance every year and to capture them. I will now ask Brito to talk about our beer business.

Brito: Well, thanks, Marcel. 2001 has been a very tough year. In the first quarter of 2001, our growth year over year was 6%, but this rate of growth was never – not even close to the case for the other quarters. The second quarter saw no growth. The third quarter negative two and the fourth quarter a negative 4.4%. Our 2001 volume was flat on a comparable basis with the year 2000.

The 29% increase in our revenues per hectoliter was a result of more direct distribution, better sales mix be it product or package and the price adjustment we implemented last year. On average, we did gain share year over year from 69.1% for the full year 2000 to 69.5% for the full year 2001.

This could be the end – very well be the end of my beer sales review of 2001, but this would be incomplete. In fact, despite the revenue and margin gains of 2001, we're not happy with the way we orchestrated our sales efforts. First, because we did not do a good enough job of sheltering the consumer for most of the price increases of last year. Second, because in not doing so, we lost some share in the last four months of 2001 and the market contracted somewhat. Third, because as Marcel mentioned, we did not achieve all the cost savings we were capable of.

In the year 2002 we want to fine-tune our sales execution in order to keep the same level of profitability that we achieved by year-end, but with a different combination between the main drivers of our business. Here, sales volume, pricing, and selling and marketing expenses. In other words, we have a target of bringing increased levels of quality for new levels of profitability.

Also in the year 2002, we had three main focus areas. First one is to role back consumer prices of our products, whatever we have increased at the point of sale margin expanded beyond our own pricing. Second, invest in new tools to customize prices in point of sales. And more specific, we are changing our handhelds with our sales force for better ones and with this enhanced equipment, we'll be able to use software that will help volume and price execution at the point of sale. And thirdly, develop strategies to deal more effectively with the low price beer segment that grew recently.

On the per capita front, we have just completed the consumer study that showed us big opportunities on how to explore new consumption occasion. Based on this study, we have reviewed some of our execution standards to account for different opportunities and needs of different channels.

The preferences for our beer brands have grown from 79% to 83%. This growth shows you how efficient our sales and marketing investments have been in capturing an even bigger share of the consumer preference. The challenge we have in the sales department is to translate in market share what the consumers already have in preference.

I'll now pass it on to Juan to update you on CSD.

Juan: Thank you. This quarter our soft drinks results improved over last quarter and we reached our quarterly goals for top line growth and margins. This was achieved first by leveraging Guaraná Antarctica equity allowing us to raise prices in that way compensating for the impact of the currency devaluation, which, as you know, affected our margins for most of 2001. And second by reducing Pepsi discounts bringing us closer to our objective, which is a full alignment of Pepsi pricing with that of Guaraná Antarctica.

Increased use of beer pricing technology applies to soft drinks and it will continue to improve our ability to better manage relative pricing versus competition that is across channels and across packages. Volumes for soft drinks were flat in the fourth quarter compared to last year. However, our core portfolio maintained growth trends: it was up 2.4% this quarter versus the same period last year.

For the total year of 2001, our soft drinks volume in Brazil grew 8.3%. Our core portfolio performance was quite good throughout 2001 with a nearly 17% volume growth versus the prior year. During the fourth quarter, we maintained our planned investment in brand equities. That investment focused obviously on our core portfolio and as we have explained that before, it is potential to raise brand equity for those brands in our long term – for our long-term success in this business.

And we are encouraged that December market share of that portfolio increase 1.1 percentage points from December 2000 and that Guaraná Antarctica brand, a key brand equity metric for us, continued its growth trend and we're maintaining a very tight gap to the market leaders.

This year in 2002 we have begun to take full advantage of our association with the Brazilian football team and as official sponsors, we're reflecting that in all our advertising since the beginning of the year. And under this same umbrella of official sponsors, we will be implementing customer promotions linked to soccer or football throughout the second quarter. We are currently projecting that our volume can grow in 2002 versus 2001 and we believe that a more stable currency will allow us to improve our soft drinks margins this year.

Adding Pepsi's Gatorade to our portfolio enhanced our position in Brazil in non-carb segments. We did that as an extension of our existing franchise agreement with Pepsi. We actually began distributing the Gatorade brand to supermarkets already in January. And we're still waiting on anti-trust approval before taking further steps to fully integrate the business.

Finally, we are continuing moving ahead with Guaraná Antarctica expansion. We believe that Portugal was quite successful and continues to be successful in following that introduction. We are making an official introduction in Puerto Brito in partnership with Pepsi America. That will take place this week. And quite soon, we will be announcing the introduction in European countries. That will take place during the first half of 2002.

I will now pass it on to Felipe.

Felipe: Good morning, everyone. I'd like to start by discussing our costs this quarter. The Real devalued an average of 32.4% against the dollar in the fourth quarter comparing to the same period last year. This was by far the most important impact on our cost per hectoliter representing an increase of 14% from last year. In addition to that, our cost in the fourth quarter increased 1.2 Reais per hectoliter because of higher label costs as well as increased electric and energy costs when compared to last year.

From now on, we are more focused on capturing all the opportunities for productivity and efficiencies in order to bring our costs down. Our selling and marketing expenses also rose in the quarter, though most of this is due to the over location of marketing expenses during the quarter. In the full year 2001, selling expenses were 20% above the previous year. This promotional expending on our beer and soft drink brands was higher. However, selling and marketing expenses as a percentage of sales remains stable at 11%. This level of spending has been supporting growing preference for our brand as Brito mentioned. But we support the opportunities for cash cost reduction into 2002.

Our interest expense was 60 million Reais above the fourth quarter of 2000, reaching 123 million Reais. One of the reasons for this is the higher average level of net debt compared to last year. Net debt reached 2 billion Reais at year-end compared to 1.2 billion Reais last year. The increase in net debt, despite cash generation of nearly one billion Reais during 2001, is mainly from first CAPEX and deferred expenses of 530 million Reais. Second, our acquisition of minority interest in Nordeste and other subsidiaries of 470 million Reais. And third, mandatory dividends and buyback program totaling 500 million Reais.

This year we expect to pay down 1.5 billion Reais in short-term debt of which 128 million Reais has already been paid down as of March 1, 2002. The proceeds of the bonds will fund 560 million Reais for that reduction. And the remaining amount will be financed by our own cash flow generation.

Our debt continues to be fully hedged but we are also considering improving our variable costs in that hedge in order to be proceeded against currency volatility as we saw last year.

Giving a brief review of some of the main items that affected our net income, which fell this quarter to 179 million Reais. We had another operating loss of 55 million Reais for foreign exchange losses, this is related mainly to our plant assets in Argentina, whose functional currency is the US dollar.

Also an operating gain of 7 million Reais was registered during the quarter because of Federal excise and income tax credit. Impact of the devaluation in Argentina during the quarter was quite small, 8 million Reais. We wrote down our assets in Argentina related to the beer operations while we did not do for the multi-plant, as its functional currency of this asset is the US dollars.

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

Operator: At this time, I would like to remind everyone in order to ask a question, please press star then the number one on your telephone keypad at this time. If you would like to withdraw your questions, press star then the number two. Your first question comes from Gustavo Hungria of Pactual.

Gustavo: Hello, everyone. My question is basically regarding your forecast for 2002. Just would like to know if you could provide a guidance of what you expect for growth in beer volumes and also prices. What would be your strategy regarding those two points?

Marcel: I'll start and then maybe Brito can complement it. Our basic feeling is that 2002 will be almost the opposite of 2001. I mean, in 2001 we're off to a very, very good start, fantastic weather in the first quarter. All the projections are for growth and so on. And then came the energy crisis, devaluation, Argentina, and so on. So what seemed like a very, very good in the end was not such a good year in terms of volume.

This year I think that we'll basically have a very challenging first quarter. We already came from a decline in the last quarter and we're having one of the worst weather ever in the first two months of the year. But having said that, we do think that good news will come throughout the year like the World Soccer Cup, elections and some growth in the economy.

So all in all I think that our basic feeling as far as 2002 comparable in volume for 2001. But maybe Brito will like to expand on that.

Brito: Yes. As Marcel has just mentioned, we are this year as opposed to last year we're off to a bad start. We've had – it's a very good quarter to lap as compared to last year's first quarter. Last year, again, we had a growth of 6% over previous years and this past quarter 2001, we are 4.4, a negative 4.4 as compared to last year. So it's plus six and a negative 4.4. But it's very hard to lap. And besides that, we had a very poor weather conditions for the two months January and February.

Just to give you a feel, the Brazilian government decided to anticipate and decided to cancel the power rationing that we were having in Brazil much sooner than they expected because of all the rainy season. It was not typical for this time of the year.

And also we got news from a consumer product company in Brazil which uses what they call a weather index in which 100 is the average of last four or five years. And index for the first quarter last year, just to give you a feel, was 114. That is last year first quarter was better than the average weather wise. And for this year, the first two months is 87. So, again, much worse than historical average and much more worse than last year.

So all in all what Marcel said is that stable volume for this year, but again, off to a bad start and we think this first quarter we're going to be seeing a negative 10% in volume as compared to the first quarter last year. Thank you.

Gustavo: Thank you.

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

Carlos: Yes. Good morning. I was hoping you could give us a little bit more insight on some of the things that Brito talks about on sales for 2001, specifically what kind of strategies. What are the problems that you're seeing with discount brands? How did discount brands behave specifically in carry on in the second half of 2001 and what are some of the measures that you can see to offset some of those things? And how much pressure that's putting on pricing.

Brito: Okay. Carlos, first, let me just comment one thing. Against Kaiser, our strategies, marketing and sales strategies, I would say most of the strategies have worked out pretty well, I would say against Kaiser for the competitors. Proof of this is that Kaiser's market share peaked a few years ago at 17% and today is around 13+%. I think it's a very tough competitor, but I think we, at this point, we know a little bit of how to deal with them.

On the other side of the coin, you have the low price beers, the beers that played the market gain according to some – a different set of rules in terms of taxes and everything. And this beer, this low price beers they have grown market share in the last four, five months. Well we think – and what we've been already doing since January 7th this year is that we started a lot of different activities in the field trying to target the point of sales or the regions where these low price beers have their strong holds and trying to put some pressure on them in terms of promotional activity. This target only in those points of sales where they have strong volumes and/or investments in the point of sales. So that's the kind of strategy that will fall against this low price beer brand for this year.

We think we'll be able to do that within the kind of price we have today. It's just a question of fine-tuning and promoting prices where it should be promoted and recouping those promotional prices in the other point of sales where the treat is not present of the low price beers. So that's our game plan for this year regarding low price beers.

Carlos: Okay. Thank you. And the other issue – you mentioned something about rolling back consumer prices. If you can just expand on that please.

Brito: Yeah. When we mentioned that, what we referred to is that is when we had our last price increase in October, fourth quarter last year, we saw that the point of sales in general taking advantage of the summer, beginning of the summer to ramp up, what they did is that they passed on to the consumer more than what our price increase to them was. So what we're going to do now and we already started that is going after those point of sales in which we have evidence that their consumer prices went beyond the prices that – the price increases that the point of sale sales.

So there're different ways of doing that. First we have the banner strategy in that you choose to anchor point of sales and you anchor the price down and that will influence the neighborhood that has proven effectively in past years.

Second thing is to – I give some incentive to the point of sale to role back prices and to have incremental volume and/or using investment as a way to give incentive to the point of sales to roll back prices and to expect a higher volume for our brand. So that's pretty much the – in a nutshell what we're going to be doing in rolling back prices at the consumer level.

Carlos: Thank you.

Operator: Your next question comes from Maria Karahalis of Goldman Sachs.

Maria: Good morning. You've answered most of my question with Carlos' question just now, but on a related note in rolling back prices, I guess you're hinting at some additional promotional expenses or perhaps additional marketing. And in the fourth quarter marketing expenses appeared to step up. Can you talk a little bit about your marketing strategy going into 2002 and how much of the step up in the fourth quarter has more to do with allocation across the quarters as opposed to taking a more forward looking approach. Thank you.

Brito: Well, in terms of allocation of marketing expenses, I think, Felipe could expand on that later on. But going back to the first part of your question, the marketing expenses for this year will be pretty much in line with what we've seen last year. Of course what we'll try to do is to target more consumer promotions, trying always to target the growth of this low price beers. So this year we're trying to use trade marking more effectively in addressing the low price beer issue that we had in hand. And that, you know, in Brazil the World Cup is an event. It's every four years. It's very popular and we are the official sponsors. So if we can use that in a smart way, I think we can do a good trade marking in that respect.

On the other side, what marketing has to continue achieving is higher preference for our brands because that of course helps us a lot in charging more for our brand just compared to the low price beers. We have to continue giving consumers and point of sales reasons why they should pay more for our brands. I think Marcel has also something to add.

Marcel: No, I just would like to add just to emphasize that of the preference of our brands have been growing and just to point out how effective the media activities have been last year, we have the most – the largest recall and the largest consumer preference for any campaign for 12 months in the roll for the Brahma brand. And I think the second or third was Skol. So we were really hitting the target very well in this respect and as Brito said, the long term value enhancement of our brand is of course one of our main priorities and probably together with the activities in the marketplace the two instruments that we have to face discount brands that don't play in a level playing field.

I think that Felipe can comment on our allocation.

Felipe: Maria, about the allocation, we booked marketing expenses accordingly to volume and for the full year as Marcel said, you could expect almost the same level of last year and the first quarter we will reflect percentages of the total volume for the year in terms of marketing expenses.

Maria: Can you indicate what the percentage was for full year 2001, marketing as a percentage of sales please?

Felipe: I'm saying the percentage of volumes, not the percentage of sales. In nominal Reais, we expect this same amount that we'll be booked on a quarterly basis as a percentage of total volume for the full year.

Marcel: 350 million Reais as well as last year. That's what we're expecting for this year.

Maria: Okay. Thank you very much.

Marcel: You're welcome.

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

Lore: Yes. Thank you. Good morning. I just wanted to go back to the issue of pricing. You mentioned that the retailers marked up pricing at the end of the year and that caused some of the volume weakness, but if we look at your price levels, they rose sequentially 9% in the third quarter and fourth quarter they rose 11%. I know there's a bunch of different factors in there, but my sense is that you probably raised prices a lot. My question for you is are your price levels sustainable at the price level you finished fourth quarter? And if you are going to roll back, what's a reasonable level to think about for maybe the first half of 2002?

Marcel: Well, right now we are comfortable with our pricing level, but as we have mentioned and Brito will again expand on that, we think that when you have a kind of dependent, a very scientific and very target pricing strategy and during the year react to devaluations, energy crisis, Argentina, and so on, quite frankly, we couldn't do it in a very organized way. So I think that our pricing at the factory level for our distributors level for the moment we think it's a sustainable price level. Having said that, we probably want to reshuffle these prices in terms of geographical areas, in terms of brands, in terms of channels, in terms of its specific point of sales. So we basically want to do what we couldn't do last year, which is never use a price level as something against the consumer, but something where you capture value where the value is in the consumption occasion, the different channels of package, the different regional or geographical areas because of different preferences or different brands and so on.

So again, we are comfortable with the general price level for us. We are not comfortable with the general price level to the consumer. We want to act upon that and we are not comfortable in the way this pricing is spread by channel, packaging, and geographical area, and in even more target by specific point of sale. And maybe Brito –

Brito: Yeah. I think Marcel pretty much touched on all the points. The only thing I would add is that, again, last year because of cost pressures and taxes and everything, we had to do more of an across the board time price readjustment than we would like or we had planned to. This year, the price level we feel comfortable with this price level. What we have to do now is what we haven't done last year and that is a fine-tuning of this price level and across regions, brands, and channels.

Lore: But I could ask a follow-up. I mean, last year we saw a pretty dramatic increase in your revenue per hectoliter over the course of the year, partly due to price increases, partly due to some revenue management and partly due to mix. If we look at this year, do you see your price levels more stable in this sort of low 90s region as you convince retailers to bring down prices or can you actually convince the retailer to bring down prices and other revenue management techniques increase your pricing levels at the same time.

Marcel: We pretty much are the highest achievable levels, Lore. We don't see us, quite frankly, this year raising our revenue per hectoliter. I feel we redistributing it throughout brands and geographical areas and channels and so on. But having said that, there're two initiatives that we have in place like the premium segment and directors to do affective revenue per hectoliters. But on the price side, I don't see any movement throughout the year from our part.

Lore: Thank you very much.

Operator: Your next question comes from Michael Branca of Lehman Brothers.

Michael: Thank you and good afternoon, everyone. Couple of quick follow-up questions. One, as regards the low price segment, you discussed a lot about the channel packaging and geographic areas in terms of the tactics and I was hoping, Brito, maybe you could expand a little bit on the brand portfolio, given the disproportionate price increases you had in let's say in Antarctica versus Skol and Brahma and what kind of tactics you think you'll be employing against those brands. And then looking further ahead, is that point of sale activity a change in the depth of the point of sales discounting activity or in the frequency, so that we can gauge when you come out of this, you know, towards the end of 2002 and the competitive pricing in the low price segment, how those brands will they be positioned?

Marcel: I'll just recommend to Brito and quite frankly that's what we have to do – not to expend too much into the tales of what we want to do just because this is an open conference call. But I think we can give you the basic guidelines or basic strategy. But I don't think we want to do well too much into specifics.

Michael: Okay.

Brito: Hi, Mike. I think what we could say here is that we do have a database in terms of information from the marketplace. We know on the on premise mainly how our competitors, where they have their volumes in terms of their strong holds. We have three main beer brands with different trends for region and what we're trying to do now is actually we're already doing it is trying to put in place a strategy that takes into account all those different information and brands and try to use different brands in different places to go against our main competitors in that area.

And that again, very – in a very vertical fashion, very aim focus try not to do never something across the board in terms of price activity, but very targeted where it counts, where it matters. So that's as much as I can tell you.

Marcel: Without being too specific, you should remember that we use some of those packages when Brahma was competing against Antarctica.

Michael: Right.

Marcel: So we have this point of sales database so what to do allow us in each point of sale, the market share of each brand and of course we have marketing information about the preferences of all the brands for point of sale per region. So when we couple one thing with the other, we can devise a pricing strategy for the three of our brands and that specific point of sale and in that specific point of sale where we hurt the competition the most.

Michael: Marcel, then as a follow-up philosophically would it be fair for us to expect you to employ some of the same strategies you did in the prior cycle with your brands and added to that, maybe a better information system that enables you to drill down the competitive behavior a little closer.

Marcel: Yes, of course. I think that now we are more comfortable about the right positioning and pricing of each brand for micro-regions and that sometimes is a neighborhood sometimes is a city. And when we couple that with the information that we have for each of the one million points of sales that we information. We basically can provide the strategy and have this strategy built in in the sales efforts. So the offer that you make for that point of sale we will already take into account information we have about the point of sale and about a different brand preference in that region.

Michael: Terrific. Thank you very much.

Marcel: You're welcome.

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

Marco: Hi. Good morning. Regarding soft drink pricing, can Juan please expand and tell us – give us more details about where the pricing architecture for the core portfolio brands currently are and against the market leader and especially against your vision of where they should be and what kind of misalignments are and targets are you working on the most.

Juan: Okay. I think that's one of – we managed to raise prices last year, probably one of the most important earnings or more than most important earnings was our ability to do better at revenue management and mix management and channel management using beers technology. So first, we are much closer to where we want to be and that is on a packaging by packaging and channel by channel versus Coke, versus the market leader and that will range from anything between a 5% discount to parity in some packages and some channels.

I think we are pretty close to where we want to be in most packages and channels as far as we are concerned. There are still some regional opportunities, which we are addressing. Pepsi, we're looking at achieving parity with Guaraná Antarctica. So I think we're pretty close to where we want to be as far as price gaps to competition.

You know, from now on I think our ability to maintain those gaps and to follow competitive pricing has increased significantly so as non-market leaders I guess we'll have to watch attentively what they do and exercise our ability to sustain those price gaps.

Marco: So Juan, I mean, basically at this point, given the fact that you're proposed and your relative pricing against the leader, it would be fair to project your pricing going forward and with what the leader is planning to do.

Juan: Yes.

Marco: Thank you.

Juan: But not necessarily down. We have –- we spent a lot of effort and analysis in determining what are our most profitable points, not necessarily our high share points would be and a good example of that is the fourth quarter last year. We raised prices and we calculated that very well, even at a point where competition was at some points bringing pricing down. So yes, we'll follow them up and down to a certain extent. We'll always benefit from increases and we have the ability today to determine which are the most profitable points and not necessarily the high share.

Marco: Great. Thank you.

Juan: Thank you.

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

Robert: Good morning. My question has to do with the value projection brand strategy that you mentioned. I'm a big believer in the effectiveness of this protection brands. However, given the apparent lack of tax compliance by many of your competitors, are there limitations that you can see with the value protection brand strategy to go after these end roads more directly?

Marcel: I think so and that's why we basically – we're basically saying that this price level – this is it. I think we basically stretched the gap and now we have to come to very specific measures, do a lot of things in terms of the point of sale, of the marketplace, of the execution and continue to do what we are doing in terms of building brand preference. You're totally right. I mean, first of all, brand preference has a limit and secondly, what we don't want to do is to let the consumer experiment those price increases. So we don't want trials.

What we can and are doing, I think that's us – that's the cigarette industry, that's the gas distribution industry in Brazil, which I think are the three manufactured by tax evasion. We've been working together with the government and I think that like tax reform or something like that, but we've been working very close with our IRS with the state and so on trying to devise methods to help the state and the federal government to better collect taxes. We don't want our tax to be lowered. We want better tax collection from the government finance and I think in this issue we are totally aligned. So it's more a question of implementation through the judiciary system and through the government own structure, which sometimes is very inefficiency.

Robert: Marcel, do you have any idea of what's holding back the better enforcement of existing tax legislation?

Marcel: There again, there are so many loopholes that taxes are – in the federal level is much, much easier and I think in this particular there are very specific measures that we have suggested and they are being implemented. I think that the main problem now is that the state level and then you have – first of all you have different set of rules or laws for each state. So lots of loopholes created on that. Also you have a big industry in Brazil of what you call liminares, liminares is a lower level judge saying that when you raise a question, he will say, well, why I study this question. You can do what you want to do. All right. Which is basically not paying a diverge in taxes and so on.

And of course in the end he will rule according to the law, but then you have one or two years of time elapsing and the guy will just change for another fiscal entity and go on. And what we're trying to do to that respect and again totally aligned with the federal government is to have a ruling from the supreme court saying that you cannot have liminares done by lower level judges on something that has already been judged by the supreme court. And most of those liminares are raising issues that have already been judged by the Supreme Court.

So you know that in the end everything will be over ruled. But for a while, there's a gap where taxes can be evaded. So, again, without boring you too much, it's a lot of effort and our – my co-chairman Vitório De Marchi is 100% dedicated to that. I know him from the time when we were competitors and this was always one of his great goals and his efforts are totally focused and I think that he is now beginning to have interesting results and we will see interesting results in 2002.

But again, that will never end. We can limit we can make a smaller. It will – it won't end.

Robert: Great. Thank you very much.

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

Alex: Hi. Good morning. I wanted to first of all talk about this industry segmentation that we're seeing. Clearly it's interesting you talk about these low price beers growing market share in the last four months. I'm wondering if there were specific regions where this happened, Rio versus Sao Palo and maybe you could talk a little bit about the price gaps that we're seeing in this beer market. I mean, according to my numbers, basically on the can versus Skol, I'm seeing a 23% gap in price on the 600 glasses. I've been seen 29% gap – is that gap just kind of – has that gap been – I mean, do you think that that could be lowered. Do you think it's something that we could see ongoing this year? Perhaps if you could comment a little bit on that. Thank you.

Brito: Yeah. The price gaps between our brands and the low price beer brands are pretty much what you said. On the can side is all the little larger, the gap. Like it could be 35%, something to that extent. And on the returnable bottle as far as the little closer but closer meaning 25% could be all the way down to 25% and 23%.

No, I mean, since we're not going to be raising prices, at least, you know, as Marcel said, that's our game plan. I think the gap will continue to be on those lines throughout this year and of course, what we'll be trying to do is as we role back on consumer prices, we'll try to make this gap smaller, not because they're coming up in prices, but because some prices in some regions will be going down in our consumer prices. So that's our game plan.

And they did increase their market share in some specific regions like Rio as one example and yes, we are targeting our actions in those regions where they grew shift, where they have their strong hold. So yes.

Alex: Okay. And just so I could understand the market share that you count as low price beers, what's the number of market share that you guys look at?

Brito: It would be the balance between our market share AmBev and the Kaiser market share. So that would be – I would have to guess at the numbers, but that would be the balance between all market share which is 58.6 at this point. The Kaiser market share, which is at 13.6.

Alex: Okay. So the biggest player being Schincariol I guess.

Brito: Yes. Schincariol so it's pretty much 17% the balance, if we take Bavaria it would be like 15%. That's the balance that we are targeting with our low price beer.

Alex: Okay. Great. And just to understand a little bit on this revenue management idea that you've talked about earlier in the call for 2002, seems to me then if you're not going to go in terms of just outright price increases, then really what we're going to be looking at this year is the ability to move revenue per hectoliter in things like direct distribution and maybe going after some margin here. Can you give us a – from the point of sale, can you give us a sense do you think it's going to be more direct distribution versus the margin pool idea? And specifically it sounds like you're doing this more along with bars rather than supermarkets and that, it seems to me is entailing some up front cost here that we saw a little bit in the fourth quarter. Perhaps you could comment on that.

Marcel: Marcel here. Again, we are not counting redistributing that much of the margin pool what we want to do to lower consumer price. So instead of keeping a large, you know, percentage wise in the end it will be the margin pool will be 5. But what we want to do is keep our prices stable and reduce consumer prices. So we're not really profiting from a pricing standpoint, although we think we will profit from on a volume standpoint. Brito wants to comment on that.

Brito: I think what Marcel said is right. I mean, what we're trying to do is role back consumer prices. It says when you look at our brand and you said it right, specifically on the on-premise channel, our brand generates to the point of sales a bigger margin that our competitors. But what we're doing and what we've been doing the last two years is been using that information trying to convince the point of sale that it's much better for him to be competitive price wise when he looks at his neighbor, point of sales his neighbor competitors than to have a very high price and a very low volume.

So this kind of equation is a kind of equation that we're trying to show and get the point of sale to try it. Instead of having a very big margin per case to have a lower margin per case that's too bigger than the competition on a per case basis, but try to capture more volume from neighborhood point of sales and in doing that, influencing the price level of the whole neighborhood. So that has been our plan and that will be the focus for this year.

Alex: Okay. Thank you.

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

Ricardo: Yeah. Hi. Good morning. Two questions really. The first is on the reduction of net debt of about 1.5 billion Reais. Can you give me any idea what the spending is going to be like in '02 in terms of capex and other things? And then the second question is if on the revenue and perhaps the volume side it's not really all that exciting, you know, in '02. Perhaps on the cost side, do you see more synergies than what you have planned for originally coming through? Do you see your cost per hectoliter declining consistently and can you give us a number on that?

Felipe: Okay. Starting from the customer debt repayment, basically the 1.5 billion is trade finance lines that we expect to pay down throughout the year. And as our capital expenditures, we are expecting the same amount we had during 2001 goes to 500 million Reais including all the industrial equipment, the site investment in the cooler program and also direct distribution replacement of bottles rates. And on the cost side, I guess, Marcel wants to comment on that.

Marcel: Yeah. Well, first of all, although we are being very focused in our statements, I would like to point out that our goal – volumes will be flat and prior pricing won't be raised again. That's the mix for a very interesting proposition if we can't achieve it this year talking about prices of the last quarter, not the kind of average price and value so forth 2001. So this is, as I said, a powerful and interesting proposition if we can achieve.

In the plus side, yes. That's something that's really bothering us. I mean, complacency is something that you'll never see here in this company and although we understand why that happen and other things we had to chase last year. I mean, we've been chasing the energy crisis, been chasing the devaluation. We've been chasing the volatility in the foreign exchange markets and so on. But when we look back to 2001, we know that we left money on the table.

I mean, we really have a substantial amount of money right now. We are basically in the 150 to 200 million Reais level and I think that we should strive this year to get this money that we didn't get last year. I think it's possible. Most of it is already built in and now are personal targets for the year.

Ricardo: Is there room for exceeding that and what specific, you know, areas, distribution, production, and marketing, do you think this comes more from? In terms of greater than expectations.

Marcel: As I said, I mean, those were cost efficiencies on top of the synergies that we basically have quote unquote discovered during last year. We only didn't have the focus or the ability to implement them. So, again, we'll start this year with 150, maybe 200 million as a target and of course if we quote unquote discover other efficiencies, in that sense we always will go for it.

Ricardo: Okay. Great. And one just quick follow-up on Venezuela and Argentina. Do you have any expectations for this year on those two markets? I mean, fourth quarter was very good, but my feeling is it's not going to be repeated any time soon or am I wrong?

Marcel: Actually I'm very enthusiastic about both markets. I mean, first of all we're gaining share in both markets and you should remember that for the last two years we've been restrained in those two markets because we have the very strong feeling and that was more the case in Argentina of the currency not being correctly aligned. So we've been hedging. Our investment will be subject to having and so on.

Right now, again more in Argentina than in Venezuela, but also in Venezuela we see it as an opportunity. We can invest as much as we think the – we should not be worried about investing in dollars and receiving pesos in the end or having a devaluation on top of our investment. So I think we should – we should and will be very aggressive in those markets because, again, we are growing in this markets, so we have strong demands from local management to further invest and now are much, much more comfortable to invest in those markets.

Ricardo: And the capex you mentioned that includes being aggressive in those two markets?

Marcel: Being aggressive is basically a function of volume. So no. I mean, but in Argentina we could view the plan if volumes continue to grow. We can invest more in equipment in the marketplace, but that will obviously be being done according to the expectations of a rising volume, of a rising profitability level. But no, that's not in the capex that we disclosed.

Ricardo: Okay. Thank you very much.

Operator: Your next question comes from Rafael Oliveira.

Rafael: Hello. Good morning. Almost all my questions were already answered. I just want to know if you have a target for direct distribution this year in 2002?

Marcel: Not really. I mean, we still have this basic vision that the country could be 50/50 direct and a quite distribution. But again, it's totally –we do have a game plan, but it has to be implemented with the consent of the third party distributors. Sometimes – the basic thing is that we do have a strong core of 200, 250 very, very, very good operators that are as good or even better than our managers in direct distribution. So we want to be very sure that we keep those guys that are really, really world class. I mean, those guys have been following just excellent program of franchising methods for years and years now who are raising the bar every year.

So we want to be sure that at the end of this process, every one of those guys be still with us. So what that means is that sometimes we want an area for direct distribution, one of those guys in this area and we have to find out a new area that will more than compensate and stimulate him in this year or in the media or in the small town. And then we have to get rid of the guy which don't match up to the expectations we have about the operation. So it's really a big chess that we are playing. Long term it gives us 50 % to prepare, but I mean, anything that I'll say right now could be off the market for more or less by year-end.

Rafael: But do you think like these articles on news wire that some of the distributors have been playing and could delay a little bit your target plan?

Marcel: Again, when you look at those guys that represent less than 2% of the total volume from them, of course they learn it that going to the newspaper, going to the anti-trust and some of them have been traveled to going to Wall Street. It's leverage in their negotiations – in their negotiating process. So it's less than 40 guys, and as I said, they represent close or less than 1% of our volume. But they will make a lot of noise. So that would get our distraction. Yes. Like, that's what they are counting on.

I would say that the rest of the network understands very well the rules. The rules being that the best guys will be benefited from that and the guys that will have to leave will be treated fairly. So we have been very concerned on that and as I said, we have more than 600 distributors right now and those 40 that represent almost – less than 2%, close to 1% of our volume are those that have been very vocal. So again, we should keep our eyes on the ball, not being distracted and not – quite frankly, we don't want to be blackmailed or –

Rafael: Okay. Thanks a lot.

Operator: Next question comes from Eduardo of Dynamo.

Eduardo: Good morning. Looking ahead of the next, you know, three to five years, what is in your opinion is going to be the main drivers of your profitability? And the second one, if you could elaborate a little bit more on your comment that you weren't able to implement your long term strategic plans last year.

Marcel: I think I'll start off and I will complement. I mean, when we said that we were not able to implement our strategy, our strategy being always to try to reassess the margin pool and to enhance revenue based on our better management of channel packaging, consumption occasions and everything. So of course we did that – all that last year, but most of our efforts were over ruled by the increases we have to do to offset the increasing cost due to the devaluation. So while we are saying is that we did it very well in 2000. We didn't do it as well as we wanted to in 2001. And we really want to get back to that in 2002.

I mean, a pricing is the easiest level. It's the level that we don't want to use because we think it's something that will turn against us long term. And again, we don't need – we see so many opportunities inside the margin pool that we don't want to go to the – for the consumer pocket and therefore, we'll expand on the main drivers.

Brito: I think the main drivers will always been revenue management, not just the price increase. As Marcel said, that could be the easiest, but the most dangerous. But having the right price per channel per package per occasion and consumption occasion, so revenue management would be the first one.

Second one would be the strength of our brand and also the – having more brands on the premium segment. If you look at the Brazilian beer market, it's very under developed in terms of the premium segment compared to any South American country or even Europe or North America.

So there's a big opportunity in Bohemia, our – the leader in the premium category in Brazil is growing at double digits this year and for 2002 we're also planning the same type of growth. This is a premium brand with premium margins. So the strength of our brands would be the second.

Third one would be the direct distribution drive with increased scale and going to the right places as Marcel explained. We do see an opportunity in direct distributions in terms of degrees and cost of distributing products. Also as Marcel mentioned, there is a savings opportunity within the company that we felt in last year that we did leave money on the table and the cos t or expense sides and in terms of our internal affairs. So we need to look at that and get out of the company the excess – extra costs not needed.

And last but not least, the per capita development of our margin. Per capita consumption is Brazil is very low compared again to South American markets. So we're more developed markets. It's in our hands to develop the per capita consumption through different consumption occasions and different brands.

Marcel: I think the last one quite frankly is Braz il. I mean, the country showed a resiliency last year that was remarkable and then we – when you look at any of that, we've been kind of effective all year long by Argentina. We have the energy drivers. I mean, we had a lot of things going against us and basically I think that the country survived and kind of showed that we could do well even in the worst scenario. I think the scenario from now is quite frankly much brighter. So of course I'm not a macro-analyst and I don't want to put economic projections on our numbers. We will focus on what are at our hands, but I think that being in Brazil is quite interesting compared to other material markets.

Eduardo: Okay. Thank you very much.

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

Pablo: Yes. Hi. Good morning. Just three questions. Number one, you said that volumes in the first quarter were down 10%. Do you think that's indicative of the industry or by how much is the industry up or down? Second question, by end of 2002, what percentage of your beer revenues would be coming from premium brands? And the third question, this idea of rolling back consumer prices at specific points of sales are using previous expertise? Is that something that has been used in the past or is this going to be really the first time? Those are my questions, Marcel.

Marcel: The third one, this has been extensively used in the past and that was what accounted for the huge increase in net revenues in 2000. Without those increases being packaging to the consumer. So yes, the cooler program has been a program. It's a specific and target selling proposition for point of sale. So yes, we know how to do it. I mean, the problem last year is that – again, we don't want to blame it on external factors, but we kind of were chasing other things and didn't keep our eyes in the ball in those assets. So yes, we pretty sure that we can do it. We've done it in the past, so not a big problem.

Pablo: Just on that particular point, I'm sorry, you haven't raised coolers and given promotional support to those points of sales, but several points of sale in fact cut prices in the past?

Marcel: Yes.

Pablo: Okay.

Marcel: Yes to a point. I mean, as I said, when you – this is something that you have to kind of do everyday, Pablo. I mean, if you forget about then the guy will not renew the banner that he had outside with the lower price and that was kind of serving as an umbrella to neighboring point of sales. He will probably think, well, maybe I'll go for a higher margin instead of volume is the easiest way. So you have to practice day in and day out and we've done in 2000. That's not a problem. We know how to execute. The problem is that we really kind of forgot about it, but there were a lot of things or a lot of external factors on 2001. So that's not a problem. This is something that we don't have a problem in having in our targets.

The other two questions were again, please.

Pablo: The first, if I remember correctly, one of them was about the premium segment.

Brito: What percentage of revenues would be premium brand for the 4Q01?

Felipe: I don't have the number right now, but Dana can furnish you the number. I don't have the budget in front of me. So I don't have the exact number to give you.

Pablo: Okay.

Felipe: And the first question about the negative 10% is being industry contraction or our market share contraction? Now we have a lot of indication that the industry has contracted A) because of pricing weather lots of indicators, but we don't have all market share. So we don't know yet. We are doing lots of things, especially in early March to try to make sure we have our position sustained with incentive sort of [UNINTELLIGIBLE] and we'll plan for April so we can anticipate in one month. But we don't know yet.

But we know that Nelson indicated in January that we grew 0.1% over December and we had a 68.5% market share in December 2001 and Neilson indicated 68.6% for January 2001. But I would rather wait for the next two Nelson numbers and also for our own proprietary research that we'll be conducting March, every four months. So we'll have more information on that.

Pablo: Okay. Thank you.

Operator: Your next question comes from Sam Hillard of High Yield Capital.

Sam: Yes. Thanks. I just – on the topic of competitive environment, I wonder if you could update us on your view about the likelihood and timing of Kaiser changing hands and what you think might happen to the market conditions and pricing discipline under the various options for new ownership that have been discussed.

Marcel: Well, for the first part of the question, we really don't have the slightest idea. We've been hearing those rumors forever and nothing materializes. So my personal feeling is that there is a huge gap of price there.

Having said that, I mean, the two leading competitors that list in the news that are Molsen or Heineken, I mean, both of them will be welcomed by us. I mean, when you have an international flare of this type coming to a market and doing a very substantial investment, I don't see any of them coming here to put prices down or basic taxes or whatever. I see them coming to develop the premium market, to use marketing strategies to enhance their brand and so on. So I mean, for the market we would welcome both of them.

Sam: What does it change the relationship of AmBev to the Bavaria entity if it were to be combined with Kaiser?

Marcel: Probably yes. We don't know all the legal implications. But I mean it won't change the brand relationship or the cordial relationship that we have with them. But of course, we'll have to see the legal implications and the problems of having one of their brands in the Coca-Cola system and one of the their brands being distributed by our own systems.

Sam: Okay. Thanks.

Operator: You have a follow-up question from Carlos Laboy of Bernstein.

Carlos: Yes. Two quick questions. One is, Marcel, is this new alarm over pricing to the consumer that we're hearing from you, is this founded entirely on the volume declines that you've been seeing or are you worried about any new regulatory pressures? That's the first question. The other one was, I don't know if you can comment on pre-paid expenses that were both in the fourth quarter and how much of any pre-paid selling and marketing expenses were incurred in the fourth quarter?

Marcel: I'll let the toughest one for Felipe. The first one. We're really concerned about the volumes in the market, not the kind of declines we've seen now in January and February because we think a large portion of it is explained by the weather, but we are worried about the kind of decline we saw in the last quarter, which I think was mainly because of price. Of course if you have the energy crisis, if you have the general perception of stability and all those things affected the beer market. But if you're asking me I'll say most of the 4% of declines came from pricing. And that worries us and of course we were not as effective in controlling consumer prices as we were in the past.

So it's not regulatory. It's really our long-term view that we have so much to be capturing internally that we should have as much as possible reserved and even lower the consumer pricing to grow the whole market.

Felipe: And Carlos, about the second question of pre-paid expenses, basically its media for 2002. We've received a very attractive discount to pay for it by December and we decided to do that. And 2002 expenses, we book it as a pre-paid expense by the end of the year, last year.

Carlos: How much of the 69% increase in selling cost in the fourth quarter was attributable to these pre-paid media expenses?

Felipe: Which quarter? Fourth quarter? Well, this pre-paid expense wasn't booked on the fourth quarter. Then from the fourth quarter last year, there is no effect from these expenses.

Carlos: Okay. Thank you.

Operator: At this time, I would like to remind everyone if you would like to ask a question, press star then the number one on your telephone keypad. If you would like to withdraw, press star then the number two. Your next question comes from Terrence O'Dweir of Prudential Securities.

Terrence: Good morning. This is Terrence O'Dweir from Prudential Securities. I was wondering if you could just clarify the tax situation. What exactly happened that cause 97 million Reais of taxes to be non-deductible and is this a recurring situation?

Felipe: No, basically this is not a recurring situation. Its reflects of our hedge structure and basically we booked all the assets abroad and all the liabilities in Brazil and when the currency devalues we get foreign exchange losses in Brazil and not taxable gains of f-shore and what's happened during the fourth quarter was right the opposite. The currency revalued so we booked at losses offshore, which are not deductible basis, barring exchange gains in Brazil, which are taxable. And that is 95 million mentioned is reflective of this structure. And we see as a non-recurring item depending of course on the currency devaluation going forward.

Terrence: Now that you've explained it, it seems so obvious. Thank you.

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

Sanchez: Hi. I just wanted to – I might have missed this. I stepped out, but have you discussed at all any potential for how you might consider competing in the value segment. Obviously premium brands on one of the portfolio will help your revenue [UNINTELLIGIBLE] stability, but have you discussed how you would consider perhaps positioning some of your other brands, maybe to compete on a tactical basis with some of these lower brands that have such a large gap into your core portfolio. That's the first question.

Marcel: We'll never do that. I mean, first of all because the price gap that can afford because of tax evasion, we can never reach this gap, even if we decided to throw away all of our profitability. So we'll never price compete in this – to that segment. What we will do when we discuss that extensively is use all the instruments that we have in terms of management of the price and execution on each specific point of sale coupled with the preference for each brand and try to pinpoint a strategy for each of those competitors strong holds.

Sanchez: Okay. Then as a follow-up, speaking of those tools for a second, you talked about coolers and banners and so forth, but another thing in the context of initial remarks, I believe, was something about investments in point of sale and I have some coolers as one of those. Would you consider perhaps some sort of discounts or incentives in that regard also as investments or what other investments might one think of besides coolers?

Brito: Yeah. We mentioned that, too, in a question prior to yours. And that is yes, we will continue with our cooler program that had been announced before. So no news on that front. We'll do some incentives that are linked to the World Cup, which we are – we happen to be the official sponsor. And so that's very powerful in Brazil. It only happens every four years. And we'll do some promotional activities but very, very targeted not across the board by all means and only in the places where it makes sense because the competition has its strong holds in terms of volumes. So yeah, we did comment on that a little before.

Sanchez: Okay. Thank you.

Operator: Once again, if you would like to ask a question, please press star then the number one on your telephone keypad. At this time, there are no further questions. I will now turn the call over to Mr. Telles for any closing remarks.

Marcel: Okay. Thank you. I think that our next quarter we have a much more clear picture of all those issues about price, volume, and market share. But having said that, we are already acting on what we can act upon, the revenue management side, and the cost side. Having said that, I look forward for the next quarter conference call. Thank you very much.

Operator: Ladies and gentlemen, AmBev conference is over. Have a nice day.