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

AmBev

Transcript - Fourth Quarter 2002 Earnings Conference Call

Wed, Feb 26, 2003

Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to the AmBev conference call to discuss the earnings results for the fourth quarter of 2002.

We inform that all participants will only be able to listen to the conference during the company's presentation. After the company's remarks are over, there will be a question and answer period. At that time further instructions will be given. Should any participant need assistance during this conference, please press *0 for an operator.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of our management, and on information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

The future results and shareholder values of AmBev may differ materially from those expressed in or suggested by these forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. Investors are cautioned not to put undue reliance on any forward-looking statement.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of AmBev and could cause results to differ materially from those expressed in such forward-looking statements

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

Mr. Telles: Thank you very much and good morning everyone. Our management team is here with me today on the call. We have Brito, Felipe, Juan, Luiz Fernando, and from AmBev's IR team Dana, Alexandre and Tobias who has recently joined AmBev and will be assuming our IR team in the coming weeks. We are very excited to be reporting such strong results despite all the uncertainties we faced along the year. Again we delivered above expectations and I think this reflects, ultimately, AmBev's people unique ability to keep the foot on the gas and the eye on the ball, no matter what happens in the outside. One year ago I told you that 2001 was a good year but not an extraordinary one, as we were not consistent and strong enough in the implementation of our strategy. However, 2001 was a good lesson, and I think we learned the lesson to improve our efforts to build value every single day. Today, I'm not only very pleased by our results but also about the execution and processes behind them. We advanced significantly in growing per capita consumption in Brazil, improving revenue management, maximizing distribution efficiency, expanding the soft drinks and non-alcoholic beverages business and also improving productivity and reducing costs. Let me give you some highlights of the building blocks of last year's outstanding results. We mapped out several Brazilian beer consumption occasions with as much detail as one could imagine. We now know exactly when, where and why Brazilians drink beer, and we also know why they don't. And each of these occasions has been carefully explored with specific products and brands driven to niche segments of the market. We successfully rolled out our revenue management program, launching high margins and well accepted products such as Skol Beats and Chopp Express while farther improving our execution at the point-of-sale. Our direct distribution network accounted for 34% of our sales, compared to 31% in 2001, and, on top of that, we have been successfully shifting towards multi-brand distribution, which now reached approximately 40% in sales. Profitability for our soft-drink business, and you should see here the smile on Juan’s face, more than doubled. This segment is of great strategic importance for us within the competitive landscape in Brazil. And, finally, on the cost side, we aggressively reduced cash, fixed and variable costs throughout the organization and productivity improved remarkably. We achieved our target of reducing SG&A expenses by R$ 100 million in the second half of 2002 and we reiterate the 150 to 200 million target effort for this year. No doubt that in 2003 we will stretch our limits even farther, but we have set solid foundations to sustain AmBev's long-term growth and nothing should compromise that. I'm confident that our team is very well positioned and the momentum created in 2002 will be leveraged and I feel opportunities for a great 2003 ahead of us. Now Luiz Fernando will drive you through our beer business. Luiz.

Mr. Luiz Fernando, Sales Director: The first half of 2002, as you all know, was extremely hard. Bad weather in the first couple of months, coupled with high discount levels in the market place which, by the way, proved to be unsustainable, led to the decline in our volumes of around 8% in the first half of 2002 and resulted in some market share loss. However, our commitment to excell in our growth and the increase in consumer confidence led to a good volume recovery in the second half of the year. Volumes were 4% above the same period last year. Market share, which following the price alignment declined, is, already, almost 1% higher than in December 2002. In the 4th quarter volumes rose 4.6%. Our market share reached 67.1% in December, versus 68.6% in the previous year. Importantly, however, is that our share loss was concentrated in the supermarket channel and in the non-returnable presentation. We raised our prices in October and this increase gave us some flexibility to manage dollar-linked variable costs up to an exchange rate of 3.4 Reais per Dollar. Our competitors, almost all operating at the same low price levels in the supermarkets, did not, like we did with soft drinks, immediately follow our movement, which contributes to explain the initial market share loss. Now, let me repeat, market share, which declined following the price alignment, is already almost 1 full percentage point higher than in December 2002. But, most important, share level outside the supermarket was already in January above 2002 averages. On average, the price increase, and more importantly, the impact for the consumers, was in line with expectations. The average consumer price for the returnable 600 ml. bottle was stable at around 1.9 Reais per Dollar. AmBev's initiative to improve revenue management has been implemented successfully as evidenced through the Bohemia sales and the launch of the Skol Beats. Moreover, we remain focused to improve execution in distribution. This first quarter is the first one in which we will be enjoying higher net sales per hectoliter during the full three months. Unfortunately, however, in the last months we also witnessed tax increases at both federal and state levels, which could be partially offset by the impact of revenue management. The net effect of higher taxes since last December will be expected to be a positive 0.5 Reais per hectoliter. It remains part of AmBev’s policy to pass on all tax increases to the consumer price, as well as inflation. We continue to simplify execution for our sales force by investing in terms of helping them work with the retailers; explaining how they can maximize margins in their operations. For example, palm top computers equipped with a new program that shows retailers the higher margins they make per bottle of our brands compared to our competitors’ brands, despite premium price. Moreover, we are able to keep track of historical sales, inventory, and other issues for more than 500 thousand points-of-sale. We use the information to suggest what they need. Another critical part of our strategy is to strengthen our position at the point-of-sale and drive forecasts by continuing to invest in our proprietary sub-zero cooler. We have 118 thousand coolers in the market today and we plan to double that number during 2003. Instead of placing them just at the on-premise channel as we have done so far, we have begun placing them in new channels to make cold beer available for take-home consumption. We are strengthening our distribution by increasing the size of our sales force by shifting towards multibrand distribution, improving certified distribution

and by creating specialized sales forces per channel. These initiatives are allowing us to improve our coverage and dominance at the point-of-sale, in a coordinated fashion between all brands leaving, ultimately, tailor-made solutions for each action we decide to take. Over the past two months we have begun to implement strategies to attack the per capita and revenue management opportunities. The first is Skol Beats. Skol Beats is a new beer, packed in an innovative longneck bottle, and targeted at night-out occasions when people hang out at park-ins or clubs. In the occasion of individual consumption beer does not currently play an important role. On a per hectoliter basis, both net sales and contribution margins for Skol Beats are more than twice those for Bohemia, our super premium brand. Super Premium brand Bohemia has shown stronger growth at a price premium of 20% plus over Skol. Sales volume reached 68% compared to 2001, and national market share reached 2.1% as of December 2002. Definitely a profitable way to explore per capita growth. Now, let's talk about how we see the Brazilian beer market going forward. In the past, we used to compare market volumes to GDP. More recently, we began using a more scientific, econometric analysis. Among a variety of different variables studied, four factors - demographic, real income, consumer confidence and real prices – explain, roughly, 90% of the behavior of the beer market in the last few years. The prospects for these variables are not totally cleared, but based on our expectations we believe that the current outlook points to beer market growth of approximately 2% to 3% in 2003. I will now pass it over to Juan.

Mr. Juan Vergara, CSD/NANC Director: Thank you, Luiz. Marcel mentioned that you should see the smile on my face, it’s true. But it's also true that I'm getting positively concerned, as you all know, typically at AmBev, the more we achieve the more we want. So I have no doubt that the bar for the soft drink business has been raised, but that's good, that's good for business itself, and strategically speaking, it is also great for the beer business. In 2002 our soft drink business began to show results as was planned, our efforts to improve profitability, with EBITDA achieving 16.8% which compares to an 8% in 2001.We have been raising our prices along with the market leader and, as said before, we'll continue to do so. Our net sale per hectoliter grew by 15% and 5.7% compared to the year ago quarter and last quarter respectively. Incremental increases can take place as we develop new opportunities. In addition to completing the full alignment of Pepsi’s prices with those of Guaraná Antarctica, we have also begun to see the benefits of a very strong market acceptance of Pepsi Twist, which is priced at the same level as the market leader and is ahead of the market leader. Pepsi Twist had achieved 1.2% market share as of December (multi incremental), despite being nationally only as of August last year.

Guaraná Antarctica and Pepsi volumes grew 13.3% this quarter, while the volume for the full portfolio grew by 6.7%. Looking at the full year, 2002, our volumes fell, slightly over 1%, but that was in line with our price increase simulation. Guaraná Antarctica and Pepsi, on the other hand, they grew in volume, versus 2002, by 6.8%. That was slightly better than we expected at the achieved pricing levels. We continue to sharpen our focus on Guaraná and Pepsi even further, and we see that that is the strategy that has boosted our profitability, and set the focus this quarter. Looking forward we see no changes in our core strategies, we will continue focus on what we call the right cues, we will continue following the market leader in pricing and, most important, we will continue to pursue as many synergies with beer as we can. Now, that done, and assuming an orderly premium market pricing environment, we believe that our EBITDA margins are sustainable in the long run. I will now pass it on to Brito.

Mr. Carlos Brito, Director of Operations: OK, thanks. In terms of 2002 we had a good performance cost-wise, given the 12% inflation we had last year. Quarter over quarter raw materials increased by 7%, mainly due to the soft drinks cost increase - sugar mainly. Quarter over quarter packing costs decreased 12% mainly due to a beer package mix shift and better dollar price in cans and malt. Due to the fact that the dollar rate of the hedge, quarter over quarter... if we had total Reais spent in raw materials and packaging, we did spend the same nominal amount in ’02 versus ’01, quarter over quarter, with no volume produced. Also, there was an important gain in productivity, especially in the 4th quarter, year over year. Line efficiency went up from 73% to 83%, an increase of 14%; we also closed three soft-drink plants. Net-net we produced 5% more volume, total volume, beer and soft drinks. This had an important impact on direct labor. Some of these lines are being used in our international expansions, Guatemala and Peru, for example. Some of those lines will also equate all the lines, to get even more productivity. Also, we experienced important gains in the managing of raw materials. Beer extract loss was 12% lower, quarter over quarter. Loss of cans, reduced by 30%, loss of PET reduced by 40%, and loss of sugar, in the soft drink production, was reduced by 30%. In this 4th quarter we had a gain in costs of goods sold of R$ 43 million, based on the above initiatives. And not being hedged this quarter, costs of goods sold would have been R$ 171 million higher than it actually was. We've also completed our benchmark project, in which we visited 8 plants around the world. Based on this project we built our industrial targets for 2003. We would also like to take this opportunity to reinforce our expectations for cost and expenses savings between R$ 150 and R$ 200 million in 2003. Out of this amount SG&A should contribute between 20% and 30% of the total amounts. The remaining will come from costs of goods sold, which includes, among other things, fixed costs, procurement, and efficiency gains. This kind of foreign exchange rate year over year and inflation. I will now pass it on to Felipe.

Mr. Felipe Dutra, CFO and Investor Relations Director: Thank you Brito, and good morning everyone. Our consolidated EBITDA reached R$1.1 billion during the 4th quarter, 2002, nearly 46% higher year on year, and representing an EBITDA margin of 45%. Besides increase in the sales volume and better revenue management, as Luiz mentioned, AmBev's operating profitability benefited from improvements on the costs front and reduction in cash operating expenses. Notwithstanding, the Company's strategy of hedging its dollar-linked exposure mitigated a potential R$197 million impact on its profitability during the quarter. The effect of the hedge on costs of goods sold reached R$171 million as Brito mentioned, and, in addition to that, there were R$ 26 million related to hedge savings booked as administrative and selling expenses. These hedge gains are related to AmBev's strategy of reducing its exposure to foreign exchange-linked expenses such as the sponsorship of the Brazilian national soccer team, expenses for the expansion of Guaraná Antarctica abroad, among others. In the quarter, costs of goods sold per hectoliter declined 5.4% year on year, due to a change in the sales mix of returnable bottles and productivity enhancement, as Brito mentioned. Overall cash SG&A expenses, excluding direct distribution, declined by nearly 6% in the 4th quarter, comparing to the same period of last year, due to a combination of factors as mentioned in the press release. As it had been in the last quarter, our financial results were driven by a mismatch in the way our assets and liabilities were measured. Please recall that according to Brazilian GAAP, while financial assets are marked-to-market, our liabilities are registered at cost. Given that the US Dollar coupon decreased from about 27% to 22% within the quarter, and the negative effects of marking these securities to market, when the coupon rolls in the 3rd quarter 2002 was partially reversed. The decline in the coupon resulted in a R$ 300 million gain in the marked-to-market. Thus, we reported a net financial income of roughly R$ 66 million in the quarter. Our debt continued to be fully hedged this quarter.

We have paid out short-term trade finance debts totalling R$ 1.3 billion in the quarter and close to R$ 3 billion during the dire year. At the end of 2002 net debt was just below R$ 1 billion, but given the recent closing of the Quinsa transaction on January 31st, this situation already changed. One final comment regarding our income statement, we reported taxes of roughly R$ 410 million in the quarter, on top of the statutory tax rate of 34% the appreciation of the Real during the quarter led to non-deductible losses of R$ 138 million in subsidiaries abroad. Now we can take any questions you might have.

Operator: Our first question comes from Pablo Zuanic. Pablo, please go ahead.

Mr. Zuanic: Hi, good morning everyone. Marcel, before I ask my question, the operator said that only investors are allowed to ask questions, so.....

Mr. Telles: Yes, investors and analysts of course.

Mr. Zuanic: OK, in terms of the pricing front, what I'm trying to understand, of the 10.9% increase in the revenue per hectoliter year on year, how much of that would have been the actual price increase that was passed in October? Because I'm calculating and maybe it was only half so you still can show some of that in the 1st quarter. See if you can answer that first. How much is the margin and how much is the price increase. And the second question related to that, now that we have a weaker currency at 3.40 and that we had an increase in taxes at the state and federal levels, at what point do you plan to actually increase prices to pass on those tax increases and recover the cost? I have a couple of follow-up questions but let us go through those first. Thanks.

Mr. Telles: Let me get the second question and then Luiz will address the first one. I think that right now we have to decide which is the best tactical moment to raise prices, as for now I don't see any raising of prices in the next one or two months, I think that we have to decide afterwards. One thing we have learned Pablo, and you follow that for a long time, is that frequent raises are not ideal when you're trying to better manage the margin pool. So, sometimes it is useful not to be as on time as we'd like to be on when adjusting a price but not doing it at the right time and in the right fashion in order not to communicate it to the consumer price, and I think that Luiz Fernando also has data on that and would like to share with you about what really happened with the consumer price in the last 12-18 months, because we have very fresh news and data here that I think is interesting to have a look at. I'll pass it to Luiz.

Mr. Luiz Fernando: Pablo, our price went up at the end of October, so most of the effects will be seen in November, in December. So, on average, we don't have a full price in the last quarter, OK? We raised 600 ml bottles in 8% to 10%, depending on the area in Brazil, and in cans we raised in 13% because we are much more affected in terms of the dollar, OK? So, you don't see the total effect of the price rising in the last quarter. Marcel was telling you about the consumer price, I think that what is important here is, if you get the last 18 months our consumer price ends up pretty aligned with inflation of around 22% and our retail price went up 25% so, we're really very effective in managing the margin, the retailing margin and we will keep doing the same during this year.

Mr. Zuanic: Those numbers are above inflation or in nominal terms?

Mr. Luiz Fernando: On nominal terms, if you consider an inflation of 22%, consumer price rose at the same level, and our price raised 25%, on average of course. The important thing here is to consider when to raise the prices, when our competitors are planning to raise the prices, what happens with the market share, what is going on with the country itself. So we raised the prices very recently and we knew, at that point, that some taxes would go up, we knew that the dollar would be at this level at this time of the year, so we considered at that time that we would have these numbers - dollar, and cost and inflation at this level - so we don't expect to raise prices for the next one or two months. We consider all the aspects of the market, the competitors, in order to increase prices the next time, OK?

Mr. Zuanic: Thank you very much. Now, Felipe, just one more follow-up question. I was a bit confused when you said at the beginning, I don't know if it was Marcel or you, that your cash SG&A in the second half of 2002 actually failed by R$ 100 million in line with guidance. Basic numbers I

am looking at, if I compare to second half of ‘02 with the second half of ’01, the number only came down by R$ 40 million, and if I include the profit sharing in there, the increase of R$ 20 million, the SG&A adjusted would only have come down R$ 20 million. You just now mentioned that R$ 26 million are explained by the hedge at this SG&A level so, in my books, unless I have something wrong here, not only 100 million in synergies at this SG&A level were actually realized. What am I missing here?

Mr. Dutra: OK, first of all, apples to apples comparison, we are not accounting profit sharing as SG&A.

Mr. Zuanic: That's fine...

Mr. Dutra: If we had to adjust that, we would have to consider on both sides, 2002 and 2001 as well, I think you did not consider that, but when we also said SG&A reduction, we mentioned SG&A excluding direct distribution and I'm not sure if you considered that because, at a total variable cost, direct distribution cost should grow accordingly to the volume growth. I mean, cash SG&A meaning basically selling and administrative expenses.

Mr. Zuanic: I agree and that's what I've done. But, anyway, we can follow up later. Just looking at those two numbers, year on year, and forgetting about the profit sharing, year on year was only 40 million Reais in the second half, and if 26 is the hedge, then it's only 15 out of the 100 million that were realized.

Mr. Dutra: I will get here the figures Pablo, but let me comment about the hedge effect. We incurred in dollar-linked expenses during the 2nd half and in line with our strategies we also entered into hedge agreements, and that said, on a Reais basis, those expenses were higher because the new FX rate level and the hedge benefits helped us to maintain those expenses in line with the guidance.

Mr. Zuanic: OK, so then, what I want to understand better, and you explained parts, there exists 100 - 200 million Reais in guidance for ’03. If you can give us some more color there, you say 23% of the SG&A level, what is it exactly that you're going to spend on the rest of those synergies, please.

Mr. Brito: Hi this is Brito here. Let me comment on this commitment for this year, ’03. When we look at these 150 to 200 million Reais commitment, in terms of cost and expenses savings, we'll see at this point that 20% to 30% should come from SG&A, and the remaining 70 to 80% should come from the costs of goods sold side. Let’s say 10% to 15% from the fixed cost, 40 to 45 from procurement, from pricing on the supply side, and the remaining 20% from efficiency gains. That is gain plan we have, at this point in time, considering this commitment for '03, OK??

Mr. Dutra: Pablo, again following up to your first question, I mean, in terms of the period of time in which the savings should be captured, are you considering the second half 2002 compared to the second half 2001, or only the 4th quarter?

Mr. Zuanic: No, the second half, I mean, starting at third quarter and fourth quarter. But I will send you my numbers, I mean, I can send you my numbers.

Mr. Dutra: OK, we should check the numbers, as those are not the numbers that we have here.

Mr. Zuanic: OK, that's fine.

Operator: Our second question comes from Andrew Feltus, from Pioneer Investments. Andrew, please go ahead.

Mr. Feltus: Two quick questions. One, what is your tax rates going forward, what do you expect it to be and, can you detail your capex expectations for 2003?

Mr. Dutra: I mean, tax rate is always hard to forecast because the FX rate volatility impact on our taxes in Brazil, based on the way we structure the hedge transaction. Basically we carry all the dollar-linked debts booked in Brazil, totally deductible, for tax purposes, while most of the hedge transactions we book offshore, where the gains are not taxable. I mean, in the long run, I would assume an average exchange rate or tax rate within the 15 to 20% bracket, despite the 34% statutory official level. In terms of capital expenditures we should be growing the capex for 2003, in terms of maintenance, investments on direct distribution and also investments in recuperation, equipment, capex should grow from R$ 500 million last year to nearly R$ 800 million in 2003.

Mr. Feltus: Thank you.

Operator: Our next question comes from Lore Serra, from Morgan Stanley. Lore, please go ahead.

Ms. Serra: I actually have a few questions. Let me ask first on Brazil. You mentioned in the opening comments that the tax increases were 0.5 Reais per hectoliter, if I got that number correctly. Your revenue per hectoliter was about 102 in the quarter, in the fourth quarter. Now, got have got a little more pricing in the first quarter because of the timing. Therefore, I will assume that you will hit a number in the first quarter that is fairly stable, with the fourth quarter or down slightly? Is that what you are communicating with the 0.5?

Mr. Brito: Yes, a fairly stable number.

Ms. Serra: OK. If you could just comment some of the share gains, or the share losses rather, in the supermarket channel, in the sense that, I assume it’s a timing issue, you raised prices and your competitors had raised prices previously, could you comment on the pricing environment right now, in the supermarket channel generally speaking, if you have seen any important moves from your competitors since the quarter ended?

Mr. Brito: If you check our conference calls last year you'll see that we lose market share because our competitors were discounting at supermarkets before the Company was sold. So we believe the gap between our prices and our competitors' prices are unsustainable for them. We can check that comparing with our costs and with the prices, so we really believe that in the near future we can recover some of the market share losses in this channel but, much more important than that, we gained market share in bars and other segments out of the supermarkets. So, if you compare market share in January with the specific channels, in more profitable channels, we are above the average market share of last year.

Ms. Serra: And just on another topic, could you give us what your full year EBITDA was in Argentina, and I guess if we are going to see the consolidation of the Quinsa investment starting in the first quarter. We have not seen Quinsa release the estimates but I wonder if you have any comments on what your outlook is for that investment over the course of this year.

Mr. Telles: Are you in the equity pick up in the Quinsa investment?

Ms. Serra: Yes.

Mr. Telles: We will have our second board meeting in which we'll discuss the 2003 budget only by mid-March so we don't really know yet the targets and the numbers for the Argentine situation of Quinsa in 2003.

Ms. Serra: Can I ask two questions? One is could you give us the EBITDA for your Argentine operations last year and, even the kind of expectation that you talked about a year ago in terms of cost synergies, I think the number was 20-25 million, has anything happened in the past year that would cause you to question those expectations that you talked about last March?

Mr. Telles: No, and actually when we spoke about synergies, those were the synergies we could map up. We still believe in them, but our experience in Brazil, Lore, when we did the merger between Brahma and Antarctica, we had, I think, the companies combined, R$ 900 million, synergies were expected at 500 million and, you see that this year we are already quite... the EBITDA that would yield…. so I think that not only am I confident about the synergies we have mapped. Quinsa's management over time will discover a lot of other opportunities particularly in the revenue management side as we discovered here in Brazil.

Mr. Dutra: Lore, if I may add to what Marcel has just mentioned, we will be consolidating Quinsa into our results starting in February and the first quarter results 2003 should include Quinsa for two months according to our direct and indirect stake in the Company which means Quinsa and QIB levels, accounting for 40.4% stake in the Company. And in terms of last year's EBITDA in Argentina, for our stand-alone operation, during the 4th quarter EBITDA reached, in Argentina, US$ 3.7 million which, translated into Reais, to R$ 13.4 million for the 4th quarter. For the entire year EBITDA in Argentina was close to US$ 6 million.

Ms. Serra: Thank you.

Mr. Dutra: You're welcome.

Operator: Our next question comes from Carlos Rojas, from Rimaz. Please go ahead.

Mr. Rojas: Hi, regarding your expansion in Latin America, could you give us a little more detail on regional expansion which I rec, will start in Peru, and the question goes like, how big the investment will be there, when do you plan to start this operation and, do you have any partnerships there?

Mr. Telles: This is Marcel here. Magim, our CEO, was recently, actually last week, with Mr. Toledo, Peru's President, and basically agreed to the construction of the plant, we are basically talking about, now, ideal land and so on, we are forecasting expenditures in the order of US$ 38 million for this investment and we want to have this plant operating in one year.

Mr. Rojas: OK, there is a monopoly there. Are you planning to get market share through a price war?

Mr. Telles: We basically like markets where the margin pool allows someone to give a better price to the consumer and still make money, I mean, this is the case of Guatemala and, obviously, it is the case of Peru, so I wouldn't call it a price war but, of course, we are prepared to give a better value proposition to the Peruvian consumer.

Mr. Rojas: And, after this, are you planning to use it as a plant to export to Equador and Colombia?

Mr. Telles: Definitely.

Mr. Rojas: OK.

Operator: Our next question comes from Vivian Lin, from UBS Global Management. Vivian, please go ahead.

Ms. Lin: Hi, would you please give me some guidance in terms of volume growth and your pricing strategy for 2003? I think you previously mentioned that you're going to have some.... depends on the currency level, you are probably going to raise prices again or you are trying to find some hedging activities again, so can you just give us some idea on what would be the expectations for the pricing strategy for 2003? And, underneath that, what would be the volume expectation for the year? And, my second question will be, in terms of your market share swing. I just feel a little bit uncomfortable as to why this quarter up so much and the other quarter down so, is there any trend going forward? Thank you for that.

Mr. Telles: Here's Marcel again, I think that, as Luiz mentioned, all basic policies in terms of pricing is keeping the consumer price out of thought, with inflation and, of course, we can raise our net revenue by revenue management, that would be the ideal situation. In terms of volume, we also mentioned that our model forecasts a 2% to 3% volume growth for the market. I think that, ourselves, we are expecting a volume increase for us in the first quarter around 10% and, of course, we think that gravitating around 70% market share level with a target for a… we have to run the numbers. You are absolutely right about the market share fluctuation, what I would like to point here is that it is basically due that the time lag between our price increases and the competition following. Basically, in Brazil, you have one competitor, which was Kaiser in the past, with lower sales prices in order to raise market share and sell the company. After that you have a much more rational competitor which was Molson that made one first movement by mid-year realigning those discounts that were practiced by Kaiser but that was just to recup or regain those discounts. By October and November we raised our prices and basically all competitors remained with their prices until January. Yes, you probably see those swings. We had that in the past with Antarctica and their Bavaria brand. We always had this feeling here, that share gain is by price. In the supermarket it is not share gain, it's share rented. So, I mean, you rent the share, but eventually you realign your prices, I mean, you get to the normal levels of market share again. So, after the fluctuations, fluctuations will depend in the time interval between our price increases and the response from the price increases from our competitors, that's it, basically.

Ms. Lin: OK, thanks.

Operator: Ladies and gentlemen, once again we are welcoming investors' and analysts' questions. Please press the 1 key on your phone if you a question. Please remember that if the 1 key is pressed twice, that will withdraw your question. Our next question comes Fernando Martinez, from HSBC. Please go ahead, Fernando.

Mr. Martinez: Oh, hi. I wonder if you would just give us some color regarding your contract signed with CADE in 1998 when you merged with Antarctica. Should we expect any sort of plant closing or synergies to be captured, beginning this year?

Mr. Telles: You are probably referring to the five-year period in which we cannot close any plant so basically that will only allow us to close any plant without having to auction them after 2004, so, not this year.

Mr. Martinez: OK, thanks, and the second question, regarding your hedging strategies during the second semester of 2001-02, what sort of margin loss should we expect for the first quarter, since they were due on December, please?

Mr. Telles: OK, what we tried to do with our price increase was basically to offset debt. So, I wouldn't get in any specifics but, I mean, the hedge was protecting our margins against the FX changes during the year, but then, with our price rising by the year-end, basically we're trying to compensate for what we would miss in not having the hedge.

Mr. Martinez: OK, but your gross margin reported in the 1st quarter I think that was 59% so, for the 1st quarter '03 we expect should be in line with 59 or anywhere down there?

Mr. Dutra: Hello, this is Felipe. Trying to help you to get the number, I mean, you may assume net revenue per hectoliter close to the same level as we had during the fourth quarter which is R$ 102 per hectoliter, while variable costs should grow as a consequence of the new FX level. That said, the average exchange rate we incurred during the 4th quarter 2002 was 2.5 then you have to get your average exchange rate for the first quarter 2003, then from that you would get the devaluation and since 43% of our variable cost is dollar-linked, then you get the figures.

Mr. Martinez: Excuse me, you said 43%?

Mr. Dutra: Yes.

Mr. Martinez: OK, thank you.

Mr. Dutra: You're welcome.

Operator: Our next question comes from Hamburg Tang, from Global Investment Advisors.

Mr. Tang: Yes, hi, I was wondering if you could walk us through the timing and the amount of cash flow going out you're expecting for the Quilmes transactions?

Operator: I'm sorry, Mr. King. Could you just hold that question for just a moment? We lost connection, we'll have them back on in just a second.

Mr. Telles: Our line was cut so we didn't get the question. Could you please repeat it?

Mr. Tang: The question was simply if you could please walk it through the timing and the amount of cash flow you'd expect for the Quinsa transactions and where would you expect them. You've always maintained a large amount of cash and marketable securities on your balance sheet, and where would you expect that to be at various points and, say, by the end of this calendar year?

Mr. Dutra: I think, first of all, by the date of the closing which was January 31st, we had roughly US$ 400 million paydown, acquiring the shares from the Company and, part of this stake that Heineken had at the QIB level.

Mr. Tang: OK.

Mr. Dutra: And, going forward, I mean, I'm not exactly sure about the correlation you are doing between Quinsa results and cash flow generation, is that correct?

Mr. Tang: All I am trying to do is just assess how much more in terms of cash outlay you would have over the coming year.

Mr. Dutra: None, none, none, none.

Mr. Tang: OK. Right. Then, secondarily, if you could please walk me through, or give us a sense of what your hedging strategy would be for the coming year.

Mr. Dutra: I think that, probably from the debt side we are fully hedged and we can't see any reason why we should change this policy, and we are fully hegded and we will stay hegded. From the costs of goods sold, I mean, we saw a window of opportunities last year, no big downside to enter into forward agreements at the 2.3 exchange rate level and, for this year, we see a lot of volatility in the market place, including the global economic environment and so on, and that might be a very speculative approach to enter into hedge agreements considering the current level. My personal feeling is within the 3.2 exchange rate we would be starting to renew the hedge.

Mr. Tang: Right, OK. So, all of your debt obligations are hedged, your costs of goods obligation is largely in function of the currency?

Mr. Dutra: Yes, right, yes.

Mr. Tang: OK, thank you and congratulations on the numbers.

Mr. Dutra: Thank you, thank you very much.

Operator: Our next question comes from Celso Sanchez, from ING. Please go ahead.

Mr. Sanchez: Hi, could you offer more color, perhaps, I am not sure if I got all the details on Skol Beats and Chopp Express, I understand that, sort of the night scene, the pubs and clubs and so forth, but I was wondering if you could give us a sense, or clarify again what the pricing premium was, did I understand 20%, is that right?

Mr. Telles: You are lucky because Miguel Patricio just got into the room; he's our marketing director so he will elaborate on that.

Mr. Sanchez: Thanks.

Mr. Miguel Patricio, Marketing Director: OK. Skol Beats is priced about 40% above Skol regular, the regular Skol, this is a fantastic marginal contribution and, yet, we are in the process of launching the product, we introduced the product in October, just in São Paulo, Rio, and Belo Horizonte, the market is there. And, of course, this is a type of product that needs development because it could be on these night-out, get-away occasions, in other words, has to be discos, bars, etc and the volumes are increasing very substantially but, it's not a magic product, that we go to television in the next month. The volumes are totally in accordance to our guidance for the quarter and we are very pleased with our results.

Mr. Telles: Am I mistaken in assuming that Skol regular has not had much of a presence at the bars before, otherwise you couldn't charge such a substantial premium? I can't imagine that there's regular Skol and Skol Beat next, side by side in a pub or a bar with that much of a price difference, is that right?

Mr. Miguel Patricio: Skol Beats is a totally different product from regular Skol. First the packaging is much more premium, in a clear bottle, with a specific and different shape. Second, the product is also very different. Through research we found out that consumers in that occasion were looking for more alcohol content and for less bitterness and, I cannot explain a lot through this conversation, because it would take me more time but, basically, more alcohol, less bitterness which is what the consumers were looking for, and very stylish, that's what allowed us to charge 40% premium over Skol. So that is basically the reason.

Mr. Sanchez: And the second question, well, just to go back to the Kaiser, Molson, discounting story, I understand that they also raised prices since the beginning of the year, could you just comment on if the pricing gap, I think when Molson finally raised prices, back from the discounting level mid last year that I think the pricing gap narrowed to about the traditional level of 10% to 15%, if that's correct is that the gap now or is it wider than that, after the January price raise on their part?

Mr. Luiz Fernando: Gap, between our brands and Kaiser at this moment are the same as they were at the beginning of last year, this is the number I can give you now. The best competitor for us is against Schincariol and other brands, so, when you see Kaiser price now it has the same level as Schincariol, and Bavaria is turning out the same prices as other brands, very small brands in Brazil, so that's why we say they are discounting too much and I don't believe they can keep this price at this level.

Mr. Sanchez: OK, thank you.

Operator: Our next question comes from Keith Howelett, from Desjardins. Keith, please go ahead.

Mr. Howelett: Yes, I wonder if you would give your thoughts on how large you expect the super premium domestic segments to become, the Chopp Express and Skol Beats group?

Mr. Miguel Patricio: I think it's too early to talk about targets but we can talk about benchmarks, and super premium market in other countries. Well, in the United States it is above 20%, but in other Latin countries it is about 15%, I just got a target for benchmark but I can tell you that in some parts of Brazil, Bohemia already achieved a fantastic share. Just to give you an idea, in São Paulo, in bars, Bohemia achieved an 8.7% share, and we are growing a lot in other areas of Brazil, so there's a lot of room to improve in the northeastern part, in Rio, and in the south of Brazil.

Mr. Howelett: And the Skol Beats, is that the non-returnable longneck bottle?

Mr. Miguel Patricio: Yes, it is.

Mr. Howelett: Whereas the Bohemia is mostly in the 600 ml.?

Mr. Miguel Patricio: Yes, well, the Bohemia, 50% of the volume is non-returnable. 50% of the volume of Bohemia is 600 ml bottles and the other half comes from non-returnables.

Mr. Howelett: Great. Thanks. I just want to ask one question. What is your estimate of the total size of the market in 2002 for the beer market?

Mr. Telles: 80, 80 something.

Mr. Howelett: About 80 million or 88 million?

Mr. Telles: Basically.

Mr. Miguel Patricio: Around 85.

Mr. Telles: Yes, mainly. I mean, you have to rely on market share by Nielsen, which we use more as a trend than as a precise number. By using that and our volume you will get to 85.

Mr. Howelett: OK, thanks very much.

Mr. Telles: You're welcome.

Mr. Miguel Patricio: Thank you. Once again, ladies and gentlemen, press the 1 key if you have a question. We are welcoming questions from investors and analysts. Our next question comes from José Yordan, from UBS. José, please go ahead.

Mr. Yordan: Good morning everyone, my question is about Venezuela. Just wondering, with all the troubles there right now it almost seems like, even the small size you have there, it's starting to get bigger to get out of Venezuela. I was wondering if you're any closer you feel to the point where you can make a decision to either get out or have the opportunity to make a substantial acquisition to take advantage of the growing weakness in the country and in the currency, and so forth, and also I'd be interested in your 2003 outlook for that market and what you're planning to do there and the status quo in your operations.

Mr. Telles: Difficult question. José, in all those opportunistic expansions, always the basic reasoning behind them is getting into a market where the price structure or the inefficiency of the competitor would allow us to survive and prosper with a growing small market share and even grow, or eventually being able to do a transaction being either a merger, an acquisition, or whatever. So, of course, in Venezuela this is not different, we are improving a lot of our operations there and now we have 80% direct distribution so, it's basically our destiny on our hands, so, we are improving execution and so on, share has grown recently, so again we will keep on investing in growing. We have learned overtime that there's no way that you can grow very rapidly in a sustainable way. You have to really build a base, do the right things in the market, in the market place and really be open to an acquisition, an association if the opportunity arises.

Mr. Yordan: OK, thanks.

Operator: Our next question comes from Justin Hott and Ana Zacapa, from Bear Stearns. Please go ahead.

Mr. Hott: Hi, I apologize if any of these questions were answered. We got disconnected for a couple of minutes. First question is, can you give us some more detail on pricing acceptance on a regional basis? Second, I wonder if you can elaborate on some of the top line and market initiatives at the soft drink unit in 2003 and last, I'm wondering if there's a specific FX level you could share with us where you could see a significant hedging coming up.

Mr. Telles: Let me just repeat, for your benefit, the answer that Felipe already gave about the hedging. It's nothing precise, but we had a feeling, I think that we mentioned that in the last call that around 3.20 or something like that we would seriously consider hedging variable costs again, in terms of debt we are fully hedged and maybe Juan can answer about soft drinks.

Mr. Vergara: So let me see if I got the questions right about soft drinks on the 2003 outlook; so we don't see any major changes, we'll die if we make any major changes in terms of our strategy, we will continue highly focused on our core portfolio, we're doing great by focusing on Guaraná Antarctica and Pepsi and extracting all the potential profit from Pepsi Twist and we'll continue focusing on those. And we'll certainly continue with our pricing strategy and we have to closed the gaps to levels that we now feel quite well and we'll follow the price leader in whatever direction it goes, hopefully up. And most important, is that there is still further room to improve and extract more synergies for the business between beer and soft drinks, so that's basically what we're trying to do no, major changes, more of the same; still room to grow.

Mr. Hott: And, thank you, and the approach on the regional basis, can someone provide some color?

Mr. Luiz Fernando: We don't feel too many differences between regions. Markets behave the same way, and at the first moment we lost some market share, we don't like it but we believe it is natural that we lose some market share the first moment. We're recovering market share in our volumes, and in most of the country we are growing against last year. We believe that the first moment is difficult to control consumer prices, but we're learning how to do that and how to negotiate with the retailers and volume is going very well so we believe the market has reacted well to our prices. Other prices in the market, other commodities, and other products had raised the prices much more than that because of the exchange rate. So, we are doing very well, we are very happy with the market behavior at this point.

Mr. Hott: OK, thanks.

Operator: We have one more question from Lore Serra, from Morgan Stanley. Please go ahead, Lore.

Ms. Serra: Thanks. Just a couple of follow-ups. When you talk about the pricing environment being not sustainable in terms of your competitor, I am just wondering if that is directed primarily to the supermarket channel or is it more broad-based. And then, for Juan, given the strong soft drink volume trend in the 4th quarter, are you expecting that the industry will take more soft drink pricing at the start of this year?

Mr. Telles: Let me comment about pricing, or let Luiz talk about pricing and Juan about soft drink.

Mr. Luiz Fernando: We are talking basically about cans at the supermarket. Like Marcel said, this is a place where usually market share is rentable, there you rent share by discounting and we don't believe doing that is good. Cans are affected by taxes more than bottles at this time and all the exchange rate that affects more the costs than bottles, so we don't believe cans price is sustainable. OK that is it.

Mr. Vergara: Now on soft drinks pricing we are followers. And we will definitely be glad to follow an upward trend of what is the orderly pricing environment so we will be very happy with maintaining those gaps, like I said, up or down whatever direction the market leaders go we'll go, hopefully it does well.

Ms. Serra: OK, just briefly for Felipe, in terms of the increase you mentioned in the capex of this year, I assume that amount including Quinsa, and other than the Peru investment, is there anything significant that is increasing your capex this year, and then, just lastly, have you decided from a reporting basis, given the increasing complexity of the countries you are operating in, how you're going to be reporting international operations, will they be lumped into one category, will Quinsa be broken up separately, if you could just give us some sense on that, it would be helpful.

Mr. Dutra: OK, first of all, in terms of capex, we had an average capex during the last two years close to 500, the 800 that we will have during 2003, needing 300 additional capex basically Peru, as you mentioned, Guatemala, as you are aware of it, and also high investment in the cooler system. We have been tracking the results per points-of-sale from each equipment, on a national basis, and that has proven a very powerful tool in order to extract more margin from the margin pool, and, in terms of direct distribution, since we will be growing our volumes through our direct distribution system that would require investments in the acquisitions of some third distributors' assets in the market place. We will have investments in warehouses and so on. That's what the additional capex accounts for. From the way we'll be reporting Quinsa basically we have not decided yet. That is something that should be agreed between Quinsa and AmBev. We intend to provide as much disclosure as possible in line with our policy.

Operator: Thank you. Our final question comes from Alex Robarts, from Santander. Alex?

Mr. Robarts: Yes, hi, I actually had three questions and my line fell, I don't know if some of these have been asked. First of all I wanted to drill into the cost saving program here 40% coming from procurement you're saying on the 150 to 200 million guidance. I just wanted to understand what kind of FX are you using for your current assumptions there. Talking, perhaps, if you could, about where you see absolute prices for your input PET and can and, specifically, I understand you've been looking at buying aluminum and basically working closer with some of your can suppliers and maybe you could give us some color on that.

Mr. Brito: This is Brito. When we talk about the 40% piece of this savings commitment coming from costs of goods sold, of course we mean discount foreign exchange, a shift from one year with hedge to one year so far, at least, without hedge, and also for inflation. So, it's a commitment in real terms. And, as you mentioned, the can side is going to be an important side, we will be running a study with an outside consultant that has worked with Pepsi in the US before, in terms of modeling the can cross-chain, and one of them being, buying coil direct from manufacturing. But that's too early to say, but that is one of the most important items that you have to tackle if you want to get to this commitment.

Mr. Robarts: Sorry, so FX rate you are using in budget for year-end average is what, and generally where do you see the can and PET prices going in Brazil this year?

Mr. Brito: In terms of the can prices dollar-denominated can prices we see it so far being stable, in terms of the PET, we do see a cost pressure, since resin has increased in price around the world. We do have, in terms of the PET supply, some tax planning that we have been looking at in terms of acquisition of the resin, there is an incentive coming from Uruguay, since most of the resin, or part of it is imported, so that could offset some of the resin cost increase. But, you are right. PET has been going up in terms of the resin, and not can.

Mr. Robarts: And the FX?

Mr. Brito: In terms of budget, now, the point of exchange we have built into our budget.

Mr. Dutra: Alex, basically that is an internal exercise. You should see our serious intention to start hedge our exposure at the 3.2 level.

Mr. Robarts: I understand, but what rate are you using for year-end, when you're talking about savings and such? What are you contemplating for year-end, let's say, 3.0? 3.6?

Mr. Dutra: We don't have this disclosure, Alex, unfortunately. I think it's hard to forecast the year-end exchange rate and I think we expect a lower exchange rate than the current one, I mean, it is our guess.

Mr. Robarts: Fair enough. I'm just going then to the market share number that Marcel mentioned earlier, looking for the 70% market share in beer. That would be, it seems to me, 1 or 2 point gain for the year, assuming that you stay at 70% as an average. And I guess that, looking at your industry numbers here 2 to 3 that basically implies that you're going to be kind in the 3% to 4% range, roughly for beer volume growth. So, the question is, is that a safe assumption? And, specifically, the inflation number that you referred to, we're interested to know, I guess it is IPCA that you're using and is 12% in fact the inflation number that you are going to be using for, when you say increasing prices in line with inflation.

Mr. Telles: About the market share, our internal target is to hover at around 70, but as I mentioned, there will be times when we do what is needed to do in terms of pricing and the competitors will take less or more time to follow so, if we could get this share and maintain it throughout the year and if the industry will grow at a total 4-3% level then the end result for us will be the 3 to 4% growth. Again, there are two assumptions there, one is the whole industry growth, the other is how our competitors will react to our price increases, of course, if they react immediately, you'll be making a safe assumption.

Mr. Robarts: And the inflation that you said, when you say expect to put prices keeping in line with inflation. Which exact index are you using?

Mr. Telles: We are using a consumer price index.

Mr. Robarts: I am sorry, is it the IPCA?

Mr. Telles: Close to it.

Mr. Robarts: Yes, OK, OK, and just finally, this is more of an update question, is there any news from the legal department at the CVM as far as where they might be coming out on the strike price for your April 2003?

Mr. Telles: No, I mean, we have submitted all the things that we got from the lawyers in Brazil, I think that the thesis is very, very strong and coming from very, very powerful and respectable lawyers like Bulhões Pedreira, we think that reason is on our side and we don't have a hint on the ruling yet.

Operator: Thank you, at this time we have no further questions, I would like to turn it over back to the AmBev Management Team for closing.

Mr. Telles: OK. Well, thank you very much for the attendance and I'll see some of you in the site visit here in Rio and the others on the second quarter conference call. Thank you.