Operator:

Good afternoon and thank you for waiting. We would like to welcome everyone to AmBev's 3Q06 Earnings Conference Call. Today with us we have Mr. João Castro Neves - CFO and Investor Relations Officer, Mr. Luiz Fernando Edmond - CEO for Latin America, Mr. Francisco Sá - Soft Drinks Executive Officer and Mr. Miguel Patricio - CEO for North America, and Mr. Graham Staley - CFO for North America.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After AmBev's remarks are completed, there will be a question and answer section. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities litigation reform act of 1996. Forward-looking statements are based on the beliefs and assumptions of AmBev's management, and on information currently available to the Company. 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. 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 will turn the conference over to Mr. João Castro Neves. Please, Mr. João, you may begin your conference.

João Castro Neves:

Thank you very much. Good morning everyone, and welcome to AmBev's 3Q results conference call. I would like to start the call by sharing a brief overview of what was a good 3Q for AmBev.

Luiz Fernando, Miguel and Francisco will then provide you with details about the operations in Brazil, HILA and Canada. I will then wrap up providing specifics regarding the 3Q financials.

During the 3Q, our consolidated EBITDA reached R$ 1.824 million, which represents an 18% growth, when compared to the 3Q05. Our earnings per share, excluding goodwill amortization, presented a growth of 23.4%.

The Brazilian business delivered very good performance, with EBITDA growing 16.4%, which is higher than the same period last year, and volume growing 4.3% for beer and 10.4% for CSD and Nanc.

We are also very happy with our Quinsa operations, which delivered an EBITDA growth of 31.9%, in USD, which excludes the effect of the higher AmBev stake. In

Canada, despite a tough quarter for the whole industry, we managed to deliver a 4.5% EBITDA growth, in Canadian Dollars. In HILA-ex, we managed to achieve positive EBITDA for the first time this year. These results leave us much more confident about our strategy in those countries.

All our operations together brought a net income of R$ 486.1 million, which is 21.8% higher than 3Q05. Those excellent results reinforce the effectiveness of our initiatives, leading AmBev to a strong 2006.

With that, I'd like to turn the call over to Luiz Fernando.

Luiz Fernando Edmond:

Thank you, João. Good morning everyone
I am pleased to provide you with details regarding our 3Q results.

Starting from Brazil beer, we see a 4.3% volume growth in 3Q06, as a result of a market growth and higher market share, achieving 68.6% compared to 68.1% for the same period of last year.. Despite all the recent pressures of the competitive environment, we keep going on our way to deliver what we expected to, reaching the upper range of our guidance for volumes and EBITDA margin, possibly even surpassing it a little.

In the pricing front, our net revenues per beer hectoliter in Brazil reached R$ 137.8, a growth of 5.3% when compared to the R$ 130.9 in 3Q05.

Brand and revenue management, good performance of the premium segment and our direct distribution strategy continues to increase net revenues beyond inflation. This quarter, our premium brands presented another strong growth, with Bohemia growing almost 28%, and Original more than 40%.

This quarter has also brought important innovations. First, Skol Lemon. Skol Lemon is the first beer in Brazil mixed with fruit flavor. This category has been growing a lot worldwide and is already responsible for 5% of the German market. It's a light and refreshing beer, with great appeal for the summer.

Another one is Brahma Black, launched after two years of intense research and development. Brahma Black is a black draft beer, with a peculiar process of production as well as the way the product is served, creating a new drinking experience to the consumers, and represents one more step towards the development of the premium segment in Brazil.

Following the great acceptance of our Puerto del Sol, launched in May this year, we now also have Puerto del Sol in cans and 600 mL returnable bottles. This initiative is a further development of the Latin segment in Brazil.

And in the CSD and Nanc segment, we now have H2OH. Launched in the beginning of September, H2OH is a type of beverage different from everything we have seen in Brazil, and it is starting to confirm the great potential we expected for it.

As leaders, we want to play this role of developing new categories in Brazil and bringing new opportunities of consumption for our customers. These initiatives, together with other many initiatives, close to the summer, the most important period for our business, make us even stronger and fully prepared to capture all opportunities and overcome any threats that appear in the market. We continue to grow share, rising from 68.5% in September to 68.7% in October, which put us on a year-to-date of 68.7%, 60 bps better of than last year.

On the soft drinks and Nanc side, another quarter of strong volume growth, reaching 10.4%. Revenues per hectoliter also presented growth of 1.4%, despite the higher share of multi-serve packaging. We brought today Francisco Sá, who will make further comments on the CSD and Nanc segment.

In Hila-ex, we achieved low positive EBITDA for the quarter, with highlights for the good performance of soft drinks in Dominican Republic. We see this result as a strong demonstration that we are following the right path. We will continue to execute our strategy, always targeting the long term profitability of the business.

We are still in what we consider a start-up phase in Hila-ex countries and we do not expect any significant contribution to the AmBev results for 2006. But we are managing to build local partnerships and break monopolies. We continue to focus on strengthening our operations by gaining volume and market share as well as building brand equity.

On the other hand, once again we achieved excellent results for Quinsa, with 31.9% EBITDA growth in US dollar terms, which does not consider our higher stake. We had a very good performance pretty much across the board, with highlights to the Soft Drinks business, with EBITDA growing in excess of 40% in dollars.

I would like to conclude by saying that 2006 has been a very good year so far, and I don't have any reason to believe it will be different in the 4Q. We expect, and will do our best, to finish the year on a high note.

I will now turn the call to Francisco Sá, who will be talking about our soft drinks Business.

Francisco Sá:

Good morning everyone. I'm proud to announce our CSD & Nanc results for the 3Q06. We are having an extremely good year, with EBITDA margin as high as 34.5% in the first nine months. We are working on our brands, packaging and exploring all opportunities presented to keep up with the good momentum.

The CSD and Nanc operations delivered solid volume growth of 10.4% in 3Q06, still profiting from very nice campaigns during the World Cup. Guaraná Antarctica was the most remembered of all beverage brands, and its in and out product, Guaraná Antarctica Seleção, was a big hit selling 60,000 hectoliters in just two months. Our promotion "Amor à Camisa" was highly celebrated during the year, selling an additional volume of 100.000 hectoliters. Pepsi Cola achieved its highest preference number with our “DaDaDa” campaign.

In this quarter, we still see a migration to the multi-serve packages, which leads to a smaller revenue/hl, but contributes with an even lower cost/hl and also helps to bring in higher volumes.

COGS/hl was affected by the higher cost of sugar, compared to last year, as anticipated. For the 4Q, we expect sugar to continue to add pressure, but not in the same extent as in the 3Q. João will go through the commodities and FX performance later on.

The Nanc segment also delivered very nice results, with Gatorade delivering 47.9% of volume growth. Even with those pressures on costs, EBITDA for the CSD and Nanc segment was up 4.4%, reaching R$ 132.4 million.

Throughout the last five years, the CSD market presented huge development, both in terms of products, innovation and profitability. AmBev, more than any other player, has successfully identified and captured the opportunities. Our EBITDA margin rose from 8% in 2001 to 31.4% in 2005. In absolute figures, our EBITDA grew from R$ 77 million to R$ 517 million, a strong 61% CAGR. For the 9 months the EBITDA reached R$ 435.2 million, up 17.6%, with a margin of 34.3%.

We continue to see opportunities. On the fairness side, we are very excited about the implementation of the flow meters, which are already in place in all of our plants, for both soft drinks and Nanc segments. We expect to see some update on that matter throughout the year of 2007, when the flow meters should be fully implemented for the whole industry.

We also have good news on the innovation side. Addressing the health and wellness trend, Pepsi and AmBev launched in September H2OH, a fresh and slightly sparkling beverage, with no sugar and flavored with lemon. Different from any existing product in Brazil, H2OH aims to start new category. This kind of product has already a very high acceptance in other Latin American countries, and we believe it has a huge growth potential in the Brazilian market. It still early to say, but the first results are promising.

Before I pass it on to Miguel, I would like to end by confirming our guidance for the CSD business and reinforce my enthusiasm for the 4Q and for 2007.

Miguel Patricio:

Good morning everyone. I will address Labatt’s operation in Canada in the 3Q. This has been the most challenging quarter for us in the year, mostly because of flat industry volumes, quite different from the 1H, when we had a 3% growth.
The soft industry combined with continuous pressure on Labatt’s market share in the province of Ontario are the two major causes for the reduced rate growth this quarter, in comparison to 1Q and 2Q. Labatt’s results, however, remain absolutely on track with the guidance provided for 2006.

On the cost side, we continue to be focused on driving operating efficiencies and decreasing the fixed cost structure.

Regardless of lower sales volumes, our breweries continued this quarter to further improve efficiencies, primarily in packaging lines. On top of that, our procurement operation succeeded in minimizing the negative impact of increased prices for both aluminum and malt. These two factors combined drove a reduction in Canadian dollars of 1.9% in variable production costs.
In relation to our fixed cost structure, we concentrated on opportunities in business aggregation and further enhancement of the Zero Base Budget process implemented last year.

The savings derived from business aggregation are in line with the business case we developed for the Share Services Center in North America. We have captured benefits generated by both reduced headcount and also more effective administrative processes. For example, we now have an enhanced Procure to Pay process in place. The process provides higher visibility for transactions and allows significant savings in indirect procurement. By centralizing the purchasing of a larger number of indirect items, we increase our bargaining power and ensure that every department sources its needs from preferred suppliers.

In regards to Zero Base Budget, I am pleased to say that it is today part of our culture in Canada. Nevertheless, we know that there are still significant opportunities for cost savings ahead of us. Although we have made significant strides in cost reduction, bringing a lot of the know-how previously developed in Latin America, there are still areas of expenses that require customized analysis, namely logistics, marketing and sales expenses. We are working on these areas as I speak.

Let us shift now to revenues.

As I mentioned, we faced two major challenges in this quarter: flat industry volumes after a strong industry in the first half of the year; and increased pressure in our market share in Ontario. As a result, we experienced a 1.5% decline in domestic volumes.

Labatt's consolidated results for Canada remain a mix of significantly different realities. In regions where we are the market leader, namely Atlantic Canada, British Columbia and the Prairies, we have focused on increasing brand equity and value creation, and we clearly see the results reflected in continued growth of our profitability and share.

However, year to date in Ontario, both Labatt and our main competitor in the core premium segment continue to lose market share to discount brewers. Both of us were ineffective in addressing the issue by using across-the-board pricing actions to stop share decline.

In the end of the day, the limited tie offer activity proved to be quite harmful to core premium profitability and caused no significant impact on the discount segment.

Our goal in 2007 in Ontario is simple: we need to stop this share loss against the discount brewers. In order to do this, you can expect to see significantly less limited-time offers from Labatt and, instead, a much more focused approach to address the discount segment growth.

Our learning from the intense competitive environment in Ontario in 2006 have allowed us to develop a plan that we believe will lead us to achieve our objectives in 2007. While we are planning for less limited-time we are going to be more aggressive on very focused activities against the discount segment. We will not provide specific guidance on our pricing strategy for 2007, but we expect a more benign environment than in 2006, by which, we mean industry prices more in line with the inflation.

However, the price involution in 2007, of course, will largely depend on the behavior of our main competitors in the market, especially in Ontario during the 1Q. Although we hope [inaudible] environment, I have to say we are fully prepared to react in case the [inaudible] is equal or even more aggressive than in 2006.

We are fully hedged in our most important commodities. We do expect cost pressure for 2007.

In summary, the competitive scenario in Canada remains a tough challenge; nevertheless, we managed in every quarter this year to deliver top line growth in our domestic operations, and the year-to-date growth in the revenues for total Labatt is in line with our guidance of 1.0%. We are confident in our strategy. Despite these challenges, I trust that the combination of Labatt's strong portfolio of core brands combined with a smarter approach to deal with the competitive pressures will bring the results we are looking for.

I now turn over the discussion to João.

João Castro Neves:

Thank you, Miguel.

First I would like to talk about the InBev Brasil deferred assets fiscal benefit. We changed the recording criteria of the effects resulting from the incorporation of InBev Brasil, aiming to adjust it to what mostly represents the core of the transaction in agreement with the provisions in CVM Instructions 319/99 and 349/2001.

We also believe it is clearer to Investors and Analysts. However, it is very important to highlight that, in terms of cash generation and net income; there will be absolutely no change.

On the Income Statement, we will be seeing a reduction in the D&A expense line, which is approximately to R$ 87.7 million each quarter of 2006. In the same way, one would expect to have a higher Income tax, in the amount of R$ 87.7 million, resulting in exactly the same Net income. Although the income tax is higher, we are not going to increase our income tax payment, still maintaining the benefit of the goodwill deductibility, which is recorded in shareholders equity.

In conclusion, it is just a different, way of presenting exactly the same operation, with exactly the same benefits. To make it clear, we will be publishing two income tax rates, being one under the new accounting presentation and another under the former one.

As you probably know, and have seen, on Wednesday our Board approved a plan to make an offer for the outstanding Quinsa shares. The offer has not yet commenced, as we still need to obtain approval of the offer documentation from the Luxembourg regulatory authorities. In the coming days we plan on filing the offer documentation for the Luxembourg authorities' review. They will have 30 business days to review everything. Should they approve the offer documentation, we will launch the offer as quickly as possible and file everything with the SEC. It is hard to anticipate a definitive timeframe, but we hope to be able to complete the offer in the first months of 2007. We will disclose additional information once the offer documentation is approved in Luxembourg.

Now getting to the numbers.

On the cost side, as already said, our SG&A did not grow as much as on the 2Q. It was expected and, given our careful planning, we head towards the summer with enough budgets to assure that our brands remain strong, without compromising the company’s profitability and margin expansion guidance. The main reasons for SG&A growth were: higher volume; higher direct distribution and fixed costs growing with inflation.

Soft Drinks get a little bit more penalized due, of course, to the higher volume – it is growing 2x the rate of beer, or a little bit more – yielding, also, higher expenses such as freights, which are more than compensated, of course, by the extra revenues. I do not expect to have a change in pattern regarding SG&A behavior for the 4Q, when compared to 3Q.

Regarding our hedging strategy, the FX gains partially offset the sugar pressure on the CSD (the soft drink business), while, in the beer business, the gains with FX more than offset the aluminum pressure.

On the 4Q06, sugar and aluminum should, once again, penalize CSD, which is partially offset by the FX, yielding a loss of approximately 0.61/hl. On the other hand, for beer the FX gains more than offset aluminum losses, yielding an important gain of approximately 1.07/hl. On the full year of 2006, the hedge impact of COGS mounted to a gain of R$ 1.75/hl for beer and a loss of R$ 0.45/hl. Overall, this total gain is expected to be around R$ 100 million for 2006.

For 2007, we have already hedged 92% of our total FX exposure and 100% of our commodities exposure. So far, comparing to 2006, once again we have approximately R$ 100-105 million gains, given our hedging strategy. This gain we estimate to be around a R$ 0.99/hl for beer, so we are talking if we are using the same volumes of this years around R$ 60-62 million, mostly concentrate in the

2H07 and a gain of R$ 2.0-2.1/hl for the CSD, which is approximately R$ 42-45 million, strongly concentrated in the second half of the year.

Now I will be guiding you on the main lines between the R$ 1.82 million EBITDA and the R$ 486 million of Net Income.

Other operational expenses presented a loss of R$ 262 million in the quarter, which is pretty much explained by Labatt's goodwill amortization of R$ 242 million. Quinsa's goodwill amortization mounted to R$ 64 million in the period, out of which R$ 39 million is linked to the latest portion of the transaction, which was concluded on August 8th.

Our net debt increased R$ 2 billion totaling R$ 7.2 billion, yielding a financial expense of R$ 273 million. The reason for the debt increase was the Quinsa transaction, for which we issued a debenture in the amount of around R$ 2 billion.

Non-operation revenues presented a gain of R$ 7.2 million.
The provision for Income tax and Social Contribution totaled an expense of R$ 257 million. This number includes the fiscal benefit of R$ 87.7 million which is a non-cash expense, as we have already explained.

We presented a profit sharing provision of R$ 85.4 million. Minorities' participation in other subsidiaries presented a gain of R$ 2.1 million.

Net profits per thousand share amounts to R$ 7.5, an increase of 23.9% when compared to 3Q05 figures.

Regarding dividend strategy, we remain committed to distribute all excess of cash generated. This year, so far, we have returned to shareholders approximately R$ 880 million in IOC, R$ 390 million in dividends and R$ 1 billion in Buybacks, totaling R$ 2.3 billion.

Once again, we would like to reinforce our belief in our people to deliver another very good year and start 2007 with our operations stronger than ever.

Now we are open for questions.

Julia Rizzo, Credit Suisse:

Hi, good morning, everyone. Congratulations on the results. Actually, I have a couple of questions. I would like to start by asking to Graham, who will be the new CFO for Brazil, what he considers the main challenges ahead in this new position in the company.

Graham Staley:

Well, thank you, Julia. This is Graham Staley here. Truthfully, I would like to say I am delighted to be taking on this new assignment; I am joining a great team and I am looking forward to not only adding value, but learning a great deal from that team as well.

The immediate first challenge is Portuguese – I have already started my Portuguese lessons, and I am doing pretty well there. I clearly want to understand, on a more serious note, the Brazilian market in great detail, I need to understand that very quickly, obviously get to know the people very quickly as well, and understand the key drivers in the business.

It is a tough question for you to ask me over the telephone like this, but I am very much looking forward to the challenges facing the business, and looking forward to making a contribution to the team down there.

Julia Rizzo:

OK, thank you very much.

Now back to the Brazilian operations, I would like to ask: how is market share, how are the industry volumes doing in October and November? For us here, at least in São Paulo, the weather is somewhat cold for the season. Could you say how the market share was in October, and how industry volumes are doing, so far?

Luiz Fernando Edmond:

You know, Julia, we are not disclosing the volumes after the quarter anymore so… You know, in Sao Paulo we are really having bad days, the weather is bad today, it was bad yesterday but, in average, I would say we are positive and we expect that the weather can recover fast in some of the regions. When you compare to the Quinsa operations, and the fact that they delivered very strong results in the 3Q, the weather contributed a lot to that and, of course, if we can have the same positives here, we can deliver a very good 4Q. But it is too early to say, we cannot control the weather, and if it is bad in Sao Paulo we hope that in the other regions it can be positive.

João Castro Neves:

I can add to Luiz, that Argentina had the warmest, hottest October in the last 70 years, so maybe it will help compensate a little bit of these few days that you are seeing.

Luiz Fernando Edmond:

Yes, with regards to the market share – and this is, of course, Nielsen issued the share yesterday, we did not have all the time to analyze the figures yet – they basically refers to September and October numbers, it was positive - we gained 0.2% market share, so up to 68.7% in Brazil, and we hope that we will continue to grow.

Julia Rizzo:

This compared to what? September and October last year?

Luiz Fernando Edmond:

October last year was pretty much the same, 68.7%.

Julia Rizzo:

And do you have any figures from Kaiser or the Sol launching, how is that going?

Luiz Fernando Edmond:

You mean from Nielsen or from our numbers?

Julia Rizzo:

Yes, for Nielsen's.

Luiz Fernando Edmond:

I would say that the Nielsen numbers will not reflect any initiative on the Sol front, they probably will reflect the initiatives on the Kaiser pricing lower than the average price for the year – they reduced price around 10%-12% in supermarkets, they gained 0.2% of market share, so both us and Femsa gained market share; Petropolis and other smaller B brands lost some market share.

Julia Rizzo:

OK, great. My last question would be on the new CSD strategy on Guaraná. It is on newspapers that you decreased prices by 20%. Could you give us some color on that, how relevant it is, the impact on margin or for how long are you going to keep this?

Luiz Fernando Edmond:

Francisco is here and he told me, I can add on that, but we did not decrease prices by 20% across the board, we have increased the level of promotions that we are doing, more with Pepsi than with Guaraná. We saw an opportunity, because we were prepared for Femsa to react, they were losing market share in beer for the whole year after three or four years that Kaiser is losing share.

So, as we said during the whole year, at some point in time they would had to react, and when they started reacting, we realized that they were not taking care of the soft drinks business as they were in the past – they were giving space away in the supermarkets to beer instead of soft drinks, they were allowing the coolers in the markets to be used with a beer brand, giving some merchandising space from the soft drinks into the beer business.

And, of course, if they have an opportunity on the beer, challenging us on the beer segment, we have exactly the same opportunity. So why not take advantage of this moment and put pressure on the soft drinks business? That is exactly what we are doing.

So we do not expect our prices to decrease by 20%; as Francisco said, we expect to have a very good 4Q as well as we have had until this point in the year; we are maintaining our guidance in the CSD business, we are saying that from the total business we will be in the upper range of volumes in beer and EBITDA margin for the total business. We are not, of course, entering in a less profitable momentum, we continue to increase our profitability, as well as our volume, and we will do everything we can to gain market share.

Julia Rizzo:

OK, thank you very much.

Jose Yordán, UBS:

Hi, good morning. João, if I could just have the average hedging level that you have for 2007 for your FX hedge for raw materials – this year, if I remember correctly, was 2.60 something; if I could have the clarification of what it was this year and then for next year. Thank you.

João Castro Neves:

Jose, just to clarify, you are talking only about FX?

Jose Yordán:

Only about FX, yes.

João Castro Neves:

Well, basically, the 2.67 that we talked about, you have to remember, as we move the guidance from the 2.5% and 3% to the 4% for beer, and we had that piece – of course it was an opportunity – the effect of FX rate came down. So we were saying it came down to somewhere between 2.58 and 2.60, for the new volume that we had, so we had even more gains than we had expected in the beginning – that could also happen for next year. And, for 2007, we are looking at something around 2.3. So we are comparing, roughly, 2.58 to 2.3.

Jose Yordán:

OK, thank you.

Lore Serra, Morgan Stanley:

I wanted to ask one question on soft drinks and one on beer. On soft drinks, just to make sure I understand what you said, we saw a big increase, sequentially, in the cost of producing soft drinks – that I assume was the sugar and aluminum that you were referencing. In the opening comments, you talked about how you see continued pressure, but not at the same way in the 4Q versus 3Q.

What I would like to understand is: when we look at the COGS/hl soft drinks in the 3Q, would you expect that to be relatively stable, in *reais* terms, sequentially, or would you expect the pressure to get reduced so that your COGS/hl reduce into the 4Q?

João Castro Neves:

When we look at the 3Q, mostly, the impact was on sugar, OK? I mean, when you compare the sugar impact to the aluminum impact, the aluminum impact is 5x what is the sugar impact. And for the 4Q, what happens is that you will see, also, a negative impact for the sugar and aluminum, but we have more gains on the FX for the 4Q.

So, net net we actually have, for the 4Q, still a loss for soft drinks, as I said, but it is a much smaller loss. So it is like 1/3 of the type of loss… When you look at the net of FX and commodities, it is 1/3 of what you saw in this quarter.

Lore Serra:

So, sequentially, you are expecting COGS to get better?

João Castro Neves:

That is right.

Lore Serra:

OK. And just, I would like to understand, why are the higher aluminum costs not affecting you in the beer business this year, and they are affecting you in the soft drinks business?

João Castro Neves:

What I have just said is that actually the impact is much greater for us on the sugar side; it is not that it does not affect us on the beer, it does affect us on beer, but the FX gains much more than compensate for the pressure of the aluminum.

In the case of soft drinks, what we suffer in aluminum is also more than compensated by what we gain in the FX, so what really takes the result in soft drinks is the sugar.

Lore Serra:

OK, great. And I guess, in Brazil beer, I just… you have touched on somebody's points in the call, so I do not mean to be repetitive but, you know, as you mentioned that you think you can do at the upper end of the guidance or a bit better. You know, 4% of volume growth, I think makes to 0% growth into the 4Q, which I assume is something you think you can beat. Your market share level in December of 2005 was 69.4%, so it is above where you are now, although you are tracking where you were in October of last year. So, if you think about the upcoming summer season, how confident are you in terms of the market share, the trade-off between profits and market share? Can you give us a little color in terms of some of the market dynamics that we have been sort of reading about in the press?

Luiz Fernando Edmond:

Hi Lore, you are right. Probably we can do better than 4%, that is why we are saying the EBITDA margin can be in the upper level of the range and, of course part of it would come from volumes. As you heard before, the weather is not helping a lot, so we could do better than that if weather recovers going forward. So, we are confident that we can make 4%. We are pretty much sure that we can make the 4%.

And we can make even better than that depending on the weather conditions, because market share is stable or even growing going forward. That is our expectation, so you could consider something that could be higher than that.

In terms of the market dynamics that we are facing right now, what we see in the beer market is basically some pressure on the can prices on supermarket prices, because, of course, when Femsa decreased the prices on Kaiser by these 12%, other competitors started to react, so the price effect is not only the effect of Kaiser going down, but the effect of Petropolis and Schincariol following their decrease. Therefore we have to sustain or even to increase some of our initiatives in the segment, in order not to lose market share.

In the on trade it is pretty much different from that. What we see so far is that they are trying to increase coverage and, in many cases, combining their sales in beer and soft drinks, which is exactly what is being affected in terms of revenues. You see the soft drinks business financing the beer business, or the beer business accounting for 100% of the discounts on the beer to increase distribution.

Of course, the Coke system has the power to cover a lot of points of sales in the country, but we are managing to keep volumes under control, and we have enough initiatives to offset some losses that we can have due to the coverage. So, we have a lot of initiatives that could take share from them or from other competitors – because you know they have to protect their basis too. So, a lot of people are talking about Sol, but never forget that they have Kaiser to protect and a lot of volume in the market to protect too, and they are not in a very good shape yet.

Not because you start making spots on TV that means that the brand can recover, it is not what we see so far. So, protecting and, at the same time, you have to increase or to develop a new brand; it is not that easy. So, we see opportunities to compensate for losses in one or two regions, or one or two points of sales, by gaining in others that are not protected either.

So, we are confident that we can at least maintain the market share that we have today; we have just gained market share last month. Of course, we cannot guarantee that it will be at the exactly same level, because you have different rates for different segments in the end of the year; the channels increase their rates in the end of the year, things like that.

But we are very confident that the brands are performing very well; we have one of the best performances in our brands last month, so the brands are in shape; I have never seen our people so motivated to keep going, to keep growing, to keep moving and implementing all the structure that we have.

We are prepared because, as we said many times this year, we are not expecting Femsa to be accepting the losses that they have, at least they invested almost 300 million in the business. So, at some point, they will have to react and we prepared ourselves, differently from the past, in terms of structure, in terms of branding, in terms of incentives, initiatives, everything to face this moment.

So, we are very confident, and everyone here is very confident, mostly because we prepared ourselves to fight this moment.

Lore Serra:

Thank you very much.

Bob Ford, Merrill Lynch:

Good morning, everybody. I have a question with respect to the soft drinks as well, and I am just curious, if you could remind me, how do you pay Pepsi for concentrates? Is there any changes in their structure?

Francisco Sá:

No, we pay as a percentage of sales and there has been no change.

Luiz Fernando Edmond:

What you probably have to know is that they are committed with any price discount that we have, so they are together with us. If prices go up they take advantage, if prices go down we lose together.

João Castro Neves:

You probably have heard us saying in the past, Bob, that ten years ago the contract was based on volume only, and we divorced and then we married again, and every time you have the chance of marrying again the same person you try to make sure you correct the mistakes of the past. And this time around, basically, our contract is based on margins, therefore we go up together and we come down together, if that is the case.

Luiz Fernando Edmond:

If I may, it is important to say that AmBev is seeing an opportunity to fight in the soft drinks market more than ever. But it is important to highlight that Pepsi sees this opportunity as big as we do, so they are very committed to the moment.

Bob Ford:

And I would suspect that the weak link in the Coke system has got to be the other bottlers around Brazil. Do you see any of them backing off on beer, whatsoever, at this point?

Francisco Sá:

I think it is too early to say that, because Kaiser has just launched a new brand, but I think we can expect that.

Bob Ford:

Great, thank you very much.

Alex Robarts, Santander:

Hi, everybody. I wanted to start just by saying that I, personally, really appreciate the guidance that you have been giving us this year. It is extremely comprehensive and I think it is the industry standard that should be followed by more people So, I think I just wanted to highlight that.

And I guess that leads me to the first question on soft drinks. You guys are pretty keen on maintaining the margin guidance in soft drinks. And I guess, as I look at the first nine months, to get to the high end of the guidance, you really have to have a margin contraction or a lower margin. Is this somehow going to be related to the Pepsi discount? And what other factors might that imply as we go into the 4Q?

And I guess the related question is, when you look at the flow meters, which I do think is an interesting factor next year, we saw it very successful in the beer segment – we had gaps of discount pricing narrow, as well as, perhaps, some smaller breweries lose share. Do you think that the flow meters in the soft drinks business next year will have those kinds of effects?

Francisco Sá:

To your first question, the only thing we can say is that we have room in the 4Q to take advantage of the opportunities that are being presented now, so that is why we are maintaining the guidance.

And on the second question of the flow meters, we cannot predict what exactly will happen, but as we said, we are optimistic with the development of the flow meters.

Alex Robarts:

But, I mean, going back to the margin question, you are tracking 34 to 34.3 – that is well above what the guidance is. I am just wondering if it is safe to assume that you will comfortably beat your guidance, then?

Francisco Sá:

We are saying that we are confident we that we will be in the upper level, and we might beat our guidance. But we have the room to take advantage of the opportunity. That is basically it.

Alex Robarts:

And I guess, then, in terms of the flow meters, you expect all this to be in place by year-end 2007, for the industry, is that right?

Francisco Sá:

Actually, by May 2007 we will have most of the industry already with flow meters.

Alex Robarts:

I guess the second question really relates to the hedging for next year. At the last conference call we heard that, kind of, the estimated net benefit was around the R$ 50 million mark, and I guess you are doubling that now. And I am just wondering what happened in the last three months that has given you more confidence in higher guidance. And just to understand: where are these commodities, roughly, year-to-date, in terms of the sugar and the aluminum prices?

João Castro Neves:

Hi, Alex, this is João. I do not recall exactly of talking about R$ 50 million; maybe we had said that if we were to… You know, back then we definitely had not hedged the position as we have now. What I basically said in the beginning is that we made a little bit more than around R$ 100 million this year and are going to make more than R$ 100 million next year, and it is going to be, as I said, around 60 something in beer and 40+ on the soft drinks.

So, when you compare 2007 with 2006, you had most of the gain of the total hedging between FX and commodities mostly concentrated in beer and, as you are seeing for next year, it is going to be more than that. We have very important significant gains on the FX, once again, just like we had during 2006. For the aluminum I think we have more pressure and in sugar we will be pretty even. That is why you see, therefore, an important gain in soft drinks for 2007 that you did not see in 2006.

And, basically, if we had today's rates, maybe it could be a little less. But since the hedging is done, as we spoke in the past, on this 6-12 months rolling, that is why you are seeing a gain greater than that.

Alex Robarts:

OK. And just roughly with the price increase magnitude this year in sugar and aluminum in your market, in Brazil.

João Castro Neves:

I think, when you look at sugar, you have seen many changes in prices. I mean, at this point in time, sugar, this year, went all the way up to 18 dollars per ton and came down again to 11. So, actually it has fluctuated a lot, going from anywhere to being 30% above what it was last year. So, actually it was all over the place.

What you are going to see, when you compare 2007 with 2006, is that they are going to be in line, or probably 2007 a little bit below 2006, given the moment where the figure for 2007 was hedged.

Alex Robarts:

And aluminum?

João Castro Neves:

Aluminum was even more volatile during this year. It went all the way up to 3,000 and it came all the down to 2,300 and now it is around 2,700. So, when you actually look at aluminum –2007 against 2006 – you have 2007 above 2006. But, for example, below what it is today in the market place. So, if you were to say that aluminum kicks in 2.7-2.8 against the market place next year, we will have a very important gain.

But, again, once you hedge, there is no point in continuing to compare that to the market, because, I mean, you do compare, because you compare to somebody else's that is maybe fluctuating, but what matters here, I think, to understand the projection or the comparison year-on-year, we are going to be better off overall, which is much better off in the FX, slightly worse in aluminum and slightly better in sugar.

Alex Robarts:

That is helpful. And just a final clarification; you mentioned on the call that you do not expect the Brazil SG&A to be different in the 4Q from the 3Q, and I am assuming that is on a percentage of sales basis as opposed to an absolute basis, obviously.

João Castro Neves:

Yes, I was following the pattern on a percentage basis. So that is right, that is basically it. I mean, it could be even lower, but I think we are seeing a pattern - of course, when you are comparing year-on-year.

Alex Robarts:

Thank you very much.

Carlos Laboy, Bear Stearns:

Good morning, everyone. This is Carlos Laboy here. Two questions, two secondary issues. One is, could you expand on Gatorade in Brazil? What is the size of the brand, the penetration? And if you could speak of the change in economic proposition, or the clarity of economic proposition from Pepsi Co. that is leading you to drive this kind of volume growth rates.

Luiz Fernando Edmond:

Hi, Carlos, this is Luiz. Let me try to answer the perspectives on Gatorade. Basically, I would say that, part of the growth, has to do with packaging, 24 packs in a glass bottle. We decided to move to a smaller pack now, with 6 bottles. So, that allows us to increase coverage a lot, and to increase the presence of the brand in many of the small pubs, down the street, kind of point of sales that we have.

So, the introduction of the brand in the past, or Gatorade in the past, was highly concentrated in the working out type of consumption and, in terms of channel, mostly concentrated in the supermarkets. With this new package, we were able to increase a lot the distribution and, and it is actually generating more people to try and to, let us say, take the liquid into their portfolio. So, this is one of the reasons for that.

The other, in terms of possibility, Gatorade is much more profitable than the soft drinks business, even higher than the mainstream beer brands that we have – so a very profitable brand. And the kind of contract that we had in the past is almost the same that we have with the soft drinks business. So, it is in line with the other agreements that we have with Pepsi.

I do not know if that answers your question.

Carlos Laboy:

That is very helpful, thank you. The only other issue I had was if you could comment on what you are hearing of a discount beer entrance into the Peruvian beer market. And, as a lower price player, are you worried about that?

Luiz Fernando Edmond:

It is difficult to say, because we have not had this situation before, so it is difficult to predict what can happen. I think at least more people challenging the monopolies would be helpful. I mean, we have a good base there, of volume, that is stable; the brand is doing well; and, of course, we are the only ones to face competition there – we are fighting alone against SAB in that market. So, if others put more pressure, I think that could be helpful.

Of course, we cannot just watch what is going on, we have our own strategies and we have news to implement in that market that are going forward. But we have to learn from the experience. We have never had in our Greenfield strategy in the past any kind of low price competitor as strong as you may consider Cola Real in that market, with the soft drinks that they have.

So, we are very aware of that, we are following all their steps, but we are ready to keep growing with our local operations there.

Carlos Laboy:

Is there any sense of when they might start operations?

Luiz Fernando Edmond:

Maybe until the half of next year. I would say it is difficult to predict, but I would say the 2Q07, probably.

Carlos Laboy:

Thank you.

Juliana Rozenbaum, Deutsche Bank:

Hi, everyone, I want some update on the transaction of the sales of the brands in Argentina. Was that approved already? And do you think there is the chance that Femsa gets a favorable ruling in their appeal?

João Castro Neves:

Hi, Juliana. Here is João. The sale of assets has not been approved right now, but now it is under analysis by the CNDC. We notified you guys when we actually announced that we had chosen *Inversora Cervecera*, and presented their bid to the CNDC. Timing with CNDC is something that is hard to predict. I do not think they will take very long, we do not see this going on beyond the end of the year – so, hopefully in one month, two months, at most, we should see their view on approving this set of assets.

Juliana Rozenbaum:

Do you think Femsa has a case?

João Castro Neves:

No, I do not think Femsa has a case.

Juliana Rozenbaum:

OK.

Going back to the soft drinks, can you specify a little bit in which points of sales, specifically, Pepsi and Guaraná are being discounted the most, and in which kind of presentations?

Francisco Sá:

Well, I do not think that we should clarify that, because then we would be giving away our strategy to get the opportunity.

Luiz Fernando Edmond:

What you have to know, Juliana, is that it is not across the board; it is in very specific channels and, of course, where we believe are the biggest opportunities; we will not make the same discounts everywhere, because the opportunity is not the same everywhere. And I will repeat that, until this point, what we are doing is that we are much more aggressive in Pepsi than in Guaraná, because the opportunity is bigger in Pepsi than in Guaraná.

Of course, as we see opportunities in Guaraná we will move on, but Pepsi is really the biggest opportunity we have in the short-term, because, of course, we count on the distraction on the Coke brand, due to the beer initiative that they are putting in place.

Juliana Rozenbaum:

OK, and are they following your price discounts? And how is your pricing now in relation to the Tubaínas, in those specific points of sales?

Francisco Sá:

Well, as we said, the discounts are punctual discounts, so, overall you will not see our pricing changing much against the Tubaína; our prices, overall, are pretty much stable. And we have seen Coke reacting in some of these markets already.

Luiz Fernando Edmond:

It is important to highlight that what we are doing in the soft drinks we are doing exactly with the same kind of tools that we have in the beer. So, chirurgical, precise, based on the information that we have. We are not giving price across the board. The price is only a small piece of the whole strategy, I mean, we have other initiatives, being: H2OH, a great new brand that we are launching, with great success so far. Of course, it is too early to say, but we are very excited with the results we have achieved so far.

Guaraná Antarctica is launching new promotions; we have learned a lot from the promotions that we had during this year, for the World Cup, we are bringing new promotions for that; we have new campaigns in place – it is not very common to have new campaigns being launched in the end of the year for Guaraná, but we are doing that after the very good results that we achieved during the World Cup. Again, Guaraná Antarctica achieved its best performance in terms of all beverages in Brazil during the World Cup. So, we are leveraging on these very good results that we had in the middle of the year.

And we have now an agreement to be the supplier for all non-alcoholic beverages for the Pan-American Games in 2007 in Brazil. Gatorade will be there as well. So, we are putting pressure in our system, because we learned a lot with beer and we can use a lot of our knowledge and tools and systems to help the soft drinks business to grow.

Juliana Rozenbaum:

OK, and just out of curiosity, do you consider H2OH a soft drink or flavored water?

Francisco Sá:

The problem that we have here in Brazil is that we do not have a special segment, because it is a different beverage that we are launching in Brazil and we do not have the regulation, so this is something that we are working on, to have a specific regulation for this beverage, that is different than the beverages that we have today in Brazil.

Luiz Fernando Edmond:

And, formally speaking, in Brazil, H2OH is considered a soft drink. But it should be like that, because we do not have this category specified on the legislation. If you go to the United States, if you go to Argentina, if you go to other countries, they created this special category, so it is easier to communicate and to explain to people what it is.

In terms of what it does for you, we are pretty much sure that it is much better than water and much better than soft drinks for those that are trying to hydrate, to have something different, lighter. So that is unique.

Juliana Rozenbaum:

Do you pay different taxes if you can create a category?

Francisco Sá:

It would be a flavored water.

Juliana Rozenbaum:

Then it would have lower taxes, right?

Francisco Sá:

Slightly lower taxes.

Juliana Rozenbaum:

OK, thank you very much.

Celso Sanchez, Citigroup:

Hi, I just wanted to clarify a bit of the Puerto del Sol launch on the 6th of November in the cans, is that going to be at a similar premium to the mainstream – Brahma, for example – in price positioning, and, I guess, in the on premise how do you see that Puerto del Sol being positioned. Because I recall it was an about 6 or 7% premium in some cases in the long-neck, in the mainstream.

Luiz Fernando Edmond:

Well, Puerto del Sol, in big cans, in 600 mL, will probably be above the average margin that we have; that will depend on the competition, of course, and how successful we are on that. But, I would say that, in average terms, that could be 5% to 7% than the average that we have. Slightly higher than Skol, that means, higher than the average that we have.

Celso Sanchez:

OK, so just to be clear, for the consumer, the intention is to have the price not very different, but a little bit higher than Skol and the mainstream, rather than a very substantial premium when it was first launched a few months ago. Is that right?

Luiz Fernando Edmond:

That is right.

Celso Sanchez:

And then, just more broadly, speaking about the industry growth: Do you expect the greater level of competition ultimately to be a zero sum game, it does not really affect the industry very much and, therefore, whoever gains share has to take up from someone else? Or do you think that there is a spare growth to a greater level recently coming these quarters, given all the activities and innovations around it?

Luiz Fernando Edmond:

Well, Celso. For the last five years, at least, more than 14 new brands were launched in Brazil, so we are facing competition for a long time in this market, as you know. Some people do not believe that, but it is a strong competition in all regions, different players every time trying to hurt us, to take market share from us

– because, of course, we have the profitable share of the market. And I really do not believe that in a mid to long-term that will have any impact on the size of the market; because, in the end, the competition is increasing in the very short-term, because you have someone concentrating all the investments in a specific period of time. But I do not think that is sustainable, going forward, and I do not see any effect in the average price in the market. I mean, you have someone to be more aggressive in one channel, in one package for some time, but I really do not see that. I see more of a cannibalization than market growth.

It is different from other countries, maybe when you compare to Peru, where the market grew a lot when we entered that market, because we were only two competitors in the market, compared to one in the past. The same happened in Guatemala, the same happened in the Dominican Republic. But in Brazil, the competition was already in place for a long time.

Celso Sanchez:

OK, thank you.

Lore Serra, Morgan Stanley:

Just very quickly. Could you give us what the volume growth was in Argentina in beer on the quarter, and also what the revenue/hl was in Argentina, in USD terms.

João Castro Neves:

Lore, I am really… in the Quinsa, you know, we are still thinking of how we will disclose those numbers, so we do not have those specific numbers right here, and we have not…

Lore Serra:

Not even volumes?

João Castro Neves:

Well, we have volumes for the total region, that is what we disclosed. I mean, we had a good quarter, as I said, in the beginning of the quarter – October was a very strong month, and November also started very well in Argentina.

Lore Serra:

OK, thanks.

Operator:

Thank you, I would now like to turn the floor back to Mr. João Castro Neves for any closing remarks.

Luiz Fernando Edmond:

Well, before João makes his closing remarks, I would like to give you the Nielsen numbers for soft drinks; we have just received these numbers, and we, of course, are very proud to gain market share, up 0.2%, to 16.5% in October; let's keep it at that, our competitors were not so good, you will receive the data from them. But we, as we said, we are pursuing this strategy because we really believe there is a lot of room to grow in the soft drinks business in Brazil. So thank you all, and João will now close the call.

João Castro Neves:

I think, on this high note, again, we are very pleased with the quarter, very pleased with what we see looking forward; this is my last opportunity, as AmBev's CFO, to present the results. We are very excited to have Graham on board, starting to take my position and present the full-year results in our next conference call, and I will be presenting the Quinsa numbers.

So thank you, everyone, and I hope to see you again in our full-year 2006 results. Thank you, good-bye.

Operator:

Thank you. This thus concludes today's AmBev conference call. You may now disconnect your lines and have a wonderful day.