Q4 2006 Earnings Call

Company Participants

- Graham Staley, CFO
- Joao Castro Neves, CEO
- Luiz Fernando Edmond, CEO
- Miguel Patricio, CEO
- Unidentified Speaker, Company Representative

Other Participants

- Alex Robarts, Analyst
- Andrea Teixeira, Analyst
- Bob Ford, Analyst
- Celso Sanchez, Analyst
- Jose Yordan, Analyst
- Lore Serra, Analyst
- Trevor Sterling, Analyst

Presentation

Operator

Good afternoon, and thank you for waiting. We would like to welcome everyone to AmBev's Fourth Quarter 2006 earnings conference call. Today with us we have Mr. Luiz Fernando Edmond, CEO for Latin America; Mr. Miguel Patricio, CEO for North America; Mr. Joao Castro Neves, CEO for Quinsa; and Mr. Graham Staley, CFO and Investor Relations Officer.

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 session. At that time, further instructions will be given.

(Operator Instructions)

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 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'll turn the conference call over to Mr. Graham Staley. Mr. Staley, you may begin your conference.

Graham Staley {BIO 15381675 <GO>}

Thank you, Else. Good morning, everyone. Welcome to AmBev's Fourth Quarter results conference call. I am Graham Staley, CFO of AmBev, and with me today are Luiz Fernando Edmond, CEO for Latin America; Joao Castro Neves, CEO for Quinsa; Mr. Miguel Patricio, CEO for North America.

I'd like to start the call by sharing a brief overview of the quarter, which, once again, brought excellent results. Luis Fernando, Joao, and Miguel will then provide you with details about our operations in Brazil, Quinsa, and Canada. I will close by providing specifics regarding the Fourth Quarter financials.

During the Fourth Quarter, our consolidated EBITDA reach R$2.3 billion, which represents a 23.1% growth compared to the Fourth Quarter of 2005. Excluding the effect of AmBev's stake increase in Quinsa in the Fourth Quarter of 2006, the EBITDA was R$2.17 billion, a 14.8% growth.

Our earnings-per-share growth excluding goodwill amortization was 67.2%.

The Brazilian business delivered a very good performance with EBITDA 18.7% higher than the same period last year, beer volume growing 3.7%, and CSD and Nanc volume growing by 5.5%.

We are also pleased with the Quinsa result, which, as a stand-alone business, saw EBITDA growth of 23.6% in U.S. dollars and, as a reminder, under Brazilian GAAP accounting standards.

In Canada, despite the continued pressure from the competitive environment, we delivered a 4.7% EBITDA growth in Canadian dollars.

We are still facing difficulties in HILA-ex and posted a negative EBITDA for the Fourth Quarter, but we maintain our commitment to that region, and we believe will deliver solid results in the future.

Our combined operations delivered net income of R$1.18 billion, which is 69.4% higher than the Fourth Quarter of last year. This result was positively impacted by the reversal of the provision of R$233 million in respect of Pescofins [ph], or Brazilian federal social contribution factors.

These excellent results demonstrate the effectiveness of our initiatives and cap an excellent year for AmBev.

With that, I would now like to turn the call over to Luiz Fernando.

Luiz Fernando Edmond {BIO 5862219 <GO>}

Hello. Good morning, everyone, and Graham. I'll not bore you with details regarding (inaudible) HILA-ex operations. Starting with Brazil, we are happy to announce volume growth for the quarter of 2.7% on the back of a very good December, which yielded at 5.1% volume growth for the year. This performance is the result of our very well-planned, ongoing strategy of execution and brand position that are already contemplates changes in the competitive scenario and help us to anticipate competitor initiatives.

Year-on-year, we have been improving market share achieving 68.8% in 2006 compared to a 68.3% last year, or in '05. December figures were pretty strong reaching 69.3%.

In January, as usually happens, we lose market share compared to December, reaching 68.7%. This movement is normal for this time of the year, as we raise the prices, and there is an increase in importance of supermarkets within the channel mix in which we are not as strong as in our own brand channels.

We expect to see that February market share will also be under pressure, as it will still capture some of the channel mix and price-increase effect.

Net revenues for beer hectoliter in Brazil reaches R$137.8, a growth of 4.6% when compared to the R$131.7 in the Fourth Quarter of 2005. This increase reflects our initiatives of revenue management as well as innovation both in the mainstream and (inaudible) segments. We were able to keep the prices for our brands at a high level with no need to increase marketing expenses.

Bohemia and Original, our flagship premium brands, continue to deliver double-digit growth. (inaudible) we continued our strategy to expand our direct distribution network and to consolidate our audio break [ph] distributors into multi-brand distributors.

Within the summer such good shape, but as an excellent Fourth Quarter for the beer business, which managed to grow by 18.9% and achieving [ph] margin by 440 basis points, reaching 50%.

Regarding CSD and Nanc, we have revenues growing 1.8% on volumes, which were 5.5% higher than last year. It's important to comment that we had some production problems with one of our biggest plants in Sao Paolo for CSD during the last weeks of December, and it was impossible to ship products from other plants in such a short period of time. Without such problems, our volume would have grown at least 2 additional points higher in the quarter.

I would like to comment on H2OH, which allowed us to create a whole new beverage container in Brazil. We are very happy with its results and prospectives. Integration to move our (inaudible) packaging back to (inaudible) revenues, but this was more than offset by positive results on the cost side giving us 4.8% economy in the cost line even with the (inaudible).

Our (inaudible) CSD in Nanc increased to 17% in the Fourth Quarter and 17.4% for the whole year. As we anticipated, the pricing activity during in the Fourth Quarter was practical and didn't compromise our margins, which grew 270 basis points, reaching 32.1%. For the full year, the EBITDA margin reached 33.6%.

In HILA-ex, we show a negative at the beginning of this quarter. Financial results were not good, but we made some important movement in 2006. We (inaudible) for the region and for each country, adjusted structure process and management, implemented revenue management initiatives especially in the CSD business, launched a Brahma beer in Central America, Kilman's [ph] in Dominican Republic, and we'll be in (inaudible) in our innovation pipeline from now on. And we're working on many cost initiatives where -- cost reduction initiatives to reduce our costs in the region.

With all these actions implemented in 2006, we believe that 2007 will be a better year for HILA-ex. Our people may come back proud of all the advancements done over the past year in recruiting, training, and assuring our employees growth within the organization. I would also like to add as people have always been our best strength, and it's what gives us certainty of another excellent result to come.

I'll now turn the call to Joao, who will be talking about Quinsa business.

Joao Castro Neves {BIO 17456730 <GO>}

Thank you, Luiz Fernando. Good morning, everyone. First of all, I would like to say that I am very pleased to be here again, this time at the head of Quinsa, which contributed with strong results in 2006.

The region is (audio break) strong macroeconomic growth, which is taking the market, or the markets, where we operate back to the levels prior to the crisis in 2002. Our people have done an excellent job with brand positioning and execution, which has left us in a strong position for future growth.

The beer business grew volumes by 11.8% in the Fourth Quarter, with the highlight being our Bolivia operations, where we were successful in combining strong brands with good portfolio management across the different segments.

For Quinsa as a whole, we also had a good performance in the (inaudible) segment, contributing a higher revenue per hectoliter, which grew 6.8% in dollar terms.

In soft drinks, we posted the 14.2% volume growth against a tough comparison from the last year. For the full year, the soft drink segment delivered 25.4%, although a part of this increase is due to the addition of a Pepsi franchise in Argentina in September 2005.

These results were fueled by the excellent performance of the Pepsi and the 7-UP brands. Also contributing to these numbers were such innovations at Pepsi Max, a Pepsi with more flavor and zero calories, as well as a great performance from Gatorade.

The exchange of best practices with AmBev led to an improved level of execution. This, combined with the good work on the marketing innovation side both for beer and soft drinks, helped to boost volumes, leading to a growth of 23.6 in dollars in the quarter. EBITDA reach R$855 million in the full year with a margin of 42.7% and, as Graham said, of course, in BR GAAP.

As the new CEO, I am very pleased with the quality of the Quinsa team. They are enthusiastic and willing to dig deep to find more opportunities to fuel the growth in the company. I am very excited with the results that you have been delivering and very enthusiastic about our prospects for continued growth.

It will not be easy, however, we are operating in complicated environments, and it's not getting necessarily easier. But our team will really have (inaudible) to continue providing growth in Argentina, for example, where prices are somewhat controlled and where there are, of course, strong cost pressures in the form of salary, freights, energies.

Our successful markets such as Bolivia and Paraguay have been really important. Our EBITDA margins there are evidence of this. Our successes made compared with harder to beat, and we will have to redouble efforts to make sure we never become complacent.

Our soft drinks business has also been a huge success and per capita consumption in Argentina is already among the highest in the world.

The disruptions to our distribution that we suffered in Uruguay as a consequence of strikes during the last quarter also point to the sort of the challenge we'll probably be dealing with more often. This is to be expected in emerging economies that have grown a lot and have reduced unemployment making trade unions stronger.

Political issues are also part of our life. You are probably aware of the situation in Bolivia, for example, and the challenge for us will be to maintain the growth targets under such uncertain conditions in our environment.

To sum it all, I am very enthusiastic, as I said, about the prospects for continued growth. It will get tougher as comparisons become more difficult and challenges multiple, but given the quality and expertise of our people, in the macroeconomic center that we see out of us, I am very confident that our team can deliver.

I now invite Miguel to take over.

Miguel Patricio {BIO 4264830 <GO>}

Thank you, as well. In the Fourth Quarter we continue the same business strategy that we adopted for the last two years; namely, an aggressive approach to cost reduction and the reinvestment of some of our gains from nonworking dollars back into the brands.

The EBITDA growth was 4.7 on the back of healthy industry growth of 2%. As I compare '05 with '06, I can say that '05 was all about decisions around costs, while in '06 we continued to deliver on cost but also focused on people engagement and other commercial things; '06 was also a very, very tough commercial environment.

Looking at the different regions, price remains the main driver for the industry growth, and we are having a very good market share performance.

In Ontario we continue to underperform. In the Fourth Quarter we lost market share and, for the first time, discount became the largest segment in Ontario. So far, I don't see any sign that this trend is reverting. Unfortunately, so far, we are underrepresented in this segment.

On the product side, we continue to be very happy with Bud Light and Brahma performance, two choices which are really paying off.

Looking forward, our major challenge is still Ontario. It accounts for a little less than a third of our volume and net revenues are above country average. We do have initiatives in place with draft Labatt commercial performance, particularly sales execution, although I will not be commenting on this for strategic reasons.

In '07, we will continue to execute our business strategy on a disciplined fashion. Specifically, we will work hard on ZBB [ph] looking for new opportunities, leveraging AmBev knowledge and tools, capturing more benefits from shared services, exploiting procurement initiatives, improving brewing and logistic efficiency, exploring IT and other technology opportunities, and making sure that the health of our portfolio continues to improve.

Now I will hand back to Graham.

Graham Staley {BIO 15381675 <GO>}

Thank you, Miguel. On this final section, I would like to talk about the numbers in more detail including our below-EBITDA performance.

However, before doing so, I would like to acknowledge two important post-year-end events on which we will not be commenting today. The first was the announcement on February the 1st that LaBatt's had entered into a support agreement with Lakeport Brewing Income Fund to acquire all the units of that company. And secondly, the announcement on January the 25th of the offer by AmBev to purchase the outstanding shares for Quinsa.

As I'm sure you can understand, both of these are active files, and it would inappropriate to comment on them today.

You'll also notice that we have decided not to provide guidance for 2007. As a team, we have reviewed practices within international companies in the last few months, and identified an increasing trend away from the provision of guidance. We have a strong performance track record, we provide full quarterly disclosure, and have a culture of transparency, all of which we believe allows investors and analysts to properly model our business prospects.

Let me now make a few observations on the numbers. I would like to highlight Brazil Beer volume growth, EBITDA growth in Quinsa, and Canadian EBITDA margins.

In Brazil, the wonderful weather in the First Quarter led us to change the guidance for volume growth from 3% to 4%. After the First Quarter, we had other events that yielded higher-than-expected volumes; namely, the World Cup in the Second Quarter and, of course, an excellent December.

These would not have had such a positive effect on results without our disciplined execution and strong marketing campaign, which ensured high brand preferences and product availability during those periods.

The good macroeconomic momentum in Quinsa combined with the strength of our brands in the region both in the beer and soft drink segments, yielded a 23.6% EBITDA growth in BR GAAP. We were already positively surprised when we changed the guidance from 8% to 10% to 16% to 20% in the Third Quarter. The Fourth Quarter was slightly better than we expected.

And in Canada, once again, the discipline on the (inaudible) side ensured a strong EBITDA result and an EBITDA margin ahead of our guidance.

Turning now to our cost performance, you'll see that in the Fourth Quarter SG&A for our Brazilian operations was 9.8% lower than last year. I'd like to explain this in more detail.

Firstly, the reported decrease is driven by the reclassification of the deferred assets generated by the merger of InBev Brasil into AmBev and reported during Third Quarter 2006. This change results in a lower SG&A depreciation and amortization charge.

Excluding depreciation and amortization, SG&A grew 0.8%. Secondly, you will notice that this increase of 0.8% in underlying SG&A is less than our volume growth of 4.2%, which is not what one would normally expect. The explanation for this result is the different marketing allocation criteria adopted in 2006.

Up to and including 2005, we allocated marketing spend during the year in proportion to volume. This resulted in the high-volume Fourth Quarter absorbing the highest marketing expense of the year while the lower-volume second and Third Quarters had lower allocations.

In 2006, we allocated marketing expenses based on actual expenses incurred. This change, coupled with the timing of the World Cup, means that in 2006 we reported a large growth in marketing spend in the Second Quarter and a much lower growth in the Fourth Quarter.

The full-year numbers are, of course, free from the distortion created by this change in allocation methodology and show that we increased SG&A in Beer Brazil by 8.4% excluding depreciation and amortization while the equivalent number for soft drinks was 12%.

These full-year numbers demonstrate our commitment to the market and reflect, firstly, higher marketing investments during the World Cup, which, of course, also brought increased volume in beer and soft drinks; secondly, an increased mix of direct distribution; thirdly, higher volume-related costs, for example, freight. Soft drinks was more affected by this item, and the volume growth was higher than beer; and, finally, inflation.

I would now like to guide you through the main lines between the reported EBIT of almost R$2 billion and the net income of R$1.18 billion. That is shown on page 19 of our release.

Other operational expenses generated a loss of R$197 million in the quarter explained by the amortization of LaBatt goodwill of R$243 million. Quinsa goodwill amortization amounted to R$84 million in the quarter of which 58 million was related to the latest increase in AmBev stake.

At the end of the year, our net debt stood at R$7.8 billion and yielded a financial expense of R$294 million in the quarter.

The provision for income tax and social contributions was an expense of R$466 million, and this number includes the fiscal benefit of R$87 million, which is a non-cash expense as explained in Q3.

Finally, a net profit for 1,000 shares in the quarter amounted to R$18.53, an increase of almost 74% compared to Fourth Quarter 2005.

Regarding our payout strategy, we remain committed to distributing all excess cash generated if we cannot identify value-enhancing alternative uses for the cash within the business. This calendar year we return to shareholders approximately R$1.8 billion in dividends, including interest on earned capital and R$1.8 billion in share buybacks, a total return to shareholders this year of approximately R$3.6 billion.

As I close, I would like to thank our people for the excellent 2006 results, and I really look forward to working with my new AmBev team to deliver another strong result in 2007.

I will now open up the lines for questions and pass back to Else, our facilitator.

Questions And Answers

Operator

(Operator Instructions)

Bob Ford, Merrill Lynch.

Q - Bob Ford {BIO 1499021 <GO>}

Congratulations on the quarter. I actually wanted to focus on the one big blemish, and I was hoping, Luiz Fernando, you could give some examples with respect to some of the top-line and cost initiatives; perhaps discuss the competitive environment in HILA-ex to a larger extent as well as give us your view, in general terms, for the outlook in 2007 to the extent that you can foresee that.

A - Luiz Fernando Edmond {BIO 5862219 <GO>}

Hi, Bob, this is Luiz. As Graham just commented, we are not to by [ph] any specifics in terms of 2007. Of course, we can share with you some of our views for the year, but not specific numbers in terms of our guidance.

So first of all, for Brazil, we believe the country is doing well and should continue to do well, and maybe in the next -- in the last few days one of (inaudible) the markets not only in Brazil but around the world, but the country is involved just enough for some good results for the Fourth Quarter of the year, back on track. So we should see some GDP growth in the country.

Of course, it doesn't help us things -- we start from a very high efficient base. Our EBITDA margins in Brazil is very high at this point, but we continue to see opportunities to improve on the cost side, on the fixed and double cost, possession cost, this addition cost. But the efficiency level that we achieved help us increase volume at a very, very profitable way. So that should continue, as well as our strategy.

As you know, we didn't change anything relevant. These are maybe three or four years. We have our strategy to increase direct distribution, and there's still room for that. We will continue to combine our inaudible). We still have 10% to 15% of our volume in monogran [ph] distributors. We continue to focus on the premium brands -- so Bohemia, Original did very well in '06, not only these two brands or other brands but these are the most relevant ones, and we'll continue to invest behind those brands regarding revenue management and market share growth. We have a very strong position.

So for Brazil, the initiatives we have implemented still have opportunities to be enhanced, and we continue to do so.

In HILA, we had to change things, depending on the country, we had to change things. As you know, our approach to Quilmes [ph] was basically to sell at a discount fashion and specifically into in Ecuador, that won't help us. So we have to reinforce our brand position in these countries and to be more precise in terms of our price strategies that we were before and if we don't change that we'll not perform and we'll not deliver results in there.

In soft drinks, we believe that the price adjustments that we made during the year will help us in '07. We are in a more plausible moment for the soft drinks operation not only in Peru but in Dominican Republic. So part of the problems we had doing the 2006 came from the CSD business not being profitable and facing more competition and especially coming from Collahal [ph] in these two countries.

Other countries like Venezuela, we are performing well. We are doing well in terms of market share. Improved market share in a slow way, but we are improving market share, but the country is not performing as well as the other countries in the region. So we have some pressure coming from the market in terms of growth that we achieved in 2006, and it's very, very difficult to say at this point in time what will happen. You know, Seven [ph], as you probably know, a lot of new initiatives from the government from one hand reducing taxes, and it should affect us positively in the near term but not what the policy coming from the government will be with any orders in the country -- so difficult to say.

And in Venezuela, we had some good price increases during '06 as well, so that we can start in '07 in negotiating in terms of profitability.

In Central America, we decided to concentrate our efforts in Guatemala. We were present in a similar way in Guatemala, also in Nicaragua. When you compare volumes for Central America, they are worse than last year, but Guatemala is improving. We decided to concentrate our efforts in only one country. We believe we have a better distribution system, and we can improve faster there in quarter 2 [ph]. Of course, we're not abandoning El Salvador and Nicaragua, but in the short term our focus will be in Guatemala.

In the Dominican Republic we did have a good year in beer. We did have a reasonable year in soft drinks despite the price pressure, and we just implemented some innovations there. We launched Quilmes, a very promising launching, but it's still too early to say.

So what we're doing in Dominican Republic is to have a stronger innovation pipeline, a faster innovation pipeline to challenge the market in a different way than we did last year. So this is pretty much what we've seen in the market and yet we don't expect this region to provide any relevant data for AmBev, but, of course, we don't want to lose money there. So everything we're doing is to guarantee that we can increase volume in the region, increase share in the region without losing market share, without losing cash flow profitability.

So this is pretty much what we believe we have to do, and we have new management in place. We are replacing Jorge (inaudible), he decided to leave the company, and we are expecting Ricardo (inaudible), which was the former south regional director for Brazil, a very experienced guy in terms of commercial initiatives, and I'm sure he, together with the team there, will provide us a better year in '07.

Operator

Lore Serra, Morgan Stanley.

Q - Lore Serra {BIO 1506730 <GO>}

Good morning, and congrats on the solid results. I wanted to just talk a little bit more about the beer business in Brazil. I guess I was a little bit surprised not to see any pricing in the Fourth Quarter versus the Third Quarter level, and I wondered if you can comment on whether you put any price initiatives into the market for '07 already?

A - Luiz Fernando Edmond {BIO 5862219 <GO>}

Yes, Lore, we don't like for everyone to know exactly where we are going to increase prices, so we decided that for '06, the better alternative we had was to postpone that in January -- to get an increase prior to December, and we did that in the beginning of January. So basically what we did for, of course, different price increases for different brands, for different channels, for different regions and then across-the-board price increase but we implemented something between 3% to 4% for returnables non-returnables then for most of the regions in Brazil.

So similar to what we've seen before, we are passing inflation into prices in average, different strategies in different regions. We believe we have a better price points, better organizing, contemplating the whole portfolio, and contemplating some package innovations that we are implementing in the market. So this is what we did.

We postponed that into '07, but very soon in January we pass inflation to prices.

Q - Lore Serra {BIO 1506730 <GO>}

Terrific. And I understand you don't want to give guidance, but I wondered if you could just talk to us a little bit about your perspective for the year 2007? On one hand, as you point out, your portfolio is in very good shape, and your execution going into the year and, hopefully, the economy is supportive.

On the other hand, you seem to be referencing some factors in the comments about -- in a very good weather about a year ago in the First Quarter '06, and the World Cup. So can you help us think about how you view the perspective for '07 and whether we should see maybe less growth in the first half or maybe that's not the right conclusion.

A - Luiz Fernando Edmond {BIO 5862219 <GO>}

First, we believe it can't be involved, so based on historical data, you can compare GDP then probably what the governor expects. Of course, the government has been optimistic in some points, and we believe the country should grow something between 3% as the growth for last year was 2.9%. So we'll say minimum the same as last year. And we don't do anything better than 4.5%. This is the government projections.

So something between 3% and 4.5%, this should be the country growth, and so similar to the last year. This would implying to some growth for us, not taking into consideration market share. Of course, as you know, we play the fence. We want to increase market share, we have room to increase market share. Of course, we don't expect to grow 2 or 3 points market share, but based on the last two years, and the execution and market programs that we have in place and the new stuff that we for there, we believe we can continue to increase our market share to this.

I think it's important to mention that Lowe [ph], in the Fourth Quarter last year, we did increase share compared to the Fourth Quarter of '05. When you compare the numbers on a monthly basis, we didn't go below the 68% market share. Actually, the lowest market share for '06 was 68.4%, which is much better than the 67% records that we had in fact. So we are having less volatility. We are having a lot of installation, so less pressure on price increases and, therefore, we believe we have more control on what's going on in the market and before we can -- it's not easy, but we can increase some market share during the year.

Q - Lore Serra {BIO 1506730 <GO>}

Any thoughts on first half or second half and then I guess your pricing is later in the year or is going to hit more of the impact on the first half of '07 and the World Cup. Should we expect a little bit of -- I mean -- once again, I understand that you don't want to give specific guidance, but should your volume trends strengthen over the course of the year, do you expect?

A - Luiz Fernando Edmond {BIO 5862219 <GO>}

The June/July we'll have some tough comps against '05, but you made a statement for the beginning of the year, and we didn't see that weather as a negative. We did see some raining in some specific regions in the country, but the average weather is pretty much in line with last year. We'll have to deliver more volume in first and Fourth Quarter compared to the second and Third Quarter.

Operator

Andrea Teixeira, JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Congratulations on the results. Just, in general, with Luiz and also with Graham, if you can just -- I'm curious about SG&A line on the Fourth Quarter. You mentioned in prepared comments that you had some reconciliation of -- you know, as you incur the expenses now, and as opposed to the past, which you had some provisions throughout the volumes.

So I was wondering if you can -- you mentioned about 8% if you had used the same kind of apples-to-apples you'd be having the same level 8% higher, and that's pretty much what we should expect for 2007.

And the second question goes to Miguel regarding Canada -- if you could -- I know you can't comment on the acquisition itself but just, in general, about your position in the lower-price brands and the discount brands. Thank you.

A - Graham Staley {BIO 15381675 <GO>}

I'll take the first part of the SG&A question and then hand over to Luiz. As I did, I knew this was complicated, so in my prepared comments I tried to explain it.

I believe, in the Third Quarter release, we explained in more detail the reclassification of SG&A depreciation and amortization as a result of the merger between AmBev and its immediate InBev and AmBev, and that resulted in removing the depreciation charge from the SG&A line, and that's why you see such a dramatic reduction in the Fourth Quarter. And that depreciation charge finds its way into the tax line.

In the past, we'd have had a depreciation charge in SG&A, and we'd have had a credit in the income tax line, and in consultation with our auditors and based on our own review, we determined the right approach back in Q3 was to move that SG&A depreciation into the income tax line to give a better presentation.

So therefore when you exclude that distortion in the quarter, the SG&A growth is, indeed, 0.8%.

When you then strip out the distortion that's created by the way we used to allocate marketing expense, in other words, based on volume and not based on when we incurred that expense, a true relationship is 8.4% growth in the quarter -- sorry, 8.4% in the full year for beer, and 12% on soft drinks. And as I say, I know Luiz wants to add a few more comments there.

A - Luiz Fernando Edmond {BIO 5862219 <GO>}

Basically, it's easy to compare the full year. I understand why you asked for the First Quarter, but the full year was pretty much in line with what we said -- the volume effect plus the inflation fact on the SG&A did exactly what happened. If you think about the margin expenses, what we did is we concentrated more than usual our investments during the World Cup and before the World Cup, so when you compare the curve, it's slightly different than the average, the past average, and shows a different from '07 when we don't have the World Cup.

But specifically on the Fourth Quarter, the market investments was a little higher than our expectations. What we did was basically to fasten our belts and to take money from other lines in the SG&A and to put that into the market. Although it's not -- I wouldn't say that's really relevant in terms of the future. Looking forward, if nothing different happens, this distributes exactly the same. I wouldn't want to increase our investments in the future unless we need it.

In terms of what we believe we should spend, it's spending better but not necessarily spending much more than volume or in price.

A - Miguel Patricio {BIO 4264830 <GO>}

Andrea, now for my part regarding Lakeport. I don't know exactly what your information is like, but let me tell you that Lakeport had a very strong Fourth Quarter, about 7.9% share in Ontario. That 7.9% share in Ontario represents about 2.7% share in the entire country.

Lakeport, we made the offer, as you know, it makes a lot of sense to us, because it's our weakest position in Canada. It's the biggest province, Ontario, and it is where we have our lowest share. Our share today in Ontario is about 31.7, and total country is about 40%. So it makes sense. It's a segment that is still growing; that continues growing, and we do not see today any signs of a flattening trend.

So this is going to strengthen our position in Canada and also in Ontario. But at this moment, it is just a proposal. There is even the bid is open. The first step of this project is the closing. Until March 29th, there is still -- the competition can bid on the brand. We have protections, but the first step is going to be conclude on March 29th when the bid is closed.

Operator

Alex Robarts, Santander.

Q - Alex Robarts {BIO 1499637 <GO>}

Two questions -- I guess, first of all, just on Argentina and Quinsa, really. I mean, looking at the year in '06, Quinsa is probably your fastest-growing asset, and I guess listening to your comments, Joao, you seem to be making the case really for deceleration of growth this year. I mean, you, on your comps, a new competitor in Argentina, and some cost pressures. Can you give us a sense of the magnitude here, or range of EBITDA growth in Quinsa this year? I mean, can we expect double digit, for instance? I know you don't want to give guidance, specifically, but any color on magnitude of the potential growth in '07 would be great.

And I know, it seems to me, you're kind of early days, but as you've looked around for a couple of months, are there some areas that you can share with us where you see some cost-saving measures?

A - Joao Castro Neves {BIO 17456730 <GO>}

Let me tackle one at a time. I think, first, when you look at last year for Quinsa, you are absolutely right. It's our fastest-growing asset. I think what I'm referring to is a combination of stew [ph] -- like I tried to state -- very excited about the prospects and the people and some of the opportunities that I'll mention to you now.

But when you look at 2006, I think some of the things we are really above any expectations we could have. I mean, we grew in Bolivia, 18%. This was probably the biggest growth we ever had in Bolivia. You know, Bolivia does -- has been growing for the past four or five years, but 18% was quite high.

I think, at the end, when you look at (inaudible), also, above 6%, 7%, also this was above what we expected. So I think when I look at the future, we still see a bright future, but some of those comps in terms of -- do I expect Bolivia to grow again at 18%, no, I don't. Did I expect it to grow 18% when 2006 started? We probably didn't either, as we didn't expect 6%, 7% in Argentina.

So I think we will have still important growth, and, for sure, we'll take full benefit of that, and we have a lot of plans in place to counterbalance for the cost structure that I mentioned.

So to finish up the plan, I think we have a market that grew a lot. Of course, that doesn't abruptly start. The year is starting off well, but it's hard to foresee, as it was at the beginning of 2006, this sort of 18s, 11s, 12, 25, that we mentioned in soft drinks, to maintain.

But I do think we have a ongoing growth that will not stop or steadily decrease from one day to the next. So I am cautioning the team, I am cautioning about this. Of course, given the levels of growth we had last year, we are expanding plans, we are expanding capacity in most of the countries. They're all ready for the growth, if it continues to be in the same pace. We think we'll be at a slower pace.

Regarding the cost structure, I think initiatives such as the shared services as we have had in Brazil and now in Canada, it will yield some results. It will not yield, maybe, the same results we have in Labatt given that we were running different programs for the past two years here, but this has a positive effect for us.

A more through, fuller, a much fuller implementation off ZBB will also yield some results, and the third cost initiative that we have is in terms of procurement center. So we are taking now -- we'll take another here -- a bigger positive impact from having a procurement center within the region and also the global part of working closer to -- taking advantage of all that in terms of procurement synergies.

So I think those three will definitely have a positive impact for us to counterbalance the cost pressures that I mentioned to you.

Q - Alex Robarts {BIO 1499637 <GO>}

Do you feel that Investora Servicera with the bigger and other brands in the new plant, do you feel that they're going to be a rational player? Do you have some early indications of how they're going at the market? Or is it still too early?

A - Joao Castro Neves {BIO 17456730 <GO>}

No, my view on Investora Servicera, Alex, which is (inaudible), you know we have to work in a way close to them since we are there. We distribute their products, so we have to discuss some commercially started -- in the sense that why are we distributing this? So for the moment, why we have this management contract, we do have a good idea, and they are definitely looking for profitability.

So we see the competitive environment actually as a positive one in terms of competitive scenario. I mean, we see CCU [ph] has been a rational player in the past two years. I mean, we have an important position in each other's market, which only helps for both companies to watch each other's profitability, and EKSA [ph], or (inaudible) is also starting up the year more of a rational player looking for profitability than someone that is looking to quickly grow share by using the price leverage. So I see a positive -- on the competitive front, I see a positive scenario, and if we look at some of the things that you have seen in the past few years in Brazil, some of that is going on already. Some of that has started here.

I mean, as you know, the launch of H2OH that we just had in Brazil, we've been here for a year or so. We have some good things going on. We just launched a dark beer in Argentina that is really growing a lot, premium segment, it's a very important segment in Argentina. Both (inaudible) and (inaudible) stout, which is the dark beer we launched, are yielding really important results.

And I think the -- not just the initiatives on cost, but with revenue management, I think we still have a lot to learn, given the sort of environment that we have of prices being somewhat controlled, we are learning a lot from some of the revenue management things we have done elsewhere. So I think those are the highlights for some of the things you were just asking.

Q - Alex Robarts {BIO 1499637 <GO>}

The last thing is just a housekeeping thing. You've mentioned before that with your cost of sales hedge in Brazil, you were looking for, this year, R$100 million offset in COG versus '06. Is that a number that we can still be okay with? Or have there been any changes there?

A - Graham Staley {BIO 15381675 <GO>}

That's a number I believe we gave you in Q3, and that's a good number to us, going forward.

Operator

(Operator Instructions)

Jose Yordan, UBS.

Q - Jose Yordan {BIO 1496398 <GO>}

My question is, if you can say what the progress has been in volumes in the main markets in Brazil, especially the volume growth for January and February. And also we haven't talked about the soft drink business -- if you can share any thoughts on your outlook there -- competitive outlook and, certainly, the outlook for raw materials, which appear to be certainly on the shorter side, getting more positive and anything you can share with us on the outlook for the soft drink business in Brazil and (inaudible) for the main business, that would be great -- including Canada, if you can.

A - Graham Staley {BIO 15381675 <GO>}

I'm sorry, we seem to have a problem on the line. We only caught half of that message. Could you perhaps paraphrase and repeat. Sorry to ask you to do that, but it was very difficult to hear it.

Q - Jose Yordan {BIO 1496398 <GO>}

Sorry -- I just wanted to know if you could tell us January and February volume growth in Brazil and in Canada as well as talk about the soft drink business in Brazil.

A - Graham Staley {BIO 15381675 <GO>}

I think, given the comments I made earlier, it's very difficult for us to comment on January and February. We are trying to drift away from providing that sort of guidance on our performance. And so I'm afraid you'll just have to wait for the First Quarter results which, again, will have great disclosure, and you'll have full visibility to how we're performing.

A - Luiz Fernando Edmond {BIO 5862219 <GO>}

Regarding the soft drinks, I don't know what you're asking about -- the (inaudible) you were asking about last year, wasn't it?

Q - Jose Yordan {BIO 1496398 <GO>}

No. In general, what's the competitive environment like in soft drinks in Brazil, and what's your outlook for raw materials in the soft drink business in Brazil?

A - Luiz Fernando Edmond {BIO 5862219 <GO>}

The environment in soft drinks is similar to the one we had during the year. Coke [ph] continues to use the back price strategy to block some price initiatives or to fuse their price and their market share together. We see different figures across the regions. We are real excited with the success we have had with H2OH. We think this new segment is a very promising one. It's good to be the first one to be there. Of course, we don't expect to be the only one forever, but we created this new segment, and you already see in other countries but in Brazil, nobody was taking advantage of that, and we are very successful.

But I don't see anything changing until we have the full meters [ph] implementation fully in place. I think this is the main issue that we may have during '07, is how the big brand competitors will position themselves after the full meters [ph] being in place and being tracked by the government.

Q - Jose Yordan {BIO 1496398 <GO>}

And when do you expect that to be?

A - Luiz Fernando Edmond {BIO 5862219 <GO>}

If you are -- the big players should have that implemented in January, and until September this year, every major competitor, I'll say, 99% of the volume should be under the (full meters) tracking.

Focus is just south of Brazil, but, by coincidence, we launched Taxtamax [ph] the same week, so it's similar again of the regions in the world. But it's -- we don't have any news on that. I mean, there's nothing different happening in the beginning of the year different from the rest of the year. So to the major issues, I would say that's one we take limitation.

Operator

Celso Sanchez, Citigroup.

Q - Celso Sanchez {BIO 1803012 <GO>}

A couple of questions -- first, on Canada. We noticed a few weeks ago that one of the many participants in the Ontario very low-end priced beers had raised on some of their brands -- a few of their brands, excuse me -- prices above the legal minimum of 29.95. We haven't seen anybody follow since, but it seems like that number had tripled in the last couple of years that were residing at that level, and maybe the trend, perhaps, is getting some of the cost pressures are hitting a little harder.

Is that something that you think might provide some relief in the next few quarters that more and more folks might decide that the definition of a value brand doesn't necessarily have to be in the 26.40 level? That would be our first question.

A - Unidentified Speaker

I don't think so. I think the price of minimum -- the minimum price in Ontario today, it's a magical price -- it's the 24 for 24, or the buck of the year, and I don't see the main players today going out. I just don't see it. I don't see a type for the small player. This is a profitable business, and I don't see this price going up.

Q - Celso Sanchez {BIO 1803012 <GO>}

Then moving on to Brazil, a question I asked, I think, on the Third Quarter conference call about Brazil Beer, the idea of the competitive environment and I think at the time, (inaudible) be a bit overdone with respect to the (inaudible) in a more aggressive way.

One of the questions was if there is a bit more competition for mind share of consumer -- not lead to potentially both a growing pie and growing share collectively of the two that are fighting for that attention, i.e., yourselves and (inaudible) more aggressively. The numbers seem to suggest that, by our calculation, September your collective market share was 110 basis points lower than it is now, i.e., both of you collectively have gained share versus September. Do you have any thoughts on that? Is that -- are you encouraged by that, or do you think that's just a temporary thing and ultimately it is a zero gain after all, as you compete more aggressively?

A - Luiz Fernando Edmond {BIO 5862219 <GO>}

The competitive scenario -- I think it's -- again, it's very, very similar to the one during '06. We believe our biggest threat continues to be Petropolis [ph] and in the short term we continue to see good results increasing (inaudible) market share.

We see Filsa [ph] talking more than doing, to be honest. Although they had in December 1 basis-point increase in their market share, this is exactly the opposite of our position. They have higher share in supermarkets compared to the (inaudible).

The large share were more even in all channels, so they didn't (inaudible) in terms of the segments of the channels. And of course, when the situation or when the mix comes back, what is temporary situation that we always have in the market given the year-end parties.

We believe that they don't have a positive trend. I'm not saying they won't change things. As I said before, they are here to compete for the long term, but the short-term stretches doesn't seem to be providing them good results.

So last market share, even with the mixed channel, and Kiser [ph], yes, they did recover some market share in Fourth Quarter compared to First Quarter, but basically they did surprise us almost 10% of the brand. So net-net I continue to believe that they bring us more pressure, more competition, but I don't see any big change in their behavior or knowing in their trend for the near term.

We continue to invest the Agro [ph] brand, and (inaudible) when you compare share of '06 with '05. All of them gained market share. So it's very, very positive, when you have all your brands, all of them, the leading brands in the country, the number 1, 2, 3, brands in the country, and the leading premium brands in the country, gain market share.

And when you look at the brand indicators, we continue to be very strong. Of course, as I said, in some regions we have below-average market share especially in the (inaudible), we have some pressures coming from the specialty petropolis [ph]. But we believe, again, should remain seen to be the one we have in '06, that is basically what I think.

Operator

Trevor Sterling, Sanford Bernstein.

Q - Trevor Sterling

Hello. A question probably for Graham and coming back to the question of the hedges and raw materials, so thank you for the confirmation, Graham, that the guidance from Q3 is still applicable. If you look forward to 2008, and if currency and commodities maintain their current pricing, which I appreciate is a big "if," as I understand, the Q3 implication was that '07 is effectively hedged at about R$2.30 per dollar. The current rate is about 2.15, so that would be a slight benefit underlying raw materials, probably have risen since Q3. So would I be fair in assuming if current rates apply, it would be more or less a wash in '08?

A - Graham Staley {BIO 15381675 <GO>}

Trevor, just to remind everyone of our risk management policy and why we hedge in the first place, we obviously want to buy ourselves time so that we can reengineer our business, if necessary; amend our portfolio; adjust pricing, as appropriate to compensate for any perceived long-term shift in either currency or commodity prices.

So that's our basic hedging strategy. I don't want to comment on 2008, that's too far out, and I don't want to comment for the benefit of our competitors on our hedging policy, either, in detail, because obviously that could be competitively disadvantageous for us.

But we will continue to adopt that same sensible strategy in terms of trying to buy ourselves sufficient time to correct the fundamentals in our business if there is a more long-term shift in commodities or currencies.

Operator

Lore Serra, Morgan Stanley.

Q - Lore Serra {BIO 1506730 <GO>}

Yes, I just wanted to ask one question on Canada -- if I look at the year, Miguel, if I did the price right, your revenue per hectoliter was up, I don't know, half a percent or something in Canadian dollar terms. I wonder if you could help put that into perspective? I mean, you've talked all year long about how you've had pressure in Ontario, but can you talk about sort of, you look at your two or three biggest markets, have you been able to put through pricing and it's just you're shifting sales to Ontario or has it been that just the decline in Ontario is strong enough that it's offsetting? Help us put that into perspective.

A - Miguel Patricio {BIO 4264830 <GO>}

Yes. The mix doesn't help us, for sure. We are gaining -- Alberta, this year, for us, we grew double digits. We gained almost 1% a share point in Alberta, and the market is booming. And on the other side, in Ontario, we declined, right, so it's the mix this year did not help us a lot, for sure. So the explanation is really --

Q - Lore Serra {BIO 1506730 <GO>}

But you grew double digits in Alberta -- is pricing that much lower that it's offsetting, or are you not being able to raise prices in Alberta?

A - Miguel Patricio {BIO 4264830 <GO>}

No. We raise prices, but then the net sales are smaller, are lower. So to give you an idea, I believe it's about 20% -- about 20% lower in Alberta than it is in Ontario.

Q - Lore Serra {BIO 1506730 <GO>}

I mean, if you look on a geographic mix, neutral basis, what was your price movement last year -- or a brand-neutral basis? Is it possible to ask the question that way?

A - Miguel Patricio {BIO 4264830 <GO>}

Yes. We increased about 1.5% prices last year.

Operator

Thank you. At this time, I would like to turn the floor back over to Mr. Graham Staley for any further or closing remarks.

A - Graham Staley {BIO 15381675 <GO>}

Thank you very much, Else, and thanks, everyone, for joining this morning. I'm glad you liked the results, and we're looking forward to working hard on 2007's performance. So we look forward to talking to you again at the delivery of our Q1 results 2007. Take care, everyone, bye-bye.

Operator

Thank you, that does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day.