Q4 2007 Earnings Call

Company Participants

- Bernardo Paiva, CEO
- Graham Staley, CFO
- Joao Castro Neves, CEO
- Luiz Fernando Edmond, CEO

Other Participants

- Alex Robarts, Analyst
- Andrea Teixeira, Analyst
- Celso Sanchez, Analyst
- Jose Yordan, Analyst
- Lauren Torres, Analyst
- Lore Serra, Analyst
- Ricardo Fernandez, Analyst
- Robert Ford, Analyst
- Trevor Stirling, Analyst
- Tufic Salem, Analyst

Presentation

Operator

Good afternoon, and thank you for waiting. We would like to welcome everyone to AmBev's Fourth Quarter 2007 Earnings Conference Call. Today with us we have Mr. Luiz Fernando Edmond, the CEO for Latin America; Mr. Bernardo Paiva, CEO for North America; Mr. Graham Staley, CFO and Investor Relations Officer; and Mr. Joao Castro Neves, CEO for Quinsa.

We would like to inform you that this event is being recorded.

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

Graham Staley {BIO 15381675 <GO>}

Thank you, Nelson. Good morning, everyone, or good afternoon to those of you in Europe. I'm pleased to be with you today to discuss our Fourth Quarter results. I'll start the call by sharing a brief overview of the quarter, as usual, and then hand over to Luis Fernando, Joao, and Bernardo, who will provide you with an overview of our results in Brazil, HILA-ex, Quinsa, and Canada. I will close by providing more specifics regarding the Fourth Quarter financials.

Before I start, I would just like to remind you that all numbers are in Brazilian GAAP and that the percent exchanges used in this presentation are on an organic basis, consistent with the new reporting format initiated in Q3.

So let's get to the results. During the Fourth Quarter our consolidated EBITDA reached R$2.8 billion, which represents a 24.3% growth compared to the Fourth Quarter of 2006. On a full-year basis, we delivered almost R$8.7 billion in EBITDA, a growth of 16% over 2006, driven by beer volume growth of 4.6% and CSD and NANC volume growth of 9%.

Our earnings per share growth, excluding goodwill amortization, was 11.3% for the quarter and 15.5% for the full year.

The Brazilian business delivered a very strong result in Q4, with beer volume growing 7.9% and CSD and NANC volume growing by 17.1%. This led to an EBITDA growth of 28.1% for the quarter and 16.8% for the full year.

We're also pleased with our Quinsa operation, which saw EBITDA growth of 25.5% on the back of beer volume growth of 7.6% and CSD and NANC volume growth of 14.6%.

In Canada, despite the tough competitive environment, domestic volumes grew by 1.1%, resulting in a 5.3% EBITDA growth.

HILA-ex, had a loss of R$3.5 million in the Fourth Quarter, but the region improved profitability in the year by R$42 million.

Our combined operations delivered net income of R$1.1 billion, marginally down on Fourth Quarter 2006. And I'll comment further on net income at the end of this presentation.

Obviously, a very strong end to the year, and I'll now hand over to Luiz Fernando as we start to look a little deeper into the results of each of the operations.

Luiz Fernando Edmond {BIO 5862219 <GO>}

Thank you, Graham. Good morning, everyone. I will now provide you with details regarding the Brazilian and the HILA-ex operations.

Starting with Beer Brazil, we are happy to announce volume growth for the quarter of 7.9%, which yielded 5.5% volume growth for the year. We ended the year with 68.6% market share in December, which represents nine months of consecutive share growth, recovering most of the loss suffered at the beginning of the year.

For the whole of 2007, market share finished at 67.8%, which is 100 basis points lower than 2006. In January 2008, share fell 0.4percentage points following price increases which began to be implemented in December. As in previous years, share was also impacted in January by supermarket channel seasonality. We are tracking the market and responding appropriately to ensure we do not suffer the same sort of share losses we experienced last year.

Our Beer net revenues per hectoliter in Brazil reached R$145.8, a growth of 6.9% when compared to the R$137.8 in the Fourth Quarter of 2006. This increase reflects our initiatives of revenue management, as well as the continued excellent performance of our premium brands, which grew more than 2.5 times as quickly as our mainstream brands. Though margin is lower than in prior years, we continue our strategy of expanding our direct distribution network and consolidating our third-party (inaudible) into our multi-brand network.

Positive impacts from our hedge arrangements, as previously reported, helped to offset pressure for labor cost inflation, higher raw materials prices, and package and mix. COGS per hectoliter grew only 1.8% for the quarter and 2.4% for the year.

SG&A was in line with our expectations, showing a decline of 0.9% for the quarter. Although there were some quarterly variations in the timing of marketing expense during 2007, SG&A for the full year, excluding depreciation and amortization, grew by 7.5%, reflecting volume growth, the increase of direct distribution, and inflation.

This strong volume performance and the timing of SG&A spend helped Beer EBITDA grow by 25.5% in the quarter, the EBITDA margin growing by 450 basis points, reaching a record 54.1%. Full-year EBITDA margins also surpassed the 50% mark for the first time, reaching 50.9%.

Turning to Brazil CSD and NANC, net revenues per hectoliter grew 4% on volumes 17% higher than last year, leading to a net revenue growth of almost 22%. It's important to mention that we experienced supply problems in one of our biggest CSD plants at the end of 2006, lowering the comparison for this year. We also benefited from the seasonality of H2OH, which is stronger in the first and Fourth Quarters, or the summer season, and from the launch of (inaudible), our new, innovative successful line extension.

Market share stood at 17.2% for the quarter, 40 basis points higher than last year and 20 basis points higher than Q3. January 2008 brought further good news with market share reaching a record high of 18%. The strong volumes, combined with anticipated hedging gains and the shift of some SG&A expenses from Q4 to Q3, as we discussed in Q3, is a very strong Q4.

EBITDA finished at 55.1%, higher than last year, with an EBITDA margin of 40.7%. The full-year result was an EBITDA increase of 28.8% and an EBITDA margin growth of 250 basis points to 37.1%.

Looking forward, we continue to see opportunity in the CSD business in terms of market share and profitability, and we will continue to invest in this segment.

We now have the largest pack size in the market-- we just launched a 3.3 liters-- and the flexibility in terms of pricing to react quickly when needed. We are well positioned for the future.

Let me now turn to HILA-ex. The region generated an EBITDA loss of R$3.5 million for the quarter and a R$20.1 million loss for the year. The beer business showed good volume growth of 8.9%, positively impacted by the successful launch of innovations in the Dominican Republic and Central America and good growth in Peru, but negatively impacted by challenges we have in Venezuela.

Beer EBITDA grew by R$1.7 million in Q4, benefiting from gains on the cost side and savings through ZBB initiatives.

The HILA-ex CSD business delivers more EBITDA improvement as we reposition our brands to better address some local market conditions. We continue to build our business in the HILA-ex markets. Beer volumes are growing, we are facing the fixed costs in the business-- we are reducing the fixed costs in the business, and (inaudible) EBITDA and cash flow (inaudible), giving us the confidence and flexibility to pursue our long-term goals.

It is always important to mention that, behind the numbers, we have a fantastic team that works hard to make that impossible dream happen. Our people are determined, focused, and know what and how to execute. They thrive on tough targets and never give up. Even when the trends are unfavorable or the market is moving against us, our people have the ability to close the gaps. This is the AmBev way and continues to be our greatest strength.

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

Joao Castro Neves {BIO 17456730 <GO>}

Thank you, Luiz. Good morning, everyone. Well our region here continues to grow in the quarter, confirming the positive trends observed during the year and reaching outstanding full-year results.

Consolidated volumes increased 10.2% organically in the quarter based on the (inaudible) performance of the soft drinks business, which grew 14.6% on an organic basis and 7.6% organic growth in the year, motivated by higher volumes all over the region, except in Chile. Argentina, Bolivia, and Uruguay kept strong growth rates, while our business in Paraguay is showed an important recovery based on growing industry volumes.

Net revenues per hectoliter grew organically, both in beer and soft drinks. In the beer business, growth in revenues per hectoliter was motivated by strong performance of premium brands and some price increases implemented throughout the region. In the case of CSD, we benefited from price increases introduced in Argentina and the carryover of increases introduced by the end of 2006.

Our premium brands performed particularly well in Argentina, with outstanding performance in Stella Artois, dark beers, and local premium brands, in Bolivia with our premium brand (inaudible), and Chile with increased performance in sales by Stella Artois and our two recently launched dark Brahma beers.

(inaudible) individual beer markets, Argentina posted its all-time record in the quarter in terms of volume, even despite the divesture of three brands due to antitrust requirements. The Company performed particularly well in the northern and central region of the country, gaining market share in a growing and competitive market.

The Bolivian business continued to post strong rates, despite an uncertain operating environment and some price increases introduced in the quarter. We took advantage of industry volume records with our market share remaining stable. We ended in the quarter the investment in capacity required at our Santa Cruz plant to meet the increasing demand of the past few years.

Chile has been our biggest challenge, where our volumes had a slight decline in the quarter, despite good performance in our premium brands. Nevertheless, we have been able to increase our EBITDA and EBITDA margin in the country through specific revenue management actions. Our recently launched Stella Artois brand in can and one-third liter format continues to increase share within our portfolio, strengthening our premium brands.

The beer market in Paraguay had a strong recovery in the quarter after experiencing a decline in the first three quarters of the year. The Company benefited from higher market volumes and launch of the Labatt brand to compete with other imported beers based on focused distribution and advertising.

Our beer business in Uruguay has also performed very well, reflecting volume growth with stable market share and a strong performance by our premium brand Patricia.

In soft drinks, we had an excellent quarter in terms of volume, with market share gains in growing markets both in Argentina and in Uruguay. In Argentina, the Pepsi brand grew within the "A" segment of the business, while the H2OH! brand also strengthened its position within the flavored waters. In Uruguay, besides the outstanding performance of the Pepsi brand, the Company benefited from the comparison with 2006 when it experienced a month-long distribution strike, which severely affected our volumes in 2006.

Solid growth rates in the main markets where we operate, together with focused revenue management and market execution represented an EBITDA organic growth of 25.5% in the quarter. Our full-year results confirmed this growth trend, having organically increased our volumes by 9.7% and our EBITDA by 22.3%, making us one of the fastest growing units of the Group.

I would like to end my comments by saying that I'm very excited with the outstanding performance we had in 2007 and about our prospects for continued growth. We face tough challenges in 2008 as we did in 2007 due to unstable environments and some cost pressures, but I'm very confident our margin will continue to grow by taking advantage of the opportunities that appear and the consolidation of best practices implemented during 2007.

I'd like to thank and congratulate the Quinsa team for impressive results. We're in the process of developing a strong ownership of culture, and the level of talent in our zone allow us to continue to (inaudible).

I'll now invite Bernardo to take over.

Bernardo Paiva

Thank you, Joao, and hello, everyone. First of all, I would like to say how pleased I am to have the opportunity to manage the North American business. I began my history with AmBev 17 years ago as a management trainee. Throughout this time I have worked in supply, finance, trade market, and sales, including as a sales executive for Brazil the last three years. In my first three months in North America, I have traveled across this big country here and in all the (inaudible), and I have met a few people from each of our businesses. And I'm very confident that I have a great team here. Miguel has built a very strong basis on which we can grow, and I would like to thank him for all of the things that he did here. It's my firm belief that North America has favorable prospects for the future.

Talking about the Fourth Quarter, Labatt had a very, very good EBITDA result, aligned with the track that we had in the last years, despite the tough environment that we have. In terms of market share, we posted a slight decline in our organic market share. However, the growth of the Lakeport brand allowed us to keep market share stable on a pro forma basis. The major driver that we had was the solid savings achieved in the industrial costs. Despite the higher efficiency in our breweries, Labatt's team continues to drive further improvement day in and day out.

Talking about the '07 total numbers, we delivered 6.4% of EBITDA growth with our market share slightly behind last year on a pro forma basis.

For '08, I do not think I need to tell you that we have a tough challenge ahead of us. Increased costs of inputs will put pressure on our gross margin. Although cost management is a strength of our business, and, for sure, it will continue to be, that will not be enough to compensate for the (inaudible) in costs. However, we have decided to maintain our strength and grow EBITDA every year, and we challenge ourselves to do that with no cost to our market share.

So performance in the top line is a priority, and I will address this as follows. First, talking about our brands, we have the leading brands in the core premium, domestic premium, and discount segments. We'll certainly take full advantage of these trends. Look to the light and import segments. You have huge room to grow, and we are very confident our brands, Bud Light and Stella Artois, can be even more developed to grow in those segments. On these branding matters, I will count on the help of our new Marketing VP, who comes from North America with a successful record of 20 years of marketing experience, the level of which will form the in-depth insight of our business.

Second, talking about trade initiatives, we have room to improve the contact of our trade products and the effectiveness of these to drive volume, share, and brand (inaudible) at the point of sale.

Third; sales. We have an opportunity to review our process and the organization's structure in order to improve the execution of our programs and the relationships with our customers.

Finally, revenue management initiatives. We really think that this is a market that can make money here in a good way, and we really think we have to maintain like this across the market. So we will certainly look closely about any pricing issues that we can find. However, those things that we will think about pricing will never be allowed to come at the expense of market share.

Overall, in tough years like '08, the message we want to convey is that we need to pick a few choices and focus our resources and energy behind these choices to make them happen and deliver the results. I'm confident on the strength of our team here. We will win in Canada, growing business with no cost to our market share.

Now I would like to hand things back to Graham.

Graham Staley {BIO 15381675 <GO>}

Thanks a lot, Bernardo. In this final section, I would like to guide you through the main line between the reported EBIT of R$2.4 billion and the net income of R$1.1 billion, as shown on page 16 of our release. Other operational income and expense showed a net expense of R$335 million in the quarter compared to an expense of R$197 million in the same period last year. This difference is primarily explained by the higher goodwill amortization as a result of the acquisitions of Lakeport and Cintra in 2007, the change in the amortization curve for Labatt, and translation lost [ph] on foreign investments due to the appreciation of the real against the Canadian dollar and other Latin American currencies.

Our net debt stood at R$7.4 billion for the end of the year, flat compared to the situation at the end of the Third Quarter and 5.5% lower than 2006. Our net financial result was an expense of R$307 million, almost flat compared to Q4 last year. The full-year expense was R$1.25 billion, mainly impacted by higher interest expenses associated with the Quinsa bonds issued in the second half of 2006.

The provision for income tax and social contribution was an expense of R$500 million versus R$466 million last year. This increase is mainly the result of lower interest on capital, which is a tax deductible expense.

Net profit per (inaudible) shares in the quarter amounted to R$1.84 compared to R$1.85 in Q4 2006. However, when we exclude goodwill amortization, earnings per share rose 11.3% in the quarter and 15.5% in the full year.

Regarding our payout strategy, we retained the policy of distributing all excess cash generated if we cannot identify value-enhancing alternative uses within the business. This calendar year, we returned to shareholders approximately R$2 billion in dividends, including interest on owned capital, and R$3.1 billion in share buybacks, a total return to shareholders of approximately R$5.1 billion. We will continue to review the balance between dividends and share buybacks on an ongoing basis, taking into account market and industry norms and the impact on shareholder value.

In summary, AmBev is reporting strong Q4 and full-year 2007 results. Once again, our disciplined and consistent execution against our initiatives have resulted in a continuation of our track record of delivering EBITDA growth quarter after quarter.

Looking forward, commodity costs certainly post challenges for us, especially in Canada. However, for 2008, AmBev remains confident in its ability to maintain consolidated costs of sales per hectoliter below the level of inflation as a result of the productivity initiatives in place throughout the Company, plus the favorable results from our sugar and U.S. dollar hedges in Brazil.

In summary, we have a positive outlook for 2008 based on our robust business plans and our strong and consistent execution capability.

I'll now hand back to Nelson and open up for questions.

Questions And Answers

Operator

(Operator Instructions)

Our first question is coming from Robert Ford of Merrill Lynch.

Q - Robert Ford {BIO 1499021 <GO>}

Congratulations on the quarter. Phenomenal performance, particularly in the Brazilian businesses. I was very impressed by the volume growth that you had in the quarter, despite the rainy weather. And I had read that (inaudible) had been intending to spend as much as R$460 million. I haven't seen any evidence of that order of magnitude of spending. And I was wondering if you could comment on the competitive environment, as well as what you're doing to drive volumes.

Then my colleague, Nico Lambrechts, in London asked me if you could expand on the price increases that you're pushing through this January, please.

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

Well first, the competitive scenario and the market environment in Brazil. I think something that you have to consider is that the interest is growing. Of course, you have the weather impact, positives and negatives, but the overall industry is growing, both for beer and soft drinks; even faster for soft drinks. So we are, of course, taking advantage of a better Brazilian economic scenario for the country.

Second, when you compare Fourth Quarter with the First Quarter, we were able to close the gap in terms of the market share loss. So we started the year more than 1.5 points lower than in 2006, and we finished the year less than 1 point behind 2006. So part of the market growth that was not seen in our results during the first half of the year now you see, because you have the industry plus the share growth.

Regarding market investments, I would say-- I would like to comment on our competitors' investment announcement. Part of it is-- The announcement itself is-- as they don't disclose their numbers-- is a marketing strategy in itself. So you never know exactly if they are talking about the same thing as we are. You can hear that from different competitors different numbers, and you never know exactly what they are talking about. So I would say the (inaudible) in the country reflect the good momentum that we have [ph] in Brazil now. Everybody's investing. I think both ourselves and our competitors are increasing investments in the market. In our case, we've been able to capture these additional investments or compensated additional investments with better management of our ZBB or the non-working [ph] monies we still have. We always said that we continue to see opportunities to try to get more out of business and to reduce layers to be more effective before we are able to invest more in the market.

And more important than that is our market programs are working very well, I think year on year we are learning how efficient they can be, and our people are executing better. So what you see is the result of several things. And of course, we are very pleased with this kind of result.

Regarding price, just to anticipate the question, we did implement prices during December for returnable bottles. We did that different from 2006 where we waited until

January 2007 to increase prices. This year, we decided that, according to our strategy, it would be better to anticipate, and we did that during December. Of course, part of the net revenues (inaudible) that you see quarter on quarter is a result of that, not only because we anticipated prices but because premium did very well, direct distribution, and the same initiatives in place for many years. But we did implement prices in December, and we are now implementing for cans for the off trade [ph] after Carnival. So we anticipate returnables, and we postpone cans compared to last year.

If you look at the market, we have some good signs and some bad signs but, I would say, better than last year. We see our competitors maybe a little more pressure because of the commodities. Then it seems that in a strong market-- so they are stronghold markets-- they are following prices faster than they did last year; not in the whole country but in a good part of it. Both (inaudible) all followed prices. FEMSA does not increase price since, I think, the end of 2006.

Q - Robert Ford {BIO 1499021 <GO>}

Then, Luiz, what was the blended price increase on those two adjustments, please?

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

Around 5% for both channels but not across the board. I mean we did very precisely, brand by brand, region by region. So on average, I would say 5%.

Q - Robert Ford {BIO 1499021 <GO>}

Great. Thank you very much, and, again, congratulations.

Operator

Thank you. Our next question is coming from Andrea Teixeira of JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Also congratulations, obviously, on very strong results. Just to the benefit of talking about-- I know you mentioned in the press release on how strong we feel about costs in 2008, also with the hedges. But can you elaborate more if you have additional gains, given that we have even weaker-- I'm sorry-- stronger Reais now.

And also, the second question would be on Canada; if you feel pricing-- if we're seeing (inaudible) of pricing. Thanks.

A - Graham Staley {BIO 15381675 <GO>}

Yes, cost of goods sold certainly are a challenge for us in 2008 and are for all brewers, as you know, with pressure on barley, on corn, on aluminum prices, and now, in recent weeks, sugar. But we remain committed to our hedging strategy. The hedging strategy is certainly helping us at the moment. And precisely for the fact it buys us time to reengineer our business and think about where we want to move in the future, that hedging strategy will stay in place. As you look across the region, we have some different experiences. Here in Brazil, we have strong benefits from sugar in 2008 and the dollar hedge. And as you rightly said, it will be a little bit of extra benefit from those dollar hedges as well. As you move further north into Canada, we're going to be under pressure on the grains; there's no doubt about that. And that's posing real challenges for Bernardo and his team. In Quinsa--

A - Bernardo Paiva

I just would like to add-- Here in Canada, basically, the last three months, basically, we had some price activities here, mainly French Canada, and our net revenue went down when you compare '07, the last quarter, to '06. But basically what we are trying to do now is, really, in the most important regions, to put price up again, at least in line with inflation that we are facing in '08. And I think that the other brands they will follow us; the other companies, because, again, they have the same impact in the COGS that we'll have. It's hard to say that they'll follow us yes or no. But again, we'll try really to keep price in line with inflation and to do that in the First Quarter of the year.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And Joao, just because we have-- When you're talking about a pro forma basis, are you talking about just-- because you have an impact also of the acquisitions. So if you look at 2008 versus 2007, talking pro forma, you see a better-- an improvement in pricing? Is that what I read from your comments?

A - Bernardo Paiva

Andrea, it's to Joao or it's for me here.

Q - Andrea Teixeira {BIO 1941397 <GO>}

I'm sorry; to Joao.

A - Graham Staley {BIO 15381675 <GO>}

I think we've got some communication issues here. Andrea, could you repeat your question, please?

Q - Andrea Teixeira {BIO 1941397 <GO>}

Sure, Graham. Just, basically, I was boding on his comments regarding the pricing. I got confused because of, obviously, the impact of the merger with the new brands in Canada. If he was saying that he's taking prices 2% throughout Canada, if we should read that prices will be, at least in Canadian dollar terms, slightly better, like 3% better than 2007? But that is pro forma or just--? That's probably pro forma, I would say. Right?

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

First, Andrea, this growth will try to be (inaudible) situation and then try to move in the First Quarter. The most important reason to try to go there. But basically, to be in line with the last years, with the inflation, that could be closer to 2% but not exactly in the First Quarter. It's an average on the year.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. Great. And just on Graham's comments-- I'm sorry to go-- I'm jumping. But on your comments, Graham, you're saying on the cost environment if we can net/net-- the fact that you were mentioning you'd feel even more optimistic about the cost side than you were before in December? Or how do you feel about this what you had guided that you would see additional margin gains in 2008? Should we expect additional margin gains in 2008, given 2007 was so strong?

A - Graham Staley {BIO 15381675 <GO>}

Yes. We're looking at sort of a weighted inflation for the whole of AmBev of around 5%. Since three months ago, we feel the same level of confidence, but, obviously, with three months of further experience and work, we've got more granularity around that confidence. So in other words, we've proven the numbers even more than we'd proven them to ourselves three months ago. So we're not going to go any further than to say we expect to beat that 5% inflation rate. Knowing AmBev, you know we're going to keep pushing and pushing even when we get below it, obviously to maximize our margins. But we feel not more confident and no less confident. We just have more (inaudible), so to speak, in terms of plans of action. So overall, no real change in that overall guidance.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. Perfect. Thank you very much. Again, congratulations to all of you.

Operator

Thank you. Our next question is coming from Lore Serra of Morgan Stanley.

Q - Lore Serra {BIO 1506730 <GO>}

Good morning, and congratulations, as well, on the results. I wanted to ask a question about the hedging but actually looking further into 2009, because, as you've talked about, you've locked in the hedges for '08. Given this spike that we've seen in grain costs, that's obviously more likely to hit in 2009 than 2008, given the way that you hedged. When you say you're still committed fully to the hedge policy, should we assume you're saying that you continue to hedge into '09, even though those hedges on the commodity side, both in terms of sugar and in terms of grains, will obviously be at much more adverse rates? Or is that not what we should be reading into that comment?

A - Graham Staley {BIO 15381675 <GO>}

As I said, our hedging policy stays in place. Normally, it's around the norm of a 12-month hedge, so we have flexibility in our own policy to go short on that or long on it, only by a couple of months. We don't have that much flexibility. What it allows us to do is it allows us to take more information on board about what's happening with commodities, especially grain, and, currently, with sugar. Sugar's a good example, where we had some hikes recently, but we don't think they're going to be long term. So we allow ourselves the opportunity to take a view on those commodities but always with the intention that when we get to the end of the year, we like to be 12 months covered. So no change there. And yes, we are, as you would expect, starting to hedge 2009. At this point in time we see no reason to change it for the very simple reason it provides that certainty in our business, and it tells us what we have to do. Being the company and the size of the company we are, we have the ability to put these hedges in place. And by doing so, we're then able to plan ourselves accordingly. And if we have to take other initiatives, then we take those initiatives. We're not speculators. I think it's really important to point out that we're not speculators, which is why we have the 12-month policy in place. But we do give ourselves the luxury of having a view on the marketplace for a particular product; and currency; through a very small window around that 12-month policy.

Q - Lore Serra {BIO 1506730 <GO>}

That's helpful. If I could just ask on Brazil Beer-- It was obviously a great finish to the year with almost 8% volume growth organically and 5.5% for the year. As you think about putting those numbers-- I know you guys are very good at planning and modeling your volume growth. How do you think about 2008? I guess implicitly I'm asking for some of your views and guidance on what you think '08 will be. But any way we should think about-- Should 2008 be a year like 2007 in terms of volumes? Can you see the continuation of the strong volume trends we saw in the Fourth Quarter into '08? I'd be happy to hear any of your thoughts on volume growth into '08.

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

You say we're not giving you any guidance. What we can, of course, is the market conditions remain the same. And if we're able to implement all the initiatives we have to implement, defending our share or even growing the share, continue to grow premium brand prices, I think we had the discipline for the last several years. I think we should expect (inaudible) economy, the Brazilian economy and global economy remains similar as it was in 2007. I think we should expect similar figures. There's no guarantee out there. But of course-- I don't see many changes in the total environment.

Q - Lore Serra {BIO 1506730 <GO>}

Thanks very much.

Operator

Thank you. Our next question is coming from Alex Robarts of Santander.

Q - Alex Robarts {BIO 1499637 <GO>}

I wanted to go to Brazil Beer and, specifically, at the cash SG&A. And what I thought was remarkable was the extent that you really were able to pull back on that cash SG&A, giving that slight decrease for the quarter and having most of that expense into the Third Quarter. I guess the question becomes; Is this something that we could perhaps expect for the First Quarter? In other words, as we look at what you plan to spend in terms of Brazil Beer in the First Quarter, are we going to have kind of a fair comp year on year? I forget exactly First Quarter '07. But are we going to see this decline again in that cash SG&A? And for the year, the question becomes-- I look back in '06, and it looked like the beer cash SG&A was slightly below your volume growth full year '06. This year as you state cash SG&A was in line with your Brazilian beer volume growth. In '08, do you think that cash SG&A might be again in line with your volume growth, above, or below?

A - Graham Staley {BIO 15381675 <GO>}

I think as we pointed out in at least two of the calls last year, we did have a phasing issue last year in terms of when we decided to spend the dollars. When you look at the year as a whole, there's been no real change to the pattern. That cash SG&A is moving, really, in line with a percentage of volume. We've always said about 30% of the volume increase was translating into increased SG&A plus, obviously, an increase in direct distribution and then, of course, inflation on top of that. And when you do the math, you'll see that works pretty well for both the beer business and CSD when you take the full year into consideration. I know you'd love to know what the quarterly breakdown was going to be, but, obviously, so would our competitors as well. So we've got our funds in place. I think you should look forward in 2008 to the same sort of algorithm applying. In other words, R$0.30 of volume growth plus inflation plus direct distribution increases as we take more third parties into our network, and then, from time to time, there may be the occasional extra item. But as a year as a whole you shouldn't expect any change in that pattern. But I think it would be unwise at this stage to talk too much about the quarterly phasing because the year's only just started.

Q - Alex Robarts {BIO 1499637 <GO>}

But for the year, I guess, Graham, can we think about that cash SG&A, like in '07, growing in line with volume, or is that not a fair assumption?

A - Graham Staley {BIO 15381675 <GO>}

Yes. The algorithm I was suggesting you use is take about 30% to 40% of the volume growth and apply that to SG&A growth, add inflation to it, add 1 to 2percentage points of growth, depending on the extent of direct distribution, which is always a little bit of an unknown, because, obviously, we're not always sure how we're going to extend the network until it obviously happens. That mechanism-- That algorithm still applies to 2008 as it did in 2007. So you shouldn't be looking for any dramatic reductions in SG&A at the end of the day.

Q - Alex Robarts {BIO 1499637 <GO>}

Fair enough. Good. That's helpful.

A - Graham Staley {BIO 15381675 <GO>}

Quarter to quarter, yes, you'll get some variations, depending on when we decide to hit the market. We'll obviously talk about those as those quarters come around, as we did in 2007. Hopefully, that helps.

Q - Alex Robarts {BIO 1499637 <GO>}

Okay. Yes. And I guess I just wanted to go, secondly, to the market share performance in the soft drinks in Brazil. Clearly, kind of record market share in 4Q in Brazil. You noted in January 18%; another all-time high. And I guess you also talked about seeing further opportunities of getting share. Where are you sourcing this share from? Would it be fair to say that this is coming from the expense of the other "A" brand of soft drink brand? Could it be also some of the "B" brands? If you could comment a little bit on the government efforts and this idea of trying to reduce the informality, that would be helpful.

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

First, I would say that there are two factors that are driving volume; the soft drinks volume. One is, of course, the market. You know the soft drinks business is more correlated to real income, even more correlated to real income than beer in Brazil. That means the market is growing fast. And together with the real income, you have several innovations impacting the market. So more than beer, the innovations that are being implemented in the market; they're bringing lots of volume. In our case, H2OH! is the winner, so, of course, we launched at the end of 2006. As we said, we've tasted [ph] some supply restrictions at the end of 2006. Then, when the summer came in 2007, we still had those same restrictions. Then came the winter, and we realized that the seasonality for H2OH! is higher than for the soft drinks. So of course, what you saw at the end of the year was H2OH! increasing here in volume and bringing some additional market share.

In terms of the source, it's, of course, H2OH! is taking share from other soft drinks but also from other beverages. As we always said, it's a flavored water. It's a light, light, CSD. It's really difficult to define exactly what it's scaled for in terms of the consumer perspective. And of course, we are taking share from everyone, including outside the CSD industry.

Physically for January, the additional share came from Coke because they increased prices during the end of the year. We always follow later, according to our specific strategy. They are the leaders. So we track, we monitor, and then we decide what to do. We are now making these decisions and implementing some of these opportunities to close some of the gaps that open during the beginning of the year. But on average for 2007, I would say the share came from "B" brands, not because of less informality. I wouldn't say that because the flow meters are not implemented yet. It's been delayed for almost a year. But because of our execution and because of real income means that people are going into more-- less value brands and more brands. They're going after the better brands. So both us and Coke got some share from the market.

Q - Alex Robarts {BIO 1499637 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question is coming from Celso Sanchez of Citigroup.

Q - Celso Sanchez {BIO 1803012 <GO>}

I guess, on that real income growth topic, the mix-- the beer business in Brazil certainly has been something you've talked about for a while. As you said, maybe the premium or super premium side has slowed a little bit relative to where it was before. But it certainly seems quite robust. Can you update us, number one, on where that mix is; the percentage of your volume? And number two, do you think there's room for that to accelerate? Obviously the base is bigger now than it used to be, but with the economic outlook that we see and your abilities to execute even better now than they were, is that something you see as a major focus for you, given the real income shift coming together the next several quarters?

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

Celso, can you repeat the final of your question, because we lost your voice?

Q - Celso Sanchez {BIO 1803012 <GO>}

I'm basically just asking about the shift; the potential further shift in mix towards the premium brands; toward the Bohemia and (inaudible) and other line extensions of those; and how that might be affected and helped by the real income growth that you're talking about as a further driver of revenue. Perhaps that would help you; the weighted average above inflation over the next several quarters.

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

We've been implementing so many initiatives to drive premium volume. It's always difficult to say exactly-- Of course, the base is much lower than the mainstream. That is difficult to be precise in what is the real income growth impact in the premium and what is the initiatives that we are putting in place? The fact is most of our premium brands are growing very fast and, specifically, the ones that we are putting more focus are really doing very well; for Bohemia, (inaudible), the draught beer. And we see that the market is very positive to increase the share of the premium in our portfolio. So we'll continue to pursue this opportunity. Today we are at 5% of the total volume is premium, on average, for 2007. We believe it should continue to expand, of course, because the opportunity is out there. When you compare with other industries in Brazil, several industries have 15% to 20% of their volume in the premium segment. So why would beer not have the same kind of size? So other initiatives that we have put in place-- We are now importing brands from several countries. We started with Uruguay. Now we have Uruguay and Argentina. We have some European brands that will be rolled out into some specific markets, starting from Sao Paulo. And the premium brands are doing-- The super premium brands and specialties if you compare to other more developed markets are also a big opportunity; so not only the premium and the premium plus but also the specialties and the super premium segment. So I think, going forward, if our initiatives continue to work, you should see the same kind of results.

Q - Celso Sanchez {BIO 1803012 <GO>}

I guess that 5% number still sounds to me like a very familiar one for the last few years. So given the growth rates that we've heard you report or, at least, speak to as multiples of the mainstream, I guess I wonder-- Is there a reason it hasn't accelerated already, and have you been kind of formulating your strategy more carefully now you're ready to really launch it? Or you really are pretty comfortable with it growing at the rate that it's growing, which is obviously above mainstream but still not accelerating the way I would have thought it would be? I would have thought we'd be approaching sort of 8% or 9% by now, given what we talked about over the last few years.

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

If you go back, I think, two or three years, the premium would represent less than 5.5%. We finished the year with an average of 7%. So it's increasing. But the difference maybe compared to other markets is the mainstream segment is very big in Brazil because we are the segment itself. If you take our three main brands, they represent more than 90% of the mainstream segment, because our competitors-- All of them sell at the discount, a 20% to 30% discount, of our brands. So the way we define the premium is not necessarily fair because you take Skol-- it's 15% to 20% higher than any other competitive brand. So the premium that we define here are the brands they are selling at 15% or 20% above Skol, which is a very high price. So you'd never consider that the Skol brand is kind of core-plus or core-plus to premium. It's difficult because you're really comparing to 68% share that comes from the mainstream segment. So when you take this 2.7 times I think we grew the premium compared to the mainstream, that means more than 15%; almost 16% year on year. So it's pretty fast.

Q - Celso Sanchez {BIO 1803012 <GO>}

Just to be clear, I think I just heard you say 7% of the mix rather than the 5% I thought I heard you say originally.

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

7% of the mix, on average, for 2007.

Q - Celso Sanchez {BIO 1803012 <GO>}

Great. Very helpful. Thank you.

Operator

Thank you. Our next question is coming from Lauren Torres of HSBC.

Q - Lauren Torres {BIO 7323680 <GO>}

My question is a follow-up on your North American business. Last year we saw some good cost savings, and you benefited from-- I guess it was a favorable brand mix and also brewery efficiencies. As we think about this year and higher grain costs, I was wondering if you could talk about where you are in the process as far as further upside from brand mix and also brewery efficiencies. What should we expect in that regard as far as an offset to some of your higher costs?

A - Bernardo Paiva

I think that for, basically, this year, one of our strengths is the cost side of the business. We continue to work on that. To make it to the top line, as I said in my speech, I think you have to have the three leading brands for important segments. I'm talking about Bud, (inaudible), and Lakeport and, for sure, we have Bud Light and Stella to help us grow this top line in '08. And the other important thing is the mix of the region; that you try to manage better in '08 than we did in '07. That's what I can say to you for now. But I really think that managing-- Investing our money and energy behind those few choices that I mentioned and manage the mix of the regions, we can achieve our EBITDA growth and, at the same time, the market share growth for this year.

Q - Lauren Torres {BIO 7323680 <GO>}

But are there further efficiencies? It seems as far as improving efficiencies in your breweries and what not that there was some good upside there last year. How much more of that is to come? It seems like it did benefit you last year. Will it continue to benefit you this year?

A - Bernardo Paiva

Yes. We increase. It will not be enough to compensate all the heat of the inputs that we have and malt and so on. But it will increase a lot because, again, it's one of our strengths. And all the initiatives that we have in terms to increase efficiency in the breweries and our freight and all of our ZBB challenge will continue to do that. But just what I said, it will not be enough to compensate the heat that we will have in the costs. That's why the top line will be more than ever a big focus for us in '08.

Q - Lauren Torres {BIO 7323680 <GO>}

And just lastly-- I don't know if you could comment about what you've seen so far this year but also in Canada with respect to pricing-- Any change there, or is it just as much discounting this year as we've seen towards the end of last year?

A - Bernardo Paiva

As I've said before, the last quarter was tough in terms of price because we lost market share in French Canada a lot during last year, and then we reacted in the last quarter and especially in the last two months of the year. And we gained share; not everything that we lost, but we gained share. In the First Quarter I think that we increased price in some regions, and I think that the other companies will probably follow us. But again, we'll try to manage our net revenue and check if it's possible to increase it by here and there with no cost for our market share. We'll follow up this very, very closely every day in order to locate (inaudible) if we have any room to improve a little bit more price because we need that with the COGS that I said before-- but with no cost of our market share. But we did some price increases in last month and the beginning of this month in some regions.

Q - Lauren Torres {BIO 7323680 <GO>}

Thank you.

Operator

Thank you. Our next question is coming from Jose Yordan of UBS.

Q - Jose Yordan {BIO 1496398 <GO>}

My question is a follow-up to Lore's question before about '08 volumes. I guess your answer was that there was no real reason why you couldn't show similar numbers. But I would mention one, at least, which is the fact that GDP growth forecasts by economists are all calling for some sort of reduction in GDP, perhaps with interest rate hikes; a much bigger chance this year of that. So it seems to me like there's going to be certainly a tougher headwind in terms of achieving that kind of volume growth. And of course, you raised prices in December, which leads me to believe that there was some sort of inventory loading ahead of that that might have helped your December volume anyway. So that gives you a tougher comp as well for next year. With all this in mind, I guess, one would have to either forecast a lower volume growth for '08 or a much higher marketing spend. How will the Company approach that tradeoff in '08?

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

Are you specific in Brazil, or are you talking overall?

Q - Jose Yordan {BIO 1496398 <GO>}

No. I'm talking about Brazil.

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

I'll start to answer, and then I'll ask Graham to jump in if he thinks it's necessary. Basically, you're right in terms of the GDP. It is likely the projections are slightly below last year. But on the other hand, that income continues to grow. So you have several facts because the number of companies making IPOs in Brazil are making the employment to grow and far more employment to grow. The government just announced another real minimum wage increase, around 10% compared to an inflation of 4% to 5%. So real income continues to grow ahead of GDP. So when you look at that and when you compare with our models, the net effect is very similar. Of course, you never know because you still have some regulations in Brazil. The government is still influencing some prices; for example, oil prices and gasoline and things like that. You never know exactly what will happen in one or two months. But you look at the government behavior, you look at what happened with the CPMF, which was checking bank taxes where the government lost it. It's a R$40 billion reduction in taxes for the government. Then they come in and announce for January R$40 billion above last year without the CPMF. So the economy itself seems to be performing very well. And somehow, the currency appreciation is offsetting part of the grains and oil threats or increases. And when you add the whole commodities and hedging strategies, it's allowing us to increase prices still in line with inflation. That means that the real price for beer is not growing ahead of inflation. That means the purchasing power in the case of beer is (inaudible). So I think-- I would say it's neutral. The forecast would be very similar to what we saw in 2007.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay. Great. Thanks a lot.

Operator

Thank you. Our next question is coming from Ricardo Fernandez of Banco Itau.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

A couple questions; first is getting back to the direct distribution. Obviously, this has been a trend that you've implemented for quite some time. I was just curious to know how much is left to actually acquire that is not already yours. Then how long can that be a benefit in terms of margin for you going forward?

Then the second thing was focusing back on this demand equation. Maybe you could just correct me if I'm wrong. But I think that the minimum wage going up 8.5% or 9%; again, real wage growth, increasing; that you have a considerable amount of people who weren't normally beer drinkers moving towards beer, especially in the northeast. Have you seen a-- I don't know if it's a shift, but, at least, have you seen regional differences in beer consumption in the last year or in the last quarter?

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

Let me get the end of your question first. You're right, but it's very difficult to analyze that in the (inaudible). But you are right in the opposite way, because we were expecting volumes to grow faster in the north and northeast region in the second half of the year, ahead of the south and southeast, but exactly the opposite happened. So to be honest, I think, net/net, you have some northeast regions inside the southeast region; so, in terms of consumer power and consumer behavior. But of course, you have the weather impact on that. So you have to analyze that in the longer term to be sure what's really happening. So net/net, you're right, but in the opposite way.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

If I could just jump in, maybe the northeast consumption story, as I call it, is still in the works. It hasn't really materialized yet, but one would think that it should.

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

It will take a long time. It will take three or four years. What usually happens in our (inaudible) is that you start with a consumption increase in the middle east, middle west, and north and northeast regions. Then all of a sudden the industry that is basically in Sao Paulo and Rio and Minas; they start to react. So the first thing is the purchasing power increases in the north. Then the industry first sells the inventory they have, and, after that, they have to reinvest and expand capacity to hire people. So the technical or the specializing people are still in these regions, and, of course, industry takes more time to react than necessarily the demand in these regions. And it's easily compensated because, of course, the total volume in the south and southeast is much higher than north and northeast. So it's a cycle. You never know exactly where you are in terms of the cycle. Of course, it depends on the country-- the long-term country performance. So what we experienced in the second half of 2007 was basically the south and southeast regions reacting to this demand and increasing the number of formal employees. So it's a cycle.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

And the other side of the question; direct distribution?

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

Yes. Sorry. In direct-- When we started that, I think, seven or eight years ago, we said that we'd probably reach 50% of our volume in direct distribution. We already did that. I think, this year we finished at 52% of our volumes in direct distribution. But we also said, I think, one year ago that we believe that could reach around 60% of our volumes. That's because the way we go is that we learn, we develop the systems, the infrastructure, and, of course, depending on the volume performance, the dilution of our fixed costs is very good, and that allows us to expand in those specific regions where it makes sense. So the equation continues to be positive as the volume is growing and as we are learning. We continue to learn and be more efficient. So I think at this time I wouldn't change that. But I really believe we still have for the coming years opportunities to increase direct distribution; on average, at a slower pace than we did at the beginning but in line with 2007.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

Great. Obviously, as your volumes grow, it's sort of a moving target. Then new volume concentrations pop up where it didn't make sense before, and it makes sense going forward. Is that also the case?

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

Once we establish one direct distribution center, then, of course, we do that in one specific area. Then if other opportunities around that specific place come up, we make a decision. But of course, the more important we have the more we dilute the fixed costs. And not necessarily the equation works in exactly the same way for us (inaudible). So the tradeoff is not something stable.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

All right. Thanks a lot.

Operator

Our next question is coming from Tufic Salem of Credit Suisse.

Q - Tufic Salem {BIO 5929118 <GO>}

I just wanted to check with you about organic CapEx over the next couple of years, if you can give us an update on that, if there's any for 2008 and 2009. And also, if you can specify a bit more about your capacity utilization, specifically, in Brazil and how much capacity you expect over the next two years to come on board.

A - Graham Staley {BIO 15381675 <GO>}

I'll take the CapEx question, and I'll hand over to Luiz to talk about capacity expansion, et cetera.

As you look at the cash flow, you'll see that our CapEx; as you describe it, organic CapEx; was something like R$1.6 billion in the full year 2007. I think you can expect that trend to continue. We need to continue to invest in our business as the business grows. At the same time, obviously, we want to try and run at full capacity best as we can. So don't look for any dramatic step-ups or decreases in CapEx. Look for the continuation of the sort of trends you've seen in the past.

And on expansion specifically in Brazil, I'll hand over to Luiz.

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

The capacity varies a lot. You can never take Brazil on average. The regions are not 100% connected. They are somehow connected, but, of course, the logistic costs will increase a lot if you try to ship products more than 500 or 600 kilometers. We do when we need for specific periods of time or for short periods of time, but, of course, as the volume is growing, we review our footprint. As I said in my answer to Ricardo, we had more volume growth in the southeast than we expected, and we had less in the north. That means that we'll have to reevaluate our priorities, and we'll probably have to announce a new plan or some line extensions or some new packaging lines in the southeast region. But that is-- In terms of our total CapEx, I want to say that would impact dramatically the level of CapEx we have today. I would consider maybe in terms of the number of equipment that we have to put in place are a little higher, but you have to consider that currency's much better today. So I would say CapEx would be in line with inflation. We do have capacity for the year, even if we don't put any line in place. We do have capacity for 2008, although we'd love to have these new expansions in place to avoid some logistic costs or to save some logistic costs. So moving forward, we should see some announcements with regard to capacity expansion but without any big trap in terms of supply in the market.

Q - Tufic Salem {BIO 5929118 <GO>}

Okay. Thanks for that.

Operator

Thank you. Our next question is coming from Trevor Stirling of Sanford Bernstein.

Q - Trevor Stirling {BIO 15030312 <GO>}

I've got three questions for you; the first one coming back to the timing of the price increases. Can you give us just a bit more detail on when exactly in December those price increases on the returnable bottles took place? I'm just trying to get a sense for the extent to which that influenced both revenue per hectoliter and the volume growth towards the tail end of last year.

A second question refers to costs of goods sold. I appreciate that you can't give guidance on the detail of the impact of the hedges, but, in the last conference call, I think Felipe [ph] mentioned that 60% of COGS was dollar related in Beer Brazil. I wonder if you're able to confirm that. And if so, what would be the equivalent number on CSBs?

And the final question is one concerning Canada. I noted that in the exports in Canada, the organic revenue per hectoliter dropped 13%. Is that a currency related thing with exports being billed in U.S. dollars?

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

Let me get your first question. First, I will not give you a precise moment for the price increase because, for different reasons, they happen in different times. And I would like to (inaudible) that. But to help you, I would say they were implemented in the second half of December. So each brand in a different moment to give time for the price to consumer management with the trade for each of the brands and to manage the inventory and the logistic restrictions. They are always difficult to manage all the volume in the second half of December. So I would consider taking ten days of December, on average, for the returnable, if you want. But this is only an average.

Q - Trevor Stirling {BIO 15030312 <GO>}

That's very helpful.

A - Graham Staley {BIO 15381675 <GO>}

And Trevor, the question on COGS-- I'm not quite sure of the context in which Felipe mentioned the 60% number. But in terms of total Brazil, I don't have the split here in front of me for soft drinks and beer. But in terms of total Brazil, the dollar exposure of total costs of goods sold that we show in our P&L is somewhere between 35% and 40%.

Q - Trevor Stirling {BIO 15030312 <GO>}

35% to 40%. Thanks very much, Graham.

A - Bernardo Paiva

And the last one on the U.S. exports; net revenue. The answer is yes, due to the weaker American dollar when compared to the Canadian one.

Q - Trevor Stirling {BIO 15030312 <GO>}

Yes. That's great. Thank you very much, indeed, gentlemen.

Operator

Our final question is coming from Celso Sanchez of Citigroup.

Q - Celso Sanchez {BIO 1803012 <GO>}

Something I've actually been a little curious about. It sounds like it's less of an issue now on the press. But should we hear about potential concerns about electricity shortage or crisis again? Could you just remind us where you are? I know a few years ago you invested in some self-generation capacity and so forth. Can you remind us where you stand now, if there were to be a crisis, how much self-generating capacity you have? Just go over what's your situation if that were to happen. How well positioned are you, particularly relative to competitors, if you have a sense of that? Thank you.

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

Celso, two things. First, given the strong rain that we experienced specifically in the south and the southeast region in January and the beginning of February [ph], the government said the risk of any tragedies is at least postponed for 2009 or 2010. So the summer of 2010 the risk has been postpone for the country. So in our case, we still have all the infrastructure that we put in place for the last shortage we faced. I think it was 2000/2001. So we have all the co-generation implemented in our plants, and we are not using it. And we can use at similar prices or even lower prices that we are facing in the spot market; of course, not on average. But if we had to substitute the spot market for our south generation, we would be able to do that. You never know exactly region by region, but, on average, I would say it's not a risk in terms of projection. There's always a risk in terms of coolers [ph], the economy itself, but in terms of capacity, it's not a risk. And it's at least postponed two years from now. Of course, if we see several initiatives from the government to close the gap, we have to wait and see if the investments will really be ready.

Q - Celso Sanchez {BIO 1803012 <GO>}

Just to be clear, all the breweries have the capacity to run independently with co-gen and, also, even your glass bottle plant?

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

Not necessarily, because you have to consider the total energy that we buy and not one plant specifically. So we have a surplus in terms of energy capacity, and we have to transfer this capacity and make some agreement with the companies that manage the energy in the country. So it's not plant by plant; it's more region by region but even though you can transfer energy from one side to the other.

Q - Celso Sanchez {BIO 1803012 <GO>}

Thank you very much.

Operator

Thank you. There appear to be no further questions. At this time, I'd like to turn the floor back to management for any closing remarks.

A - Graham Staley {BIO 15381675 <GO>}

No closing remarks from myself, other than to wish you well and thank you for taking part in the conference call this morning. And we look forward to talking to you again in a couple of months when we have the Q1 2008 results. Take care, everyone. Bye-bye.

Operator

Thank you. This does conclude today's AmBev's Fourth Quarter 2007 earnings conference call. You may disconnect your lines at this time, and have a wonderful day.