Q1 2007 Earnings Call

Company Participants

- Graham Staley, CFO
- Joao Castro Neves, CEO
- Luiz Fernando Edmond, CEO
- Miguel Patricio, CEO

Other Participants

- Alex Robarts, Analyst
- Andrea Teixeira, Analyst
- Bob Ford, Analyst
- Celso Sanchez, Analyst
- David Belaunde, Analyst
- Jose Yordan, Analyst
- Lore Serra, Analyst
- Ricardo Fernandez, Analyst
- Trevor Stirling, Analyst

Presentation

Operator

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

(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 my or may not occur in t he 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>}

Thanks, Girdy and good morning, everyone and welcome to AmBev's First Quarter Results Conference Call. I'm Graham Staley, CFO of AmBev and with me today are Luiz Fernando Edmond, CEO for Latin America and Miguel Patricio, CEO for North America. I've also invited Joao Castro Neves, CEO for Quinsa to join us on this morning's call to share his perspectives on Quinsa's results.

I would like to start the call by sharing a brief overview of the quarter. Luiz Fernando, Joao and Miguel will then provide you with details about our operations in Brazil, Quinsa, and Canada. Then, before opening up for general questions, I will deal with a few specifics regarding the First Quarter financials.

During the First Quarter, our consolidated EBITDA reached more than R$2 billion, which represents growth of 18.9% compared to the First Quarter of 2006. If we exclude the effect of AmBev's stake increase in Quinsa from the First Quarter 2007 results, then EBITDA would have been almost R$1.9 billion, a 10.9% growth. Our earnings per share growth, excluding goodwill amortization was 13.4%.

The Brazilian business delivered a good performance and in spite of the low SG&A comparables, the First Quarter 2006 delivered an EBITDA 9.5% higher than the same period last year. Volumes grew 5.1% for beer and 9.9% for CSD and Nanc. Quinsa also had a good First Quarter and as a standalone business saw EBITDA growth of 19.5% in US dollars but under Brazilian GAAP.

In Canada gains in top line and also in the cost side yielded and 8.8% EBITDA growth in Canadian dollars.

HILA-ex operations posted an improvement in comparison to last year with positive EBIDA for the soft drinks operations. Losses in the beer business were cut by almost R$12 million.

Our combined operations delivered net income of R$646 million and this result was mainly impacted by higher goodwill amortization due to the Quinsa consolidation and a step up in the amortization curve for the Labatt goodwill.

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

Luiz Fernando Edmond {BIO 5862219 <GO>}

Thank you, Graham and good morning everyone. I'll now provide you with details regarding the Brazilian HILA-ex separations. Starting with Beer Brazil and despite of all the market share loss in this quarter, we delivered a 5.1% volume growth for the First Quarter which is a great increase on the back of a tough 2006 comparable.

As we expected, the price increase we put through in January 2007 and also the increasing importance of supermarkets within the channel mix during those months affected our market share. But we are aiming to recover this within the next months.

I would like to emphasize that we are looking -- we are working hard to recover the market share as we do when we raise prices. We will not give up our market share. I'd like to reinforce that market share recapture will come from target actions, point of sale by point of sale and not across the board initiatives.

Our net revenues per hectoliter in Brazil reached R$144.7, a growth of 5.1% when compared to the R$137.6 in the First Quarter of 2006. Our continued strategy on revenue management, investment in innovation, premium brands and also direct distribution growth have been allowing us to grow revenues beyond inflation while keeping price to consumer in line with it.

I'd like to highlight Bohemia and Original's performance, which grew 17.6% and 30.7% respectively.

In the SG&A line we can see an impact from higher volumes and more important, higher market and sales expenses in First Quarter 2007 compared to the First Quarter 2006 when we spent less in order to save our resources to invest during the World Cup in the Second Quarter of last year. Excluding depreciation and amortization, the SG&A for beer Brazil grew 19.5%. This distortion [ph] should ease off in the Second Quarter.

We end the First Quarter 2007 in good shape, delivering an EBITDA 9.5% higher and an EBITDA margin of 52.1% for beer, which I think is a great result considering the increased SG&A that I just mentioned. The Second Quarter will bring tougher volume comparisons due to the World Cup but we are committed to keep delivering good and consistent numbers.

Regarding CSD and Nanc, we had revenues collectively that are growing 5.3% helped by mix and volumes which were 9.9% higher than last year. The average market share for the quarter, 17.3% according to Neilsen, was slightly lower then than the 17.4% of the same period of last year.

On the pricing front, we are seeing a different behavior from our main competitor, which is making it harder for us to pass on inflation.

I should highlight the amazing performance of H2OH, which is already the leader of the diet light segment in Sao Paulo, according to Nielsen data for March. We are enthusiastic about the prospectus for this product and this segment that should go nationwide by the end of the year.

The cost per hectoliter for CSD and Nanc was affected by the anticipated commodities pressure posting an increase of 9%. The same World Cup factor produced lower market expenses in the First Quarter, last year. Excluding depreciation and amortization, SG&A was 17.1% higher.

This number is due to the 10% increase in EBITDA reaching a 38.4% EBITDA margin, 200 basis points lower than First Quarter last year.

I also would like to comment on the recent acquisition of Quintas production assets. These are a very important acquisition and definitely addressed certain capacity issues for both beer and soft drinks in the southwest region of Brazil at a very attractive price. Both the beer and soft drinks market are growing considerably.

We have also launched some new brands and SKUs recently so this increased capacity will allow us to address higher demand we are facing. We are only just beginning integration process and finding possible synergies but we are excited about the positive effects of this transaction.

In HILA-ex, although we are still posting negative results, some initiatives implemented at the end of last year yielded positive results. As for instance, revenue management initiatives have led to net revenues per hectoliter 6.5% higher for beer and 3.1% higher for soft drinks. Several innovation projects throughout the region such as Brava beers [ph] in Guatemala and Brahma beers in Peru and positive EBITDA results for the soft drink operation.

We still have a lot to improve in the region but we have our team committed to it and looking forward to better results in the future.

Before I turn this over to Joao, I want once again to thank our people for consistently overcoming new challenge in delivering another quarter of great results. I'll now turn the call to Joao Castro Neves. Thank you.

Joao Castro Neves {BIO 17456730 <GO>}

Good morning, everyone. The region continued to grow at strong rates laying the base for another impressive quarter for the company.

Consolidated beer volumes grew 3.4% with very strong performance in Argentina, Bolivia, and Uruguay. Real growth was actually higher since we had to dispose of 3 beer brands in Argentina at the end of last year. Thus, on an apple-to-apple basis consolidated beer volumes increased 8.8%.

The company performed particularly well in the premium segment on a consolidated basis. Established premium brands, new brand introductions and brands repositioning into the premium segment accounted for approximately 5.4% of total volumes in 2007 compared to 3.5% last year. This growth contributes to our higher consolidated net revenues per hectoliter for the quarter, which grew 10.7% in dollar terms.

In terms of the individual beer markets, Argentina continued to perform very well despite the loss of the 3 brands. In fact, we sold more volume during the First Quarter of '07 without the 3 brands than we did last year with them.

The Bolivian business continued to perform outstandingly despite an uncertain operating environment with volume increasing strongly. In fact, we are doubling capacity at our Santa Cruz plant this year to meet the increases demand of the past few years. This increase -- this will increase our total capacity in the country by approximately 25%.

In Chile we just launched the Stella Artois brand. This introduction is aimed at the top image on premise point of sales in selective supermarket outlets. With this introduction we are aiming at the premium segment of the Chilean market, which is the largest in Latin America in relative terms, accounting for an estimated 10% of the total market.

Paraguay was the exception in our region in that the economy experienced a deflation and then the beer market suffered.

Last but not least, in terms of our beer business in Uruguay, here volumes also increased strongly during the quarter with a strong performance by our premium brand, Patricia.

In soft drinks we posted 15.9% volume growth despite the very tough comparisons against last year. This was the result of strong performance in both Argentina and Uruguay. Good execution at the point of sale and strong brand positioning have boosted volume growth, which combined with strong control on cost and expenses has resulted in EBITDA growth of 19.5% in dollar in the quarter, EBITDA reached R$339 million in the quarter with a margin of 44.1.

I'm very excited with the results that we have been delivering and I am enthusiastic about our prospects for continued growth. The going will get tougher in the future as comparisons become more difficult and challenges multiply. But given the quality and expertise of our people, I'm confident that our team can deliver. I now will invite Miguel to take over.

Miguel Patricio {BIO 4264830 <GO>}

Thank you, Joao. Good morning, everyone. I will now talk about the Canadian operations and I just want to highlight that I will use the results in Canadian dollars to exclude the current effect.

Talking about volumes, domestic sales were pretty much flat, combining a still tough competitive situation in the Ontario market with good development coming from the prairies region. We posted a decreased of 8.1% in export volumes, but it is important to explain that this number represents shipments to wholesalers which is affected by inventory movement in both the wholesaler and the retailer. Depletion volumes or the sales to retailers were flat in the quarter according to our estimates.

Net revenues per hectoliter in the domestic market presented a good 2.2% growth, which is explained by pricing below inflation but with less discounting and a better product mix from our side. Also, the high costs of raw materials, especially malt and corn, are impacting the whole market and putting pressure on prices. The situation allows us to reduce this count yielding positive effects on revenues but obviously with negative effect on cost.

We are still finding gains and efficiency improvements on the cost side, which offsets some of the commodities pressure, yielding an increase of 0.5% in COGS per hectoliter. But the commodities pressure present a more difficult cost environment going forward.

Continued application of ZBB led to gains in the SG&A line, which was partially reinvested in the brands and partially delivered to the bottom line, contributing to a 2.7% lower SG&A.

Higher revenues and lower costs yield an increase of 15.9% in EBIT and 8.8% in our EBITDA and an EBITDA margin of 190 basis points higher than the First Quarter last year.

Before I finish, I'd like to make a quick comment on the Lakeport acquisition. We're still working on our market strategy but we still, but we also have the team working on the integration process to guarantee a smooth transaction for Lakeport and into the Labatt.

Now I will hand back to Graham.

Graham Staley {BIO 15381675 <GO>}

Thank you, Miguel. Now I would like to wrap up this forma session by guiding you through the main lines between the reported EBIT of R$1.741 billion and the net income of R$646 million, as shown on page 16 of our release.

Other operational expenses amounted to R$370 million in the quarter, compared to R$246 million last year. This difference is mostly explained by higher Labatt goodwill amortization, namely R$282 million in Q1 '07 compared to R$243 million in Q1 '06. Plus the amortization of Quinsa goodwill amounting to R$58 million and relating to the second part of the acquisition transaction.

Our net debt stood at R$8.1 billion at the end of the quarter and yielded a financial expense of R$296 million.

I would like to highlight that in the last three quarters the financial expense has been much more stable than in the past which is the result of a fine tuning of our hedging strategies put in place last year designed to reduce volatility.

The provision for income tax and social contributions was an expense of R$423 million. This numbered includes the goodwill amortization of the InBev Brazil AmBev merger of R$87.8 million, which is a non-cash expense, as explained in Q3 '06.

The increase in income tax was the consequence of three main factors. Firstly, higher income before taxes with an effect of approximately R$40 million. Secondly, lower interest on capital, which had an effect of approximately R$40 million. And finally, higher nondeductible goodwill amortization, which had an effect of approximately R$70 million.

Earnings per share, earnings per thousand shares in the quarter amounted to R$10.26, an increase of 1.5% compared to the First Quarter 2006. Excluding goodwill amortization, earnings per thousand shares increased 13.4%.

Cash flow remains a top priority for me and we remain committed to distributing all excess cash generated if we cannot identify value enhancing alternative uses for the cash within the business. The strategy remains, interest on capital to the limit and the rest divided into dividends and buybacks.

As you may have seen, we have announced a new buyback program of R$1 billion, the previous program of R$1 billion, announced on February the 5th, having been completed.

Finally, before handing over for questions, I'd like to make a few comments on the Quinsa tender offer that expired on April the 19th. Although not required by law, at the end of January AmBev made a voluntary offer to purchase the remaining shares, on the same terms, including the control premium offered to the BAC who shared control of Quinsa with AmBev. We consider this a fair price. Unfortunately, this offer was not accepted by a sufficient number of shareholders and therefore expired. There are no plans to make a new offer.

As the majority shareholder and has no concerns if Quinsa remains a separate public company and we'll fully support the Quinsa board and management in complying with all the requirements laid down by Luxembourg law as well, of course, stocks compliance.

As I close I would like to say that my first four months as AmBev's CFO have lived up to all my expectations. I'm excited to be part of the team and I'm pleased, not only with the excellent First Quarter results, but also with the prospects for the rest of the year.

I will now open up the lines for questions and now hand back to Girdy.

Questions And Answers

Operator

(Operator Instructions)

Your first question comes from Bob Ford of Merrill Lynch. Please go ahead.

Q - Bob Ford {BIO 1499021 <GO>}

Hi. congratulations, guys. Good morning, everybody. I had a question with respect to some of the news that with respect to prevailing advertising practices and I was hoping to get your thoughts, Luiz Fernando, in terms of the potential for any further regulation in terms of the way you market and advertise in Brazil.

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

Hi, Bob. First, I think it's important to say that Brazilian constitution guarantees that only congress can rule on advertising. Neither the federal administration nor our regulatory agencies, such as ANVISA have constitutional power to do so.

Additionally, I would like to draw you attention to the fact that Brazil has built up an efficient and effective self-regulatory mechanism to control and avoid abuse publicity. We have CONAR. CONAR is a Brazil self regulatory council, it's an institution that has been contributing to the Brazilian democracy for more than 25 years. And today CONAR and the 10 most significant national advertising media agencies publish the deposition in favor of their constitutional rights to self regulate publicity.

It's important to say that the harmful use of alcohol is caused by a complex number of variables. There is no simple solution to solve the problem. And we see Americans and Europeans studies show that there are some correlations between advertising, total volume per capita consummation, there is no statistical significance. There is no statistical significance between advertising and volume per capita consumption or total volume. Those -- no one can affirm that advertising restrictions will reduce the harmful drinking.

The WHO in 2005, there was a resolution on the topic and on its most recent 2007 secretariat's report say that the industry among many other stake holders are part of the solution of this complex social problem. Everybody has a role to play in this process and we have always assumed our corporate responsibility for the AmBev responsible drinking program. We have underage education program, no underage consumption. We go to the market, we talk to our trade -- to the trade, and we talk to the point of sales owners. We use our people to go to the market to educate the trade. We have many other initiatives regarding don't drink and drive advertising in the main roles in the country. So we are doing a lot to this. We are open to discuss. But again, only, only the congress can rule on advertising.

So that's -- of course we've been debating, we're very open to debate. CONAR is debating, it's participating. It's difficult to anticipate any outcome of the discussion.

Q - Bob Ford {BIO 1499021 <GO>}

That's very comprehensive and very reassuring. Thank you.

Operator

Thank you. Your next question comes from Jose Yordan of UBS. Please go ahead.

Q - Jose Yordan {BIO 1496398 <GO>}

Good morning, everyone, my question was about HILA-ex, beer volumes seem to have had a much bigger sequential decline than usual. I'm assuming it comes from Peru and Ecuador given that those were the countries that you didn't mention in the press release. If you -- any color you can give us on what's going on there with volumes and share and your ongoing fight with Bavaria SAB and any comfort you give us on what's going to go on there and when perhaps you look to have a real business in Peru and Ecuador.

Then my second question would just be if you can give us an update on the hedging of raw materials for 2008, what the status of that is.

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

Hi, Jose. We have different figures across the countries in HILA, but in terms of volume contribution, negative volume contribution, especially in beer, of course Peru and Ecuador as -- there is a -- whenever we launch or enter a country there is a phase where we grow a lot of distribution in the market so volume is growing, growing, growing. Not necessarily sales to the consumer. So it's -- we have this effect of things settling down in Peru, especially in Peru. Of course, lots of reactions from SAB including the change of -- the introduction of a new bottle replacing the old one and adding some volume to the unit based bottle versus bottle increase compared to last year. So this is one of the consequence in terms of market share.

But again, we are very committed to the country. We have plans in place. We changed a part of our structure. We have new innovations, not only the ones that we are launching now but we have other stuff in place. So we are committed to the region. We had some problems again in Venezuela as well, Venezuela government putting some restrictions in place during the first four months of the year, not only the First Quarter but they continue to put some restrictions that, of course, will affect all the players in that market for some negative volume figures in Venezuela.

Very positive figures in Guatemala and Dominican Republic in the First Quarter. So we are again, not aiming to make any EBITDA results in the region. We are working hard to grow a profitable business but -- in the long term. In the short term is more of not losing cash in the region, balancing the right structure with the right investment behind our brands, building distribution. But without any -- very strong short term target.

Regarding the hedging policy, Graham can answer it.

A - Graham Staley {BIO 15381675 <GO>}

Yes. Good morning, Jose. It's Graham here.

Q - Jose Yordan {BIO 1496398 <GO>}

Morning

A - Graham Staley {BIO 15381675 <GO>}

Right, obviously, as you can imagine, we're watching the US dollar and the change in commodity prices very closely as we always do and I think, as we've explained to you before, we have a very professional risk management policy, which we follow religiously. As a result of that, we have put in place some hedges for 2008. But since it's only the early part of the year we're not at the point where we want to disclose those yet, for competitive reasons. So if you can just bide your time on that I'm sure they'll be disclosure later in the year.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay. Thanks a lot.

Operator

Thank you. Your next question comes from Lore Serra of Morgan Stanley. Please go ahead.

Q - Lore Serra {BIO 1506730 <GO>}

Great. I actually have two questions. Let me just jump back to the hedges and I totally understand that you, for competitive reasons don't want to give too much granularity to it. But in the Third Quarter conference call, you talked about the hedges in terms of the aluminum and the currency and you talked about the hedging more for '08 -- '07 rather in terms of Brazil. Can you give us any sense of grain cost hedges and any thoughts on sort of Canada and Quinsa as well?

A - Graham Staley {BIO 15381675 <GO>}

Yes. As I say, we're not going to give any guidance on 2008, in terms of grain obviously in South America we have our own facilities. So we are well protected there.

In Canada, we are again adopting the same risk management strategy. We have hedges in place for 2007 and we are looking at what to do in 2008. As I say, I don't want to comment too much on what's actually in place because it is a very competitive market and I just want to pass on that point at this point in time.

Q - Lore Serra {BIO 1506730 <GO>}

Okay, no I -- understood. And just jumping back to Brazil for a second. I totally understand the point that you normally lose market share during a period when you raise prices. It seems like this year it's been a little bit more pronounced than it was the last time you raised prices. If I'm thinking of that right. Could you just please talk a little about how much (inaudible; technical difficulties) appreciated.

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

You're going to have to ask again.

A - Graham Staley {BIO 15381675 <GO>}

Girdy, we couldn't actually hear that, Lore was cracking up as she was speaking it. We only heard about every third word. Could you perhaps repeat that Lore.

Q - Lore Serra {BIO 1506730 <GO>}

Yes, sure. Two questions, both relating to Brazil. Can you hear me now?

A - Graham Staley {BIO 15381675 <GO>}

Yes. We can Lore. Go ahead.

Q - Lore Serra {BIO 1506730 <GO>}

The first one is I understand your point that you lose market share when you raise prices. It seems like this time it's been a little more pronounced than it was last time, if I'm looking at the data correctly and I wonder if you could just comment on the pricing environment. Have all your competitors followed? Has there been some lagging, etc.

And the second part of the question was, the volume growth, not only for you, but the market was very strong in the First Quarter. I know weather was a factor but any thoughts on the market or the strength of the market growth through -- on an ongoing basis throughout '07 would be appreciated.

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

Lore, you're right. We really lost more market share than we expected. Based on the last year results and previous year's results. And some point that changed this year. First of all, in cans in supermarkets, our price, our consumer price per can went over or above R$1. So we were selling most of our volume at R$0.99 with Skol especially, but all of our brands went above the R$1 reference. So we knew that when it happened it happened that it would be a consequence in the market share.

But the fact that our competitors took more time to follow our prices and besides not following in the same speed as they did in previous years, they did not increase prices as much as we did. So there were some gap increases compared to -- not necessarily an average but when you go region by region, there were some gap increases for most of the main competitors in the initial region. So this is one of the regions.

The second reason, as you know, we in 2005 we only increased prices -- we increased prices in December, mid December of 2005. This year for different reasons, we decided to postpone the increase and one of the reasons of course, lower inflation compared to the previous price increase that we had gave us more time to close this gap. So we decided to do that in January, mid January. And when you look at the inventories that we were building in the trade in the previous years, we lost some of the inventory compared to our competitors. So we, of course, we did not run out of inventories but we lost inventory pressure in the beginning of January because of course, we used all the inventory we had in December on the very high demand that we face in December.

So maybe we made a wrong decision to post pone that into January, because whenever we increase price there is a decrease in demand. So when we did that in January we cannot build the same kind of inventory before the price increase as we were doing in December. So we lost pressure in the market.

Again, our competitors activity -- price activity, not only they did not follow the price, not only they did not follow in the same pace, but the -- given the Carnival in mid February, they decided to even increase their activity in the off trade for Carnival. So when you put together this; let's say price gap especially in cans and the inventory effect in the on [ph] trade, they all together represent let's say 80% of our losses.

Then you have regional mix, channel mix that are -- it's not our fault and our responsibility. Of course, having said that, we have decided to implement several initiatives in the market. We anticipated some of the resources we had for the second half into the first half of the year and we are working to find internally in the -- no working money, these resources and we are sure we can find these resources to fund without impacting or significantly impacting any of our, let's say, fixed expenses. Not even the SG&A. I think otherwise in the SG&A we will finance -- we will fund our initiative and of course our team is very committed and very oriented in terms of recording this market share in all regions. So we are working hard for that.

Good news is the volume is very positive. The price is now implemented in the market. Consumer price absolutely under control. Now we have time to work exactly as we did in the past. I mean collecting information from the market, finding the right point of sales, the right regions, the right brands to act. Of course as I said during my speech, we'll never implement across the board initiatives but we'll have to work hard during the year to recover share. We do expect that from April 1, either the share would be flat or start to recover in the next Neilsen issue. So I think that's all for the share in Brazil.

Q - Lore Serra {BIO 1506730 <GO>}

Great and if there's any thoughts in terms of the market. I mean if you grew 5% in the quarter and you lost share, I know there's measurement issues with Neilsen but it was obviously a very strong start to the year for the industry. Any thoughts on what you're -- I mean, I don't know if you think that kind of growth is sustainable, but any perspective on that would be helpful.

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

Yes. It's difficult to talk about that without giving any guidance, but as you know, I think it's too early to say because the volumes were very positive, the market was very positive in First Quarter, we are happy with that and now we have to wait for the Second Quarter to be able to compare with last year since during the World Cup here in 2006 we had a very strong quarter and of course the comparisons are tougher from now on.

So it's early to say, but what we see is that Brazil is performing well as a country. So that brings us some good perspectives going forward. I hope we can maintain our performance for the remaining of the year.

Q - Lore Serra {BIO 1506730 <GO>}

Thanks very much.

Operator

Thank you. Your next question comes from Andrea Teixeira from JP Morgan. Please go ahead.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hello. Good morning everyone. Most of my questions were answered, but in terms of pretty much the capital structure, if you're being very strong in the buy back and it's between you another R$1 billion. I was just curious, in the past we had Joao explaining pretty much what the uses of capital would be. I'm just curious, Graham, if you can go through these here with the cash flow that you have and you still have even with the buy back you still close with R$1.6 billion in cash.

Can you just give us a sense, it's going to still be interest on capital at the first option and then the buy backs or the dividends and how much you would expect to give back to the market. Is that 5% threshold that you used to have as yield for as dividends and buy backs as a reality for this year or even bigger than that? I would appreciate. Thank you.

A - Graham Staley {BIO 15381675 <GO>}

Yes. Thanks Andrea. As I say -- as I said in my comments earlier, and as you point out, there has been no change in the payout strategy. We still have the first priority is to optimize the tax benefits from the interest on capital. That's been impacted a little bit by the reduction in the effective rate that we use for the calculation of the IOC capacity for TGLP. So that has been one of the factors impacting the First Quarter results. But we will still to continue to optimize that.

We then still have the same policy of distributing all our excess cash if we cant find any alternative uses. Dividends will; it's always difficult to know what to do with dividends because we talk to investors, we try to understand what their perception is out there and try to get the right balance on dividends. So that will be something that will obviously changing from time to time. But I think probably, generally speaking, in line with prior practice.

Then it comes to distributing the balance of the cash by way of share buyback. Obviously, this year we have the two acquisitions which come into our cash flow, Lakepoint and Cintra. A total of about US$350 million. So that impacts our cash flow. At the same time, we're being very aggressive on cash flow, we're pushing that very hard to see if we can improve cash flow generation.

Our capital expenditure program, apart from those two acquisitions is not too dissimilar to past practice. So that will give you some idea of what the cash flow forecast would look like. Then within that, yes, we've been reasonably active in the first three months regarding the share buyback. That was take advantage of opportunities we saw in the market at that particular point in time. There is no quickening of the pace, it is continuing in line with our strategy, but obviously as the months go by we may revisit that and we may increase or slow the pace.

But generally speaking, you can take as guidance that we are just going to continue to distribute that excess cash flow. But take into consideration those two acquisitions this year of about US$350 million.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. Great Graham. That's very -- but when you excess cash remember the threshold was $500 million and that -- your company grew a lot and that's probably going to grow beyond that. Should we consider anything between $800 million as being more of the threshold for working capital cash?

A - Graham Staley {BIO 15381675 <GO>}

Not quite sure where the $500 million comes from. The share buyback in the First Quarter was R$765 million.

Q - Andrea Teixeira {BIO 1941397 <GO>}

No. I'm referring to the safety cash, I would say. The reserve cash that you -- I mean in the past you used to be like around $500 million would be sort of the safe cash that you wanted always to maintain because of the seasonality. Is a threshold of 800 or plus would be the more feasible amount? Pretty much what you have right now which is R$1.6 billion --?

A - Graham Staley {BIO 15381675 <GO>}

Yes. The R$1.6 billion is a little bit misleading because it is also includes some deposits we have out there in respect to some of our derivative transactions. But I think you're in the right sort of ballpark. We're not planning to change our strategies whatsoever in terms of how we fund the businesses. So without giving any guidance, that's probably a decent number to use in your projections.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And -- okay, great. Then on my other question to Luiz Fernando, in terms of the Cintra implementation of the plan, should we see these start of operations together and the -- I know that you started already doing all the integration, but should we see the numbers starting more to the Third Quarter and Fourth Quarter or are capacities pretty much highly transferable and we should be seeing something right in the Second Quarter? Thank you.

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

Yes. In terms of volume, what you should expect is during June, probably, we start to produce soft drinks. We have very new lines, especially in the Pdae [ph] plants and for the soft drinks it is easier to, let's say, to implement our standards -- quality standards and to start producing there. So you should see, still in the first half of the year, our production --

soft drinks production coming from that plant. And beer requires more attention, requires some investments that we are making, already making, we already have 100% of the plant done. So it's some equipment, some setups that we have to implement both in the packaging lines, in the brewery area. So I think during the Third Quarter you could see beer leaving that plant -- the both plants.

Of course, that will depend a little bit on what we -- what happens with the Cintra Brand. I know that Mr. Cintra is working hard to sell the brand and if he sells the brand for someone who has capacity, or has free capacity it would be easier for us to implement 100% of our brands in those plants. So that will depend, beer will depend a little bit on what happens with the Cintra brands.

But probably in the Third Quarter we should be ready to produce there.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. Great. Thank you very much and congratulations again on the results. Thank you.

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

Thank you.

Operator

Thank you. Your next question comes from David Belaunde from Lehman Brothers. Please go ahead. .

Q - David Belaunde {BIO 7138063 <GO>}

Yes. Good afternoon. There were just a couple of questions, first of all, on Brazil, I was looking at the price mix, I mean just over 5%, I thought it was quite impressive considering that inflation in Brazil has dropped at about 3% and you implemented price increases somewhere in the middle of the quarter, sort of at the end of January, if I remember correctly. So obviously you must have had quite a bit of benefits there from mix, from product mix, from direct distribution and also from other revenue management initiatives. So I just wanted to have some color about what you did in the quarter. Whether you increased again year on year very significantly direct distribution or whether it was more products. Mix.

The second question was on Canada, where I have the impression that you lost share, probably against discounters in Ontario, but also against Molson Coors, which said that, they were doing very well in the premium segment. So I just wanted to have a view as to where you were outperforming, or underperforming by segment. Not just by region. Thank you.

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

Hi this is Luiz. You're right in your comments. First effect is of course price increase that was implemented during January and depending on the bridge [ph] and depending on the brand, something between 3% to 4% increase. So this of course is the major explanation for the revenues growth.

Then you have channel mix, so cans have a higher net/net revenue per hectoliter and depending on when the Carnival happens you have some effect on this mix. So we don't see any trend in terms of off trade growing against the old trade. But what happened is mostly the Carnival effect -- the Carnival volume is basically non-returnable sold in the supermarkets.

Then you have the premium. We have been working hard so -- for the last at least two years since we recovered our market share level. We've been putting more resources and attention to our premium brands so, as you can see, results in Bohemia and Original. There are returnable package growing very fast, so distribution growing fast together with great execution that we are doing in the markets with some special programs to support the premium in the on trade. So of course, our price in these two brands and in some other brands like Skol beer are from 20% to 40% higher than the mainstream brands. So as they're growing faster than the mainstream that helps us a lot.

Q - David Belaunde {BIO 7138063 <GO>}

Right.

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

And of course you have direct distribution that continues to grow. We implemented several new direct distribution operations during the last year and you saw some of the effects in the First Quarter. This is pretty much what explains the 5% compared to the 3.5% price increase. It has been the case for a long time. So I would say that should continue to be the trend in the future.

Q - David Belaunde {BIO 7138063 <GO>}

So you're -- basically, you're still confident what R$144, I think it was, this quarter per hectoliter, even if inflation has come down and some of your competitors are being pretty aggressive on pricing, it's something that you think can be sustained throughout the year?

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

Yes, usually what they do is they postpone their increases this year, besides that they -- when they started to increase the didn't implement all the increase that we were expecting. But we will have to see what happens in the coming months. We've implemented several initiatives. Some of them were already planned. We just anticipated it and guaranteed that our team was committed to do more in less time.

Again, we will read the market after all these initiatives are implemented and then we decide if we need more or not resources. And I wouldn't consider price to go down in the future. It has never been our policy. So we have to find our internal resources and to fund the initiatives from inside without, let's say, giving discounts across the board and hurting our profitability.

So what we've always done is we want to keep or increase our market share and in this cases we want to recover market share but without hurting our profitability. Once we achieve the profitability, we have to work together with the market share plan to month end. So that's the case.

Q - David Belaunde {BIO 7138063 <GO>}

Okay.

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

All I see in the future, if we can. I think we can. We are very confident that we can. But let's see the results in the coming months.

Q - David Belaunde {BIO 7138063 <GO>}

All right. Thank you.

A - Miguel Patricio {BIO 4264830 <GO>}

Okay, David, answering your question about Canada. You were right, this quarter, differently from last year when we had a better performance than Molson in share. This quarter Molson had a better performance in share than we had and basically I would say that this was because they were more aggressive on the discount side than we were.

If you look at the two P&Ls from Labatt and Molson, we grew in FLs [ph] per hectoliter by 2.2% and they grew 1.3%. Then if you see the bottom line, the EBIT. If you take the numbers out of -- the U.S. numbers out just to compare apples to apples. If you don't take the U.S. out EBIT grew 15.9% for us, if you take U.S. out so you only -- the Canadian operation, we grew 19.6%.

Q - David Belaunde {BIO 7138063 <GO>}

Right.

A - Miguel Patricio {BIO 4264830 <GO>}

The results from Molson was minus 11.8 on EBIT. So I would say that, yes. We lost share. We have been -- this, the First Quarter we basically reduced dramatically the amount of sell POs [ph] trying to put more discipline in the marketplace. Didn't happen. I think right now, going forward, I think it's going to be much -- it's going to be far worse. In Quebec there's a price war going on now. Molson reduced Coors Light to minimum price. So to minimum price possible in 6 major supermarkets chains and is paying for that and so there is a big, big mass in Quebec right now.

And in Ontario, we have to follow their steps. So the First Quarter they made very strong promotions on buying 15 for the price of 12. Buying 20 packs for 24 bucks. So very aggressive on pricing. We lost a little bit of share but we had a far better result financially. And going forward, now we'll have Lakepoint from this quarter on that is going to be very positive on the volume side. So if you put volume of Lakepoint in the First Quarter with Labatt, our share would be flat.

Q - David Belaunde {BIO 7138063 <GO>}

Right.

A - Miguel Patricio {BIO 4264830 <GO>}

So I think that going forward, in terms of share, we are going to be more aggressive on pricing for sure because it didn't happen the way we expected so there was no discipline or no less activity just from our side. But the good news is that we will have Lakepoint on our side. That is a brand that is booming and is going to contribute very positively on the volume side. So I think those are the reasons for the share growth of Molson in the First Quarter.

Q - David Belaunde {BIO 7138063 <GO>}

Great. And sorry, just one follow up ---

A - Miguel Patricio {BIO 4264830 <GO>}

In terms of regions, we lost share in Ontario and the Atlantic, we gained share everywhere else. So in the west in Quebec and so in the prairies, in British Columbia, in Quebec and we lost share in the Atlantic and in Ontario.

Q - David Belaunde {BIO 7138063 <GO>}

Okay. Great. Just a follow up to that. Would it be possible to have some kind of indication of how volumes are developing in April in Canada and in Brazil in the year?

A - Miguel Patricio {BIO 4264830 <GO>}

Yes. Well we do not disclose the following months so I can tell you that the industry in April was not great in Canada.

Q - David Belaunde {BIO 7138063 <GO>}

Okay. And the industry in Brazil, Luiz Fernando was great I assume.

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

It was good.

Q - David Belaunde {BIO 7138063 <GO>}

Okay. Great. Thank you.

Operator

Thank you. Your next question comes from Celso Sanchez of Citigroup. Please go ahead.

Q - Celso Sanchez {BIO 1803012 <GO>}

Hi. Good morning. I was just wondering if we could get some color please on Joao, as to the four months in your role, what kind of strategy or opportunities have you found in your revisions of the business; review of the business, excuse me, with respect to either opportunities on the revenue side, whether it's the go to the market approach that could use some fine tuning if there are any opportunities for realignment of employee incentives and of course, the usual, are there some cost opportunities that perhaps can still be taken out despite the obviously very strong profitability of it overall?

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

Sure. Well I think the number one opportunity growth actually hand in hand with one of the example that you just gave. Which I think we've developed in the last few years. Very good, that's called pricing technology in Brazil, which I think has also a deployment in terms of being able to deploy that pricing technology on a POS by POS, the surgical manner that we've talked about in the past.

So I think this pricing technology, especially in an environment where price is controlled, it's actually very important to us and actually is already yielding some results because some of the stuff we have done in the past, even the very basic stuff is already actually helping us. I think this will be one of the greatest opportunities we have for both Argentina, Uruguay, Bolivia, I think this is really big. So that's, I think, a number one change that we've been able to find already as something to improve the current level of execution that is already a very good one.

I think the second one relating -- the go to market. I think the go to market, in terms of Argentina, I don't think we have so much changes in the short term. There is also a lot of pressure not to change at that locally driven government unit situation, that type of thing. So I don't think that is one area. But what we have developed here in the last few years, it's something very close to what you've seen in Brazil in terms of excellence program. Which we called here Deluxe Ecou [ph]. It's a strong program. I think we are finding also opportunities to enhance that with what we are doing right now and that is the second -- probably second largest opportunity is to take that to the other four countries. So we're rolling that out and I think that's the second -- probably the second biggest impact we will have. So one in revenue and the second on the go to market.

I think the third one, our frugality and our fanatical approach to cost will definitely yield some more results. We have started some specific programs, we are rolling out the ZBB on expenses and what we call our Manafatura Program, or our plant optimization program, which will also yield results on the cost side. So I think those two will yield results. Its not the same magnitude as the pricing technology or the Excellence Program that we have, but I think it will also make a difference.

And it goes hand in hand with, I think, the fourth opportunity, which is the ownership culture. I mean we've spent, I think the main time we've spent in the last four months, one of the main times was with the people discussing culture and what types of changes we would see [ph]. And I think the sort of compensation plan that we have and that we're communicating to the people is already -- people are starting to understand the upsides and the downsides of having that type of thing and I think, after four months, I'm very -- I'm much more confident that this is something that appeals to the people that we have here and it goes hand in hand with the frugality and with the cost approach that we have.

So I think those are the four main areas that I think we have found opportunity together here with the team. And I think, I mean it's very good to have the sort of start that you saw. I mean I think the positive good surprise with the macroeconomic and for sure we are reaping full benefit. I mean we are not allowing any distraction on implementing your things from us reaping full benefit of the good economic environment that we are living.

So I mean, we have some worries as we said in the speech, we have some worries for the future, not just in terms of comps but some macroeconomic situation. But as long as they continue like that, we will take the full benefit and I think the program that we just talked about will also help us in case there is a downturn. I mean we're going to be ready for tougher times, whenever they come. That's it.

Q - Celso Sanchez {BIO 1803012 <GO>}

All right. Thank you. Just a follow up. How much of the shift in premium; to premium brands do you think we should look back going forward could be a function of better execution or more focused execution on the micro side, on the company side rather than the macro environment. Do you think it's more the execution that can help it drive it really? Or is it just strictly a function of if the economy goes down then it's (inaudible).

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

No. I think it's a combination. I tell you why I think. Number 1, for sure, given that the prices are somewhat controlled in before it starts to be not expensive or cheaper to people. People are moving up, people are trading up. So people are definitely trading up to better products. But at the same time, in the last six months, seven months. We launched important products. We have a product that we launched last September, which is called Cumative Stout [ph], which is a dark beer. Which is, which is going much, much beyond our expectations and although we had very high expectations to it and the game here -- part of the game -- I mean if you look at the last 10 years, I mean there's been an important shift from table wine, or from wine to beer. And I think the dark category, as we look at the launch of, for example Quinsa Stout, it's actually improving or making faster this shift towards beer.

So I think it's both a combination of people having more income and trading up. But also the innovation and the good products that we've found. I think both Quinsa Stout, which is a 6 month, 7 month product. But also Stella, which is a 14, 16 month product that we have launched. Stella is also growing at very, very high rate. There was a premium segment here with Heineken, which we had in the past and I think both Stella and Quinsa Stout are showing that the size of the premium segment will continue to increase regardless of the economy situation. And even with a situation that would be a little bit tougher, we would be growing anyway because those two products appeal to consumers that are not just trading up but also moving from one category to the other. So I think the good news will continue.

Q - Celso Sanchez {BIO 1803012 <GO>}

Great. Thank you very much.

Operator

Thank you. Your next question comes from Alex Robarts from Santander. Please go ahead.

Q - Alex Robarts {BIO 1499637 <GO>}

Hi, everybody. Thanks. I guess I wanted to go back to Brazil and ask about the cash SG&A expense for beer. I mean the 19.5% was a big increase year on year, and I guess, is it fair to think about this as really mostly the market issues as opposed to the timing of the 1Q '06 World Cup expenses. And looking out for the rest of the year, as you set out to recover share, and given these price gap increases, versus your competitors. I mean, are we going to get, for the year, a double-digit increase in the cash SG&A?

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

Hi, Alex. No, again the only cause for the SG&A growth, the cash SG&A growth for the First Quarter was the work up. Last year we postponed several investments to focus on the work up. And this year we; again, we reorganized, we redivided our money quarter by quarter. So I would expect this growth for the remaining of the year. But of course. Each should be in line with our volume plus price. So a price slash inflation of more volume, volume growth and, as I said, it's too early to anticipate if we need more than this or not for -- to recover the market share.

But even if we need more money, we will find this money internally. We sure that we can make some efforts. We can find resources from inside. So I wouldn't expect nothing significantly higher than the impact of volume plus price inflation.

Q - Alex Robarts {BIO 1499637 <GO>}

So for the year, if that's going to be the case going forward, I looks like, given this First Quarter's increase, you're probably going to be above inflation for the full year. Is that a safe assumption?

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

Yes. It will be above inflation because you have the inflation and the same volume base. Then you have volume on top of it the volume growth, on top of the inflation. I forgot to mention that our direct distribution has grown, has increased and will continue to increase in the next months. So that's the impact again. So nothing compare to the growth we had in the First Quarter, but more related to volume, inflation and direct distribution.

Q - Alex Robarts {BIO 1499637 <GO>}

Okay, fine. I guess the second question, just going back to Quinsa, it looked like really this was, in the quarter, a nice top line story. And I think the soft drink was very strong. I guess when I think about what the Coke system produced in Argentina for volume, and it seems like you clearly surpassed that, is it safe to say that you've got some market share from the Coke system in Argentina soft drinks and this 13, 14% soft drink volume growth is that something; or actually, I'm sorry, 15.9%. Is double-digit soft drink volume growth something that we could perhaps look for the coming quarters or is there a comp issue here?

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

Alex, no I think first the 15.9%, which is definitely a very good result. It -- both, actually both us and the Coke system are gaining share over the B brands. Okay, that's the first point. I think, if I'm not mistaken, (inaudible) released their results, I think it was 12% for Argentina, for example. So compare with our 15.9, which we're not splitting, but do not contain Uruguay but I can tell you in terms of share, we're both gaining share from B brands.

I think the second point is -- and it's true for both Argentina and Uruguay is that we have very good momentum. Very good momentum. So not just, we have not just industry growth but we have growth in Argentina and Uruguay we have been in for the past, I'd say almost three years. Slowly but surely we've been gaining, maybe 0.4, 0.8 or something point of share, on a yearly basis. So I'm not comparing here quarter against quarter, or this quarter against last quarter. So I think we've been in an upswing for the past two years. For this past few months, both us and Coke we've been going up and going forward.

I mean we -- to be quite honest I don't see anything in the next few months that should reverse the good trend that we have. From an industry perspective and also from a share perspective, I think both the 7-Up brand which is somewhat like (inaudible) for example, to compare with Brazil that you know. It's a very strong brand, the leader on the light lemon segment and is doing very well.

H2OH that we are looking at that is a great success in Brazil was launched here -- actually just launched a new flavor, here this is a little bit different market, we launched a flavor called Citrus, which is 50% of the market and it's going very well. So that also helps the growth of CSD.

The Pepsi brand is also a growing preference also on a monthly basis. We have a very good momentum on a brand perspective, on an industry perspective and both us and Coke are gaining share from B brands. So I -- we don't see anything that should change, that's our trend. So I am very positive to answer a question that we should see good growth. Whether that's a high single or low double, very excited going forward. Both industry and brand wise.

Q - Alex Robarts {BIO 1499637 <GO>}

Thanks. And just on the beer side. I mean you obviously had, you said, faster growth, or more beer volume in Argentina than the prior year quarter without the brand. Did you guys take prices well in Argentina beer early in the quarter? And what was -- I mean your organic growth, if you could share that with us in Argentine beer?

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

We're not opening up, at least on a quarter-by-quarter basis. On the semester we'll do that. But what I can tell you is that we've been moving prices but we have not -- we've been moving prices below inflation. So I think, given the inflation that we have, given the price increase, I think that's also helping boost the beer volume. This is true for some industries and we're benefiting from that. So the government in a way their strategy so far has been working where they control prices, but in the other hand you're getting very important volume increase. So this is a benefit that also we see going forward for the rest of the year also. We're still -- we're also excited with the type of growth that the economic environment continues to be the way we are looking at.

Q - Alex Robarts {BIO 1499637 <GO>}

Thank you very much.

Operator

Thank you. Your next question comes from Trevor Stirling of Sanford Bernstein. Please go ahead.

Q - Trevor Stirling {BIO 15030312 <GO>}

One quick question please, probably for yourself Graham. It concerns the phasing of the hedging strategy in 2007. You obviously gave us detailed guidance in the Q3 press release from last year indicating that cost of goods sold would go up in this quarter and then decline in this -- in subsequent quarters. Should we still rely on that press release for; or that statement for detailed guidance?

A - Graham Staley {BIO 15381675 <GO>}

Yes, morning Trevor. Absolutely. There's been no change to t hat detail that we provided, I think it was Q3 last year?

Q - Trevor Stirling {BIO 15030312 <GO>}

Q3 last year, yes.

A - Graham Staley {BIO 15381675 <GO>}

Certainly reliable to use that going forward.

Q - Trevor Stirling {BIO 15030312 <GO>}

Great. Thanks very much.

Operator

Thank you. Your next question comes from Ricardo Fernandez of Banco Itau.. Please go ahead.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

Yes, hi. Good morning, everybody. 2 questions. First is on Argentina, I guess I think I share some of other people's concerns regarding the -- obviously the populist stance in Argentina versus -- against price increases above inflation or even below inflation from what I can see, if you can even measure inflation correctly in Argentina by -- that's another question. But I guess basically I'm saying is that the question is, is the pricing technology, the revenue management systems that you can improve in Argentina, will they allow you to push prices higher without actually pushing prices higher. If you know what I mean in terms of the consumer perceiving it, in other word product mix, so for and so on.

Because if volumes begin to decline and obviously your costs are still increasing on some extent due to the very high inflation there environment. Then you could wind up into a situation where margins actually start going the other way. So basically the question is, is the revenue management and price systems that you talk about sufficiently -- will be significantly capable of increasing prices but without really seeming to?

A - Graham Staley {BIO 15381675 <GO>}

Yes. Well first, and first and foremost. A couple points, I think it's a large question. I think first, yes -- it is hard to -- I mean what is inflation. I mean we read the newspaper, you do, what is inflation. I think we cannot get, we cannot get too much under the tables, and why I explain. But I am sure that the pricing technology will help us, I mean given the competitive situation.

But what I think, for a moment, and I said in the beginning that we are worried going forward I mean what's going to happen Argentina. But as the government any unions are still increasing salaries above inflation and putting a lot of money in the market, and on top of that, is an election year. For 2007, all this extra money that are getting into the market and getting into consumer hands, it's very, very, very hard to imagine an industry decline. Okay so that's number one. So volumes coming down on the environment where people have much more money. They are trading up, the are consuming more than the extreme. I think that's very unlikely to happen.

So while this is unlikely too happen, I think the pricing technology minimize, or will help us closing some gaps regarding inflation. So I'm not saying that we're going to go with inflation, whatever that is, but I am sure it will help us.

Part of that is definitely the product mix, but I would not say product mix is what I'm referring to when I refer to necessary to pricing technology. But traveling mix is a much better one because at the same time that they trade up from accumulative to accumulative stout, from a product to Stella, they would also trade up from value brands or from low price brands to our -- to the leader of the marketplace which is (inaudible).

So revenue management helping us, not only on the premium segment, but also helping us on the mainstream segment by looking at the faster paced growth of our leader brand which is (inaudible) stout than the other brands. So that's why I think we're going to have a very good combination this year of utilizing this price technology, close those gaps, without give you too much information, fortunately I can't, with a situation where more people really have a lot of more money in their pockets.

I think the touch question would be to answer okay, what is for 2008? Can the country continue to use that sort of policy going forward and this is tougher question to answer. Okay? And you have to remember, I mean here we have a market that is a 90%, it's one better [ph]. So if you find something specific for that one product, also it will yield benefit very quickly to that segment of the marketplace.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

Okay. So it -- okay, I understand. The other question is, I guess a little bit more hypothetical and it's out there and I've talked to a lot of people and they seem little bit concerned about this, but there's obviously lots of speculation that AmBev may buy Budweiser, and I'm not asking you to comment on whether that happens or would not happen, but following the logic between the InterBrew and AmBev merger, you would up with Labatts and could have almost would up with a chunk of Femsa. Following that logic, if that were to happen, do you think that it's likely that you wind up with Budweiser US operations? Or is that no longer the case in terms of the geographical split, if an event of that magnitude were to happen.

A - Graham Staley {BIO 15381675 <GO>}

Ricardo, this is Graham. Obviously you said it yourself, you wouldn't expect us to comment on those sort of rumors and gossip for the floating around, there's absolutely no mileage in doing so, so --

Q - Ricardo Fernandez {BIO 5573550 <GO>}

No. I'm not asking you to comment on whether it's going to happen or not, I'm asking you to comment on whether there's still geographical split between InterBrew and AmBev exists.

A - Graham Staley {BIO 15381675 <GO>}

Again, it's pointless to speculate. I mean we can speculate on every conceivable combination merger acquisition disposal, there's no mileage in doing that. So no comment from AmBev on that topic.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

Okay. Have a good day.

Operator

Thank you. I would now like to turn the floor over to Mr. Graham Staley for final remarks.

A - Graham Staley {BIO 15381675 <GO>}

Well thank you, everyone. Again, another great quarter for us. Thank you very much for your interest and involvement this morning and look forward to talking to you again in a couple of months time on the Second Quarter. Take care everyone. Bye-bye.

Operator

Thank you. Does this conclude today's AmBev Investor Relations Conference Call? You may now disconnect.