2002 Annual Report

AmBev

AmBev is the world's fifth largest brewer. It has a leading position in the Brazilian beverage industry with 68% of the beer market and 17% of the soft drinks segment. AmBev is also the fifth largest Pepsi bottler and distributes non-carbonated beverages such as Gatorade and Lipton Ice Tea.

AmBev is growing in other South American markets such as Argentina, Venezuela, Uruguay and Paraguay, and is expanding to Central America and Peru in 2003.

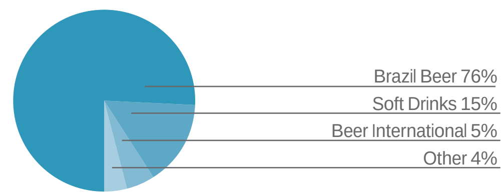
Corporate and financial highlights

	US$ 2002	R$ 2002	R$ 2001	% Change 02/01
Income Statement				
Net sales	**2,508**	7,325	6,526	12.3%
Gross profit	**1,364**	3,984	3,159	26.1%
SG&A expenses	**662**	1,933	1,784	8.4%
EBIT	**702**	2,051	1,376	49.1%
Net income	**517**	1,510	785	92.5%
Balance Sheet				
Cash and equivalents	**1,200**	3,505	2,563	36.8%
Total assets	**4,238**	12,381	11,029	12.3%
Total debt	**1,536**	4,487	4,569	-1.8%
Shareholders' equity	**1,414**	4,130	3,363	22.8%
Cash Flow and Profitability				
EBITDA	**928**	2,710	1,990	36.2%
EBITDA margin (%)	–	37.0%	30.5%	–
Capital expenditures	**179**	522	447	16.9%
EVA	**215**	628	355	76.9%
Return on equity (%)	–	36.6%	23.3%	–
Per Share (R$/1,000 shares)				
Book value	**36.95**	107.94	87.54	23.3%
EPS	**13.51**	39.48	20.42	93.3%
Dividends (ON)	**4.24**	12.40	8.22	50.9%
Dividends (PN)	**4.67**	13.64	9.04	50.9%
Capitalization				
Market capitalization	**7,072**	19,876	18,744	6.0%
Net debt	**336**	982	2,006	-51.0%
Minority interest	**27**	79	89	-11.0%
Shares outstanding	–	38,258	38,420	-0.4%
ADR equivalents	–	382.6	384.2	-0.4%

US dollar amounts have been translated at the average 2002 exchange rate of R$2.912
Dividends include payments of regular dividends and interest on capital
Numbers may not add due to rounding

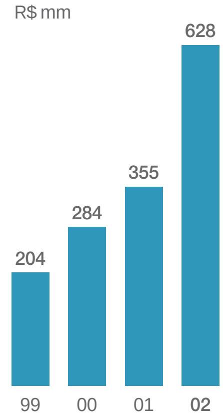
Net sales

Net sales % total

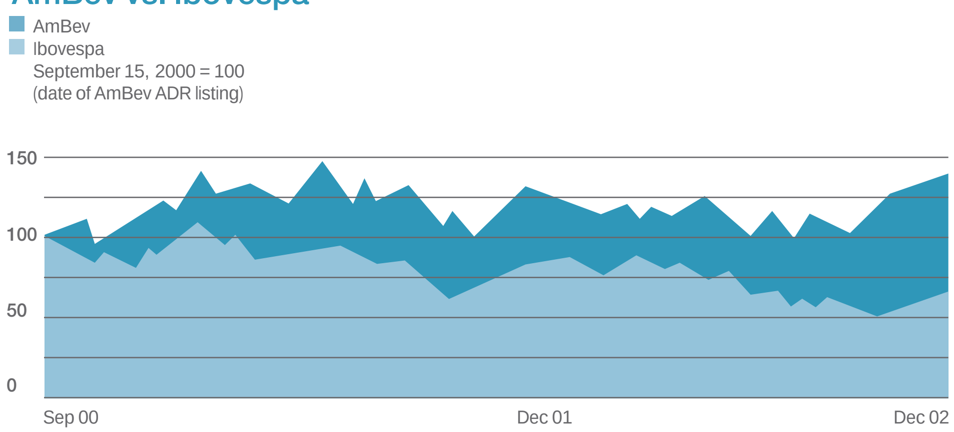


EVA

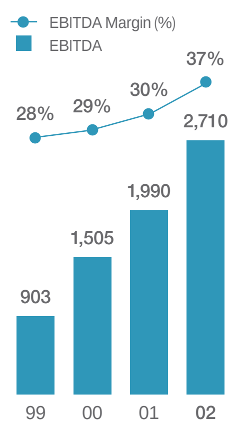
R$ mm



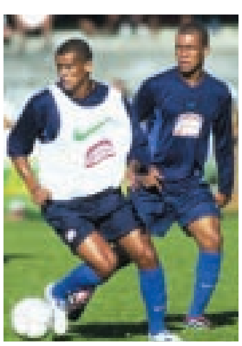
AmBev vs. Ibovespa



EBITDA

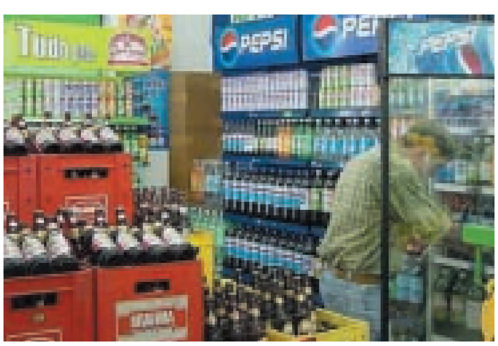


Brazilians enjoying a Skol Beats during a night out.



AmBev's Guaraná Antarctica is the official sponsor of the Soccer World Champions.

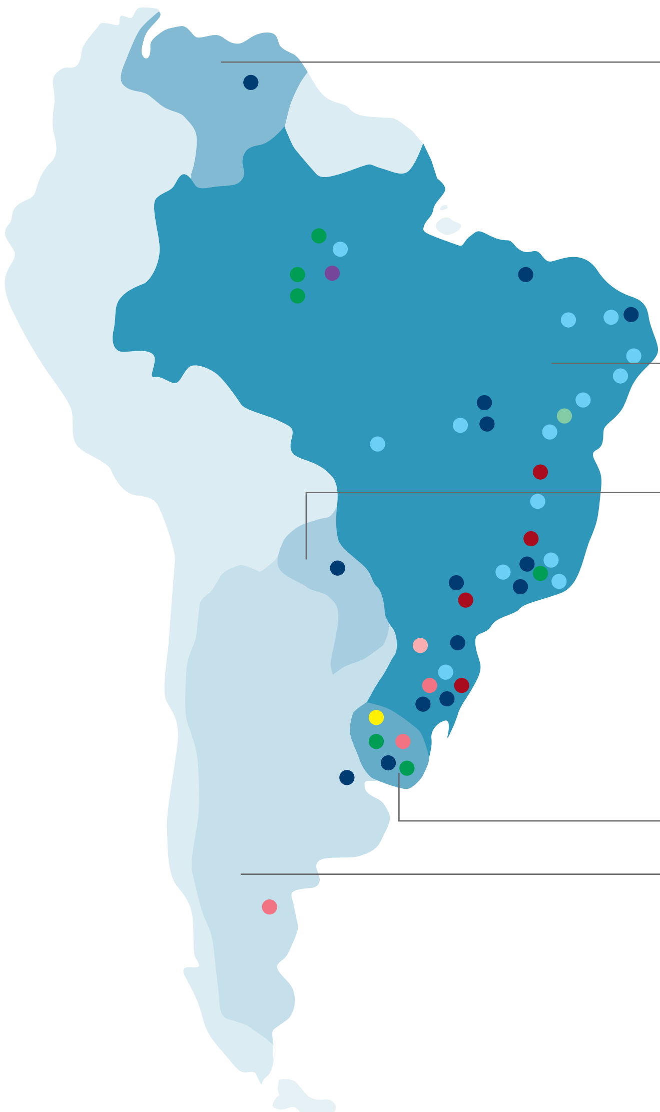
Everyone in Brazil knows the Brahma turtle who cheered on the national team in the 2002 soccer World Cup.



Brand exposure is important to execution at the point of sale.

The company's growth strategy is driven by these imperatives: revenue management, per capita consumption growth, improving distribution efficiency, exploring existing profitable opportunities in soft drinks while attracting and grooming the very best people and keeping costs low.

Map of our operations



Venezuela
Plants
One brewery
Installed capacity /year
2.2 million hectoliters
Sales Volume 2002
1.3 million hectoliters
Heritage
Start of AmBev operations 1994

Brazil
Plants
33 beverage plants
Three raw materials plants and one malting plant
Installed capacity /year
84.1 million hectoliters of beer and 38.0 million hectoliters of soft drinks
Sales volume 2002
58.0 million hectoliters of beer and 18.2 million hectoliters of soft drinks
Heritage
Brahma and Antartica were founded in the1900's
AmBev was created in July 1999

Paraguay
Plants
One brewery
Installed capacity /year
300,000 hectoliters
Sales volume 2002
0.4 million hectoliters
Heritage
Start of AmBev operations 2001

Uruguay
Plants
Two breweries and two malting plants
Installed capacity /year
650,000 hectoliters
Sales volume
0.2 million hectoliters
Heritage
Start of AmBev operations 2000

Argentina
Plants
One brewery and one malting plant
Installed capacity /year
2.5 million hectoliters
Sales volume 2002
2.1 million hectoliters
Heritage
Start of AmBev operations 1994

Distribution network

Points of sale	1,000,000
Daily visits to points of sale	365,000
Sales people*	13,000
Exclusive third-party distributors	500
Direct distribution centers	44

* Includes direct and third-party sales forces

Employees

Manufacturing	11,074
Sales and distribution	7,147
Headquarters / administrative	273

Our brand portfolio

Brazil Beer

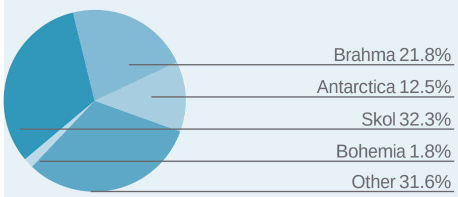
Key brands

Skol, Brahma, Antarctica, Bohemia

AmBev's major beer brands – Skol, Brahma, and Antarctica – are the three largest, best quality and most preferred beer brands in Brazil. They rank as the third, ninth and 19th largest brands in the world, respectively.

Market share

source: Nielsen, 2002 average



Brazil 68.4%

Sales

US$ 2b

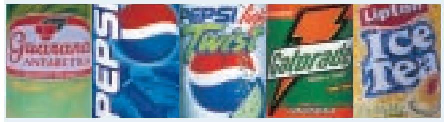
58m hectoliters

EBITDA and EBITDA margin

US$ 833m, 44%

Soft drinks

Key brands

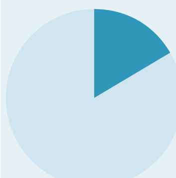


Guaraná, Pepsi, Pepsi Twist, Gatorade, Ice Tea

Guaraná Antarctica is a growing segment leader and is one of the largest soft drink brands in the world, Pepsi trademark has significant growth potential in Brazil, while Gatorade and Lipton IceTea are leaders in fast growing, high-margin segments.

Market share

source: Nielsen



Brazil 16.5%

Sales

US$ 375m

18m hectoliters

EBITDA and EBITDA margin

US$ 63m, 17%

International

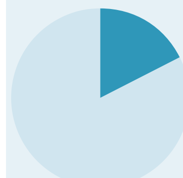
Key brands

Brahma, Patricia, Norteña, Ouro fino

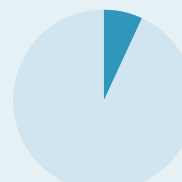
The Brahma brand sells in Argentina, and Venezuela, and alongside Ouro Fino in Paraguay. Our top brands in Uruguay are Patricia and Norteña.

Market share

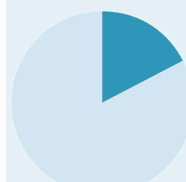
source: Nielsen



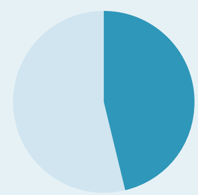
Paraguay 22.1%



Venezuela 6.6%



Argentina 17.3%



Uruguay 46.6%

Sales

US$ 136m

4m hectoliters

EBITDA and EBITDA margin

US$ 14m, 10%

Letter to shareholders

We have achieved an enormous amount in a short time: and there is much more to come. These are still early days at AmBev. In 1999, before the merger that created us, Brahma and Antarctica had combined EBITDA of R$ 1 billion. The merger generated synergies of R$ 500 million, which should have given us EBITDA of R$ 1.5 billion.

Yet AmBev's EBITDA last year was approximately R$ 2.7 billion, despite three years of a flat market, low but steady inflation and a highly volatile macroeconomic climate that has led to sharp exchange and interest rate swings.

This outstanding performance is the result of the strategic approach we have taken. AmBev's long-term strategy has been and will continue to be based on the following imperatives:

- To grow the top line through revenue management and per capita consumption opportunities. We'll continue to invest in our brands to strengthen their consumer preference and are progressively growing volumes from higher margin brands. With preference for AmBev brands already at 82%, we have a strong base from which to expand consumption into new drinking occasions, and have introduced new, top-quality products, such as Skol Beats, and re-energized heritage brands like Bohemia to meet the needs we have identified at premium prices. We know exactly when people drink beer and when they don't, and have mapped out a range of opportunities for increasing per capita consumption by region, by neighborhood, by income class, and by consumption pattern. We still have room to manage the industry margin pool better to retain more of the value of our brands without increasing prices to the consumer ahead of inflation: and we are optimistic about future progress on this.
- To improve the efficiency of our distribution network. Delivering three national beer brands to one million points of sale is the most complex feature of our business. In recent years we have been gradually, but steadily, moving towards direct distribution in major cities where scale makes this the sensible option. At the same time, we have been strengthening our system of third party distribution. Instead of operating three inherited, parallel, single-brand systems, we are moving towards a multi-brand network of distributors committed to handling all AmBev brands. Though we still have a long way to go, we have begun to harness the important revenue benefits of having three brands managed under the same sales and distribution processes, though with separate sales forces for each major brand.
- To leverage the profitability of the soft drink business by taking full advantage of the infrastructure and the sales technology that are already in place in the beer business. We have an immensely strong portfolio – three world-scale beer brands, Brazil's number two soft drink (Guaraná Antarctica), Pepsi Cola and leaders in niche segments. The stronger we are in soft drinks, the better supplier we are to the point of sale, and the greater the distribution cost synergies available to the business as a whole. Adding further high-margin products to our portfolio, products such as Gatorade and Pepsi Twist, will further enhance profitability that has already doubled over the past two years. The development of this segment has been of high strategic importance for AmBev. This will continue.
- To maintain our commitment to reduce costs as much as we can. One of AmBev's strengths is the tight control we keep over costs. We are already one of the lowest cost beer producers in the world, yet we see no limit to improving our productivity. We have created a Shared Services Center (SSC), for example, to centralize activities such as logistics, human resources and finance. This has allowed the sales and production units to sharpen their focus by eliminating these functions. The SSC leverages technology to achieve process excellence, and can quickly incorporate new areas of operation.

Externally, our treasury department took the right steps in 2002 to protect the company from the effects of political uncertainty and US dollar exposure.

These imperatives are supported by great people, proprietary processes, and the unique way we do things.

The essence of our company has been, and will continue to be, our culture, management strength and depth and the unparalleled ability of our people to deliver. People are carefully recruited and highly trained. We are all confident and demanding. We are exceptionally motivated by an aggressive variable pay system that rewards performance, ownership and entrepreneurship while consistently adding sustainable shareholder value. Everyone in AmBev is focused on achieving long-term, sustainable results – resilience and financial discipline are integral parts of our culture.

We are a young company – the average age of our employees is just 29 – but one with a great depth of management resource. Top managers are closely involved in recruiting Brazil's brightest and best, carefully grooming the next generation of senior executives, who are incentivised through our stock ownership program.

Our strategy focuses on Brazil, which today generates practically all our earnings. Brazil will continue to provide most of our growth in the short to medium term, and our momentum does not depend on making acquisitions. We will not make acquisitions that dilute the value of the company, and we intend to maintain our EVA (Economic Value Added) growth at more than 15% a year in real terms.

Nonetheless, we are confident of our ability to expand in Latin America should we wish to, and will look at potential acquisitions on an opportunistic basis.

In the Southern Cone, for example, the Quinsa transaction has recently been completed following approval by the anti-trust authorities in Argentina. There is a compelling logic to this alliance. It reinforces our position in current markets, and gives us an even stronger base for expansion elsewhere in South America.

As we learned in the case of Brahma and Antarctica, combining the strengths of the two businesses will provide benefits on both the revenue and cost sides. The two companies operating together in the Southern Cone are expected to provide meaningful synergies – in logistics, in distribution, in manufacturing and sourcing – estimated at 15 – 25% of combined EBITDA. And there is the prospect of still more to come.

Looking forward, our operations in Brazil still have tremendous potential: we are in a great market, we have great brands distributed by a great network, and great people to make everything happen. Being in Brazil also means exposure to short-term economic volatility. But this environment is nothing new for AmBev – as a company we have been dealing with volatility for over ten years and we have seen just about all there is to see. Our management team has proven over time its ability to continue creating value even in the most difficult circumstances.

AmBev has already grown to be one of the largest brewers and beverage companies in the world. But more importantly we aim to be the most profitable measured by EBITDA margin. This grew to 37% in 2002 from 29% in 2000, with further room for improvement. We care about being the best, and there is no reason why AmBev should not become the international benchmark for profitability in the global beverage industry.

AmBev has the culture, strategic approach and proven management to keep on driving forward.

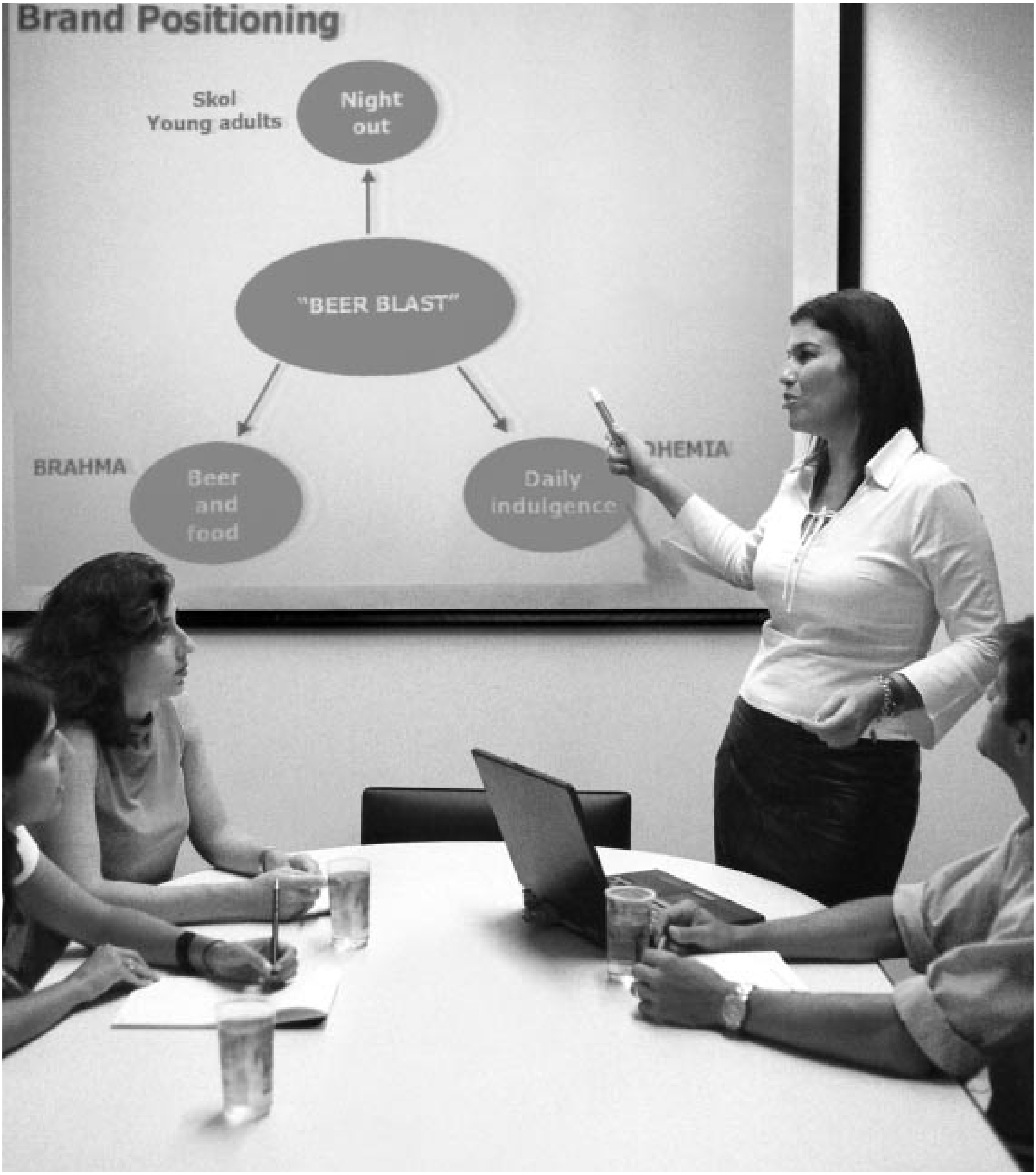
The more we get the more we want.

Magim Rodriguez Junior
Chief Executive Officer

Marcel Herrmann Telles
Co-Chairman of the Board of Directors

Victorio Carlos De Marchi
Co-Chairman of the Board of Directors

Growing our business...



An AmBev team at Headquarters discussing how to develop our brand positioning.

AmBev's brand preference of 82% provides a strong base from which to expand from the traditional beer consuming occasion – the 'beer blast' – to new occasions.

...and continually improving

Consumers treating themselves to Bohemia during happy hour. Bohemia more than tripled its market share from 0.6% to 2.1% over the last two years. And its price premium rose 25% during the same period, confirming its super-premium status.

Growing our business and continually improving

AmBev is the leading player in one of the world's largest and most exciting beer markets. We are all focused on achieving long-term, sustainable results backed by prudent and disciplined operating and financial policies. We invest our time and creativity in developing lasting competitive advantages in areas that our competitors find hard to imitate. And we have a track record of achieving what everybody else believes to be impossible.

At AmBev, we don't take our foot off the gas, or our eyes off the ball.

Developing our brands

Skol is the number one beer brand in Brazil. It's light, it's youthful, it's bold, and it's innovative. It's a brand for young adults who know how to enjoy life. We believe we've got to continually evolve our brands to keep them on top and relevant in the long term.

To keep Skol young and get closer to our consumers we developed major music events such as Skol Beats – the largest electronic dance music festival in Latin America, and Skol Spirit – beach parties that invoke the spirit of Ibiza.

We've also developed strategies to grow the per capita consumption of our beers and new occasions for people to drink our existing brands. Most beer in Brazil – about 70% of it – is bought in 600ml bottles. This fits with the way Brazilians traditionally drink their beer, which is sharing a bottle among a group of friends.

Skol Beats – an innovative new product with higher alcohol content, less bitterness and no aftertaste – was launched to bring more style to an occasion where beer was not as relevant as it could have been, the 'night out' occasion. It's aimed directly at young adults hanging out at parties or clubs, and who might otherwise be drinking spirits. It comes in a stylish 330 ml bottle designed to fit neatly in the palm of the drinker's hand. It's a beer that says something about the drinker. It's a beer that makes a statement.

Through consumer research, AmBev's marketing department is breaking down barriers to new beer-consuming occasions. Skol Beats, launched in November 2002, exemplifies this effort.

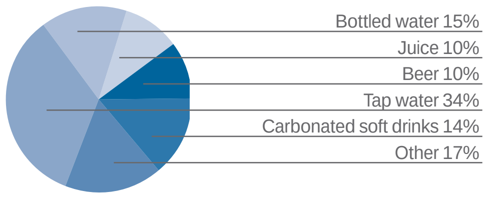
Consumers trying new Skol Beats available in exclusive night clubs.

Skol Beats innovative new bottle designed for the night out occasion.

Great execution means making AmBev's products available in the right package at the right time, ice-cold.

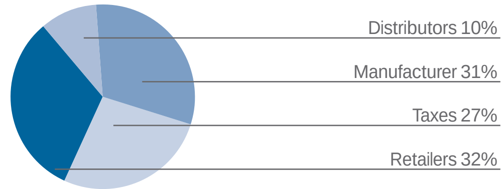
Share of stomach

% total



Margin pool distribution

Beer Brazil % of consumer price in 2002



Market opportunities

It's been estimated that over the next five years more than one third of the growth in beer industry profits worldwide will occur in Latin America. We are fortunate to operate in a growing market. We are fortunate too that we have such great brands that have been carefully cultivated through targeted, effective investment. And we are fortunate that so many opportunities exist for us. But the harder we work at growing the business, the more opportunities we see ahead.

Brazil is the world's fourth largest beer market, but beer only has a 10% share of the Brazilian stomach. Per capita consumption of 50 liters puts us 29th in the world league. This is one of the opportunities for super-premium beers.

Most beer in Brazil is currently enjoyed over the weekend when groups of friends get together for a 'beer blast'. This is good, and we are making sure we protect this core business. But we are also using our marketing strength to show them new occasions for enjoying beer.

We are introducing new brands to meet new needs, and developing old brands in new ways. Skol Beats and Bohemia are both focused on high margin occasions to add incremental profitability. Since the start of 2001, Bohemia has taken nearly 3% of the market by value. We are pushing to grow this super-premium segment by 20% a year.

There are other ways of growing the profitability of the business than selling more beer. We are optimizing the mix of the portfolio, progressively shifting volume to higher margin brands. We have given our sales force the technology they need to maximize our share of the margin pool – and help retailers sell more of our products.

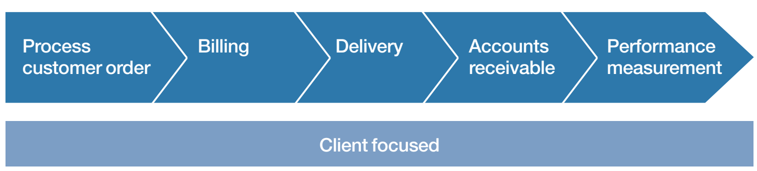
We are streamlining distribution, improving efficiency – moving towards direct distribution in some areas, and multi-brand third party distribution to enhance brand management.

Profitability is what makes the business sustainable, and our target is to grow the Economic Value Added (EVA) of AmBev at a minimum of 15% a year in real terms with a 20% return on equity (ROE). Over the past five years, our annual EBITDA growth rate has averaged 22.3% in real terms, and in 2002 was 21.1%. ROE over the same period has averaged 23.7%.

Our approach is always financially prudent and disciplined as we focus on growing and continually improving our business.

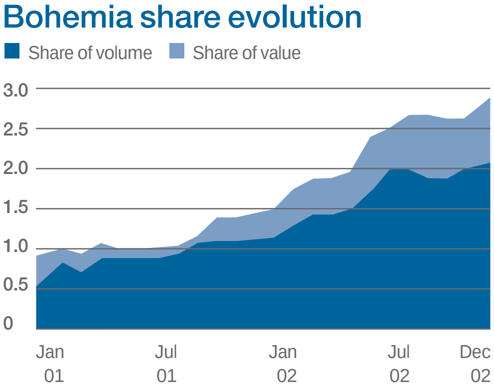
To continually improve, for example, our Shared Services Center is organized by process, rather than by the old departmentalized model, which guarantees we are quick and agile to deliver products and services to our clients through one single point of contact for any operating issue.

Shared services center – Order to cash process



Tracking a client order in one single business unit to guarantee the order is received, billed, delivered, and processed by accounts receivable.

Bohemia share evolution

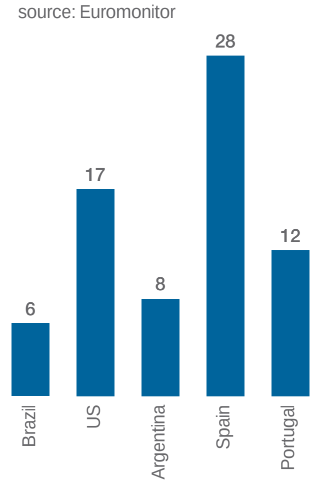


source: Nielsen

The soft drinks team approve a new commercial for Guaraná Antarctica, the Brazilian Original soft drink.

Share of super-premium segment

% total within each country
source: Euromonitor



Thinking big...

Daily goals are revised by supervisors to stretch and challenge our salespeople. By challenging ourselves every single day, our brands have taken the top three positions in the beer segment. And we have expanded our sales goals to include revenue management, and new channels. By thinking big, we challenge people to reach for the impossible.

...and always delivering

Our point of sale execution is among the best by a consumer company anywhere. Using proprietary systems, sales proposals are tailored to specific points of sale. We have a sales team of 13,000 that covers one million points of sale across Brazil with a complete portfolio of leading beverages.

Thinking big and always delivering

It's part of the culture, the way we are and the way we do things around here. We think big, dream impossible dreams, set daunting challenges, stretched targets. And we expect our people to meet them, to always deliver. When they do, we raise the bar higher. That's what motivates us.

We are never satisfied. All of our people work like they own the business, and our aggressive pay structure means that if the company performs well, they benefit. If it does badly, we all suffer.

We are disciplined: and when we make a commitment, we deliver on it.

The AmBev team is committed to an aggressive cost cutting plan. The '20% war' was launched following macro-economic turbulence in mid-2002.

Strong delivery of targets is the result of daily planning of sales goals.

Reaching our targets

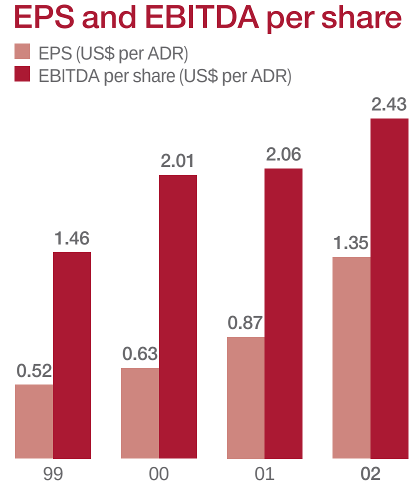
At AmBev, we are disciplined and get things done, no matter how difficult it might seem. Everyone in the company has individual goals linked to the corporate targets, and knows what is expected of them. For example, until 2002 we had a target EBITDA margin of 35%. Impossible – until we achieved it. Now we have an even higher target.

Another example. This year, we are cutting costs across the board with an expected target of R$ 150 – 200 million. Every single employee in the company has individual contributions to this target.

This year we benchmarked ourselves against other big brewers worldwide. We are already one of the world's most productive brewers. But there are lessons for us to learn. And we will. We have been working together with governments for a level playing field for beverage industry taxation – proposing solutions to reduce tax evasion.

There's a sense of urgency in everything we do. We act quickly. But not recklessly. Underlying everything are strict financial controls that have allowed us to steadily deliver high margins, year after year, in an economic environment of high volatility. We have seen devaluation, inflation, uncertainty. But that's the reality we live with. We understand it, we deal with it. We overcome it and deliver the results.

EPS and EBITDA per share



Using technology

We use proprietary technology to improve our performance at the point of sale.

Each sales-person has a hand-held computer, and a new sales program has been built in. This enables more effective pricing management and an increase in the sales and distribution of a wider portfolio of our products, by suggesting an optimized sales offer for each point of sale.

The algorithm suggests the right mix, price and volumes for each outlet – and for AmBev – based on current and historic market data. This means category management in one million points of sale.

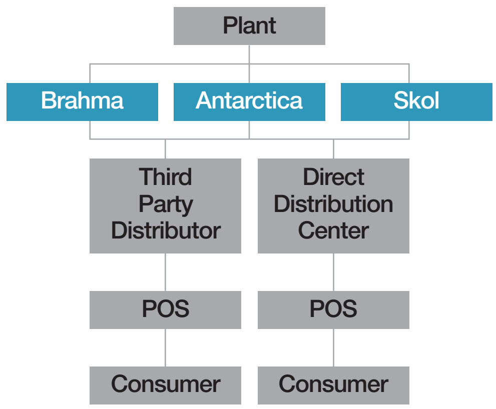
By keeping the complexities of different sales initiatives and pricing and margin options in the computer, the salesman is given more time to sell and to improve our point of sale execution.

Another project being implemented permits salesmen to download sales information remotely – from their palm top via a cell phone. This means that the sales performance of an outlet can be monitored in real time allowing parameters to be realigned promptly.

It also means that every AmBev salesperson – all 13,000 of them – could be on the streets selling for one hour more each day instead of returning to base to process their data. That means 13,000 additional selling hours per day.

Daily control of returnable bottles being performed at the plant to ensure delivery needs at the point of sale are met.

How AmBev goes to market

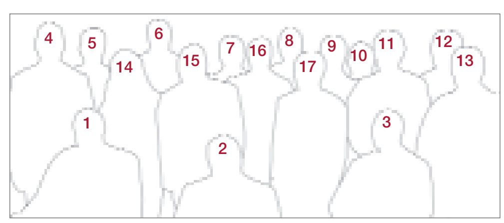


Our sales people visit 365,000 points of sale daily. Proprietary systems suggest the best mix and price point for each visit.

AmBev Distribution Ambassadors

AmBev's Excellence Program is an annually updated operations manual for third party and direct distributors that sets world class performance standards. Distributors who achieve strong performance are recognized with honorary titles. Top honors go to the AmBev 'Ambassadors', who maintain three consecutive years of excellence, making them among the most admired and respected partners of the company.

1 Armando Antonio Rizatti – Rizatti, Franca (SP)
2 Armindo Carreto Pardal – Luzitana, Cuiabá (MT)
3 William Montefeltro – Pilila, Ribeirão Preto (SP)
4 Francisco Carlos Pinto – Casa Pinto, Alfenas (MG)
5 Basílio Fernandes de Barros – Nova Radar, Osasco (SP)
6 Carlos Alberto da Fonseca – Beer Garden, Caieiras (SP)
7 Vilmondes José de Souza – Cerbel, Goiânia (GO)
8 Odair Sala – Paulínia, Campinas (SP)
9 José da Costa Gomes Jr. – RGE, Montes Claros (MG)
10 José Eduardo Lang – Aeroporto, São Paulo (SP)
11 Francisco de Assis Pinto – Cervale, Ceres (GO)
12 Reinaldo Solera – Nova Era, Goiânia (GO)
13 Nelson Cagalli – Bradibel,Taguatinga (DF)
14 Mariela Carneiro Baptista – Cervantes, Montes Claros (MG)
15 Clair Caetano Carnevali – Serra Negra, Uberlândia (MG)
16 Mauro Carvalho Jr. – Colorado,Várzea Grande (MT)
17 José Alves de Souza Filho – Centro, Salvador (BA)



Benefiting from our size...

AmBev's highly efficient Nova Rio plant in the state of
Rio de Janeiro represents 20% of the company's production.

...and making it count

Skol Beats, the largest electronic music festival in Latin America, held in April 2002. With 45,000 participants and the best local and international DJs, the event was a huge success.

Benefiting from our size and making it count

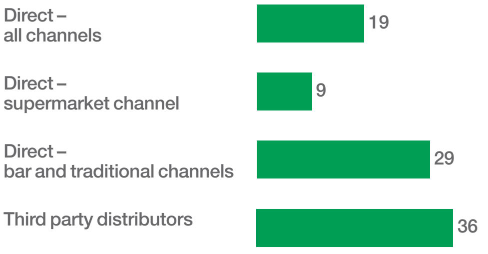
Size matters: and thinking big is at the heart of AmBev's culture. The Brazilian beer market is huge, and being successful in it requires an operation of enormous strength and scale. Strength comes from having a tight control over costs and a sharp focus on profit. It comes from financial soundness. Scale is necessary – this is a big country. We are as big as we have to be. But we make sure we are efficient.

Our size and our location

Brazil. It is one of the world's largest countries – roughly the size of Australia or the continental United States. Its population of 172 million is young and growing. It's a country that can boast both 21st century mega-cities and the Amazon Rainforest. It's a tropical country. Hot. You need to drink to keep cool. It's a beer country – the fourth largest beer market in the world. Or more precisely, it's a group of beer markets, each with its own strong regional preferences.

Distribution efficiency

2002 Brazil distribution cost in R$ per hectoliter



The cost per hectoliter of third party distributors who sell to the bar and traditional channels in Brazil is higher than that of direct sales due to lower economies of scale. Hence our goal to increase scale among the system through consolidation.

We have a portfolio of brands to satisfy them all wherever they live, through a distribution network that is the most complex part of the Brazilian beverage business.

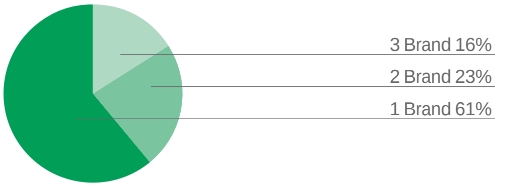
AmBev's know-how enables us to service more than 1 million points of sale, twice a week on average, using innovative logistics solutions that range from heavy trucks to river canoes. It is a unique capability.

We spend R$ 1 billion a year on transportation and are continually looking for ways to improve our performance and to cut our costs. It is a piece of the supply chain where we can make big savings.

We are exploring alternatives to road transport for bulk shipments – alternatives such as ship or rail. We are always looking to improve.

Third party distributor volume

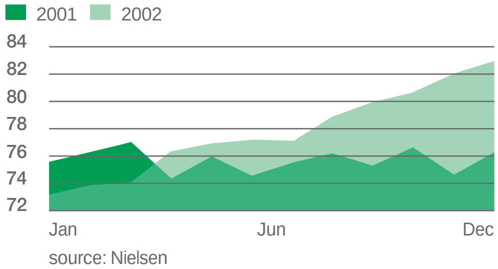
% per distributor in 2002



Consolidating the distribution system is not only about economies of scale. A three-brand portfolio allows better brand management.

The Brazilian market requires an ample distribution network to reach many small points of sale.

Monthly line efficiency of AmBev's plants



Through AmBev's efforts to benchmark plant productivity, we used 21 fewer lines and closed three soft drinks plants in 2002 while beverage production was maintained. Also, self-generation of electric energy was implemented in four plants.

Scale leadership

AmBev's place in the Brazilian beer market, means huge numbers. More than a million points of sale. A 70% market share overall that's higher in some regions and in some sales channels. A sales force of 13,000 people. One brand alone, Skol, has a one third share of the Brazilian beer market – and a greater share than all of our competitors combined.

It's a challenging market for others to get into. We have one of the strongest consumer product distribution networks in the country, and around 70% of beer in Brazil is drunk in 600ml returnable bottles. Not everyone can handle that – at least not on the scale that we do.

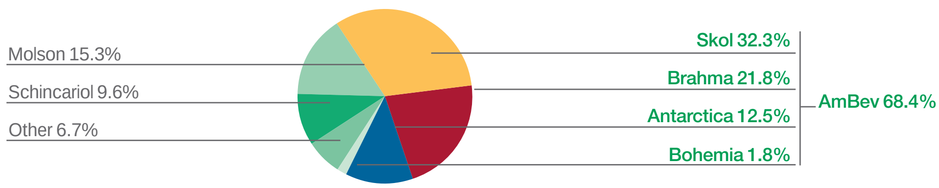
In Rio de Janeiro, we have built and operate the largest beverage plant in Latin America, for beer and soft drinks. This plant alone accounts for 20% of our total volumes.

In soft drinks we are number two – and have the number one Brazilian soft drink brand Guaraná Antarctica. We also have the world's number two cola, and world leaders in isotonics and iced teas.

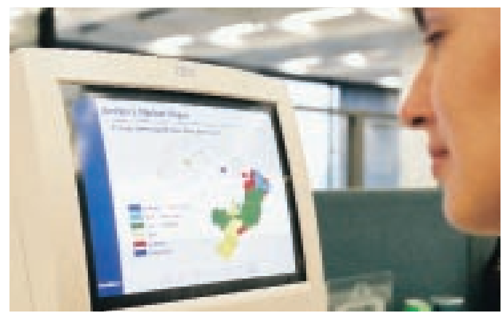
We use our powerful soft drinks and non-carbonated beverage brands to make the most of the distribution network and to increase our leadership at points of sale. The more products we have in each point of sale the better we perform, and the lower the cost to serve each point of sale.

Market share

Beer Brazil – 2002 average
source: Nielsen

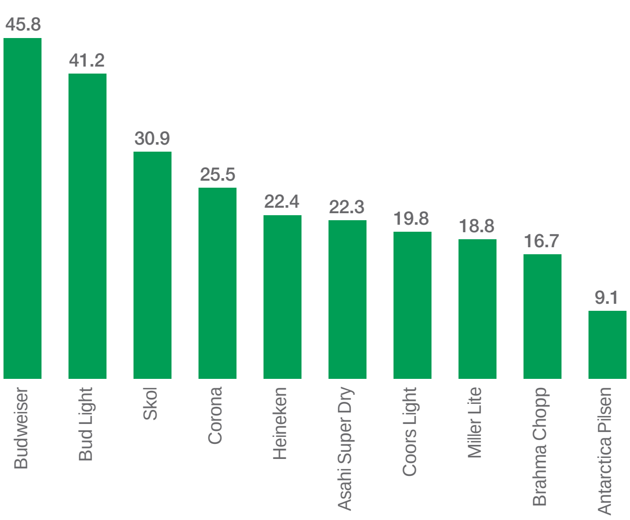


Mapping the strong regional preferences for AmBev's leading brands.



Ranking of largest beer brands

millions of hectoliter shipments
source: Impact Databank

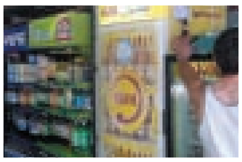


The world's biggest regional brewer

AmBev is a regional brewer, although operating on a global scale, as it is the fifth largest brewer in the world. This is possible because our main market, Brazil, is the fourth largest beer market on earth, and it's a market in which we have a leading position. Last year we produced 62 million hectoliters of beer – and 18 million of soft drinks. Together that makes us the world's 9th largest beverage company. Others are bigger. But we are efficient enough to have some of the lowest production costs in the world.

Skol, Brahma, and Antarctica, AmBev's three main brands. All rank among the top 20 most consumed beer brands on the planet.

Brazil beer business



1 Brahma beer compliments in-flight snacks on TAM Airlines.

2 AmBev achieves strong execution in the point of sale by supplying an ample beverage portfolio.

3 A popular commercial shows how 'It's better with Antarctica'.

4 The Brahma mascot posing with the 2002 World Cup winning Brazilian soccer team.

5 Category management program at Wal-Mart makes cold beer available at supermarkets for take-home consumption.

6 Bohemia coolers are installed in many premium restaurants.

Brazil is our main market: huge, diverse and challenging. Almost 90% of our earnings come from our Brazilian beer business – which still has tremendous growth potential.

What makes this market so great?

It has high-growth demographics: the adult population is growing at 0.8% per year, but the target beer consuming population (18 – 35) is growing at 2.2%. There are ample opportunities for developing new drinking occasions, and there is a super-premium segment that is still in its infancy.

Our overall strategy for the beer business has four main strands. These are to:

- Enhance our leadership position
- Develop the super-premium segment
- Grow market volume through per capita programs
- Improve execution at the point of sale

Enhance share leadership

There is a strong consumer preference for AmBev's high quality beer brands. This is currently running at 82% – well ahead of our 68% market share – and growing. We have been exploring ways to keep reinforcing that preference as an engine of growth.

We are improving our point of sale execution by investing in tools that help our sales force work with retailers to maximize value. Their palm top computers are now equipped with a new program that shows retailers the higher margins they can make per bottle from our brands compared to our competitors' brands.

We are improving our execution and category management in channels such as supermarkets, by enhancing the visibility and impact of our beer brands, and by introducing our proprietary sub-zero coolers.

Cooler placement has also been used to improve point of sale execution in on premise channels such as bars and restaurants. Brazilians like beer very cold (chilled to -5º), and our cooler program encourages consumers to drink more of our brands. From 10,000 coolers when the program was launched in 1999, we reached 118,000 by the end of 2002, and expect to have nearly double the number of units in place over the next two years.

Develop super-premium segment

In the United States the super-premium category accounts for roughly 20% of the beer market and in Argentina it accounts for almost 10%. Yet in Brazil, super-premium beer still has less than a 6% share. This is a great opportunity, and we are successfully developing this highly profitable sector through focus on Bohemia.

Bohemia is a heritage brand – it was the first beer brewed in Brazil (in 1853). Produced with top quality imported malt and hops, we have built it up through targeted magazine advertising and point of purchase merchandising. Its share of the overall beer market has risen from 0.6% in January 2001, to 2.1% by December 2002.

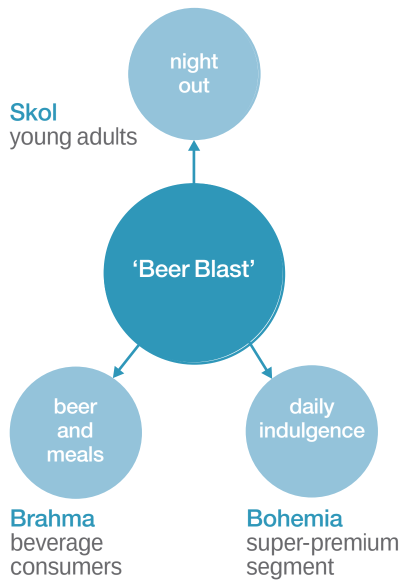
Line extensions such as Bohemia Special Edition, available only in numbered 550ml bottles, sold two months' production in 15 days at excellent margins. Overall volumes of Bohemia were up nearly 70% during 2002.

By developing the market with Bohemia, we also triggered remarkable volume increases in other premium brands. Brahma Extra added 28% extra volume during 2002, and Antarctica Original added 30%, without either brand receiving any additional support whatsoever – giving a sense of the opportunity we have ahead.

Grow market volume through per capita programs

Increasing the size of the market is the most sustainable approach to growth – and there is plenty of opportunity. Although Brazil is the fourth largest beer market in the world, it's only 29th in terms of per capita consumption.

Beer consumption occasions



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There are many occasions when beer is not the traditional drink of choice – beer's share of stomach in Brazil is only 10%. We have identified a number of new consumption opportunities that offer high or moderate growth potential, and we can attach an AmBev brand to each of them.

One such occasion is drinking beer with food, which is not yet part of Brazilian culture. We are working with foodservice partners to link beer brands and food in point of purchase collateral. Brahma, for example, is working with Pizza Hut, while Skol is linked to home delivery sushi and savory snack brands such as Doritos.

At home consumption is also low. We have introduced Chopp Express, which offers ice-cold Brahma in a 12-liter keg for parties or gatherings at home.

While most of the brand/occasion combinations use existing brands, we have introduced an exciting new product 'Skol Beats' aimed directly at a young adult audience on a night out. This low aftertaste, higher alcohol beer was launched in a stylish, 330ml bottle to appeal to people hanging out at parties or clubs, where beer is not usually consumed.

Enhance productivity of our distribution

Our distribution currently includes direct and third party systems, which service one million points of sale throughout the country. The complexity of the distribution network is one of the main barriers to entry in this industry.

We are strengthening our sales and distribution performance by creating specialized sales forces for some specific high margin channels and allowing distributors to maximize their profits – and ours – by switching to multi-brand distribution while maintaining separate sales forces for Skol, Brahma and Antarctica.

This is a trend with no way back, and for 2002 approximately half of total sales took place under this multi-brand principle, including both the third-party and direct systems compared to 20% in 2001 – and zero in 2000.

We have been using our experience to help our third-party distributors resize their sales forces to meet the new requirements of the business.

At the same time, we have been moving towards direct distribution in major cities where scale makes this sensible. Direct distribution, which now accounts for around 34% of our volume, can bring us considerable cost savings.

We are continually improving our point of sale execution by training our salesmen and making it easier for them to focus on the essential through proprietary processes and investment in technology. We are fanatics for point of sale execution: cold availability of our beverages at the point of sale, correct product pricing and exposure to merchandising material.

By doing so, we hope to make it easier for the many consumers who decide what to drink on the spot to choose an AmBev high quality products.

1 AmBev's brand strategy is to protect the core beer blast while building new drinking occasions that are appropriate for the positioning of each brand.

2 Chopp Express was launched in 2002 to deliver cold beer to consumers' homes for parties and family gatherings.

3 Serra Malte: AmBev Brew Master's traditional special beer from the southern state of Rio Grande do Sul.

4 Original: another AmBev classic pilsen dating back to 1888.

5 Caracu: AmBev's Stout beer, known as a tasty, energy-boosting beer.

6 Brahma Extra: a special product for the beer connoisseur.

7 Antarctica Malzbier is sweetened with caramel for those who appreciate an alternative flavored beer.

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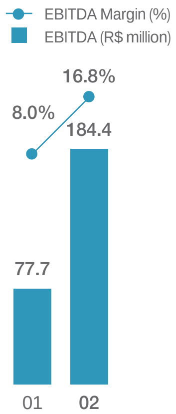
Brazil soft drinks business

EBITDA



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1 Advertising campaign for Pepsi Twist generated rapid consumer acceptance. Market share reached 1.2% in January 2003.

2 Lipton Ice Tea leads the sector with a 45% market share.

3 With Pepsi Twist's rapid market acceptance, AmBev launched Pepsi Twist Light.

4 Gatorade, Brazil's leading sports drink, sponsors extreme sporting events such as mountain biking.

5 Ronaldo, the star of the Brazilian soccer team, promotes his favorite soft drink during the 2002 World Cup.

6 Guaraná Antarctica: the Brazilian Original.

The Brazilian beer market is huge, but the soft drinks market is even bigger – more than 1.5 times bigger. Soft drinks are a priority for us as they offer real opportunities for profitable growth.

We formed a separate soft drinks division within AmBev in 2000, to give us more focus, increase our presence in points of sale and dilute overall sales and distribution costs.

Last year we have more than doubled the profitability of the business by:

- reducing discounts and improving the management of the product portfolio – in 2002 we kept market share stable while narrowing the price gap between our brands and the market leader
- increasing focus on direct sales
- leveraging the distribution infrastructure and sales technology of the beer business
- increasing concentration on high margin premium brands with high production qualities such as Guaraná Antarctica, Pepsi and Gatorade.

As a result, EBITDA earnings from soft drinks in 2002 were up 137% on 2001 to R$ 184 million.

4

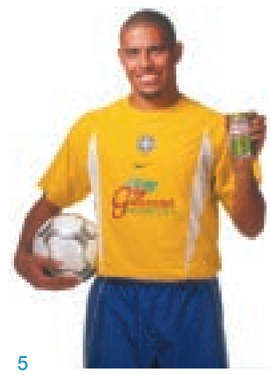
Our future growth in soft drinks will be based on three factors: the market, our brands, and distribution.

We have the market

With almost one third of its population under 15, the demographics of Brazil strongly support long-term growth. The market has grown over 5% per year on average over the past five years. Yet per capita consumption is still only 66 liters a year, which puts us a modest 25th in the global consumption league table.

We have the brands

Guaraná Antarctica is a Brazilian mega-brand and the country's number two carbonated soft drink. Part of our strategy is to take Guaraná global, backed by Brazilian trademarks such as the Amazon rainforest – where guaraná berries uniquely grow – and the Brazilian national soccer team, sponsored by AmBev which conquered its fifth World Cup championship in 2002. Guaraná Antarctica is the team's official sponsor, with an 18-year agreement signed in June 2001.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AmBev has been Pepsi-Cola's partner in Brazil since 1997. Through a production and distribution agreement with Pepsi-Cola International, Guaraná Antarctica has been launched in Spain, Puerto Rico and Portugal, where it took a 1% share of the total soft drinks market in just 18 months. It was also re-launched in Japan in 2002 on the wave of this year's soccer World Cup.

Our partnership with PepsiCo brought Gatorade – the world's leading isotonic sports drink – into our portfolio in January 2002. AmBev produces, markets and distributes the brand in Brazil.

We have the distribution infrastructure

We serve more than 1 million points of sale, and leveraging our complex distribution system is one of the best opportunities we have for increasing product availability and market coverage. This helps us increase the dominance of our brands and merchandising within each point of sale.

Also the stronger we are in soft drinks, the greater the distribution cost synergies available to our beer brands and the greater protection we can offer them by being a stronger, more convenient supplier to the point of sale.

6

International

Organic growth in Brazil is our number one priority. But AmBev is constantly evaluating opportunities for international expansion within Latin America that can add shareholder value.

Our existing international operations – in Argentina, Paraguay, Uruguay and Venezuela – represent 5% of AmBev's total sales. Currency devaluations, consumer price inflation and market contractions have masked the underlying progress we've been making in our two main markets outside Brazil – Argentina and Venezuela.

During 2002, our market share in Argentina reached an all-time record level of 17.3%. And we maintained our margins despite the economic situation thanks to rigorous cost cutting. In Venezuela our share is now 6.6%.

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1 Nearly 15% of the sales volume of Brahma Chopp is from South American markets outside Brazil.

2 Nortena, a Uruguayan classic brew.

3 Ouro Fino, a popular AmBev brand sold in Paraguay.

4 Patricia, the number one brand in Uruguay, acquired by AmBev in 2001.

5 A Brahma beach promotion in Argentina, with sport, music and happy hours in a fun, youthful environment.

In Venezuela sales volumes were up 13% – despite a 12% decline in the market caused by political instability. The positive trends resulted from the launch of Brahma Light at the end of 2001 and from the expansion of direct distribution to 80% of volume.

Sales last year of US$ 11 million in Uruguay, where we have operated since 2000, gave us an 46.6% share of the beer market. And in our first full year in Paraguay, we saw market share rise to 22.1%.

Our international success will continue with further expansion planned through two transactions announced this year: Quinsa and CabCorp.

The strategic alliance with Quinsa was finalized in February 2003 following approval by the Argentine anti-trust authorities.

Quinsa is the leading brewer in Argentina, Bolivia, Paraguay and Uruguay and has a 10% share of the Chilean market. It is also the main Pepsi bottler in Argentina and Uruguay. AmBev's operations in Argentina, Uruguay and Paraguay are being integrated into Quinsa's existing operation, and the combination of assets will permit us to develop one of the most efficient companies in the region and deliver high quality products to customers.

Cost synergies from the transaction are expected to be 15 – 25% of the combined EBITDA, as a result of improved purchasing power, lower transportation costs, the optimization of administration and the sharing of best practice. Revenue synergies should also be highly relevant in all countries where we are both present. Quinsa will produce and sell AmBev's beer brands in its markets and AmBev will sell the Quinsa beer brands in Brazil.

Both companies are now much stronger financially and our competitive position in the region will be enhanced. The prospects for organic growth in markets where we already operate have increased, as has our ability to expand to new markets in Latin America.

5

In October 2002 we made our first venture outside South America through an alliance with CabCorp, the main PepsiCo bottler in Central America. CabCorp has operations in Guatemala, Honduras, El Salvador and Nicaragua, and the new joint venture will give us low-risk access to the beer market in that region. The project includes the construction of a new brewery in Guatemala which is scheduled to begin operating in the second half of 2003.

This joint venture will combine AmBev's production, marketing and selling know-how in beer with CabCorp's proven distribution efficiency and knowledge of the Central American beverages market. The result: a strong new player in the region, benefiting both companies.

AmBev's culture

Our culture is unique. It is the way we do things around here – it drives us and it drives the business. We guard it carefully, and each one of us is responsible for its preservation and dissemination. Based on a set of principles – widely known and accepted throughout the company – our culture is our real competitive edge enabling us to maintain market leadership, increase profitability and reduce costs

With an agile, informal environment and performance bonus targets, AmBev's people are encouraged to behave as owners.

Our sales team is highly motivated and focused on results.

Think big
Thinking big is a way of achieving the impossible. Every day we encourage our people to promote change, seek better results and improve processes, always driven by a sense of urgency that comes from demanding targets. We always want more. Our belief is that people perform better when they feel challenged, so challenging people is what we do all the time.

Focus on results
Profit is our main driver for growth. Sustainable, consistent profit increase is the only way we will be able to create opportunities for our people. Each of us has five targets linked to AmBev's corporate goals, and it is everyone's responsibility to find the best way to achieve them. But we will never sacrifice the quality of our products and brands to achieve better results. Ethics and transparency underpin everything we do.

A company of owners paid as owners
Our people are motivated to work as owners – not executives. Rewarding talent and achievement is at the heart of AmBev's culture. AmBev is built on merit recognition, which is applied to each employee every day.

Recruit and retain the best people
This is a key AmBev competence: to recruit, educate, motivate and retain the best professionals. Executive officers and top managers are deeply involved in the recruitment of our people, and even the CEO takes part in the final rounds of the selection process. We like to work with the very best people: great people attract more great people in a virtuous cycle. AmBev's top performers participate in our Stock Ownership Plan. These are the people responsible for leading the company.

Work hard and enthusiastically
We set demanding targets for ourselves. These not only put pressure on our competitors, but they result in more opportunities, projects and success than time should allow us to complete. It is everyone's duty to set priorities and develop competitive advantages. We employ excellence programs in different areas to help our people make the best use of their scarce time.

Lead by personal example and be where the action is
We spend a lot of time in the field talking to customers and to our front line people. We prefer to see things with our own eyes to get a better grasp of what is really going on. There are no internal walls in our offices, reflecting the simple, open and informal way we do business.

Zero tolerance in adhering to and guarding our culture
We have a clear understanding that our culture is the one thing that really makes us different. And we are totally committed to maintaining our culture, by respecting and practicing it with zero tolerance. We are different by choice and conviction. This passion is what drives us to achieve what others might consider to be impossible.

Personnel

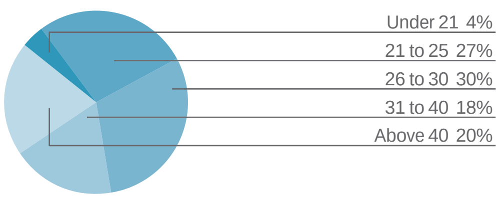
Attracting and grooming the very best people is one of our key imperatives

Variable Pay
Variable pay is a powerful tool to motivate and reward performance at AmBev. Our merit-based culture rewards talent and competence, enabling outstanding employees who achieve or exceed their goals to double their yearly pay through an aggressive bonus program. This is based on individual and collective performance and is directly linked to growth in the company's Economic Value Added (EVA).

Given AmBev's outstanding performance in 2002 – when EVA grew by approximately 80% – 2,129 people who met their stretched targets were recognized with bonuses this year. The top performing 50% of employees received nine monthly salaries while the top 10% received 18 monthly salaries. The total sum distributed, R$ 112.3 million, was an all-time record in terms of profit sharing.

AmBev people continuously strive for ever-improving results. To that end, we encourage autonomy and creativity, so that our employees behave as owners, taking calculated risks. Those that succeed are rewarded accordingly.

Employee age groups
% total



AmBev University administers all company training programs, crucial to achieving top performance.

AmBev University TV trains 12,500 sales people with weekly satellite broadcasts, and is reinforced by sales supervisors on a daily basis.

Stock Ownership Plan
High potential professionals who consistently surpass their goals are made eligible for the Stock Option Plan.

Participants are given the chance to use their bonus to acquire stock in the plan at 90% of the market price. Purchases vest over five years. Additionally, AmBev may finance purchases in the plan.

AmBev University
The AmBev University (AU) delivers training our people need to boost our performance and add value to our business. Every year, 13,500 employees are trained by AU. In 2002, we invested approximately R$ 12 million in courses and on-the-job training to keep our professionals up to date. AU aims to improve management skills throughout the company while motivating individual achievement. An example is the Executive MBA, which develops management-level professionals for all business areas. Students review AmBev's operations and compare its processes, results and culture with the best companies in Brazil and around the world.

AmBev University TV
AU TV is a proprietary distance-learning tool operated over a secure satellite broadcasting system that connects all of AmBev's business units and a majority of our third-party distributors. In 2002, we provided standardized, effective training to nearly 13,000 salespeople. The television program coursework is reinforced and supplemented with online testing to closely monitor the learning process of each salesperson, allowing us to pinpoint weaknesses and then act to provide individual training programs, as well as providing feedback to improve the quality of the broadcasts.

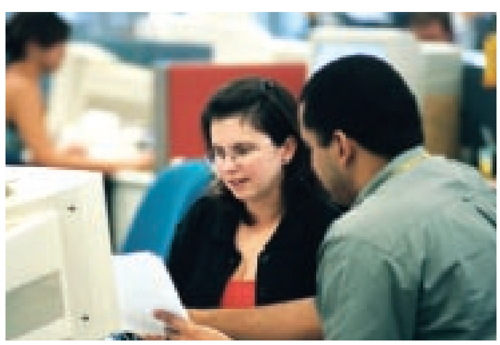
Trainee Program
Since its creation in 1990, 460 professionals were recruited through this program. Four are now AmBev's top executives. Some 60% of participants currently hold management positions and 40% are in senior roles. The program focuses on the education and development of high-potential young adults, and in 2002 37 were selected from over 16,000 applications.

Six Sigma
Use of the Six Sigma methodology to reduce defects in industrial, sales and management processes, began in 1999. Professionals learn how to solve complex problems with the help of analytical and statistical tools. In 2002, 82 'Green Belts' were trained to solve short-term problems. 'Black Belts' are empowered to implement Six Sigma by undertaking a two-year training program that in 2002 was completed by five professionals.

Excellence Programs
The PEF (Manufacturing Excellence Program), PEV (Sales Excellence Program), and PEX (Distributor Excellence Program) provide productivity incentives across the company and our third party distribution network through set standards, tools and management methods. Business units compete against each other for prizes and bonuses. Prizes were awarded in 2002, to employees from the top five manufacturing plants. 11 sales and distribution units received financial awards. Business units ranking in first place for three years are granted the 'Quality Ambassador' title.

Safety
We successfully increased our focus on safety management during 2002 to reduce the number of work-place accidents in our plants and distribution centers. Safety practices were redefined, we increased training, created a visiting inspection routine and implemented safety audits. Day-to-day work situations were analyzed for proper safety procedures in new training videos, which also included safety statements from senior executives and from employees who had been involved in accidents.

We centralized information about the causes of accidents, and ran an extensive awareness campaign using high-visibility signs at all business units. The campaign was intended to encourage the use of individual protection equipment, and alert our employees to the risks of accidents at work with an emphasis on prevention. At the manufacturing plants, lost-time accidents fell by 37% and the severity rate by 66%; while at the distribution centers, a 15% reduction was achieved in the second half of 2002. In 2003, new campaigns will be developed to continue to identify and share best practice in our effort to constantly improve safety for our people.



AmBev's team is carefully recruited and trained. Over two-thirds of our employees receive on the job training every year.

Our trainee program attracts thousands of candidates each year. A high percentage of those selected rise to management positions.

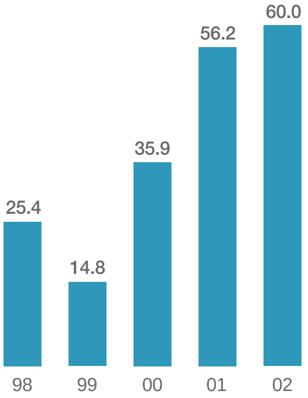
The Distributor Excellence Program sets world class performance standards for our exclusive third party and direct distribution networks. Participants are ranked annually.

Social and environmental responsibilities

Guaraná berries – direct from the Amazon Rainforest – are a main ingredient for Brazil's favorite flavored soft drink – Guaraná Antarctica.

Investments in the environment

R$ millions



Achieving long-term, sustainable results includes promoting social and environmental responsibility

Brazil is a country that combines some of the world's richest natural resources with widespread social disadvantage. As one of Brazil's largest companies, AmBev has a responsibility to help preserve the environment and improve the quality of life of its citizens while helping to develop the economy. We welcome the opportunity to make a difference, and promote many projects that bring together respect for our employees, our fellow citizens and the conservation of the earth's resources.

Sustainability

AmBev invested R$12 million in environmental programs and controls over the past two years.

Eight of our plants have been awarded ISO 14001 certificates by the Bureau Veritas Quality, and all of our plants have an Environmental Control System (ECS), established in accordance with ISO 14001 standards, and in line with the AmBev's environmental policy. We conduct annual corporate environmental audits of each ECS, and each plant has an environmental coordinator responsible for ensuring that the company's actual impact on the environment conforms to our policy.

All of our plants have Industrial Effluent Treatment Stations which have total treatment capacity of 200,000 m^3 of waste a day – equivalent to basic water treatment for a city of 4.5 million people.

We also operate a number of partnerships to make use of solid waste. Overall, our recycling rate for solid residues comes to around 95%. Some 70% of our beer is sold in returnable bottles, and the pulp from used-bottle labels goes into the production of cardboard. Malt husks, yeast extract, and other fermentation by-products are used as animal feed in dairy and fish farming.

The eco-efficiency of our plants was recognized in 2002 when three units – Paraíba, São Luiz and Santa Catarina – received municipal or state prizes relating to their environmental performance.

Recycling

AmBev supports a number of community out-reach programs such as Recicloteca, in partnership with a non-governmental organization called Ecomarapendi. In July 2002, Recicloteca started the Solidarity Recycling Program to equip local co-operatives with hydraulic presses and train the people to collect and process recyclable PET bottles, cardboard and aluminum cans. With the use of the presses, compacted waste can be transported in bulk to buyers, and sold at a premium.

Participating co-operatives have sold 47% more recyclable materials at a 74% higher average price. The Program is also helping to develop the recycling industry and reduces litter.

Volunteering

Our employees collected PET packaging and aluminum cans on Environment Day in June 2002 in support of charities that distribute food baskets to the needy. With the help of families and the community, more than 152,000 cans and 72,000 PET bottles were collected. At the Florianópolis distribution center, for example, each person collected an average of 324 pieces of packaging. This was our first volunteer project, and as a result, around 1,500 food baskets were distributed by 38 organizations throughout Brazil.

Maués Project

Maués is 250 kilometers from Manaus in the heart of the Amazon, and has been the home of AmBev's technical and scientific development center since 1972. Today, 80% of the berries used for Guaraná Antarctica are obtained from the rural producers in and around Maués, with the rest coming from elsewhere in the Amazon.

The Maués Project was launched in November 2002 in partnership with Embrapa, the Institute for the Development of the Amazon (IDAM) and the Mayor's office of Maués. It aims to develop the planting of guaraná in Maués by employing more advanced agricultural methods. Guaraná production in Maués is expected to increase up to eightfold, improving economic development in the region.

Corporate governance

AmBev seeks to improve its corporate governance practices and relationships with shareholders and investors, and to address growing regulatory demands from regulatory authorities such as the Brazilian CVM and the US Securities and Exchange Commission, as well as the Bovespa and the New York Stock Exchange.

The Company has a policy of total transparency. In 2002 we held around 300 meetings with investors and analysts.

We also participated in conferences and road shows in Brazil, the United States and Europe. Additionally, our Investor Relations website is constantly updated, providing the market with information which is virtually real-time.

We host quarterly conference calls, transmitted simultaneously on the Internet, to clarify financial and operating results as well as answer questions from the investment community.

The Board of Directors

The Board of Directors has eight members who were elected in 1999 and had their mandates renewed in 2002 until 2005. Board members use their profound knowledge of the business to ensure that AmBev's long-term vision and short-term performance are maintained. The Board also makes sure that the Company pursues challenging short-term business targets without compromising its long-term growth – at the same time ensuring that the values of the AmBev culture are practiced and disseminated.

It is the responsibility of the Board of Directors to choose the Executive Committee, whose function is to publicly represent the Company and manage its operations.

No member of the Board of Directors is also a member of the Executive Committee. As a result, the Chairman of the Board and the Chief Executive Officer of the Company are separate roles exercised by different people – a principle that is increasingly accepted as good corporate governance.

The Board of Directors is supported in its decision-making by the following committees:

Executive Committee

The Executive Committee is the main link between the policies and decisions made by the Board of Directors and AmBev's management team.

The Executive Committee's explicit responsibilities are:

- to make medium-term planning proposals to the Board;
- to propose the Company's annual performance targets and the budgets needed to attain the projected goals; and
- to monitor the Company's standing through analysis of its results and market developments.

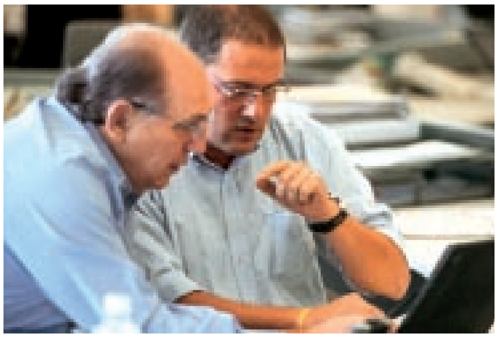
It is also responsible for the interests of AmBev's people, and its members are involved in recruitment programs, variable remuneration policies and in the spreading of our culture.

Audit Committee

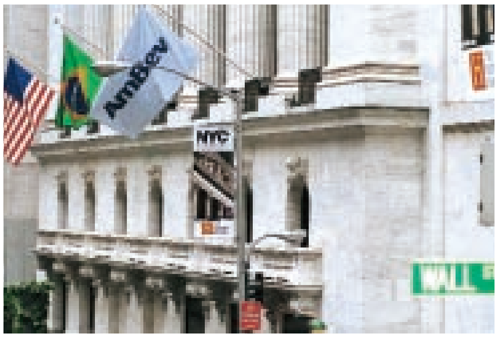
The Audit Committee acts on behalf of the Board of Directors and is responsible for the integrity and accuracy of the Company's financial statements and the performance of internal and external auditors. It also oversees the legal compliance of the Company's operations, the management of internal controls and the hiring of the external auditors.

Finance Committee

The Finance Committee analyzes and monitors the Company's annual investment plan and ensures that it is carried out. This Committee assesses merger and acquisition opportunities before forwarding them to the Board of Directors. It is also the Finance Committee's responsibility to evaluate the best capital structure for the Company, with the aim of maximizing Economic Value Added (EVA).



Our board of directors uses its profound business knowledge to ensure long-term vision and short-term performance are maintained.



AmBev adheres to the reporting and disclosure standards of the US market.

Management team

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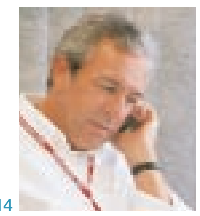
14 
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Board of Directors

Marcel Herrmann Telles
Co-Chairman

Victorio Carlos De Marchi
Co-Chairman

Carlos Alberto da Veiga Sicupira

Jorge Paulo Lemann

José Heitor Attílio Gracioso

Roberto Herbster Gusmão

Vicente Falconi Campos

Fersen Lamas Lambranho (alternate)

Roberto Moses
Thompson Motta (alternate)

Fiscal Council

Ricardo Scalzo

Antonio Carlos Monteiro

Luis Fernando Mussolini

Ary Waddington (alternate)

José Carlos de Brito (alternate)

José Fiorita (alternate)

Executive Officers

1 Magim Rodriguez Júnior
Chief Executive Officer

2 Carlos Alves de Brito
Operations Executive Officer

3 Claudio Braz Ferro
Industrial Executive Officer

4 Claudio Garcia
Director of Shared Services

5 Eduardo Muzzi
Legal Executive Officer

6 João M. Castro Neves
IT Executive Officer

7 José Adilson Miguel
Third-Party Distribution
Executive Officer

8 Juan Manuel Vergara Galvis
Soft Drinks Executive Officer

9 Luis Felipe P. Dutra Leite
Chief Financial Officer and
Investor Relations

10 Luiz Cláudio do Nascimento
Logistics Executive Officer

11 Luiz Fernando Edmond
Sales & Management Executive Officer

12 Maurício Luchetti
People and Management
Executive Officer

13 Miguel Nuno da Mata Patrício
Marketing Executive Officer

14 Milton Seligman
Corporate Relations Executive Officer

15 Ricardo Wuerkert
Director of International Operations

Financial section

Management's discussion and analysis

Year ended December 31, 2002 compared with year ended December 31, 2001

The following table sets out the consolidated financial highlights of AmBev for the years ended December 31, 2002 and 2001:

Consolidated financial highlights

R$ in millions, except volume amounts, percentages and per share amounts	2002	2001	% Change
Sales volume – 000 hectoliters (1)	80,153	80,853	(0.9)
Net revenue per hectoliter – R$/hl	91.4	80.7	13.2
Net sales	7,325.3	6,525.6	12.3
Gross profit	3,983.6	3,159.4	26.1
Gross margin (%)	54.4%	48.4%	
EBIT	2,050.9	1,375.8	49.1
EBIT margin (%)	28.0%	21.1%	
Net Income	1,510.3	784.6	92.5
EPS - R$/000 shares (2)	39.48	20.42	93.3
EBITDA	2,710.4	1,989.7	36.2
EBITDA margin (%)	37.0%	30.5%	
Market value	19,875.8	18,744.0	6.0
EVA	628.1	355.0	76.9
Return on equity (%)	36.6%	23.3%	

(1) Includes sales volume of beer and soft drinks.
(2) Based on year-end number of shares outstanding, excluding treasury stock.
Amounts may not add due to rounding.

Management’s discussion and analysis

Financial results by business segment

Segment highlights

Year Ended December 31,	2002			2001		
R$ millions	Beer	Soft drinks	Other	Beer	Soft drinks	Other
Net sales	5,942.7	1,096.2	286.3	5,238.9	967.0	319.6
Cost of sales	(2,451.2)	(698.4)	(192.1)	(2,475.7)	(662.7)	(227.8)
Gross profit	3,491.5	397.8	94.2	2,763.2	304.3	91.8
SG&A expenses	(1,598.7)	(284.1)	(50.0)	(1,437.2)	(299.1)	(47.2)
EBIT	1,892.9	113.7	44.3	1,326.1	5.2	44.5
Total depreciation	572.9	70.7	16.0	506.9	72.5	34.5
EBITDA	2,465.7	184.4	60.3	1,832.9	77.7	79.1
EBITDA margin (%)	41.5	16.8	21.1	35.0	8.0	24.7

Amounts may not add due to rounding.

Net sales

Net sales increased by 12.3% for the year ended December 31, 2002 to R$ 7,325.3 million from R$ 6,525.6 million in the same period in 2001. This increase was primarily due to the growth of the beer and soft drink segments in Brazil, through improved revenue management, and through the continuing standardization of best practices within the Skol, Brahma and Antarctica distribution networks.

Beer

Net sales of beer increased by 13.4% for the year ended December 31, 2002 to R$ 5,942.7 million from R$ 5,238.9 million in the same period in 2001, as a result of , improved revenue management and better execution at the point of sale in the Brazilian operations. Operations in Paraguay also contributed to this increase in net sales. Performances in Argentina, Uruguay and Venezuela were impacted by economic crises, political uncertainties and social-economic turmoil in those countries.

Brazilian beer

Net sales increased by 15.0% for the year ended December 31, 2002, to R$ 5,546.4 million from R$ 4,824.5 million in the same period in 2001, due largely to revenue management initiatives. Net sales per hectoliter increased 16.9% to R$ 95.6 in 2002 from R$ 81.8 in 2001 while sales volumes fell 1.7%. During the year, consumer prices for our main brands remained in line with inflation. Other reasons for the growth in net sales of Brazilian beer include higher proportion of direct sales, sales force training to further standardize and improve point of sale procedures, the revitalization of our super-premium brand Bohemia and the launching of high-margin products, such as Skol Beats and Chopp Express to address specific niches in the Brazilian market.

International beer

Net sales outside of Brazil decreased by 4.4% for the year ended December 31, 2002 to R$ 396.3 million from R$ 414.4 million in the same period of 2001. While sales volumes grew 14.3% to 3.9 million hectoliters and both the packaging mix and the increase in direct distribution positively impacted sales, net sales per hectoliter fell as a result of significant currency depreciation. The proportion of one-way packaging increased to 29.0% in 2002 from 15.3% in 2001. Direct sales in the cities of Buenos Aires and Caracas accounted for 40.2% and 82.6% of total sales, respectively.

AmBev’s international segment volume growth was achieved through market share gains in Argentina, Paraguay, Uruguay and Venezuela, which at December 31, 2002 reached 17.3%, 22.1%, 46.6% and 6.6% respectively, as a result of the expansion of direct sales in major cities and the replication of point of sale execution best practices in those markets. Volume growth was also helped by the start up of Paraguayan operations, which accounted for 0.4 million hectoliters in 2002, compared to only two months of production in 2001.

Management's discussion and analysis

Soft drinks
Net sales increased by 13.4% for the year ended December 31, 2002, to R$ 1,096.2 million from R$ 967.0 million in the same period in 2001 as a direct result of our strategy of focusing on our core brands – Guaraná Antarctica and Pepsi – and leveraging point of sale execution from our leading beer brands. AmBev's core brand volumes increased by 6.8% and represented 78.2% of total sales, compared to 72.4% in 2001. Sales volumes for the full portfolio decreased 1.1%. Net sales per hectoliter rose 14.6% as a result of our strategy of narrowing the price gap of our products to 5–10% below those of the market leader, and the successful launch in 2002 of Pepsi Twist, which is priced at a premium to our other products and achieved 1.2% market share by December 31, 2002. Additionally, an increase in one-way packaging to 92.5% of sales volumes in 2002, compared to 90.8% in 2001, together with higher levels of direct distribution, also contributed to the overall growth in net sales per hectoliter.

Cost of sales
The total cost of sales fell by 0.7% for the year ended December 31, 2002 to R$ 3,341.7 million from R$ 3,366.2 million in the same period in 2001. In 2002, dollar-linked costs such as aluminum cans, malt and hops were fully hedged for most of the year, compensating for the 19.5% average devaluation of the Real (34.3% comparing December 31, 2002 to December 31, 2001). Our cost of sales would have been R$ 345.7 million higher had dollar-linked costs not been hedged. The average exchange rate for the hedging transactions was R$ 2.42/US$, compared to a market average exchange rate of R$ 2.91/US$ in 2002. The total cost of sales, excluding depreciation, increased to R$ 3,016.7 million in 2002, which is 0.3% above the same period in 2001. Variable costs, which include packaging (aluminum cans and PET bottles) and raw materials (malt, sugar and hops) represented 70.4% and 68.9% respectively of the total cost of sales in 2002 and 2001.

As a percentage of our net sales, total cost of sales decreased to 45.6% in 2002 from 51.6% in 2001.

Cost breakdown

	2002 (R$ in millions)	2001 (R$ in millions)	2002 R$/hl [1]	2001 R$/hl [1]	% Change
Raw material	873.5	800.9	10.9	9.9	10.1
Packaging	1,478.6	1,517.3	18.4	18.8	(2.1)
Labor	240.9	223.8	3.0	2.8	7.1
Depreciation	324.9	357.3	4.1	4.4	(6.8)
Other	423.6	466.8	5.3	5.8	(8.6)
Total cost of sales	3,341.7	3,366.2	41.7	41.6	0.2
Cost of sales excluding depreciation	3,016.7	3,008.8	37.6	37.2	1.1

(1) Includes sales volumes of beer and soft drinks only.
Amounts may not add due to rounding.

Management's discussion and analysis

Beer

Brazil beer

Despite the impact of the devaluation of the Real on US dollar-denominated commodities, such as aluminum cans and malt, the cost of sales for beer decreased by 1.0% for the year to December 31, 2002 to R$ 2,451.2 million from R$ 2,475.7 million in the same period in 2001. This was possible due to the hedging strategy put in place in 2002. In Brazil, the cost of sales of beer decreased by 1.7% for the year ended December 31, 2002 to R$ 2,237.2 million from R$ 2,274.8 million in the same period in 2001, and the cost of sales per hectoliter remained stable at R$ 38.6.

In addition to the effect of the hedge, the decrease in sales volumes and the shift in the packaging mix toward returnable containers also contributed to the decrease in costs per hectoliter sold. As a percentage of sales, cost of sales for beer decreased from 47.3% in 2001 to 41.2% in 2002, as costs were offset by higher net sales per hectoliter and operating cost savings of R$ 43.2 million from our cost cutting program.

International beer

In international beer operations, the cost of sales increased 6.5% for the year to December 31, 2002 to R$ 214.0 million from R$ 200.9 million in the same period in 2001, but the cost of sales per hectoliter decreased 6.8%, to R$ 54.4 from R$ 58.4, for the same periods.

Soft drinks

The cost of sales for the soft drink segment rose 5.4% for the year ended December 31, 2002 to R$ 698.4 million from R$ 662.7 million in the same period in 2001, despite the effect of the hedge offsetting the devaluation of the Real. The principal reason for this increase was the shift in the packaging mix toward non-returnable containers, which represented 92.5% of sales volumes in 2002, compared to 90.8% in 2001. As a percentage of sales, the cost of sales for soft drinks decreased from 68.5% in 2001 to 63.7% in 2002.

Gross profit

Gross profit increased by 26.1% for the year ended December 31, 2002 to R$ 3,983.6 million from R$ 3,159.4 million for the same period in 2001. Gross margin rose to 54.4% in 2002 from 48.4% in 2001. This improvement was principally due to improved net sales per hectoliter caused by improved revenue management and a higher percentage of direct sales.

Operating expenses

Total operating expenses increased by only 8.4% for the year to December 31, 2002 to R$ 1,932.7 million from R$ 1,783.6 million in the same period in 2001 despite inflation of 12.5% in 2002 as measured by the IPCA index. This was mainly due to initiatives in the second half of 2002, which led to cash savings in operating expenses (excluding direct distribution), of R$ 93.6 million, compared to the second half of 2001.

Selling and marketing expenses

Selling and marketing expenses decreased by 2.9% for the year ended December 31, 2002 to R$ 687.2 million from R$ 707.8 million. While we reduced fixed commercial expenses, we continued to invest in brand equity, including the launch of new beer products and the sponsorship of the Brazilian national soccer team by Guaraná Antarctica.

Direct distribution expenses

Direct distribution expenses include product delivery charges and the cost of sales and delivery personnel required to distribute our products. Direct distribution expenses increased by 14.9% for the yearended December 31, 2002 to R$ 537.4 million from R$ 467.8 million in the same period in 2001. This growth was mainly due to higher direct sales, which accounted for 33.9% of total sales volume in 2002, compared to 31.1% during 2001. Although the increase in direct distribution results in higher net sales since we sell direct to the retailer, we also assume the cost of the sales force as well as the necessary transportation and storage expenses. As a percentage of net sales, direct distribution expenses remained stable at 7.3% for the year ended December 31, 2002.

General and administrative expenses

General and administrative expenses increased by 6.3% for the year ended December 31, 2002 to R$ 373.5 million from R$ 351.5 million due to initiatives in process optimization and a corporate restructuring following the start up of the Shared Services Center (SSC), located at the Jaguariúna plant in São Paulo. By rationalizing administrative operating activities, we expect to see the benefit of further process efficiencies and fixed-cost reductions in the short-term, and faster implementation of new technologies in the medium-term.

Management's discussion and analysis

Depreciation and amortization

Depreciation and amortization rose 30.4% for the year ended December 31, 2002 to R$ 334.6 million from R$ 256.5 million in the same period in 2001. This increase reflects both the intensification of our program of placing sub-zero coolers at points of sale, and the expansion of our direct distribution network which are amortized within five years. During the next 3 years the company will continue investing approximately R$ 1.0 billion in these initatives. Thus, amortization should grow proportionally.

Operating income (EBIT)

EBIT increased by 49.1% for the year ended December 31, 2002 to R$ 2,050.9 million from R$ 1,375.8 million in the same period in 2001. This increase was primarily the result of a 26.1% growth in gross profit as a result of the and revenue management initiatives on the key beer brands, and our hedging strategy which offset the impact of higher US dollar-denominated costs following the devaluation of the Real in 2002.

EBITDA

Total EBITDA grew 36.2% to R$ 2,710.4 million for the year ended December 31, 2002 from R$ 1,989.7 million for the year ended December 31, 2001. This increase was primarily the result of revenue management on the key beer brands, as well as our hedging strategy which offset the impact of higher US dollar-denominated costs following the devaluation of the Real. Gross profit was therefore 26.1% above the same period last year while SG&A expenses rose 8.4% – below the 12.5% rate of inflation.

Beer

EBITDA for the beer segment increased by 34.5% to R$ 2,465.7 million for the year ended December 31, 2002 from R$ 1,832.9 million for the year ended December 31, 2001. EBITDA margin was significantly higher at 41.5% in 2002, compared to 35.0% in 2001.

Brazilian beer

EBITDA for the Brazilian beer business increased by 36.6% to R$ 2,425.0 million for the year ended December 31, 2002 from R$ 1,774.7 for the same period in 2001. EBITDA margin increased to 43.7% in 2002, compared to 36.8% in 2001.

International beer

EBITDA from international beer operations fell 30.2% to R$ 40.7 million for the year ended December 31, 2002 from R$ 58.2 million for the same period in 2001. EBITDA margin decreased to 10.3% in 2002, compared to 14.0% in 2001.

Soft drinks

EBITDA for the soft drinks segment increased by 137.3% to R$ 184.4 million for the year ended December 31, 2002 from R$ 77.7 million for the year ended December 31, 2001. EBITDA margin increased to 16.8% in 2002, compared to 8.0% in 2001.

Other

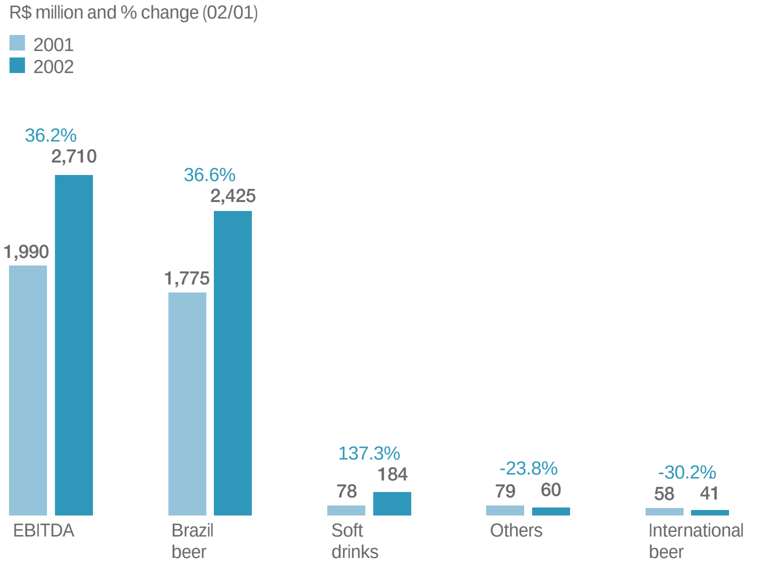
EBITDA for the other segments decreased by 23.8% to R$ 60.3 million for the year ended December 31, 2002 from R$ 79.1 million for the year ended December 31, 2001 due to the elimination of Bavaria from our volumes during 2002. EBITDA margin decreased to 21.1% in 2002, compared to 24.7% in 2001.

Provisions for contingencies

Net provisions for contingencies charged to the statement of operations amounted to R$ 123.7 million for the year ended December 31, 2002, compared to R$ 33.9 million charged in the same period in 2001.

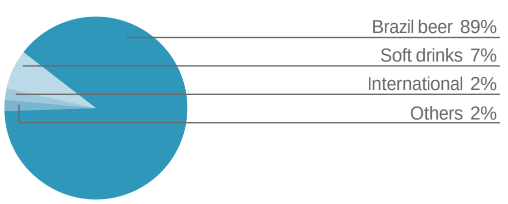
EBITDA by segment

R$ million and % change (02/01)



EBITDA

% of total EBITDA in 2002



Provisions for contingencies continued

The principal component of the provisions in 2002 was R$ 120.9 million for legal disputes related to a modification of the PIS/COFINS tax base in Brazil, which should remain provisioned until a final ruling is received. Further legal issues arising in 2002 which resulted in provisions, include R$ 30.1 million for labor and other legal issues, and R$ 6.5 million attributable to the principal and fines for a pending IPI and ICMS sales taxes payment case.

These charges were partially offset by the reversal of ICMS provisions from previous periods of R$ 8.1 million, the reversal of R$ 6.0 million associated with legal issues with third-party distributors and R$ 19.7 million for other items, all of which had been accrued in previous periods.

Other operating income (expense), net

Other net operating income, increased by 31.0% for the year ended December 31, 2002 to R$ 199.4 million from R$ 152.2 million in the same period in 2001. The principal components in 2002 were: foreign exchange gains of R$ 130.7 million in our subsidiaries abroad (mainly from our malting plants in Argentina and Uruguay whose functional currency is the US dollar); a R$ 151.9 million gain on financed sales taxes which were forgiven by the government (tax incentives); and a R$ 23.2 million gain associated with sales tax issues (PIS, COFINS, ICMS and IPI). All other items amounted to R$ 33.4 million.

These totals were partially offset by goodwill amortization (Antarctica, Cympay and Salus) of R$ 105.4 million and provisions for losses on obsolete bottles and crates, which amounted to R$ 34.4 million for the period ended December 31, 2002.

Financial income and expenses

Our financial income consists not only of interest income, but also of foreign exchange fluctuations and gains on derivatives, including foreign currency swaps and forward contracts. Our financial expenses consist of interest charges on debt, but also include Brazilian financial transaction taxes and bank charges; interest on contingencies; foreign exchange fluctuations; and losses on derivatives, including cross-currency interest rate swaps and forward contracts.

Financial income rose 606.0% for the year ended December 31, 2002 to R$ 2,530.3 million from R$ 358.4 million in 2001. Financial expenses increased by 280.4% for the year ended December 31, 2002 to R$ 3,277.3 million from R$ 861.5 million in the same period in 2001. Net financial expenses, therefore, for the year ended December 31, 2002 were 48.5% above the prior year period at R$ 747.1 million from R$ 503.1 million.

Brazilian Corporate Law (unlike US GAAP) liabilities are carried at historical book value, rather than market value while assets are carried at the lower of market value or historical book value. Since the company intends to carry its financial assets to maturity, any loss generated should be reverted over time. The net result of swap and hedging, including the effect of marking assets to market while valuing liabilities at cost, was responsible for an increase of R$ 130.5 million in net financial expense comparing 2002 to 2001.

Cash interest expense rose 6.0% to R$ 276.0 million from R$ 260.5 million in 2001, as total debt rose – principally associated with the issue of the Japanese Yen equivalent of US$315 million syndicated loan and the US$500 million 10-year Senior Loan Notes during 2001. These funds were used to amortize approximately R$ 1.5 billion in short-term trade finance debt during 2002.

Net debt fell by R$ 1,024.6 million to R$ 981.8 million on December 31, 2002 from R$ 2,006.4 million on December 31, 2001. AmBev continues to have a strong credit profile with net interest coverage of 14.6x in 2002 compared to 18.5x in 2001 and a net debt to EBITDA ratio of 0.4x versus 1.0x in 2001.

Non-operating income (expense), net

Non-operating income (expense) amounted to an expense of R$ 72.1 million for the year ended December 31, 2002, compared to an income of R$ 2.3 million for the same period in 2001. The principal items within non-operating income (expense) were a R$ 41.6 million provision for losses on assets for sale and a R$ 30.5 million provision for all other items.

Management's discussion and analysis

Income tax benefit (expense)

Taxes on income amounted to a benefit of R$ 280.6 million for the year ended December 31, 2002, compared to a tax charge of R$ 52.0 million in the same period in 2001. At statutory income tax rates, the provision for income tax and social contribution would have amounted to R$ 444.5 million in 2002. Non-taxable gains generated in subsidiaries abroad that arose principally due to foreign exchange gains on cash in US dollars, amounted to a benefit of R$ 735.2 million in 2002, compared to R$ 151.5 million in 2001. All other items accounted for a charge of R$ 10.1 million in 2002.

Statutory contributions and profit sharing

Provision for employee and management profit sharing grew by 38.1% for the year ended December 31, 2002 to R$ 112.3 million from R$ 81.3 million in the prior year. This amount relates to performance – based bonuses dependent upon the achievement of corporate, departmental, business unit and individual goals in line with AmBev's overall corporate goals as established by the Board of Directors. These goals include certain Economic Value Added ('EVA') targets that were met in 2002. According to AmBev's by-laws, the profit sharing payments are limited to 10% of net income for employees and 5% for executives.

During 2002, AmBev contributed R$ 12.8 million to the Zerrenner Foundation, to ensure that the Foundation's future actuarial obligations were fully funded and expensed this amount directly to income.

Minority interest

Minority shareholders in our subsidiaries shared in losses of R$ 47.4 million for the year ended December 31, 2002, compared to losses of R$ 0.3 million in 2001. Higher losses were due principally to the economic crises which negatively affected the net income of our international beer operations.

Net income

Net income grew 92.5% for the year ended December 31, 2002 to R$ 1,510.3 million from R$ 784.6 million in the same period in 2001.

Liquidity and capital resources

Our primary sources of liquidity have historically been cash flows from operating activities and borrowings. Our material cash requirements have included the following:

- capital expenditures;
- our share buyback program;
- payments of dividends and interest attributable to shareholders' equity;
- the servicing of our indebtedness;
- increases in ownership of our subsidiaries or companies in which we have equity investments; and
- investments in companies participating in the brewing, soft drink and malting industries.

Our cash and cash equivalents and short-term marketable securities at December 31, 2002 and 2001 were R$ 3,504.9 million and R$ 2,562.9 million, respectively. The increase in the amount of our cash and cash equivalents at the end of 2002 compared to the end of 2001 was principally due to the operating cash flow and the result of the hedge transactions of the US$315 million – equivalent Japanese Yen-syndicated loan, and the US$500 million 10-year Senior Note, both of which were issued in 2001.

We believe that cash flows from operating activities, along with access to borrowings, available cash and cash equivalents and marketable securities will be sufficient to fund our capital expenditures, debt service and dividend payments going forward.

Cash flows

Operating activities

Our cash flows from operating activities totaled R$ 2,743.2 million for the year ended December 31, 2002 and R$ 1,332.5 million for the year ended December 31, 2001. Our cash generation in 2002 was double that of 2001, as a consequence, primarily, of a 92.5% net income growth in 2002.

Capital investment program

In 2002, capital expenditures on property, plant and equipment totaled R$ 522.3 million. These expenditures included investments in maintenance and production equipment of approximately R$ 192.7 million, investment in direct distribution of R$ 149.9 million, cooler investments of R$ 72.4 million, expenditures for the replacement of bottles and crates of R$ 77.7 million and continued investments in information technology of R$ 29.6 million. Investments in subsidiaries and affiliates, including acquisition of intangible assets net of cash, totaled R$ 75.5 million and included the purchase of an additional stake in Astra, which now is 96.2% owned by AmBev.

In 2001, capital expenditures in plant and equipment totaled R$ 529.4 million. These expenditures included

Cash flows continued

investments in maintenance and production equipment of approximately R$ 261.0 million, investment in direct distribution of R$ 83.4 million, expenditure for the replacement of bottles and crates of R$ 66.5 million and continued investments in information technology of R$ 35.9 million. Investments in subsidiaries and affiliates, including acquisition of intangible assets net of cash, totaled R$ 220.1 million and included the purchase of 95.4% of the voting capital of Cympay and the increase of our stake in Polar to 98.1% of voting capital.

Investing activities

Cash flows used in our investing activities were R$ 545.1 million for the year ended December 31, 2002 and R$ 707.4 million for the year ended December 31, 2001. The lower cash utilization in 2002 compared to 2001 reflects the one-time nature of investments in the equity of the Astra subisidiary in 2001, and the receipt of proceeds of R$ 98.3 million for the disposal of assets principally from the Antarctica subsidiaries. In 2001, the disposal of assets generated R$ 42.2 million.

Financing activities

Cash flows used in financing activities were R$ 2,912.2 million for the year ended December 31, 2002, compared to proceeds of R$ 1,175.7 million in 2001. The proceeds of loans, plus cash generation, were used to repay R$ 2,925.3 million of debt in 2002, including a significant amount of short-term foreign currency denominated trade finance debt. Repayments in 2001 amounted to R$ 1,343.9 million.

We paid cash dividends and interest attributable to shareholders' equity (including withholding taxes paid by us on behalf of our shareholders) of R$ 335.6 million and R$ 313.4 million, respectively, for the years ended December 31, 2002 and 2001.

Debt

As of December 31, 2002, our outstanding debt totaled R$ 4,486.7 million (of which R$ 607.4 million was short term debt, including R$ 292.5 million of the current portion of long term debt). Our debt consisted of R$ 988.0 million of Real-denominated debt and R$ 3,498.6 million of foreign currency-denominated debt. The weighted average annual interest rate for the short and long-term portions of the local currency-denominated debt was 11.6% and 8.1%, and the average duration was 0.5 and 2.5 years, respectively. The weighted average annual interest rate for the short and long-term portions of the foreign currency-denominated debt was approximately 9.9% and 9.7% in dollar terms, and the average duration was 0.4 and 4.8 years, respectively.

Short-term debt

As of December 31, 2002 our short-term debt totaled R$ 607.4 million and consisted primarily of the current portion of long-term debt and working capital financing. As of December 31, 2002, 55.7% of our short-term debt was denominated in foreign currencies, with an annual weighted average interest rate of approximately 9.9%.

Debt position

R$ in millions	2002			2001		
	LC[1]	FC[2]	Total	LC[1]	FC[2]	Total
Short-term debt[3]	269.1	338.3	607.4	271.0	1,449.0	1,720.0
Long-term debt	718.9	3,160.3	3,879.3	771.0	2,078.4	2,849.4
Total	988.0	3,498.6	4,486.7	1,042.0	3,527.4	4,569.3
Cash and marketable securities			3,504.9			2,562.9
Net debt			981.8			2,006.4

Amounts may not add due to rounding.
(1) LC = Local currency
(2) FC = Foreign currency
(3) Includes the current portion of long-term debt

Management's discussion and analysis

Long-term debt maturities

(R$ in millions)	Maturity [1]
2004	1,460.0
2005	239.2
2006	172.1
2007	131.0
2008	61.7
2009 and after	1,815.3
Total	3,879.3

(1) Excludes the current portion of long-term debt.
Amounts may not add due to rounding.

Long-term debt

As of December 31, 2002, our long-term debt, excluding the current portion of long-term debt, totaled R$ 3,879.3 million of which R$ 718.9 million was denominated in Reais. The remainder was denominated in US dollars and Japanese Yen. The current portion of our local long-term debt totaled R$ 292.5 million as of December 31, 2002.

In accordance with our foreign currency risk management policy, we have carried through forward and swap foreign exchange contracts to fully hedge against currency risks.

Sales tax deferrals and other tax credits

We currently participate in several programs by which a portion of payments of value-added tax on sales and services (ICMS) due from sales generated by specific production facilities are deferred for periods of generally five years from their original due date. Percentages deferred typically range from 40% to 75% over the life of the program. Balances deferred generally accrue interest and are partially inflation indexed, with adjustments generally set at 60% to 80% of a general price index. The amount deferred at December 31, 2002 included R$ 185.5 million which will become payable through 2003 and R$ 617.5 million thereafter. The amount deferred at December 31, 2002 totaled R$ 803.0 million.

We also participate in ICMS value-added tax credit programs offered by various Brazilian states which provide tax credits to offset ICMS value-added tax payable. In return, we are committed to meeting certain operational requirements including production volume and employment targets, among others – depending on the state. The grants are received over the lives of the respective programs. In the years ended December 31, 2002 and 2001 we recorded R$ 151.9 million and R$ 95.9 million respectively, of tax credits as a reduction of indirect taxes on sales. The benefits granted are not subject to withdrawal in the event that we do not meet the program's targets. However, future benefits may be withdrawn.

Commitments and contingencies

We are subject to numerous commitments and contingencies with respect to tax, labor, distributors and other claims.

The following table summarizes AmBev's significant contractual obligations and commitments that impact its liquidity:

Contractual cash commitments

(R$ in millions)	Up to 1 year	2-3 years	After 3 years	Total
Long-term debt [1]	607.4	1,699.1	2,180.2	4,486.7
Sales tax deferrals	154.1	136.1	170.9	461.1
Capital expenditure commitments	94.0			94.0
Total contractual cash commitments	855.5	1,835.2	2,351.1	5,041.8

(1) Includes current portion.

Relationship with independent auditors

Our working policy in relation to our independent external auditors when they are providing services which are unrelated to external auditing, is based on the principles which preserve the auditors' independence. These principles are defined as follows:

- The auditor must not audit his own work;
- The auditor must not exercise managerial functions; and
- The auditor must not advocate the interests of his client.

In 2002, we contracted work from these auditors on mapping operating risks and support in the implementation of internal audit procedures. This contract amounted to approximately R$ 700,000 – which is equivalent to more than 5% of fees related to external auditing services.

The independence of our external auditors is ensured in every possible service provided by them. This is achieved through specific procedures, such as involving personnel independent of the auditors when the contracted services do not require the accumulated knowledge of the auditors or do not refer to services which abide by the professional independence standards. In this case, it can be achieved by specific procedures of professional independence or through the involvement of other independent professionals ('second opinion').

Additionally, the contracting of all the services provided by the independent auditors, which are not linked to the external auditor, are evaluated beforehand by the Audit Committee of the Board of Directors and only carried out if approved by this Committee. Approval is only granted when the Committee feels that the services contracted do not interfere with the independence of the auditors.

Report of the independent auditors

January 31, 2003

To the Board of Directors and Shareholders
Companhia de Bebidas das Américas – AmBev

1. We examined the financial statements of Companhia de Bebidas das Américas – AmBev (parent company) on December 31, 2002 and 2001 and for the years ending on those dates, and the respective consolidated financial statements of Companhia de Bebidas das Américas – AmBev and its subsidiaries. These financial statements were prepared under the responsibility of the company management. Our responsibility is to provide our opinion on these financial statements.
2. Our audits were conducted according to approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance as to whether the financial statements are fairly presented in all relevant aspects. Therefore, our audits included, among other procedures: (a) the planning of our audit, taking into consideration the significance of the balances, the volume of transactions and the accounting and internal control systems of the company, (b) examining, based on testing, the evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting principles used and the most representative estimates made by the management of the company, as well as evaluating the overall financial statement presentation.
3. In our opinion, the said financial statements fairly present, in all relevant aspects, the equity and financial position of Companhia de Bebidas das Américas – AmBev on December 31, 2002 and 2001, parent company and consolidated, and the result of the operations, changes in shareholders' equity and the origin and applications of the resources of the parent company and consolidated for the years ending on those dates, in accordance with Brazilian accounting practices.
4. Also in our opinion, the consolidated cash flow statement of Companhia de Bebidas das Américas – AmBev for the periods ending December 31, 2002 and 2001, included as supplementary information to provide for additional analysis, is adequately presented, in all material respects, based on the financial statements mentioned in Paragraph 1. This supplementary information was subjected to the same auditing procedures applied to the basic financial statements.

PricewaterhouseCoopers
Independent Auditors
CRC 2SP000160/O-5

Paulo Cesar Estevão Netto
Partner
Accountant CRC 1RJ026365/T-6 'T' SP 002331

Balance sheet as at December 31

In thousands of Reais

Assets

	Parent company		Consolidated	
	2002	2001	2002	2001
Current assets				
Cash and cash equivalents	102		2,769,509	2,476,476
Financial investments			735,380	86,415
Trade accounts receivable			678,991	802,555
Inventories			859,701	806,679
Taxes recoverable	47,311	69,398	410,256	336,037
Other	6,312	149,741	139,767	176,782
	53,725	219,139	5,593,604	4,684,944
Long-term assets				
Compulsory, legal and tax incentive deposits	41,568	37,859	256,931	258,306
Loans to employees to purchase shares	145,469	54,577	324,784	215,248
Deferred taxes	139,774	119,334	1,558,348	1,160,274
Assets held for re-sale			121,549	104,524
Other	77,985	78,146	444,324	496,381
	404,796	289,916	2,705,936	2,234,733
Permanent				
Investments				
Directly controlled subsidiaries	4,186,094	3,806,607		
Goodwill and negative goodwill, net	403,720	473,615	626,894	617,574
Other	1,303	1,230	10,429	45,026
	4,591,117	4,281,452	637,323	662,600
Property, plant and equipment			3,289,104	3,277,745
Deferred charges			155,439	168,790
	4,591,117	4,281,452	4,081,866	4,109,135
Total assets	5,049,638	4,790,507	12,381,406	11,028,812

The accompanying notes are an integral part of the financial statements.

Balance sheet as at December 31

In thousands of Reais

Liabilities and shareholders' equity

	Parent company		Consolidated	
	2002	2001	2002	2001
Current liabilities				
Trade accounts payable	174		789,089	571,169
Loans and financing	43	385	607,378	1,719,989
Payroll, profit sharing and social security contributions	1,171	19,667	59,682	141,889
Income tax and social contribution			74,380	72,251
Other taxes and contributions	711	21,883	619,415	601,160
Other	690,189	947,782	683,648	305,545
	692,288	989,717	2,833,592	3,412,003
Long-term liabilities				
Loans and financing			3,879,279	2,849,353
Sales tax deferrals			306,892	346,965
Provisions for contingencies and liabilities related to tax claims	125,184	131,772	1,014,948	815,487
Other		147,570	137,905	152,641
	125,184	279,342	5,339,024	4,164,446
Minority interests			79,143	88,926
Shareholders' equity				
Subscribed and paid-up capital	3,046,244	2,944,288	3,046,244	2,944,288
Capital reserve	16,592	4,867	16,592	4,867
Revenue reserves	1,247,357	970,181	1,247,357	913,723
Treasury shares	(78,027)	(397,888)	(180,546)	(499,441)
	4,232,166	3,521,448	4,129,647	3,363,437
Total liabilities and shareholders' equity	5,049,638	4,790,507	12,381,406	11,028,812

The accompanying notes are an integral part of the financial statements.

Income statements as at December 31

In thousands of Reais

	Parent company		Consolidated	
	2002	2001	2002	2001
Gross sales			14,279,868	13,130,961
Taxes on sales, discounts and returns			(6,954,566)	(6,605,376)
Net sales			7,325,302	6,525,585
Cost of sales			(3,341,679)	(3,366,225)
Gross profit			3,983,623	3,159,360
Operating income (expenses)				
Selling and marketing	(115)		(687,238)	(707,754)
Direct distribution			(537,413)	(467,827)
General and administrative	(4,704)	(12,256)	(350,502)	(330,033)
Provisions for contingencies and liabilities related to tax claims	(1,957)	(5,552)	(123,714)	(33,907)
Management fees	(6,920)	(12,877)	(23,028)	(21,464)
Depreciation and amortization			(334,566)	(256,492)
Financial income	42,663	13,921	2,530,257	358,376
Financial expenses	(68,408)	(22,103)	(3,277,343)	(861,491)
Equity in the results of subsidiaries	1,462,338	917,124		
Other operating income (expenses), net	73,894	(108,317)	199,431	152,231
	1,496,791	769,940	(2,604,116)	(2,168,361)
Operating income (carried forward)	1,496,791	769,940	1,379,507	990,999

Income statements as at December 31

In thousands of Reais

	Parent company		Consolidated	
	2002	2001	2002	2001
Operating income (brought forward)	1,496,791	769,940	1,379,507	990,999
Non-operating income (expenses), net		28,836	(72,148)	2,326
Income before income taxes statutory distributions and contributions and minority interests	1,496,791	798,776	1,307,359	993,325
Income tax and social security contribution benefit (expense)	20,441	15,946	280,640	(51,974)
Income before statutory distribution and contributions and minority interest	1,517,232	814,722	1,587,999	941,351
Statutory distribution and contributions				
Employee and management profit sharing	(6,919)	(12,877)	(112,264)	(81,298)
Contributions to the Zerrenner Foundation		(17,277)	(12,775)	(75,777)
Income before minority interests	1,510,313	784,568	1,462,960	784,276
Minority interests			47,353	292
Net income for the year	1,510,313	784,568	1,510,313	784,568
Shares outstanding at year end (thousands)	38,620,730	39,741,398		
Net income per 1,000 shares at year end, Reais – R$	39.11	19.74		
Net income per 1,000 shares at year end, excluding treasury shares, Reais – R$	39.48	20.42		

The accompanying notes are an integral part of the financial statements.

Statement of changes in shareholders' equity of the parent company

In thousands of Reais

	Share capital subscribed and paid-up	Capital reserve	Future capital increase	Revenue reserves: Investments	Revenue reserves: Legal	Treasury stock	Retained earnings	Total
On December 31, 2000	2,565,249	1	485,380	13,333	23,509			3,087,472
Capital increase	298,265							298,265
Exercise of options from employee stock ownership plan	80,774							80,774
Stock buybacks						(397,888)		(397,888)
Premium received on sale of stock options		4,866						4,866
Net income for the year							784,568	784,568
Appropriations of net income for the year								
Legal reserve					39,228		(39,228)	
Dividends							(336,609)	(336,609)
Statutory reserves			369,503	39,228			(408,731)	
On December 31, 2001	2,944,288	4,867	854,883	52,561	62,737	(397,888)		3,521,448
Exercise of options from employee stock ownership plan	101,956							101,956
Effect of implementation of NPC 26 on subsidiary							(56,299)	(56,299)
Stock buybacks						(354,648)		(354,648)
Investment reserve				(52,561)			52,561	
Cancellation of treasury shares			(674,509)			674,509		
Premium on transfer to third parties of treasury shares linked to financing		11,725						11,725
Net income for the year							1,510,313	1,510,313
Appropriations of net income for the year								
Legal reserve					75,516		(75,516)	
Interim dividends							(160,883)	(160,883)
Complementary dividends							(341,446)	(341,446)
Statutory reserves			853,214	75,516			(928,730)	
On December 31, 2002	3,046,244	16,592	1,033,588	75,516	138,253	(78,027)		4,232,166

The accompanying notes are an integral part of the financial statements.

Statement of changes in financial position as at December 31

In thousands of Reais

	Parent company		Consolidated	
	2002	2001	2002	2001
Origins of financial resources				
From operations:				
Net income for the year	1,510,313	784,568	1,510,313	784,568
Expenses (income) not affecting working capital				
Equity in the result of subsidiaries	(1,462,338)	(917,124)		
Deferred income tax and social contribution	(20,441)	(22,172)	(403,960)	(146,014)
Provision for losses related to unsecured liabilities of subsidiaries	(147,570)	28,052		
Amortization of goodwill and negative goodwill, net	69,894	84,737	90,463	94,151
Depreciation and amortization of deferred charges			659,506	613,872
Provision for contingencies and liabilities related to tax claims	1,957	5,552	123,714	33,907
Financial charges on provision for contingencies and liabilities related to tax claims			32,908	13,104
Provision for losses on inventories and permanent assets			97,481	16,100
Interest and variations on stock ownership plan	(88,095)	(33,555)	(88,095)	(33,555)
Foreign exchange gains and losses and charges on long-term financing		212	867,342	(5,246)
Minority interest			(47,353)	(292)
Foreign exchange gains and losses on foreign subsidiaries			(155,817)	(46,140)
Gains arising from increased holdings in subsidiaries		(18,268)		(16,153)
Residual value of property, plant and equipment, investments and divestments	88,322		159,819	40,665
Restitution of capital by the parent company	1,338,275			
Dividends from subsidiaries	44,346	308,582		
Reduction of net working capital in incorporated subsidiary		549,103		
	1,334,663	769,687	2,846,321	1,348,967
From shareholders:				
Capital increase	101,956	80,774	101,956	80,774
Premium on stock options and treasury shares	11,725	4,866		4,866
From third parties:				
Changes in long-term receivables				
Accounts receivable from subsidiaries			35,075	
Other taxes recoverable	160			
Changes in long-term liabilities				
Loans and financing			162,583	1,900,643
Total financial resources provided	1,448,504	855,327	3,145,935	3,335,250

Statement of changes in financial position as at December 31

In thousands of Reais

	Parent company		Consolidated	
	2002	2001	2002	2001
Use of financial resources				
Increase in long-term assets				
Deposits	3,709	210	51,317	79,645
Loans to employees to purchase shares	2,797	21,022	21,441	16,542
Accounts receivable from subsidiaries				30,635
Other taxes recoverable		5,087	5,994	27,493
Other	8,542		4,250	41,074
Decrease in long-term liabilities				
Sales tax deferrals				123,045
Other accounts payable			28,312	13,745
Provision for contingencies and liabilities related to tax claims		2,993	32,606	112,863
Permanent assets				
Investments, including goodwill and negative goodwill	444,464	665,588	107,659	220,118
Property, plant and equipment			522,348	446,829
Deferred charges			45,533	82,607
Capital transactions				
Changes in capital of minority shareholders				2,363
Repurchase of shares	354,648	397,888	337,075	488,914
Proposed dividends	502,329	336,609	502,329	336,609
Net working capital of incorporated subsidiary				27,845
Total financial resources used	1,316,489	1,429,397	1,658,864	2,050,327
Increase (decrease) in working capital	132,015	(574,070)	1,487,071	1,284,923
Changes in working capital				
Current assets				
At end of year	53,725	219,139	5,593,604	4,684,944
At beginning of year	219,139	29,149	4,684,944	2,687,640
	(165,414)	189,990	908,660	1,997,304
Current liabilities				
At end of year	692,288	989,717	2,833,592	3,412,003
At beginning of year	989,717	225,657	3,412,003	2,699,622
	(297,429)	764,060	(578,411)	712,381
Increase (decrease) in working capital	132,015	(574,070)	1,487,071	1,284,923

The accompanying notes are an integral part of the financial statements.

Consolidated statement of cash flows as at December 31

In thousands of Reais

	2002	2001
Cash flows from operating activities		
Net income for the year	1,510,313	784,568
Expenses (income) not affecting cash and cash equivalents		
Depreciation and amortization of deferred charges	659,506	613,872
Provision for contingencies and liabilities related to tax claims	123,714	33,907
Financial charges on provision for contingencies and liabilities related to tax claims	32,908	1,238
Provision for losses on inventories and permanent assets	113,557	54,007
Interest and charges on stock option plan	(88,095)	33,555
Interest and variations on taxes and contributions	(21,405)	33,077
(Gain) loss in disposal of property, plant and equipment	63,312	(1,497)
Foreign exchange variation and charges on financings	2,120,463	281,678
Foreign exchange variation and unrealized gains on financial assets	(1,007,183)	(100,182)
Unrealized (gain) loss on swap and forward contract activities	(316,597)	36,252
Benefit of deferred income tax and social contribution	(403,960)	(146,014)
Foreign exchange variation on subsidiaries abroad with no effect on cash	(108,714)	(13,955)
Amortization of goodwill, net of realized goodwill	90,463	94,151
Minority interests	(47,354)	(292)
(Gain) loss from changes in holding in subsidiaries		(16,153)
Decrease (increase) in current assets		
Financial investments, maturing in more than 90 days	(368,123)	325,959
Trade accounts receivable	107,887	(91,504)
Taxes recoverable	(35,596)	(81,513)
Inventories	37,825	(187,020)
Legal deposits	(51,317)	(79,645)
Other	(25,595)	(88,865)
Decrease (Increase) in current liabilities		
Suppliers	260,631	(7,705)
Payroll, profit sharing and social security charges	50,559	25,595
Income tax, social contribution and other taxes payable	(195,277)	45,815
Payments linked to contingency provision	(34,766)	(108,375)
Other	224,831	12,105
Net cash generated by operating activities	2,743,177	1,332,495

Consolidated statement of cash flows as at December 31

In thousands of Reais

	2002	2001
Cash flows from investment activities		
Investments in subsidiaries and affiliates, net of cash acquired	(75,525)	(220,118)
Disposal of property, plant and equipment	98,271	42,162
Acquisition of property, plant and equipment	(522,348)	(446,829)
Expenditure on deferred charges	(45,533)	(82,607)
Net cash cash flows from investment activities	(545,135)	(707,392)
Cash flows from financing activities		
Loans and financing		
Issuances	620,137	3,255,167
Amortization	(2,925,330)	(1,343,877)
Capital increase (decrease) of minority shareholders	10,501	(2,363)
Capital subscriptions	28,966	80,774
Loans to employees to purchase shares in stock ownership plan	26,184	(16,542)
Stock buybacks	(337,075)	(246,668)
Dividends and interest attributable to shareholders equity paid	(335,575)	(313,366)
Payment of appraisal rights to minority shareholders		(242,246)
Premium on option for stock buyback program		4,866
Cash flows generated (used) in financing activities	(2,912,192)	1,175,745
Unrealized foreign exchange and other gains on financial assets	1,007,183	100,182
Increase in cash and cash equivalents	293,033	1,901,030
Opening balance of cash and equivalents	2,476,476	575,446
Closing balance of cash and equivalents	2,769,509	2,476,476
Increase in cash and equivalents	293,033	1,901,030

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

In thousands of Reais

1 Operations

(a) General considerations

Companhia de Bebidas das Américas – AmBev ('The company' or 'AmBev'), headquartered in São Paulo, operates, directly or through holdings in other commercial or civil companies, in Brazil and in other Latin American countries, in the production and sale of beer, draft beer, soft drinks, other non-alcoholic and malt drinks.

The company has a franchise agreement with PepsiCo International, Inc. ('PepsiCo') to bottle, sell and distribute Pepsi products in Brazil, including the isotonic drink Gatorade. This last item is currently under analysis by the Brazilian anti-trust authority, CADE. There is also an agreement with PepsiCo for the bottling, sales and distribution outside Brazil of 'Guaraná Antarctica' by PepsiCo. This product is already sold in Portugal, Puerto Rico and Spain under the terms of this agreement.

The company has license agreements with Carlsberg A.S. and Miller Brewing Co. for the production of Carlsberg and Miller beers, as well as a joint venture with Unilever Brasil Ltda. for the production and distribution of Lipton Ice Tea.

AmBev's shares are traded on the São Paulo Stock Exchange – BOVESPA – and on the New York Stock Exchange – NYSE – in the form of American Depositary Receipts – ADRs.

(b) Main activities in Brazil in 2002

In June and July 2002, the company acquired, through its subsidiary, Companhia Brasileira de Bebidas – CBB ('CBB'), 11,808 common shares and 56,760 preferred shares of Cervejaria Astra S.A. – Astra for R$ 128,467, including goodwill of R$ 94,271, based on expected future profitability, to be amortized over 10 years. As a result of this acquisition, the company's holding rose from 65.46% to 96.73%.

In July 2002, the company acquired, through its subsidiary CBB, 841,966 common shares, 15,488 preferred shares Class A and 446,587 preferred shares Class B of Cervejaria Miranda Corrêa S.A. ('Miranda Corrêa'), for the sum of R$ 1.00 (one real), including goodwill of R$ 5,514 based on future profitability to be amortized over 10 years. As a result of this acquisition the company's holding rose from 60.79% to 99.41%.

As a result of this share increase, CBB assumed control of the management of Miranda Corrêa's operations, and began to fully consolidate this company's assets and liabilities in July 2002, as well as those of Astra from January 2002.

In August 2002, CBB returned capital to its shareholders amounting to R$ 1,342,073. The company's portion of this amount, R$ 1,338,275, was returned through the settlement of loans. Additionally the company increased the capital of its subsidiary, Eagle Distribuidora de Bebidas – Eagle ('Eagle'), by R$ 442,248, through the capitalization of loan balances.

Indústria de Bebidas Antarctica Polar S.A. ('POLAR') repurchased all of its own shares in August 2002 that had been traded on the market, for the amount of R$ 6,841, corresponding to 2.65% of total shares issued, with the subsequent sale of the holding of AmBev and its subsidiaries in POLAR to CBB, at the book value of R$ 88,322, resulted in the total amortization of the existing negative goodwill on this investment amounting to R$ 14,843.

(c) Main activities abroad in 2002

In January 2003, AmBev and Quilmes Industrial S.A. ('Quinsa') announced the approval of their strategic alliance. As a result of this transaction, the company will own 36.1% of the voting rights and a 37.5% economic interest in Quinsa and will proportionally consolidate its holding in this company. The transaction was carried out in various stages:

- AmBev contributed its assets in Argentina, Bolivia, Paraguay and Uruguay to Quinsa in exchange for 26.4 million Class B shares to be issued by Quinsa;
- AmBev bought 230.9 million Class A shares in Quinsa, held by its parent companies, for US$ 346.4 million;
- AmBev and Quinsa signed licensing and distribution agreements under which Quinsa will produce and sell AmBev beer brands in Argentina, Bolivia, Paraguay and Uruguay, and AmBev will import, produce and sell the brands belonging to Quinsa in Brazil.

Quinsa's controlling shareholders have the right to exchange their 373.5 million remaining Class A shares for shares in AmBev, in specific periods each year, beginning in April 2003. AmBev also has the right to decide whether these shares can be exchanged for AmBev shares at the end of the seventh year (starting from April 2003). In both cases, the number of AmBev shares to be issued to Beverage Associates Corp. ('BAC') will be based on the future Earnings Before Interest, Tax, Depreciation and Amortization ('EBITDA') of the two companies.

1 Operations continued

The conclusion of the transaction was authorized by the Argentine authorities subject to the following restrictions:

Within a period of 12 months from January 14, 2003, Quinsa and AmBev (the 'Parties') must:

- Sell to an independent, foreign brewer, which is financially sound and does not already produce beer in the Argentine market (the 'Buyer') the following assets:
  - The Bieckert and Palermo brands;
  - Transfer the production license of the Heineken brand. Should the transfer of this license not be possible, or considered damaging to the Parties, the Imperial brand must then be sold in place of the Heineken brand;
  - Sell the Norte brand, at the criterion of the Buyer, providing an agreement has been reached on the price. Should there be any impasse, this price will be determined through an evaluation to be made by an investment bank, appointed by the Parties, which has an internationally recognized reputation;
  - Sell the brewery located in Lujan, Buenos Aires, where the Brahma brand is currently produced.
- Sell to a third party, which is not the Buyer and does not produce beer in the Argentine market:
  - The malt production facility adjacent to the former Bieckert brewery in Llavallol, Buenos Aires. Alternatively, the Parties can agree to allow such a third party to run the facility for a period of 10 years.
- Submit within a period of 12 months from January 14, 2003, documentation by the two parties to the bodies which regulate competition in Argentina, providing proof that:
  - The two parties will submit within a period of 12 months from January 14, 2003, documentation to the Argentine competition authority, providing proof that:
  - They will allow the Buyer access to Quinsa's distribution network in Argentina for the brands sold to the Buyer for a period of seven years from the date of the sale of the above mentioned assets;
  - They will not induce consumers and clients to buy other products in operations matched with beer.
  - The Parties will commit to the Buyer the production of the Bieckert, Palermo and Heineken or Imperial brands (depending on the case), for a period of two years, from the date on which these assets are sold.

BAC and AmBev purchased all the shares of Quilmes International (Bermuda) Ltd ('QIB') held previously by Heineken for a total price of US$ 102.7 million. As a result of this transaction, AmBev and BAC will have 8.6% and 6.4% of the QIB shares respectively.

On October 24, 2002, the company and Central American Bottling Corporation ('CarbCorp') announced the formation of an alliance to exploit the beer market in Central America and the Caribbean.

2 Principal accounting practices

(a) Financial statements

The company's financial statements were prepared and are presented in accordance with Corporate Law accounting principles practiced in Brazil and consistent with the regulations of the Brazilian Securities Commission – CVM.

The preparation of financial statements requires the use of estimates for recording certain assets, liabilities and other transactions. Therefore, the financial statements include several such estimates related to the useful lives of fixed assets, provisions for contingent liabilities, income tax and other similar provisions which, while based on best estimates, may differ from the actual amounts.

(b) Determination of income

Income and expenses are recorded on an accrual basis. Sales revenues and related costs are recorded on delivery of goods.

(c) Current and long-term assets

Cash and cash equivalents, represented by highly liquid investments and securities maturing within 90 days or less, are recorded at market value. The financial investments are represented mainly by notes and securities in foreign currency, government securities and bank deposit certificates. Financial investments are shown at cost, including, when applicable, the return earned ('curve' of the securities); a provision for reduction to market values is recorded when necessary. (See note 2 (g)).

2 Principal Accounting Practices continued

The consolidated provision for overdue receivables of R$139,427 on December 31, 2002 (2001 – R$131,568) is recorded at an amount considered by management sufficient to cover probable losses arising from unpaid receivables.

Inventories are recorded at the average cost of purchase or production, adjusted by a provision for reduction to net realizable values, where necessary. At December 31, 2002 the consolidated provision for obsolete inventories amounted to R$28,660 (2001 -R$30,598), recorded in 'General supplies and others, net'.

Other current and long-term assets are recorded at cost, including, where applicable, accrued interest. A provision for reduction to market value is recorded when necessary.

(d) Permanent assets

The parent company records investments in subsidiaries and jointly controlled companies by the equity method of accounting, separating the cost of acquisition into equity value and goodwill and negative goodwill in its preliminary evaluation. The goodwill on investments is based on the appreciation of the fixed assets, and is amortized based on the depreciation or realization of the book value of the property, plant and equipment items of the subsidiary, whereas the goodwill attributable to future profitability is amortized between five and ten years; the amortization of goodwill is recorded under 'Other Operating Expenses.' The negative goodwill, attributed to various economic factors, will only be amortized in the case of disposal, in compliance with CVM regulations.

Property, plant and equipment is recorded at cost and includes bottles and crates, as well as interest costs incurred in financing the construction of major facilities. Maintenance and repair costs are charged to expenses when incurred. Losses from breakage of bottles and crates during production are included in cost of sales. Depreciation is calculated using the straight-line method, taking into account the useful lives of assets, at the annual rates listed in Note 5.

The amortization of deferred charges is calculated using the straight-line method, over a maximum period of ten years from the date the operation of these activities begins.

(e) Translation of financial statements of subsidiaries and affiliates abroad

With the exception of the subsidiaries mentioned in the following paragraph, the financial statements of subsidiaries and affiliates abroad are converted into Reais taking the local currency as their functional currency. Therefore, their assets, liabilities and net worth were converted into Reais at the actual exchange rate on the dates of the financial statements. Income statement items have been translated each month at the respective closing exchange rate of the month.

The United States dollar was considered to be the functional currency in the cases of Malteria Pampa S.A. ('Malteria Pampa'), Malteria Uruguay S.A. ('Malteria Uruguay') and the malt operations of Cerveceria y Malteria Paysandu S.A. ('Cympay'), as their revenues and cash flows are closely linked to this currency. As a result, the following recalculation procedures were adopted:

- Inventories, property, plant and equipment, accumulated depreciation, as well as shareholders' equity accounts have been recalculated in US dollars at historical exchange rates and converted into Reais, and the monetary assets and liabilities, at year-end exchange rates.
- Depreciation and other costs and expenses relative to assets calculated at historical exchange rates have been calculated based on the value of the assets in US dollars. The other income statement items were translated at the average exchange rates during the month.
- Gains and losses determined in the consolidation, arising from the recalculation process, are included in the company's results for the period, within 'Operating Income'.

2 Principal accounting practices continued

The financial statements for CCBA S.A.('CCBA') in Argentina and for C.A. Cevecera Nacional S.A. ('CACN') in Venezuela include monetary correction based on local price index variations (Argentina: measured by the National Statistics and Census Institute of Argentina – INDEC, which came to 118% in 2002; Venezuela: measured by Consumer Price Index – IPC, which came to 30% in 2002). The total effect of these monetary corrections during the year (considering the effects on the results for the year and on the shareholders' equity of the subsidiaries), before taxes, came to R$ 76,477 in Argentina and R$ 28,831 in Venezuela (accumulated this year R$ 80,623 in Argentina and R$ 7,416 in Venezuela) and was credited to the consolidated results for the period within 'Other Operating Income'.

In addition, the financial statements of the subsidiaries and affiliates abroad includes the foreign exchange gains or losses on assets and liabilities denominated in foreign currency. Gains and losses arising from the conversion process are also recognized in results for the year, within 'Operating Income'.

(f) Current and long-term liabilities

Current and long-term liabilities are stated at known or estimated values, including accrued charges and monetary and foreign exchange gains and losses, when applicable. Contingent liabilities are recorded when their realization is considered probable, at the loss value as determined by the external legal advisors of the company and its subsidiaries.

(g) Currency, interest and commodities forward and swap operations

The open balances of foreign currency, interest and commodities forward and swap operations are not recorded on the balance sheet. However, the unrealized net gains and losses from these operations, calculated based on the market value, are recognized on an accruals basis, in 'Financial Investments' and offset in 'Financial Income (expenses)'.

The net results of forward currency operations which have the specific aim of minimizing the company's exposure to the risk of market fluctuations on its main raw materials, denominated in foreign currency, are deferred and recognized in cost of sales when realized. This allows the correlation between the effect of such operations and the price paid for these raw materials.

(h) Provision for contingencies and liabilities related to tax claims

The provision for contingencies is recorded at current amounts, for labor, tax, civil and commercial claims being discussed at administrative and judicial levels, based on estimates of losses determined by the external legal advisers of the company and its subsidiaries for cases in which a loss is considered probable.

Tax savings obtained, based on provisional injunctions relating to claims filed by the company and its subsidiaries against tax authorities, are subject to provisioning until they are confirmed by a final decision in favor of the company and its subsidiaries.

(i) Investment tax credits

The company's subsidiaries have state tax incentive programs for the deferral of tax payments, which are partly or totally reduced. In some states the grace periods and reductions are unconditional. However, where such conditions have been established they are related to events under the company's and the subsidiaries' control. The benefits relative to the reduction in the payment of these taxes are treated as a reserve for investment tax credits and recorded in the shareholders' equity of subsidiaries, on an accruals basis, or when the subsidiaries comply with the main requirements of state programs to receive the benefit granted. In the consolidated financial statements, this benefit is recorded under 'Other Operating Income' (2002 – R$ 151,932; 2001 – R$ 95,984).

2 Principal accounting practices continued

(j) Income tax

Income tax and social contributions on net income are calculated at rates determined by the prevailing legislation. Income tax and social contribution charges are recorded on an accrual basis, including deferred taxes calculated on the difference between the book and tax bases of assets and liabilities.

A deferred income tax asset is also recorded, relating to future tax benefits of income tax credits and tax loss carry-forwards for subsidiaries in which the realization of such benefits is probable, within a maximum of 10 years, based on future income forecasts, discounted to present value, in compliance with CVM Deliberation 273/98 and CVM Instruction 371/02.

(k) Employee Benefits

As laid down in the Accountancy Rules and Procedures – NPC number 26 – 'Accounting for Employee Benefits', issued by the Institute of Independent Auditors of Brazil – IBRACON – and approved by CVM Deliberation 371, the company recognizes actuarial assets and liabilities related to benefits paid to employees.

As a result of the above dispositions, the company recorded directly in the shareholders' equity of its subsidiary, CBB, a net provision for benefits amounting to R$ 56,458, on December 31, 2001.

(l) Consolidated financial statements

The assets, liabilities and results of directly controlled subsidiaries were consolidated, with the interest of minority shareholders for the reporting period separated in the minority interests lines.

The investments in subsidiaries and the portion corresponding to their shareholders' equity, as well as assets and liabilities, and income and expenses, arising from transactions between consolidated companies, were eliminated in the consolidation.

The consolidated financial statements include the financial statements, at the same dates, of the companies controlled by the company, either directly or indirectly.

AmBev and Souza Cruz S.A. formed 'Agrega Inteligência em Compras Ltda'. ('Agrega'), in which AmBev holds 50% of total shares, to manage the purchase of indirect materials and services through a B2B – Business to Business Internet portal. For this jointly controlled subsidiary, through a shareholders' agreement, the company proportionally consolidates the assets and liabilities and the results according to Ambev's share of capital held . Agrega's consolidated proportional assets totalled R$ 1,401 on December 31, 2002 (2001 – R$ 1,385).

(m) Related party transactions

Transactions with related parties involve, among other operations, the purchase and sale of raw materials such as malt, labels, crown tops and various finished products, eliminated in the consolidated financial statements, with the exception of the non-consolidated part of transactions with jointly controlled companies (which are proportionally consolidated) and related parties.

Mutual loan agreements among the group's companies have undetermined expirations and are subject to financial and interest charges equivalent to those obtained by the company and its subsidiaries in raising funds on the market, consolidated on the same basis as described above.

(n) Reclassifications

The open balances of unrealized gains and losses in operations with derivatives instruments at December 31, 2001 was reclassified from cash and cash equivalents to financial investments in the interest of consistent disclosure with 2002.

In thousands of Reais

3 Inventories

	Consolidated 2002	Consolidated 2001
Finished products	157,778	158,681
Work in progress	50,786	50,085
Raw materials	425,321	379,043
Production materials	118,958	109,939
Bottles and crates	22,271	26,506
General supplies and other	84,587	82,425
	859,701	806,679

4 Other assets

	Parent company 2002	Parent company 2001	Consolidated 2002	Consolidated 2001
Current assets				
Other accounts receivable	287	3,040	89,081	109,673
Prepaid expenses			40,070	50,577
Advances to suppliers and others			10,616	15,341
Dividends receivable		146,701		1,191
Accounts receivable from affiliated companies	6,025			
	6,312	149,741	139,767	176,782
Long-term assets				
Other taxes recoverable	77,985	78,146	340,741	332,984
Prepaid expenses			51,146	61,345
Other accounts receivable			30,863	46,185
Surplus assets – Instituto AmBev			21,574	20,792
Accounts receivable from affiliated companies				35,075
	77,985	78,146	444,324	496,381

In thousands of Reais

5 Property, plant and equipment

			Consolidated
	2002	2001	Annual percentage rates of depreciation
Cost			
Land	147,129	154,360	
Buildings and constructions	1,895,040	1,887,088	4
Machinery and equipment	4,407,065	3,655,179	10 to 20
Vehicles	622,291	601,898	10 to 20
Other property and intangible assets	507,149	395,593	4 to 20
Fixed assets under construction	218,218	227,207	
	7,796,892	6,921,325	
Accumulated depreciation	(4,507,788)	(3,643,580)	
	3,289,104	3,277,745	

The subsidiaries had properties for sale on December 31, 2002, with a residual value of R$ 121,549 (December 31, 2001 – R$ 104,504), which is classified in long-term receivables at estimated realization values after deducting provisions for potential loss on realization amounting to R$ 55,861 (December 31, 2001 – R$ 43,892).

During 2002, the subsidiaries deactivated machinery, equipment and other assets which were of no further use. As a result the company recognized in its consolidated financial statements a loss amounting to R$ 6,517 in 'Non-operating income (expense), net', realizing net cash of R$ 5,384 from the sale and scrap value of these items.

6 Deferred charges

		Consolidated
	2002	2001
Cost		
Pre-operational	247,307	245,359
Implementation and expansion costs	214,073	189,540
Other	132,865	81,410
	594,245	516,309
Accumulated amortization	(438,806)	(347,519)
	155,439	168,790

In thousands of Reais

7 Investment in directly controlled subsidiaries

(a) Changes in ownership of directly controlled subsidiaries, including goodwill and negative goodwill

Description	CBB (i)	Agrega	Eagle	Hohneck (ii)	Polar	IBANN (iii)	Total
Balance on December 31, 2000	3,364,788						3,364,788
Acquisition of investment					113,235	564,498	677,733
Negative goodwill from incorporation of shares					(14,843)		(14,843)
Dividends received and receivable	(308,582)						(308,582)
Incorporation of IBANN						(577,883)	(577,883)
Capital increase (reduction) with assignment of shares and credits	(1,530,783)		955,368				(575,415)
Capital increase	532,338	2,699	347,000				882,037
Equity in the results	905,420	(1,883)	(12,438)		12,640	13,385	917,124
Amortization of goodwill	(84,737)						(84,737)
Balance on December 31, 2001	2,878,444	816	1,289,930		111,032		4,280,222
Acquisition of investment					333		333
Sale of investment					(88,322)		(88,322)
Dividends received and receivable					(44,346)		(44,346)
Effect of implementation of NPC 26	(56,299)						(56,299)
Capital increase (reduction) with assignment of credits	(1,338,275)	1,810	442,248				(894,217)
Equity in the results	(240,883)	(2,083)	1,483,388	215,456	6,460		1,462,338
Amortization of (goodwill) negative goodwill	(84,738)				14,843		(69,895)
Balance on December 31, 2002	1,158,249 (iv)	543	3,215,566	215,456			4,589,814

(i) Brahma was incorporated into CBB on March 31, 2000,
(ii) Headquartered abroad.
(iii) Indústria de Bebidas Antarctica do Norte e Nordeste S.A. – IBANN.
(iv) Balance composed of goodwill, net of amortization, of R$ 553,666, of negative goodwill of R$ 149,946, and of investments evaluated by the equity method of R$ 754,529

In thousands of Reais

7 Participation in directly controlled subsidiaries continued

(b) Goodwill and negative goodwill

	Parent company		Consolidated	
	2002	2001	2002	2001
Goodwill				
CBB – based on:				
Expected future profitability	702,760	702,760	702,760	702,760
Appreciation of property, plant and equipment	144,579	144,579	144,579	144,579
	847,339	847,339	847,339	847,339
Astra			123,211	28,940
Cympay			34,177	34,177
Pilcomayo			33,891	33,891
Malteria Pampa			28,101	28,101
Salus			19,001	19,001
Patí do Alferes			16,922	16,922
Miranda Corrêa			5,514	
Goodwill	847,339	847,339	1,108,156	1,008,371
Accumulated amortization	(293,673)	(208,935)	(331,316)	(226,008)
Total goodwill	553,666	638,404	776,840	782,363
Negative goodwill				
CBB	(149,946)	(149,946)	(149,946)	(149,946)
Polar		(14,843)		(14,843)
Total negative goodwill	(149,946)	(164,789)	(149,946)	(164,789)
Net total goodwill	403,720	473,615	626,894	617,574

7 Participation in directly controlled subsidiaries continued

(c) Subsidiaries

As at December, 31, 2002

Description		CBB	Agrega	Eagle	Hohneck
Number of shares/quotas held – in thousands					
Common shares/quotas		3,442,186	1,375	276	10,000
Preferred shares		6,073,132			
Total shares/quotas		9,515,318	1,375	276	10,000
Percentage of share capital					
In relation to preferred shares/quotas		99.5			
In relation to common shares		100.0	50.0	99.9	100.0
In relation to total shares/quotas		99.7	50.0	99.9	100.0
Information on the financial statements of the directly controlled subsidiaries:					
Adjusted shareholders'/quotaholders' equity		756,666	1,085	3,217,810	215,456
Adjusted net income (loss)		(334,370)	(4,169)	1,484,731	363,027

As at December, 31, 2001

Description	CBB	Agrega	Eagle	Hohneck	Polar
Number of shares/quotas held – in thousands					
Common shares/quotas	3,442,186	1,375	158	10,000	13,117
Preferred shares	6,073,132				22,000
Total shares/quotas	9,515,318	1,375	158	10,000	35,117
Percentage of capital					
In relation to preferred shares/quotas	99.5				87.2
In relation to common shares	100.0	50.0	99.9	100.0	19.4
In relation to total shares/quotas	99.7	50.0	99.9	100.0	37.8
Information on the financial statements of the directly controlled subsidiaries:					
Adjusted shareholders'/quotaholders' equity (net capital deficiency)	2,396,755	1,635	1,290,831	(147,570)	333,002
Adjusted net income (loss)	615,868	(3,766)	441,658	(28,052)	45,341

In thousands of Reais

7 Participation in directly controlled subsidiaries continued

(d) Principal indirect holdings in subsidiaries

Company name	Percentage of indirect holding 2002	2001
Brazil		
ANEP – Antarctica Empreendimentos e Participações Ltda.	100.0	100.0
Indústria de Bebidas Antarctica do Sudeste S.A.	98.8	98.8
CRBS S.A.	99.8	99.8
Cervejaria Astra S.A.	96.7	
Indústria de Bebidas Antarctica Polar S.A.		96.9
International		
Jalua Spain S.A.	100.0	100.0
Monthiers S.A.(*)	100.0	100.0
CCBP S.A.	100.0	100.0
CCBA S.A.	70.0	70.0
C.A. Cervecera Nacional S.A.	50.2	50.2

(*) Wholly-owned subsidiary of Jalua Spain S.A.

8 Loans and financing – consolidated

Type/Purpose	Financial charges per annum	Final maturity date	Current 2002	Current 2001	Long-term 2002	Long-term 2001
Local currency						
Fiscal incentives – ICMS	1.82%	January 2012	31,362	25,034	310,651	235,305
	2.93% over TJLP					
Fixed assets		December 2008	237,721	216,820	408,294	535,665
Other				29,131		
			269,083	270,985	718,945	770,970
Foreign currency						
Syndicated loan	2.4% over LIBOR quarterly	August 2004	7,062	3,016	1,150,760	691,710
Bond issues	10.7%	December 2011	9,240	4,379	1,766,650	1,160,200
Other (*)	139.56%	April 2005	63,438	223,530	1,251	71,258
Raw material imports	6.12%	December 2010	207,607	1,141,943	81,505	36,509
Acquisition of equipment	8.86%	January 2009	50,948	76,136	160,168	118,706
			338,295	1,449,004	3,160,334	2,078,383
			607,378	1,719,989	3,879,279	2,849,353

(*) IIncludes financings (including interest) linked to local currency in Argentina and Venezuela.
Abbreviations:
- TJLP – Long-term interest rate
- IRRF – Withholding Income Tax
- LIBOR – London Interbank offered rate
- ICMS – Value added tax on sales and services

In thousands of Reais

8 Loans and Financing – consolidated continued

(a) Guarantees

Loans and financings for the expansion and construction of new plants, and the purchase of equipment are guaranteed by mortgages of properties, value of plants and financial liens on equipment. Loans for the purchase of raw materials, mainly malt, syndicated loan and the issuing of external debt notes are guaranteed by the collateral signature of AmBev companies.

(b) Maturity

On December 31, 2002 long-term loans and financing matured as follows:

2004	1,459,955
2005	239,223
2006	172,100
2007	131,033
2008	61,714
Thereafter, 2009 to 2011	1,815,254
	3,879,279

(c) Sales tax ICMS incentives

Description	2002	2001
Short and long-term balances for		
Financing	342,013	260,339
Sales tax deferrals	460,986	486,469
	802,999	746,808

The financings refers to programs offered by certain states under which a percentage of tax due is financed by the state's treasury agent, usually over five years from the date of maturity.

The amount of R$ 460,986 in 'Deferred taxes on sales' contains a current portion of R$ 154,095 classified in 'Other taxes and contribution'.

The remaining amounts refer to the maturity of deferred ICMS, for periods of up to 10 years, as part of the incentive program for industry. The deferred percentages may be fixed during the program or vary progressively, from 75% in the first year to 40% in the last year. The deferred amounts are partially indexed at a percentage from 60% to 80% of a general price index.

(d) Syndicated loan

The syndicated loan in Yen is guaranteed by collateral signatures of AmBev and its subsidiaries. On December 31, 2002, through a LIBOR swap, this loan was indexed to a fixed interest rate of 5.95% per annum.

(e) Debt issued on the international market

In December 2001, CBB issued US$ 500 million Notes, with a full and unconditional guarantee by AmBev. These bonds incur 10.7% interest per annum, payable every six months, with final maturity in December 2011.

The company registered these bonds on October 4, 2002 with the Securities and Exchange Commission – SEC. Such registration annulled the 0.5% per annum interest rate increase as foreseen in the contract in the event that the exchange was not consummated to cause the Notes to become freely transferrable within one year.

(f) Contractual clauses

The company is fully compliant with indebtedness and liquidity ratio commitments as regards the commitments detailed in (d) and (e) above.

In thousands of Reais

9 Liabilities related to tax claims and provision for contingencies

	Consolidated	
	2002	2001
Social Integration Program – PIS and Contribution for Social Security Financing	260,304	119,700
ICMS and Excise Tax on Industrial Production – IPI	458,071	472,917
Income tax and social contribution	66,693	40,769
Labor litigation	131,465	108,298
Distributor claims	18,720	30,012
Other	79,695	43,791
	1,014,948	815,487

The company and its subsidiaries have other lawsuits of a similar nature in process which, in the opinion of its legal advisers, are subject to possible, but not probable, losses of approximately R$ 976,000.

The main liabilities associated with tax claims and contingency provisions are the following:

(a) Indirect taxes – ICMS and IPI

The provision is related mainly to tax claims on zero rate IPI presumed credits and to extemporaneous ICMS and IPI credits on purchases of property, plant and equipment carried out 1996.

(b) Social Integration Program (PIS) and Contribution for Social Security Financing (COFINS)

The company obtained an injunction in the first quarter of 1999 which guaranteed the right until December 2001 to withhold PIS and COFINS on billings, exempting it from withholding such taxes on other receipts. On December 31, 2002, the provision refers mainly to the amounts which had not been withheld under the protection of this injunction. However, with the coming into effect of Law 10.637 of December 31, 2002, which established new rules regarding the calculation of PIS, effective from December 1, 2002, the company began paying this contribution.

(c) Income tax and social contribution

The provision relates mainly the deduction of interest on own capital paid in 1996, when calculating the social contribution payable for 1996.

(d) Labor claims

This provision relates to complaints by former employees. On December 31, 2002, judicial deposits linked to these claims effected by the company, updated in accordance with the official indices, totalled R$ 74,733 (2001 – R$ 53,567).

(e) Distributor claims

These arise mainly from cancelled agreements between the company's subsidiaries and certain distributors, by virtue of the restructuring of the distribution network, as well as in some cases, because of a distributors' non-compliance with company directives.

(f) Other provisions

These mainly relate to issues involving the National Social Security Institute – INSS, products and suppliers.

In thousands of Reais

10 Other liabilities

	Parent company		Consolidated	
	2002	2001	2002	2001
Current liabilities				
Dividends payable	345,003	177,392	345,709	182,593
Employee and management profit sharing	15,590		134,582	76,570
Other accounts payable	41		126,595	46,382
Accounts payable of subsidiaries	329,555	770,390	76,762	
	690,189	947,782	683,648	305,545
Long-term liabilities				
Provision for medical assistance benefits and other			53,428	55,558
deferred income tax and social contributions			25,693	31,579
Other accounts payable			29,403	7,884
Suppliers credits			29,381	633
Provision for losses on unsecured liabilities of subsidiaries		147,570		
Zerrenner Foundation				56,987
		147,570	137,905	152,641

11 Social programs

(a) AmBev Private Pension Plan Institute – Instituto AmBev

CBB and its subsidiaries have two types of pension plans: a defined contribution model (open to new members) and a defined benefit model (no new members accepted since May 1998), with the possibility of migrating from the defined benefit plan to the defined contribution plan. These plans are supported by members and the sponsor and managed by Instituto AmBev; Their main purpose being to supplement the retirement benefits of the employees and managers. In the year ended December 31, 2002, the company and its subsidiaries contributed R$ 4,181 (2001 – R$ 805) to Instituto AmBev.

Based on the report of the independent actuary, the position of the plans on December 31 was as follows:

	2002	2001
Fair value of plan assets	458,718	417,545
Present value of actuarial liability	(325,557)	(272,787)
Surplus assets – Instituto AmBev	133,161	144,758

This asset was recognized by the company at the realizable limit considered probable under current circumstances, of R$ 21,574 (2001 – R$ 20,792), in 'Surplus assets – Instituto AmBev'.

In thousands of Reais

11 Social programs continued

(b) Medical and other benefits provided by CBB

CBB provides direct medical assistance and benefits, paying the costs of medicine and other items for pensioners.

The provision on December 31, 2002 amounted to R$ 53,428 (2001 – R$ 55,558), in accordance with the independent actuary's calculations, and was fully recognized in the company's financial statements in 'Provision for employee benefits'.

Changes in the provision:

Balance on December 31, 2001	55,558
Sponsor's contribution	(5,510)
Actuarial calculation update	3,380
Balance on December 31, 2002	53,428

(c) Antônio and Helena Zerrenner Foundation

The Zerrenner Foundation's main purposes are to provide the sponsoring companies' employees and managers with medical, hospital and dental assistance, provide professional specialization or university courses, and maintain organizations that provide assistance to the elderly, amongst others, through direct actions or financial aid agreements.

The actuarial liability for the benefits provided by the Zerrenner Foundation of R$ 76,762 on December 31, 2002 (2001 – R$ 61,487), based on the calculation reported by the independent actuary, was fully compensated by the same amount from the existing assets of the Zerrenner Foundation on the same date, and the surplus balance of assets was not recognized by the company in its financial statements, in accordance with NPC 26.

The changes in the actuarial liability of the Zerrenner Foundation were as follows:

Balance on December 31, 2001	61,487
Statutory participation	12,775
Actuarial calculation update	2,500
Balance on December 31, 2002	76,762

(d) Actuarial assumptions

The assumptions adopted by the independent actuary in calculating the actuarial obligation were as follows:

	Annual percentage	
	2002	2001
Discount rate	14.48	8.12
Expected return on assets	18.00	8.12
Increase in remuneration component	11.24	5.10
Increase in medical service costs	11.24	7.10

12 Shareholders' equity

(a) Subscribed and paid-up capital

On December 31, 2002, the company's capital amounted to R$ 3,046,244, (2001 – R$2,944,288) and is represented by 38,620,730,000 shares, (2001 – 39,741,398,000) comprised of 15,795,903,000 common shares (2001 – 16,073,049,000) and 22,824,827,000 preferred shares (2001 – 23,668,349,000), all nominative with no par value.

In April 2002, the company decided to cancel 1,504,743,000 of its own shares, of which 277,146,000 were common and 1,227,597,000 preferred, without reducing the share capital. The company also decided to increase share capital by R$ 101,956, through a private subscription of 384,075,000 preferred shares, with no par value, already fully paid-up, exclusively for the Stock Ownership Plan.

(b) Warrants

The company has 404,930,000 outstanding warrants, being 142,039,000 for the subscription of common shares and 262,891,000 for preferred shares, which give the right to subscribe AmBev's shares, in the proportion of five shares for each warrant of the same class of shares. The exercise of the warrants will take place in April 2003.

The company's understanding is that the subscription price must be determined based on the original subscription price of R$ 200 per 1,000 shares, adjusted as stated in the issue notice, with a restatement based on the IGP-M inflation index, plus 12% interest per annum, calculated 'pro rata temporis', and reduced by the amount of dividends paid.

If public or private subscriptions occur at prices below the (theoretical) warrant price, the price will be adjusted to match such a subscription price and all subsequent corrections will be resumed at this new level. This determination aims to ensure that any new share issues, at prices below the warrant price, should also benefit the warrant owners, as is usual when issuing convertible debentures.

On November 1, 2002, AmBev was informed by the CVM that its General Counsel's office had a different understanding of the issue and considered that the price determined for exercise of the warrants should be the price of the subscriptions realized from 1996 to 2003, limited to the scope of the company's Stock Ownership Plan.

AmBev believes that the CVM General Counsel's interpretation is mistaken and intends to continue to appeal their understanding, based on the advice of counsel. The company is concerned – above all – that the differing interests of the warrant holders and the shareholders receive fair treatment.

(c) Appropriation of net income

The company's by-laws provide for the following appropriation of net income for the year, after deductions provided in law:

- 27.5% as mandatory dividend payment to all shareholders. Pursuant to a legal determination, preferred shares are entitled to a dividend 10% greater than that paid to common shares.
- An amount not lower than 5% and not higher than 68.8% of net income, for the constitution of an investment reserve, to finance the expansion of the activities of the company and its subsidiaries, including subscriptions to capital increases or the creation of new businesses. This reserve is included in the capital budget approved by the Board of Directors.
- Constitution of a reserve for future capital increase with the remaining balance of net income for the year.
- Distributions to employees for profit sharing, limited to 10% of net income for the year, based on pre-determined criteria. The directors are entitled to a maximum of 5% of net income for the year, limited to their annual salary. Profit sharing is conditional on the achievement of collective and individual goals, previously fixed by the Board of Directors at the beginning of the year.

In thousands of Reais

12 Shareholders' equity continued

(d) Proposed dividends

The calculation of the dividends, approved by the Board of Directors, from net income for the year ended December 31 is as follows:

	2002	2001
Net income for the year	1,510,313	784,568
Constitution of the legal reserve (5%)	(75,516)	(39,228)
Calculation base for dividends	1,434,797	745,340
Interim dividends	160,883 (i)	284,609
Complementary dividends	341,446	52,000
Withholding tax on the dividends in the form of interest on own capital		(42,691)
Total of proposed dividends, net of withholding tax	502,329	293,918
Dividends as a percentage of the calculation base – %	3,501	3,943
Dividends per lot of 1,000 shares outstanding (excluding treasury shares) at the year end – R$		
Common	12.40	7.17
Preferred	13.64	7.89

(i) In September 2002, the Board of Directors approved the interim dividend of R$ 3.97 per 1,000 common shares and R$ 4.36 per lot of 1,000 preferred shares, excluding withholding tax, in line with the prevailing legislation. Payments began on November 25, 2002 to holders of record as of October 25, 2002.

(e) Reconciliation of parent company and consolidated shareholders' equity on December 31, 2002

Shareholders' equity of the parent company	4,232,166
Shares held in treasury acquired by the parent company CBB	(102,519)
Total consolidated shareholders' equity	4,129,647

In thousands of Reais

12 Shareholders' equity continued

(f) Treasury shares

The Board of Directors approved a stock buyback program. The company is authorized, for renewable periods of up to 90 days, to acquire shares within established limits.

On December 31, 2002, the company held R$ 78,027 (2001 – R$ 387,888) in treasury shares.

Changes in treasury shares:

Description	Quantity
Common	
Balance on December 31, 2001	227,961
Bought/re-bought	89,585
Cancelled	(277,146)
Balance on December 31, 2002	40,400
Preferred	
Balance on December 31, 2001	701,826
Bought/re-bought	701,285
Cancelled	(1,281,323)
Balance on December 31, 2002	121,788

In January 2003, the company launched a new buyback program for its common and preferred shares, amounting to R$ 200,000, in conformity with CVM Instruction 10/80. During the following 90 days the company may buy back up to 7.21% of the common shares and 8.71% of the preferred shares in circulation in each class.

On December 31, 2002, CBB owned 50,005,000 common shares and 150,791,000 preferred shares (2001 – 50,005,000 common shares and 150,470,000 preferred shares) in treasury, amounting to R$ 102,519 (2001 – R$ 101,553).

In thousands of Reais

13 Stock ownership plan

(a) Stock ownership plan

AmBev has a plan through which employees may acquire stock in the company as a means of attracting and maintaining the services of directors and qualified employees. The plan, as defined in the company by-laws, is managed by a committee comprising non-executive members of the company. This committee periodically establishes stock ownership programs for common and preferred shares, defining the terms and categories of employees to benefit, and sets the price at which options will be exercised. This price cannot be below 90% of the average stock price traded on the São Paulo Stock Exchange during the three business days prior to granting such options, indexed to inflation to the date of actual exercise. The number of options granted each year may not exceed 5% of the total number of shares of each class on that date. (0.03% and 1.30% in 2002 and 2001, respectively).

When options are exercised, the company can opt to issue new shares, or use its treasury shares. There is no deadline for the exercise of stock options once granted. If the employee ceases to be employed by the company, the options expire; and the company has the right to repurchase any shares bought by the employee at a price equal to:

- the price paid by the employee, adjusted by inflation, should the shares be sold within the first 30 months following the exercise of the option;
- 50% at the price paid, adjusted by inflation, and another 50% at the market price, if the employee sells the shares after the first 30 months but before the 60th month after the exercise of the option;
- at market price if sold at least 60 months after the exercise of the option.

Additionally, participants who do not allocate at least 70% of their annual bonus, net of income tax and other charges incident thereon, to subscribe shares under the stock ownership plan, will loose underlying options of the same amount, unless the equivalent figure had been previously subscribed in cash by the employee.

The company may finance the purchase of shares in accordance with rules set forth by the plan. Financing arrangements are normally for periods of no more than four years and accrue 8% interest per annum over the IGPM – general price index. Loans are guaranteed by the shares issued when the option is exercised. On December 31, 2002 these loans totalled R$ 324,784 (2001 – R$ 215,248).

A summary of the changes in stock ownership plan options for the reporting periods ending on December 31 is as follows:

	Options granted (thousands)	
	2002	2001
Balance of exercisable stock options at the beginning of the year	1,031,221	1,241,355
Changes during the year		
Exercised	(384,074)	(569,108)
Cancelled	(16,847)	(140,776)
Granted	10,500	499,750
Balance of exercisable stock options at year end	640,800	1,031,221

(b) Premium in the placement of options for the stock buyback program

At the beginning of 2002, the company repurchased shares issued in December 2001 by exercising options to buy its own shares, for a total amount of R$ 89,099, at an average price per lot of 1,000 shares of R$ 472.98. The net premium received in 2001 in placing these options was R$ 4,866, recognized as capital reserve in the shareholders' equity account.

In thousands of Reais

14 Treasury

(a) General considerations

A substantial part of the company's loans and financings are denominated in foreign currency. The company also has assets in the Southern Cone (Mercosul), Venezuela and Central America, which at December 31, 2002 represented approximately 27% and 5% of consolidated assets and sales, respectively.

The company and its subsidiaries hold cash and cash equivalents in foreign currency, as well as realize currency, interest rate, and commodity swap operations and currency forward operations for protection against exposure to market fluctuations in foreign currencies, interest rates and commodity prices, particularly aluminum.

(b) Derivative instruments

Nominal value of open derivatives contracts on December 31, 2002:

Description	Nominal amount
Currency hedge	
Yen/R$	1,059,723
US$/R$	2,300,012
Interest rate hedge	
Floating LIBOR/Fixed LIBOR	1,277,366
CDI x Futures	(42,144)
Commodities hedge (variable cost and currency)	
Sugar	181
Aluminum	166,364
Total	4,761,502

- Unrealized gains and losses

Unrealized gains and losses represent the current amount receivable (to pay) should all the operations be settled on December 31, based on the probable market value. On December 31, 2002, the balance of unrealized gains (losses) in derivative operations, recognized in 'Financial Investments' and 'Financial income (expenses)', was R$ 240,329 (2001 – loss of R$ 35,795).

- Currency and interest rate hedge

The book value of these financing instruments are restated based on the prices in their corresponding markets on December 31, 2002.

- Currency and commodities hedge

The book value of these financing instruments are restated to market value. During the year ending December 31, 2002 the amount of R$ 4,916, arising from the positive net result of these operations with the specific purpose of minimizing the company's exposure to fluctuations in foreign currency and the prices of raw materials to be acquired, was deferred, and will be recognized in the income statement when the corresponding sale of the finished product occurs.

During the year ended December 31, 2002, the amount of R$ 345,649, arising from the positive net result of these operations, was recognized as a credit in cost of sales. Additionally, credits amounting to R$ 11,847 and R$ 14,153, respectively, were recognized as selling, general and administrative expenses.

In thousands of Reais

14 Treasury continued

(c) Concentration of credit risk

A substantial proportion of sales are to distributors within a wide-ranging distribution network. The credit risk is reduced due to the large number of clients and the control procedures in place to monitor this risk. Historically, AmBev and its subsidiaries have not recorded significant losses on client receivables.

To minimize the credit risk to its investments, the company has adopted policies in the allocation of cash and investments, taking into consideration the limits and credit ratings of financial institutions, to prevent credit risk concentration.

(d) Financial income and expenses

	Consolidated	
	2002	2001
Financial income		
Financial instruments gain (*)	1,202,400	
Foreign exchange gain on financial investments	1,007,183	100,182
Interest income on cash and cash equivalents	120,502	156,418
Interest on taxes, contributions and restricted court deposits	34,165	47,282
Other	166,007	54,494
	2,530,257	358,376
Financial expenses		
Foreign exchange loss on loans and financings	1,738,770	188,508
Financial instruments loss (*)	883,569	193,965
Interest expense on foreign currency debts	332,435	151,484
Interest expense on local currency debts in Reais	109,395	112,258
Taxes on financial transactions (CPMF)	94,994	99,485
Interest on contingencies and other items	95,660	69,595
Other	22,520	46,196
	3,277,343	861,491

(*) Includes the effects of marking to market value the company's financial investments.

The financial investments, as well as the derivative instruments, are restated based on their specific market valuations. The financial liabilities, represented mainly by the issue of bonds, syndicated loans and import finance are recorded at cost, restated to their initial contracted interest rates, including monetary and foreign exchange variations, based on closing rates for each year.

In thousands of Reais

14 Treasury continued

The market value of the financial investments was hedged against the financial liabilities which did not impede redemption at any time, although the intention is to hold them to maturity. Therefore, should these instruments be settled only on their respective maturity dates, the negative effect between the market value and the estimated yield curve of the securities should be totally eliminated. Had the company also been able to adopt the same criterion to recognize its financial liabilities at market value, there would have been an unrealized pre-tax gain of approximately R$461,634 at December 31, 2002, as shown below:

Financial liabilities	Book value	Market value	Unrealized gain
Bonds	1,775,890	1,377,413	398,477
Syndicated loan	1,157,823	1,103,525	54,257
Import finance	105,619	96,719	8,900
	3,039,332	2,577,698	461,634

The criteria used to determine these gains were:

- Bonds: secondary market value of the bonds based on the closing price on December 31, 2002 (approximately 77.53% of face value).
- Syndicated loan: estimated value based on the secondary market for securities carrying a similar risk (average of 6.90% per annum).
- Import finance: estimated value for negotiating new operations as at December 31, 2002, as informed by financial institutions, for instruments with similar maturity and terms (on average 11.50% per annum).

In thousands of Reais

15 Income Tax and Social Contribution on Net Income – CSLL

(a) Reconciliation of income tax and social contribution benefit (expense) to nominal rates

	2002	2001
Consolidated net income before income tax and CSLL	1,307,359	993,325
Statutory distributions and contributions	(125,039)	(157,075)
Net income before income tax, CSLL and minority interest	1,182,320	836,250
Income tax and CSLL expenses at nominal rates	(401,989)	(284,325)
Adjustments to determine the effective rate		
Benefit from deduction of interest on own capital		96,767
Gains from participations arising from corporate restructurings		(41,053)
Results of subsidiaries abroad not subject to taxation	621,481	151,472
Equity gains on reserve for tax incentives in subsidiaries	51,657	32,634
Permanent exclusions and deductions	9,491	(7,469)
Income tax and CSLL benefit (expense)	280,640	(51,974)

(b) Composition of income tax and social contribution expense (benefit) on net income

	Parent company		Consolidated	
	2002	2001	2002	2001
Current		(6,226)	(123,320)	(197,988)
Deferred	20,441	22,172	403,960	146,014
Total	20,441	15,946	280,640	(51,974)

(c) Composition of deferred taxes

	Parent company		Consolidated	
	2002	2001	2002	2001
Long-term receivables				
Tax loss carryforwards	95,054	72,078	1,080,581	765,065
Temporary differences				
Non-deductible provisions	42,563	44,803	350,764	302,729
Employees profit-sharing			31,050	16,625
Other	2,157	2,453	95,953	75,855
	139,774	119,334	1,558,348	1,160,274
Long-term liabilities				
Temporary differences				
Accumulated depreciation			17,861	28,833
Other			7,832	2,746
			25,693	31,579

In thousands of Reais

15 Income Tax and Social Contribution on Net Income – CSLL continued

Based on projections of future taxable income of the parent company and subsidiaries located in Brazil and abroad, the estimated recuperation of the consolidated asset balance of deferred income tax and social contribution on tax losses is as follows:

	Nominal amounts (millions of Reais)
2003	89
2004	160
2005	203
2006	258
2007	308
2008	62
	1,080

The recorded asset is limited to the amount for which off-set is supported by profit projections for the next 10 years, discounted to present value, according to CVM Instructions 273/98 and 271/02, it also considers that the offset of tax losses is limited to 30% of pre-tax income for the year, in line with Brazilian tax legislation.

The deferred income tax asset includes the effect of tax losses of Brazilian subsidiaries which cannot be written off, and can be offset by future taxable income, and results in the amount of R$ 143,732. The company is studying the use of this credit. Additionally, the corresponding benefit for tax losses in companies abroad, amounting to R$ 132,615, was not recorded as an asset, since management can not assure that realization is probable.

It is estimated that the balance of deferred taxes for temporary differences on December 31, 2002 will be realized by the end of 2008. However, it is not possible to foresee with any reasonable precision the years in which they will be realized, since most of these differences are subject to judicial decisions over which the company has no control nor any means of foreseeing when there will be a final decision.

The projections for the generation of future taxable income include several estimates related to the performance of the Brazilian and world economies, exchange rates, sales volumes, sales price, tax rates that may differ from current data and figures.

Since the income tax and social contribution on net income derive not only from taxable income, but also from the company's taxable and shareholding structure, the existence of non-taxable income, non-deductible expenses, tax exemption and incentives and other variables, there is no relevant correlation between the company's net income and the income tax and social contribution result. Therefore, the manner in which tax losses are used should not be taken as an indicator of the company's future profits.

Notes to the financial statements

In thousands of Reais

16 Other operating income (expenses), Net

	Parent company		Consolidated	
	2002	2001	2002	2001
Operating income				
Gains and equity increases of subsidiaries			151,932	95,984
Monetary variations on investments abroad			128,829	
Other operating income		3,543	45,959	49,596
Recovery of taxes and contributions		1,073	26,644	105,006
Write-off of negative goodwill on investment sale	14,843		14,843	
Reversal of provision for loss on net capital deficiency	190,016			
	204,859	4,616	368,207	250,586
Operating expenses				
Provision for loss on net capital deficiency	(42,466)	(28,196)		
Goodwill amortization	(84,738)	(84,737)	(105,306)	(94,151)
Other operating expenses	(3,761)		(63,470)	(4,204)
	(130,965)	(112,933)	(168,776)	(98,355)
Operating income (expenses), net	73,894	(108,317)	199,431	152,231

17 Non-operating income (expenses), Net

	Parent company		Consolidated	
	2002	2001	2002	2001
Non-operating income				
Gain from participation in investments		18,269	31,806	16,153
Other non-operating income		10,567	4,020	5,065
		28,836	35,826	21,218
Non-operating expenses				
Provision for loss on other investments			(69,877)	
Loss on disposal of fixed assets			(12,432)	(3,568)
Other non-operating expenses			(25,665)	(15,324)
			(107,974)	(18,892)
Non-operating income (expenses) net		28,836	(72,148)	2,326

18 Insurance

On December 31, 2002, the main assets of the company and its subsidiaries, such as property, plant and equipment and inventories, were insured against fire and other risks, based on the respective replacement values. Coverage is higher than the book value of these assets.

Investor information

Share owners of record at year end 2002: 34,000.

Shares outstanding at year end 2002: 38,258 million shares and 382.6 million ADR equivalents.

Stock Exchange

Bovespa:

Ticker symbol: AMBV3 (ON), AMBV4 (PN)

Common stock listed and traded:
Bolsa de Valores de São Paulo (Bovespa)

The principal indices AmBev participated in are:
IBX and Ibovespa

NYSE:

Ticker symbol: ABV.c (ON), ABV (PN)

ADR listed and traded: New York Stock Exchange (NYSE)

Dividend policy

AmBev's by-laws provide for a mandatory dividend of 27.5% of the company's annual net income, as determined by Brazilian Corporate law accounting principles. The actual pay out ratio was 35% in 2002 and 39% in 2001. The mandatory dividend includes amounts paid as interest attributable to shareholders' equity. This is equivalent to a dividend but is a more tax efficient way to distribute earnings as they are generally deductible by the company for Brazilian income tax purposes. However, shareholders (including holders of ADSs) pay Brazilian withholding tax on the amounts received as interest attributable to shareholders' equity, whereas no such payment is required in connection with dividends received. Withholding tax is usually paid by Brazilian companies on behalf of their shareholders.

Cash dividends declared

Earnings generated	First payment date	Reais per 1,000 shares		US dollar equivalent per 1,000 shares at payment date
Second half 2002	28 Feb 03	9.28	preferred	2.57
		8.43	common	2.33
First half 2002	25 Nov 02	4.36	preferred	1.23
		3.97	common	1.12
Second half 2001	19 Feb 02	4.78	preferred	1.97
		4.34	common	1.79
First half 2001	17 Sep 01	3.11	preferred	1.16
		2.83	common	1.06
Second half 2000	20 Feb 01	4.11	preferred	2.05
		3.74	common	1.86
Extraordinary	30 Nov 00	2.38	preferred	1.22
		2.38	common	1.22
Extraordinary	23 Mar 00	1.88	preferred	1.09
		1.88	preferred	1.09

Share price performance

	31/12/2002	31/12/2001	% Change 01/02	31/12/2000	% change 00/02
AMBV4 (PN)	540.00	476.00	13.45%	470.00	14.89%
AMBV3 (ON)	478.00	428.00	11.68%	470.00	1.70%
ABV (US$) (PN)	15.56	20.29	– 23.31%	25.75	– 39.57%
ABV.c (US$) (ON)	13.00	18.52	– 29.81%	22.50	– 42.22%
IBOVESPA	11,268.50	13,577.60	– 17.01%	15,259.29	– 26.15%
S&P 500 (US$)	879.82	1,148.08	– 23.36%	1,320.28	– 33.36%

AmBev has two classes of shares, common (ON) and preferred (PN). Common share holders are entitled to voting rights, while preferred shares have priority in liquidation. As per brazlilan Corporate law, dividend payments to preferred shareholders must be 10% greater than those made to common shareholders.

Investor information

Ratings

Agency	Rating	Outlook
Fitch	BBB-	stable
Moody's	Baa3	stable
S&P	BBB-	negative

Shareholder account assistance

For address changes, dividend checks, account consolidations, direct deposit of dividends, registration changes, lost stock certificates, stock holdings and Dividend and Cash Investment plan, please contact:

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Banco Itaú

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Email: ir@ambev.com.br

Investor website

Investor website has additional company financial and operating information, as well as transcripts of conference calls. Investors may also register to automatically receive press releases by email and be notified of company presentations and events.

Publications

The company's Annual Report, Proxy Statement, Form 20-F reports are available free of charge from the Investor Relations Department, listed above. If you are receiving duplicate or unwanted copies of our Annual Report, please contact the Investor Relations Department.

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