UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the fiscal year ended December 31, 1999

Commission file number 1-14630

COMPANHIA CERVEJARIA BRAHMA

(Exact name of Registrant as specified in its charter)

BRAHMA BREWING COMPANY

(Translation of registrant's name into English)

Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

Avenida Maria Coelho Aguiar, 215, Bloco F, 6° andar
05804-900 São Paulo, SP, Brazil
Telephone (55-11) 3741-7000
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Preferred shares, no par value per share, each represented by American Depositary Shares	New York Stock Exchange
Common shares, no par value per share, each represented by American Depositary Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

4,287,944,559 Preferred shares, no par value per share

2,635,679,468 Common shares, no par value per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _____ No X

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 ____ Item 18 X

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INTRODUCTION

All references in this annual report to "Registrant", "Brahma" or "we" are references to Companhia Cervejaria Brahma and its consolidated subsidiaries.

Presentation of Brahma's Form 20-F

On July 1, 1999, the Registrant, Companhia Cervejaria Brahma (Brahma), announced a proposed business combination with Companhia Antarctica Paulista Indústria Brasileira de Bebidas e Conexos (Antarctica). The proposed combination involves the formation of Companhia de Bebidas das Américas - AmBev (AmBev), a holding company that would have Brahma and Antarctica as wholly owned subsidiaries. As a result of the proposed combination of Brahma and Antarctica and the formation of AmBev, Brahma's annual report on Form 20-F contains information about Antarctica. See the description of the combination in "Item 1.—Description of Business—Brahma—Combination of Brahma and Antarctica and the Formation of AmBev".

Currency Presentation and Exchange Rates

In this annual report, references to "U.S. dollar", "U.S. dollars" or "US$" are to United States dollars and references to "*real*" (singular), "*reais*" (plural) or "R$" are to the Brazilian legal currency. Unless otherwise stated, or unless the context otherwise requires or implies, all information presented in U.S. dollars in this annual report has been translated at a rate of R$1.7473 to US$1.00, which was the commercial market rate for the purchase of U.S. dollars in effect on March 31, 2000, as disclosed by the Central Bank of Brazil (Central Bank). The commercial market rate on May 31, 2000 was R$1.8266 to US$1.00. The U.S. dollar equivalent information presented in this annual report is provided solely for the convenience of the readers of this annual report and should not be construed as implying that the Brazilian currency amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any rate.

There are two principal legal foreign exchange markets in Brazil: the commercial market and the floating market. The commercial market is reserved primarily for foreign trade transactions and transactions that generally require prior approval from the Central Bank, such as payments of and with respect to debt instruments, the purchase and sale of registered investments by foreign persons and related remittances of funds abroad. Exchanges of foreign currency in the commercial market may be carried out only through Brazilian banks authorized by the Central Bank to buy and sell currency in that market. The floating market applies to specified transactions that do not require Central Bank's express prior approval. Prior to the implementation of the *Real* Plan in 1994, the commercial market rate and the floating market rate differed significantly at times. Since the introduction of the *real*, the two rates have not differed significantly, and effective as of February 1, 1999, the Central Bank has unified the two legal exchange rates, while maintaining the regulation for each of the commercial and floating markets. There can be no assurance that there will not be further changes in the applicable regulations, which may result in future significant differences between the two rates. Both the commercial market and floating market rates are freely negotiated but may be influenced by the Central Bank.

On July 1, 1994, the *real* replaced the *cruzeiro real* as the unit of Brazilian currency, with each *real* being equal to 2,750 *cruzeiros reais*. The issuance of *reais* was initially subject to quantitative limits backed by a corresponding amount of U.S. dollars in reserves, but the Brazilian federal government subsequently expanded those quantitative limits and allowed the *real* to float, with parity between the

real and the U.S. dollar (R$1.00 to US$1.00) as a ceiling. On March 6, 1995, the Central Bank announced that it would intervene in the market and buy or sell U.S. dollars, and establish a band within which the *real*/U.S. dollar exchange rate could fluctuate. The Central Bank initially set the band with a floor of R$0.86 per US$1.00 and a ceiling of R$0.90 per US$1.00 and has reset the band on several occasions. In 1998, for example, the prevailing Central Bank trading band was between R$1.12 and R$1.22 per US$1.00.

On January 13, 1999, the Brazilian government expanded the trading band for the *real* against the U.S. dollar. The trading band was set between R$1.20 and R$1.32 per US$1.00. The *real* immediately depreciated approximately 8% against the U.S. dollar. On January 15, 1999, the Central Bank temporarily let the exchange rate float freely, a policy Brazilian financial authorities adopted on January 18, 1999. Between late January and mid-March 1999, the *real* exchange rates were very volatile, reaching the rate of R$2.16 per US$1.00 on March 3, 1999. Since then, the *real* first appreciated and then gradually depreciated against the U.S. dollar and, as of December 31, 1999, the *real* exchange rate was R$1.79 per US$1.00, representing a devaluation of 32.4% since January 1, 1999. For further information on the devaluation of the *real* in 1999, see "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Devaluation of the *Real* in 1999". We cannot assure you that the *real* will not devaluate substantially in the near future.

The following table sets forth the commercial market rate for the purchase of U.S. dollars for the periods indicated:

	Exchange Rate of *Reais* per US$1.00				
	1999	**1998**	**1997**	**1996**	**1995**
Low	R$1.2075	R$1.1165	R$1.0395	R$0.9726	R$0.8340
High	2.2000	1.2087	1.1164	1.0407	0.9728
Average[(1)]	1.8566	1.1611	1.0787	1.0080	0.9186
Period End	1.7890	1.2087	1.1164	1.0394	0.9725

Source: Central Bank of Brazil

(1) Represents the average of the month-end exchange rates during the relevant period.

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or serious reasons to expect such an imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. There can be no assurance that temporary restrictions will not be imposed by the Brazilian government in the future.

Cautionary Statement Regarding Forward-Looking Statements

We have made forward-looking statements in this document that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of our management, and on information currently available to us. Forward-looking statements include statements regarding the intent, belief or current expectations of Brahma or its directors or executive officers with respect to:

- the consummation of the combination and the Brahma conversion;

- the declaration or payment of dividends;
- the direction of future operations;
- the implementation of principal operating strategies, including potential acquisition or joint venture transactions or other investment opportunities;
- the implementation of Brahma's, Antarctica's or AmBev's financing strategy and capital expenditure plans;
- the factors or trends affecting Brahma's, Antarctica's or AmBev's financial condition, liquidity or results of operations; and
- the implementation of the measures required under AmBev's commitment instrument executed with the principal Brazilian antitrust authority (CADE).

Forward-looking statements also include the information concerning possible or assumed future results of operations of AmBev, Brahma and Antarctica set forth under "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma" and "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Antarctica" and statements preceded by, followed by, or that include, the words "believes", "expects", "anticipates", "intends", "plans", "estimates" or similar expressions.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future. The future results and shareholder values of Brahma, Antarctica and AmBev following the combination may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. Investors are cautioned not to put undue reliance on any forward-looking statements. In addition, we do not have any obligation or intention to update forward-looking statements after we distribute this annual report, even if new information, future events or other events have made them incorrect or misleading. For those statements, we claim the protection of the safe harbor for forward-looking statements in the United States Private Securities Litigation Reform Act of 1995.

Investors should understand that the following important factors, in addition to those discussed in this annual report, could affect the future results of AmBev following the combination of Brahma and Antarctica and could cause results to differ materially from those expressed in such forward-looking statements:

- general economic conditions, such as the rates of economic growth in the principal geographic markets of Brahma, Antarctica or AmBev or fluctuations in exchange rates;
- industry conditions, such as the strength of product demand, the intensity of competition, pricing pressures, the introduction of new products by Brahma, Antarctica or AmBev, the introduction of new products by competitors, changes in technology or in the ability of Brahma, Antarctica or AmBev to obtain products from suppliers without interruption and at reasonable prices, and the financial conditions of the customers and distributors of Brahma, Antarctica or AmBev;

- operating factors, such as the continued success of manufacturing activities of Brahma, Antarctica or AmBev and the consequent achievement of efficiencies and the continued success of product development; and

- factors relating to the combination, including the implementation of the measures required under AmBev's commitment instrument executed with CADE, the ability of AmBev to successfully integrate Brahma and Antarctica operations, and the risk that AmBev will not be able to realize the synergies anticipated from the combination.

Presentation of Tables

Some tables and other parts of this annual report contain approximation of numbers due to rounding. For this reason, in some cases the total amount presented in a particular place will not correspond to the exact sum of the items to which it refers.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

BRAHMA

General

Companhia Cervejaria Brahma, a company incorporated under the laws of the Federative Republic of Brazil, and its consolidated subsidiaries produce, distribute and sell beer, soft drinks and other non-carbonated drinks, such as isotonic sport drinks, teas and mineral waters, in Brazil and in other South American countries. In terms of sales volume, Brahma was the largest beer producer in Brazil and in Latin America, the sixth largest beer producer in the world and the third largest soft drink producer in Brazil in 1999. Brahma is also the largest Brazilian consumer products company listed on the São Paulo Stock Exchange in terms of market capitalization. As of December 31, 1999, Brahma's U.S. GAAP total assets were US$2,873.9 million and its shareholders' equity was US$851.6 million.

Corporate History

Brahma was founded as a corporation in 1888 as Villiger & Cia, with an initial capacity of 12,000 liters of beer and 32 employees, and is now one of the oldest brewers in Brazil. The founders of Brahma were Joseph Villiger, a Swiss immigrant and engineer, Paul Fritz, a Brazilian national, and Ludwig Mack, a German national. The *Brahma* brand was registered on September 6, 1888, and in 1904 Villiger & Cia changed its name to Companhia Cervejaria Brahma.

An important factor for Brahma's growth has been the acquisition of small regional breweries. One of the most significant acquisitions was that of Cervejarias Reunidas Skol - Caracu S.A. (Skol) in 1980. Brahma estimates that at the time of Skol's acquisition, Skol beers had a 7% market share in Brazil. Since acquiring the *Skol* brand, Brahma has increased Skol's beer market share to about 26.7%, as of December 31, 1999.

In 1918, Brahma entered the soft drink business and launched its guaraná and lemon sodas. In 1984, Brahma entered into an agreement with PepsiCo International, Inc. (PepsiCo) to produce and distribute *Pepsi* products in most of Brazil, but in 1994, Brahma ended the franchise of Pepsi products in order to focus more fully on its own soft drink brands. In October 1997, Brahma re-established its relationship with Pepsi by entering into a 20-year franchise agreement, allowing Brahma to produce, sell and distribute Pepsi products in the southeast and northeast regions of Brazil. The distribution area originally established with PepsiCo was increased when Brahma was awarded new territories for distribution in 1998 and early 1999. As a result of this franchise agreement, Brahma has become the sole distributor of Pepsi products in Brazil.

In 1989, Braco S.A. (Braco), an investment company controlled by the former controlling shareholders of Banco de Investimentos Garantia S.A., a Brazilian investment bank, and Empresa de Consultoria, Administração e Participações S.A. - ECAP (ECAP), a subsidiary of Braco (which holds 99.7% of its voting shares), acquired 40.7% of the common shares in Brahma. As of June 30, 1999 Braco and ECAP held approximately 55.1% of the common shares of Brahma. On July 1, 1999, as a result of the controlling shareholders' contribution, Braco and ECAP became shareholders of AmBev, and AmBev became the controlling shareholder of Brahma with 55.1% of its voting shares. As of May 31, 2000, AmBev held approximately 55.2% of Brahma's voting shares. Other major common shareholders are Fundação Assistencial Brahma (Brahma Welfare Foundation), which as of May 31, 2000, owned 10.1% of the common shares; Marcel Herrmann Telles, the Chairman of the board of directors of Brahma, who owns 6.8% of the common shares; and Fundação Banco Central de Previdência Privada - Centrus, which owns 5.7% of the common shares. See "Item 4.—Control of Registrant—Brahma".

In 1994, Brahma began operating outside of Brazil. Brahma acquired a controlling interest in CA Cervecera Nacional (CACN) in Venezuela and built a brewery in Luján, Argentina, with the formation of a company named CCBA S.A. See "—Corporate Structure".

Brahma has also formed strategic alliances in order to strengthen its beverage portfolio and to participate in those segments that Brahma deems potentially valuable. In September 1995, Brahma entered into a joint venture with Miller Brewing Company to market *Miller Genuine Draft* in Brazil. In December 1996, Skol entered into a licensing agreement with Carlsberg A/S to produce *Carlsberg* beer in Brazil. In August 1997, Brahma established a joint venture with Indústrias Gessy Lever Ltda. to produce, sell and distribute the *Lipton* brand of ice tea in Brazil. In the same year, Brahma entered into its agreement with PepsiCo. See "—Business—Joint Ventures and Strategic Alliances".

In line with Brahma's goal to become a diversified beverage company, Brahma entered the non-carbonated beverage business. As part of Brahma's move into the non-carbonated beverage segment, the company now produces and markets the *Marathon* brand of isotonic sport drinks and the *Fratelli Vita* brand of mineralized water. See "—Business—Other".

In 1996, Brahma launched its share buy-back program designed to increase shareholder value. From 1996 to 1998, Brahma repurchased an aggregate of US$625.1 million of its preferred and common shares. In 1998, Brahma repurchased 218,232,155 preferred shares and 49,006,000 of common shares, including shares bought by the Brahma Welfare Foundation, for an aggregate value of US$137.6 million. In 1999, Brahma repurchased 5,753,000 preferred shares and 11,078,000 common shares, including shares bought by the Brahma Welfare Foundation, for an aggregate value of US$6.2 million.

On July 1, 1999, Brahma announced a proposed business combination with Companhia Antarctica Paulista Indústria Brasileira de Bebidas e Conexos (Antarctica). The proposed combination involves the formation of Companhia de Bebidas das Américas - AmBev (AmBev), a holding company that would have Brahma and Antarctica as wholly owned subsidiaries. See the description of the combination in "—Combination of Brahma and Antarctica and the Formation of AmBev".

The principal trading market for Brahma's common and preferred shares in Brazil is the São Paulo Stock Exchange, where they are quoted under the symbols "BRHA3" (common shares) and "BRHA4" (preferred shares). In June 1997, Brahma's American Depositary Shares (ADSs) were listed on the New York Stock Exchange under the symbols "BRH" (for preferred shares) and "BRHc" (for common shares). Each ADS represents 20 preferred or common shares. Brahma's non-voting preferred shares and voting common shares are actively traded on the São Paulo Stock Exchange. As of December 31, 1999, Brahma had a market capitalization of R$7,871 million (US$4,400 million as of December 31, 1999).

Brahma's principal executive office is located at Avenida Maria Coelho Aguiar, 215, Bloco F, 6º andar, CEP 05804-900, São Paulo, SP, Brazil, and its telephone number is (55-11) 3741-7000. Its legal headquarters, as provided in the company's by-laws, are located at Rua Marquês de Sapucaí, 200, CEP 20215-900, Rio de Janeiro, RJ, Brazil, Tel: (55-21) 503-9302.

Business

Of Brahma's total net sales in 1999, 84.7% consisted of beer sales, 11.9% consisted of soft drink sales and 3.4% consisted of sales of other drinks. See "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Year Ended December 31, 1999 Compared with Year Ended December 31, 1998—Net Sales".

The following tables set forth Brahma's sales volume for each of the years indicated:

	Sales Volume		
	1999	1998	1997
	(in thousands of hectoliters)		
Beer			
Brazil	40,596	39,820	38,838
Argentina	1,674	1,392	1,336
Venezuela	900	1,301	1,147
Total Beer	43,169	42,513	41,321
Soft Drinks			
Brazil	8,494	12,115	9,362
Total	51,663	54,628	50,683

Beer

Brahma's Brazilian breweries produce the well-known *Brahma* and *Skol* brands of beer, which collectively held a 48.8% market share (by volume) in Brazil in 1999. The *Brahma* brand beers include *Brahma Chopp*, *Brahma Bock*, *Brahma Light*, *Brahma Extra*, *Malzbier* and *Miller Genuine Draft.* Sales of these products represented approximately a 22.1% share (by volume) of the Brazilian beer market in 1999, while the *Skol* brand, which includes *Skol Pilsen*, *Skol Bock*, *Caracu* and *Carlsberg*, represented

approximately a 26.7% share (by volume) of the Brazilian beer market in 1999. According to Impact, an industry magazine, as of December 31, 1999, the *Skol* brand is the fourth most consumed brand of beer in the world, while the *Brahma Chopp* brand is the sixth most consumed brand of beer in the world.

Beer is Brahma's core business and the largest contributor to its revenues. Beer sales accounted for approximately 84.7% of Brahma's net sales for the fiscal year ended December 31, 1999, totaling US$1,516.4 million (basis: Brazilian corporation law). With sales volume of 43.2 million hectoliters for the year ended December 31, 1999, Brahma decreased its beer sales volume by 1.5% over 1998; and with sales volume of 42.5 million hectoliters in 1998, Brahma increased its beer sales volume by 2.9% over 1997.

In Brazil, beer sales accounted for approximately 77.9% of Brahma's net sales for the fiscal year ended December 31, 1999. Brahma's beer sales in Brazil were 40.6 million hectoliters in 1999, an increase of 1.9% compared to 1998; and 39.8 million hectoliters in 1998, an increase of 2.5% compared to 1997.

The *Brahma* and *Skol* brands are marketed and distributed under separate distribution networks in Brazil to more than one million points-of-sale, primarily through exclusive independent distributors and, to a lesser extent, through Brahma's own distribution system. Brahma's own distribution system handled 22.9% of Brahma sales volume in 1999.

Outside of Brazil, Brahma has a controlling interest in CA Cervecera Nacional (CACN), located in Venezuela, and in CCBA S.A., located in Argentina.

In 1999, Brahma's beer sales in Venezuela accounted for US$53.1 million, or 3.0% of Brahma's total net sales. In 1999, sales in Venezuela were 0.9 million hectoliters, a decrease of 30.8% over 1998. The Venezuela sales were 1.3 million hectoliters in 1998, an increase of 13.4% over 1997. Brahma is the third largest brewer in Venezuela, with an installed annual beer production capacity of 2.2 million hectoliters. We estimate that Brahma had a market share of approximately 9.8% in 1999 in Venezuela. Brahma's largest competitor in the Venezuelan market is *Polar,* which, based on our estimates, held 80% of the beer market in 1999.

In 1999, Brahma's beer sales in Argentina accounted for US$68.9 million, or 3.9% of Brahma's total net sales. In 1999, sales in Argentina were 1.7 million hectoliters, an increase of 20.3% over 1998. In 1998, Argentinean beer sales were 1.4 million hectoliters, an increase of 4.1% over 1997. The main growth in the Argentine operations in 1999 occurred in metropolitan Buenos Aires, where Brahma began direct distribution in the second half of 1998. We estimate that Brahma had a market share in Argentina of 13.9% in 1999. Brahma's largest competitor in the Argentine market is *Quilmes,* which, based on our estimates, held approximately 75% of the beer market in 1999.

Although Brahma has been increasing its market share in the Argentine and Venezuelan markets, only 6.9% of its revenues came from those markets in 1999 (basis: Brazilian corporation law). Exports of beer represented approximately 1% of Brahma's revenues in 1999.

For information on the Brazilian beer market share of Brahma, see "Item 1.—Description of Business—Overview of the Brazilian Beverage Market—Beer Market—Competition".

Soft Drinks

In 1918, Brahma entered the soft drink business and launched its guaraná and lemon sodas. In October 1997, Brahma entered into a 20-year franchise agreement with PepsiCo International, Inc. to bottle, sell and distribute Pepsi products in the southeast and northeast regions of Brazil. Brahma soft drinks held a total market share (by volume) of approximately 9.5% in Brazil in 1999. The distribution area originally established with PepsiCo was increased when Brahma was awarded new territories for distribution in 1998 and early 1999. As a result of this franchise agreement, Brahma has become the sole distributor of Pepsi products in Brazil. Subsequent to the franchise agreement, Brahma acquired five plants from Buenos Aires Embotelladora S.A. (BAESA), Pepsi's former bottler in Brazil. As a result, Brahma became one of the leading soft drink producers in Brazil in terms of sales volume (see "Item 1.—Description of Business—Overview of the Brazilian Beverage Market—Soft Drink Market"). In 1999, Brahma had net sales of US$212.6 million from soft drinks, accounting for approximately 11.9% of Brahma's total net sales for that year (basis: Brazilian corporation law).

In 1999, Brahma's soft drink sales volume was 8.5 million hectoliters, a decrease of 29.9% over 1998. Soft drinks sales volume was 12.1 million hectoliters in 1998, an increase of 29.4% over 1997. The combined market share for Brahma and Pepsi soft drinks (by volume) was approximately 9.5% in 1999.

Brahma's soft drinks, which are distributed by distributors of Brahma beer products under the *Brahma* brand name, include: the *Brahma Guaraná* and *Brahma Guaraná Light* brands of guaraná soft drinks; the *Sukita* and *Sukita Diet* brands of orange flavored soft drinks; the *Limão Brahma* brand of lemon flavored soft drink; the *Tônica Brahma* tonic water and *Soda Cristal* soda water. The *Pepsi* brand cola products (light and regular) are distributed through both the *Brahma* and *Skol* distribution channels, while other *Pepsi* brand soft drinks, such as *7-Up, Mirinda* and *KAS Guaraná*, are distributed through the *Skol* distribution channel.

The following table shows the sales volume breakdown of Brahma's soft drinks by product type during each of the years indicated:

Soft Drink Sales Volume by Product Type

	1999	1998	1997
Brahma Brand	43.4%	50.5%	89.7%
Pepsi Brand	56.6%	49.5%	10.3%
Total (thousand hectoliters)	8,494	12,114	9,362

Internationally, Brahma has also expanded its soft drink operations to Argentina. Brahma began to export soft drinks in cans to Argentina during the first quarter of 1996. In 1996, Brahma also entered into a licensing agreement with Embotelladora Matriz S.A., an Argentine mineral water producer, for the production and bottling of soft drinks with the *Brahma* name. Exports of soft drinks represented less than 1% of Brahma's revenues in 1999.

For information on the Brazilian soft drink market share of Brahma, see "Item 1.—Description of Business—Overview of the Brazilian Beverage Market—Soft Drink Market—Competition".

Other

In addition to its beer and soft drink businesses, Brahma produces, distributes and sells malt, mineral water, isotonic sport drinks and ice tea. Net sales of these products, excluding inter-company sales, amounted to US$60.9 million in 1999 and US$76.9 million in 1998. Sales of these products to third parties accounted for approximately 3.4% of net sales during 1999.

Production of Malt

Brahma owns and operates three malt plants. Malt produced by those plants is sold to Brahma and third parties for brewing beer. Brahma purchases approximately 40% of its malt in international markets, while the other 60% is obtained from Brahma's malting facilities in Brazil, Argentina and Uruguay, and from other local suppliers in Brazil. See "—Production and Availability of Raw Materials—Beer - Raw Materials". Brahma produced approximately 350,000 tons of malt in 1999. Brahma's current malt production capacity is approximately 352,000 tons per year, and Brahma has the ability to produce up to 76% of Brahma's malt needs.

Net sales to third parties from malt production and other non-beer or soft drink sales amounted to US$60.1 million in 1999 and US$76.9 million in 1998.

Production and Sale of Mineral Water, Isotonic Sport Drinks and Ice Tea

Brahma owns 50% of the share capital of Pilcomayo Participações S.A., which controls 100% of Fratelli Vita Bebidas Ltda. Fratelli Vita produces and markets the *Fratelli Vita* brand of mineralized water, the *Marathon* brand of isotonic sport drinks and the *Lipton* brand ice tea.

In 1997, Brahma launched the *Fonti* brand of mineralized water. In early 1999, the use of the *Fonti* brand name was discontinued, but Brahma maintained production of mineral water under the brand name *Fratelli Vita*. The water market was 11 million hectoliters in 1999, and Brahma has a 1.2% market share (by volume, in 1999) with its brand *Fratelli Vita*. This market is growing at an average annual rate of 5%, but still represents approximately 1% of the overall soft drink market.

The isotonic beverage market is relatively new to Brazil, and the total market was 0.4 million hectoliters in 1999. This market has grown at an average annual rate of 65% over the last six years. Brahma has the second most popular brand in this market, *Marathon*, with a 14.8% market share (by volume) in March 2000.

The ice tea market was 0.4 million hectoliters in 1999, stable compared to 1998. Brahma participates in this market through a joint venture with Indústrias Gessy Lever Ltda. and the use of the *Lipton* brand. This brand reached market leadership of the ice tea segment in 1999, with a market share of 43.8% in December. Lipton's average market share was 35.1% in 1999, compared to an average market share of 20.2% in 1998.

Facilities

Brahma currently has 28 facilities: 13 breweries (11 in Brazil and one in each of Argentina and Venezuela), seven soft drink plants which produce both *Brahma* brand and *Pepsi* brand soft drinks (including a plant of concentrate), five mixed plants which produce both beer and soft drinks, and three malt plants. The total annual beer production capacity of Brahma is 64.4 million hectoliters, of which

60.0 million hectoliters is in Brazil and 2.2 million hectoliters is in each of Argentina and Venezuela. As a result of increased demand and sales in Argentina, Brahma has expanded its Argentine brewery by 50% and added two packaging lines: aluminum cans in January 1998, and returnable bottles in mid-1998. The total soft drink production capacity is 27.0 million hectoliters per annum, which includes the production of both *Brahma* and *Pepsi* brand soft drinks. As a result of the performance agreement that AmBev entered into with the principal Brazilian antitrust authority (CADE), AmBev will have to dispose of two Brahma beer plants in the cities of Cuiabá and Manaus, as well as the beer production lines of Brahma's mixed production plant in Camaçari. AmBev must sell these plants by January 1, 2001. See "Item 1.—Description of Business—Brahma—Combination of Brahma and Antarctica and the Formation of AmBev—Brazilian Antitrust Approval".

Brahma owns and operates three malt plants, one of which is in Brazil. Brahma's malt plant in Argentina is operated by its subsidiary Malteria Pampa S.A., which holds 100% of another malt plant in Uruguay, operated by Malteria Uruguay S.A.

Capital Investment Program

From 1994 to 1998, Brahma pursued an aggressive investment plan to modernize and expand its production facilities, by renovating some existing facilities and replacing older breweries primarily located in city centers that have high operating costs with new, technologically advanced facilities. Brahma's capital investment program closely followed the increase in consumer demand in Brazil subsequent to the introduction of the *real* in July 1994. Between 1994 and 1998, Brahma has invested a total of approximately US$2.5 billion in its expansion and modernization program.

The three main construction projects were the Nova Rio plant in Rio de Janeiro, the Sergipe plant in northeastern Brazil, and the Rio Grande do Sul plant in southern Brazil. The Nova Rio plant produces both beer and soft drinks with highly advanced brewing technology. This plant commenced operations in May 1996 and has an installed annual production capacity of 13.8 million hectoliters of beer, which represents 23% of Brahma's total annual beer production capacity in Brazil, and five million hectoliters of soft drinks. The Sergipe and Rio Grande do Sul facilities, which each have an annual beer production capacity of three million hectoliters, became operational at the end of 1998, marking the conclusion of the plan to increase installed capacity and plant modernization. The Sergipe and Rio Grande do Sul plants are located in the northeast and south of Brazil, respectively, and are expected to allow Brahma to overcome its peak season shortages in these regions while keeping pace with expected consumption growth. In 1998, Brahma closed two old plants in Rio Grande do Sul: a beer plant and a soft drink plant. These two plants had a combined annual production capacity of about two million hectoliters.

In 1998, Brahma invested US$340.2 million in its modernization program, which included the conclusion of the Sergipe and Rio Grande do Sul beer plants, investments in productivity, increase of Brahma's interest in Malteria Pampa, a malt plant, from 40% to 100%, and improvements in warehousing used for direct distribution. In 1999, Brahma invested US$112.1 million, which included investments in productivity, routine annual replacement of returnable bottles and crates, investments in point-of-sale refrigeration equipment and development of warehousing related to direct distribution.

Joint Ventures and Strategic Alliances

In September 1995, Brahma entered into a 50-50% joint venture agreement with Miller Brewing Company to import and market *Miller Genuine Draft* in Brazil and, in the future, in other South American markets. Under the joint venture agreement, Brahma and Miller created Miller Brewing do Brasil Ltda. to import and distribute Miller's products in Brazil, through Brahma's distribution network. The joint venture agreement has a term of 15 years, and expires on December 31, 2010. The joint venture may be terminated by either party in the event some performance targets are not met by the joint venture, or in case of noncompliance by either party for more than 30 days after due notification is given. Either party may purchase the stake of the other party in Miller Brewing do Brasil, provided that no plant is built to produce *Miller Genuine Draft* in Brazil and the annual sales volume of such beer has reached two million hectoliters.

The production of *Miller Genuine Draft* in Brazil began in September 1996 in Brahma's Jacareí facility. The product is now distributed throughout Brazil, in both long-neck bottles and aluminum cans, as a Brahma premium brand. Through Brahma's distribution network, Miller do Brasil sold 125,000 hectoliters of *Miller* beer in 1999. Miller's market share of the premium market was 9.2% in 1999 (by sales volume), according to Nielsen. We estimate that the premium beer market in Brazil currently accounts for approximately 1.3% of the total Brazilian beer market (by sales volume).

Brahma and Miller are currently negotiating a licensing agreement under which Brahma will produce and distribute *Miller Genuine Draft* in Brazil, on terms and conditions similar to those of the licensing agreement between Brahma and Carlsberg with respect to the *Skol* brand.

In December 1996, Skol entered into a licensing agreement with Carlsberg A/S. Under the agreement, Skol acquired the license to begin the production of *Carlsberg* beer in Brazil for sale and distribution throughout the rest of South America, as a premium brand. In addition, pursuant to the agreement, Skol acquired the right to use the *Skol* brand name in countries of South America other than Brazil. The licensing agreement is part of a general cooperation agreement between Skol and Carlsberg, which allows for the parties to enter into various licensing agreements. The current licensing agreement has a term of 20 years until October 1, 2016, renewable for 10 additional years. The agreement may be terminated by either party upon prior 12-month notice after January 1, 2018. Carlsberg may also terminate the agreement in the event of transfer of control of Skol.

Production of Carlsberg beer began in the second quarter of 1997. In 1999, Brahma distributed, through its *Skol* distribution network, 28,443 hectoliters of Carlsberg beer. According to Nielsen, Carlsberg beer had a 2.0% share of the premium beer market in 1999 (by sales volume).

In August 1997, Fratelli Vita Bebidas Ltda., a subsidiary of Brahma, entered into a joint venture with Indústrias Gessy Lever Ltda., a subsidiary of the United Kingdom-based Unilever Group, creating Ice Tea do Brasil Ltda. The two companies have an equal interest of 50% of the total shares of Ice Tea do Brasil. The joint venture agreement will be in force until December 31, 2002, and is renewable for additional five-year periods. The agreement can be terminated by either party in the event some performance targets are not met by the joint venture, or in the event of transfer of control of either party.

In October 1997, Brahma entered into a franchise agreement with PepsiCo International, Inc. to bottle, sell and distribute Pepsi products in the southeast and northeast of Brazil. The originally stipulated distribution area was increased in 1998 and early in 1999, as Brahma was awarded new territories for distribution. These new territories included the cities of Goiânia, Fortaleza and Vitória.

This franchise agreement with new territories provides that Brahma shall be the exclusive Brazilian bottler for Pepsi. The franchise agreement has a term of 20 years, and may be renewed for additional 10-year periods. The agreement can be terminated by either party upon advance notice of at least two years prior to expiration. Subsequent to the franchise agreement, Brahma acquired five plants from Buenos Aires Embotelladora S.A. (BAESA), Pepsi's former bottler in Brazil. We believe that Brahma's alliance with Pepsi will allow the *Pepsi* brand to grow in Brazil and will continue to benefit Brahma with an improvement in the range of products that the company sells and with a reduction of fixed costs.

In the year ended December 31, 1999, Brahma's net sales of Pepsi were less than 10% of the company's total net sales. During the same period, the net sales for each of Miller, Carlsberg and Fratelli Vita were less than 1% of Brahma's total net sales.

Combination of Brahma and Antarctica and the Formation of AmBev

On July 1, 1999, Brahma and Companhia Antarctica Paulista Indústria Brasileira de Bebidas e Conexos (Antarctica) announced a proposed business combination. The proposed combination involves the formation of Companhia de Bebidas das Américas - AmBev (AmBev), a holding company that would have Brahma and Antarctica as wholly owned subsidiaries. The proposed combination involves three steps:

- the contribution of shares of the controlling shareholders of Brahma and Antarctica in exchange for shares of AmBev (the controlling shareholders' contribution). This transaction occurred on July 1, 1999, and AmBev became the owner of 55.1% of the voting common shares and 0.3% of the nonvoting preferred shares of Brahma;

- the consummation of a transaction under Brazilian law where Antarctica becomes a wholly owned subsidiary of AmBev (the Antarctica conversion). This transaction occurred on September 15, 1999; and

- the consummation of a transaction under Brazilian law where Brahma becomes a wholly owned subsidiary of AmBev (the Brahma conversion). This transaction has not yet occurred.

Pursuant to the controlling shareholders' contribution, Brahma's controlling shareholders, Empresa de Consultoria, Administração e Participações S.A. - ECAP (ECAP) and Braco S.A. (Braco), and Antarctica's controlling shareholder, Fundação Antonio e Helena Zerrenner Instituição Nacional de Beneficência (the Zerrenner Foundation), contributed all their common and preferred shares in Brahma and Antarctica in exchange for AmBev shares of the same type and class. In the controlling shareholders' contribution, each share of Brahma was exchanged for one share of the same type and class of AmBev and each share of Antarctica was exchanged for 48.6361 shares of the same type and class of AmBev.

On July 1, 1999, ECAP, Braco and the Zerrenner Foundation, which are the controlling shareholders of AmBev, as well as Marcel Herrmann Telles, Jorge Paulo Lemann, and Carlos Alberto da Veiga Sicupira, entered into a shareholders' agreement relating to AmBev and its subsidiaries (including

Brahma and Antarctica). Mr. Telles, Mr. Lemann and Mr. Sicupira are the controlling shareholders of Braco, which in turn owns 99.7% of the voting shares of ECAP. The shareholders' agreement covers three main matters:

- the appointment of directors of AmBev and its subsidiaries by AmBev's controlling shareholders;

- the establishment of a proceeding for the controlling shareholders to hold preliminary meetings before deciding some matters in the shareholders' meetings of AmBev and its subsidiaries. The proceeding is designed to obtain a consensus between the controlling shareholders; and

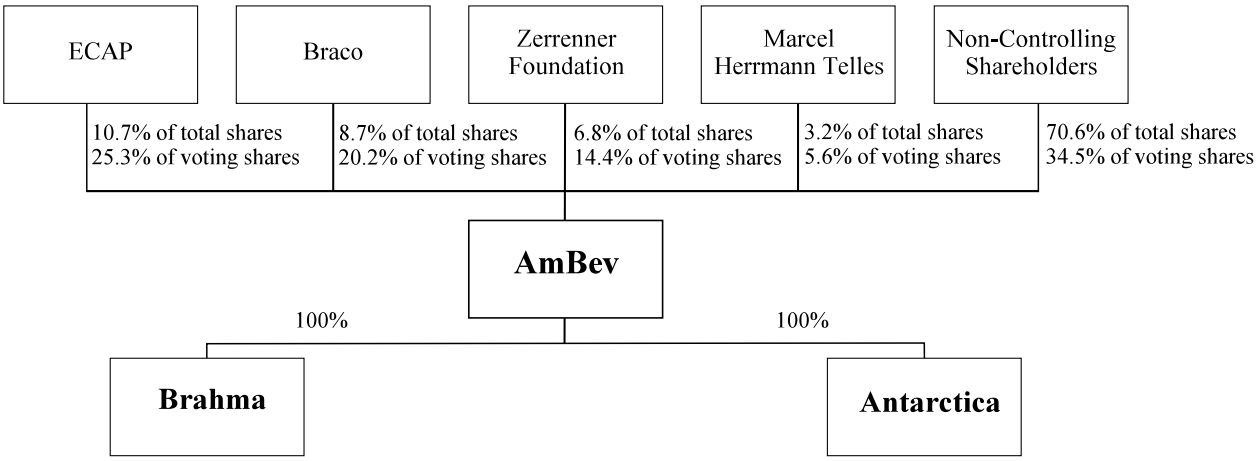
- rights of first refusal for the acquisition of shares between the Zerrenner Foundation, on one side, and Braco and ECAP, on the other side.

Pursuant to the Antarctica conversion, the common shareholders of Antarctica and AmBev approved a corporate transaction defined under Brazilian corporation law as an *incorporação de ações* ("incorporation of shares"). As a result of the Antarctica conversion, Antarctica became a wholly owned subsidiary of AmBev, with the exchange of all shares of Antarctica not then owned by AmBev for shares of the same type and class of AmBev. AmBev voted its shares in Antarctica, and the controlling shareholders of AmBev voted their shares in AmBev, to approve the Antarctica conversion. In the Antarctica conversion, each share of Antarctica was exchanged for 84 shares of the same type and class of AmBev.

Brahma and AmBev intend to hold extraordinary shareholders' meetings in which their common shareholders will be asked to consider and vote on whether to approve an "incorporation of shares" transaction (Brahma conversion). In the Brahma conversion, Brahma would become a wholly owned subsidiary of AmBev, with the exchange of all common and preferred shares of Brahma not owned by AmBev for shares of the same type and class of AmBev. In the Brahma conversion, each share of Brahma would be exchanged for one share of the same type and class of AmBev, subject to the appraisal rights of Brahma shareholders. AmBev and AmBev's controlling shareholders currently own enough voting shares of Brahma and AmBev to approve the Brahma conversion at the shareholders' meetings of Brahma and AmBev without the approval of any other shareholder. AmBev's controlling shareholders have indicated that they intend to vote for the Brahma conversion and to cause AmBev to vote for the Brahma conversion.

Approximately 79% of Brahma's total shares have not been exchanged for AmBev shares. Upon completion of the Brahma conversion, under Brazilian corporation law, Brahma shareholders may either (a) exchange their shares for AmBev shares; or (b) exercise appraisal rights and thus require Brahma to repurchase their shares at Brahma's book value as determined under Brazilian corporation law. As of December 31, 1999, the book value of the Brahma common and preferred shares for purposes of exercising appraisal rights were less than half of their respective market prices. Although there can be no assurance as to the book value or the market prices of the shares or ADSs of Brahma at any time in the future, Brahma expects the market prices of its shares to exceed their respective book values at the time the Brahma conversion is completed. Brahma thus believes that there should not be a substantial exercise of appraisal rights by its shareholders, since Brahma shareholders who exercise appraisal rights may incur a loss.

AmBev's proposed organizational structure after the combination is summarized below:



Brazilian Antitrust Approval

Brazilian antitrust authorities have the power to investigate any transaction which results in the concentration of a market share greater than 20% or which involves, among other factors, any company whose annual gross income is R$400 million (approximately US$229 million) or more. The transfer of control of Brahma and Antarctica to AmBev through the controlling shareholders' contribution resulted in a market share for AmBev in excess of 70% of the Brazilian beer market and 20% of the Brazilian soft drink market. Brazilian antitrust authorities therefore reviewed such transfer of control to determine whether it would negatively impact the current market competitive conditions.

The *Conselho Administrativo de Defesa Econômica* (CADE), an independent agency of the Brazilian Ministry of Justice, is the principal Brazilian antitrust authority. On July 14, 1999, CADE issued an interim order in connection with the controlling shareholders' contribution. Under such order CADE determined that until its final decision, Brahma and Antarctica could not take actions which might have the effect of changing the structure, conditions or characteristics of their markets in a manner which, even if later reversed, might cause material irreparable adverse consequences. In particular, the interim order, which terminated on April 7, 2000, prohibited the following actions by Brahma and Antarctica:

- closing down or partially deactivating plants;
- laying off employees as part of an integration strategy;
- ceasing to use trademarks or other assets;
- changing sales and distribution structures and practices;
- changing contractual relationships with third parties;

- integrating administrative structures; or

- adopting uniform commercial policies.

On April 7, 2000, CADE approved the controlling shareholders' contribution with restrictions designed to prevent AmBev from exercising excessive control of the Brazilian beer market. On April 19, 2000, AmBev executed a performance agreement with CADE in which AmBev agreed to fulfill all requirements of CADE under its decision. The main requirements are:

- Within eight months of May 2, 2000, AmBev must enter into an agreement with a single purchaser for: (a) the sale of the *Bavaria* brand owned by Antarctica, (b) the sale of one beer plant in each of five different Brazilian regions, and (c) the sharing of its distribution network for a period of four years, renewable for an additional two-year period at the option of the purchaser. The purchaser must be a company with an existing market share of no more than 5% of the Brazilian beer market;

- For a period of four years, AmBev must share its distribution network with other beer companies, one in each of five different regions of Brazil. This obligation is independent of the sharing of distribution network associated with the sale of *Bavaria*;

- For a period of four years, if AmBev decides to close or dispose of any of its beer plants, it must first offer such plant for sale in a public auction;

- For a period of five years, if AmBev dismisses any employees as a result of the combination restructuring process, it must attempt to place them within the AmBev group, and provide them with employment re-training; and

- As of April 7, 2000, AmBev and its distributors cannot generally demand that their points-of-sale work on an exclusive basis.

CADE has the authority to revoke its approval of the controlling shareholders' contribution and to file an administrative proceeding against AmBev, if it does not comply with its obligations under the performance agreement, and does not justify any such noncompliance.

Accounting Treatment of the Combination

The combination does not qualify for pooling-of-interests accounting in accordance with generally accepted accounting principles in the United States (U.S. GAAP). Accordingly, for U.S. GAAP purposes, the combination will be accounted for using the purchase method of accounting, with Brahma as the accounting acquiror. An acquisition date as defined by APB No. 16 was not attained until April 7, 2000, the date when the principal Brazilian antitrust authority (CADE) approved the controlling shareholders' contribution and the interim restrictions ceased to apply, thus allowing Brahma and Antarctica to proceed with their integration. Using the purchase method of accounting, Brahma will allocate the excess purchase price over the fair market value of net assets acquired less the liabilities assumed to identifiable tangible and intangible assets. After the acquisition, for accounting purposes, AmBev will become the successor of Brahma.

Accounting for the combination using the purchase method of accounting under U.S. GAAP will result in recording higher asset values in relation to the amount in AmBev's statutory financial statements translated into U.S. dollars at the balance sheet date, resulting in higher depreciation and/or amortization expenses in the future, and thus reducing AmBev's reported net income for U.S. GAAP purposes in future periods.

AmBev Business

AmBev is the controlling shareholder of Brahma and the sole shareholder of Antarctica. Once the Brahma conversion has been consummated, Brahma and Antarctica will be wholly owned subsidiaries of AmBev. Based upon the number of shares of Brahma and Antarctica issued and outstanding on May 31, 2000, when the combination is completed the former shareholders of Brahma will own approximately 82.3% of the voting common shares of AmBev and 91.6% of the total outstanding AmBev shares; the former shareholders of Antarctica will own approximately 17.7% of the voting common shares of AmBev and 8.4% of the total outstanding AmBev shares. AmBev estimates that its combined net sales will be of approximately US$2,418.0 million, based on pro forma combined net sales of Brahma's and Antarctica's group consolidated sales in 1999. For a detailed description of the financial information of Antarctica, see "Item 8.—Selected Financial Data—Antarctica", "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Antarctica" and the Antarctica financial statements.

AmBev intends to be a Brazilian based, global beverage company uniquely positioned to compete and expand in the world beverage arena. AmBev was created to be a diversified beverage company. Through its existing proprietary brands, as well as partnerships with other global beverage producers, AmBev plans to operate in the beer, soft drinks, juices, mineral water, sport drinks and iced tea beverage segments. AmBev plans to maintain independent distribution channels and marketing efforts for *Brahma, Skol* and *Antarctica* brands, thus promoting a competitive environment for consumers, while leveraging these distribution networks to significantly increase its presence in the non-alcoholic beverage segment.

The combination will provide Brahma and Antarctica with an opportunity to make their operations more effective through economies of scale and the implementation of best practices throughout the entire company. AmBev expects to recognize cost savings of approximately R$500 million (US$286 million) representing 15% of its total expected annual cash costs, as follows:

- R$273.6 million (US$156.6 million) by optimizing the combined production facilities and logistics of Brahma and Antarctica;
- R$105.8 million (US$60.6 million) through efficiency gains and transfer of best practices in distribution;
- R$49.5 million (US$28.3 million) in administrative and commercial cost savings;
- R$60.3 million (US$34.5 million) in interest cost saving; and
- R$15.0 million (US$8.6 million) in other gains from improved purchasing abilities.

AmBev believes that the timetable for full realization of synergy gains will be approximately two years. This assumption takes into account the restrictive conditions imposed by the principal Brazilian

antitrust authority (CADE). However, there can be no assurance as to the extent to which AmBev will be able to produce the synergies that it anticipates from the combination, or as to the timing for their realization, or as to the expenses that will be incurred in connection with realizing the synergy benefits contemplated by the combination.

Since April 7, 2000, when CADE approved the controlling shareholders' contribution, AmBev began to centralize the administration of Brahma and Antarctica. The officers and directors of Brahma and Antarctica now consist largely of the officers and directors of AmBev. AmBev has also begun to integrate some of the operations of Brahma and Antarctica. The consolidation of raw materials purchasing, beer and beverage production and administrative functions is one of the main reasons for the combination. However, Brahma and Antarctica will each remain separate operating companies.

The following are the main integration measures AmBev has implemented since the approval of the controlling shareholders' contribution by CADE:

- *Production and Logistics.* Production of beer and other beverages by Brahma and Antarctica is now planned in a centralized manner, utilizing all the plants of AmBev. Purchase and supply of raw materials is now fully integrated;

- *Sales and Marketing.* The sales and marketing areas of Brahma and Antarctica are now integrated. AmBev has also introduced a new centralized regional commercial sales structure;

- *Treasury.* AmBev centralized the management of financial assets and liabilities. AmBev also initiated a review of its capital structure and a restructuring of outstanding debt in order to achieve the envisaged synergies; and

- *Employees.* Although the employees of Brahma and Antarctica remain employed by the respective companies, AmBev already has a centralized policy for performance targets, organizational structure, and training of its employees.

Corporate Structure

Brahma's operations are conducted by Companhia Cervejaria Brahma, its direct and indirect subsidiaries, and through affiliated companies in which Brahma holds direct or indirect minority interests. In 1997, Brahma reorganized its corporate structure to simplify administrative procedures and achieve tax efficiencies. As of May 31, 2000, Brahma controlled, either directly or indirectly, the following companies:

- Arosuco Aromas e Sucos S.A. (Arosuco) – Arosuco produces concentrates for Brahma's soft drinks and is controlled by Brahma.

- Brahmaco International Ltd. – Brahmaco is a holding company located in Gibraltar and a wholly owned subsidiary of Brahma.

- CA Cervecera Nacional (CACN) – CACN produces beer in Venezuela and is controlled by Brahma. CACN owns 100% of Mar Caribe Distribuidora, a beer distributor in Venezuela.

- CCBA S.A. – CCBA produces beer and soft drinks in Argentina and is controlled by Brahma.

- CCBP S.A. – CCBP is a subsidiary of Brahma in Paraguay. CCBP imports beer and soft drinks produced in Brazil and Argentina for sale in the Paraguayan market.

- Cervejarias Águas Claras S.A. – Águas Claras is a brewery located in the state of Sergipe. Brahma holds 96.3% of the total shares of Águas Claras.

- Cervejaria Astra S.A. – Astra has two units: one in Fortaleza, in the state of Ceará, where it produces soft drinks, and the other in São Luiz, in the state of Maranhão, where it produces beer. Brahma owns 43.1% of the total shares, and 52.5% of the voting shares of Astra.

- Cervejarias Reunidas Skol Caracu S.A. – Skol produces *Skol* beer through two branches: one in Guarulhos, state of São Paulo, and the other in the federal district of Brasília. Skol is controlled by Brahma, which holds 99.9% of its total shares.

- CRBS S.A. – CRBS is a subsidiary of Brahma that produces soft drinks and beer through five branches: one in each of São Paulo, Bahia, Paraná, Mato Grosso and Goiás. CRBS' headquarters are in the Cebrasa plant in the state of Goiás. CRBS is a shareholder of two subsidiaries of Brahma, namely Fazenda do Poço - Agrícola e Florestamento S.A. and Gibral - Gestão e Trading Internacional S.A.

- Dahlen S.A. – Dahlen is a Uruguayan holding company and a wholly owned subsidiary of Brahma.

- Eagle Distribuidora de Bebidas S.A. – Eagle is a non-operational subsidiary of Brahma.

- Jalua S.A. – Jalua is a holding company located in Montevideo, Uruguay, and a wholly owned subsidiary of Brahma.

- Mahler Investment Limited – Mahler is a holding company located in the British Virgin Islands and is a wholly owned subsidiary of Brahma.

- Malteria Pampa S.A. and Malteria Uruguay S.A. – Malteria Pampa is a producer of malt in Argentina, in which Brahma had a 40% indirect investment until 1998. In April 1998, Brahma acquired 20% of the capital stock of Malteria Pampa from Canada Malting Co. Ltd. for US$18.1 million. In August 1998, an additional holding of 40% was acquired from Londrina Sociedad Anónima, for US$34.7 million. Brahma also has an indirect ownership of Malteria Pampa, and it currently holds 100% of its share capital (60% direct and 40% indirect investment). As a result of the acquisition of the remaining 60% of Malteria Pampa, Brahma began to fully consolidate Malteria Pampa in 1998. Malteria Pampa owns 100% of Malteria Uruguay S.A., a Uruguayan malt-producing company.

- Pepsi-Cola Engarrafadora Ltda. – Engarrafadora produces and distributes Pepsi-Cola products under license in designated areas of Brazil. In October 1997, Brahma acquired all of the share capital of Engarrafadora and PCE Bebidas Ltda. On August 31, 1998, PCE was merged into Engarrafadora.

- Universal Breweries Limited (UBL) – UBL is a holding company located in the Cayman Islands. UBL is controlled by Brahma, which holds 50.2% of its shares.

Companhia Cervejaria Brahma has the ability to exercise significant influence over the operating and financial policies of the following affiliated companies:

- Cervejaria Miranda Corrêa S.A. – Miranda Corrêa produces beer in Manaus, in the state of Amazonas. Brahma owns 60.8% of the total shares and 49.5% of the voting shares of Miranda Corrêa.

- Fratelli Vita Bebidas Ltda. and Pilcomayo Participações Ltda. – Pilcomayo is a holding company. Brahma owns 50% of the total shares of Pilcomayo, which controls 100% of Fratelli Vita. Fratelli Vita produces the *Fratelli Vita* mineral water and *Marathon* isotonic sport drink. Pilcomayo also owns 100% of Fratelli Ltd., an offshore company.

- Ice Tea do Brasil Ltda. – Ice Tea do Brasil is the result of a joint venture between Brahma and Indústrias Gessy Lever Ltda., and each of the two companies holds 50% of the share capital of Ice Tea do Brasil. With this agreement, Brahma is able to produce, sell and distribute the *Lipton* brand ice tea in Brazil.

- Miller Brewing do Brasil Ltda. – Miller do Brasil is a 50-50 joint venture between Brahma and the Miller Brewing Co. Miller do Brasil was organized for the production and sale of *Miller Genuine Draft* beer in Brazil. In September 1996, Brahma began production of Miller beer at its Jacareí production facility.

Brahma and its subsidiaries do not currently engage in any related party transactions other than transactions with Antarctica and its subsidiaries, as described in this annual report. See "—Combination of Brahma and Antarctica and the Formation of AmBev—AmBev Business".

Business Strategy

As a result of the controlling shareholders' contribution, Brahma became a subsidiary of AmBev and therefore follows the business strategies of AmBev's business strategies described below.

Build and Maintain Consumer Preference for our Brands

AmBev seeks to lead the Latin American beverage market by building and maintaining consumer preference for a wide variety of beverage brands. Beer brands include *Antarctica Pilsen*, *Brahma Chopp* and *Skol*, and soft drink brands include *Guaraná Antarctica*, *Pepsi*, *Soda Limonada* and *Sukita*. As a diversified beverage company, AmBev intends to expand its leadership in all segments of the beverage market where it enjoys synergies with its existing distribution networks. AmBev will seek to enhance its market position in a wide variety of beverage segments including beer, soft drinks, water, juices, sport drinks and iced tea.

Enhancing Effectiveness of Distribution Network

The key to increasing profitability and market share is to improve the effectiveness of AmBev's three separate distribution networks: Antarctica, Brahma and Skol, the latter of which is a subsidiary of

Brahma. See "—Corporate Structure". AmBev plans to leverage the best practices of all three networks, and to implement several measures in order to rationalize its distribution process. These measures include:

- standardizing the practices of all three networks;
- leveraging market information systems and investment in advanced sales technologies to facilitate our actions at the point-of-sale;
- adopting direct distribution in selected areas; and
- reviewing and improving distribution remuneration methods.

Lowest Cost Producer

AmBev seeks to become more competitive internationally and fulfill its objective of maximizing shareholder value by becoming the lowest cost producer in the beverage industry in the world. Brahma and Antarctica have undertaken significant investments in plant modernization over the past six years to increase efficiency and competitiveness through the use of improved technology. AmBev plans to lower costs further by combining the operations of Brahma and Antarctica, therefore enhancing its economies of scale. For information on the increase in the productivity per employee for both Brahma and Antarctica, see "—Employees" and "Item 1.—Description of Business—Antarctica—Employees".

Regional Expansion and Consolidation

As a Brazilian-based global beverage company and one of the world's largest brewer, AmBev believes it will be uniquely positioned as a catalyst for regional consolidation. AmBev intends to take advantage of regional consolidation opportunities by combining the operations of Brahma and Antarctica. AmBev believes that this will create a superior cash flow base, and will allow AmBev to have a lower cost of capital than Brahma or Antarctica would be able to have as independent companies.

Maintaining and Expanding Strategic Alliances

Antarctica has maintained in the past, and Brahma currently maintains, strategic alliances in various segments of the beverage market. These alliances aim to secure or improve market presence, enhance use of resources and provide greater shareholder value. For example, Brahma has a franchise agreement with PepsiCo to operate as the sole Pepsi bottler in Brazil, and has a licensing arrangement with Carlsberg in the premium beer segment. Brahma also maintains joint ventures with Miller in the premium beer segment and with Indústrias Gessy Lever Ltda. in the iced tea segment. See "—Business—Joint Ventures and Strategic Alliances".

AmBev expects to maintain and expand current strategic alliances, and to enter into licensing and sales agreements such as the agreement with PepsiCo for the sale of *Guaraná Antarctica* worldwide. See "Item 1.—Description of Business—Antarctica—Business—Soft Drinks".

Creating Shareholder Value

Based on Brahma's successful experience, AmBev intends to continue to use Economic Value Added (EVA) as a key criterion to measure its performance. EVA is used as an annual corporate target

upon which the performance of business units and employees is measured. Contribution to corporate goals is a key factor in individual employee's variable remuneration and participation in the stock option plan. Performance-based compensation aims to maximize shareholder value through increased profitability. An explanation of EVA methodology is contained in "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Brahma's Business". Further details on the existing stock option plan for Brahma are contained in "—Benefit Plans".

Sales and Marketing

At December 31, 1999, Brahma's Brazilian operations were divided into five regions, each headed by a regional officer: São Paulo, south, north/northeast, central/west and Rio de Janeiro/Minas Gerais/Bahia/Espírito Santo. Of the 40.6 million hectoliters of beer sold by Brahma in Brazil in 1999, 38% was sold in the Rio de Janeiro/Minas Gerais/Bahia/Espírito Santo region, 28% in the São Paulo region, 12% in the southern region, 12% in the central/western region, and 10% in the north/northeastern region. Of the 8.5 million hectoliters of soft drinks Brahma sold in Brazil in 1999, 32% was sold in the Rio de Janeiro/Minas Gerais/Bahia/Espírito Santo region, 25% in the southern region, 24% in the São Paulo region, 11% in the north/northeastern region, and 8% in the central/western region.

The following table sets forth Brahma's sales volumes by product line for each quarter in the years presented:

Sales Volume of Brahma's Products by Product Line

	1999		1998		1997	
	(in thousands of hectoliters)					
Quarter	Beer	Soft Drinks	Beer	Soft Drinks	Beer	Soft Drinks
First	10,760	2,498	10,431	3,576	10,121	2,278
Second ...	9,230	1,802	9,602	2,560	8,921	1,827
Third	10,006	1,780	9,941	2,739	9,538	2,052
Fourth	13,173	2,414	12,539	3,240	12,741	3,205
Total ...	43,169	8,494	42,513	12,115	41,321	9,362

Points-of-Sale. We estimate that Brahma's products are sold in approximately one million points-of-sale throughout Brazil. Beer is primarily sold in restaurants and bars, while most of Brahma's soft drinks are sold through supermarket retailers.

Terms of Sale. Most of Brahma's sales are on a cash basis. Direct sales to selected customers, such as major supermarkets, fast-food restaurants, convenience stores and other major customers may be on a credit basis, with terms up to 18 days. The terms and other credit conditions will often depend on competitive factors and the strategic importance of the buyer.

Pricing. Since the Brazilian government deregulated beer prices in 1991, Brahma's pricing has been based upon a reference price issued periodically by its headquarters, taking into account inflation and market factors. The final selling price in each of the five market regions is based on the reference price, and takes into account local taxes and competitive pressures. Actual prices are reported daily through Brahma's information network, so that the corporate staff is able to monitor discount levels and detect market tendencies. When determining the reference price, Brahma considers many factors, each

of which vary in importance from time to time. These factors include general economic conditions, regional taxes, the success and profitability of Brahma's various product presentations, the prices of its competitors, the effects of inflation and the level of its costs. There is currently no regulation of wholesale or retail beer or soft drink prices in Brazil.

Product Presentations. In order to maximize sales and per capita consumption of its products, Brahma examines sales data on a regular basis in an effort to develop a mix of product presentations to satisfy its customers. In 1999, approximately 71% of Brahma's beer was sold in 600 milliliter returnable glass bottles, 24% in cans and 3% in one-way bottles, with the remainder 2% represented by draft beer sold in barrels. The following table sets forth the presentations for Brahma's beer for the years presented:

Beer Presentations

	1999	1998	1997
Returnable Bottles ...	71%	73%	79%
Cans	24%	23%	17%
One-Way Bottles	3%	2%	2%
Barrels (Draft Beer) ..	2%	2%	2%

Packaging in the Brazilian beer market is characterized by the predominance of returnable glass bottles. The cans segment has grown after 1994 due to favorable foreign exchange rates, which made it cheaper to import aluminum used for can production, as well as the decision by some supermarkets to discontinue the sale of returnable bottles. The use of cans increased significantly in 1997 and 1998 due to an increase in aluminum can capacity in the domestic market, which caused the price of cans to decline. However, aluminum can prices recently increased as a result of the devaluation of the *real* in January 1999. See "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Devaluation of the *Real* in 1999".

The soft drink industry in Brazil moved rapidly to one-way plastic bottles as opposed to returnable glass bottles during the early 1990's. In 1999, approximately 67% of Brahma's soft drinks were sold in one-way plastic bottles. The following table sets forth the packaging presentation of Brahma's soft drink products:

Soft Drink Presentations

	1999	1998	1997
One-Way Plastic Bottles	67%	73%	76%
Cans	22%	17%	12%
Returnable Glass Bottles	10%	9%	8%
Post Mix	1%	1%	4%

Advertising and Promotional Activity. Brahma advertises and promotes its products through television and other media advertising campaigns, including billboards, and through the sponsorship of popular and highly publicized sports and recreational events. In addition, Brahma engages in various "point-of-sale" promotions, such as end-aisle displays and special contests, aimed at enhancing consumer preference for its brands.

Brahma regularly conducts surveys in its markets to monitor the image of its products and outcome of marketing activities. Within the past few years Brahma initiated several marketing plans, which were designed to assist in making selling strategy decisions for each environment in which it competes. Brahma also uses a telephone service, the "Consumer Service Center", which enables Brahma to listen to consumers' comments about its products. Brahma receives approximately 14,000 calls per month from consumers. Communication with consumers is a major priority for Brahma, and it was improved by the creation of web sites such as "www.brahma.com.br" and "www.skol.com.br".

Distribution

Brahma maintains an extensive distribution system, which has enhanced the penetration of Brahma's well-known brands. Distribution is a critical competitive factor in Brazil due to the long distances and because the majority of beer products are sold in returnable bottles. Brahma maintains two separate distribution networks, one for *Brahma* brands and one for *Skol* brands. As of December 31, 1999, Brahma's distribution system was divided into five Brazilian regions (see "—Sales and Marketing") and two international regions. The distribution regions and the points-of-sale for each of the *Brahma* and *Skol* product lines are substantially the same. The two distribution networks have the advantage of working with a complete portfolio of beer and soft drinks. Brahma distributors distribute *Brahma* brand beer and soft drinks and *Pepsi Cola* brand soft drink. *Skol* distributors distribute *Pepsi Cola* and the *Pepsi* drinks other than the cola drink, and the *Skol* brand beer.

Third Party Distribution Network. Brahma and Skol have exclusive distribution agreements with approximately 350 distributors through which they reach approximately one million points-of-sale. In general, these agreements require the distributor to carry exclusively Brahma's or Skol's products and grant it exclusive rights to sell such products within a defined area. Generally, these agreements have an initial term of five years, and are renewable for another five years after which the contract may become open-ended. Either party may terminate the contract at any time, subject to 180-day notice. All sales to distributors are made "free on board" (FOB) and, therefore Brahma or Skol, as the case may be, does not pay transportation costs and is not responsible for delivery once the product leaves the warehouse.

Distributors are responsible for ensuring proper display and rotation of Brahma's beer and soft drinks. Beer products typically have a 90-day turnover and if any product is not sold to the final consumer within 150 days of production, the distributor is obligated to throw it away and bear the costs. Soft drinks are subject to similar rotation requirements. Soft drinks not sold within six months of production, in the case of returnable bottles, or four months in the case of one-way plastic bottles, have to be thrown away at distributors' cost.

Brahma maintains warehouses at its production plants for the storage of products. Typically, Brahma stores returnable products for up to five days and non-returnable products for up to eight days, with most products being stored for only one or two days. Brahma normally conducts a physical survey of its inventory prior to the summer.

The number of distributors within an area is determined by considering, among other things, market needs, number of points-of-sale, geographic features and the availability of communications systems. Brahma's sales volume is not concentrated in any one distributor within any particular area.

A major initiative of Brahma is to improve continuously its distribution network in order to increase volumes of sales and deliveries per distributor, thus achieving economies of scale. As part of its "Excellence Program", Brahma has chosen to have fewer distributors and to focus on the increase the

volume and the quality of the service provided by these distributors. Brahma reduced the number of distributors since 1994, while at the same time it increased the volume of products sold by each distributor.

Direct Distribution System. In 1996, Brahma introduced a system of direct distribution to the point-of-sale where Brahma determined that its market share could be increased. Brahma initiated this system in Recife, and has extended it to 18 other cities in Brazil. In 1999, 22.9% of Brahma total volume sold was distributed directly to the point-of-sale.

Sales Force. Brahma maintains two separate sales forces whose responsibilities are divided by geographic area. These sales forces monitor performance of Brahma's products in several different ways, including evaluation of sales by brand, presentation and by distributors. Brahma's regional corporate officers are responsible for the distribution of the *Skol* and *Brahma* brands. Separate sales forces for the *Skol* and *Brahma* lines coordinate sales activities with the *Skol* and *Brahma* distributors. The *Skol* and *Brahma* distributors, in turn, make sales to the various points of sale in their distribution regions. The regional corporate officers report directly to the Sales Officer. See "Item 10.—Directors and Officers of Registrant—Brahma".

Sales of Brahma's products are not dependent upon any single customer. Brahma's largest customer accounted for less than 2% of Brahma's total net sales in 1999.

Production and Availability of Raw Materials

Beer and Soft Drink Production

Beer production involves several raw materials and production stages. The main ingredient in beer is malt, which is the result of germination and roasting of barley. Malt is mixed with water, hops and corn grits or rice in the proportions necessary to obtain the desired taste. The resulting mixture is called wort. Wort is malt fermented with selected yeast to produce beer, which is then filtered and bottled. In addition to these natural ingredients, delivery of the product to consumers requires packaging such as bottles, labels, crown caps and aluminum cans.

As a result of its significant capital investments in modernizing and expanding physical plants during the period from 1994 through 1998, Brahma now has a number of technologically advanced production facilities. The majority of Brahma's facilities are certified under ISO 9002 or ISO 9001. In addition, as a result of its relations with Miller and Carlsberg, Brahma has had access to production technology processes used by other leading international beer producers. For example, Brahma utilizes a micro-filtration process used by Miller in producing *Miller Genuine Draft* beer, which has the result of prolonging the shelf life of draft beer without pasteurization.

Unlike other international brewers, which produce up to 60 different brands in a single plant, Brahma has relatively few brands, resulting in greater economies of scale and production efficiency. In addition, the different brands share the same production process until the filtration stage, relatively late in the brewing process, thus maintaining production efficiency.

Soft drinks are produced by mixing water, flavored concentrate and sweetener. Water is processed to eliminate mineral salts and filtered to eliminate impurities. Purified water is combined with processed sugar or, in the case of diet soft drinks, with artificial sweeteners, and concentrate. Carbon

dioxide gas is injected into the mixture to produce carbonation. Immediately following carbonation, the mixture is bottled.

We believe that most of Brahma's supply agreements for raw materials contain standard commercial terms. Brahma is not dependent on any one supplier for a significant portion of its raw materials and the loss of any one or limited group of suppliers would not have a materially adverse effect on its sources of supply. In the past five years, Brahma has not experienced any material difficulties in obtaining adequate supplies of raw materials at satisfactory prices.

Beer - Raw Materials

The principal raw materials used in Brahma's production of beer are barley wheat, hops and water. In addition, Brahma purchases glass bottles, aluminum cans, steel kegs, bottle crown caps and labels for beer packaging.

Barley and Malt. Due to high humidity levels, Brazil is not a major producer of barley or wheat. Malt requirements are largely met by imports of barley, which Brahma processes into malt, or by direct imports of malt. Brahma purchases approximately 40% of its malt in international markets at prevailing market prices, which in turn depend partially on the quality of the malt harvests. In addition, Brahma obtains supplies of malt from its malting facilities in Brazil, Argentina and Uruguay, and other local suppliers in Brazil, which provide the other 60% of Brahma's needs. Brahma contracts its annual malt needs in the last quarter of the year for the following year's requirements. Malt needs for the year 2000 were contracted during the fourth quarter of 1999. Brahma also acquires hops from international suppliers. Substantially all other raw materials are acquired locally. Brahma currently sells part of its malt production to third parties, and it has the ability to produce up to 76% of its malt needs in its own facilities.

Hops. There are two types of hops used in Brahma's beer production: hops used to give beer its distinctive bitter flavor, which Brahma generally imports from the United States, and hops used to give beer its distinctive aroma, which Brahma generally imports from Europe. Brahma acquires hops from several international suppliers. Typical import contracts are entered for three-year terms.

Water. Water represents a small portion of raw material cost. Water needs to be treated both before its use in the production process and before disposal. Brahma obtains its water requirements from lakes and reservoirs, from deep wells located near its breweries and from public utilities. Brahma monitors the quality, taste and composition of the water it uses, and treats it to remove impurities and to comply with its own quality standards and applicable regulations. As a result of advances in technology, Brahma has reduced its water consumption per hectoliter produced. We do not foresee any shortage in Brahma's current water supply.

Packaging. Packaging costs comprise the cost of cans, bottles, labels and paper. Until 1996, Latas de Alumínio S.A. - Latasa was the sole supplier of cans in Brazil. Following a period of favorable foreign exchange rates which caused the cost of imported aluminum to be reduced, new can producers have entered the Brazilian market. The estimated installed capacity of aluminum can production in Brazil increased from 3.9 billion cans per year in 1995 to 9.5 billion cans produced in 1999. As a result of increased competition, the price of cans fell to international levels in 1998, and Brahma increased its sales of product in cans from 17.0% in 1997 to 23.0% in 1998 for beer, and from 12.0% in 1997 to 17.0% in 1998 for soft drinks. In 1999, Brahma introduced the use of steel cans, which are acquired from Companhia Metallic Nordeste. Brahma purchases glass bottles from the Brazilian subsidiaries of

St. Gobain Emballage S.A. and Owens-Illinois Glass Containers, Inc. Most of Brahma's bottles are returnable, and have a useful life of less than five years. The higher cost of bottles relative to cans is offset by their longer useful life.

Soft Drinks - Raw Materials

The raw materials involved in the manufacture and packaging of Brahma's soft drink products include concentrate, sugar, sweetener, water, carbon dioxide gas, glass or plastic bottles, cans, labels and crown caps. Most of these materials are obtained from local suppliers.

Concentrates. Brahma produces its own concentrates for its own soft drink production in Manaus, and mixes the concentrate with sugar and carbonated water at its soft drink and mixed production facilities. The concentrate of Pepsi products is purchased from PepsiCo International, Inc.

Packaging. Almost all of Brahma's plants have PET *(Polietileno Terefitalado)* blowing facilities provided by bottle manufacturers. PET is the material used to make one-way plastic bottles for soft drinks. On-premises PET blowing allows for substantial savings in transportation and storage costs.

Research and Development

Brahma maintains a state-of-the art pilot brewery and laboratory at its plant in Guarulhos, staffed by 12 employees to test new brewing processes and products. Brahma conducts research regarding developments in the beverage market on an ongoing basis. Brahma's process technology standardization program allows Brahma to monitor production processes, standardize operations and train personnel. This provides Brahma with increased control over its manufacturing processes. In addition, the productivity program identifies opportunities for operational and technological improvements in Brahma's facilities. The systematic monitoring of performance has enabled Brahma to maximize its production facilities while reducing fixed and variable costs. Brahma's expenditures on its research and development activities during the last three years were not material.

Trademarks

Brahma has approximately 150 trademarks registered with the Brazilian Institute of Industrial Property - INPI, and uses four third-party trademarks under specific license agreements (*Miller, Carlsberg, Pepsi* and *Lipton*). All these trademarks are protected in all material respects in Brazil. In addition, Brahma has registered its main trademarks or initiated trademark registration processes in approximately 80 countries outside of Brazil, including the United States, in order to assure protection to the names and logos.

The most important trademarks of Brahma, including names and logos, are the following: *AmBev, Brahma*, *Brahma Chopp, Skol, Sukita, Brahma Guaraná*, *Caracu*, *Limão Brahma*, *Malzbier*, *Fratelli Vita* and *Marathon*. There are no unregistered trademarks which are material to the business of Brahma. In Brazil, trademark registration has a term of validity of 10 years, after which it can be renewed for additional 10-year periods. The application for renewal of a trademark must be submitted to the INPI (Brazilian Institute of Industrial Property) in the last year of validity of the trademark registration, or in the six months after the trademark expiration date. A renewal is only refused by the INPI in the event that any third party argues that the trademark has lapsed due to lack of use during the prior five years, and such fact is deemed proven by the INPI. Brahma expects to apply for renewal of

registration of all of its material trademarks, so as to avoid their expiration. There are no material trademarks of Brahma expected to lapse in the near future.

We believe that Brahma's significant trademarks are protected in all material respects in the markets in which it currently operates. The combination will not affect in any way the trademark rights held by Brahma, which will continue to own those trademarks material to its business. The combination will likewise not affect the license agreements for the use of the *Miller, Carlsberg, Pepsi* and *Lipton* trademarks.

Environmental Standards

Brahma is subject to Federal, state and local laws and regulations in Brazil, Argentina and Venezuela relating to the environment. These laws generally provide for control of air and effluent emissions and require hazardous waste disposal sites to conform with environmental standards. Administrative, civil and criminal penalties may be imposed for non-compliance.

Brahma's operations do not result in significant air emissions other than from boilers that process steam. In 1995, Brahma completed the upgrade of the air emission control systems and wastewater treatment systems in its facilities. In addition to applicable laws, Brahma is subject to compliance with World Bank environmental standards pursuant to a loan facility entered into with the International Finance Corporation (IFC). As part of its compliance with these environmental standards, all of Brahma's plants have invested in wastewater treatment facilities, and Brahma is considered a leader in wastewater treatment in Brazil. Brahma's Minas Gerais facility became the world's first brewery to receive ISO 14001 certification by the Bureau Veritas, the international standard board for ensuring the consistent and measurable quality of environmental controls.

Brahma has been implementing an environmental policy program with a view to assuring compliance with environmental regulations. Beginning in 1995, Brahma has been working on an integrated environmental system by hiring and training environmental supervisors. Brahma also has professionals who are exclusively dedicated to the environmental management of Brahma's plants. Brahma has a multidisciplinary group to elaborate the policies and system of the environmental management of the company. Brahma also has a system of environmental evaluation in its plants. Brahma supports environmental-friendly projects, including a recycling project, study groups for environmental matters and urban cleaning projects.

For a number of years, Brahma has made substantial capital expenditures to bring existing facilities into conformity with various environmental laws and requirements. More recent expenditures incurred in Brazil, Argentina and Venezuela are as follows:

Capital Expenditures on Environmental Property, Plant and Equipment

	1999	1998	1997	1996
		(in millions of U.S. dollars)		
Property, plant and equipment	US$1.4	US$ 5.7	US$16.2	US$ 7.6
Waste treatment	6.9	15.4	7.8	10.3
	US$8.3	US$21.1	US$24.0	US$17.9

Budgeted environmental expenditures for the five-year period ending December 31, 2004 total approximately US$37 million.

We believe that Brahma's current operations are in substantial compliance with applicable Brazilian environmental laws and regulations. However, Brahma is currently engaged in litigation relating to Brazilian environmental laws and regulations. See "Item 3.—Legal Proceedings—Brahma—Environmental Matters". Brahma does not currently have any unasserted environmental claims on assessments.

Employees

As of December 31, 1999, Brahma and its subsidiaries had 9,192 employees, of which 61% were located in the industrial units, 35% were located in the distribution area and 4% were located in the administrative office. The following table sets forth the number of employees of Brahma and its subsidiaries for the years indicated:

Employees				
1999	**1998**	**1997**	**1996**	**1995**
9,192	10,708	10,955	9,987	9,535

In 1998, Brahma created the "Brahma University" to train and improve employee performance, and the performance of its distributors' employees. In 1999, the University trained more than 10,000 employees of Brahma and its distributors. At the management level, Brahma participates in several business and technical training programs at leading United States and European universities. Training schools in the major facilities provide courses, mainly technical in nature, for supervisory and operating personnel. In an initiative by the Brazilian beer producers' union (SINDICERV), Brahma and other beer producers have established a training school at Vassouras, near Rio de Janeiro, which includes a micro-brewery, bottling line and malting plant. We believe that Brahma's personnel are well trained and kept abreast of current technical and business developments.

The following table shows productivity as measured by hectoliters sold per production employee for the period from 1995 through 1999:

Productivity	
Year	**Sales in Hectoliters Per Production Employee[1]**
1995	5,133
1996	5,222
1997	6,289
1998	8,684
1999	8,776

(1) Calculated by dividing the total volume of beer and soft drinks produced by the number of employees involved in the production processes at the end of each period.

About 5% of Brahma's industrial employees are represented by labor unions while the number of employees represented by labor unions in the administrative office and in the distribution area is not significant. We believe that Brahma's relations with its employees are satisfactory, and there have been no strikes or significant labor disputes in the past seven years. Salary negotiations are conducted annually between the workers' unions and Brahma. The collective bargaining agreements for both union

and non-union employees are negotiated separately for each facility. Agreements reached between Brahma and the local or regional union which bargained the applicable agreement on behalf of employees at a particular facility are binding on all production and industrial employees, whether they are members of the union or not. Brahma's collective bargaining agreements have a term of one year, and we intend to enter into new collective bargaining agreements on or prior to the expiration of the existing agreements.

Benefit Plans

Brahma provides post-employment benefits to some employees through the *Instituto Brahma de Seguridade Social—IBSS* (Brahma Pension Fund). The Brahma Pension Fund is a defined-benefit pension plan, which supplements benefits that the Brazilian government social security system provides to employees of Brahma and employees of its Brazilian subsidiaries. The Brahma Pension Fund was established solely for the benefit of employees of Brahma and its assets are held independently of Brahma. Brahma, however, nominates the three directors of the Brahma Pension Fund.

The Brahma Pension Fund is available to both active and retired employees. Upon six months after being employed by Brahma, employees may choose to join the Brahma Pension Fund. Upon leaving Brahma (unless upon retirement) members are required to leave the Brahma Pension Fund. Members who request to leave and who joined the fund after June 30, 1990 receive the minimum benefit in a single installment, based on past contributions.

Brahma is required to contribute 8% of each employee's gross pay to an account maintained in the employee's name in the government severance indemnity fund (FGTS). Under Brazilian law, Brahma is also required to pay termination benefits to employees dismissed without cause. The amount of the benefits is calculated as 40% of the accumulated contributions made by Brahma to the FGTS during the employee's period of service. Any such terminations occur in the ordinary course of business and are not material to Brahma's liquidity, financial condition and results of operations. Termination expenses were US$4.0 million in 1999 and US$6.6 million in 1998.

The *Fundação Assistencial Brahma* (Brahma Welfare Foundation) was formed in 1983 to provide medical, dental, educational, sporting and social assistance to participating Brahma employees and their dependents. At December 31, 1999, there were approximately 23,000 beneficiaries and approximately 25,100 beneficiaries at December 31, 1998. Brahma may voluntarily contribute up to 10% of its consolidated net income, as determined in accordance with Brazilian corporation law, to support the Brahma Welfare Foundation.

Beneficiaries pay up to a maximum of 50% of the cost of medical and dental consultations, and the Brahma Welfare Foundation pays the balance. Inpatient health services are normally fully covered by the Brahma Welfare Foundation. The Brahma Welfare Foundation also provides medical assistance to a number of former employees who were granted the right to assistance through judicial decisions. The Brahma Welfare Foundation primarily administers its medical and dental assistance through independent health providers.

Brahma has a stock option plan designed to promote the company's objectives and to obtain and retain the services of qualified executives and employees. Both common and preferred shares are granted in the plan.

The plan is administered by a committee, which includes non-executive members of the board of directors of Brahma. This committee periodically creates programs of share options, defining the terms and employees to be included, and establishes the price at which the shares are to be issued. This price shall not be less than 90% of the average price of the shares traded on the stock market in the previous three business days, adjusted pursuant to inflation through the date the option is granted. The number of shares which might be granted in each year shall not exceed 5% of the total number of shares outstanding of each group of shares at that date. When share options are exercised, Brahma issues new shares or transfers treasury shares to the new shareholders. Share options were granted until October 1999, and they do not specify a final date by which they must be exercised. If an employee leaves the employment of Brahma (other than upon retirement), the Brahma Welfare Foundation may voluntarily repurchase such shares, at a price equal to:

- the inflation-indexed price paid by such employee, if the employee leaves during the first 30 months after the exercise of the option;

- 50% of the inflation-indexed price paid, and 50% at the prevailing market price, if the employee leaves after the first 30 months but before the 60th month after the exercise of the option; and

- the market price if the employee leaves more than 60 months after the exercise of the option.

Profit Sharing

Brahma's by-laws provide for the distribution of up to 10% of Brahma's consolidated net income, as determined in accordance with Brazilian corporation law, to its employees. Executive officers are entitled to profit sharing in an amount not to exceed the lower of their annual remuneration and 5% of Brahma's consolidated net income.

Payments under Brahma's profit sharing plan are subject to the availability of cash resources of Brahma. The distribution of the executive officers' bonus is determined based on individual performance, as approved by the board of directors of Brahma. All other employees of Brahma are entitled to performance-based variable bonuses calculated on an annual basis. These bonuses vary depending on the achievement by each employee of specific targets, which are established for each of the areas of the company and then attributed to each person on an individual basis.

Expenses of Brahma under these programs are included in general and administrative expenses and amounted to US$1.9 million (executive officers - zero, other employees - US$1.9 million) in the year ended December 31, 1999, and US$36.4 million (executive officers - US$6.6 million, other employees - US$29.8 million) in the year ended December 31, 1998. In 1999, no individual bonus were paid to executive officers in relation to the year ended December 31, 1998, since Brahma's goals set earlier in 1998 were not met. Liabilities for accrued profit sharing totaled US$22.3 million as of December 31, 1999.

ANTARCTICA

General

Companhia Antarctica Paulista Indústria Brasileira de Bebidas e Conexos, a company incorporated under the laws of the Federative Republic of Brazil, and its consolidated subsidiaries produce, distribute and sell beer, soft drinks and other non-carbonated drinks, such as fruit juices and mineral waters. In terms of sales volume, Antarctica was the second largest beer and soft drink producer in Brazil and the fifth largest beer producer in Latin America in 1999. Antarctica was the leading producer of guaraná soft drink in Brazil in terms of market share. Guaraná is a significant rival to the *Coca-Cola* brand soft drinks in Brazil. As of December 31, 1999 Antarctica's U.S. GAAP total assets were US$1,288.2 million and its shareholders' deficit was US$201.4 million.

Corporate History

Antarctica was established in 1885 as a limited liability company producing ice and food, and began commercial distribution of beer in 1888. On February 9, 1891, Antarctica became a corporation, with 61 shareholders and production capacity of 6,000 hectoliters per year. Antarctica came under the control of the Zerrenner and Bülow families in 1893. In 1897, Antarctica had 231 employees and a production of 20,000 hectoliters per year. In 1904, Antarctica acquired the Cervejaria Bavaria beer plant from Henrique Stupakoff & Cia. in the city of São Paulo, where Antarctica's current headquarters are located.

Antarctica's geographical expansion and product line diversification continued through a number of additional acquisitions, including:

- in 1961, Cervejaria Bohemia in the state of Rio de Janeiro (the oldest brewery in Brazil, founded in 1853);
- in 1972, Cervejaria Polar S.A. and Cervejaria Manaus S.A. (CERMAN) located in the states of Rio Grande do Sul and Amazonas, respectively;
- in 1973, four breweries: Cervejaria Niger S.A. in the state of São Paulo, Vick-Bier do Brasil S.A. in the state of Espírito Santo, Indústria Jesus S.A. - Produtos Alimentícios in the state of Maranhão, and Cervejaria Pérola in the state of Rio Grande do Sul; and
- in 1980, Cervejaria Serramalte in the state of Rio Grande do Sul.

In 1912, Antarctica began production of soft drinks and launched *Soda Limonada Antarctica* (a lime soft drink). In 1914, it began its tonic water operations. In 1921, Antarctica began production of its *Guaraná Antarctica* soft drink. In 1923, the Zerrenner family acquired control of Antarctica, with the ownership of 51% of its total capital. In 1936, Fundação Antonio e Helena Zerrenner Instituição Nacional de Beneficência (Zerrenner Foundation) was formed as a charitable trust, as the only and universal heir of the deceased couple who was the controlling shareholder of Antarctica. The Zerrenner Foundation later increased its share ownership to 87.9% of Antarctica's total capital, and remained as the controlling shareholder of Antarctica until July 1, 1999, when as a result of the controlling shareholders' contribution, it became one of the major shareholders of AmBev.

On August 19, 1997, Antarctica successfully launched the *Bavaria Pilsen* beer brand, targeted at a young audience, and marketed with country music and country style elements. The new brand received more than 12 different awards in 1998 including the: *TOP of Marketing* given by ADVB, the Brazilian sales managers association, Marketing Best for *The Beer Friends* film and Best Packaging Industrial Design for *Bavaria Pilsen* can and long neck given by EMBANEWS, the Brazilian packaging newspaper. As a result of the performance agreement that AmBev entered into with the principal Brazilian antitrust authority (CADE), AmBev will have to sell Antarctica's *Bavaria* brand to a third party by January 1, 2001. See "Item 1.—Description of Business—Brahma—Combination of Brahma and Antarctica and the Formation of AmBev—Brazilian Antitrust Approval".

Production of Antarctica's second best-selling soft drink, *Guaraná Antarctica Diet*, began in 1989, and other diet soft drinks were launched during the 1990s. Antarctica began production of fruit juices (*Nectar*) on a commercial scale in 1998, when it also launched the *Pérola* mineral water (with added mineral salts).

On February 15, 1984, Antarctica and its various subsidiaries were structured as a corporate group for Brazilian corporation law purposes, with Companhia Antarctica Paulista Indústria Brasileira de Bebidas e Conexos as the group holding, as well as an operating company itself. On February 16, 1996, Antarctica entered into a joint venture arrangement with Anheuser-Busch by which Antarctica agreed to establish a new holding company, Antarctica Empreendimentos e Participações Ltda. - ANEP, to facilitate the investment by Anheuser-Busch in the Antarctica group companies. Under the Antarctica - Anheuser-Busch joint venture, Antarctica distributed Budweiser beer in Brazil through Budweiser do Brasil Ltda., and Anheuser-Busch agreed to assist Antarctica in the sale of its products outside of Brazil. Anheuser-Busch also provided technological assistance to Antarctica. On July 29, 1999, Anheuser-Busch exercised its contractual put option in accordance with their joint venture agreement and sold its interest in ANEP to Antarctica for US$64.6 million. Antarctica and Anheuser-Busch thus terminated their joint venture. See "—Business—Joint Ventures and Strategic Alliances".

On September 15, 1999, the common shareholders of Antarctica and AmBev approved a corporate transaction defined under Brazilian corporation law as an *incorporação de ações* (incorporation of shares), pursuant to which Antarctica became a wholly owned subsidiary of AmBev (the Antarctica conversion). In the Antarctica conversion, all shares of Antarctica not then owned by AmBev were exchanged for shares of AmBev of the same type and class.

Antarctica enjoys a strong brand recognition in Brazil. The Antarctica name is associated with high quality, and throughout its history, Antarctica has frequently won international awards for the quality of its beer. In addition, in 1999, Antarctica gained for the ninth consecutive year the Top of Mind award (a market research study conducted by Datafolha), as the beer brand most remembered by Brazilians. Most recently, Antarctica won six different first place prizes for best foreign beer in international competitions: in 1997, Berlin, Germany, Brussels, Belgium, Miesenbach, Austria, Düsseldorf, Germany and Munich, Germany; in 1998, the Australian Beer Awards.

Antarctica's principal executive office is located at Avenida Maria Coelho Aguiar, 215, Bloco F, 6º andar, CEP 05804-900, São Paulo, SP, Brazil, and its telephone number is (55-11) 3741-7000.

Ownership Restructuring

In 1998 and 1999, Antarctica implemented a corporate reorganization intended to facilitate the overall management of the Antarctica group and achieve tax efficiencies. More recently, AmBev extended a public offer for the acquisition of the shares of minority shareholders for two of Antarctica's subsidiaries whose shares are traded in the São Paulo Stock Exchange. The reorganization process and the recent public offer are summarized below.

Creation of Antarctica Sudeste

In November 1998, shareholders of Indústria de Bebidas Antarctica do Rio de Janeiro S.A. and Cervejaria Antarctica-Niger S.A. voted to merge Antarctica Rio into Antarctica-Niger. The resulting company changed its name to Indústria de Bebidas Antarctica do Sudeste S.A. (Antarctica Sudeste).

Exchange offer for shares of Antarctica do Nordeste

In December 1998, an exchange offer of shares of Indústrias de Bebidas Antarctica do Nordeste S.A. (Antarctica do Nordeste) was extended to shareholders of two unlisted companies (Antarctica do Ceará and Antarctica do Mato Grosso) and five listed companies (Antarctica da Amazônia, Antarctica de Minas Gerais, Antarctica da Paraíba, Antarctica do Piauí and Antarctica do Rio Grande do Norte).

In January 1999, all listed companies involved in this exchange offer had their listings canceled. The exchange of shares between the shareholders of the seven companies and Antarctica do Nordeste occurred on April 28, 1999, with the consequent capital increase of Antarctica do Nordeste. As a result of the exchange offer:

- Antarctica do Nordeste became the controlling shareholder of all seven companies; and
- None of such companies remained listed on the Brazilian stock exchanges.

Merger of group companies

In April 1999, the seven companies above (Antarctica do Ceará, Antarctica do Mato Grosso, Antarctica da Amazônia, Antarctica de Minas Gerais, Antarctica da Paraíba, Antarctica do Piauí and Antarctica do Rio Grande do Norte) were merged into Antarctica do Nordeste. The exchange ratios used were based on the book values of each of the companies as of March 31, 1999.

According to the resolutions passed in the shareholders' meetings of Antarctica do Nordeste and the seven target companies, all mergers were effective as of May 1, 1999. The facilities of the target companies became operating branches of Antarctica do Nordeste, and Antarctica do Nordeste's name was changed to Indústria de Bebidas Antarctica do Norte - Nordeste S.A. (Norte - Nordeste).

Overall result

As the final result of the reorganization program, the Antarctica group concentrated its activities in three publicly-held companies and one privately-held company, with specific regional distribution areas:

- Antarctica, which operates in the state of São Paulo;

- Norte-Nordeste, which operates in the north and northeast and part of center-west of Brazil;

- Indústria de Bebidas Antarctica - Polar S.A. (Antarctica - Polar), a company that operates in the south of Brazil; and

- Antarctica Sudeste, a privately-held corporation that operates in the south of Brazil.

Norte-Nordeste, Antarctica - Polar and Antarctica Sudeste are subsidiaries of Antarctica Empreendimentos e Participações Ltda. - ANEP, which is a subsidiary of Antarctica. Further details on these companies are provided in "—Corporate Structure".

Public Offer for the Acquisition of Shares of Antarctica - Polar and Norte - Nordeste

On May 22, 2000, AmBev announced a public offer for the acquisition of the shares of minority shareholders of the two publicly-held subsidiaries of Antarctica, Antarctica - Polar and Norte - Nordeste. The transaction will need to be approved at shareholders' meetings of Antarctica - Polar and Norte - Nordeste and approved by the CVM before it can be extended to the minority shareholders. The purpose of the public offer is to allow for the delisting of the shares of such companies from the São Paulo Stock Exchange, and the cancellation of their registration as publicly-held corporations with the CVM. In case all minority shareholders decide to sell their shares, AmBev will spend approximately R$250 million (US$143 million) in the share purchases. AmBev does not have any assurance that the public offer will be successful, nor can it assure that the offer will be completed on a timely manner. Depending on the number of minority shareholders who accept the public offer, AmBev may not be able to proceed with the delisting and the de-registering of such companies. Since the announcement of the public offer, some minority shareholders of Antarctica - Polar and Norte - Nordeste have been debating on the public offer price and the legality of the cancellation of the registration of both companies.

Business

Of Antarctica's total net sales in 1999, 71.0% consisted of beer sales, 22.3% consisted of soft drink sales and 6.7% consisted of sales of other products. See "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Antarctica—Year Ended December 31, 1999 Compared with Year Ended December 31, 1998—Net Sales".

The following tables set forth Antarctica's sales volume, for each of the years indicated:

	Sales Volume		
	1999	1998	1997
	(in thousands of hectoliters)		
Beer	17,455	20,022	20,653
Soft Drinks	7,626	8,634	9,104
Total	25,081	28,656	29,757

Beer

Antarctica has been producing beer in Brazil since 1885. It has a diversified portfolio of 15 different beer brands, with some nationally distributed brands including *Antarctica Pilsen* and *Bavaria*

Pilsen, and a number of regional brands. The core brand is *Antarctica Pilsen*, a standard priced pilsener beer that accounted for around 90% of Antarctica's total beer sales in 1996. Following the launch of the *Bavaria Pilsen* brand in September 1997, Antarctica's portfolio became more diversified, with *Antarctica Pilsen* representing only 62.4% of total beer sales volume in 1999. Since 1998, *Bohemia* has also been distributed nationally in Brazil. Although its sales volume has been increasing, it is still not significant when compared to *Antarctica Pilsen* or *Bavaria Pilsen*. As a result of the performance agreement that AmBev entered into with the principal Brazilian antitrust authority (CADE), AmBev will have to sell Antarctica's *Bavaria* brand to a third party by January 1, 2001. See "Item 1.—Description of Business—Brahma—Combination of Brahma and Antarctica and the Formation of AmBev—Brazilian Antitrust Approval".

The following table shows Antarctica's beer sales breakdown by product type for each of the years indicated:

Beer Sales Volume by Product Type

	1999	1998	1997
Antarctica Pilsen	62.4%	62.4%	85.3%
Bavaria Pilsen	20.7%	27.4%	5.8%
Other	16.9%	10.2%	8.9%
Total (thousand hectoliters)	17,455	20,022	20,653

Beer sales accounted for approximately 71.0% of Antarctica's net sales in 1999, totaling US$532.5 million (basis: Brazilian corporation law). Antarctica's beer sales volume was 17.4 million hectoliters in 1999, a decrease of 12.8% compared to 1998; and sales volume were 20.0 million hectoliters in 1998, a decrease of 3.1% compared to 1997. According to Nielsen, Antarctica's portfolio of beer brands held a 23.4% market share in Brazil in 1999 (by volume).

The entire Antarctica portfolio is marketed and distributed by a single distribution network in Brazil, reaching more than one million points of sale. Distribution is primarily carried out by 354 exclusive distributors, and through Antarctica's own distribution system, which accounted for 9.7% of total volumes sold in 1999 and 5% of sales volumes in 1998. The following chart lists the principal beer brands produced by Antarctica and the categories for each:

Standard	Regional	Differentiated	Premium
Antarctica Pilsen	*Polar Export*	*Antarctica Malzbier*	*Kronenbier*
Bavaria Pilsen	*Serramalte Extra*	*Antarctica München Extra*	*Bavaria Premium*
Bohemia	*Original*	*Antarctica Pilsen Extra Cristal*	
Antarctica Pilsen Extra	*Niger*	*Antarctica Pilsener Chopp*	
Polar Pilsen			

Bavaria Premium was traditionally Antarctica's principal premium beer, with a relatively low sales volume. A lighter, less bitter version of the beer was launched at a lower price point in September 1997. *Antarctica Malzbier*, *Antarctica München Extra* and *Niger* are dark beers principally intended for consumption during the winter months. *Kronenbier* is an alcohol-free beer. The *Antarctica Pilsen* and *Antarctica München Extra* are distributed in both bottles and in draft form while the remaining brands are only produced in bottles and cans.

For information on the Brazilian beer market share of Antarctica, see "Item 1.—Description of Business—Overview of the Brazilian Beverage Market—Beer Market—Competition".

Soft Drinks

Antarctica began producing and selling soft drinks in Brazil in 1912. Antarctica's principal soft drink is *Guaraná Antarctica*, produced since 1921. *Guaraná Antarctica* and *Guaraná Antarctica Diet* represented approximately 76.6% of Antarctica's soft drinks sales in 1999. Antarctica also produces lemon and orange soda and tonic water under the *Antarctica* label, as well as lower priced soft drinks of various flavors under *Pop*, *Baré* and other labels. Most of these soft drinks are sold in both regular and diet versions. All soft drinks sold by Antarctica are sold under its proprietary brands. In 1999, soft drink sales represented 22.3% of Antarctica's total net sales, amounting to US$167.2 million (basis: Brazilian corporation law).

Sales volume of soft drinks was 7.6 million hectoliters in 1999, a decrease of 11.7% compared to 1998. In 1998 and 1997, soft drinks sales volumes were 8.6 million hectoliters and 9.1 million hectoliters, respectively. Antarctica's average soft drink market share in 1999 was approximately 10.5% (by volume).

The following is a list of all soft drink brands sold by Antarctica: *Guaraná Antarctica, Guaraná Antarctica - Diet, Água Tônica de Quinino Antarctica, Água Tônica de Quinino Antarctica - Diet, Soda Limonada Antarctica, Soda Limonada Antarctica - Diet, Pop Laranja, Pop Laranja - Diet, Pop Cola, Pop Cola - Diet, Baré Cola, Baré Cola - Light, Baré Tutti Frutti, Baré Tutti Frutti - Light, Club Soda, Guaraná Frisante Polar, Guaraná Frisante Polar - Light, Guaraná Baré, Guaraná Barezinho, Guarasuco* and *Cola Jeneve.*

The following table shows the sales volume breakdown of Antarctica's soft drinks by product type during each of the years indicated:

Soft Drink Sales Volume by Product Type

Products	**1999**	**1998**	**1997**
Guaraná Antarctica	58.8%	55.6%	57.4%
Guaraná Antarctica - Diet	17.8%	15.1%	13.8%
Other	23.4%	29.4%	28.8%
Total (thousand hecto liters) . .	7,626	8,634	9,104

Antarctica sells soft drink concentrate to six different bottling franchisees, four of which operate in Brazil, one in the United States and one in Japan. Antarctica's Brazilian franchisees are free to contract with Antarctica's distributors or to make other distribution arrangements. Production and sales by franchisees are included in the operating data contained in this annual report. Soft drinks are distributed on the same network used for distribution of beer.

Antarctica is increasing its exports of soft drinks to Mercosur countries, Europe, The United States and Japan, together with promotional campaigns aimed at increasing product acceptance in local markets. Sales of guaraná are expected to further increase as a result of the memorandum of understanding that AmBev entered into with PepsiCo, Inc. (PepsiCo) on October 20, 1999, pursuant to which AmBev agreed to license or sell *Guaraná Antarctica* for bottling, sale and distribution by PepsiCo outside of Brazil. AmBev is currently working toward implementing the licensing or sale of *Guaraná Antarctica* with PepsiCo. Exports of soft drinks were not material in terms of Antarctica's revenues for 1999.

For information on the Brazilian soft drink market share of Antarctica, see "Item 1.—Description of Business—Overview of the Brazilian Beverage Market—Soft Drink Market—Competition".

Other

Antarctica engages in several businesses that are ancillary to soft drink production and distribution, including:

- production and sale of packaged and post-mix fruit juices;
- cultivation of barley and guaraná for use in its own beer and guaraná soft drink production; and
- the processing of guaraná seeds to make guaraná extract and the processing of fruits to make fruit flavoring used in the production of juices and soft drinks.

Until May 2000, Antarctica also engaged in the processing of barley to make malt. As part of the integration process resulting from the combination, Antarctica closed its malting plant, Maltaria Jaguaré, in May 2000. From then on, Antarctica began to purchase malt from the facilities of Brahma in Brazil, Argentina and Uruguay. See "—Production and Availability of Raw Materials—Beer – Raw Materials".

Net sales of these products, excluding inter-company sales, amounted to US$50.7 million for the year ended December 31, 1999 and US$74.7 million in 1998. Sales of these products accounted for approximately 6.7% of net sales during 1999 and 6.3% in 1998.

Production and Sale of Fruit Juice and Mineral Water

Sales of non-carbonated beverages (packaged and post-mix fruit juice products and water) to third parties accounted for less than 3.0% of Antarctica's net sales in 1999. Antarctica's principal fruit juice products are sold under the brand name *Nectar*. The products are sold in tetrapak packaging in supermarkets and in "post-mix" concentrate to retail establishments for on-premise consumption and industrial catering. Antarctica began producing and selling *Nectar* fruit juice and bottled water under the name *Água Pérola* in October 1998.

As the majority of fruit juice consumed in Brazil is made fresh in homes and in restaurants, juice bars and similar retail establishments, Antarctica believes that no reliable statistics exist as to the size of the fruit juice market in Brazil. Antarctica believes, however, that its share of the fruit juice market is small.

Although bottled water and fruit juices do not at present constitute a large part of the Brazilian beverage market, Antarctica believes that they could become significant in the future. Antarctica believes that its present bottled water and fruit juice production activities will help it to be prepared for any such developments.

Cultivation of Barley and Guaraná

Substantially all of Antarctica's agricultural production is used in its own soft drink products. In 1999, Antarctica produced barley by entering into contractual arrangements with 2,000 farmers, who produced approximately 85,000 tons of barley. These farmers received seeds and technical assistance

from Antarctica for the planting of barley and cultivated approximately 24,000 hectares of land, mainly in the southern Brazilian states of Santa Catarina, Paraná and Rio Grande do Sul. These contractual arrangements provided farmers with a guarantee that Antarctica would purchase the annual crop.

In addition, Antarctica maintains agricultural research and development facilities, which cultivate approximately 40 hectares of land of barley in the state of Paraná and 505 hectares dedicated to guaraná seeds in the Amazon region in northern Brazil. Antarctica also owns a barley warehouse and treatment center located in the state of Paraná, comprising a total area of 12.3 hectares. Antarctica's guaraná facility develops new technologies for the production of seeds and supplies Antarctica with 50 to 60 tons of seeds per year.

Until May 2000 Antarctica produced malt which represented approximately 15% of the company's consumption. At present, Antarctica purchases malt for 60% of its consumption from local suppliers in Brazil and Brahma's malting facilities in Brazil, Argentina and Uruguay. Antarctica purchases the remaining 40% from suppliers outside of Brazil.

Production of Guaraná Extract and Fruit Flavoring

Antarctica produces all of the guaraná extract used in its soft drink production. Approximately 20% of the guaraná seed used in Antarctica's guaraná extract production is produced with its own guaraná and 80% of guaraná seed is purchased directly from independent farmers in the Amazon region.

Antarctica produces all of the fruit juice pulp and concentrate that it uses to produce fruit flavored soft drinks using fruit purchased from large commercial suppliers.

Facilities

Antarctica currently has 24 facilities: seven breweries, seven soft drink plants and six combined beer and soft drink plants (including a guaraná concentrate plant in Manaus, Amazonas), and four fruit juice and fruit essences plants. Antarctica's total beer production capacity is 31.6 million hectoliters per annum. The total soft drink production capacity is 22.2 million hectoliters per annum. As a result of the performance agreement that AmBev entered into with the principal Brazilian antitrust authority (CADE), AmBev will have to dispose of Antarctica's beer plant in the city of Getúlio Vargas, and the beer production lines of the plant in Ribeirão Preto. AmBev must sell these plants by January 1, 2001. See "Item 1.—Description of Business—Brahma—Combination of Brahma and Antarctica and the Formation of AmBev—Brazilian Antitrust Approval".

Capital Investment Program

Antarctica recently concluded a US$1.6 billion, 10-year capital investment program, which begun in 1989. The purpose of the capital investment program was to modernize its plants and information systems, restructure its operations and distribution network to increase efficiency, and introduce new product lines. As part of its capital investment program, Antarctica has done the following:

- built two new beer plants and two new plants for mixed production (beer and soft drinks);
- upgraded the beer production facilities at two existing plants;

- added four new bottling lines in its plants;
- purchased and installed the R/3 satellite-linked industrial integration software, produced by SAP AG of Germany;
- replaced and upgraded machinery; and
- improved effluent and industrial waste treatment processes at its industrial plants.

The capital investment program substantially modernized Antarctica's beer production equipment and significantly increased the efficiency of Antarctica's operations. The Jaguariúna facility, near the city of São Paulo, is now one of the most modern and efficient beer production facilities in the world. Modernization of technology and equipment permitted Antarctica to improve productivity. Antarctica reduced the number of employees by 60.9% from 16,416 at December 31, 1994 to 6,420 at December 31, 1999, while it increased its production capacity over the same period by 38.7% from 38.8 million hectoliters per year to 53.8 million hectoliters per year. Antarctica believes that its new state-of-the-art plants and the technological improvements to its existing plants have also allowed it to improve its product quality.

Antarctica invested US$60.2 million in 1999 to continue updating its equipment and machinery and to complete the implementation of the SAP industrial integration software. See "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Antarctica".

Joint Ventures and Strategic Alliances

On February 16, 1996, Antarctica entered into a joint venture agreement with Anheuser-Busch International, Inc. and Anheuser-Busch International Holdings, Inc. (collectively, Anheuser-Busch). Under the joint venture agreement, Antarctica established a new holding company, Antarctica Empreendimentos e Participações Ltda. - ANEP, for most of its operations outside the state of São Paulo. Under the joint venture agreement, 5% of the shares of ANEP were initially held by Anheuser-Busch, with substantially all the remaining shares held by Antarctica. Anheuser-Busch had the option to purchase additional shares of ANEP up to a maximum interest of 29.68%. Anheuser-Busch was also generally entitled to sell its interest in ANEP to Antarctica if targets relating to growth in sales volume, net income and accumulated dividends were not met.

The following were some of the provisions of the joint venture agreement:

- Anheuser-Busch agreed to furnish Antarctica with its best knowledge and expertise in the areas of marketing, production and planning;
- Anheuser-Busch and Antarctica formed a new company, Budweiser do Brasil Ltda., which was 51% owned by Anheuser-Busch and 49% owned by Antarctica. Budweiser do Brasil Ltda. was responsible for producing, marketing and selling *Budweiser* brand beer in Brazil; and
- Anheuser-Busch agreed to cooperate and assist Antarctica in introducing and increasing sales of its beer and soft drink products outside of Brazil.

Anheuser-Busch's original investment in ANEP was US$52.5 million, and a further US$5.0 million was invested in January 1997. On June 29, 1999, Anheuser-Busch Brasil Holdings Ltda., which succeeded Anheuser-Busch in the transaction, informed Antarctica of its decision to exercise a put option in accordance with the joint venture agreement, and sell its interest in ANEP to Antarctica for US$64.6 million. This sale was effective on July 29, 1999, when Antarctica sold its stake in Budweiser do Brasil Ltda. to Anheuser-Busch, and all existing agreements between the parties, including the joint venture agreement, were terminated.

AmBev Business

For a brief description of the business of AmBev and the integration process of Brahma and Antarctica, see "Item 1.—Description of Business—Brahma—AmBev Business".

Corporate Structure

Antarctica's operations are conducted by Companhia Antarctica Paulista Indústria Brasileira de Bebidas e Conexos (Antarctica), its direct and indirect subsidiaries, and through affiliated companies in which Antarctica holds direct and indirect minority interests. In 1998 and 1999, Antarctica reorganized its corporate structure to simplify administrative procedures and achieve tax efficiencies. As of May 31, 2000, Antarctica controlled, either directly or indirectly, the following companies:

- Antarctica Empreendimentos e Participações Ltda. - ANEP. ANEP is a holding company established in 1996 in connection with the Antarctica - Anheuser-Busch joint venture, which is the controlling shareholder of the Antarctica Sudeste, Norte - Nordeste and Antarctica - Polar subsidiaries. On July 29, 1999, Antarctica acquired the 5% ownership held by Anheuser-Busch and became the holder of 99.9% of ANEP's shares. See "—Business—Joint Ventures and Strategic Alliances".

- Antarctica U.S.A., Inc. – Antarctica USA is a U.S. company and a wholly owned subsidiary of Antarctica, incorporated in June 1997. Antarctica USA was established to sell and distribute Antarctica products in the United States.

- Distribuidora de Bebidas Antarctica de Manaus Ltda. – Distribuidora Manaus is a beer and soft drink distributor in the state of Amazonas, and a wholly owned subsidiary of Antarctica through Antarctica Sudeste and ANEP.

- Indústria de Bebidas Antarctica do Sudeste S.A. – Antarctica Sudeste is an operating company, producing beer and soft drinks, whose headquarters are located in Jacarepaguá, in the state of Rio de Janeiro. Antarctica Sudeste is responsible for sales in the southeast of Brazil, including the states of Minas Gerais, Espírito Santo and Rio de Janeiro.

- Indústria de Bebidas Antarctica do Norte - Nordeste S.A. – Norte - Nordeste is an operating company, producing beer and soft drinks. Norte - Nordeste is the company resulting from the merger of a number of companies, as described in "—Ownership Restructuring". Norte - Nordeste's headquarters are in Camaçari, in the state of Bahia, and its commercial area covers the entire north and northeast and part of the center-west of Brazil.

- Indústria de Bebidas Antarctica - Polar S.A. – Antarctica - Polar is an operating company, producing beer and soft drinks. Antarctica - Polar's headquarters are located in Porto Alegre, state of Rio Grande do Sul, and its commercial area includes the south of Brazil (the states of Rio Grande do Sul, Santa Catarina and Paraná).

Companhia Antarctica Paulista Indústria Brasileira de Bebidas e Conexos has the ability to exercise significant influence over the operating and financial policies of the following affiliated companies:

- Distribuidora de Bebidas Ribeirão Preto Ltda. – Distribuidora Ribeirão is a beverage distributor in the state of São Paulo.

- Transportadora Lizar Ltda. – Tranportadora Lizar is a transportation company.

Business Strategy

As a result of the Antarctica conversion, Antarctica became a wholly owned subsidiary of AmBev and therefore follows the business strategies outlined for AmBev as explained in "Item 1.—Description of Business—Brahma—Business Strategy".

Sales and Marketing

At December 31, 1999, Antarctica's operations were divided into four regions, each headed by a regional officer: São Paulo, south, north and northeast, and Rio de Janeiro/Minas Gerais/Espírito Santo. Of the 17.4 million hectoliters of beer sold by Antarctica in 1999, 48.0% was sold in the northern and northeastern region, 20.4% in the São Paulo region, 16.9% in the Rio de Janeiro/Minas Gerais/Espírito Santo region, and 14.7% in the southern region. Of the 7.6 million hectoliters of soft drinks Antarctica sold in 1999, 34.1% was sold in the northern and northeastern region, 31.1% in the São Paulo region, 19.6% in the Rio de Janeiro/Minas Gerais/Espírito Santo region, and 15.2% in the southern region.

The following table sets forth Antarctica's sales volume by product line for each quarter in the years presented:

Sales Volume of Antarctica's Products by Product Line

	1999		1998		1997	
	(in thousands of hectoliters)					
Quarter	Beer	Soft Drinks	Beer	Soft Drinks	Beer	Soft Drinks
First	4,575	1,975	5,250	2,269	5,159	2,277
Second ..	3,931	1,695	4,382	1,933	4,443	2,066
Third	4,105	1,764	4,590	2,034	4,840	2,329
Fourth ...	4,844	2,193	5,800	2,398	6,211	2,432
Total ..	17,455	7,626	20,022	8,634	20,653	9,104

Points-of-Sale. Antarctica estimates that its products are sold in approximately one million points-of-sale throughout Brazil. Beer is primarily sold in restaurants and bars, while most of Antarctica's soft drinks are sold through supermarket retailers.

Terms of Sale. Most of Antarctica's sales are on a cash basis. Direct sales to selected customers, such as major supermarkets, fast-food restaurants, convenience stores and other major customers, may be on a credit basis with terms up to 18 days. The terms and other credit conditions will often depend on competitive factors and the strategic importance of the buyer.

Pricing. Antarctica believes that the growth in market share by some of its competitors in recent years is largely the result of price discounting. In order to respond to price competition, especially the competition provided by the *Kaiser* brand, Antarctica launched *Bavaria Pilsen* line in September 1997. *Bavaria Pilsen* was initially priced at a discount to its competitors' brands. Another important pricing strategy was the national expansion of the *Bohemia* brand at a price point slightly above the *Antarctica Pilsen* brand aimed at enhancing Antarctica's share of value in the market.

Antarctica's current pricing is based upon a reference price issued periodically by its headquarters, taking into account inflation and market factors. The final selling price in each of the market regions is based on the reference price, and takes into account local taxes and competitive pressures. Actual prices are reported daily through Antarctica's information network, so that the corporate staff is able to monitor discount levels and detect market tendencies. When determining the reference price, Antarctica considers many factors, each of which vary in importance from time to time. These factors include general economic conditions, regional taxes, the success and profitability of Antarctica's various product presentations, the prices of its competitors, the effects of inflation and the level of its costs. There is currently no regulation of wholesale or retail beer or soft drink prices in Brazil.

Product Presentations. In 1999, approximately 73% of Antarctica's beer was sold in 600 milliliter returnable glass bottles, 21% in cans and 6% in one-way glass bottles. The following table sets forth the presentations for Antarctica's beer for the years presented:

Beer Presentations

	1999	1998	1997
Returnable Bottles	73%	73%	80%
Cans	21%	24%	18%
One-Way Bottles	6%	3%	2%

Packaging in the Brazilian beer market is characterized by the predominance of returnable glass bottles. The cans segment has grown after 1994 due to favorable foreign exchange rates, which made it cheaper to import aluminum used for can production, as well as the decision by some supermarkets to discontinue the sale of returnable bottles. The use of cans increased significantly in 1997 and 1998 due to an increase in aluminum can capacity in the domestic market, which caused the price of cans to decline. However, aluminum can prices recently increased as a result of the devaluation of the *real* in January 1999. See "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Devaluation of the *Real* in 1999".

The soft drink industry in Brazil moved rapidly towards one-way plastic bottles as opposed to returnable glass bottles during the early 1990's. In 1999, 57% of Antarctica's soft drinks were sold in one-way plastic bottles. The following table sets forth the packaging presentation of Antarctica's soft drink products:

Soft Drink Presentations

	1999	1998	1997
Returnable Glass Bottles	26%	36%	36%
One-Way Glass Bottles	1%	0%	0%
Cans	16%	11%	9%
One-Way Plastic Bottles	57%	53%	55%

In order to maximize sales and per capita consumption of its products, Antarctica examines sales data on a regular basis in an effort to develop a mix of product presentations to satisfy its customers. Recently, Antarctica launched a 600 ml one-way bottle, unique in the Brazilian market, in response to supermarket chains desire to discontinue the sale of returnable bottles for cost reasons. Antarctica also re-launched its one-way plastic bottles and can presentations for guaraná and soda limonada-flavored soft drinks and beer brands *Polar*, *Bohemia* and *Serramalte*.

Advertising and Promotional Activity. Antarctica advertises and promotes its beer brands through television and other media advertising campaigns, including billboards, and through the sponsorship of popular and highly publicized sports and recreational events. In addition, Antarctica engages in various "point-of-sale" promotions, such as end-aisle displays and special contests, aimed at enhancing consumer preference for its brands. Antarctica regularly conducts surveys in all of its markets to monitor the image of its products and the outcome of marketing activities.

Antarctica enters into agreements from time to time with musicians and other entertainers and celebrities to promote its products. Communication with consumers is a major priority for Antarctica, and it was improved by the creation of its web site in April 1996, the "Antarctica Net Club" (www.antarctica.com.br). This site was awarded the "Internet World Best" prize, as the best Brazilian site for beverages and foods. The award was promoted by the Mantel group, a Brazilian publisher of an internet-related magazine, and was based on the direct vote of approximately 380,000 internet users.

Distribution

Antarctica's distribution network covers approximately one million points-of-sale in Brazil. Distribution is a critical competitive factor in Brazil due to long distances and because the majority of beer products are sold in returnable bottles. Antarctica's distribution system has the advantage of working with a complete portfolio of beer and soft drinks.

Third Party Distribution Network. Antarctica has exclusive distribution agreements with approximately 354 distributors, which requires the distributor to carry exclusively Antarctica's products and grants it exclusive rights to sell such products within a defined area. They are responsible for purchasing and providing Antarctica with returnable bottles, paying for all beer delivered to them, and selling Antarctica's beer to their customers. The distributor bears responsibility for collecting empty bottles from its customers, as well as for any loss incurred on unreturned bottles or bottle breakage. Antarctica provides additional returnable bottles to the distributor, in order to meet the higher sales volumes during the Brazilian summer.

Antarctica's beer distributors make payment for products either in cash at the time of delivery or through a credit arrangement. The credit term is typically of seven days from the date of delivery or, in the case of distributors servicing some key customers, 18 to 21 days. In both cases, the credit is granted at prevailing market rates. Credit sales accounted for less than 2% of Antarctica's net sales of beer in 1999, and losses on credit sales of beer have not been material. Payment terms by each distributor's customers are negotiated between that distributor and its customer but generally mirror the credit arrangements between Antarctica and that distributor. Antarctica is currently a party to an agreement with a financial institution under which such institution agrees to make available a R$80.0 million credit line (US$44.7 million as of December 31, 1999) to approved Antarctica distributors. Pursuant to this agreement:

- Antarctica provided a limited guarantee to the financial institution for amounts drawn under the line of credit; and

- the financial institution is entitled to some limited recourse.

Antarctica has initiated a campaign aimed at stimulating mergers, acquisitions and reorganization among its distributors in order to promote economies of scale. As a result, the number of distributors has decreased from 912 at December 31, 1994 to 354 at December 31, 1999. Antarctica expects such consolidation to continue. Antarctica's sales volume is not concentrated in any one distributor within any particular area.

Direct Distribution System. Antarctica's own sales teams are responsible for dealing with large clients such as supermarkets and fast-food chains. Transactions are negotiated directly with the clients and the products are distributed through Antarctica's distribution system. In 1999, 9.7% of Antarctica's total volume sold was distributed directly to the point-of-sale.

Antarctica also exports its beer to 15 countries in North and South America, Europe and Asia, primarily under contracts with export agencies. In addition, Antarctica maintains an office in Miami, Florida that coordinates the sale and distribution of Antarctica's beer and soft drinks in the United States. Antarctica's export sales accounted for less than 1% of its net sales in 1999.

Sales of Antarctica's products are not dependent upon any single customer. Antarctica's largest customer accounted for approximately 3% of Antarctica's total net sales in 1999.

Production and Availability of Raw Materials

Beer and Soft Drink Production

For a description of the production process for beer and soft drinks, see "Item 1.—Description of Business—Brahma—Production and Availability of Raw Materials". Antarctica's production process typically requires a total of eight days in Antarctica's most modern facilities, such as that at Jaguariúna, and 14 days at its older facilities. All aspects of Antarctica's production processes are subject to strict control systems. Four of Antarctica's plants are certified under ISO 9002 and one laboratory is certified under ISO 9001.

Antarctica believes that most of its supply agreements of raw materials contain standard commercial terms. Antarctica is not dependent on any one supplier for a significant portion of its raw materials and the loss of any one or limited group of suppliers would not have a materially adverse effect

on its sources of supply. In the past five years, Antarctica has not experienced any material difficulties in obtaining adequate supplies of raw materials at satisfactory prices.

Beer - Raw Materials

The principal raw materials used in Antarctica's production of beer are barley (used to make malt), hops and water. In addition, Antarctica purchases glass bottles, aluminum cans, steel kegs, bottle crown caps and labels for beer packaging.

Barley. In 1999, Antarctica obtained most of its supply of barley through one-year contracts with small farmers in Brazil. In most cases, Antarctica provided the farmer with barley seed and was available to offer technical assistance to the farmer as the need might arise. See "—Business—Other—Cultivation of Barley and Guaraná".

Malt. Due to high humidity levels, Brazil is not a major producer of malt. Antarctica purchases approximately 40% of its malt in international markets at prevailing market prices, which in turn depend partially on the quality of the malt harvests. Antarctica also purchases malt from local suppliers in Brazil and Brahma's malting facilities in Brazil, Argentina and Uruguay, which provide the other 60% of Antarctica's needs. Antarctica contracts its annual malt needs in the last quarter of the year for the following year's requirements.

Hops. There are two types of hops used in Antarctica's beer production: hops used to give beer its distinctive bitter flavor, which Antarctica imports from the United States, and hops used to give beer its distinctive aroma, which Antarctica imports from Europe. Antarctica acquires hops from several international suppliers. Typical import contracts are entered for three-year terms.

Water. Water represents a small portion of raw material cost. Water needs to be treated both before its use in the production process and before disposal. Antarctica obtains all of its water from rivers adjoining its plants or from public utilities in Brazil. The water is filtered and treated at facilities located at Antarctica's plants to remove impurities and adjust the characteristics of the water before it is used in the production process. Water that is added to beer after the fermentation process must be deoxygenized, chilled and carbonated. Antarctica does not foresee any shortage in its current water supply.

Packaging. Returnable glass bottles used in Antarctica's beer production are purchased principally from three Brazilian suppliers: Companhia Industrial São Paulo e Rio (Cisper), Companhia Industrial de Vidros (CIV) and Companhia Vidraria Santa Marina (Santa Marina). One-way glass bottles are purchased principally from Cisper and CIV. Antarctica purchases cans for beer production primarily from Latas de Alumínio S.A. - Latasa (Latasa), the principal supplier of aluminum cans in Brazil. Antarctica obtains the labels for its beer products principally from two local suppliers. Crowns and screw caps are principally purchased under four different contracts with local suppliers.

Soft Drinks - Raw Materials

The principal raw materials used in the production of soft drinks are concentrate, sugar, sweetener, carbon dioxide gas and water. Antarctica also requires glass bottles, one-way plastic bottles, labels and crown caps for its soft drink production operations.

Concentrates. Antarctica produces its own concentrates for its soft drink production and mixes the concentrate with sugar and carbonated water at its soft drink and mixed production facilities.

Packaging. Antarctica purchases the majority of the glass bottles used in packaging soft drinks from Cisper, CIV and Santa Marina. Aluminum cans used in packaging soft drinks are purchased principally from Latasa. Antarctica purchases non-returnable plastic bottles from several suppliers, principally from Alcoa Alumínio S.A. Antarctica obtains the labels for its soft drink products principally from two local suppliers. Closures and crown caps are principally purchased from Alcoa (in the case of closures) and from five other local suppliers (in the case of crown caps).

Five of Antarctica's plants have PET (*Polietileno Terefitalado*) blowing facilities provided by bottle manufacturers. PET is the material used to make one-way plastic bottles for soft drinks. On-premises PET blowing allows for substantial savings in transportation and storage costs.

Research and Development

Antarctica is actively engaged in agricultural research and development to improve the quality of the barley and guaraná used in its beer and soft drink production. Antarctica's aggregate research expenditures in 1998 consisted principally of agricultural research on 40.8 hectares of land devoted to barley and 505 hectares of land devoted to guaraná.

Antarctica also maintains a marketing staff that is aggressively engaged in conducting market research. This market research entails both contracting with third parties to determine the demands of the market and conducting technical testing and evaluation of products produced by competitors.

In the last three years, Antarctica spent the following amounts on its research and development activities: 1999 - US$3.4 million; 1998 - 20.9 million; and 1997 - 12.7 million.

Trademarks

Antarctica has approximately 200 trademarks registered with the Brazilian Institute of Industrial Property-INPI. All these trademarks are protected in all material respects in Brazil. In addition, Antarctica has registered or initiated trademark registration processes for its most important trademarks in approximately 90 countries outside of Brazil, including the United States, in order to assure protection to the names and logos. The most important trademarks of Antarctica, including names and logos, are the following: *Antarctica, Antarctica Pilsen, Bavaria, Bohemia, Guaraná Antarctica* and *Guaraná Champagne* (registered in Brazil), *Guaraná Antarctica* (registered outside of Brazil), *Soda Limonada Antarctica, Água Tônica Antarctica*, and *Nectar*. There are no unregistered trademarks which are material to the business of Antarctica. In Brazil, trademark registration has a term of validity of 10 years, after which it can be renewed for additional 10-year periods. The application for renewal of a trademark must be submitted to the INPI (Brazilian Institute of Industrial Property) in the last year of validity of the trademark Registration, or in the six months after the trademark expiration date. A renewal is only refused by the INPI in the event that any third party argues that the trademark has lapsed due to lack of use during the prior five years, and such fact is deemed proven by the INPI. Antarctica expects to apply for renewal of registration of all of its material trademarks, so as to avoid their expiration. There are no material trademarks of Antarctica expected to lapse in the near future.

Antarctica believes that its significant trademarks are protected in all material respects in the markets in which it currently operates. According to the performance agreement that AmBev entered

into with the principal Brazilian antitrust authority (CADE), AmBev will have to dispose of Antarctica's trademarks related to the *Bavaria* brand by January 1, 2001. See "Item 1.—Description of Business—Brahma—Combination of Brahma and Antarctica and the Formation of AmBev—Brazilian Antitrust Approval". Except for the disposal of trademarks related to the *Bavaria* brand, the combination will not affect in any way the trademark rights held by Antarctica, which will continue to own those trademarks material to its business.

Environmental Standards

Antarctica is subject to Brazilian Federal, state and local laws and regulations relating to the environment. These laws generally provide for control of air and emissions and require hazardous waste disposal sites to conform with environmental standards. Administrative, civil and criminal penalties may be imposed for non-compliance.

Antarctica maintains modern effluent treatment systems in each of its plants which reduce organic effluents by 95%, well above the 85% requirement imposed in most jurisdictions. In addition, all of Antarctica's industrial waste is either recycled or sold to third parties.

One of Antarctica's former subsidiaries, Antarctica da Amazônia S.A., entered into an agreement with the Brazilian federal environmental agency (IBAMA) in 1998, under which it committed to maintain and preserve legally protected areas under Brazilian environmental laws, which are part of the rural property of Fazenda Santa Helena; and not to use some chemical products in the farming of guaraná. Fazenda Santa Helena is a cultivation site for the guaraná seed, which is used as the main raw material in the production of the guaraná soft drink by Antarctica. Indústria de Bebidas Antarctica do Norte - Nordeste S.A. (Norte - Nordeste), which is the legal successor of Antarctica da Amazônia, is currently a party to the agreement with IBAMA.

For a number of years, Antarctica has made substantial capital expenditures to bring existing facilities into conformity with various environmental laws and requirements. More recent expenditures are as follows:

Capital Expenditures on Environmental Property, Plant and Equipment

	1999	1998	1997
	(in millions of U.S. dollars)		
Property, plant and equipment	US$1.1	US$2.4	—
Waste treatment	2.0	3.1	US$2.1
	US$3.1	US$5.5	US$2.1

Budgeted environmental expenditures for the one-year period ending December 31, 2000 approximate US$4.0 million while budgeted environmental expenditures for the five-year period ending December 31, 2004 total approximately US$24.2 million (2000 - US$4.0 million; 2001 - US$4.4 million; 2002 - US$4.9 million; 2003 - US$5.4 million; 2004 - US$5.5 million.)

Antarctica has never been subject to civil penalties due to environmental noncompliance. At the present time, Antarctica is not engaged in material litigation relating to, and is not aware of any material unresolved compliance problems arising from, Brazilian environmental laws and regulations applicable to its operations or properties. Antarctica does not currently have any unasserted environmental claims or assessments. Antarctica's management believes that Antarctica's current operations are in substantial

compliance with applicable Brazilian environmental laws and regulations; however, Antarctica does not have some required environmental licenses. See "Item 3.—Legal Proceedings—Antarctica—Environmental Matters".

Employees

As of December 31, 1999, Antarctica and its subsidiaries had 6,444 employees, of which 70% were located in the industrial units, 23% were located in the administrative office and 7% were located in the commercial area. The following table sets forth the number of employees of Antarctica and its subsidiaries for the years indicated:

Employees				
1999	**1998**	**1997**	**1996**	**1995**
6,444	7,800	10,132	14,490	19,190

The following table shows productivity as measured by hectoliters sold per production employee for the period from 1995 through 1999:

Productivity	
Year	**Sales in Hectoliters Per Production Employee[(1)]**
1995	2,603
1996	2,953
1997	4,267
1998	5,205
1999	5,591

(1) Calculated by dividing the total volume of beer and soft drinks produced by the number of employees involved in the production processes at the end of each period.

About 35% of Antarctica's industrial employees are represented by labor unions, while the number of employees represented by labor unions in the administrative area is not significant. Antarctica believes that its relations with its employees are satisfactory, and there have been no strikes or significant labor disputes in the past eight years. The collective bargaining agreement between the relevant union and Antarctica, covering all employees, including those who are not members of the union, provides for an annual distribution to employees. Each agreement is entered into between the union and Antarctica in the first quarter of each year, and it applies to the subsequent year. In addition to salary, Antarctica's employees receive additional benefits directly from Antarctica. Some of these benefits are mandatory under Brazilian law, some are provided for in the collective bargaining agreements, while others are voluntarily given by Antarctica.

Benefit Plans

The benefits package of Antarctica's employees consists of benefits provided both by Antarctica directly and by Antarctica through the Zerrenner Foundation.

Antarctica has two different types of pension plans: a plan for the elderly and a normal plan for other employees. The Antarctica special plan was established on August 30, 1995 to provide benefits to 102 employees of Antarctica and their beneficiaries and covered dependents. Plan eligibility was contingent on age and salary level as of such date, which included an additional group of employees who would retire over the following years. The plan, which is a defined-benefit pension plan, had 144 participants in payment status as of December 31, 1999. A further six employees are eligible to receive plan benefits upon retirement. The benefits paid to participants of the Antarctica special plan are based on their last salary at the company.

The Antarctica normal plan is a defined-contribution plan available to substantially all employees of the company. This plan provides for increased employer participation whenever there is an increase in employee participation. The total expense under the Antarctica normal plan was US$1.6 million in the year ended December 31, 1999 and US$2.0 million in the year ended December 31, 1998.

The Zerrenner Foundation provides medical, dental, educational and social assistance to current and retired employees of Antarctica and their beneficiaries and covered dependents. Pursuant to the Zerrenner Foundation by-laws:

- all current and retired employees of Antarctica and their beneficiaries and covered dependents are eligible to receive assistance, although eligibility for some types of assistance is based on age and length of service; and

- the provision of basic assistance, as defined in the Zerrenner Foundation by-laws, is currently free of charge. In other words, there are no co-payments or deductibles associated with the provision of such basic assistance.

The cost of providing such assistance to current employees of Antarctica and their beneficiaries and covered dependents is charged to Antarctica by the Zerrenner Foundation as such costs are incurred, and it is recognized by Antarctica as an expense.

Antarctica is required to contribute 8% of each employee's gross pay to an account maintained in the employee's name in the government severance indemnity fund (FGTS). Under Brazilian law, Antarctica is also required to pay termination benefits to employees dismissed without cause. The amount of the benefits is calculated as 40% of the accumulated contributions made by Antarctica to the FGTS during the employee's period of service. Any such terminations occur in the ordinary course of business and are not material to Antarctica's liquidity, financial condition and results of operations. Termination expenses were US$4.5 million in 1999 and US$8.0 million in 1998.

Profit Sharing

The collective bargaining agreement between Antarctica and its employees' union provides for an annual profit sharing distribution to employees as agreed in the first quarter of each year and applicable to the subsequent year. The distributions are calculated on an individual basis for each employee, and vary according to area and hierarchic position. Additionally, Antarctica's by-laws provide for the distribution to executive employees of up to 10% of Antarctica's consolidated net income, as determined in accordance with Brazilian corporation law.

Expenses of Antarctica under these programs are included in general and administrative expenses and amounted to US$0.43 million (executive officers - US$0.39 million, other employees - US$0.03 million) in the year ended December 31, 1999, and US$6.7 million (executive officers - US$2.3 million, other employees - US$4.4 million) in the year ended December 31, 1998. Liabilities for accrued profit sharing totaled US$1.1 million as of December 31, 1998, and there were no such liabilities as of December 31, 1999.

OVERVIEW OF THE BRAZILIAN BEVERAGE MARKET

Beer Market

Brazil accounts for nearly half of the population and geographical area of South America, with a population of approximately 158 million and approximately 8.5 million square kilometers of territory. The Brazilian beer market is the largest in Latin America and the fourth largest in the world, with 81.6 million hectoliters of beer sold in the year ended December 31, 1998, according to Impact. The table below shows the ranking of beer production per country in 1998:

Principal Beer Producing Countries in 1998

Country	Annual Production (millions of hectoliters)
United States	226.0
China	199.4
Germany	104.5
Brazil	81.6
Japan	71.8
United Kingdom	59.1
Mexico	47.4
Russia	31.3

Source: Impact

From 1993 to 1998, we estimate that Brazilian beer consumption increased 10% per year, on average. This increase was faster than the average annual increase in gross domestic product of 3% over the same period. Per capita beer consumption in Brazil is low relative to the rest of the world.

According to Impact, per capita consumption of beer in Brazil was of 49.2 liters per annum in 1998, substantially unchanged since 1995. The following table sets forth the world ranking of per capita consumption of beer in 1998:

Per Capita Consumption of Beer in 1998

Country	Liters
Germany	127.2
United Kingdom	100.8
United States	82.5
Spain	67.6
South Africa	64.7
Japan	56.8
Mexico	49.5
Brazil	49.2

Source: Impact

Beer is the second-most popular beverage in Brazil after soft drinks. The Brazilian market is characterized by a large consumer base and a young population (45% of the population is under the age of 20). Consumers of beer (ages 18 to 29) and soft drinks (ages 15 to 29) make up 29% of the country's population.

Unlike many other markets, the Brazilian beer market is characterized by a high proportion of on-premise consumption (restaurants and bars) relative to off-premise consumption (at home). According to Nielsen, in 1999, approximately 72% of Brazilian beer sales were consumed on-premise (bars and restaurants), thus creating a large number of points of distribution, while just 28% of consumption was off-premise, through supermarket sales. This pattern favors returnable packaging and results in serving a greater number of points of sale, which increases distribution costs, but also leads to higher sales margins. In 1999, 71% of Brazilian beer sales were in returnable bottles, according to Nielsen.

Beer Market - Competition

Until June 30, 1999, the Brazilian beer market had three major producers: Brahma, which was the market leader through its *Brahma* and *Skol* brands, followed by Antarctica, owner of the *Antarctica Pilsen* and *Bavaria Pilsen* brands, and Cervejarias Kaiser Brasil Ltda., owner of the *Kaiser Pilsen* brand. In 1999, the three companies accounted for approximately 87% of beer sales in Brazil, according to Nielsen. The beer business in Brazil is characterized by strong competition among the three major producers, engaged in intensive advertising and promotional campaigns, introduction of new brands and development of more convenient forms of packaging. On July 1, 1999, as a result of the controlling shareholders' contribution, AmBev became the controlling shareholder of Brahma and Antarctica, and the leading beer producer in Brazil. In 1999, AmBev had an estimated market share in Brazil of 66.6%, after giving effect to the sale of the *Bavaria* brand, which sale is required to occur by January 1, 2001. AmBev agreed to sell the assets related to Bavaria under its performance commitment agreement executed with the principal Brazilian antitrust authority (CADE) on April 19, 2000.

The following chart sets forth the estimated market shares, based on sales volumes, of each major brand of beer in Brazil for each of the years indicated:

	Estimated Market Share (Sales Volume)				
Brand	**1999**	**1998**	**1997**	**1996**	**1995**
Brahma	22.1%	24.3%	26.7%	29.8%	31.3%
Skol (Brahma product)	26.7%	23.6%	21.6%	18.9%	15.4%
Antarctica	17.8%	18.3%	23.2%	25.7%	31.4%
Bavaria (Antarctica product)	5.6%	7.0%	0.5%	—	—
Kaiser	14.9%	16.0%	17.2%	16.1%	14.7%
Schincariol	8.4%	7.5%	6.6%	5.2%	5.6%
Other	4.5%	3.3%	4.1%	4.2%	1.5%

Source: Nielsen

In 1999, Brahma held approximately 48.8% share of the Brazilian beer market through its *Brahma* and *Skol* brands. The two brands are marketed and distributed under separate distribution networks. The *Brahma* brand beers include *Brahma Chopp*, *Brahma Bock*, *Brahma Light*, *Brahma Extra, Malzbier* and *Miller Genuine Draft*. These products held approximately 22.1% of the Brazilian beer market in 1999, while the *Skol* brand, which includes *Skol Pilsen*, *Skol Bock*, *Caracu* and *Carlsberg*, held approximately 26.7% of the market in 1999. According to Impact, an industry magazine, as of December 31, 1999, the *Skol* brand was the fourth most consumed brand of beer in the world, while the *Brahma Chopp* brand was the sixth most consumed brand of beer in the world. Brahma produces and distributes *Miller Genuine Draft* beer in Brazil under a joint venture entered with The Miller Brewing Company in September 1995. Brahma is currently renegotiating the terms of its joint venture with Miller. Additionally, in December 1996, Skol entered into a licensing agreement with Carlsberg A/S to produce and distribute *Carlsberg* beer in Brazil. See "Item 1.—Description of Business—Brahma—Business—Joint Ventures and Strategic Alliances".

In 1999, Antarctica held approximately a 23.4% share of the Brazilian beer market. Antarctica manages a portfolio of several regional brands and national brands, amongst which the most significant are *Antarctica Pilsen* and *Bavaria Pilsen*. As a result of the performance agreement that AmBev entered into with CADE, AmBev will have to sell Antarctica's *Bavaria* brand to a third party by January 1, 2001. However, AmBev will continue to distribute the brand for four years, renewable for an additional two-year period. See "Item 1.—Description of Business—Brahma—Combination of Brahma and Antarctica and the Formation of AmBev—Brazilian Antitrust Approval". Until July 29, 1999, Anheuser-Busch Inc. owned 5% of Antarctica Empreendimentos e Participações Ltda. - ANEP, a company of the Antarctica group, and Antarctica produced the *Budweiser* brand in Brazil until December 17, 1999. The Antarctica - Anheuser-Busch joint venture was recently terminated by Anheuser-Busch. See "Item 1.—Description of Business— Antarctica—Business—Joint Ventures and Strategic Alliances".

AmBev's largest competitor is Cervejarias Kaiser Brasil Ltda., a joint venture created in 1982 by Heineken N.V., the Coca-Cola Company and 18 Brazilian Coca-Cola bottlers. Kaiser's product portfolio includes *Kaiser Pilsen*, *Kaiser Bock*, *Kaiser Gold*, *Summer Draft* and *Heineken*. Kaiser's market share has increased from 6.1% in 1986 to approximately 14.9% in 1999. Kaiser's price discounting policy caused the rise in its market share, with products generally priced 10% to 15% below the prices of Brahma's and Antarctica's products.

Schincariol, which held approximately 8.4% of the Brazilian beer market in 1999, is a lower-priced beer produced by Cervejaria Schincariol S.A., and sold principally in the southeastern and

northeastern region of Brazil. Schincariol's products are generally priced 20% below the prices of Brahma's and Antarctica's products.

The remaining 4.5% of the Brazilian beer market is accounted for by small breweries and imported beers. Sales of imported beer are not significant in Brazil, due to the high costs of shipping beer to Brazil and an import tariff of 20% of the import price, except for products from Mercosur countries, which are duty-free. We estimate that imports accounted for less than 1% of total beer consumption by volume in 1999. However, several premium or medium quality beers of international recognition are being produced in Brazil under license, including *Miller* and *Carlsberg* (produced by Brahma) and *Heineken* (produced by Kaiser). We estimate that, in 1999, these international beers produced under license in Brazil accounted for approximately 1.3% of total beer sales by volume.

The chart below shows the market share, based on value of sales, of each Brazilian beer producer for 1997, 1998 and 1999. These percentages are calculated by dividing the sales volume of each producer by the average retail price of the beer brands they sell.

Beer Share of Sales Value by Producer

	1999	1998	1997
Brahma[1]	51.8%	50.5%	50.8%
Antarctica	18.8%	19.6%	24.1%
Antarctica (*Bavaria* brand)	5.2%	6.3%	0.5%
Kaiser	14.4%	15.3%	16.3%
Schincariol	6.4%	5.9%	5.1%
Others	3.3%	2.5%	3.4%

Source: Nielsen.
(1) *Brahma* and *Skol* brands

Soft Drink Market

Brazil's soft drink market is currently the largest in South America and the third largest in the world in terms of production volume, with approximately 105 million hectoliters sold in 1998. The table below shows estimated soft drink production in selected countries in 1998:

Soft Drink Production in 1998

Country	Annual Production (millions of hectoliters)	Annual Production (millions of 8 oz. cases)
United States	556.6	9,802
Mexico	128.4	2,260
Brazil	105.0	1,850
Germany	65.9	1,160
China	54.7	963
Great Britain	46.0	810

Source: PepsiCo

Brazilian soft drink consumption grew at an average rate of 14% per year from 1993 to 1998, faster than average annual gross domestic product growth of 3% over the same period. Nonetheless, Brazil continues to have a relatively low per capita soft drink consumption rate as compared to other

countries, although consumption has been growing rapidly since the introduction of the *real* in 1994. The following tables set forth the estimated per capita consumption rate in selected countries in 1998:

Per Capita Soft Drink Consumption in 1998

Country	Liters
United States	201.2
Mexico	132.7
Brazil	62.7
Germany	79.4
China	4.3
Great Britain	20.7

Source: PepsiCo

Per Capita Soft Drink Consumption in 1998 (8 oz. cases)

Country	Cases
United States	858
Mexico	566
Brazil	268
Germany	339
China	18
Great Britain	331

Source: PepsiCo

The Brazilian soft drink market consists mainly of carbonated colas, guaranás and other flavors, principally conventional fruit flavored sodas and tonic water. Guaraná is a tropical berry-like fruit that grows in the Amazon rainforest. In Brazil, guaraná extract is derived from guaraná seeds and is used to make several beverages, including the guaraná soft drink.

The following table sets forth the percentage of total carbonated soft drink production in Brazil according to its principal categories, during the years indicated:

Soft Drink Sales by Type

Type	1999	1998	1997	1996	1995
Colas	38.4%	39.5%	41.8%	44.3%	45.1%
Guaranás	26.6%	26.0%	25.3%	24.0%	23.5%
Other	35.0%	34.6%	32.9%	31.7%	31.4%

Source: Nielsen

According to Nielsen, in 1999, approximately 54% of the Brazilian soft drink sales were consumed on-premise (bars and restaurants), while 46% of consumption was off-premise, through supermarket sales. According to Nielsen, in 1999, approximately 78.4% of the Brazilian soft drink sales was in disposable plastic bottles and cans, while 21.6% of sales were in returnable bottles.

Soft Drink - Competition

Although Coca-Cola bottlers had in 1999 approximately 48.4% of the Brazilian soft drink market, their position has been declining since 1990, when Coca-Cola had a market share of approximately 60%. In 1999, Coca-Cola had an estimated cola market share of 85% to 90%. Coca-Cola products are produced in Brazil by a group of several Coca-Cola bottlers, which collectively operate approximately 49 plants throughout Brazil.

Antarctica, with a 10.5% market share, had the second largest share of the soft drink market in 1999. Antarctica is the largest producer of guaraná and, in 1999, it had an estimated 30% market share.

In 1999, Brahma soft drink brands held a share of approximately 4.7% of Brazil's soft drink market while *Pepsi* brand products distributed by Brahma had a market share of approximately 4.8%. Together, *Brahma* and *Pepsi* brands accounted for 9.5% of the Brazilian soft drink market in 1999.

The remaining 31.6% of soft drink volumes come from hundreds of small regional companies, which position their products as low-price brands, called *tubaínas*, and focus on low income consumers. The *tubaínas* have a significant presence in the flavor segment, such as guaraná, lemon, orange and grape.

The following chart sets forth the estimated market shares, based on sales volumes, of each major brand of soft drink in Brazil, for each of the years indicated:

	Estimated Market Share (Sales Volume)				
Brand	**1999**	**1998**	**1997**	**1996**	**1995**
Coca-Cola	48.4%	48.5%	50.4%	51.8%	51.5%
Antarctica	10.5%	12.0%	12.4%	13.3%	14.2%
Brahma	4.7%	7.4%	9.5%	8.8%	7.6%
Pepsi	4.8%	5.8%	7.1%	8.7%	8.7%
Other	31.6%	26.2%	20.5%	17.5%	18.0%

Source: Nielsen

Soft drink bottlers compete for market share through distribution, product availability, pricing, product packaging, consumer promotions and service provided to retail outlets, including merchandising equipment, maintenance of bottle inventories and frequency of visits. In recent years, price discounting has been frequently used as a means of increasing market share.

ITEM 2. DESCRIPTION OF PROPERTY

BRAHMA

Brahma's properties consist primarily of brewing, malting, bottling, distribution and office facilities in Brazil, Venezuela, Argentina and Uruguay. Brahma has 11 breweries, five mixed plants producing both beer and soft drinks, seven soft drink plants (including a concentrates plant), and three malt producing plants. See "Item 1.—Description of Business—Brahma—Business—Facilities" for

additional information regarding our properties. The following table lists the facilities of Brahma and its subsidiaries by location and type:

Name and Location of Facility

Brazil

Beer (11)
Agudos, São Paulo
Águas da Serra: Guarulhos, São Paulo
Equatorial: São Luiz, Maranhão
Minas Gerais branch, Minas Gerais
Águas Claras: Estância, Sergipe
Cuiabana: Cuiabá, Mato Grosso*
Curitiba branch, Paraná
Brasília, Federal District
Jacareí, São Paulo
Manaus, Amazonas*
Santa Catarina branch, Santa Catarina

Soft Drinks (7)
Curitiba, Paraná
Paulínia, São Paulo
Jundiaí, São Paulo
Fortaleza, Ceará
Pepsi Cola Sapucaia, Rio Grande do Sul
Contagem, Minas Gerais
Arosuco: Manaus, Amazonas
(concentrates plant)

Mixed Production (5)
Rio de Janeiro branch, Rio de Janeiro
Cebrasa: Anápolis, Goiás
Nordeste branch, Pernambuco
CIBEB Bahia: Camaçari, Bahia*
Águas Claras do Sul, Rio Grande do Sul

Malt (1)
Maltaria Navegantes, Rio Grande do Sul

Argentina

Beer (1)
CCBA

Malt (1)
Malteria Pampa

Venezuela

Beer (1)

CACN

Uruguay

Malt (1)
Malteria Uruguay

* As a result of the performance agreement that AmBev entered into with the principal Brazilian antitrust authority (CADE), AmBev must sell these Brahma beer plants by January 1, 2001. AmBev is not required to sell the soft drink production equipment at the Camaçari plant (CIBEB Bahia).

All of the above facilities are owned by Brahma or its subsidiaries, and none of Brahma's plants are leased from third parties. The facilities and/or equipments in Agudos, Jacareí, Minas Gerais branch, Nordeste branch, Guarulhos, CIBEB Bahia, Equatorial, Águas Claras (Sergipe), Águas Claras do Sul, Rio de Janeiro branch and Brasília are encumbered by mortgages to secure long-term loans from the International Finance Corporation (IFC), the Brazilian Economic and Social Development Bank (BNDES) and/or other lenders financing the modernization of such plants. The total amount of Brahma's long-term debt with third parties was US$762.9 million as of December 31, 1999.

Brahma insures its plants and equipment against damage or loss with reputable insurers. In addition, Brahma carries product liability insurance. Brahma does not carry business interruption insurance, which is not available in Brazil on terms that Brahma considers to be commercially reasonable. We believe that the type and amounts of insurance Brahma carries conform with market

practices for Brazilian beverage companies and provide prudent levels of coverage for risks associated with Brahma's operations.

We believe that all of Brahma's facilities are adequate in all material respects for the needs of Brahma's current and anticipated business operations. As of December 31, 1999, the U.S. GAAP consolidated net book value of Brahma's property, plant and equipment was US$1,022.8 million.

ANTARCTICA

Antarctica's properties consist primarily of brewing, bottling, distribution and office facilities throughout Brazil. Antarctica has seven breweries, six mixed plants producing both beer and soft drinks (including a guaraná concentrate plant in Manaus, Amazonas), seven plants for soft drink production and four fruit juice and essences plants. See "Item 1.—Description of Business—Antarctica—Business—Facilities" for additional information regarding our properties. The following table lists the facilities of Antarctica and its subsidiaries by location and type:

Name and Location of Facility	
Beer (7)	**Soft Drinks (7)**
Teresina, Piauí	São Paulo, São Paulo
Getúlio Vargas, Rio Grande do Sul*	Olinda, Pernambuco
Estrela, Rio Grande do Sul	Simões Filho, Bahia
Montenegro, Rio Grande do Sul	Curitiba, Paraná
Goiânia, Goiás	Canoas, Rio Grande do Sul
Camaçari, Bahia	Belém, Pará
São Gonçalo do Amarante, Rio Grande do Norte	Aquiraz, Ceará
Fruit Juice and Essences (4)	**Mixed Production (6)**
Fortaleza, Ceará	Jaguariúna, São Paulo
Maués, Amazonas (guaraná extract)	Jacarepaguá, Rio de Janeiro
São Paulo, São Paulo	Cuiabá, Mato Grosso
Montenegro, Rio Grande do Sul	Manaus, Amazonas
	João Pessoa, Paraíba
	Ribeirão Preto, São Paulo

* As a result of the performance agreement that AmBev entered into with the principal Brazilian antitrust authority (CADE), AmBev must sell these Antarctica beer plants by January 1, 2001. AmBev is not required to sell the soft drink production equipment at the Ribeirão Preto plant.

All of the above facilities are owned by Antarctica or its subsidiaries and none of Antarctica's plants are leased from third parties. The facilities and/or equipment in Teresina, Montenegro, Goiânia, Camaçari, Jaguariúna, João Pessoa, São Gonçalo do Amarante and Manaus are encumbered by mortgages to secure long-term loans from the Brazilian Economic and Social Development Bank (BNDES). The total amount of Antarctica's long-term debt with third parties was US$99.1 million as of December 31, 1999. Most of the existing plant structures occupy only a small portion of the property owned by Antarctica on which they are built and thus have room for expansion to increase installed capacity.

Antarctica also owns approximately 550 hectares of agricultural land, which it uses for barley and guaraná production and research, as described under "Item 1.—Description of Business—Antarctica—Business—Other". These properties are owned free and clear of any liens.

Antarctica insures its plants and equipment against damage or loss with reputable insurers. In addition, Antarctica carries product liability insurance. Antarctica does not carry business interruption insurance, which is not available in Brazil on terms that Antarctica considers to be commercially reasonable. Antarctica believes that the type and amounts of insurance it carries conform with market practices for Brazilian beverage companies and provide prudent levels of coverage for risks associated with Antarctica's operations.

Antarctica believes that all of its facilities are adequate in all material respects for the needs of Antarctica's current and anticipated business operations. As of December 31, 1999, the U.S. GAAP consolidated net book value of Antarctica's property, plant and equipment was US$708.0 million.

ITEM 3. LEGAL PROCEEDINGS

BRAHMA

Except as set forth below, there are no legal proceedings in which Brahma or any of its subsidiaries is a party, or to which any of their respective properties are subject, that are not presently provisioned for, which either individually or in the aggregate may have a material adverse effect on the results of operations, liquidity or financial condition of Brahma. See the Brahma financial statements.

Tax Matters

Brahma has filed claims against the Brazilian tax authorities to support its view that some taxes levied are unconstitutional, although the company has been required by law to pay and has paid these taxes or alternatively, has made provisions for amounts legally due. These legal proceedings include claims for taxes on income, value-added tax (ICMS), excise tax (IPI), and taxes on revenues (PIS-federal unemployment insurance contribution and COFINS-federal social security tax). As these claims are contingent on obtaining favorable judicial rulings, the corresponding assets which might arise in the future are only recorded once it becomes certain that Brahma will receive the amounts previously paid or deposited. For further information, see "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Commitments and Contingencies" and Note 16 (a) to the Brahma financial statements.

Social Contribution

Beginning in 1997, an amendment to the tax law confirmed the deductibility of interest on shareholders' equity (a form of dividend distribution) for social contribution and income tax. Brahma filed a lawsuit with the 22nd Federal court of Rio de Janeiro, claiming recovery of US$11.5 million of social contribution taxes paid relating to the 1996 fiscal year. However, the Brazilian supreme court has not yet granted any final ruling on this matter. In 1999, an injunction was granted to Brahma allowing the compensation of the amount claimed regarding the social contribution due during the 1999 fiscal year; however, such compensation has not been made to date. For details on the accounting treatment of this claim, see "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of

Operations—Brahma—Commitments and Contingencies—Income tax and social contribution" and Note 16 (a)(ii) to the Brahma financial statements.

Value-added tax (ICMS), excise tax (IPI) and taxes on revenues (PIS and COFINS)

Brahma is a party to an administrative legal proceeding in connection with a tax assessment for alleged nonpayment of value-added tax (ICMS) in the amount of US$99.3 million. In February 1999, a favorable decision was granted to Brahma and a provision of US$8.4 million was reversed. In October 1996, a tax ruling allowed credits of ICMS value-added tax on capital expenditures to be offset against the amounts payable on such tax. Based on this ruling and on some constitutional principles, Brahma filed several lawsuits to allow it to offset ICMS tax paid prior to 1996 and IPI excise tax paid in the 1996 and 1997 fiscal years against similar taxes payable. Brahma offset US$16.9 million in 1999 and US$20.3 million in 1998 in relation to these taxes. A provision has been made regarding the amounts offset, including the interest and penalties that could become payable should Brahma lose these lawsuits. For details on the accounting treatment of these proceedings, see "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Commitments and Contingencies—Excise tax (IPI), value-added tax (ICMS) and taxes on revenues (PIS and COFINS)" and Note 16 (a)(iii) to the Brahma financial statements.

In the first quarter of 1999, a new law came into effect which required Brazilian companies to pay taxes on revenues (PIS and COFINS) on interest income. Brahma obtained injunctions for the non-payment of this additional tax, which remains in force until a final ruling is rendered. Brahma has made provisions for the amount due of US$13.1 million, as the obligation is deemed probable. These injunctions were obtained on the basis that the new law was unconstitutional and, consequently, gave Brahma the right to withhold payment of PIS and COFINS required by the new law. Although Brahma has filed these lawsuits against the tax authorities to support its view that this tax is unconstitutional, Brahma is required by the new law to pay PIS and COFINS until such time it receives a favorable ruling.

Antitrust Matters

Brahma's joint ventures with Miller and Indústrias Gessy Lever Ltda., its franchise agreement with PepsiCo and Skol's licensing agreement with Carlsberg were all required to be submitted to the principal Brazilian antitrust authority (CADE) for approval. See "Item 1.—Description of Business—Brahma—Business—Joint Ventures and Strategic Alliances".

In June 1997, CADE rejected Brahma's joint venture with Miller Brewing Company, requiring Brahma to terminate the venture within two years. Brahma and Miller appealed the ruling and subsequently in May 1998, CADE approved the joint venture with Miller. In August 1998, Brahma, Miller and CADE signed an agreement under which Brahma agreed to:

- make a public offer of customized bottling of beer of third party companies. Only companies that had less than 10% of total beer sales were eligible to participate in the offering;

- make a public offer of a technical assistance program for micro-breweries, defined as those companies that produce and sell beer solely in their own facilities; and

- amend the agreement with Miller so as to delete references to product prices.

In October 1998, CADE approved the franchise agreement with PepsiCo International, Inc. In December 1998, CADE approved Brahma's joint venture with Indústrias Gessy Lever Ltda., which resulted in the creation of Ice Tea do Brasil Ltda. Also in June 1999, CADE approved the Skol licensing arrangement with Carlsberg A/S.

There are currently 10 administrative proceedings against Brahma under CADE's review, each of them commenced by former or present distributors who challenge the legality of market practices of Brahma under distributions arrangements and request the suspension of such market practices. CADE has denied three of these requests by determining that Brahma did not engage in any of the alleged illegal activities. The remaining seven proceedings are still being analyzed by CADE.

Labor Matters

Brahma is involved in more than 5,361 legal proceedings with former and current employees, mainly relating to dismissals, severance, overtime, dangerous work and health premium, supplementary retirement benefits and other matters. Brahma has established provisions in the amount of US$25.2 million as of December 31, 1999, in connection with all labor proceedings in which Brahma believes there is a reasonable chance of loss. Brahma does not consider any labor proceedings to be material, either individually or in the aggregate. In Brazil, it is not unusual for a company to be a defendant in a large number of labor claims. For details on the accounting treatment of labor matters, see "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Commitments and Contingencies—Labor claims" and Note 16 (a)(iv) to the Brahma financial statements.

Since September 1999, *Força Sindical*, a not-for-profit labor organization and some unions, have been meeting with the Brazilian attorney general for labor matters in the state of São Paulo and the Brazilian Ministry of Labor, in order to discuss the risk of future dismissal of Brahma and Antarctica employees as a result of the combination. The parties agreed that the negotiations would remain open and that all the proceedings related to the issue would be reviewed by the Brazilian attorney general for labor matters, so as to assure uniformity in the mediation process. It was also decided that, in the event the parties agree to have direct negotiations, the Ministry of Labor will be notified. In Brazil, employers are generally entitled to dismiss their employees at will upon payment of the applicable severance payments determined by Brazilian labor law. Generally, this type of initiative by labor organizations is intended to promote discussions with employers relating to labor matters rather than legally block any lay-offs. Nevertheless, we cannot predict the outcome of the hearing at this stage, or determine whether such labor organization or the Brazilian attorney general will commence any legal proceedings against AmBev, Brahma or Antarctica. In compliance with CADE's decision which approved the controlling shareholders' contribution, any dismissals must be made in accordance with the restrictions imposed on such decision. See "Item 1.—Description of Business—Brahma—Combination of Brahma and Antarctica and the Formation of AmBev—Brazilian Antitrust Approval".

Distributors and Product-Related Claims

As of December 31, 1999, 120 breach of contract claims had been filed against Brahma by former distributors of Brahma whose contracts were terminated due to low sales volumes, failure of distributors to meet Brahma guidelines and a general rationalization of the distribution network. Most of these claims were originally filed between 1996 and 1999. Of these claims, 96 are still in the lower level (individual judges), 17 have been appealed and are now in intermediary court levels, and seven claims are currently being reviewed by the highest level appeal court in Brazil, the Supreme Court of Justice

(STJ). The aggregate amount of these claims may exceed US$40 million. Brahma has made a provision of US$19.6 million in regard to such claims, based on advice of outside legal counsel. For details on the accounting treatment of labor matters, see Note 16 (a)(iv) to the Brahma financial statements. None of these claims from distributors, whether individually or in the aggregate, is material to the business of Brahma.

Environmental Matters

The state of Maranhão attorney general for environmental matters has commenced a collective civil action (*ação civil pública*) relating to the Equatorial industrial plant located in the city of São Luiz. The claim relates to alleged illegal disposal of organic residues. Brahma is currently in the process of negotiating an agreement with the state of Maranhão attorney general.

Brahma has valid environmental operational licenses for all its facilities throughout Brazil, except for its industrial plant located in Lages, state of Santa Catarina. This operational license is pending because the environmental state agency conditioned its renewal and the concession of any new license on the removal of a public water collecting station. The continuing operation of this plant without a license may subject Brahma to fines of up to US$5.7 million, in addition to total or partial suspension of activities, and civil and criminal sanctions. Although Brahma signed an agreement which provided that the state of Santa Catarina should be responsible for removing the water collecting station, this has not yet occurred. This agreement is also being challenged by an environmental foundation. A preliminary decision in this claim has determined that Brahma should abstain from disposing of industrial effluent without proper treatment in the river used to supply water to the city. To date, Brahma has been in compliance with this determination.

ANTARCTICA

Except as set forth below, there are no legal proceedings in which Antarctica or any of its subsidiaries is a party, or to which any of their respective properties are subject, that are not presently provisioned for, which either individually or in the aggregate may have a material adverse effect on the results of operations, liquidity or financial condition of Antarctica. See the Antarctica financial statements.

Tax Matters

Antarctica is a defendant in a small number of tax-related claims relating to different taxes and contributions, each of which involves either some risk of loss or a material amount. There are about 200 less significant tax claims which, even in the aggregate, are not considered material in the event that they are adversely determined to Antarctica. Antarctica does not consider these legal proceedings to be material, either individually or in the aggregate.

Labor Matters

Antarctica is involved in approximately 80 disputes with its labor unions over the timing of wage adjustments mandated by changes in government wage policy and other matters. Antarctica is waiting for a judicial resolution of these disputes. Antarctica is also involved in approximately 2,000 legal proceedings with former and current employees, principally relating to dismissals, overtime pay, dangerous work and health premiums and other matters, all of which are awaiting judicial resolution.

Antarctica does not consider these legal proceedings to be material, either individually or in the aggregate. In Brazil, it is not unusual for a company to be a defendant in a large number of labor claims.

Environmental Matters

Antarctica does not have an operational license to the São Paulo plant, and the issuance of the permanent operational license is conditioned on the adoption of some environmental control actions by that plant. The operation of that plant without the necessary environmental licenses may subject Antarctica to administrative penalties, which may result in fines of up to US$5.7 million, or the partial or total suspension of its activities, besides criminal sanctions.

ITEM 4. CONTROL OF REGISTRANT

BRAHMA

Brahma is a subsidiary of AmBev, and is not directly owned or controlled by any foreign government. See "Item 1.—Description of Business—Brahma—Combination of Brahma and Antarctica and the Formation of AmBev".

As of May 31, 2000, Brahma's issued and outstanding share capital in accordance with Brazilian corporation law was R$1,067,264,581.02 (US$584.3 million as of May 31, 2000), consisting of 2,628,451,468 common shares and 4,440,844,071 preferred shares, without par value. There are currently no other classes or series of preferred shares outstanding. Brahma's directors and executive officers directly own a total of 7.1% of Brahma's common shares and 4.0% of Brahma's preferred shares. Brahma's directors Marcel Herrmann Telles and Jorge Paulo Lemann collectively own 61.7% of the voting capital of Braco S.A. (Braco), which in turn owns 99.7% of the voting shares of Empresa de Consultoria, Administração e Participações S.A. - ECAP (ECAP). Braco and ECAP collectively own 71.9% of the voting capital of AmBev, which in turn owns 55.2% of the voting shares of Brahma.

Under Brazilian corporation law, the number of preferred non-voting or restricted voting shares, such as the preferred shares, may not exceed two-thirds of the total number of outstanding shares. Each common share entitles its holder to one vote at meetings of shareholders of Brahma. Holders of preferred shares are not entitled to vote at Brahma's shareholders' meetings.

Brazilian corporation law provides that non-voting shares (such as the preferred shares) acquire voting rights beginning when a company has failed for any fiscal year, or for any longer period set forth in a company's by-laws up to a maximum of three fiscal years, to pay any fixed or minimum dividend to which such shares are entitled and continuing until the payment of such dividend is made. Brahma's by-laws do not provide for any such longer period for the acquisition of voting rights by preferred shareholders. The by-laws of Brahma do not provide for the conversion of preferred shares into common shares. In addition, there are no redemption provisions associated with the preferred shares. The preferred shares have preference over the common shares with respect to distributions to shareholders upon the liquidation of Brahma.

The following table sets forth information as of May 31, 2000 with respect to:

- any person known to Brahma to be the beneficial owner of more than 5% of Brahma's outstanding voting common shares; and
- the total amount of Brahma's common and preferred shares owned by the executive officers and directors of Brahma as a group.

Name	Amount and Percentage of Preferred Shares		Amount and Percentage of Common Shares	
AmBev	13,580,693	0.3%	1,451,915,567	55.2%
The Bank of New York - ADR Department [1]	1,794,053,380	40.4%	2,693,480	0.1%
Caixa de Previdência dos Funcionários do Banco do Brasil - PREVI	702,864,671	15.8%	14,668,154	0.6%
Brahma Welfare Foundation[2]	34,950,426	0.8%	264,739,354	10.1%
Marcel Herrmann Telles[3]	69,004,104	1.6%	177,642,964	6.8%
Fundação Banco Central de Previdência Privada - Centrus	-	-	150,435,255	5.7%
All executive officers and directors as a group (10 persons)	177,637,778	4.0%	187,712,935	7.1%

(1) Represents the number of shares held in the form of ADSs. The Bank of New York is the depositary of Brahma shares in accordance with the deposit agreement entered into with Brahma and the owners of Brahma ADRs.

(2) The Brahma Welfare Foundation is a non-profit entity established by Brahma to provide social and other welfare benefits to its employees.

(3) Marcel Herrmann Telles is the Chairman of Brahma's board of directors, a director of Antarctica and a Co-Chairman of AmBev's board of directors. Mr. Telles disclaims beneficial ownership of the 13,580,693 preferred shares and 1,451,915,567 common shares of Brahma owned by AmBev.

ANTARCTICA

As a result of the Antarctica conversion on September 15, 1999, all outstanding common and preferred shares of Antarctica are now owned by AmBev. For the beneficial ownership of AmBev, see "Control of Registrant—AmBev".

As of May 31, 2000, Antarctica's issued and outstanding share capital in accordance with Brazilian corporation law was R$500 million (US$273.7 million as of May 31, 2000), consisting of 10,725,470 common shares and 1,274,530 preferred shares, without par value. There are currently no other classes or series of preferred shares outstanding. Each common share entitles its holder to one vote at meetings of shareholders of Antarctica. Holders of preferred shares are not entitled to vote at Antarctica's shareholders' meetings. Antarctica's by-laws determine that preferred shares shall acquire voting rights after three fiscal years in which the company has failed to pay any fixed or minimum dividend to which such shares are entitled. Antarctica's by-laws do not allow the conversion of preferred shares into common shares. In addition, there are no redemption provisions associated with the preferred shares. The preferred shares have preference over the common shares with respect to distributions to shareholders upon the liquidation of Antarctica.

The Antarctica conversion entitled dissenting shareholders of Antarctica were allowed to exercise appraisal rights and withdraw from the company. Within the legal time frame for exercise of appraisal rights, which expired on October 21, 1999, eight shareholders of Antarctica decided to withdraw from the company and be reimbursed for the value of the 23,890 common shares held by them. Each of the eight withdrawing shareholders received the economic value of their Antarctica shares, as established in the extraordinary shareholders' meeting of the company held on October 20, 1999, in the amount of R$43.79 (US$21.87 as of October 20, 1999) per share.

Because the Antarctica conversion comprised the exchange of all Antarctica shares into shares of the same type and class of AmBev, the 23,890 Antarctica common shares of the dissenting shareholders are now representative of 2,006,760 AmBev common shares, which amounts to less than 0.1% of AmBev's total common shares. These shares were purchased by Antarctica, which now holds a minority stake in AmBev, and there are currently no plans to cancel such shares or transfer them to any third party.

ITEM 5. NATURE OF TRADING MARKET

BRAHMA

Principal Trading Markets

The principal trading market for Brahma's common and preferred shares in Brazil is the São Paulo Stock Exchange, where they are quoted under the symbols "BRHA3" (common shares) and "BRHA4" (preferred shares). Until April 28, 2000, the common and preferred shares of Brahma were also traded on the Rio de Janeiro Stock Exchange and on other Brazilian stock exchanges, where they were quoted under the symbols "BRHAON" (common shares) and "BRHAPN" (preferred shares). On May 31, 2000, there were an aggregate of 2,628,451,468 common shares and 4,440,844,071 preferred shares of Brahma issued; however, AmBev owned 1,451,915,567 common shares and 13,580,693 preferred shares of Brahma on such date.

Brahma has registered two classes of American Depositary Shares (ADSs) pursuant to the Securities Act: ADSs evidenced by American Depositary Receipts (ADRs) representing 20 preferred shares, without par value ("Preferred ADSs"), and ADSs evidenced by ADRs representing 20 common shares, without par value ("Common ADSs"). As of May 31, 2000, there were 89,702,669 Preferred ADSs outstanding (representing 1,794,053,380 preferred shares) and 134,674 Common ADSs of Brahma outstanding (representing 2,693,480 common shares). Brahma ADRs are issuable by The Bank of New York pursuant to deposit agreements for common and preferred shares.

Since June 1997, Brahma's Common ADSs have been traded on the New York Stock Exchange under the symbol "BRHc", while Preferred ADSs have been traded under the symbol "BRH". As of March 31, 2000, there were 19 registered holders of the Preferred ADSs, with approximately 99% of the ADSs registered in the name of The Depository Trust Company. At such date, we estimate that there were approximately 33,000 beneficial owners of the Preferred ADSs in the name of The Depository Trust Company. As of March 31, 2000, there were four registered holders of the Common ADSs, with approximately 99% of the ADSs registered in the name of The Depository Trust Company. At such date, we estimate that the Common ADSs in the name of The Depository Trust Company were held by approximately 160 beneficial owners.

Market Price Information

The table below shows the quoted high and low closing sales prices in *reais* on the São Paulo Stock Exchange for Brahma's preferred and common shares and the equivalent high and low closing sales prices in U.S. dollars. The table also shows the average daily trading volume in financial terms and in number of traded shares for each relevant period:

Preferred Shares

		Reais per 20 Preferred Shares [1]		Daily Volume in Thousands of *Reais*	U.S. dollars per 20 Preferred Shares [2]		Daily Volume in Thousands of U.S. Dollars [2]	Daily Volume in thousands of Shares
		High	Low		High	Low		
1998:								
	First quarter	16.38	12.68	4,260	14.45	11.33	3,222	4,522
	Second quarter . . .	16.29	12.18	4,554	14.32	10.57	3,910	5,948
	Third quarter	15.64	7.31	4,605	13.44	6.19	4,124	7,997
	Fourth quarter	12.75	7.23	2,185	10.62	6.10	1,796	4,222
1999:								
	First quarter	17.03	8.56	2,944	9.21	6.49	1,711	4,410
	Second quarter . . .	19.56	14.72	4,409	11.53	8.70	2,539	4,962
	Third quarter	24.06	18.75	3,298	13.59	9.78	1,805	3,083
	Fourth quarter	27.04	20.72	3,669	14.67	10.48	1,913	3,076
2000:								
	First quarter	29.40	20.80	5,331	16.83	11.71	2,962	4,397

Common Shares

		Reais per 20 Common Shares [1]		Daily Volume in Thousands of *Reais*	U.S. dollars per 20 Common Shares [2]		Daily Volume in Thousands of U.S. Dollars [2]	Daily Volume in Thousands of Shares
		High	Low		High	Low		
1998:								
	First quarter	14.70	12.49	890	12.94	11.16	782	1,224
	Second quarter . . .	14.68	11.90	690	12.89	10.29	592	1,017
	Third quarter	13.02	7.25	661	11.23	6.15	551	1,402
	Fourth quarter	10.11	6.61	307	8.41	5.56	252	686
1999:								
	First quarter	12.72	8.69	205	8.29	5.20	116	355
	Second quarter . . .	13.60	10.68	236	8.23	6.17	137	352
	Third quarter	16.68	14.68	396	9.35	7.75	212	482
	Fourth quarter	19.63	15.50	110	10.19	7.87	57	126
2000:								
	First quarter	18.70	15.80	402	10.77	8.63	225	459

Source: Economática

(1) Brahma shares are generally traded in the Brazilian stock exchanges in blocks of 1,000 shares. Prices per 20 shares of Brahma are only provided for comparisons of market prices and are intended to serve for illustrative purposes only.

(2) Amounts were translated to U.S. dollars using the exchange rate for each day, during each applicable quarter. There was a significant devaluation of the *real* as from mid-January 1999. See "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operation—Brahma—Devaluation of the *Real* in 1999".

On June 30, 1999, the day before the public announcement of the proposed combination, the closing sales prices of the Brahma shares on the São Paulo Stock Exchange were R$19.98 (US$11.29 as of June 30, 1999) per 20 preferred shares and R$13.88 (US$7.84 as of June 30, 1999) per 20 common shares. On June 30, 2000, the closing sales prices on the São Paulo Stock Exchange were R$30.60

(US$17.00 as of June 30, 2000) per 20 Brahma preferred shares and R$23.29 (US$12.94 as of June 30, 2000) per 20 Brahma common shares.

The table below shows the high and low trading prices in U.S. dollars, based on the average daily volume of trading activity, for Brahma's Preferred and Common ADSs on the New York Stock Exchange (each ADS represents 20 Brahma shares). The table also shows the average daily trading volume in financial terms and in number of traded ADSs for each relevant period:

Preferred ADSs

	High	Low	Daily Volume in Thousands of US$	Daily Volume in number of ADSs
	(U.S. dollars per ADS, except volumes)			
1998:				
First quarter	15.56	12.75	4,039	279,184
Second quarter	15.56	11.38	2,819	212,743
Third quarter	14.38	6.63	2,161	411,266
Fourth quarter	11.56	6.69	3,098	382,933
1999:				
First quarter	9.50	6.75	3,066	358,059
Second quarter	12.50	9.00	3,607	334,717
Third quarter	13.81	9.94	1,858	159,276
Fourth quarter	14.63	10.63	2,473	194,645
2000:				
First quarter	17.06	11.75	3,732	273,368

Common ADSs

	High	Low	Daily Volume in Thousands of US$	Daily Volume in number of ADSs
	(U.S. dollars per ADS, except volumes)			
1998:				
First quarter	13.63	12.13	6.6	503
Second quarter	13.75	11.00	1.1	93
Third quarter	12.25	7.38	2.8	341
Fourth quarter	8.50	6.63	3.2	493
1999:				
First quarter	9.00	7.50	1.7	228
Second quarter	9.00	7.75	1.1	161
Third quarter	9.50	8.25	2.5	331
Fourth quarter	10.25	8.19	3.3	395
2000:				
First quarter	10.00	9.50	2.9	352

Source: Bloomberg

On June 30, 1999, the day before the public announcement of the proposed combination, the average trading prices of the Brahma ADSs on the New York Stock Exchange were US$11.31 per Preferred ADS and US$8.06 per Common ADS. On June 30, 2000, the average trading prices on the New York Stock Exchange were US$17.00 per Brahma Preferred ADS and US$12.25 per Brahma Common ADS.

ANTARCTICA

Antarctica's common and preferred shares were traded on the São Paulo Stock Exchange, on the Rio de Janeiro Stock Exchange and on other Brazilian stock exchanges until September 15, 1999. On such date, AmBev became the sole shareholder of Antarctica as a result of the Antarctica conversion, and therefore all trading activity of the Antarctica shares was ended. On January 18, 2000, the Brazilian securities commission (CVM) approved the cancelation of the registration of Antarctica as a publicly-held company, and on January 27, 2000 the São Paulo Stock Exchange approved the delisting of the Antarctica shares from such stock exchange.

THE BRAZILIAN SECURITIES MARKET

Regulation of Brazilian Securities Market

The Brazilian securities markets are regulated by the Brazilian securities commission (CVM), which has general authority over the stock exchanges and securities markets, as well as by the Central Bank of Brazil, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by Law No. 6,385 dated December 7, 1976, as amended (Brazilian securities law) and Law No. 6,404 of December 15, 1976, as amended, and further ancillary legislation (Brazilian corporation law).

Under Brazilian corporation law, a company is either publicly-held (listed), such as Brahma, or privately held (unlisted), such as Antarctica. All listed companies are registered with the Brazilian securities commission (CVM) and are subject to reporting and regulatory requirements. A company registered with the CVM may trade its securities either on the Brazilian stock exchanges or in the Brazilian over-the-counter market. Shares of companies like Brahma, traded on the Brazilian stock exchanges, may not be traded on the Brazilian over-the-counter market. The shares of a listed company, including Brahma, may also be traded privately subject to limitations. To be listed on the Brazilian stock exchanges, a company must apply for registration with the CVM and one stock exchange chosen by the company. Once this stock exchange has admitted a company to listing and the CVM has accepted its registration as a listed company, its securities may be tradable on all other Brazilian stock exchanges.

The Brazilian over-the-counter market is responsible for the coordination of direct trades between individuals where a financial institution registered with the CVM serves as an intermediary. No special application, other than registration with the CVM, is necessary for securities of a listed company to be traded in the Brazilian over-the-counter market, except for trading in organized over-the-counter markets, such as *Sociedade Operadora do Mercado de Acesso*, an affiliate of the Rio de Janeiro Stock Exchange. The CVM requires that it be given notice of all trades carried out in the Brazilian over-the-counter market by the respective intermediaries.

Trading in securities on the Brazilian stock exchanges may be suspended at the request of a company in anticipation of a material announcement. Trading may also be suspended on the initiative of a Brazilian stock exchange or the CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to the inquiries by the CVM or the relevant stock exchange. As a result of an agreement between the São Paulo Stock Exchange and the Rio de Janeiro Stock Exchange, trading of stocks in the latter has been discontinued.

The Brazilian securities markets are governed by Law No. 6,385, Brazilian corporation law and by regulations issued by the CVM and the *Conselho Monetário Nacional* (National Monetary Council). These laws and regulations, among others, provide for disclosure requirements, restrictions on insider trading and price manipulation, and protection of minority (non-controlling) shareholders. Nonetheless, the Brazilian securities markets are not as highly regulated and supervised as U.S. securities markets.

Trading on the Brazilian Stock Exchanges

Of Brazil's nine stock exchanges, the São Paulo Stock Exchange is the most significant. In 1999, the São Paulo Stock Exchange accounted for approximately 95.0% of the trading value of all Brazilian stock exchanges. Securities may also be negotiated through the use of the following automated trading systems: "Telecorrespondent", which allows financial institutions throughout Brazil to access the Rio de Janeiro Stock Exchange directly, provided they have contracted with a member firm of the Rio de Janeiro Stock Exchange; the National Electronic Trading System (SENN), a computerized system launched in 1991 that links the Rio de Janeiro Stock Exchange electronically with seven smaller regional exchanges; and an automated system referred to as the Computer Assisted Trading System (CATS) on the São Paulo Stock Exchange.

Each Brazilian stock exchange is a not-for-profit entity owned by its member brokerage firms. Trading on each exchange is limited to member brokerage firms and a limited number of authorized non-members. The São Paulo Stock Exchange and the Rio de Janeiro Stock Exchange have one open trading session each day, from 10:00 a.m. to 5:45 p.m., plus an extended electronic trading session, subject to applicable conditions. The Brazilian securities commission (CVM) has discretionary authority to suspend trading in shares of a particular issuer under specific circumstances. Trading in securities listed on the Brazilian stock exchanges may be effected off the exchanges in specific circumstances, although such trading is very limited.

Settlement of transactions is effected three business days after the trade date. Payment for shares is made through the facilities of separate clearinghouses for each exchange, which maintains accounts for the member brokerage firms. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. The clearinghouse for the São Paulo Stock Exchange is Companhia Brasileira de Liquidação e Custódia, which is owned by the São Paulo Stock Exchange and its members.

At April 30, 2000, the aggregate market capitalization of the 472 companies listed on São Paulo Stock Exchange was equivalent to approximately US$211.7 billion and the 10 largest companies, which included Brahma, represented approximately 53% of the total market capitalization of all listed companies. Although any of the outstanding shares of a listed company may trade on any Brazilian stock exchange, in most cases less than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, by governmental entities or by one principal shareholder. Trading on Brazilian stock exchanges by non-residents of Brazil is subject to limitations under Brazilian foreign investment regulations. See "Item 6.—Exchange Controls and Other Limitations Affecting Security Holders".

ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

There are no restrictions on ownership or voting rights in respect to Brahma's capital stock owned by individuals or legal entities domiciled outside Brazil.

The right to convert dividend payments, interest attributed to shareholders' equity payments and proceeds from the sale of Brahma's capital stock into foreign currency and to remit such amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation which generally requires that the relevant investment be registered with the Central Bank. Restrictions on the remittance of foreign capital abroad could hinder or prevent Banco Itaú S.A. (the custodian) or holders who have exchanged Brahma ADSs for shares of Brahma from converting dividend distributions, interest on shareholders' equity payments or the proceeds from any sale of shares of Brahma into U.S. dollars and remitting such U.S. dollars abroad. Holders of Brahma ADSs could be adversely affected by delays in, or refusal to grant, any required government approval for conversions of *real* payments and remittances abroad.

Under Brazilian laws relating to foreign investment in the Brazilian capital markets ("Foreign Investment Regulations"), foreign investors registered with the Brazilian securities commission (CVM) and acting through authorized custody accounts managed by local agents may buy and sell shares on Brazilian stock exchanges without obtaining separate certificates of capital registration for each transaction. Foreign investors that acquire shares listed and traded on Brazilian stock exchanges are also generally entitled to favorable tax treatment. See "Item 7.—Taxation".

Resolution No. 1,927 of the National Monetary Council, which is the restated and amended Annex V to Resolution No. 1,289 (the Annex V Regulations), provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. Brahma ADSs have been approved under the Annex V Regulations by the Central Bank and the Brazilian securities commission (CVM). Accordingly, the proceeds from the sale of the Brahma ADSs by ADS holders outside Brazil are free of Brazilian foreign investment controls and holders of the Brahma ADSs will be entitled to favorable tax treatment.

A certificate of capital registration has been issued in the name of The Bank of New York, as depositary for the preferred and the common Brahma ADSs, and is maintained by the custodian on behalf of The Bank of New York. Pursuant to such certificate, the custodian and The Bank of New York are able to convert dividends and other distributions with respect to the shares of Brahma which are represented by Brahma ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of Brahma ADSs exchanges Brahma ADSs for shares of Brahma, such holder will be entitled to continue to rely on The Bank of New York's certificate of capital registration for only five business days after such exchange, following which such holder must seek to obtain its own certificate of capital registration with the Central Bank. After this period of time, unless the shares of Brahma are held pursuant to the Foreign Investment Regulations by a duly qualified foreign investor, such holder may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, such shares of Brahma, and such holder generally will be subject to less favorable Brazilian tax treatment than a holder of Brahma ADSs. See "Item 7.—Taxation".

Under current legislation, the Brazilian government may impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious

imbalance of Brazil's balance of payments. For approximately six months in 1989 and early 1990, the Brazilian government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with Brazilian government directives. There can be no assurance that the Brazilian government will not impose similar restrictions on foreign repatriations in the future.

ITEM 7. TAXATION

The following discussion summarizes the principal Brazilian and U.S. Federal income tax consequences of acquiring, holding and disposing of Brahma's preferred shares or Preferred ADSs or Brahma's common shares or Common ADSs. This discussion is not a comprehensive discussion of all the tax considerations that may be relevant to a decision to purchase preferred shares or Preferred ADSs or common shares or Common ADSs and is not applicable to all categories of investors, some of which may be subject to special rules. **Each prospective purchaser is urged to consult its own tax advisor about the particular Brazilian and U.S. tax consequences to it of an investment in the preferred shares or Preferred ADSs or common shares or Common ADSs.**

Brazilian Tax Considerations

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of preferred and common shares of Brahma or Preferred and Common ADSs of Brahma by a holder that is not deemed to be domiciled in Brazil for purposes of Brazilian taxation and, in the case of a holder of preferred or common shares, which has registered its investment in such securities with the Central Bank of Brazil as a U.S. dollar investment (in each case, a "Non-Brazilian Holder"). The discussion does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase preferred and common shares or Preferred or Common ADSs. It is based on Brazilian law as currently in effect. Any change in such law may change the consequences described below. The following discussion does not specifically address all of the Brazilian tax considerations applicable to any particular Non-Brazilian Holder, and each Non-Brazilian Holder should consult his or her own tax advisor concerning the Brazilian tax consequences of an investment in preferred or common shares or Preferred or Common ADSs of Brahma.

Taxation of Dividends. Dividends, including dividends in kind, paid by Brahma to The Bank of New York in respect of the preferred or common shares underlying the ADSs or to a Non-Brazilian Holder in respect of preferred or common shares generally will not be subject to Brazilian withholding tax. Dividends relating to profits generated prior to December 31, 1995 are subject to a Brazilian withholding tax of 15%. Stock dividends relating to profits are also not subject to withholding tax in Brazil.

Taxation of Gains. Gains realized outside of Brazil by a Non-Brazilian Holder on the disposition of Preferred or Common ADSs to another Non-Brazilian Holder are not subject to Brazilian tax.

The withdrawal of Preferred or Common ADSs in exchange for preferred or common shares is not subject to Brazilian tax. The deposit of Brahma's preferred or common shares in connection with the issuance of Preferred or Common ADSs is not subject to Brazilian tax, provided that the preferred or

common shares are registered under the Foreign Investment Regulations and unless the foreign investor is located in a jurisdiction which does not impose income tax or which has an income tax rate lower than 20%. In the latter case, the investor will be subject to the same general taxation rules applicable to Brazilian residents. In the event the preferred or common shares are not so registered, the deposit of preferred or common shares in exchange for Preferred or Common ADSs may be subject to Brazilian capital gains tax at the rate of 10% or 15% as described below. Upon receipt of the underlying preferred or common shares, a Non-Brazilian Holder who qualifies under the Foreign Investment Regulations will be entitled to register the U.S. dollar value of such shares with the Central Bank of Brazil as described below.

Non-Brazilian Holders are not subject to tax in Brazil on gains realized on sales of preferred or common shares that occur abroad or on proceeds of a redemption of, or a liquidating distribution with respect to, preferred or common shares. As a general rule, Non-Brazilian Holders are subject to a withholding tax imposed at a rate of 15% on gains realized on sales or exchanges of preferred or common shares that occur in Brazil to or with a resident of Brazil, outside a Brazilian stock exchange. Non-Brazilian Holders are generally subject to withholding tax at a rate of 10% on gains realized on sales or exchanges in Brazil of preferred or common shares that occur on a Brazilian stock exchange, unless (a) such a sale is made within five business days of the withdrawal of such preferred or common shares in exchange for ADSs and the proceeds of such sale are remitted abroad within such five-day period, or (b) such a sale is made under the Foreign Investment Regulations by Non-Brazilian Holders which register with the Brazilian securities commission (CVM). If the foreign investor is located in a jurisdiction which does not impose income tax or which has an income tax rate lower than 20%, it will be subject to the same general taxation rules applicable to Brazilian residents. The "gain realized" as a result of a transaction on a Brazilian stock exchange is the difference between the amount in Brazilian currency realized on the sale or exchange of the shares and their acquisition cost, without any correction for inflation. The "gain realized" as a result of a transaction with shares which are registered under a certificate of registration of investment (other than Foreign Investment Regulations) will be calculated based on the foreign currency amount registered with the Central Bank. There can be no assurance that the current preferential treatment for holders of ADSs and Non-Brazilian Holders of preferred and common shares under the Foreign Investment Regulations will continue in the future or that it will not be changed in the future. Reductions in the tax rate provided for by Brazil's tax treaties do not apply to tax on gains realized on sales or exchanges of preferred or common shares.

Any exercise of preemptive rights relating to the preferred or common shares or Preferred or Common ADSs of Brahma will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights relating to the preferred or common shares by The Bank of New York will not be subject to Brazilian taxation.

The United States and Brazil do not currently have any reciprocal tax treaty regarding tax withholding provisions.

Distributions of Interest Attributable to Shareholders' Equity. In accordance with Law No. 9,249, dated December 26, 1995, Brazilian corporations may make payments to shareholders characterized as distributions of interest on the company's shareholders' equity. Such interest is limited

to the Federal government's long-term interest rate (TJLP) as determined by the Central Bank from time to time (11.00% per annum for the three-month period starting April 1, 2000), and cannot exceed the greater of:

- 50% of net income (before taking such distribution and any deductions for income taxes into account) for the period in respect of which the payment is made; or
- 50% of retained earnings.

Distributions of interest on shareholders' equity in respect of the preferred or common shares paid to shareholders who are either Brazilian residents or non-Brazilian residents, including holders of ADSs, are subject to Brazilian withholding tax at the rate of 15% and shall be deductible by Brahma as long as the payment of a distribution of interest is approved in a general meeting of shareholders of Brahma. The distribution of interest on shareholders' equity may be determined by the board of directors of Brahma. No assurance can be given that the board of directors of Brahma will not determine that future distributions of profits may be made by means of interest on shareholders' equity instead of by means of dividends.

The amounts paid as distribution of interest on shareholders' equity are deductible for corporate income tax and social contribution on profit, both of which are taxes levied on Brahma's profits.

Other Relevant Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of preferred or common shares or Preferred or Common ADSs by a Non-Brazilian Holder except for gift and inheritance taxes which are levied by some states of Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or domiciled within the state to individuals or entities resident or domiciled within such state in Brazil. There are no Brazilian stamp, issue, registration or similar taxes or duties payable by holders of preferred or common shares or Preferred or Common ADSs.

Pursuant to Decree 2,219 of May 2, 1997, Brazilian currency resulting from the conversion of the proceeds received by a Brazilian entity from a foreign investment in the Brazilian securities market, including those in connection with the investment in the preferred or common shares of Brahma, the Preferred or Common ADSs of Brahma and those made under Foreign Investment Regulations, is potentially subject to a transactions tax (IOF), although at present the rate of such tax is zero percent. Under Law 8,894 of June 21, 1994, such IOF tax rate may be increased at any time to a maximum of 25%, but any such increase will only be applicable to transactions occurring after such increase becomes effective.

Registered Capital. The amount of an investment in preferred or common shares held by a Non-Brazilian Holder who qualifies under the Foreign Investment Regulations and obtains registration with the Brazilian securities commission (CVM), or by The Bank of New York, as the depositary representing such holder, is eligible for registration with the Central Bank. Such registration allows the remittance outside of Brazil of any proceeds of distributions on the shares, and amounts realized with respect to disposition of such shares. The amounts received in Brazilian currency are converted into foreign currency through the use of the commercial market rate. The registered capital for preferred shares purchased in the form of a Preferred ADSs or common shares purchased in the form of a Common ADS or purchased in Brazil, and deposited with The Bank of New York in exchange for a Preferred or

Common ADS will be equal to their purchase price (in U.S. dollars) to the purchaser. The registered capital for preferred or common shares that are withdrawn upon surrender of Preferred or Common ADSs, as applicable, will be the U.S. dollar equivalent of the average price of the preferred or common shares, as applicable, on the Brazilian stock exchange on which the greatest number of such preferred or common shares, as applicable, was sold on the day of withdrawal. If no preferred or common shares, as applicable, were sold on such day, the registered capital will refer to the average price on the Brazilian stock exchange on which the greatest number of preferred or common shares, as applicable, were sold in the 15 trading sessions immediately preceding such withdrawal. The U.S. dollar value of the preferred or common shares, as applicable, is determined on the basis of the average commercial market rate quoted by the Central Bank on such date or, if the average price of preferred or common shares is determined under the last preceding sentence, the average of such average quoted rates on the same 15 dates used to determine the average price of the preferred or common shares.

A Non-Brazilian Holder of preferred or common shares may experience delays in effecting such registration which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the Non-Brazilian Holder.

United States Federal Income Tax Considerations

The following discussion addresses the U.S. Federal income tax consequences to holders that will hold their preferred shares or Preferred ADSs or common shares or Common ADSs as capital assets. It does not address the tax treatment of investors subject to special rules, such as banks, dealers, insurance companies, tax-exempt entities, holders of 10% or more of Brahma's voting shares, holders whose functional currency is not the U.S. dollar and persons holding preferred shares or Preferred ADSs or common shares or Common ADSs as part of a hedge, straddle, conversion or constructive sale transaction. The discussion is based on currently existing provisions of the United States Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed Treasury Regulations issued thereunder, and current administrative rulings and court decisions, all of which are subject to change, possibly with retroactive effect. The discussion is limited to United States federal income tax matters and does not address other U.S. Federal taxes (such as estate taxes) or the state, local or foreign tax consequences of acquiring, holding and disposing of preferred shares or Preferred ADSs or common shares or Common ADSs.

As used below, a "U.S. holder" is a holder of a preferred share or Preferred ADS or common share or Common ADS that is, for U.S. Federal income tax purposes, (a) an individual citizen or resident of the United States, (b) a corporation or other entity taxable as a corporation organized under the laws of the United States, any state thereof or the District of Columbia, or (c) any other person or entity that is subject to U.S. Federal income tax on a net income basis in respect of the preferred shares, Preferred ADSs, common shares or Common ADSs. If a partnership holds preferred shares or Preferred ADSs or common shares or Common ADSs, the consequences to a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner of a partnership holding preferred shares or Preferred ADSs or common shares or Common ADSs should consult its tax advisor. A "non-U.S. holder" is a holder that is not a U.S. holder.

In general, for U.S. Federal income tax purposes, a holder of an American Depositary Receipt (ADR) evidencing an ADS, will be treated as the beneficial owner of the preferred share(s) or common share(s) represented by the applicable ADSs.

U.S. Holders

Dividends. In general, a distribution made with respect to a preferred share, Preferred ADS, common share or Common ADS (which for this purpose will include distributions of interest on shareholders' equity) will, to the extent made from the current or accumulated earnings and profits of Brahma, as determined under U.S. Federal income tax principles, constitute a dividend for U.S. Federal income tax purposes. If a distribution exceeds the amount of Brahma's current and accumulated earnings and profits, as determined under U.S. Federal income tax principles, it will be treated as a non-taxable return of capital to the extent of the U.S. holder's tax basis in the preferred share or Preferred ADS or common share or Common ADS on which it is paid and thereafter as capital gain. As discussed below, the term "dividend" means a distribution that constitutes a dividend for U.S. Federal income tax purposes.

The gross amount of any dividend paid to a U.S. holder (which will include any amounts withheld in respect of Brazilian taxes) with respect to a preferred share or Preferred ADS or common share or Common ADS will be subject to U.S. Federal income taxation (generally as foreign source dividend income) and will not be eligible for the dividends received deduction generally allowed to U.S. corporations. A dividend paid in Brazilian currency will be included in the income of a U.S. holder at its value in U.S. dollars calculated by reference to the prevailing spot market exchange rate in effect on the date it is received by the U.S. holder or, in the case of a dividend received in respect of Preferred ADSs or Common ADSs, on the date the dividend is received by The Bank of New York, as depositary, whether or not the dividend is converted into U.S. dollars. Any gain or loss realized on a subsequent conversion or other disposition of the Brazilian currency will be treated as U.S. source ordinary income or loss.

Subject to generally applicable limitations under U.S. Federal income tax law, the Brazilian withholding tax will be treated as a foreign income tax eligible for credit against a U.S. holder's U.S. Federal income tax liability. For purposes of the computation of the foreign tax credit limitation any dividends generally will constitute foreign source "passive income" or, in the case of certain holders, "financial services income". Alternatively, a U.S. holder may elect not to claim a credit for any of its foreign taxes and deduct all of those taxes in computing taxable income.

Dispositions. A U.S. holder generally will recognize capital gain or loss upon a sale or other disposition of a common share or Common ADS or preferred share or Preferred ADS held by the U.S. holder in an amount equal to the difference between the U.S. holder's adjusted basis in the common share or Common ADS or preferred share or Preferred ADS, as the case may be (determined in U.S. dollars), and the U.S. dollar amount realized on the sale or other disposition. If a Brazilian tax is withheld on the sale or disposition of a share, the amount realized by a U.S. holder will include the gross amount of the proceeds of that sale or disposition before deduction of the Brazilian tax. Capital gain recognized by certain non-corporate U.S. holders is taxed at a maximum tax rate of 20% in respect of property held for more than one year. Deductions for capital losses are subject to limitations. Capital gain or loss, if any, realized by a U.S. holder on the sale or other disposition of a common share or Common ADS or a preferred share or Preferred ADS generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Consequently, in the case of a disposition of a common share or preferred share that is subject to Brazilian tax imposed on the gain (or, in the case of a deposit, in exchange for a Common ADS or Preferred ADS of a common share or preferred share, as the case may be, that is not registered under the Annex IV regulations, on which a Brazilian capital gains tax is imposed (see "—Brazilian Tax Considerations—Taxation of Gains"), the U.S. holder may not be able to use the foreign tax credit for that Brazilian tax unless it can apply the credit against U.S. tax payable on other income from foreign

sources in the appropriate income category, or, alternatively, it may take a deduction for the Brazilian tax if it elects to deduct all of its foreign income taxes.

Passive Foreign Investment Company Rules. Based upon the nature of its current and projected income, assets and activities, Brahma does not expect the preferred shares or Preferred ADSs or common shares or Common ADSs to be considered shares of a passive foreign investment company ("PFIC") for U.S. Federal income tax purposes. In general, a foreign corporation is a PFIC with respect to a U.S. holder if, for any taxable year in which the U.S. holder holds stock in the foreign corporation, at least 75% of its gross income is passive income or at least 50% of the value of its assets (determined on the basis of a quarterly average) produce passive income or are held for the production of passive income. The determination of whether the preferred shares or Preferred ADSs or common shares or Common ADSs constitute shares of a PFIC is a factual determination made annually and thus may be subject to change.

If Brahma is treated as a PFIC, contrary to the discussion in "—U.S. Federal Income Tax Considerations—Dividends" and "—U.S. Federal Income Tax Considerations—Dispositions" above, a U.S. holder would be subject to special rules with respect to (a) any gain realized on the sale or other disposition of common shares or Common ADSs or preferred shares or Preferred ADSs and (b) any "excess distribution" by Brahma to the U.S. holder (generally, any distribution during a taxable year in which distributions to the U.S. holder on the common shares or Common ADSs or preferred shares or Preferred ADSs exceed 125% of the average annual taxable distribution the U.S. holder received on the common shares or Common ADSs or preferred shares or Preferred ADSs during the preceding three taxable years or, if shorter, the U.S. holder's holding period for the common shares or Common ADSs or preferred shares or Preferred ADSs). Under those rules, (a) the gain or excess distribution would be allocated ratably over the U.S. holder's holding period for the common shares or Common ADSs or preferred shares or Preferred ADSs, (b) the amount allocated to the taxable year in which the gain or excess distribution is realized and to taxable years before the first day Brahma became a PFIC would be taxable as ordinary income, (c) the amount allocated to each prior year in which Brahma was a PFIC, would be subject to tax at the highest tax rate in effect for that year and (d) the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each prior year in which Brahma was a PFIC.

A U.S. holder who owns common shares or Common ADSs or preferred shares or Preferred ADSs during any year Brahma is a PFIC must file Internal Revenue Service Form 8621. In general, if Brahma is treated as a PFIC, the rules described in the second paragraph of this section can be avoided by a U.S. holder that elects to be subject to a mark-to-market regime for stock in a PFIC. A U.S. holder may elect mark-to-market treatment for its common shares or Common ADSs or preferred shares or Preferred ADSs, provided the common shares or Common ADSs or preferred shares or preferred ADSs, for purposes of these rules, constitute "marketable stock" as defined in Treasury regulations. A U.S. holder electing the mark-to-market regime generally would treat any gain recognized under mark-to-market treatment or on an actual sale of common shares or Common ADSs or preferred shares or Preferred ADSs as ordinary income and would be allowed an ordinary deduction for any decrease in the value of common shares or Common ADSs or preferred shares or Preferred ADSs in any taxable year and for any loss recognized on an actual sale, but only to the extent, in each case, of previously included mark-to-market income not offset by previously deducted decreases in value. A U.S. holder's basis in common shares or Common ADSs or preferred shares or Preferred ADSs would increase or decrease by gain or loss taken into account under the mark-to-market regime. A mark-to-market election is generally irrevocable.

Non-U.S. Holders

Dividends. Dividends paid to a non-U.S. holder of preferred shares or Preferred ADSs or common shares or Common ADSs generally will not be subject to U.S. Federal income tax or withholding tax unless the dividends are effectively connected with the conduct by such non-U.S. holder of a trade or business within the United States, in which case the non-U.S. holder generally will be subject to U.S. Federal income tax in respect of such dividends in the same manner as a U.S. holder. Any effectively connected dividends received by a non-U.S. corporation may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Dispositions. A non-U.S. holder of preferred shares or Preferred ADSs or common shares or Common ADSs generally will not be subject to U.S. Federal income tax on gain realized on the sale or other disposition of preferred shares or Preferred ADSs or common shares or Common ADSs unless (a) the gain is effectively connected with the conduct by such holder of a trade or business within the United States or (b) the holder is an individual who was present in the United States for at least 183 days in the taxable year and certain other conditions are met. Effectively connected gains realized by a corporate non-U.S. holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Information Reporting and Backup Withholding.

A U.S. holder of preferred shares or Preferred ADSs or common shares or Common ADSs will generally be subject to information reporting to the Internal Revenue Service and to "backup withholding" at the rate of 31% with respect to dividends paid on or the proceeds of a sale or other disposition of preferred shares or Preferred ADSs or common shares or Common ADSs paid within the United States, unless such holder (a) is a corporation or comes within certain other exempt categories, and demonstrates this fact when so required, or (b) provides a correct taxpayer identification number, certifies that it is not subject to backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules will be creditable against the holder's U.S. Federal income tax liability, and a U.S. holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the Internal Revenue Service. While non-U.S. holders generally are exempt from backup withholding and information reporting on payments made within the United States, a non-U.S. holder may be required to comply with applicable certification procedures to establish that it is not a U.S. person in order to avoid the application of U.S. information reporting requirements and backup withholding.

ITEM 8. SELECTED FINANCIAL DATA

BRAHMA

Brahma's selected historical consolidated financial data set forth below as of and for each of the five years ended December 31, 1999, 1998, 1997, 1996 and 1995, have been derived from Brahma's U.S. GAAP consolidated financial statements, which have been audited by PricewaterhouseCoopers, Auditores Independentes, Brazil, independent accountants. Brahma's U.S. GAAP consolidated financial statements as of December 31, 1999 and 1998 and for each of the three years ended December 31, 1999, are included elsewhere in this annual report. For the effects of the significant devaluation of the *real* on the balances reported in U.S. dollars for the year ended December 31, 1999, see "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Devaluation of the *Real* in 1999". The information set forth below should be read in conjunction with, and is qualified in its entirety by reference to, Brahma's audited consolidated financial statements (the Brahma financial statements) and the notes related to them, which are included in this annual report.

	As of and for the Year Ended December 31,				
	1999	1998	1997	1996	1995
	(in thousands, except per share amounts, number of shares and "other data")				
Statement of Operations Data:					
Net sales	US$1,775,943	US$2,669,338	US$2,444,103	US$2,299,992	US$2,133,824
Cost of sales	(1,026,021)	(1,554,573)	(1,393,395)	(1,283,881)	(1,113,759)
Gross profit	749,922	1,114,765	1,050,708	1,016,111	1,020,065
Selling and marketing expenses	(313,899)	(627,251)	(426,222)	(353,904)	(316,760)
General and administrative expenses	(188,070)	(281,601)	(338,298)	(275,483)	(480,541)
Other operating income (expense), net	(51,341)	3,476	1,409	31,789	27,058
Operating income	196,612	209,389	287,597	418,513	249,822
Financial income	390,318	198,636	136,992	132,205	186,457
Financial expenses	(442,022)	(289,504)	(142,318)	(97,248)	(66,955)
Other non-operating income (expense)	(8,448)	14,994	40,310	25,895	71,145
Income tax benefit (expense) – current	37,999	90,526	107,696	(156,152)	(172,797)
Income tax benefit (expense) – deferred	1,391	2,170	(7,806)	64,415	(11,474)
Equity in earnings (losses) of affiliates	5,404	2,962	(28,138)	5,648	14,310
Minority interest	3,498	9,404	1,133	(4,700)	21,319
Net income	US$184,752	US$238,577	US$395,466	US$388,576	US$291,827
Earnings per thousand shares[1]					
Basic					
Preferred shares	US$28.92	US$36.56	US$57.91	US$56.82	US$44.58
Common shares	26.29	33.24	52.64	56.82	44.58
Diluted[2]					
Preferred shares	28.12	35.70	56.02	55.08	41.73
Common shares	25.56	32.45	50.93	55.08	41.73
Number of preferred and					

	As of and for the Year Ended December 31,				
	1999	1998	1997	1996	1995
	(in thousands, except per share amounts, number of shares and "other data")				
common shares outstanding[3]					
Basic					
Preferred shares	4,232,516	4,346,727	4,622,175	4,552,726	4,412,452
Common shares	2,371,589	2,396,620	2,428,003	2,286,457	2,134,175
Diluted					
Preferred shares	4,406,174	4,486,158	4,825,779	4,740,211	4,697,334
Common shares	2,381,869	2,418,471	2,456,931	2,314,701	2,295,170
Cash dividends paid per thousand preferred shares	US$15.17	US$25.75	US$14.85	US$66.27	US$8.11
Cash dividends paid per thousand common shares	13.79	25.22	13.49	66.27	8.11
Balance Sheet Data:					
Cash and cash equivalents	US$772,286	US$723,250	US$657,434	US$649,891	US$569,810
Trading securities	157,145	157,552	123,332	141,360	288,024
Net working capital[4]	436,861	309,964	275,602	413,924	562,501
Property, plant and equipment, net	1,022,786	1,739,745	1,888,663	1,602,734	1,311,481
Total assets	2,873,924	3,731,568	3,701,220	3,244,667	2,933,221
Short-term debt[5]	574,369	733,511	593,331	415,298	200,563
Long-term debt[6]	762,597	1,069,009	896,208	553,437	360,003
Temporary equity – appraisal rights[7]	707,913	–	–	–	–
Shareholders' equity	851,554	1,100,409	1,260,195	1,206,529	1,249,875
Other Financial Information:					
Depreciation and amortization[8]	US$234,903	US$263,354	US$243,036	US$168,616	US$90,637
Capital expenditures[9]	(108,451)	(249,105)	(467,508)	(530,401)	(697,986)
Cash flows from operating activities – generated	510,992	384,025	469,727	692,659	374,581
Cash flows from investing activities – (used)	(76,628)	(214,576)	(429,684)	(511,089)	(645,938)
Cash flows from financing activities – (used) generated	(168,205)	(35,513)	(33,906)	(109,945)	228,052
Other Data:					
Total production capacity – beer[10]	64.4 million hl	62.0 million hl	56.9 million hl	51.7 million hl	42.7 million hl
Total production capacity – soft drinks[10]	27.0 million hl	27.0 million hl	27.0 million hl	13.0 million hl	10.0 million hl
Total beer volume sold	43.2 million hl	42.5 million hl	41.3 million hl	38.3 million hl	36.5 million hl
Total soft drink volume sold	8.5 million hl	12.1 million hl	9.4 million hl	8.8 million hl	7.5 million hl
Number of employees[11]	10,136	10,708	10,955	9,987	9,535
Productivity – hectoliters per production employee[12]	8,776 hl	8,694 hl	6,289 hl	5,222 hl	5,133 hl

(1) Net income divided by the weighted average number of common and preferred shares outstanding during the relevant periods.
(2) Gives effect to share options issued to employees and management and share warrants, all of which are considered as common stock equivalents in calculating diluted earnings per share.
(3) Weighted average number of shares outstanding during the period.
(4) Represents total current assets less total current liabilities.
(5) Includes short-term debt and current portion of long-term debt.

(6) Includes the long-term portion of long-term debt and sales tax deferrals.
(7) As of December 31, 1999, approximately 79% of Brahma's total shares had not been exchanged for AmBev shares. Upon the completion of the Brahma conversion, under Brazilian corporation law, Brahma shareholders may either (a) exchange their shares for AmBev shares; or (b) exercise appraisal rights, thus requiring Brahma to repurchase their shares at Brahma's book value, as determined under Brazilian corporation law and its accounting principles.
This potential obligation is presented in the balance sheet caption "Temporary equity – appraisal rights" and reflects the Brazilian legal book value of all shares available for conversion, as if all these shareholders were to exercise their appraisal rights and withdraw from Brahma. Temporary equity– appraisal rights is deducted from shareholders' equity and reclassified as mezzanine equity. This amount represents the maximum amount of cash that would be paid by Brahma assuming all the shareholders having their shares exchanged for AmBev shares in the Brahma conversion exercised their appraisal rights, based on the December 31, 1999 balance sheet date. As of December 31, 1999, the book value of the Brahma common and preferred shares for purposes of exercising appraisal rights were less than half of their respective market prices. Although there can be no assurance as to the book value or the market prices of the shares or ADSs of Brahma at any time in the future, Brahma expects the market prices of its shares to exceed their respective book values at the time the Brahma conversion is completed. Brahma thus believes that there should not be a substantial exercise of appraisal rights by its shareholders, since Brahma shareholders who exercise appraisal rights may incur a loss.
(8) Includes depreciation of property, plant and equipment and amortization of goodwill and intangible assets.
(9) Represents cash expenditures for property, plant and equipment.
(10) Represents available production capacity of Brahma and its subsidiaries at the end of each year (hl is the abbreviation for hectoliters).
(11) Includes all employees of Brahma and its subsidiaries, both production and non-production related at the end of each period.
(12) Calculated by dividing the total volume of beer and soft drinks produced by the number of employees involved in the production processes at the end of each period.

Brahma - Dividends and Interest Attributable to Shareholders' Equity

The following table shows the dividends paid to Brahma's common and preferred shareholders since 1995 in *reais* and in U.S. dollars translated from *reais* at the commercial exchange rate as of the date of payment. The amounts beginning in 1997 include interest attributable to shareholders' equity, net of withholding tax. Interest attributable to shareholders' equity is equivalent to a dividend but is a more tax efficient way to distribute earnings, as it is deductible for income tax purposes.

Earnings generated	First payment date	*Reais* per thousand shares	U.S. dollar equivalent per thousand shares at payment date[1]	
First half 1995	October 2, 1995	R$ 3.66	(preferred and common)	US$ 3.83
		3.05	(preferred and common) pro-rata[2]	3.19
		0.61	(preferred and common) pro-rata[2]	0.64
Extraordinary	March 25, 1996	57.00	(preferred and common)	57.70
Second half 1995	May 2, 1996	5.20	(preferred and common)	5.24
First half 1996	September 26, 1996	4.55	(preferred and common)	4.46
Second half 1996	March 21, 1997	6.35	(preferred and common)	5.98
First half 1997	October 9, 1997	8.06	(preferred)	7.34
		7.32	(common)	6.67
Second half 1997	May 7, 1998	8.66	(preferred)	7.56
		7.87	(common)	6.87
First half 1998	October 8, 1998	6.61	(preferred)	5.58
		6.01	(common)	5.07
Second half 1998	April 5, 1999	11.86	(preferred)	6.87
		10.78	(common)	6.25
First half 1999	July 20, 1999	7.92	(preferred)	4.40
		7.20	(common)	4.00
Second half 1999	March 15, 2000	14.80	(preferred)	8.49
		13.45	(common)	7.72

(1) The amounts set forth above are amounts actually received by Brahma shareholders, which are net of withholding tax. Brahma's financial statements present the amounts actually disbursed by Brahma, including the withholding tax on interest on shareholders' equity, which is paid by Brahma on behalf of its shareholders. The dividends per thousand shares set forth above are calculated based on the number of shares outstanding at the date Brahma declared such dividends. Dividends per thousand shares in the financial statements are calculated based on the weighted average number of shares for the period in which dividends were declared.
(2) Pro rata dividends are dividends payable in connection with shares which have been outstanding for less than a full fiscal year.

Earnings generated	First payment date	*Reais* per thousand shares	U.S. dollar equivalent per thousand shares at payment date[1]

Brahma intends to pay dividends annually to its shareholders; however, the timing and amount of future dividend payments, if any, will depend upon various factors the board of directors of Brahma considers relevant, including the earnings and the financial condition of Brahma. Brahma's by-laws provide for a mandatory dividend of 25% of its annual consolidated net income, if any, as determined and adjusted under accounting principles set forth under Brazilian corporation law (adjusted income). The mandatory dividend includes amounts paid as interest attributed to shareholders' equity, which is equivalent to a dividend but is a more tax efficient way to distribute earnings, as it is deductible for income tax purposes. Because adjusted income may be capitalized, used to absorb losses or otherwise appropriated, any adjusted income could no longer be available to be paid as dividends. Any dividends payable on Brahma's preferred shares must be at least 10% greater than those payable on Brahma's common shares.

ANTARCTICA

Antarctica's selected historical consolidated financial data set forth below as of and for each of the three years ended December 31, 1999, 1998 and 1997, have been derived from Antarctica's U.S. GAAP consolidated financial statements, which have been audited by Deloitte Touche Tohmatsu, Auditores Independentes, Brazilian independent accountants. Antarctica's U.S. GAAP consolidated financial statements as of December 31, 1999 and 1998 and for each of the three years ended December 31, 1999 are included in this annual report. For the effects of the significant devaluation of the *real* on the balances reported in U.S. dollars for the year ended December 31,1999, see "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Devaluation of the *Real* in 1999". The information set forth below should be read in conjunction with, and is qualified in its entirety by reference to Antarctica's U.S. GAAP audited consolidated financial

statements (the Antarctica financial statements) and the notes related to them, which are included in this annual report.

	As of and for the Year Ended December 31,		
	1999	1998	1997
	(in thousands, except per share amounts, number of shares and "other data")		
Statement of Operations Data:			
Net sales	US$750,369	US$1,212,741	US$1,363,063
Cost of sales	(502,377)	(826,950)	(902,603)
Gross profit	247,992	385,791	460,460
Selling and marketing expenses	(209,449)	(166,471)	(185,731)
General and administrative expenses	(156,607)	(215,493)	(256,914)
Restructuring charge	–	(8,508)	(13,387)
Recoverable water usage cost	–	–	40,373
Other operating income, net	478	1,451	6,348
Operating income (loss)	(117,586)	(3,230)	51,149
Financial income	36,261	96,081	61,086
Financial loss	(354,391)	(160,417)	(103,465)
Benefit on translation, net	–	–	42,378
Other non-operating expense, net	(9,433)	(8,132)	(4,146)
Income tax expense - current	(25,188)	(19,430)	(28,547)
Income tax benefit - deferred	25,388	22,300	41,143
Equity in losses of affiliates	(377)	(2,595)	(4,934)
Minority interest	4,406	(27,952)	(49,269)
Net income (loss)	(440,920)	(103,375)	5,395
Basic and diluted earnings (loss) per share [1]			
Preferred	US$(36.67)	US$(8.33)	US$ 0.76
Common	(36.75)	(8.65)	0.41
Number of preferred shares outstanding[2]	1,274,530	1,274,530	1,274,530
Number of common shares outstanding[2]	10,725,470	10,725,470	10,725,470
Balance Sheet Data:			
Cash and cash equivalents	US$30,064	US$160,347	US$159,978
Net working capital[3]	(628,851)	(144,861)	(35,224)
Property, plant and equipment	708,019	1,158,535	1,232,124
Total assets	1,288,205	2,176,663	2,329,772
Short-term debt[4]	800,345	462,756	375,018
Long-term debt[5]	99,111	396,053	425,136
Shareholders' equity (deficit)	(201,350)	418,072	555,396
Other Financial Information:			
Depreciation and amortization[6]	US$64,992	US$99,633	US$111,806
Capital expenditures[7]	60,164	168,694	93,401
Cash flows from operating activities - generated (used)	(41,529)	189,185	106,593
Cash flows from investing activities - (used)	(97,569)	(122,679)	(81,328)
Cash flows from financing activities - generated (used)	61,949	(32,712)	41,870

	As of and for the Year Ended December 31,		
	1999	1998	1997
	(in thousands, except per share amounts, number of shares and "other data")		
Other Data:			
Total production capacity - beer[8]	31.6 million hl	33.1 million hl	36.7 million hl
Total production capacity - soft drinks[8]	22.2 million hl	20.5 million hl	17.9 million hl
Total beer volume sold	17.4 million hl	20.0 million hl	20.6 million hl
Total soft drink volume sold	7.6 million hl	8.6 million hl	9.1 million hl
Number of employees[9]	6,420	7,800	10,132
Productivity - hectoliters per production employee[10]	5,591 hl	5,200 hl	4,268 hl

(1) Calculated using the two-class method with preferred shares being treated as a participating security. Under this method, net income is first reduced by the amount of dividends declared in the current period for each class of stock; the remaining earnings are then allocated to common stock and participating securities to the extent that each security may share in earnings. The total earnings allocated to each security (i.e., actual dividends declared and the amount allocated for the participation feature) is then divided by the weighted average number of shares for each class of security outstanding during the period. Common and preferred shareholders share equally in undistributed earnings. See note 2(x) to the Antarctica financial statements.
(2) Weighted average number of shares outstanding during the period.
(3) Represents total current assets less total current liabilities.
(4) Includes short-term debt, debentures, promissory notes and current portion of long-term debt.
(5) Includes the long-term portion of long-term debt.
(6) Includes depreciation of property, plant and equipment and amortization of goodwill and other intangible assets.
(7) Represents cash expenditures for property, plant and equipment.
(8) Represents available production capacity of Antarctica and its subsidiaries at the end of each year (hl is the abbreviation for hectoliters).
(9) Includes all employees of Antarctica and its subsidiaries, both production and non-production related at the end of each period.
(10) Calculated by dividing the total volume of beer and soft drinks produced by the number of employees involved in the production processes at the end of each period.

Antarctica prepares its Brazilian corporation law financial statements in *reais*. The remeasurement of such financial statements from *reais* to U.S. dollars in a manner consistent with Rule 3-20 of Regulation S-X and SFAS 52 for 1995, 1996 and 1997, as if such financial information had been prepared in U.S. dollars, has not been presented in this annual report because such information would be unduly burdensome for Antarctica to prepare.

Antarctica - Dividends and Interest Attributable to Shareholders' Equity

The following table shows the dividends paid to Antarctica's common and preferred shareholders since 1995 in *reais* and in U.S. dollars translated from *reais* at the commercial exchange rate as of the date of payment. The amounts beginning in 1997 include interest attributable to shareholders' equity, net of withholding tax.

Earnings generated	First payment date	*Reais* per share		U.S. dollar equivalent per share at payment date[1]
First half 1995	September 27, 1995	R$ 0.62	(preferred)	US$ 0.65
		0.62	(common)	0.65
Second half 1995	May 20, 1996	1.60	(preferred)	1.60
		1.60	(common)	1.60
First half 1996	September 30, 1996	0.68	(preferred)	0.67
		0.68	(common)	0.67
Second half 1996	May 19, 1997	2.09	(preferred)	1.96

Earnings generated	First payment date	*Reais* per share	U.S. dollar equivalent per share at payment date[1]	
		2.09	(common)	1.96
First half 1997	September 30, 1997	0.75	(preferred)	0.68
		0.68	(common)	0.62
Second half 1997	May 25, 1998	2.53	(preferred)	2.20
		2.30	(common)	2.00
First half 1998	September 28, 1998	0.78	(preferred)	0.66
		0.71	(common)	0.60
Second half 1998	May 27, 1999	1.27	(preferred)	0.74
		1.15	(common)	0.67
First half 1999	October 14, 1999	1.38	(preferred)	0.70
		1.25	(common)	0.64

(1) The amounts set forth above are amounts actually received by Antarctica shareholders, which are net of withholding tax. Antarctica's financial statements present the amounts actually disbursed by Antarctica, including the withholding tax on interest on shareholders' equity, which is paid by Antarctica on behalf of its shareholders. The dividends per share set forth above are calculated based on the number of shares outstanding at the date Antarctica declared such dividends. Dividends per share in the financial statements are calculated based on the weighted average number of shares for the period in which dividends were declared.

ITEM 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BRAHMA

Introduction

The following discussion is based on and should be read in conjunction with Brahma's audited consolidated financial statements as of December 31, 1999 and 1998 and for each of the three years ended December 31, 1999, including the notes related to them, appearing elsewhere in this annual report (the Brahma financial statements). The Brahma financial statements have been prepared in accordance with U.S. GAAP. Brahma also prepares financial statements in Brazil in *reais* in accordance with accounting principles set forth in Brazilian corporation law, for filing with the Brazilian securities commission, and determining dividend payments and tax liabilities in Brazil. Such financial statements in *reais* are not included in this annual report.

As of January 1, 1998, Brahma has adopted the *real* as its functional currency to measure transactions. See below and the Brahma financial statements. The significant devaluation of the *real* in mid-January 1999 reduced shareholders' equity as reported in U.S. dollars as at December 31, 1999.

U.S. GAAP Presentation and Reporting Currency

Brahma has elected to present its financial statements in U.S. dollars. For this purpose, amounts in Brazilian currency for all periods presented have been remeasured (translated) into U.S. dollars in accordance with the methodology set forth in the U.S. Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 52.

For periods before December 31, 1997, Brahma's management considered that the Brazilian economy was highly inflationary, as the cumulative three-year inflation rate was above 100%. Thus, the

real was not considered a stable currency to be used as a functional currency. Therefore, Brahma has used the U.S. dollar as its functional currency. See Note 2 to the Brahma financial statements.

The translation procedures adopted by Brahma's management through December 31, 1997 were as follows:

- inventory, property, plant and equipment and accumulated depreciation, as well as shareholders' equity accounts, were translated at historical exchange rates and monetary assets and liabilities denominated in *real* were translated at period-end exchange rates (December 31, 1997- R$1.1164: US$1.00);

- depreciation and other costs and expenses relating to assets remeasured at historical exchange rates were calculated based on the U.S. dollar amount of the assets. Other accounts in the statements of operations and cash flows were translated at the average exchange rates prevailing during the period;

- the translation gain or loss resulting from this remeasurement process was included in the statements of operations currently; and

- deferred taxes were not recorded with respect to differences relating to assets and liabilities translated at historical rates that resulted from changes in exchange rates or indexing for Brazilian tax purposes.

As of January 1, 1998, Brahma's management concluded that the Brazilian economy ceased to be highly inflationary and changed its functional currency from the reporting currency (U.S. dollars) to the local currency (*reais*). Accordingly, as of January 1, 1998, Brahma translated the U.S. dollar amounts of non-monetary assets and liabilities into *reais* at the current exchange rate and those amounts became the new accounting bases for such assets and liabilities. The resulting deferred taxes associated with the differences between the new functional currency bases and the tax bases were reflected as a deferred tax liability with a corresponding charge taken directly to the cumulative translation adjustment component of shareholders' equity.

For the years ended December 31, 1998 and 1999, Brahma has translated all assets and liabilities into U.S. dollars at the current exchange rate (December 31, 1999 - R$1.7890: US$1.00; December 31, 1998 - R$1.2087: US$1.00), and all accounts in the statements of operations and cash flows at the average rates of exchange in effect during the period (year ended December 31, 1999 - R$1.8148: US$1.00; year ended December 31, 1998 - R$1.1605: US$1.00). The statements of operations include local currency indexation and exchange variations arising from transactions on assets and liabilities denominated in foreign currencies, which were not translated prior to 1998. The related translation adjustments are included in the cumulative translation adjustment (CTA) account in shareholders' equity.

The devaluation of the *real* in mid-January 1999 resulted in a net translation loss, arising from the translation of the balance sheet accounts (monetary and non-monetary assets and liabilities) from Brazilian *reais* to U.S. dollars. The translation loss has been allocated directly to the cumulative translation account in shareholders' equity. Foreign exchange transaction gains or losses are reflected directly in income currently. See "—Devaluation of the *Real* in 1999".

The Brazilian general price index, as measured by the IGP-DI, compiled by the *Fundação Getúlio Vargas* (an independent statistical institute), the devaluation of the Brazilian currency against the U.S. dollar, and the period-end and average exchange rates are presented below:

	1999	1998	1997	1996	1995
Inflation IGP-DI (%)	20.0	1.7	7.5	9.3	14.8
Devaluation of the *real* against the U.S. dollar (%)	32.4	7.6	6.9	6.4	13.0
Year-end exchange rate US$1.00 : R$	1.79	1.21	1.12	1.04	0.97
Average exchange rate[(1)] US$1.00 : R$	1.86	1.16	1.08	1.01	0.92

(1) Represents the average of the month-end exchange rates during the relevant period.

Devaluation of the *Real* in 1999

In an effort to address concerns about the overvaluation of the *real* relative to the U.S. dollar and to avoid a situation similar to the economic crisis in Mexico that resulted from the rapid devaluation of the Mexican peso at the end of 1994, the Brazilian government introduced new exchange rate policies in March 1995 that resulted in a gradual devaluation of the *real* relative to the U.S. dollar. The Brazilian Central Bank in the beginning of each year set a wide range of exchange rates as annual targets. A second, narrow range was continuously reset by the Central Bank to allow for a gradual devaluation of the *real* to the U.S. dollar, referred to as a "crawling peg". The Central Bank bought or sold U.S. dollars in the market to ensure that the exchange rate remained within this narrow range. The "crawling peg" remained in effect from March 1995 to mid-January 1999.

In an attempt to stop the increasing outflows of foreign currency and address concerns about the commitment of some state governments to budgetary measures, on January 13, 1999, the Central Bank announced changes to its foreign exchange policy, including a redefinition of the wider trading band for the *real* to U.S. dollar exchange rate. The immediate effect of these changes were that the Central Bank ceased to intervene in the exchange market to ensure that the *real* traded between R$1.1975 and R$1.2115 per US$1.00. Also, on January 13, 1999, in the commercial market, the exchange rate rose to R$1.32 per US$1.00, resulting in a devaluation of the *real* of approximately 8.3% and effectively reached the ceiling of the new trading range set by the Central Bank.

The policy established by the Central Bank on January 13, 1999 eliminated the prior system, in which the *real* to U.S. dollar exchange rate moved within a narrow trading range. The Central Bank intervened in the market until January 15, 1999, to ensure that the *real* to U.S. dollar exchange rate remained within the newly defined wider range of between R$1.20 and R$1.32 per US$1.00. This controlled devaluation did not ease investor concerns, however, and heavy outflows of foreign currency continued after January 13.

On January 15, 1999, the Central Bank announced that it would cease to intervene in the foreign exchange market to ensure that the *real* to U.S. dollar exchange rate remained within any given range, except in exceptional circumstances to control excessive volatility. The *real* to U.S. dollar exchange rate was allowed to fluctuate freely. The *real* depreciated against the U.S. dollar in the market and traded at R$1.50 per US$1.00 at the close of the commercial markets in Brazil on January 15, 1999. Since January 15, the *real* has traded in a volatile market, reaching a low of R$2.16 per US$1.00 on March 3,

1999. At the close of trading in the commercial exchange rate market on December 31, 1999, the *real* traded at R$1.79 per US$1.00.

Brahma's Business

Brahma is the largest publicly-traded consumer goods company in Brazil and the largest beer producer in Brazil and in Latin America. Brahma's operations are largely dependent upon the general economic environment of Brazil and, to a lesser extent, the economic environment of other developing markets in Latin America and the world. Continued growth of consumer purchasing power, which is largely impacted by inflation, individual tax rates, real increases in wage rates and levels of employment remains a key to Brahma's continued economic success and the success of other Brazilian consumer goods companies.

The period 1994 through 1998 was characterized by increased competition among Brahma, Antarctica, the second largest beer producer in Brazil, and Kaiser, the third largest beer producer in Brazil. See "Item 1.— Description of Business—Overview of Brazilian Beverage Market—Beer Market—Competition". Competition has not hindered Brahma's ability to increase market share in the beer segment. Also, the acquisition of the Pepsi franchise in Brazil will allow Brahma to be more competitive in the strategic soft drink segment.

In 1998, Brahma continued to focus on improving return on investment for its stockholders. Brahma uses Economic Value Added (EVA) as a key criterion for the measurement of financial performance. Brahma defines EVA as operating income less taxes and the cost of capital employed. Cost of capital employed is calculated by multiplying Brahma's working capital plus fixed assets times a weighted average cost of capital percentage determined by management. Brahma can identify ways to add value for shareholders with this measurement. Brahma monitors its mix of capital as a ratio of debt to equity. Since shareholders' equity has a cost higher than that of debt, Brahma has adjusted the relative proportions of equity and debt in its capital structure to reduce the weighted-average cost of capital. Brahma determined that EVA (under Brazilian corporation law) was as follows for each of the years ended December 31: 1994 - R$43 million (US$51 million as of December 31, 1994); 1995 - R$145 million (US$149 million as of December 31, 1995); 1996 - R$176 million (US$169 million as of December 31, 1996); 1997 - R$186 million (US$167 million as of December 31, 1997); 1998 - R$97 million (US$80 million as of December 31, 1998) and 1999 - R$204 million (US$114 million as of December 31, 1999). In 1998, on a U.S. GAAP basis, Brahma purchased 267.2 million of its shares for US$137.6 million and paid US$104.4 million in dividends and notional interest on 9,470,000 of shares attributed to its own capital, which promoted superior returns to its shareholders. In the year ended December 31, 1999, Brahma purchased 9.4 million of its shares for US$3.9 million and paid US$88.8 million in dividends and interest attributed to shareholders' equity.

Brazilian Economic Environment

In July 1994, the Brazilian government launched the *Real* Plan, an economic stabilization plan designed to reduce inflation by reducing public expenditures, collecting liabilities owed to the Brazilian government, increasing tax revenues, continuing a privatization program and introducing a new currency into circulation. On July 1, 1994, as part of the *Real* Plan, the Brazilian government introduced a new currency, the *real*. Until the implementation of the *Real* Plan and the introduction of the *real*, Brazil had experienced extremely high rates of inflation and economic instability. The recurrent threat of hyperinflation in the latter half of the 1980s and the early 1990s prompted successive Brazilian administrations to adopt a series of economic programs.

Brazilian exports, imports, trade balance surplus (or deficit) and current account deficit are presented below:

	1999	1998	1997	1996	1995
			(in billions of U.S. dollars)		
Exports	US$ 48.0	US$ 51.1	US$ 53.0	US$ 47.7	US$ 46.5
Imports	49.2	57.7	59.8	53.3	49.9
Trade balance deficit	(1.2)	(6.6)	(6.8)	(5.6)	(3.4)
Current account deficit	(24.4)	(33.6)	(30.8)	(24.1)	(18.0)

Source: Central Bank of Brazil

President Fernando Henrique Cardoso has continued the implementation of the *Real* Plan and has supported the free market and privatization measures, promoting measures for the liberalization of the petroleum monopolies and the privatization of the state telecommunications system and a number of state-owned enterprises.

In November 1997, in a move to counteract speculation concerning currency devaluation generated by the financial crisis in Asian markets, the Brazilian government increased annual interest rates from approximately 20% to approximately 40% per annum. As of April 30, 1998, these rates had decreased to approximately 23%. The government again increased annual interest rates to approximately 50% per annum after the devaluation of the *real* associated with the Brazilian government's decision to allow the *real* to float freely in foreign exchange markets. As of June 21, 2000, such rates had fallen back to approximately 17.5% per annum. See "—Devaluation of the *Real* in 1999".

Following the reelection of President Cardoso to a second four-year term in October 1998, the Brazilian government confirmed its intention to implement a policy of fiscal adjustments to produce increasing primary budget surpluses over the following three years. The program would combine temporary tax increases, the elimination of subsidies and tax benefits, spending cuts and some structural measures, including structural reform of the Brazilian social security and civil-service systems. A reform of other aspects of the tax system is also expected to generate gains. Other reform proposals affect the labor laws, the collection of taxes and the fiscal management of states, municipalities and state-owned companies.

In March 1999, the Brazilian government revised its fiscal adjustment program in consultation with the International Monetary Fund - IMF to adapt its fiscal targets to the new economic environment created by the floating exchange rate. The high inflation and deep recession scenario predicted for Brazil at the beginning of the year, as a result of the foreign exchange crisis and consequent floating of the Brazilian currency in January, did not occur. After a devaluation of more than 50% of the exchange rate of the *real* against the U.S. dollar, inflation at the consumer level reached 9%, general prices increased 20% and economic activity remained more or less stable in 1999. The fact that Brazil was already in a recession in the last quarter of 1998 and the strong fiscal contraction implemented by the Cardoso administration, to meet the target set in the Brazilian adjustment program with the IMF, largely explain this outcome.

The stability of the Gross Domestic Product (GDP) in 1999 was attributable to the expansion of the tradable goods sector (export and import-competing industries), which was benefitted by the *real* devaluation. This expansion was compensated by the contraction of the domestic or non-traded sector, which was affected by the fall of some 4% in household real income as a result of the devaluation. The

fall of real wages and profit margins in the domestic sector mitigated the inflationary impact of the devaluation, in the context of a weak level of economic activity.

In late 1999, confidence in the economy improved, as it became clear that the primary fiscal balance of the public sector, which was zero in 1998, would turn into a surplus of 3.1% of the GDP, meeting the target of the IMF program. The quality of the fiscal adjustment has been criticized, since it is based on economically inefficient transactions taxes (CPMF - tax on financial transactions, COFINS - federal social security tax) and on temporary expenditure cuts. However, some progress has been made in attacking the structural sources of the public sector deficits. The civil service reform was passed in Congress, allowing public administrations to reduce the burden of their payroll, as well as a significant change in the government social security plan for private sector workers, which can help keep the social security deficit under control in the near future.

In June 1999, the government adopted an inflation targeting framework for monetary policy, announcing targets of 6% and 4% for inflation in 2000 and 2001. The better than expected inflation in 1999 allowed the Central Bank to sharply reduce the basic interest rate from 45% in February to 19% by year-end. The average real interest cost on the large public debt (52% of Gross Domestic Product-GDP), which was 24% in 1998, fell to 15% in 1999, contributing to the fiscal adjustment.

The improvement in the trade balance, after the *real* (net of inflation) devaluation was modest, largely due to the poor performance of exports. Imports fell 13.4% as expected, but exports also fell 5.8%, largely due to the low prices of commodities in the international markets and the recession in Latin America, the largest market for Brazilian manufactured exports. As a consequence, the reduction of the current account deficit was moderate (from US$33.6 billion in 1998 to US$24.4 billion in 1999). The deficit, however, was financed by a record inflow of foreign direct investment (US$28.7 billion), reducing the dependency on short-term capital. The inflow of funds also allowed the private sector to reduce its foreign debt by more than US$22 billion.

The pace of privatization in 1999 was slow. Total sales of government assets amounted to only R$4.7 billion, against R$37 billion in 1998, when the telecommunications companies were sold. There have been delays in the preparation of certain electric companies and state banks for sale, as well as some political resistance to the program. For 2000, the government intends to accelerate the program, and is predicting the sale of R$22 billion of assets.

We believe that Brahma has benefitted from the implementation of the *Real* Plan, as the population has, on average, had more disposable income for the purchase of products such as beer and soft drinks. However, there can be no assurance that the prevailing low level of inflation will continue; that there will not be a significant reduction in per-capita Gross Domestic Product (GDP); that future Brazilian governmental actions will not trigger an increase in inflation; or that any such events will not have a material adverse effect on Brahma's financial condition, liquidity and results of operations.

Significant Acquisitions

In October 1997, Brahma acquired all of the shares of Pepsi-Cola Engarrafadora Ltda. and PCE Bebidas Ltda. (PCE), both of which are Brazilian limited liability companies, for a consideration of one *real*, R$1.00. Engarrafadora and PCE produce and distribute Pepsi-Cola products under license in designated areas of Brazil.

The Engarrafadora and PCE acquisitions have been recorded using the purchase method of accounting; and accordingly, the results of operations of Engarrafadora and PCE for the period from October 22, 1997 through December 31, 1997 and subsequent periods have been included in these financial statements. The purchase price was determined based on the net liabilities assumed by Brahma. Brahma acquired assets totaling US$209.5 million at December 31 1997, while liabilities assumed by Brahma totaled US$249.3 million which resulted in a goodwill of US$39.8 million as of December 31, 1997. The excess of the purchase price over the fair market value of the liabilities acquired, of approximately US$39.8 million (under U.S. GAAP), is being amortized over 10 years. Purchase accounting adjustments related primarily to an adjustment of US$35.8 million reflecting property, plant and equipment at appraised value and related deferred tax effects.

Brahma also signed a franchise commitment letter with PepsiCo International, Inc. in October 1997 under which Brahma obtained the rights to produce, sell and distribute PepsiCo products on an exclusive basis in designated regions of Brazil. The original term of the franchise agreement is twenty years with renewal terms of ten years, subject to the approval of both parties. Brahma has agreed to purchase some raw materials from PepsiCo under the franchise agreement.

Brahma purchased an additional 20% interest in the voting capital of its affiliate Malteria Pampa, on April 23, 1998, for US$18.1 million, increasing its share to 60%, and on August 27, 1998, Brahma purchased the remaining 40% for US$34.7 million. The purchase price exceeded the fair value of assets acquired and liabilities assumed (under U.S. GAAP) by US$33.1 million. This goodwill reflects future expected profitability, and is being amortized over the useful lives of these assets, a period which does not exceed 40 years. The subsidiary has been consolidated as though it had been acquired at the beginning of the year.

Seasonality

Sales of beer and soft drinks are significantly higher during the Brazilian summer months of November through January. For statistics on Brahma's quarterly sales volumes for beer and soft drinks, see "Item 1.—Description of Business—Brahma—Sales and Marketing".

Results of Operations

The following table sets forth some items in Brahma's U.S. GAAP statement of operations expressed as percentages of net sales for the periods indicated:

	Year Ended December 31,		
	1999	1998	1997
Net sales	100%	100%	100%
Cost of sales	(57)%	(58)%	(57)%
Gross profit	43%	42%	43%
Selling and marketing expenses	(18)%	(23)%	(17)%
General and administrative expenses	(10)%	(11)%	(14)%
Other operating income (expense), net	(4)%	1%	1%
Operating income, net	11%	9%	13%

Presentation of Segment Financial Data

In 1998, Brahma adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" with respect to its operating segments. SFAS No. 131 introduces a "management approach" concept for reporting segment information. See Note 17 to the Brahma financial statements.

Brahma's business is comprised of two main segments: beer and soft drinks, which together account for 97% of its net sales for the year ended December 31, 1999. Brahma evaluates and manages segment performance based on information generated from its statutory accounting records. All financial information relating to the beer and soft drink segments is reported below in U.S. dollars for convenience, at the average rate for each period presented. The information as of the balance sheet dates has been translated to U.S. dollars at the respective period-end exchange rates. The underlying data is prepared in accordance with accounting principles set forth in the Brazilian corporation law, except that some expenses were not allocated to the segments. These unallocated expenses are corporate overhead, minority interests, income taxes and financial interest income and expense. Since some of Brahma's facilities function as mixed production plants to produce beer as well as soft drinks, on an alternating or simultaneous basis, it was not practicable under the circumstances to segregate, within reasonable limits of segment materiality, selling and marketing expenses from general and administrative expenses and other operating expenses. Revenues were translated to U.S. dollars on a basis consistent with Brahma's financial statements prepared under U.S. GAAP. The principal differences between U.S. GAAP and accounting principles set forth in the Brazilian corporation law with respect to revenues relate to principles of consolidation. Some affiliates' revenues and costs are included on a proportional consolidation basis under accounting principles set forth in the Brazilian corporation law, whereas these affiliated company revenues and costs are not included in the consolidation under U.S. GAAP.

The following tables set forth, by reportable segment, selected statement of operations data and a comparison of the changes in these items for the periods indicated. Brahma has prepared a reconciliation of segment information to its consolidated financial statements and restated prior period information as practicable. See Note 16 to the Brahma financial statements.

From December 1998 to December 1999, Brahma's assets and liabilities in *reais* have suffered a 32.4% devaluation and its revenues and expenses a 36.1% devaluation against the U.S. dollar, which adversely affects the comparability of December 31, 1999 results to the December 31, 1998 results. In order mitigate these distortions, and for the convenience of the reader, the segment information for the years ended December 31, 1999 and 1998 have been presented to show:

- the actual change in U.S. GAAP historical data for each period; and
- the actual change in the U.S. GAAP data and the 1998 data based on 1999 exchange rates (the constant exchange rate data).

The constant exchange rate data presents the underlying balances in *reais* for the year ended December 31, 1998 translated to U.S. dollars at the average exchange rate for the year ended December 31, 1999, and the balances for the year ended December 31, 1999 translated to U.S. dollars at the average rate for that year. Management's discussion is based on the constant exchange rate.

	Year Ended December 31,			Percentage Change	
	1999 Actual	1998 Actual	1998 Constant Exchange Rate	1999-1998 Actual	1999-1998 Constant Exchange Rate
		(in thousands)			
Net Sales (Brazilian corporation law):					
Beer	US$1,516,418	US$2,187,505	US$1,398,832	(30.7)%	8.4%
Soft Drinks	212,556	454,869	290,873	(53.3)%	(26.9)%
Other	60,905	76,863	49,151	(20.8)%	23.9%
	1,789,879	2,719,237	1,738,856	(34.2)%	2.9%
Adjustments from Brazilian corporation law to U.S. GAAP	(13,936)	(49,899)	(31,909)		
Total (U.S. GAAP)	**US$1,775,943**	**US$2,669,338**	**US$1,706,947**	**(33.5)%**	**4.0%**
Cost of Sales (Brazilian corporation law):					
Beer	US$809,748	US$1,142,489	US$730,581	(29.1)%	10.8%
Soft Drinks	196,965	365,275	233,580	(46.1)%	(15.7)%
Other	43,019	43,056	27,533	(0.1)%	56.2%
	1,049,732	1,550,820	991,694	(32.3)%	5.9%
Adjustments from Brazilian corporation law to U.S. GAAP	(23,711)	(3,753)	(2,424)		
Total (U.S. GAAP)	**US$1,026,021**	**US$1,554,573**	**US$994,110**	**(34.0)%**	**3.2%**
Gross Profit (Brazilian corporation law):					
Beer	US$706,670	US$1,045,016	US$668,251	(32.4)%	5.7%
Soft Drinks	15,591	89,593	57,292	(82.6)%	(72.8)%
Other	17,886	33,808	21,619	(47.1)%	(17.3)%
	740,147	1,168,417	747,162	(32.8)%	5.0%
Adjustments from Brazilian corporation law to U.S. GAAP	9,775	(53,652)	(34,333)		
Total (U.S. GAAP)	**US$749,922**	**US$1,114,765**	**US$712,829**	**(32.7)%**	**5.2%**
Operating Income (Loss) Before Net Expenses (Brazilian corporation law):					
Beer	US$263,145	US$410,216	US$262,319	(35.9)%	0.3%
Soft Drinks	(34,519)	(33,878)	(21,664)	1.9%	59.3%
Other	4,169	13,183	8,430	(68.4)%	(50.5)%
	232,795	389,521	249,085	(40.2)%	(6.5)%
Adjustments from Brazilian corporation law to U.S. GAAP	(36,183)	(180,132)	(115,185)		
Total (U.S. GAAP)	**US$196,612**	**US$209,389**	**US$ 133,900**	**(6.1)%**	**46.8%**
Financial income	US$390,318	US$198,636	US$127,021	96.5%	207.3%
Financial expenses	(442,022)	(289,504)	(185,128)	52.6%	138.7%
Other non-operating income (expense), net	(8,448)	14,994	9,588	156.3%	(188.1)%
Income tax benefit	39,390	92,696	59,276	(56.5)%	33.5%
Equity in earnings of affiliates	5,404	2,962	1,894	82.4%	185.3%
Minority interest	3,498	9,404	6,014	(62.8)%	(41.8)%
Net income (U.S. GAAP)	**US$ 184,752**	**US$ 238,577**	**US$ 152,562**	**(14.8)%**	**33.3%**

	Year Ended December 31,			Percentage Change	
	1999 Actual	1998 Actual	1998 Constant Exchange Rate	1999-1998 Actual	1999-1998 Constant Exchange Rate
		(in thousands)			
Depreciation and Amortization:					
Beer	US$210,608	US$228,356	US$146,026	(7.8)%	44.2%
Soft Drinks	27,906	51,020	32,625	(45.3)%	(14.5)%
Other	2,862	5,658	3,618	(49.4)%	(20.9)%
	241,376	285,034	182,269	(15.3)%	32.4%
Adjustments from Brazilian corporation law to U.S. GAAP	(6,473)	(21,680)	(13,864)		
Total (U.S. GAAP)	**US$234,903**	**US$263,354**	**US$168,405**	**(10.8)%**	**39.5%**

	Year Ended December 31,		Percentage Change
	1998	1997	1998-1997
	(in thousands)		
Net Sales (Brazilian corporation law):			
Beer	US$2,187,505	US$2,155,974	1.5%
Soft Drinks	454,869	338,546	34.4%
Other	76,863	83,818	(8.3)%
	2,719,237	2,578,338	5.5%
Adjustments from Brazilian corporation law to U.S. GAAP	(48,899)	(134,235)	
Total (U.S. GAAP)	**US$2,699,338**	**US$2,444,103**	**9.2%**
Cost of Sales (Brazilian corporation law):			
Beer	US$1,142,489	US$1,176,182	(2.9)%
Soft Drinks	365,275	275,576	32.5%
Other	43,056	55,698	(22.7)%
	1,550,820	1,507,456	2.9%
Adjustments from Brazilian corporation law to U.S. GAAP	(3,753)	(114,061)	
Total (U.S. GAAP)	**US$1,554,573**	**US$1,393,395**	**11.6%**
Gross Profit (Brazilian corporation law):			
Beer	US$1,045,016	US$ 979,792	6.7%
Soft Drinks	89,593	62,970	42.3%
Other	33,808	28,120	20.2%
	1,168,417	1,070,882	9.1%
Adjustments from Brazilian corporation law to U.S. GAAP	(53,652)	(20,174)	
Total (U.S. GAAP)	**US$1,114,765**	**US$1,050,708**	**6.1%**
Operating Income (Loss) Before Net Expenses (Brazilian corporation law):			
Beer	US$410,216	US$541,834	(24.3)%
Soft Drinks	(33,878)	(30,131)	12.4%
Other	13,183	13,223	(0.3)%
	389,521	524,926	(25.8)%
Adjustments from Brazilian corporation law to U.S. GAAP	(180,132)	(237,329)	
Total (U.S. GAAP)	**US$ 209,389**	**US$287,597**	**(27.2)%**

	Year Ended December 31, 1998	1997	Percentage Change 1998-1997
	(in thousands)		
Financial income	US$198,636	US$136,992	45.0%
Financial expenses	(289,504)	(142,318)	103.4%
Other non-operating income, net	14,994	40,310	(62.8)%
Income tax benefit	92,696	99,890	7.2%
Equity in earnings (losses) of affiliates	2,962	(28,138)	
Minority interest	9,404	1,133	730.0%
Net income (U.S. GAAP)	**US$238,577**	**US$395,466**	**(39.7)%**
Depreciation and Amortization:			
Beer	US$228,356	US$218,888	4.3%
Soft Drinks	51,020	28,392	79.7%
Other	5,658	5,498	2.9%
	285,034	252,778	12.8%
Adjustments from Brazilian corporation law to U.S. GAAP	(21,680)	(9,742)	
Total (U.S. GAAP)	**US$263,354**	**US$243,036**	**8.4%**

The following table sets forth the components of Brahma's cost of sales (basis: Brazilian corporation law) for the periods indicated:

Costs of Sales Breakdown

	Year Ended December 31,		
	1999	1998	1997
Raw materials	25.8%	25.7%	27.0%
Packaging	39.3%	35.0%	31.7%
Labor	5.2%	6.6%	7.6%
Depreciation/amortization	18.0%	13.7%	13.7%
Other costs	11.7%	19.0%	20.6%

Year Ended December 31, 1999 Compared with Year Ended December 31, 1998

From December 1998 to December 1999, Brahma's assets and liabilities in *reais* have suffered a 32.4% devaluation and its revenues and expenses a 36.1% devaluation against the U.S. dollar, which seriously diminishes the comparability of December 31, 1999 results to December 31, 1998 results. In order to mitigate these distortions when comparing the financial information and isolate the currency effects from the trend analysis, the management's discussion and analysis of the results of operations for the year ended December 31, 1999 compared to 1998 is based upon the constant exchange rate percentage changes. The December 31, 1998 financial information has been translated at the same average exchange rates used to translate the December 31, 1999 financial information, thus excluding the devaluation impact and focusing the discussion on Brahma's underlying local currency results.

Net sales

Net sales (basis: U.S. GAAP) for the year ended December 31, 1999, increased to US$1,775.9 million or 4.0% over net sales for 1998 of US$1,706.9 million. This increase is due to an average price increase of Brahma's products' per hectoliter of 8.8% during the year. This increase was partially offset by the decrease of 5.4% of volumes sold in 1999.

In addition to the operational revenue variations in Brahma's beer and soft drinks segments described below, Brahma's U.S. GAAP net sales differed slightly from the results presented under Brazilian corporation law, as the revenues of some affiliates are included on a proportional consolidation basis in the Brazilian corporation law presentation, whereas these affiliated company revenues are not included in the consolidation under U.S. GAAP. This was partially offset by Brahma having recorded US$35.2 million of value added sales tax credits under U.S. GAAP whereas under Brazilian corporation law these credits are recorded directly in shareholders' equity.

Beer. Net sales of beer (basis: Brazilian corporation law) increased by 8.4% from US$1,398.8 million in the year ended December 31, 1998 to US$1,516.4 million in 1999. The increase is primarily a result of an increase in Brahma's beer sales in Argentina.

For the year ended December 31, 1999, sales volume increases (decreases) over sales volumes reported for the year ended December 31, 1998, are as follows:

	Increase (decrease)	Contribution to Volume
Brazil	1.9%	94.0%
Argentina	20.2%	3.9%
Venezuela	(30.8)%	2.1%

Net sales in Brazil remained relatively stable in comparison to the prior year, even considering that in 1998 sales were extraordinarily high due to the World Cup soccer games. Volume sales increases in Argentina are primarily due to improved point of sale distribution in Buenos Aires and the appreciation of the U.S. dollar against the *real*, as sales are made in *pesos* pegged to U.S. dollars. In Venezuela, Brahma's beer sales volumes decreased during 1999, reflecting deteriorating economic conditions.

Soft Drinks. Net sales of soft drinks (basis: Brazilian corporation law) decreased by 26.9% from US$290.9 million in the year ended December 31, 1998, to US$212.6 million in 1999. This decrease is primarily due to the increase of competition and reduction of prices. As Brahma decided not to lower its prices based on the competition, sales during 1999 decreased despite an increase in the net sales per hectoliter.

Indirect sales taxes

Indirect sales taxes (basis: Brazilian corporation law), consisting primarily of state value-added taxes, excise taxes and indirect taxes on sales, remained relatively stable at 51.9% of gross sales in the year ended December 31, 1999, in comparison to 55.0% in 1998. See discussion above.

Cost of sales

Cost of sales (basis: U.S. GAAP) for the year ended December 31, 1999, increased to US$1,026.0 million or 3.2% over cost of sales for 1998 of US$994.1 million. The increase is primarily due to the devaluation of the *real* in relation to the U.S. dollar which resulted in higher costs for raw materials (primarily malt), general domestic prices increases and higher transportation costs due to increases in oil prices. As described above, Brahma's U.S. GAAP cost of sales differed slightly from the results presented under Brazilian corporation law, due to a proportional consolidation basis in the

Brazilian corporation law, whereas affiliated company costs are not included in the consolidation under U.S. GAAP.

Beer. Cost of sales for beer (basis: Brazilian corporation law) increased by 10.8% from US$730.6 million in the year ended December 31, 1998, to US$809.7 million in 1999. The increase is the result of higher costs of aluminum cans and malt in local currency as a direct impact of the devaluation of the *real* as well as an increase in Brahma's depreciation charges at the Jacareí and Nova Rio plants due to increased production and a reassessment of the effective rates of depreciation at those factories. These increases were partially offset by greater efficiency in the production process resulting from the modernization of Brahma's production facilities which resulted in lower overhead and labor costs per hectoliter.

Soft Drinks. Cost of sales for soft drinks (basis: Brazilian corporation law) decreased by 15.7% from US$233.6 million in the year ended December 31, 1998, to US$197.0 in the year ended December 31, 1999. The decrease is due to the decrease in sales volume of soft drinks of 29.9%.

Gross profit

Gross profit (basis: U.S. GAAP) for the year ended December 31, 1999, of US$749.9 million increased by 5.2% in comparison to gross profit for 1998 of US$712.8 million.

Beer. Gross profit (basis: Brazilian corporation law) increased by 5.7% from US$668.3 million for 1998 to US$706.7 million for 1999. Gross margins as a percentage of net sales decreased by 2.5% from 47.8% in 1998 to 46.6% in 1999.

Soft Drinks. Gross profit (basis: Brazilian corporation law) decreased by 72.8% from US$57.3 million in 1998 to US$15.6 million in 1999. The decrease in gross profit is due to sales volume reductions reflecting increasing competition in the Brazilian soft drinks market. Gross margins as a percentage of net sales decreased by 62.9% from 19.7% in 1998 to 7.3% in 1999.

Selling and marketing expenses

Selling and marketing expenses (basis: U.S. GAAP) decreased by 21.7% from US$401.1 million in the year ended December 31, 1998, to US$313.9 million in the year ended December 31, 1999. This decrease primarily reflects lower marketing costs, which had been extraordinarily high in 1998 due to the World Cup soccer games and additional investments in market research made during the past three years, which resulted in an optimization of Brahma's marketing budget in 1999.

General and administrative expenses

General and administrative expenses (basis: U.S. GAAP) remained relatively stable in 1999 in comparison to 1998 increasing by 4.4% from US$180.1 million in the year ended December 31, 1998, to US$188.1 million in the year ended December 31, 1999. The increase in 1999 is primarily due to provisions for profit sharing to be paid at year-end and increases in depreciation and amortization expenses for Brahma's new plants and direct distribution investments, which were offset by the company's strategy to reduce costs to be more competitive in the highly price-sensitive beverage industry.

The number of administrative employees of Brahma remained relatively stable although the number of total Brahma employees decreased by approximately 5.3%. See "Item 1.—Description of Business—Brahma—Employees".

Other operating income (expense), net

Other operating income (expense), net (basis: U.S. GAAP) decreased by 2,409.8% from an income of US$2.2 million for the year ended December 31, 1998, to an expense of US$51.3 million for the year ended December 31, 1999. This decrease is primarily due to the following provisions made in 1999: (a) US$19.1 million for the interest and penalties portion of ICMS value-added tax and IPI excise tax contingent credits; (b) an impairment loss of US$17.3 million on some of Brahma's fixed assets; (c) US$5.7 million involving an assessment on a Brahma subsidiary for not providing adequate ICMS documentation in magnetic disk as required by a new fiscal law enacted in 1999; (d) US$6.9 million relating to over 100 different claims relating to the payment of ICMS and ICMS substitute (alternate fiscal regime); and (e) US$21.2 million of provisions made for various claims from distributors, suppliers and others. These expenses have been offset by an income of US$8.4 million related to the reversal of ICMS provisions for which Brahma obtained a favorable ruling in a lawsuit that it filed against the tax authorities, and a gain of US$5.3 million on the sale of Brahma's property, plant and equipment. In 1998, income consisted of a gain on the sale of fixed assets offset by various operational expenses.

Financial income

Financial income (basis: U.S. GAAP) increased 207.3% from US$127.0 million in the year ended December 31, 1998, to US$390.3 million for the year ended December 31, 1999. Beginning in September 1998, Brahma increased the transfer of cash equivalents offshore as a response to perceived increased treasury risks as management was expecting a significant currency devaluation due to worsening conditions in the Brazilian economy and foreign investor concerns that the *real* was overvalued. If a devaluation occurred, the instruments would function as a natural cash flow hedge against Brahma's U.S. dollar-denominated liabilities, thereby mitigating losses and protecting Brahma's earnings. At the same time, management began entering into foreign currency swaps and forward contracts to mitigate the foreign currency risk of Brahma's liabilities denominated in U.S. dollars. Brahma manages its short-term debt portfolio in response to changes in interest rates. Brahma from time to time swaps the pre-fixed interest rate for a floating rate, the *certificado de depósito interbancário* (CDI), in order to mitigate interest rate volatility.

The increase over the prior year is primarily a result of the realized gains of US$35.5 million of the foreign exchange rate variations of the offshore cash and cash equivalents and trading securities and the realized gains of US$205.9 million on the foreign currency swaps, interest rate swaps and forward contracts. These gains were partially offset by losses with foreign exchange rate variations related to the U.S. dollar-denominated liabilities. During the second quarter of 1999, Brahma decided to reinvest a significant portion of its U.S. dollar-denominated cash equivalents back into the Brazilian market as such investments yielded higher interest rates. Brahma's cash equivalents as of December 31, 1999 are predominately denominated in *reais*. Brahma has mostly maintained its foreign currency swaps and foreign currency forward contracts in order to continue managing exposure to changes in foreign currency rates fluctuations on its U.S. dollar-denominated obligations.

Financial expenses

Financial expenses (basis: U.S. GAAP) increased 138.8% from US$185.1 million for the year ended December 31, 1998, to US$442.0 million for the year ended December 31, 1999. This change is principally a result of the following:

Interest on U.S. dollar debt: Interest expense on U.S. dollar-denominated debt of US$61.4 million increased by US$19.9 million, a 47.8% increase from the 1998 total of US$41.6 million. Additionally, the effects of exchange rate variations on foreign currency debt resulted in charges of US$189.5 million, an increase of US$155.8 million from the 1998 charge of US$33.7 million. This was a direct consequence of the devaluation of the *real* in January 1999. See "—Devaluation of the *Real* in 1999".

Interest on real debt: Interest expense on *real* debt of US$76.4 million increased by US$23.5 million, a 44.5% increase from the 1998 total of US$52.8 million. Interest expense on loans increased primarily as a result of higher interest rates. While market interest rates on Brazilian debt increased in 1998 and 1999 as a result of the Asian and Russian crises and the devaluation of the *real* (see "—Brazilian Economic Environment"), Brahma did not experience significantly increased financial costs as a major portion of Brahma's interest bearing debt is payable to the Brazilian Economic and Social Development Bank (BNDES), at interest rates that are lower than current market rates. See "—Liquidity and Capital Resources".

Losses on foreign currency swaps, interest rate swaps and forward contracts: As described above, in late 1998 and 1999 Brahma's management began entering into foreign currency swaps and forward contracts to mitigate the foreign currency risk of its liabilities denominated in U.S. dollars. From time to time, Brahma swaps the pre-fixed interest rate for a floating rate, the *certificado de depósito interbancário* (CDI), to mitigate interest rate volatility. The increase over 1998 is primarily a result of the realized losses of US$61.7 million, a 260.8% increase over the December 31, 1998 total of US$17.1 million.

Other non-operating income (expense), net

Other non-operating income (expense), net (basis: U.S. GAAP) decreased 188.1% from an income of US$9.6 million for the year ended December 31, 1998, to an expense of US$8.4 million for the year ended December 31, 1999. This decrease is primarily due to provisions booked to reflect Brahma's share in the net liabilities of affiliates. In each of these cases Brahma has a formal obligation with the principal creditors of the investee, in which Brahma assumes its portion of the amount of liabilities that exceeds the assets of the investee. These obligations are primarily financing arrangements covered by guarantees. The provisions for the year ended December 31, 1999 were: Miller - US$1.2 million; Miranda Corrêa - US$2.5 million; and Pilcomayo - US$5.5 million.

Income tax benefit

Income tax benefit (basis: U.S. GAAP) decreased by 33.5% from US$59.3 million for the year ended December 31, 1998, to US$39.4 million for the year ended December 31, 1999. The decrease primarily relates to the reversal of US$19.2 million in 1999 and US$43.5 million in 1998 of income tax contingencies. These contingencies relate to unasserted income tax risks which were eliminated upon expiry of the statute of limitations, following the completion of a five-year period without issue of notification by the tax authorities.

Equity in earnings of affiliates

Equity in earnings of affiliates (basis: U.S. GAAP) increased by 185.3% from US$1.9 million for the year ended December 31, 1998, to US$5.4 million for the year ended December 31, 1999, mainly due to increased earnings from Brahma's affiliate Cervejaria Astra S.A. In 1999, Brahma suspended applying the equity method in relation to its affiliate Cervejaria Miranda Corrêa S.A., as it also did in 1998 with affiliates Miller Brewing do Brasil Ltda. and Pilcomayo Participações Ltda., as a result of Brahma's share of liabilities in these affiliates exceeding their assets. Because Brahma has an agreement to honor affiliates' commitments with third parties, a provision was recorded in the amount of US$23.6 million to reflect Brahma's obligation.

Minority interest

Minority interest (basis: U.S. GAAP) decreased by 41.8% from US$6.0 million for the year ended December 31, 1998, to US$3.5 million for the year ended December 31, 1999, due to increased losses attributable to minority interests of Brahma's consolidated subsidiaries. This increase is mostly due to the share of losses generated in the Venezuelan operations which increased from US$4.0 million in the year ended December 31, 1998 to US$6.0 million for the year ended December 31, 1999.

Net income

Net income (basis: U.S. GAAP) increased 33.3% from US$152.6 million for the year ended December 31, 1998, to US$184.8 million for the year ended December 31, 1999, due to the factors explained in the items above.

Year Ended December 31, 1998 Compared with Year Ended December 31, 1997

Net sales

Net sales (basis: U.S. GAAP) for the year ended December 31, 1998 increased to US$2,669.3 million or 9.2% over net sales for 1997 of US$2,444.1 million. In addition to the operational revenue variations in Brahma's beer and soft drinks segments described below, Brahma's U.S. GAAP net sales increased primarily due to the purchase of the remaining 40% interest in the voting capital of Brahma's equity investee Malteria Pampa. Under accounting principles prescribed in Brazilian corporation law, Malteria Pampa's revenues were included on a proportional consolidation basis, whereas under U.S. GAAP an adjustment was made to net sales to recognize Malteria Pampa's net sales revenue applying the equity method of accounting. As from August 1998, Malteria Pampa has been consolidated under U.S. GAAP as though it had been acquired at the beginning of the year.

Beer. Net sales of beer (basis: Brazilian corporation law) increased by 1.5% from US$2,156.0 million in the year ended December 31, 1997, to US$2,187.5 million in the year ended December 31, 1998, due primarily to an overall 2.9% increase in sales volume. Sales volume increases from 1997 to 1998 by country are as follows:

	Increase	Contribution to Volume
Brazil	2.5%	93.6%
Argentina	4.1%	3.3%
Venezuela	13.4%	3.1%

Sales volume increases in 1998 reflect Brahma's significant efforts to improve distribution, both through third party distributors as well as through direct distribution, a focus on marketing efforts at the point-of-sale and the increase in demand due to the 1998 World Cup soccer games. Net sales per hectoliter of beer sold in Brazil was US$51.8 in 1998, 5.4% above 1997, principally due to an increase in volume sold through the direct distribution system and an increase in the volume of beer sold in non-returnable packaging.

In Argentina, beer sales volume increased 4.1% in 1998, while we estimate that the Argentine beer industry experienced a decline of approximately 2%. The growth in sales volume was the result of market share gains, as well as improvements in the Argentine economic climate in the final quarter of 1998. We estimate that Brahma's average share of the Argentine beer market was 11.4% in 1998. In mid-1998, Brahma implemented direct distribution in the Argentine capital of Buenos Aires, as well as in the surrounding metropolitan area, leading to an increase in sales volume in that region of 14% during the fourth quarter of the year. Net sales rose 8.3% to US$42.8 per hectoliter as a result of an increase in non-returnable packaging and a higher percentage of volumes sold through direct distribution.

In Venezuela, Brahma's beer sales volume increased 13.4% in 1998, while we estimate that the Venezuelan beer market rose 3%. This was the result of increases in Brahma's market share, which reached, in our estimates, 13.5% in November 1998. Net sales per hectoliter were US$52.0, an increase of 22.5% when compared to 1997. This increase was the result of a higher percentage of volumes sold through direct distribution and increases in prices due to local inflation.

Soft Drinks. Net sales of soft drinks (basis: Brazilian corporation law) increased by 34.4% from US$338.5 million in the year ended December 31, 1997, to US$454.9 million in the year ended December 31, 1998, primarily due to a 29.7% increase in sales volumes. Market share in Brazil decreased to approximately 13.2% in 1998 from 16.6% in 1997, primarily due to increases in Brahma brand product prices which resulted in an increase in market share for cheaper, generic brands. See "Item 1.—Description of Business—Overview of the Brazilian Beverage Market—Soft Drink Market". Brahma's sales volume of soft drinks rose 29.7% in 1998 compared to 1997 due to the addition of Pepsi products to Brahma's soft drinks product portfolio. Net sales per hectoliter increased 3.8% during the year, to US$37.5 per hectoliter.

Indirect sales taxes

Indirect sales taxes (basis: Brazilian corporation law) consisting primarily of state value-added taxes, excise taxes and indirect taxes on sales increased from 54.4% of gross sales in 1997 to 56.9% of gross sales in 1998. This increase was due to a 10% increase in excise taxes on beer and soft drinks for returnable bottles (beer) and non-returnable bottles (soft drinks) and a 25% increase for cans (beer and soft drinks). As the tax increase became effective in November 1997, the 2.5% increase in indirect sales taxes is principally a result of 12 months of application as compared to only two months in 1997. The costs of these taxes were passed on to the final consumer, which represented an increase of 2% and 4%, in 1997 and 1998, respectively, in the final end-product price.

Cost of sales

Cost of sales (basis: U.S. GAAP) increased by 11.6% from US$1,393.4 million in the year ended December 31, 1997, to US$1,554.6 million in the year ended December 31, 1998. As described above, the proportional consolidation of Malteria Pampa under accounting principles prescribed in Brazilian

corporation law and equity accounting consolidation under U.S. GAAP has had a similar effect on cost trends.

Beer. Cost of sales for beer (basis: Brazilian corporation law) decreased by 2.9% from US$1,176.2 million in the year ended December 31, 1997, to US$1,142.5 million in the year ended December 31, 1998. The decrease was primarily due to the decrease in raw material (malt) and aluminum can prices as well as greater efficiency in the production process resulting from the modernization of Brahma's production facilities. These decreases are partially offset by the increase of production costs due to a change in Brahma's sales mix, with sales of one-way bottles and cans increasing by 8% when compared to 1997. The decrease in sales of returnable bottles reflects the preference of large supermarket chains for cans and one-way bottles. Increased depreciation also affected cost of sales principally as a result of 12 months of operation of the Sergipe plant and three months of operation of the Rio Grande do Sul plant in 1998.

Soft Drinks. Cost of sales for soft drinks (basis: Brazilian corporation law) increased by 32.5% from US$275.6 million in the year ended December 31, 1997, to US$365.3 million in the year ended December 31, 1998. This increase was principally due to a 29.7% increase in sales volume, principally as a result of the acquisition of the Pepsi franchise. Increased costs were partially offset by efficiencies in the production process resulting from the ongoing modernization of production facilities and a reduction in the price of aluminum cans.

Gross profit

Gross profit (basis: U.S. GAAP) increased 6.1% from US$1,050.7 million for 1997 to US$1,114.8 million for 1998. Gross profit as a percentage of net sales decreased to 41.3% for the year ended December 31, 1998, from 43.0% for the year ended December 31, 1997.

Beer. Gross profit (basis: Brazilian corporation law) increased by 6.7% from US$979.8 million for 1997 to US$1,045.0 million for 1998. Gross margins increased from 45.4% in 1997 to 47.8% in 1998.

Soft Drinks. Gross profit (basis: Brazilian corporation law) increased by 42.3% from US$63.0 million in 1997 to US$89.6 million in 1998. Gross margins increased from 18.6% in 1997 to 19.7% in 1998.

Selling and marketing expenses

Selling and marketing expenses (basis: U.S. GAAP) increased by 47.2% from US$426.2 million for the year ended December 31, 1997, to US$627.3 million for the year ended December 31, 1998. Selling and marketing expenses as a percentage of net sales revenues increased from 17.4% in 1997 to 23.5% in 1998. This increase primarily reflects significant new expenses totaling approximately US$151.5 million to distribute products directly to the point-of-sale, which in the past was primarily outsourced through the distributor network, as well as increased expenses in marketing and selling Pepsi products throughout Brazil. Expenses of US$47.1 million related to the expansion of Brahma's direct distribution network, caused by Brahma's breach of contract with former distributors who were not meeting the company's guidelines. See "Item 3.—Legal Proceedings—Brahma—Distributors and Product-Related Claims".

General and administrative expenses

General and administrative expenses (basis: U.S. GAAP) decreased by 16.8% from US$338.3 million in the year ended December 31, 1997, to US$281.6 million in the year ended December 31, 1998. The decrease is primarily a result of changing the functional currency from the U.S. dollar to the *real*. In 1997, other costs and expenses relating to assets and liabilities remeasured at historical exchange rates were calculated based on the U.S. dollar amount of the related asset or liability and a translation loss of approximately US$28.9 million related to Brahma's contingencies was included in general and administrative expense, whereas from January 1, 1998, translation gains or losses are recorded directly in the account of shareholders' equity without impacting results for the year. This decrease was partially offset by:

- an increase in depreciation and amortization expenses of US$26.4 million, due to the commencement of operations at the Sergipe and Rio Grande do Sul plants, as well as an entire year of depreciation of the Pepsi plants; and

- an increase of 36% in administrative expenses related to the Brahma Welfare Foundation from US$13.9 million in 1997 to US$18.9 million in 1998, primarily a result of a new law which subjects the foundation's financial income to withholding tax while in prior years the foundation was tax exempt.

The number of administrative employees of Brahma remained relatively stable for both periods but the overall number of Brahma employees decreased by approximately 2.3%, reflecting a decrease in the number of clerical and administrative positions in 1998. See "Item 1.—Description of Business—Brahma—Employees".

Other operating income, net

Other operating income, net (basis: U.S. GAAP) increased from US$1.4 million for the year ended December 31, 1997, to US$3.5 million for the year ended December 31, 1998. The income recognized in this line item in 1998 was primarily a gain on the sale of property, plant and equipment of US$10.0 million, which was offset by various other operating expenses of US$6.5 million. No significant amount of income was recognized in 1997.

Financial income

Financial income (basis: U.S. GAAP) increased 45.0% from US$137.0 million for the year ended December 31, 1997, to US$198.6 million for the year ended December 31, 1998. This change is primarily a result of higher nominal rates of return obtained on investments in Brazil in 1998 as compared to 1997, as well as gains from the increased proportion of U.S. dollar trading securities in 1998. Additionally, the effects of exchange rate variations on U.S. dollar-denominated cash and cash equivalents and trading securities resulted in a gain of US$19.1 million due to the change in the functional currency from the U.S. dollar to the *real*. Upon changing the functional currency after Brazil ceased to be highly inflationary, exchange variations are measured in local currency and translated to the reporting currency (U.S. dollars) in the statement of operations. Realized and unrealized gains from securities trading were US$26.0 million in the year ended December 31, 1998 against gains of US$8.6 million in the year ended December 31, 1997.

Financial expenses

Financial expenses (basis: U.S. GAAP) increased 103.4 % from US$142.3 million for the year ended December 31, 1997 to US$289.5 million for the year ended December 31, 1998. This change is principally a result of the following:

Interest on U.S. dollar debt: Interest expense on U.S. dollar-denominated debt of US$65.0 million increased by US$10.3 million, an 18.8% increase from the 1997 total of US$54.7 million. Additionally, the effects of exchange rate variations on foreign currency debt resulted in charges of US$52.7 million, an increase of US$46.9 million from the 1997 charge of US$5.8 million, primarily due to the change in the functional currency from the U.S. dollar to the *real*.

Interest on real debt: Interest expense on *real* debt of US$82.7 million increased by US$57.3 million, a 225.6% increase from the 1997 total of US$25.4 million. Interest expense on loans increased primarily as a result of the increase in year-end loans and sales tax deferrals outstanding in 1998 as compared to 1997. While market interest rates on Brazilian bank debt increased in 1997 and 1998 as a result of the Asian and Russian Crises (see "—Brazilian Economic Environment"), Brahma did not experience increased financial costs because a significant portion of Brahma's interest bearing debt is payable to the Brazilian Economic and Social Development Bank (BNDES), which is a Brazilian governmental agency. See "—Liquidity and Capital Resources".

Other non-operating income, net

Other non-operating income, net (basis: U.S. GAAP) fell from US$40.3 million for the year ended December 31, 1997, to US$15.0 million for the year ended December 31, 1998, due in part to a provision of US$13.0 million booked in 1998 to reflect the excess for Brahma's share of affiliates net liabilities.

Income tax benefit

Income tax benefit (basis: U.S. GAAP) decreased by 7.2% from a benefit of US$99.9 million for the year ended December 31, 1997 to a benefit of US$92.7 million for the year ended December 31, 1998. The increase reflects a US$53.6 million benefit from the election to calculate and therefore treat as tax deductible an interest on shareholders' equity attributed to equity in 1998, as compared to the 1997 benefit of US$33.9 million, partially offset by a reversal of tax related provisions of US$68.0 million in 1998 as compared to similar reversals of US$109.5 million in 1997 and an increase of US$19.5 million of losses in subsidiaries for which no corresponding net tax assets were recognized.

Additionally, upon changing the functional currency from the U.S. dollar to the *real*, all accounts in the statements of operations including amounts relative to local currency indexation and exchange variances on assets are translated at the average rates prevailing during the period whereas in 1997 other costs and expenses relating to assets remeasured at historical exchange rates were calculated based on the U.S. dollar amount of the assets, and a translation gain of US$19.7 million resulting from this remeasurement process was included in the income tax benefit account.

Equity in earnings (losses) of affiliates

Equity earnings of affiliates (basis: U.S. GAAP) was US$3.0 million for the year ended December 31, 1998 against a loss of US$28.1 million for the year ended December 31, 1997, primarily a

result of Brahma's share of liabilities in some affiliates having exceeded their assets in 1998. Because Brahma has an agreement to honor affiliates commitments with third parties, a provision was recorded in "other operating income" of US$13.0 million to reflect Brahma's obligation. In 1997, the losses incurred up to the time liabilities exceeded assets of the affiliates, were recorded as equity accounting adjustments. These losses relate primarily to increased selling and marketing expenses associated with new product launches, product development and expenses incurred in expanding the distribution networks of these companies.

Minority interest

Losses attributable to minority interests of consolidated subsidiaries (basis: U.S. GAAP) increased for the year ended December 31, 1998, when attributable losses totaled US$9.4 million, as compared to the year ended December 31, 1997, when minorities shared in losses totaling US$1.1 million. This increase is mostly due to the share of losses generated in the Venezuelan operations which increased from US$0.7 million in the year ended December 31, 1997, to US$6.0 million for the year ended December 31, 1998.

Net income

Net Income (basis: U.S. GAAP) decreased 39.7% from US$395.5 million for the year ended December 31, 1997, to US$238.6 million for the year ended December 31, 1998. Additionally, upon changing the functional currency from the U.S. dollar to the *real*, translation gains or losses, previously reflected in the statement of operations, and allocated to each of the line items which correspond to the assets or liabilities generating the gains or losses, are recorded directly in the cumulative translation adjustment (CTA) account in shareholders' equity without impacting results for the year. The net translation loss for the year ended December 31, 1998, recorded directly to shareholders' equity was US$102.1 million against a gain reflected in the results of operations for the year ended December 31, 1997 of US$39.1 million. Amounts are not comparable due to changes in translation methodology. The new translation methodology, however, unfavorably impacts the results of operations for the year ended December 31, 1998 by reflecting in the reporting currency (U.S. dollars) the foreign currency exchange effects on transactions (primarily loans).

Liquidity and Capital Resources

Liquidity

Brahma's principal cash requirements include:

- the servicing of Brahma's indebtedness;
- capital expenditures, including the construction of new plants;
- investments in companies participating in the brewing and soft drink industries;
- dividend and interest attributed to equity payments to shareholders; and
- Brahma's share buy-back program.

Brahma's primary sources of liquidity have historically been cash flows from operating activities and borrowings. Cash flows from operating activities totaled US$511.0 million in 1999, US$384.0 million in 1998 and US$469.7 million in 1997. In 1999, these cash flows were primarily used to repurchase shares of Brahma (US$6.3 million), the payment of dividends and interest on shareholders' equity (US$88.8 million, combined), investments in the capital expenditures program totaling US$108.5 million and the repayment of short- and long-term debt of US$818.7 million offset by issuances of debt totalling US$644.7 million. In the year ended December 31, 1999, Brahma used US$76.6 million in investing activities and US$168.2 million in financing activities.

In the year ended December 31, 1999, total assets of Brahma decreased US$857.6 million or 23.0%, with US$717.0 million relating to property, plant and equipment. The significant reduction in Brahma's fixed assets, in common with the effects on other balances, reflects the significant devaluation of the *real* over the year. As the underlying *real* balances are translated into U.S. dollars for purposes of reporting, a translation loss has been recorded in the cumulative translation adjustment account in shareholders' equity, which has no effect on Brahma's liquidity (see "—Devaluation of the *Real* in 1999"). Brahma also recorded an impairment charge of US$17.3 million during 1999. See note 8 of the Brahma financial statements. The underlying *reais* balances actually increased by US$416.7 million (in constant U.S. dollars) primarily as a result of an increase of US$376.1 million in cash and cash equivalents, swap income receivable and trading securities and US$50.7 million in sales and income tax recoverable, offset by a decrease in property, plant and equipment of US$161.1 million.

Cash expended on the share buy-back program is summarized as follows:

Program Approval	Preferred Shares	Common Shares	Cost
	(in thousands)		(in millions)
November 14, 1997 to May 1998	161,885	60,798	US$139.9
May 12 to August 1998	79,602	24,264	61.4
August 10 to November 1998	109,892	1,159	49.4
November 10, 1998 to February 10, 1999	12,992	4,049	7.0
February 11 to July 1, 1999	-	7,228	2.9

Brahma intends to pay dividends annually to its shareholders; however, the timing and amount of future dividend payments, if any, will depend upon various factors that Brahma's board of directors considers relevant, including Brahma's earnings and financial condition. Brahma's by-laws provide for a mandatory dividend of 25% of its annual net income, if any, as determined and adjusted under accounting principles set forth under Brazilian corporation law (adjusted income). The mandatory dividend includes amounts paid as interest attributable to shareholders' equity, which is equivalent to a dividend but is a more tax efficient way to distribute earnings, as it is deductible for income tax purposes. Because adjusted income may be capitalized, used to absorb losses or otherwise appropriated, any adjusted income could no longer be available to be paid as dividends. Any dividends payable on Brahma's preferred shares must be at least 10% greater than those payable on Brahma's common shares.

Based on historical trends, Brahma does not expect any significant impacts on its liquidity in respect to future payments of dividends.

Net Working Capital

Brahma's net working capital balances increased by US$238.7 million (in constant U.S. dollars) from 1998 to 1999, primarily as a result of an increase of (a) US$407.9 million in cash and cash equivalents, swap income receivable and trading securities, and (b) US$49.4 million in sales and income tax recoverable, which was offset by increases of US$105.3 million in debt, US$40.9 million payable to suppliers, US$22.7 of payroll and profit sharing payables and US$14.8 million of interest attributable to shareholders' equity. See "Item 9A.—Quantitative and Qualitative Disclosures About Market Risk—Brahma".

Indebtedness and Financing Strategy

Total debt

As of December 31, 1999, Brahma's total outstanding debt with third parties plus sales tax deferrals totaled US$1,337.0 million, consisting of US$813.3 million of *real*-denominated loans (including sales tax deferrals of US$296.7 million) and US$523.7 million of U.S. dollar-denominated debt. Total debt, including sales tax deferrals, as of December 31, 1999 decreased US$1,337.0 million from US$1,802.5 million as of December 31, 1998. Brahma's most significant debt was incurred in connection with the construction of new plants and the overall expansion of production capacity during the years of 1994 to 1998. Cash-interest expense of Brahma was US$137.8 million, US$147.7 million and US$75.0 million for the three years ended December 31, 1999, 1998 and 1997, respectively. The US$9.9 million decrease in cash-interest expense in 1999 related directly to the decrease in Brahma's debt.

As of December 31, 1999, Brahma had no formal lines of credit available in connection with short term debt; however, Brahma had lines of credit with the Brazilian Economic and Social Development bank (BNDES) in connection with long-term debt. See "—Long-term debt" below.

Long-term debt

Brahma's long-term debt with third parties totaled US$762.9 million as of December 31, 1999 and US$1,069.0 million as of December 31, 1998. The balance consists primarily of long-term plant expansion program loans from governmental agencies including the Brazilian Economic and Social Development Bank (BNDES), BNDES's Fund for Financing the Acquisition of Industrial Machinery and Equipment (FINAME), Financing Fund for Studies and Projects (FINEP), and Company Financing (FINEM). These loans accrue annual interest of between 2% and 12%, plus indexation of principal, when applicable, for inflation, pursuant to various indices. As of December 31, 1999, the balance also included US$112.2 million of an U.S. dollar-denominated project-financing loan agreement with the International Finance Corporation (IFC).

The Brazilian Economic and Social Development Bank (BNDES) has been the principal low-cost lending source for Brahma, and the only source of financing for new plants prior to 1995. In January 1996, Brahma received a US$158 million expansion and modernization loan from the IFC. Under the terms of the IFC facility, interest accrues at a rate of between 2.5% and 2.75% per annum above the London interbank offered rate (LIBOR), falling due in installments through June 2003.

In 1997, Brahma executed a line of credit agreement with the Brazilian Economic and Social Development Bank (BNDES) for designated investments completed through 1998. The full balance

drawn of US$290.9 million is payable in 72 monthly installments through 2005 and bears annual interest of 1.6% to 3.1% plus indexation of principal.

The following tables show the payment conditions under Brahma's loan agreements referred to above:

Creditor	Debtor	Interest Rate
BNDES (loans A, B, C, D, F, G, H and I)	Brahma	TJLP[2] plus 3.1% per annum
BNDES (loans E and J)	Brahma	TJLP plus 1.6% per annum

Creditor	Debtor	Payment of Principal	Interest Rate	Balance at December 31, 1999 (US$ millions)
IFC (loan A)	Brahma	Installments of US$2.5 million are due on a six-month basis through June 1, 2003	LIBOR[1] plus 2.75% per annum	17.5 (principal)
IFC (loan B)	Brahma	Installments of US$12.3 million are due on a six-month basis through June 1, 2001	LIBOR plus 2.5% per annum	36.9 (principal)
IFC (loan C)	Brahma	Single installment due on December 1, 2002	LIBOR plus 2.75% per annum	5.0 (principal)
IFC (total)	Brahma	—	—	61.0 (principal and accrued interest)
IFC (loan A)	CCBA	Installments of US$0.7 million are due on a six-month basis through October 15, 2004	LIBOR plus 2.75% per annum	7.1 (principal)
IFC (loan B)	CCBA	Installments of US$3.3 million are due on a six-month basis through October 15, 2002	LIBOR plus 2.5% per annum	19.8 (principal)
IFC (loan C)	CCBA	Single installment due on April 15, 2005	LIBOR plus 2.5% per annum	8.5 (principal)
IFC (total)	CCBA	—	—	36.3 (principal and accrued interest)
IFC (loan A)	Malteria Pampa	Installments of US$0.7million are due on a six-month basis through April 15, 2003	LIBOR plus 2.25% per annum	9.7 (principal)
IFC (loan B)	Malteria Pampa	Installments of US$1.1 million are due on a six-month basis through October 15, 2001	LIBOR plus 2.25% per annum	3.3 (principal)
IFC (loan C)	Malteria Pampa	Single installment due on October 15, 2005	LIBOR plus 2.25% per annum	2.0 (principal)
IFC (total)	Malteria Pampa	—	—	14.9 (principal and accrued interest)

Creditor	Debtor	Payment of Principal	Interest Rate	Balance at December 31, 1999 (US$ millions)
FINEM	Brahma	2004 and thereafter	TJLP plus 3.1% per annum	283.4 (principal and accrued interest)
FINEM	Brahma	2004 and thereafter	TJLP plus 1.6% per annum	7.5 (principal and accrued interest)
FINEM (total)	Brahma	—	—	290.9 (principal and accrued interest)
FINEP	Brahma	1999 to 2002	TJLP plus 2.5% to 5.67% per annum	7.6 (principal and accrued interest)
FINAME	Brahma	1999 to 2005	TJLP plus 2.5% to 6% per annum	53.3 (principal and accrued interest)

(1) The LIBOR benchmark rate at December 31, 1999 was 6.375% per annum (December 31, 1998 - 5.098%). The LIBOR rate is updated on a monthly basis.

(2) The TJLP is a long-term interest rate fixed by the Brazilian government on a quarterly basis. In the event the TJLP exceeds 6% per annum, the differential is added to the principal balance outstanding. The TJLP benchmark rate at December 31, 1999 was 12.50% per annum (December 31, 1998 – 18.06%). See "Item 9A.—Quantitative and Qualitative Disclosure About Market Risk—Brahma—Interest Rate Risk".

Brahma's agreements with IFC contain restrictive covenants, which include a requirement to invest all funds in the approved investment program and compliance with certain minimum liquidity and indebtedness ratios, specifically:

- current ratio of at least 1.1. The current ratio is calculated by dividing current assets by current liabilities;
- long-term debt to equity ratio of no more than 56:44. This ratio is calculated by dividing the long-term portion of long-term debt by shareholders' equity; and
- long-term debt service coverage ratio of at least 1.5. This ratio is calculated by dividing (a) the internal cash generation by (b) the aggregate of principal maturities of long-term loans of the company that are outstanding and fall due during the four previous fiscal quarters. The internal cash generation is calculated as net income plus depreciation plus other non-cash items charged against net income minus non-cash items credited to net income, and is recorded for the same four previous fiscal quarters.

A portion of 3.16% of Brahma's loan with the IFC may be converted into Brahma's preferred shares at the option of the IFC. For further information on Brahma's convertible debt, see "Item 12.—Options to Purchase Securities From Registrant or Subsidiaries".

Brahma is in material compliance with those restrictive covenants. Brahma's agreements with BNDES, FINAME and FINEM contain a requirement that Brahma invest all funds in the approved investment programs. Brahma is in material compliance with those requirements.

The long-term portion of long-term debt as of December 31, 1999, matures as follows:

Year	Amount (in millions of US$)
2000	US$227.2
2001	152.8
2002	106.7
2003	85.5
Thereafter	120.8
Total	**US$693.0**

Brahma expects to pay off long-term debt through internally generated cash resources.

As of December 31, 1998, 50.6% of Brahma's total indebtedness was denominated in foreign currencies, as compared with 47.9% as of December 31, 1997. As of December 31, 1999, 39.2% of Brahma's total indebtedness was denominated in foreign currencies, as compared with 50.6% at the December 31, 1998. As a multinational company, Brahma is exposed to market risks from changes in foreign exchange markets and interest rates.

Brahma is conservatively leveraged, with long-term debt representing 66.1% of total shareholders' equity as of December 31, 1998 and 54.7% as of December 31, 1999.

Sales tax deferrals and tax credits

Pursuant to current legislation, some states in Brazil provide tax incentives in the form of deferrable tax payments and partial or complete tax abatements for periods ranging from one to 20 years to promote investments in the region. Brahma currently participates in programs by which a percentage of payments of value-added tax on sales and services (ICMS) due from sales generated by specific production facilities are deferrable for periods of, generally, five years from their original due date. Percentages deferrable usually range from 75% in the first year to 40% in the final year or a fixed percentage over the life of the program. Amounts deferrable under these programs are without limit, except in the state of Santa Catarina where Brahma has attained approximately 100% of the limit as of December 31, 1999 (US$50.1 million). Balances deferred generally accrue interest and are only partially inflation indexed, such adjustment being linked, in the majority of cases, to 60% to 80% of a general price index. Of the total amount deferred as of December 31, 1999, US$198.6 million will become payable in 2003 and the remaining balance of US$98.1 million is payable after 2003.

Brahma also participates 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, Brahma is committed to meet certain operational prerequisites including, depending on the state, volume production and employment targets, among others. The grants are received over the lives of the respective programs. During 1999, Brahma recorded US$35.2 million of tax credits as a reduction of taxes on sales. No such benefits were recorded in 1998 and 1997 as the preconditions had not yet been satisfied. The benefits granted are not subject to drawback provisions in the event Brahma does not meet the program target; however, future benefits may be withdrawn.

Short-term debt

As of December 31, 1999, Brahma's short-term debt consisted primarily of financing for the importation of raw materials and equipment. In 1999, financing for the importation of raw materials was US$237.7 million, compared to US$335.4 million in 1998. As of December 31, 1999, short-term debt was mostly denominated in U.S. dollars with weighted average interest rates of approximately 9% (as compared to 8% in 1998). Raw material importation terms are normally due for payment in a single installment on the 360th day.

Temporary equity - appraisal rights

As of December 31, 1999, approximately 79% of Brahma's total shares had not been exchanged for AmBev shares. Upon the completion of the Brahma conversion, under Brazilian corporation law, Brahma shareholders may either: (a) exchange their shares for AmBev shares; or (b) exercise appraisal rights, thus requiring Brahma to repurchase their shares at Brahma's book value, as determined under Brazilian corporation law and its accounting principles.

This potential obligation is presented in the balance sheet caption "temporary equity – appraisal rights" and reflects the Brazilian legal book value of all shares available for conversion, as if all these shareholders were to exercise their appraisal rights and withdraw from Brahma. Temporary equity – appraisal rights is deducted from shareholders' equity and reclassified as mezzanine equity. This amount represents the maximum amount of cash that would be paid by Brahma assuming all the shareholders having their shares exchanged for AmBev shares in the Brahma conversion exercised their appraisal rights, based on the December 31, 1999 balance sheet date.

As of December 31, 1999, the book value of the Brahma common and preferred shares for purposes of exercising appraisal rights were less than half of their respective market prices. Although there can be no assurance as to the book value or the market prices of the shares or ADSs of Brahma at any time in the future, Brahma expects the market prices of its shares to exceed their respective book values at the time the Brahma conversion is completed. Brahma thus believes that there should not be a substantial exercise of appraisal rights by its shareholders, since Brahma shareholders who exercise appraisal rights may incur a loss.

Commitments and Contingencies

As of December 31, 1999, Brahma had provided US$163.3 million for contingencies, in long-term liabilities. Partially offsetting these amounts was US$23.9 million included in long-term assets as restricted deposits for legal proceedings. Restricted deposits represent escrow payments made when Brahma disputes claims, principally employment related. See "Item 3.—Legal Proceedings—Brahma" and note 16(a) to the Brahma financial statements.

Probable losses, provided as liabilities of Brahma based on the advice of several outside legal counsel, are summarized below:

Probable Losses as of December 31, 1999 (U.S. dollars in millions)	
Income tax and social contribution	US$ 4.3
Excise tax (IPI), value-added tax (ICMS) and taxes on revenues (PIS and COFINS)	100.5
Labor claims	25.2
Claims from distributors, suppliers and product-related	19.6
Others	13.6
Total accrued liabilities for legal proceedings	**US$163.3**

Brahma's management believes, based on advice from its attorneys, that the above amounts correspond to probable and reasonably estimable losses in the event of unfavorable rulings, and that the ultimate resolution of these matters will not have a significant effect on the company's liquidity, financial condition or results of operations.

Income tax and social contribution

In 1997, tax regulations confirmed Brahma's right, as from October 1996, to prospectively treat as tax deductible, payments made of interest attributed to shareholders' equity for purposes of determining social contribution. Brahma is claiming recovery of US$11.5 million of social contribution taxes paid relating to the 1996 fiscal year, but no final ruling has been granted in this respect by the Brazilian supreme court to date. An injunction granted to Brahma in 1999 allowed compensation of the amount claimed against the social contribution due during the 1999 fiscal year; however, no such compensation has been made to date.

Excise tax (IPI), value-added tax (ICMS) and taxes on revenues (PIS and COFINS)

Brahma entered into an administrative legal proceeding in connection with a tax assessment for the alleged non-payment of value-added tax (ICMS) in the amount of US$99.3 million. In February 1999, the lawsuit was ruled in favor of Brahma and a provision of US$8.4 million was reversed.

In October 1996, a tax ruling allowed credits of ICMS value-added tax on capital expenditures to be offset against the amounts payable on such tax. Based on this regulation and on some constitutional principles, Brahma filed several lawsuits to allow it to offset ICMS paid prior to 1996 and IPI excise tax paid in the 1997 and 1996 fiscal years against similar taxes payable. Brahma compensated US$16.9 million in 1999 and US$20.3 million in 1998 in relation to these taxes. Compensation resulted in a reduction of "taxes on sales" (short-term liability account) and a credit to "other operating income". Simultaneously, based on advice of outside legal counsel, a contingency provision was recorded within "accrued liability for legal proceedings" (long-term liability account) in the same amount with a corresponding debit to "other operating income". The net impact of the above ICMS and IPI compensations is the reclassification of the amount compensated from "taxes on sales" to "accrued liability for legal proceedings".

The provision for IPI, ICMS and taxes on revenues (PIS and COFINS) as of December 31, 1999, totaling US$100.6 million, consists mainly of:

- US$37.2 million of ICMS and IPI contingent tax credits on capital expenditures related to periods prior to October 1996, in the case of ICMS, and in 1997 and 1996, in the case of IPI. These amounts were compensated against similar taxes and simultaneous provisions were made for the same value, based on advice of outside legal counsel, in 1999 and 1998, in the amounts of US$16.9 million and US$20.3 million, respectively;

- US$19.2 million in relation to the interest and penalties portion of the ICMS and IPI contingent tax credits offset by Brahma that could become payable should Brahma lose its lawsuit;

- US$13.1 million in relation to PIS and COFINS which was provided for in 1999. During 1999, Brahma provisioned US$13.1 million through "value-added and excise taxes on sales", principally in relation to a new law enacted in the first quarter of 1999 which required Brazilian companies to pay PIS (federal unemployment insurance contribution) and COFINS (federal social security tax) on interest income. Brahma obtained injunctions for the non-payment of this additional tax, which remains in force until a final decision is rendered. Brahma has made provisions for the amount due as the obligation is deemed probable. Although Brahma has filed these lawsuits against the tax authorities to support its view that this tax is unconstitutional, Brahma is required by this new law to pay PIS and COFINS until such time it receives a favorable ruling; and

- Brahma is involved in over 100 different claims of relatively small amounts, with individual states relating principally to the payment of ICMS and ICMS substitute (as calculated on the price of the last sale on the consumers' chain), for which Brahma made a provision of US$31.0 million at December 31, 1999. During 1999 Brahma provisioned for US$12.6 million of new claims for which the most relevant one represents US$5.7 million and relates to an assessment on a subsidiary of Brahma. The subsidiary allegedly did not provide adequate ICMS documentation in magnetic disk format as required by a new fiscal law passed in 1999.

Labor claims

The account balance primarily represents provisions for claims pending against Brahma which were filed by former employees. Claims relate to overtime, salary equalization, health and safety, and profit-sharing issues, among others. Escrow deposits (restricted deposits for legal proceedings) against probable losses, principally for labor claims, totaled US$9.8 million as of December 31, 1999. Brahma has established provisions in the amount of US$25.2 million as of December 31, 1999, in connection with all labor proceedings in which Brahma believes there is a reasonable chance of loss.

In the year ended December 31, 1998, Brahma reversed US$30.2 million of labor contingency provisions. Labor related cases usually take over three years to reach a final judgement, and in the past, courts had frequently ruled in favor of the employee-plaintiff. At each period end, Brahma's management, with input from its external and internal counsel, evaluates these contingencies in light of SFAS No. 5, "Accounting for Contingencies" requirements and provides for losses where probable and estimable. Brahma's management perceived that the ruling trends had changed in the period through 1998, and in that year, requested legal counsel to reevaluate the strategy outlook with respect to the

probability or possibility of loss from such cases. Based on the more favorable trend of actual settlements, and counsel's opinion of future probable and estimable losses, Brahma changed its estimation criteria in respect to labor claims and accordingly reversed US$30.2 million of the labor related contingency provision to "general and administrative income", consistent with the account in which the original provisions were recorded.

Distributors Claims

For a description of Brahma's claims from distributors, see "Item 3.—Legal Proceedings—Brahma—Distributors and Product-Related Claims".

Tax laws interpretation

As if occurs with other Brazilian companies, Brahma's management, based on the advice of legal counsel, evaluates new tax laws, regulations and their interpretations by the tax authorities to determine the legality of such taxes within the context of the Brazilian constitution. Brahma recognizes its obligation with respect to such taxes if the respective governmental authorities or regulations have been duly and legally enacted. The nature of the claim will determine if the corresponding provision is recorded as a charge against "other operating income", "sales benefit (expense)" or "taxes on income". A probability analysis is prepared to support the liability. Although, in many cases, Brahma's legal counsel may consider Brahma's chances of successfully prosecuting its claim to be good, because many of these issues relate to tax laws, which have been legally enacted, and because of the uncertain outcome, management believes it cannot omit to record its legal obligation.

If the tax contested is based on an interpretation of the law by the tax authorities rather than an explicit obligation in the statute, in certain cases, loss may be considered to be possible (and not probable) and no provision is recorded. Contingent liabilities, which are determined to represent possible losses or which cannot be reasonably estimated, are not provided for. The contingencies and associated risks are adequately disclosed and quantified.

In the event that Brahma's management, as supported by advice of legal counsel, considers the tax to be unlawful, Brahma generally seeks a legal injunction which provides protection from fines while its claim is processed through the courts. Such protection does not include interest on late payment. Depending on the terms of the injunction, payment of the taxes to the authorities may be withheld or made to the relevant court in the form of a restricted escrow deposit against the legal proceedings. Should Brahma receive a favorable legal or judicial ruling against which the authorities are no longer able to appeal, the respective liability is reversed and the benefit recorded in the income statement account which originally recorded the charge for the provision. In recent periods, the provisions recorded and, in certain instances, the benefits recognized upon receiving final favorable decisions, have been significant. Brahma's management believes that the governmental and taxing authorities currently evaluate new laws more carefully within the context of the taxpayer's constitutional rights and that the frequency of claims may undergo a reduction in the future. Based on historical trends, Brahma's management does not expect significant impacts of unfavorable decisions on the company's liquidity, results of operations or financial condition.

During 1999, Brahma reversed US$30.9 million to "income tax benefit" relating to unasserted income tax risks which were eliminated upon expiry of the statutes of limitations, following the completion of a five-year period without issue of notification by the tax authorities. The most significant amount reversed related to the methodology for price-level restating equity accounting adjustments in

monthly balance sheets for tax purposes. Insufficient guidance was provided by tax regulation as to an acceptable methodology. However, the tax authorities had taken a position with other taxpayers, which if applied to Brahma would have resulted in a contingency. A tax contingency was established in 1993. In 1996, Brahma refiled its 1993/2 tax return including the recalculated taxes for 1992. This increased Brahma's tax loss carryforwards for that year. The Brazilian tax authorities had not issued an assessment against Brahma and, from the date of the filing of the 1998 tax return on April 30, 1999 (the date of the expiry of the statute of limitations), the authorities are no longer able to appeal the interpretations. These interpretations were considered by Brahma's management to be valid with respect to the 1993 income tax return. However, through to the date of expiration of the statute of limitations, the level of uncertainty was such that management considered the liability to be probable and estimable. Brahma has subsequently realized the tax asset through offsetting of tax payments due. Accordingly, Brahma reversed an income tax contingency provision of US$19.2 million during 1999 to the income tax benefit line item in its financial statements.

During 1998, Brahma reversed US$101.4 million to "income tax benefit" relating to the following income tax risks:

- In 1991, the Federal government recognized that the inflation index used for tax accounting purposes in previous years, and in particular in 1990, had been understated. Law 8,200 required companies to recalculate 1990 taxes based on a consumer price index for tax-inflation accounting purposes. Although the effects of recalculating 1990 taxes resulted in amendments to the tax due, prior period effects were only for pro forma purposes. Brahma recomputed its income tax obligations for 1990 and for 1988/89 based on a criterion agreed to with tax and legal counsel. The differences in interpretation affected the determination of the tax deductions through 1993. In view of the uncertainties with regard to the interpretation of the law and Brahma's ultimate obligation, legal counsel considered the risk of being required to settle the obligation based on the tax authorities' interpretation to be high. The loss contingency was considered to be probable;

- An assessment was issued against Brahma in the amount of US$25.7 million on January 10, 1996. However, the *Conselho dos Contribuintes* (Taxpayers' Lower Court) issued a favorable administrative decision on January 7, 1998, in which it agreed with Brahma's interpretation of the determination of the liability under Law 8,200. As the ruling eliminates any right of appeal by the authorities, Brahma has considered the possibility of loss no longer to be probable. In September 1998, Brahma reversed US$21.1 million relating to income tax and social contribution payable, among other issues, which the tax authorities claimed should not have been offset by depreciation charges generated from supplemental indexation of property, plant and equipment accounts applied by a law enacted in 1991;

- During 1998, following the expiration of a five-year statute of limitations period without issue of notification by the tax authorities, Brahma reversed US$80.4 million, relating to these unasserted income tax and social contribution risks upon expiry of the statutes of limitations. Expiry of the statute of limitations, in the opinion of Brahma's tax and legal counsel, reduces the probable contingency to a remote contingency;

- During 1997, Brahma reversed some tax-related contingencies and recorded the benefit in "income tax benefit." The principal issues related to the deductibility of all of the financial charges generated in 1992; and

- In 1992, Brahma advanced some amounts to a wholly owned offshore subsidiary in anticipation of future capital increases. Prior to the capital increase this advance was invested in marketable securities at the offshore subsidiary the earnings of which were included in consolidated income of Brahma, but which were not taxable as the interest was earned offshore. The Federal Revenue Office issued a tax assessment against Brahma in November 1995 disallowing the deductibility of all of the financial charges generated in 1992. The office claimed that loans raised were used to finance the amounts invested in the offshore subsidiary. Brahma's management evaluated the probability of the loss being realized and on the basis of advice from its outside legal counsel, established a provision of approximately US$122.3 million during 1995 for probable losses with respect to this claim. Following a favorable lower court decision, in June 1997, Brahma reversed the related provision in the amount of US$114.5 million, net of foreign currency effects, supported by a new opinion from outside legal counsel which concluded that the likelihood of an unfavorable outcome was remote. On August 20, 1997, members of the Taxpayers' Lower Court voted to dismiss the case and cancelled the tax assessment.

Capital Expenditures

In 1999, Brahma invested US$112.1 million, which included investments in productivity, routine annual replacement of returnable bottles and crates, investments in point of sale refrigeration equipment and development of warehousing related to direct distribution.

Since 1994, Brahma has been investing in capacity expansion and modernization of existing facilities. In 1998, Brahma concluded the final stage of this investment program with the inauguration of the Rio Grande do Sul plant, which has an annual production capacity of 3.0 million hectoliters. In 1997, the Nova Rio plant in the state of Rio de Janeiro became fully operational, after an investment of US$680.0 million over a two-year period through 1997. Additionally, in November 1997, construction of a plant in the state of Sergipe, Brazil, was completed. No additional investments in production capacity are planned for the next two years, which will reduce Brahma's level of capital expenditures.

As a result of these productivity investments, measured in hectoliters produced per employee per annum, Brahma has realized an average annual increase in productivity of 29% from 1994 to 1998.

ANTARCTICA

Introduction

The following discussion is based on and should be read in conjunction with Antarctica's audited consolidated financial statements as of December 31, 1999 and 1998 and for each of the three years ended December 31, 1999, including the notes related to them, appearing elsewhere in this annual report (the Antarctica financial statements). The Antarctica financial statements have been prepared in U.S. dollars in accordance with U.S. GAAP. Antarctica also prepares financial statements in Brazil in *reais* in accordance with accounting principles set forth in Brazilian corporation law, for filing with the Brazilian securities commission, and determining dividend payments and tax liabilities in Brazil. Such financial statements in *reais* are not included in this annual report.

As of January 1, 1998, Antarctica has adopted the *real* as its functional currency to measure transactions. See below and the Brahma financial statements. The significant devaluation of the *real* in mid-January 1999 reduced shareholders' equity as reported in U.S. dollars as at December 31, 1999.

U.S. GAAP Presentation and Reporting Currency

Antarctica has elected to present its financial statements in U.S. dollars. For this purpose, amounts in Brazilian currency for all periods presented have been remeasured (translated) into U.S. dollars in accordance with the methodology set forth in the U.S. Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 52.

For periods before December 31, 1997, Antarctica's management considered that the Brazilian economy was highly inflationary, as the cumulative three-year inflation rate was above 100%. Thus, the *real* was not considered a stable currency to be used as a functional currency. Therefore, Antarctica has used the U.S. dollar as its functional currency. See Note 2 to the Antarctica financial statements.

The translation procedures adopted by Antarctica's management through December 31, 1997 were as follows:

- inventory, property, plant and equipment and accumulated depreciation, as well as shareholders' equity accounts, were translated at historical exchange rates and monetary assets and liabilities denominated in *real* were translated at period-end exchange rates (December 31, 1997 - R$ 1.1164: US$ 1.00);

- depreciation and other costs and expenses relating to assets remeasured at historical exchange rates were calculated based on the U.S. dollar amount of the assets. Other accounts in the statements of operations and cash flows were translated at the average exchange rates prevailing during the period;

- the translation gain or loss resulting from this remeasurement process was included in the statements of operations currently; and

- deferred taxes were not recorded with respect to differences relating to assets and liabilities translated at historical rates that resulted from changes in exchange rates or indexing for Brazilian tax purposes.

As of January 1, 1998, Antarctica's management concluded that the Brazilian economy had ceased to be highly inflationary and changed its functional currency from the reporting currency (U.S. dollars) to the local currency (*reais*). Accordingly, as of January 1, 1998, Antarctica translated the U.S. dollar amounts of non-monetary assets and liabilities into *reais* at the current exchange rate and those amounts became the new accounting bases for such assets and liabilities. The resulting deferred taxes associated with the differences between the new functional currency bases and the tax bases were reflected as a deferred tax asset with a corresponding credit taken directly to the cumulative translation adjustment component of shareholders' equity.

For the years ended December 31, 1998 and 1999, Antarctica has translated all assets and liabilities into U.S. dollars at the current exchange rate (December 31, 1998 - R$1.2087: US$1.00; December 31, 1999 - R$1.7890: US$1.00), and all accounts in the statements of operations and cash flows at the average rates of exchange in effect during the period (year ended December 31, 1998 -

R$1.1605: US$1.00; year ended December 31, 1999 - R$1.8148: US$1.00). The statements of operations include local currency indexation and exchange variations on assets and liabilities denominated in foreign currencies, which were not translated prior to 1998. The related translation adjustments are included in the cumulative translation adjustment (CTA) account of shareholders' equity.

The devaluation of the *real* in mid-January 1999 resulted in a net translation loss, arising from the translation of the balance sheet accounts (monetary and non-monetary assets and liabilities) from *reais* to U.S. dollars. The translation loss has been allocated directly to the cumulative translation account in shareholders' equity. Foreign exchange transaction gains or losses are reflected directly in income currently. See "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Devaluation of the *Real* in 1999".

For data on the Brazilian general price index, as measured by the IGP-DI, compiled by the *Fundação Getúlio Vargas* (an independent statistical institute), the devaluation of the Brazilian currency against the U.S. dollar and the period-end and average period exchange rates from 1995 to 1999, see "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—U.S. GAAP Presentation and Reporting Currency".

Devaluation of the *Real* in 1999

For a full description of the devaluation of the *real* in early 1999, see "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Devaluation of the *Real* in 1999".

Antarctica's Business

Antarctica's operations are largely dependent upon the general economic environment of Brazil. Continued growth of consumer purchasing power, which is largely impacted by inflation, individual tax rates, real increases in wage rates and levels of employment, remains key to the continued economic success of Antarctica and other Brazilian consumer goods companies.

There are three principal factors that have shaped Antarctica's operating results over the 1994-1999 period, the first and most significant of these being the Brazilian economic environment. The Brazilian economy grew rapidly immediately following the introduction of the *Real* Plan in July 1994, particularly in the consumer sector. See "—Brazilian Economic Environment". The effect was a marked increase in purchasing power. As a result, consumers increased purchases of beer and soft drinks, leading to rapid industry growth in 1994 and 1995. Antarctica's sales volume rose 18% in 1994 and 30% in 1995. In 1996-1998, economic growth slowed, and unemployment rates and personal indebtedness levels increased significantly. Consequently, Antarctica's sales volume fell by 11.0%, 5.5% and 3.7%, respectively, in 1996, 1997 and 1998. In 1999, Antarctica faced lower demand due to the Brazilian currency devaluation in January. Thus, Antarctica's sales volume decreased 12.5% in 1999 when compared to 1998.

A second factor that significantly influenced Antarctica's results over the 1994-1999 period was the increase in competition among the country's principal beer producers, as well as the large number of small independent soft drinks producers, known as *tubaínas*, whose market share rose due to heavy price discounting. This increased level of competitive activity placed downward pressure on beverage prices. See "Item 1.—Description of Business—Overview of the Brazilian Beverage Market—Beer Market—Competition" and "—Soft Drink Market—Competition". Although the effect of competition on

Antarctica has been most significant in the beer segment, it has also led to decreasing market share for Antarctica in the soft drink segment.

Antarctica has made significant efforts to respond to the increase in competition, aiming to recover lost market share and increase competitiveness. First, Antarctica reorganized its operations extensively, gaining greater autonomy and speed in decision making, reducing operating costs, and achieving greater administrative efficiency. Second, after extensive research into consumer preferences for flavor, packaging and communication, *Bavaria Pilsen* was introduced in September 1997. Additionally, *Antarctica's Pilsen* brand was repositioned, with a change on the focus to younger consumers. Antarctica's strategy to increase its market share is based on a strong portfolio, intended to serve all segments of the market. Over the past four years, the portfolio was consolidated by launching four new products, creating 15 new packages, and updating the other 73.

A third factor significantly influencing Antarctica's results of operations has been adaptation to a shift in consumer preferences for packaging. Antarctica has been increasingly using non-returnable ("one way") packaging, both in the beer and soft drink segments, with a resulting increase in production costs. In 1999, beer sold in one-way packaging totaled 27% of Antarctica's sales volume, while soft drinks sold in one-way packaging totaled 74% of sales volume, compared to 20% and 64%, respectively, in 1994. Both consumers and retail establishments have a strong preference for beverages in one-way packaging; however, the production cost of one-way packaging is substantially higher than that of returnable packaging. The accounting treatment of bottles in the two formats is also different: the cost of returnable bottles is borne by Antarctica's distributors and is not reflected in Antarctica's cost of sales, while the cost of one-way packaging is reflected in Antarctica's cost of sales. Thus, the rise in one-way packaging has resulted in declining profit margins.

Brazilian Economic Environment

Antarctica believes that it has benefitted from the implementation of the *Real* Plan, as the population has, on average, had more disposable income for the purchase of products such as beer and soft drinks. However, there can be no assurance that the prevailing low level of inflation will continue; that there will not be a significant reduction in per-capita Gross Domestic Product (GDP); that future Brazilian governmental actions will not trigger an increase in inflation; or that any such events will not have a material adverse effect on Antarctica's financial condition, liquidity and results of operations.

For a full description of the *Real* Plan and the Brazilian economic environment, see "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Brahma—Brazilian Economic Environment".

Significant Acquisitions

In December 1997, Antarctica acquired all of the shares of two distributors, Distribuidora de Bebidas Manaus Ltda. and Distribuidora de Bebidas Tip-Top Ltda. Antarctica accounted for these acquisitions under the purchase method of accounting. Accordingly, the purchase price plus direct costs of acquisition were allocated to assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The purchase price was US$11.7 million, paid in cash. The excess of the purchase price over the estimated fair value of the assets and liabilities acquired of approximately US$7.3 million, was recorded as goodwill and is being amortized over 10 years. Results of operations

have been included in the Antarctica financial statements since the respective acquisition dates. Business acquisitions in the period from January 1, 1997 to December 31, 1999 are summarized below:

Company acquired	Business	Acquisition date	Voting stock acquired	Country of incorporation
Distribuidora de Bebidas Manaus Ltda.	Antarctica distributor	December 10, 1997	100%	Brazil
Distribuidora de Bebidas Tip-Top Ltda.	Antarctica distributor	December 23, 1997	100%	Brazil

Corporate Reorganization

In January 1999, as part of its corporate reorganization program, Antarctica acquired the minority shareholders' interest in three of its regional operating companies: Indústria de Bebidas Antarctica da Paraíba S.A., Indústria de Bebidas Antarctica do Piauí S.A. and Indústria de Bebidas Antarctica de Minas Gerais S.A.

Antarctica accounted for the acquisition of minority interests according to the purchase method. Each acquisition of minority interest involved the issuance of common and preferred shares by Indústria de Bebidas Antarctica do Norte - Nordeste S.A. (Norte-Nordeste) a subsidiary of Antarctica, in exchange for the common and preferred shares held by the minority shareholders in such operating companies. In each case, the U.S. GAAP book value of the net assets acquired exceeded the fair value of the shares issued. Because Norte-Nordeste is a publicly-traded company in Brazil, the fair market value of the common and preferred shares issued by Norte-Nordeste was based on the quoted market price of such shares. This excess has been used to reduce, on a proportional basis, the carrying value of non-current assets acquired. The table below summarizes Antarctica's significant minority interest acquisitions during the period from January 1, 1997 to December 31, 1999:

Company	Date of acquisition	Percentage of minority interest acquired [1]	Purchase price (in millions)
Indústria de Bebidas Antarctica da Paraíba S.A.[2]	January 20, 1999	37.94%	US$27.8
Indústria de Bebidas Antarctica do Piauí S.A.[2]	January 20, 1999	23.20%	US$17.1
Indústria de Bebidas Antarctica de Minas Gerais S.A.[2]	January 20, 1999	31.19%	US$16.6

(1) Includes common and non-voting preferred shares.
(2) Merged into Norte-Nordeste on April 30, 1999. See "Item 1.—Description of Business—Antarctica—Ownership Restructuring".

Seasonality

Sales of beer and soft drinks are significantly higher during the Brazilian summer months of November through January. For statistics on Antarctica's quarterly sales volumes for beer and soft drinks, see "Item 1.—Description of Business—Antarctica—Sales and Marketing".

Results of Operations

The following table sets forth some items in Antarctica's U.S. GAAP statement of operations expressed as percentages of net sales for the periods indicated:

	Year Ended December 31,		
	1999	1998	1997
Net sales	100.0%	100.0%	100.0%
Cost of sales	(67.0)%	(68.2)%	(66.2)%
Gross profit	(33.0)%	31.8%	33.8%
Selling and marketing	(27.9)%	(13.7)%	(13.6)%
General and administrative expenses	(20.9)%	(17.8)%	(18.8)%
Other operating expenses, net	0.1%	0.1%	0.5%
Operating (loss) income	(15.7)%	(0.7)%	3.6%

Presentation of Segment Financial Data

Antarctica's business is comprised of two main segments, beer and soft drinks, which together account for 93.3% of Antarctica's net sales for the year ended December 31, 1999. All financial information relating to revenues from the beer and soft drink segments reported below is presented in U.S. dollars, but based on underlying data prepared in accordance with Brazilian corporation law, which represents the accounting bases used by Antarctica to manage each of its business segments. The revenues were translated to U.S. dollars on a basis consistent with that used in the Antarctica financial statements. The principal difference between U.S. GAAP and Brazilian corporation law with respect to revenues relates to the principles of consolidation. For example, in accordance with Brazilian corporation law, the unemployment insurance contribution (PIS) is deducted from the company's revenues, while under U.S. GAAP it is classified as an operating expense.

The accounting policies underlying the segment financial information are based on Brazilian corporation law as used for statutory purposes. As many of Antarctica's facilities function as mixed plants that produce beer as well as soft drinks, at times on an alternating or simultaneous basis, it was not practicable under the circumstances to segregate, within reasonable limits of segment materiality, selling and marketing expenses from general and administrative and other operating expenses.

The local currency segment information related to the statement of operations data derived from underlying data prepared in accordance with accounting principles set forth by Brazilian corporation law has been translated to U.S. dollars, for convenience purposes, at the average rate for each period presented. The information as of the balance sheet date has been translated to U.S. dollars at the respective year-end exchange rates.

The following tables set forth, by reportable segment, selected statement of operations data and a comparison of the changes in these items for the periods indicated. Antarctica has prepared a reconciliation of segment information to its consolidated financial statements and restated prior period information as practicable. See Note 18 to the Antarctica financial statements.

From December 1998 to December 1999, Antarctica's assets and liabilities in *reais* have suffered a 46.4% devaluation and its revenues and expenses a 44.7% devaluation against the U.S. dollar, which adversely affects the comparability of December 31, 1999 results to the December 31, 1998 results. In

order to mitigate these distortions, and for the convenience of the reader, the segment information for the years ended December 31, 1999 and 1998, have been presented to show:

- the actual change in U.S. GAAP historical data for each period; and
- the actual change in the U.S. GAAP data and the 1998 data based on 1999 exchange rates (the constant exchange rate data).

The constant exchange rate data presents the underlying balances in *reais* for the year ended December 31, 1998, translated to U.S. dollars at the average exchange rate for the year ended December 31, 1999, and the balances for the year ended December 31, 1999, translated to U.S. dollars at the average rate for that year. Management's discussion is based on the constant exchange rate.

	Year Ended December 31,			Percentage Change	
	1999 Actual	1998 Actual	1998 Constant Exchange Rate	1999-1998 Actual	1999-1998 Constant Exchange Rate
		(in thousands)			
Net Sales (Brazilian corporation law):					
Beer	US$532,489	US$840,302	US$537,284	(36.6)%	(0.9)%
Soft Drinks	167,211	275,755	176,316	(39.4)%	(5.2)%
Other	50,669	74,701	47,763	(32.2)%	6.1%
	750,369	1,190,758	761,363	(37.0)%	(1.4)%
Adjustments from Brazilian corporation law to U.S. GAAP	—	21,983	14,056		
Total (U.S. GAAP)	**US$750,369**	**US$1,212,741**	**US$775,419**	**(38.1)%**	**(3.2)%**
Cost of Sales (Brazilian corporation law):					
Beer	US$323,989	US$534,265	US$341,606	(39.4)%	(5.2)%
Soft Drinks	135,420	199,702	127,688	(32.2)%	6.1%
Other	11,508	67,316	43,041	(82.9)%	(73.3)%
	470,917	801,283	512,335	(41.2)%	(8.1)%
Adjustments from Brazilian corporation law to U.S. GAAP	(31,460)	25,667	16,411		
Total (U.S. GAAP)	**US$502,377**	**US$826,950**	**US$528,746**	**(39.2)%**	**(5.0)%**
Gross Profit (Brazilian corporation law):					
Beer	US$208,500	US$306,037	US$195,678	(31.9)%	6.6%
Soft Drinks	31,791	76,053	48,628	(58.2)%	(34.6)%
Other	39,161	7,385	4,722	430.3%	729.4%
	279,452	389,475	249,028	(28.2)%	12.2%
Adjustments from Brazilian corporation law to U.S. GAAP	(31,460)	(3,684)	(2,355)		
Total (U.S. GAAP)	**US$247,992**	**US$385,791**	**US$246,673**	**(35.7)%**	**0.5%**

	Year Ended December 31,			Percentage Change	
	1999 Actual	1998 Actual	1998 Constant Exchange Rate	1999-1998 Actual	1999-1998 Constant Exchange Rate
		(in thousands)			
Operating Income (Loss) Before Net Expense (Brazilian corporation law):					
Beer	US$(41,498)	US$36,800	US$23,530	(212.8)%	(276.4)%
Soft Drinks	(6,328)	9,145	5,847	(169.2)%	(208.2)%
Other	(7,795)	(12,903)	(8,250)	(39.6)%	(5.5)%
	(55,621)	33,042	21,127	(268.3)%	363.3%
Adjustments from Brazilian corporation law to U.S. GAAP	(61,965)	(36,272)	(23,192)		
Total (U.S. GAAP)	**US$(117,586)**	**US$(3,230)**	**US$(2,065)**	**(3,540.4)%**	**(5,594.2)%**
Financial income	US$36,261	US$96,081	US$61,434	(62.3)%	(41.0)%
Financial expenses	(354,391)	(160,417)	(102,570)	120.9%	245.5%
Other non-operating expense, net	(9,433)	(8,132)	(5,199)	16.0%	81.43%
Income tax benefit	200	2,870	1,835	(93)%	(89.1)%
Equity in losses of affiliates	(377)	(2,595)	(1,659)	(85.5)%	(77.3)%
Minority interest	4,406	(27,952)	(17,872)	(115.8)%	124.7%
Net loss (U.S. GAAP)	**US$(440,920)**	**US$(103,375)**	**US$(66,097)**	**326.5%**	**567.1%**
Depreciation and Amortization:					
Beer	US$51,069	US$97,347	US$62,243	(47.5)%	(18.0)%
Soft Drinks	7,787	24,192	15,468	(67.8)%	(49.7)%
Other	9,592	2,349	1,502	308.3%	538.6%
	68,448	123,888	79,213	(44.7)%	(13.6)%
Adjustments from Brazilian corporation law to U.S. GAAP	(3,456)	(24,255)	(15,508)		
Total (U.S. GAAP)	**US$64,992**	**US$99,633**	**US$63,705**	**(34.8%)**	**2.0%**

	Year Ended December 31,		Percentage Change
	1998	1997	1998-1997
	(in thousands)		
Net Sales (Brazilian corporation law):			
Beer	US$840,302	US$931,051	(9.7)%
Soft Drinks	275,755	316,902	(13.0)%
Other	74,701	80,990	(7.8)%
	1,190,758	1,328,943	(10.4)%
Adjustments from Brazilian corporation law to U.S. GAAP	21,983	34,120	
Total (U.S. GAAP)	**US$1,212,741**	**US$1,363,063**	**(11.0)%**
Cost of Sales (Brazilian corporation law):			
Beer	US$534,265	US$555,887	(3.9)%
Soft Drinks	199,702	235,897	(15.3)%
Other	67,316	70,551	(4.6)%
	801,283	862,335	(7.1)%
Adjustments from Brazilian corporation law to U.S. GAAP	25,667	40,268	
Total (U.S. GAAP)	**US$826,950**	**US$902,603**	**(8.4)%**

	Year Ended December 31,		Percentage Change
	1998	1997	1998-1997
	(in thousands)		
Gross Profit (Brazilian corporation law):			
Beer	US$306,037	US$375,164	(18.4)%
Soft Drinks	76,053	81,005	(6.1)%
Other	7,385	10,439	(29.3)%
	389,475	466,608	(16.5)%
Adjustments from Brazilian corporation law to U.S. GAAP	(3,684)	(6,148)	
Total (U.S. GAAP)	**US$385,791**	**US$460,460**	**(16.2)%**
Operating Income (Loss) Before Net Expense (Brazilian corporation law):			
Beer	US$36,800	US$71,399	(48.5)%
Soft Drinks	9,145	15,416	(40.7)%
Other	(12,903)	1,987	749.4%
	33,042	88,802	(62.8)%
Adjustments from Brazilian corporation law to U.S. GAAP	(36,272)	(37,653)	
Total (U.S. GAAP)	**US$(3,230)**	**US$51,149**	**(106.3)%**
Financial income	US$96,081	US$61,086	57.3%
Financial expenses	(160,417)	(103,465)	55.0%
Gain on translation	—	42,378	—
Other operating income, net	1,451	6,348	77.1%
Other non-operating expense, net	(8,132)	(4,146)	96.1%
Income tax benefit	2,870	12,596	(77.2)%
Equity in losses of affiliates	(2,595)	(4,934)	(47.4)%
Minority interest	(27,952)	(49,269)	(43.3)%
Net income (loss)	**US$(103,375)**	**US$5,395**	**(2,016.1)%**
Depreciation and Amortization:			
Beer	US$97,347	US$113,045	(13.9)%
Soft Drinks	24,192	24,408	(0.9)%
Other	2,349	3,146	(25.3)%
	123,888	140,599	(11.9)%
Adjustments from Brazilian corporation law to U.S. GAAP	(24,255)	(28,793)	
Total (U.S. GAAP)	**US$99,633**	**US$111,806**	**(10.9)%**

The following table sets forth the components of Antarctica's cost of sales (basis: Brazilian corporation law) for the periods indicated:

Costs of Sales Breakdown

	Year Ended December 31,		
	1999	1998	1997
Raw materials	21.5%	22.6%	24.9%
Packaging	40.9%	35.2%	29.9%
Labor	5.3%	6.6%	12.1%
Depreciation/amortization	5.4%	6.3%	10.5%
Other costs	26.9%	29.3%	22.6%

Year Ended December 31, 1999 Compared with Year Ended December 31, 1998

From December 1998 to December 1999, Antarctica's assets and liabilities in *reais* have suffered a 46.4% devaluation and its revenues and expenses a 44.7% devaluation against the U.S. dollar, which seriously diminishes the comparability of December 31, 1999 results to December 31, 1998 results. In order to mitigate these distortions when comparing the financial information and isolate the currency effects from the trend analysis, the management's discussion and analysis of the results of operations for the year ended December 31, 1999 compared to 1998 is based upon the constant exchange rate percentage changes. The December 31, 1998 financial information has been translated at the same average exchange rates used to translate the December 31, 1999 financial information, thus excluding the devaluation impact and focusing the discussion on Antarctica's underlying local currency results.

Net sales

Net sales (basis: U.S. GAAP) for year ended December 31, 1999 decreased to US$750.4 million or 3.2% over net sales in 1998, of US$775.4 million. The operational net sales revenue variances in Antarctica's beer and soft drinks segments are described below. U.S. GAAP adjustments to Antarctica's net sales revenue on a Brazilian corporation law basis are not material.

Beer. Net sales of beer (basis: Brazilian corporation law) decreased by 0.9% from US$537.3 million in the year ended December 31, 1998, to US$532.5 million in the year ended December 31, 1999. This decrease was due primarily to the net effects of a 12.8% decrease in sales volume offset by a 13.7% increase in net sales per hectoliter from US$26.8 as of December 31, 1998 to US$30.5 as of December 31, 1999. The decrease in Antarctica's net sales was mainly a result of three factors:

- a decline in per capita consumption of beer due to the economic recession in Brazil;
- the restructuring of Antarctica's distribution network;
- Antarctica acquired 16 third party distributors in key areas of the southeastern region of Brazil, in order to improve distribution efficiency and quality of service to customers; and
- the repositioning of Antarctica's *Bavaria* brand as a full priced brand, rather than a value brand, which resulted in a decline in this brand's market share from 7.0% in 1998 to 5.6% in 1999.

Soft Drinks. Net sales of drinks (basis: Brazilian corporation law) decreased by 5.2% from US$176.3 million in the year ended December 31, 1998, to US$167.2 million in the year ended December 31, 1999, primarily due to an 11.7% decrease in sales volume. In recent years, the soft drink industry in Brazil has been very competitive due to the constant growth of small independent low price soft drink producers (generic brands).

Indirect sales taxes

Indirect sales taxes (basis: U.S. GAAP) consisting primarily of state value-added taxes, excise taxes and indirect taxes on sales remained stable at 32% of gross sales in 1998 and 1999.

Cost of sales

Cost of sales (basis: U.S. GAAP) decreased by 5.0% from US$528.7 million in the year ended December 31, 1998, to US$502.4 million in the year ended December 31, 1999. The operational cost of sales variances in Antarctica's beer and soft drinks segments are described below. U.S. GAAP adjustments to Antarctica's cost of sales on a Brazilian corporation law basis are not material.

Beer. Cost of sales for beer (basis: Brazilian corporation law) decreased by 5.2% from US$341.6 million in the year ended December 31, 1998, to US$324.0 million in the year ended December 31, 1999. This decrease was primarily due to a reduction in variable costs caused by a 12.8% reduction in sales volume and a reduction in fixed costs, principally depreciation, due to the closing of some production facilities and the modernization of others. These decreases were partially offset by (a) increased production costs in 1999 caused by the impact of the devaluation of the *real* against the U.S. dollar on purchases of U.S. dollar-denominated raw materials, principally packaging, and (b) inventory losses of US$17.6 million caused by the adoption of new forms of packaging and labeling for the sale of beer products. This change resulted in some holdings of packaging and labels becoming obsolete.

Soft Drinks. Cost of sales for soft drinks (basis: Brazilian corporation law) increased by 6.1% from US$127.7 million in the year ended December 31, 1998, to US$135.4 million in the year ended December 31, 1999. This increase was due to (a) the impact of the devaluation of the *real* against the U.S. dollar on U.S. dollar-denominated inputs, principally non-returnable packages which accounted for 74% of Antarctica's soft drinks sales volume in 1999, and (b) inventory losses of US$17.6 million caused by the adoption of new forms of packaging and labeling for the sale of soft drinks. This change resulted in some holdings of packaging and labels becoming obsolete.

Gross profit

Gross profit (basis: U.S. GAAP) increased 0.5% from US$246.7 million in 1998, to US$248.0 million in 1999. Gross profit as a percentage of net sales increased to 33.0% for the year ended December 31, 1999, from 31.8% for the year ended December 31, 1998, due to the increase in gross profit margins for beer that offset the decrease in gross profit margins for soft drinks.

Beer. Gross profit (basis: Brazilian corporation law) increased by 6.6% from US$195.7 million in 1998 to US$208.5 million in 1999. Gross margins increased from 36.4% in 1998 to 39.2% in 1999 due to the factors discussed in "—Cost of sales" above.

Soft Drinks. Gross profit (basis: Brazilian corporation law) decreased by 34.6% from US$48.6 million in 1998 to US$31.8 million in 1999. Gross margins decreased from 27.6% in 1998 to 19.0% in 1999 due to the factors discussed in "—Cost of sales" above.

Selling and marketing expenses

Selling and marketing expenses (basis: U.S. GAAP) increased by 96.8% from US$106.4 million for the year ended December 31, 1998, to US$209.5 million for the year ended December 31, 1999. This increase primarily reflects an increase in expenses associated with Antarctica's own distribution network and an increase in marketing expenses. Marketing expenses rose since Antarctica began assuming marketing expenses in their entirety, whereas previously they had been shared with Antarctica's distributors as per contractual arrangements.

General and administrative expenses

General and administrative expenses (basis: U.S. GAAP) increased by 13.7% from US$137.8 million in the year ended December 31, 1998, to US$156.6 million in the year ended December 31, 1999. A major reason for this was the additional expense associated with Antarctica's pension plan, whose number of participants increased from 6,000 to 6,400.

Other operating income, net

Other operating income, net (basis: U.S. GAAP) decreased from US$1.5 million for the year ended December 31, 1998, to US$0.5 million for the year ended December 31, 1999. This decrease is primarily a result of some losses related to settlement of legal claims.

Financial income

Financial income (basis: U.S. GAAP) decreased 41.0% from US$61.4 million for the year ended December 31, 1998, to US$36.3 million for the year ended December 31, 1999. This decrease is primarily due to the combined effects of a lower average cash balances and lower interest rates in 1999 as compared to 1998.

Financial expenses

Financial expenses (basis: U.S. GAAP) increased 245.5% from US$102.6 million for the year ended December 31, 1998, to US$354.4 million for the year ended December 31, 1999. This change is principally due to the following:

Interest on U.S. dollar debt: Interest expense on U.S. dollar-denominated debt increased by US$18.2 million in 1999, reaching US$39.8 million, an 84.3% increase from the 1998 total of US$21.6 million. Additionally, the effects of exchange rate variations on U.S. dollar-denominated loans reached US$216.8 million for the year ended December 31, 1999, compared with US$34.8 million for the year ended December 31, 1998. This was a direct consequence of the devaluation of the *real* on January 13, 1999. See "—Devaluation of the *Real* in 1999".

Interest on real debt: Interest expense on *real* debt increased by US$38.4 million, reaching US$80.7 million, a 91.1% increase from the 1998 total of US$42.3 million. Interest expense on loans increased primarily as a result of a sharp increase in Brazilian domestic interest rates due to the economic turbulence in emerging markets. See "—Liquidity and Capital Resources".

Other non-operating expense, net

Other non-operating expense, net (basis: U.S. GAAP) increased from US$8.1 million for the year ended December 31, 1998, to US$9.4 million for the year ended December 31, 1999. In 1998, the expense of US$8.1 million was comprised primarily of a loss of US$8.5 million on the disposal of property, plant and equipment. In 1999, the balance of US$9.4 million was comprised of a loss of US$13.1 million relating to the obsolescence of some stocks of bottles, which form part of property, plant and equipment, due to the adoption of a new form of packaging. This loss was offset by a gain of US$3.8 million on the disposal of property, plant and equipment.

Income tax benefit

Income tax benefit (basis: U.S. GAAP) decreased 89.1% from a benefit of US$1.8 million for the year ended December 31, 1998, to a benefit of US$0.2 million for the year ended December 31, 1999. As of December 31, 1999 and 1998, respectively, Antarctica has recorded a valuation allowance of US$238.6 million and US$203.4 million, against deferred tax assets of US$344.7 million and US$324.0 million, respectively. The valuation allowance recorded as of each period end was calculated on an individual subsidiary basis and was recorded primarily as a result of historical and projected taxable losses in some of those subsidiaries.

Equity in losses of affiliates

Equity in losses of affiliates (basis: U.S. GAAP) was US$0.4 million in 1999, a decrease of 77.3% compared to the US$1.7 million losses for the year ended December 31, 1998. The decrease is primarily the result of the sale of Antarctica's stake in Budweiser do Brasil to Anheuser-Bush Brasil Holdings Ltda. in July 1999, following the termination of the Antarctica-Budweiser joint venture. This joint venture accounts for the majority of the equity loss of US$1.7 million that occurred in 1998.

Minority interest

Minority interest participation (basis: U.S. GAAP) increased from a loss of US$17.9 million for the year ended December 31, 1998, to an income of US$4.4 million for the year ended December 31, 1999, as a result of improved financial performance in the Antarctica - Polar and Norte - Nordeste subsidiaries.

Net loss

Net loss (basis: U.S. GAAP) was US$440.9 million in the year ended December 31, 1999, as compared to a net loss of US$66.1 million for the year ended December 31, 1998.

Year Ended December 31, 1998 Compared with Year Ended December 31, 1997

Net Sales

Net sales (basis: U.S. GAAP) for the year ended December 31, 1998 decreased to US$1,212.7 million or 11.0% over net sales for 1997 of US$1,363.1 million. The operational net sales revenue variances in Antarctica's beer and soft drinks segments are described below. U.S. GAAP adjustments to Antarctica's net sale revenue on a Brazilian corporation law basis are not material.

Beer. Net sales of beer (basis: Brazilian corporation law) decreased by 9.7% from US$931.1 million in the year ended December 31, 1997, to US$840.3 million in the year ended December 31, 1998, due primarily to an overall 3.1% decrease in sales volume coupled with a reduction in the average sales price per hectoliter. The 3.1% decrease in sales volume of 20.6 million hectoliters in 1997 to 20.0 hectoliters in 1998 was primarily due to a deterioration in the Brazilian economic climate.

Soft Drinks. Net sales of soft drinks (basis: Brazilian corporation law) decreased by 13.0% from US$316.9 million in the year ended December 31, 1997, to US$275.8 million in the year ended December 31, 1998. This decrease reflects a 5.2% reduction in sales volume, to 8.6 million hectoliters in 1998 from 9.1 million hectoliters in 1997 as well as a 8.3% decrease in average unit prices, to US$31.9

net sales per hectoliter in 1998 from US$34.8 per hectoliter in 1997. The decrease in average unit prices for soft drinks resulted principally from increased competition during 1998, which was characterized by aggressive promotional pricing strategies by competitors geared towards lower priced soft drink brands.

Indirect sales taxes

Indirect sales taxes (basis: U.S. GAAP) consisting primarily of state value-added taxes, excise taxes and indirect taxes on sales, were stable at 31.6% of gross sales in 1997 and 32.7% in 1998.

Cost of sales

Cost of sales (basis: U.S. GAAP) decreased by 8.4% from US$902.6 million in the year ended December 31, 1997, to US$827.0 million in the year ended December 31, 1998. The operational cost of sales variances in Antarctica's beer and soft drinks segments are described below. U.S. GAAP adjustments to Antarctica's cost of sales on a Brazilian corporation law basis are not material.

Beer. Cost of sales for beer (basis: Brazilian corporation law) decreased by 3.9% from US$555.9 million in the year ended December 31, 1997 to US$534.3 million in the year ended December 31, 1998. This decrease was due to lower raw material prices as well as greater efficiency in the production process due to the closure of five small and old beer plants and the upgrade of two modern plants. These decreases were partially offset by an increase in production costs caused by a change in the packaging mix from returnable bottles to non-returnable bottles and cans, which represented 27.5% of total sales in 1998, up from 19.8% in 1997. The decrease in sales of returnable bottles reflects the preference of consumers and large supermarket chains for cans and one-way bottles. As a percentage of net sales, cost of sales for beer increased from 59.7% in 1997 to 63.6% in 1998 primarily due to a reduction in sales volume and the increase in production costs due to the increased use of one-way packaging.

Soft Drinks. Costs of sales for soft drinks (basis: Brazilian corporation law) decreased by 15.3% from US$235.9 million in the year ended December 31, 1997, to US$199.7 million in the year ended December 31, 1998. This decrease was principally due to improved operating efficiency and a reduction in fixed costs due to the closure of two soft drinks plants in 1998. This decrease was partially offset by an increase in production costs due to a shift in the sales mix of soft drinks to non-returnable packaging, primarily plastic bottles and cans in 1998. As a percentage of net sales, cost of sales for soft drinks decreased to 72.4% for 1998 from 74.4% for 1997.

Gross Profit

Gross profit (basis: U.S. GAAP) decreased by 16.2% from US$460.5 million for 1997 to US$358.8 million for 1998. Gross profit as a percentage of net sales was stable at 33.8% for the year ended December 31, 1998 and for the year ended December 31, 1997 due to the factors discussed in "—Cost of sales" above.

Beer. Gross profit (basis: Brazilian corporation law) from sales of beer decreased by 18.4% from US$375.2 million for 1997 to US$306.0 million for 1998. Gross margins decreased from 40.3% in 1997 to 36.4% in 1998 due to the factors discussed in "—Cost of sales" above.

Soft Drinks. Gross profit (basis: Brazilian corporation law) from sales of soft drinks decreased by 6.1% from US$81.0 million in 1997 to US$76.1 million in 1998. Gross margins increased from 25.6% in 1997 to 27.6% in 1998 as a result of the factors discussed in "—Cost of sales" above.

Selling and marketing expenses

Selling and marketing expenses (basis: U.S. GAAP) decreased by 10.4% from US$185.7 million for the year ended December 31, 1997, to US$166.5 million for the year ended December 31, 1998. This decrease primarily reflects lower marketing costs and a reduction in personnel costs.

General and administrative expenses

General and administrative expenses (basis: U.S. GAAP) decreased by 16.1% from US$256.9 million in the year ended December 31, 1997, to US$215.5 million in the year ended December 31, 1998. The decrease is primarily due to a reduction in the number of administrative personnel by approximately 28.6% resulting from the administrative and managerial restructuring process. See "Item 1.— Description of Business—Antarctica—Employees".

Restructuring charges

Restructuring charges (basis: U.S. GAAP) decreased by 36.0% from US$13.3 million in 1997 to US$8.5 million for the year ended December 31, 1998. Restructuring charges recorded in 1998 and 1997 reflect the closure of some plants and the net reduction in the workforce by approximately 2,650 in 1998 and 4,400 in 1997. Restructuring charges for the years ended December 31, 1998 and 1997 relate to severance and other employee related costs in the amount of US$8.5 million in 1998 and 13.4 million in 1997.

All restructuring charges have been recognized as liabilities when the obligation exists to pay cash or otherwise affect Antarctica's assets. No liabilities for restructuring costs were recorded as of December 31, 1998 or 1997. For plants to be closed, tangible assets have been written down to their estimated fair value. Employee severance costs include:

- payments legally due on dismissal of employees, principally one month's salary and a severance payment calculated at 40% of the accumulated contributions made to the government severance indemnity plan on behalf of the employee; and

- amounts paid to employees above their legal entitlement.

Recoverable water usage cost

Recoverable water usage cost (basis: U.S. GAAP) in the year ended December 31, 1997 represents a refund due to Antarctica by Companhia Estadual de Águas e Esgoto for sewage taxes levied on a plant in Rio de Janeiro. As a means of settling this balance, Companhia Estadual de Águas e Esgoto agreed to provide water to Antarctica's plant in Rio de Janeiro free of charge for a period of approximately 10 years, the estimated usage period, based on consumption levels and prices at that time. Amortization of these assets amounted to US$2.73 and US$4.18 million in the years ended December 31, 1998 and 1997, respectively (based on actual consumption) and was classified as cost of sales.

Financial income

Financial income (basis: U.S. GAAP) increased 57.3% from US$61.1 million for the year ended December 31, 1997, to US$96.1 million for the year ended December 31, 1998. This increase is primarily due to an increase in interest earned relating to recoverable taxes from US$23.6 million in 1997 to US$41.9 million in 1998 due to a higher average balance of recoverable taxes and higher interest rates, and an increase in interest income from US$26.6 million in 1997 to US$35.9 million in 1998 due primarily to higher average balances of cash and equivalents invested and higher nominal rates of return obtained on investments in Brazil in 1998 as compared to 1997.

Financial expenses

Financial expenses (basis U.S. GAAP) increased 55.0% from US$103.5 million for the year ended December 31, 1997, to US$160.4 million for the year ended December 31, 1998. This change is principally a result of the following:

Interest on U.S. dollar debt: Interest expense on U.S. dollar-denominated debt increased by US$1.3 million, a 4.0% increase from the 1997 total of US$32.5 million to US$33.8 million in 1998. Additionally, the effects of exchange rate variations on foreign currency debt resulted in charges of US$54.4 million for the year ended December 31, 1998, an increase of US$51.2 million from the 1997 charge of US$3.2 million, primarily due to the increase in the balance of dollar-denominated debt that resulted from the lower borrowing costs and longer maturities available for dollar-denominated debt as compared to local currency borrowings.

Interest on real debt: Interest expense on *real* debt in 1998 increased by US$3.2 million, a 5.1% increase from the 1997 total of US$62.9 million to US$66.1 million in 1998. Interest expense on loans increased primarily due to an increase in average indebtedness during 1998 and higher interest rates as a result of working capital financing and capital expenditures for financing expansion and modernization of existing plants, as well as machinery. While market interest rates on Brazilian bank debt increased in 1997 and 1998 as a result of the Asian and Russian crises (see "Item 9.— Management's Discussion and Analysis of Financial Condition and Results of Operations— Brahma—Brazilian Economic Environment"), Antarctica experienced only a minor increase in financial costs as a significant portion of Antarctica's interest bearing debt is payable to the Brazilian Economic and Social Development Bank (BNDES), which is a Brazilian governmental agency charging a long-term interest rate (TJLP) which is lower than the private banks' interest rates. See "—Liquidity and Capital Resources".

Gain on translation

Gain on translation (basis: U.S. GAAP) for the year ended December 31, 1997 amounted to $42.4 million. As from January 1, 1998, Antarctica concluded that the Brazilian economy had ceased to be highly inflationary and changed its functional currency from the reporting currency (U.S. dollars) to the local currency (*reais*). From this date onwards, translation gains and losses, previously reflected in the statement of operations are recorded directly in the cumulative translation adjustment account in shareholders' equity without impacting results for the year. The net translation loss for the year ended December 31, 1998, transferred directly to shareholders' equity was US$8.2 million against a gain reflected in the results of operations for the year ended December 31, 1997 of US$42.4 million. Amounts are not comparable due to changes in translation methodologies.

Other operating income, net

Other operating income, net (basis: U.S. GAAP) decreased 70.0% from US$6.3 million for the year ended December 31, 1997 to US$1.5 million for the year ended December 31, 1998. This decrease is primarily the result of credits arising from recoveries in lawsuits in 1997.

Other non-operating expense, net

Other non-operating expense, net (basis: U.S. GAAP) increased 96.1%, from US$4.1 million for the year ended December 31, 1997, to US$8.1 million for the year ended December 31, 1998. The main reason for this increase was the sale of share ownership in Dubar S.A. - Indústria e Comércio de Bebidas.

Income tax benefit

Income tax benefit (basis: U.S. GAAP) decreased 77.2% from a benefit of US$12.6 million for the year ended December 31, 1997, to a benefit of US$2.9 million for the year ended December 31, 1998. This increase in income tax expense relates primarily to the deferred income tax asset calculated on the tax loss carryforwards that Antarctica recorded.

Equity in losses of affiliates

Equity in losses of affiliates (basis: U.S. GAAP) decreased 47.4% to US$2.6 million for the year ended December 31, 1998, from US$4.9 million for the year ended December 31, 1997, primarily as a result of a reduction in the loss generated by Budweiser do Brasil Ltda. in the year ended December 31, 1998. Budweiser do Brasil is not consolidated because Antarctica did not control the company; the direct and indirect ownership by Antarctica until July 29, 1999 was 49%. Antarctica's investment in Budweiser do Brasil was accounted for under the equity method.

Minority interest

Minority interests of consolidated subsidiaries (basis: U.S. GAAP) decreased 43.3% from a loss of $49.3 million in the year ended December 31, 1997, to a loss of $28.0 million in the year ended December 31, 1998. This was mainly a result of higher levels of losses in the year ended December 31, 1998 for those subsidiaries where minority interest are held.

Net income (loss)

Net income (loss) (basis: U.S. GAAP) decreased from an income of US$5.4 million in the year ended December 31, 1997, to a loss of $103.4 million in the year ended December 31, 1998, as a result of the factors set forth above.

Liquidity and Capital Resources

Liquidity

Antarctica's principal cash requirements include:

- the servicing of Antarctica's indebtedness;

- capital expenditures, including the construction of new plants;
- investments in companies operating in the brewing and soft drink industries; and
- payments of dividends and interest on shareholders' equity.

Antarctica's primary sources of liquidity have historically been cash flows from operating activities and borrowings. Cash flows (basis: U.S. GAAP) from operating activities totaled US$189.2 million for the year ended December 31, 1998. Because Antarctica's cash flow from operating activities was negative in the year ended December 31, 1999 (US$37.4 million), Antarctica obtained US$61.9 million from financing activities in order to supply its cash requirements. In 1998, these cash flows were primarily applied towards investments in the capital expenditures program (US$168.7 million) (basis: U.S. GAAP). In 1999, cash flows (basis: U.S. GAAP) used in investing activities were approximately US$98.5 million, while they amounted to US$122.7 million in 1998.

Recently, Antarctica had to increase short-term debt in order to match the maturities of its revenues and expenditures. The following table illustrates the correlation between Antarctica's capital expenditures and its total debt growth (basis: Brazilian corporation law, converted into U.S. dollars):

	Capital Expenditures/Debt Growth				
	1999	1998	1997	1996	1995
	(millions of US$)				
Capital expenditure	US$41	US$186	US$169	US$205	US$408
Total debt growth[(1)]	40	159	156	187	225

(1) Absolute variation from one year to the other.

As the above table shows, the growth in Antarctica's debt has resulted primarily from the financing of capital expenditures. Despite the recent increase in Antarctica's short-term debt, the company intends to take advantage of the consolidated capital structure of AmBev and to lengthen the average maturity of its outstanding debt.

Antarctica intends to pay dividends annually to its shareholders; however, the timing and amount of future dividend payments, if any, will depend upon various factors that Antarctica's board of directors considers relevant, including Antarctica's earnings and financial condition. Antarctica's by-laws provide for a mandatory dividend of 25% of its annual net income, if any, as determined and adjusted under accounting principles set forth under Brazilian corporation law (adjusted income). The mandatory dividend includes amounts paid as interest attributable to shareholders' equity, which is equivalent to a dividend but is a more tax efficient way to distribute earnings, as it is deductible for income tax purposes. Because adjusted income may be capitalized, used to absorb losses or otherwise appropriated, any adjusted income could no longer be available to be paid as dividends. Any dividends payable on Antarctica's preferred shares must be at least 10% greater than those payable on Antarctica's common shares.

Based on historical trends, Antarctica does not expect any significant impacts on its liquidity in respect to future payments of dividends.

Net Working Capital

As of December 31, 1998, Antarctica had a net working capital deficiency (basis: U.S. GAAP) of US$144.9 million, compared with US$35.2 million as of December 31, 1997. The increase in the deficiency was principally the result of an increase in short-term debt of 23.4% from US$375.0 million as of December 31, 1997, to US$462.8 million as of December 31, 1998, and a decrease in trade accounts receivable, net of 41.0% from US$223.8 million as of December 31, 1997 to US$132.1 million as of December 31, 1998.

As of December 31, 1999, Antarctica's net working capital deficiency (basis: U.S. GAAP) was approximately US$646.6 million. The increase in the deficiency of US$501.7 million over the December 31, 1998 deficiency of US$144.9 million is due primarily to:

- an increase in the short-term debt of 73.0% from US$462.8 million as of December 31, 1998, to US$800.3 million as of December 31, 1999;
- an increase in the current portion of long-term debt from US$158.9 million as of December 31, 1998, to US$306.5 million as of December 31, 1999;
- a decrease in trade accounts receivable, net of 41.5% from US$132.1 million as of December 31, 1998, to US$82.8 million as of December 31, 1999; and
- a decrease in cash and cash equivalents from US$160.3 million as of December 31, 1998, to US$30.1 million as of December 31, 1999.

As of December 31, 1999, Antarctica was funding its negative working capital through the refinancing of its short-term debt and through accessing the market with debt instruments currently available in Brazil. The only significant transaction in connection with such refinancing occurred on September 27, 1999, when Antarctica initiated a placement of commercial paper in the Brazilian market in the total amount of up to R$300 million (US$156 million as of September 27, 1999). This issue of commercial paper by Antarctica was subject to the following main terms and conditions:

- interest rate of 105% of the interbank certificate of deposit rate (CDI rate);
- total term of 180 days for payment of full face value of the commercial paper, without payments of interest;
- no security was provided by Antarctica; and
- Antarctica may opt for an early redemption of the commercial paper upon prior 30-day notice and upon the express agreement of the creditors.

Antarctica expects that it will be able to benefit from the consolidated capital structure of AmBev in order to overcome its deficiency of net working capital. Upon approval of the controlling shareholders' contribution by the principal Brazilian antitrust authority (CADE) on April 7, 2000, AmBev initiated the integration of the treasury of Brahma and Antarctica. As part of this process, AmBev's management is currently reviewing the consolidated capital structure of Brahma and Antarctica, and seeking to restructure Antarctica's outstanding debt. See "Item 1.—Description of Business—Brahma—AmBev Business".

Indebtedness and Financing Strategy

Total debt

As of December 31, 1999, Antarctica's total outstanding debt to third parties totaled US$899.5 million, consisting of US$800.3 million of short-term debt, the current portion of long-term debt, debentures and promissory notes and US$99.2 million long-term debt. In the aggregate, this represented an increase of 4.7% in comparison with the balance of US$858.8 million as of December 31, 1998. Antarctica's most significant debt was incurred in connection with promissory notes issued to provide working capital financing; such financing was used due to the better domestic interest rates in comparison with U.S. dollar-denominated financings. Cash-interest expense of Antarctica was US$120.5 million and US$99.8 million for the years ended December 31, 1999, and December 31, 1998, respectively. This is directly related to the 22.2% increase in interest expense on *real* debt and to a lesser extent the 20.7% increase in interest expense on U.S. dollar debt in 1999. At December 31, 1999, 53.7% of Antarctica's total indebtedness was denominated in foreign currencies as compared with 66.4% as of December 31, 1998.

As of December 31, 1999, Antarctica had no formal lines of credit available. Additionally, none of Antarctica's material loan agreements include any restrictive financial covenants.

Long-term debt

As of December 31, 1999, Antarctica's long-term debt with third parties (excluding current portion) totaled US$99.1 million. This balance consists primarily of long-term plant expansion and modernization program loans from governmental agencies including BNDES (Brazilian Economic and Social Development Bank), BNDES's FINAME (Fund for Financing the Acquisition of Industrial Machinery and Equipment), FINEP (Financing Fund for Studies and Projects), FINEM (Company Financing), TDE (Economic Development Notes) and POC (Joint Operations Program). Including the current portion of long-term debt, as of December 31, 1999, Antarctica's long-term debt included (a) US$109.4 million in *real*-denominated debt, with nominal interest rates from 1% to 15%; and (b) US$296.2 million in U.S. dollar-denominated debt, with nominal interest rates from 6% to 16%.

The Brazilian Economic and Social Development Bank (BNDES) has been the principal low-cost lending source for Antarctica, and the only source of financing for new plants prior to 1995. The full balance owed to the BNDES as of December 31, 1999 of US$103.5 million has different installment payments (monthly, half-yearly or annual basis), and bears annual interest from 1% to 15% plus indexation of principal depending upon the maturity of the financing lines.

Antarctica borrows funds under Central Bank Resolution 63, a special financing line for loans denominated in U.S. dollars. Under Resolution 63, banks in Brazil obtain financing lines abroad and transfer the funds raised to corporate clients with the same international average interest cost. The cost of this financing line is generally 12% per year, plus the exchange rate variation. This financing line is often used by Brazilian companies as it is one of the few alternatives available to borrow funds with a maturity in excess of one year. Antarctica has also been availing itself of suppliers' credit over 360 days to import raw materials such as malt and hops and import financing. Both sources of funds are below market in terms of costs, with a nominal annual interest rates ranging from 6% to 8%.

The long-term portion of long-term debt as of December 31, 1999 matures as follows:

Year	Amount (in millions of US$)
2001	US$65.7
2002	21.3
2003	7.6
2004	3.6
Thereafter	0.9
Total	US$99.1

As of December 31, 1999, Antarctica's long-term debt was US$99.1 million, a decrease of 75% in comparison with US$396.0 million as of December 31, 1998.

Short-term debt

Antarctica's short-term debt (including the current portion of long-term debt) totaled US$800.3 million as of December 31, 1999, compared to US$462.8 million as of December 31, 1998, and consisted primarily of debentures and promissory notes, financing for the importation of raw materials and imported machinery and working capital financing. From the total outstanding short-term debt of US$800.3 million as of December 31, 1999, US$141.1 million consisted of promissory notes, US$35.2 million consisted of debentures and US$624.0 million consisted of other *real*-denominated and U.S. dollar-denominated debt. In 1999, (a) working capital financing was US$288.5 million, compared to US$187.3 million in 1998; (b) debentures were US$35.2 million in 1999, compared to US$77.3 million in 1998, and (c) promissory notes were US$141 million (issued in 1999).

Weighted average interest rates on the December 31, 1999 short-term debt balances were as follows: (a) short-term debt excluding debentures and promissory notes - 14.3%, (b) debentures - 25.0%, and (c) promissory notes - fixed rate of 16.4%.

Commitments and Contingencies

As of December 31, 1999, Antarctica estimated its long-term liabilities contingencies in approximately US$21.4 million. Offsetting these amounts is US$6.0 million included in long-term assets as restricted deposits for legal proceedings. Restricted deposits represent escrow payments made when Antarctica disputes claims. See "Item 3.—Legal Proceedings—Antarctica".

Probable losses, provided as liabilities of Antarctica based on the advice of several in-house and outside legal counsel, are summarized below:

Probable Losses as of December 31, 1999
(U.S. dollars in millions)

Income tax	US$1.3
Social contribution (INSS)	2.0
Value-added sales tax (ICMS)	0.3
Labor claims	17.6
Others	0.2
Total accrued liabilities for legal proceedings	**US$21.4**

Antarctica's management believes, based on advice from its legal counsel, that the above amounts correspond to probable and reasonably estimable losses in the event of unfavorable rulings, and that the ultimate resolution of these matters will not have a significant effect on the company's liquidity, financial condition or results of operations.

Capital Expenditures

Capital expenditures totaled US$60.2 million during 1999 and US$168.7 million during 1998. These expenditures are mainly related to:

- the construction of the Aquiraz plant in the State of Ceará, opened in August 1998;
- the upgrade of the two plants, Jaguariúna in the state of São Paulo, and Jacarepaguá in the state of Rio de Janeiro;
- the replacement of equipment such as electronic inspectors;
- the construction of new bottling and canning lines; and
- the IT program for implementation of SAP, concluded on July 1, 1999.

As of December 31, 1999, Antarctica had no material commitments for capital expenditures.

ITEM 9A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

BRAHMA

Market Risk

Brahma is exposed to various market risks, including changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rate and prices, such as foreign currency exchange rates and interest rates. Brahma's trading securities are not subject to equity risk, as such instruments are comprised of fixed-term investments and government securities. In 1999, Brahma also entered into interest rate swap agreements, although none were outstanding at December 31, 1999. Brahma enters into derivatives and other financial instruments to manage and reduce the impacts of fluctuations in interest rates and foreign currency exchange rates. Brahma adopted a finance policy in September of 1998 to protect 100% of its foreign currency exposure originating from U.S. dollar-denominated debt, financing on imports and foreign suppliers, in order to limit the risk that would otherwise result from changes in exchange rates. The counterparties are major financial institutions. Brahma has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial activities.

See Notes 2(c) and 13 to the Brahma financial statements for discussion of the accounting policies for derivative financial instruments and information on financial instruments.

Foreign Exchange Risk

Brahma is exposed to fluctuations in foreign currency cash flows related to debt payments, some third party purchases as well as to Brahma's investment in foreign subsidiaries and cash flows relating to the repatriation of these investments. Brahma's primary exposure is to the U.S. dollar.

Brahma assesses foreign currency risk based on transactional cash flows and enters into forward contracts to reduce fluctuations in net long or short currency positions. As of December 31, 1999, derivative activities consisted of hard currency forwards and foreign currency swaps. These contracts reduce the risk to financial condition, liquidity and results of operations of changes in the underlying foreign exchange rates. Any variation in the exchange rate accruing to the contract would be offset by a similar change in the related obligation. Therefore, after execution of the contract, variations in exchange rates would not impact the Brahma financial statements. Brahma enters into derivative financial instruments to manage and reduce the impacts of changes in foreign currency exchange rates.

Since mid-January 1999 the *real* has traded in a volatile market, reaching a low of R$2.16 per US$1.00 on March 3, 1999. Since January 1, 1999 and through December 31, 1999, the *real* has depreciated by 32.4% against the U.S. dollar and as of December 31, 1999 the commercial market rate for purchasing U.S. dollars was R$1.7890 to US$1.00. At the close of trading in the commercial market on June 30, 2000, the *real* traded at R$1.80 per US$1.00.

Interest Rate Risk

Brahma is exposed to interest rate volatility with regard to its cash and cash equivalents, trading securities and fixed and floating rate debt. Brahma manages its short-term debt portfolio in response to changes in interest rates. For short-term debt, Brahma generally will swap the pre-fixed interest rate for a floating rate, the *Certificado de Depósito Interbancário* (CDI). Additionally, Brahma strives to minimize interest rate risks by financing with debt in the currencies in which assets are denominated and employing established policies and procedures to manage this exposure. Brahma primarily uses Brazilian government-based financing sources to meet its financing requirements and reduce interest expense. The interest rate in our cash, cash equivalents and trading security investments denominated in *reais* is based on the *Certificado de Depósito Interbancário* (CDI) rate, the benchmark interest rate set by the interbank market on a daily basis.

Brahma has not experienced, and it does not expect to experience, difficulty obtaining financing or refinancing existing debt. As of December 31, 1999, Brahma had no committed line of credit agreements. Brahma enters into interest rate swaps to manage and reduce the impact of changes in interest rates.

The table below provides information about Brahma's significant interest rate risk sensitive instruments as of December 31, 1999. The fair values of these instruments and their terms have been categorized by expected maturity dates.

	Instruments with Interest Rate Risk							
	Principal Maturities Periods							
	2000	2001	2002	2003	2004	Thereafter	Total	Fair Value
	(US$ equivalent in millions)							
Instruments entered into for trading purposes:								
Trading securities in U.S. dollars								
Fixed rate	US$39.7	–	–	–	–	–	US$39.7	US$39.7
Average interest rate	8.7%	–	–	–	–	–		
Variable rate	US$117.4	–	–	–	–	–	US$117.4	US$117.4
Average interest rate	5.4%	–	–	–	–	–		
Instruments entered into for other than trading purposes:								
Brazilian *reais*								
Cash and cash equivalents in *reais*								
Variable rate	US$737.2	–	–	–	–	–	US$737.2	US$737.2
Average interest rate	17.2%	–	–	–	–	–		
Short-term debt denominated in *reais*								
Variable rate	US$13.4	–	–	–	–	–	US$13.4	US$13.4
Variable interest rate[(1)]	11.0%	–	–	–	–	–		
Fixed rate	3.0%	–	–	–	–	–		
Long-term debt denominated in *reais*								
Fixed rate	US$(0.3)	US$(2.6)	US$(2.6)	–	–	–	US$(5.6)	US$(5.6)
Fixed interest rate	13.74%	13.74%	13.74%	–	–	–		
Variable rate	US$(126.3)	US$(103.1)	US$(80.4)	US$(78.9)	US$(71.4)	US$(37.4)	US$(497.6)	US$(497.6)
Variable interest rate [(1)]	11.0%							
Fixed interest rate	3.0%	3.0%	3.0%	3.0%	–	3.0%		
Foreign Currencies								
Cash and cash equivalents denominated in U.S. dollars								
Variable rate	US$34.5	–	–	–	–	–	US$34.5	US$34.5
Average interest rate	5.0%	–	–	–	–	–		
Cash and cash equivalents denominated in other currencies								
Variable rate	US$0.6	–	–	–	–	–	US$0.6	US$0.6
Average interest rate	5.0%	–	–	–	–	–		
Short-term debt denominated in U.S. dollars								
Fixed rate	US$(311.3)	–	–	–	–	–	US$(311.3)	US$(311.3)
Average interest rate	7.99%	–	–	–	–	–		
Short-term debt denominated in other currencies								
Fixed rate	US$(22.5)	–	–	–	–	–	US$(22.5)	US$(22.5)
Average interest rate	25.0%	–	–	–	–	–		
Long-term debt denominated in U.S. dollars								
Fixed rate	US$(100.5)	US$(47.0)	US$(23.6)	US$(6.6)	US$(1.4)	US$(10.6)	US$(189.8)	US$(189.8)
Average interest rate	7.99%	8.62%	8.43%	8.48%	8.88%	9.86%		

	Instruments with Interest Rate Risk							
	Principal Maturities Periods							
	2000	2001	2002	2003	2004	Thereafter	Total	Fair Value
	(US$ equivalent in millions)							
Interest rate derivatives								
Interest rate swaps								
Pay variable (R$)/receive fixed (US$)								
Notional amount	US$200.2	–	–	–	–	–	US$200.2	US$215.1
Average pay rate	17.2%	–	–	–	–	–		
Average receive rate	12.1%	–	–	–	–	–		
Pay fixed (US$)/receive variable (R$)								
Notional amount	US$439.6	–	–	–	–	–	US$439.6	US$440.6
Average pay rate	10.1%	–	–	–	–	–		
Average receive rate	17.2%	–	–	–	–	–		

(1) The variable rate comprises, substantially, the TJLP plus a weighted-average spread of 3.04%. The TJLP - *Taxa de Juros de Longo Prazo* is a long-term nominal interest rate fixed by the government on a quarterly basis. The TJLP has been fixed as follows:

	2000	1999	1998	1997
January 1/February 28	12.00%	12.84%	11.77%	10.33%
April 1/May 31	11.00	13.48	10.63	10.15
August 30	N/A	14.05	11.68	9.40
November 30	N/A	12.50	18.06	9.89

Brahma expects that the TJLP will not be increased in the near future, under the current Brazilian government's policy of progressively reducing interest rates. However, no assurance can be given as to the TJLP's reduction, in view of Brazil's economic conditions.

The table below provides information about Brahma's significant exchange rate risk sensitive instruments as of December 31, 1999. The fair values of these instruments and their contact terms have been categorized by expected maturity dates.

	Instruments with Exchange Rate Risk							
	Principal Maturities Periods							
	2000	2001	2002	2003	2004	Thereafter	Total	Fair Value
	(US$ equivalent in millions)							
Real Functional Currency								
Trading securities in U.S. dollars								
Fixed rate	US$39.7	–	–	–	–	–	US$39.7	US$39.7
Average interest rate	8.7%	–	–	–	–	–		
Variable rate	US$117.4	–	–	–	–	–	US$117.4	US$117.4
Average interest rate	5.4%	–	–	–	–	–		
Cash and cash equivalents denominated in U.S. dollars								
Variable rate	US$34.5	–	–	–	–	–	US$34.5	US$34.5
Average interest rate	5.0%	–	–	–	–	–		
Cash and cash equivalents denominated in other currencies								
Fixed rate	US$0.6	–	–	–	–	–	US$0.6	US$0.6
Average interest rate	5.0%	–	–	–	–	–		
Short-term debt denominated in U.S. dollars								
Fixed rate	US$(311.3)	–	–	–	–	–	US$(311.3)	US$(311.3)
Average interest rate	7.99%	–	–	–	–	–		
Short-term debt denominated in other currencies								
Fixed rate	US$(22.5)	–	–	–	–	–	US$(22.5)	US$(22.5)
Average interest rate	25.0%	–	–	–	–	–		
Long-term debt denominated in U.S. dollars								
Fixed rate	US$(100.5)	US$(47.0)	US$(23.6)	US$(6.6)	US$(1.4)	US$(10.6)	US$(189.8)	US$(189.8)
Average interest rate	7.99%	8.62%	8.43%	8.48%	8.88%	9.86%		
Forward exchange agreements								
Receive US$/Pay R$								
Notional amount	US$20.8	–	–	–	–	–	US$20.8	US$19.9
Average exchange rate (per US$1)	1.8564	–	–	–	–	–		
Pay variable (R$)/receive fixed (US$)								
Notional amount	US$200.2	–	–	–	–	–	US$200.2	US$207.4
Average pay rate	17.2%	–	–	–	–	–		
Average receive rate	12.1%	–	–	–	–	–		
Pay fixed (US$)/receive variable (R$)								
Notional amount	US$439.6	–	–	–	–	–	US$439.6	US$414.7
Average pay rate	10.1%	–	–	–	–	–		
Average receive rate	17.2%	–	–	–	–	–		
U.S. Dollar Functional Currency (in subsidiaries outside Brazil)								
Notional amount	US$160.0	–	–	–	–	–	US$160.0	US$152.0
Average exchange rate (per US$1)	1.0795	–	–	–	–	–		

ITEM 10. DIRECTORS AND OFFICERS OF REGISTRANT

BRAHMA

The board of directors and the executive officers conduct Brahma's administration. The board of directors, comprised by three members that must be shareholders of Brahma, provides the overall strategic direction of Brahma.

Directors are elected at annual general meetings by holders of common shares for a three-year term. Day-to-day management is delegated to the executive officers of Brahma, which must number at least six but no more than 15. The board of directors appoints executive officers for a two-year term, which may be renewed at the discretion of the board of directors. Brahma is a subsidiary of AmBev and, as such, the election of its directors is subject to the AmBev shareholders' agreement. See "Item 1.—Description of Business—Brahma—Combination of Brahma and Antarctica and the Formation of AmBev".

The following table sets forth information with respect to the directors of Brahma as of May 31, 2000.

Board of Directors

Name	Position	Director Since	Term Expires
Members			
Marcel Herrmann Telles	Chairman and Director	1996	2002
Jorge Paulo Lemann	Director	1990	2002
Danilo Palmer	Director	1999	2002
Alternate Member			
Vicente Falconi Campos	Alternate Director	1997	—

Following are brief biographies of each of Brahma's directors.

MARCEL HERRMANN TELLES. Mr. Telles has been associated with Brahma since 1989. He was an officer of Banco de Investimentos Garantia S.A. until 1989 and is currently a member of the board of directors of Lojas Americanas S.A. He was appointed Chief Executive Officer of Brahma in 1989 and was appointed for successive terms in 1993, 1995 and 1997. He is currently the Chairman of the board of directors of Brahma, a director of Antarctica and Co-Chairman of the board of directors of AmBev. Mr. Telles has a degree in economics from the Federal University of Rio de Janeiro and attended the Owners/Presidents Management Program at Harvard Business School.

JORGE PAULO LEMANN. Mr. Lemann was elected to the board of directors of Brahma in 1990. He was the Chief Executive Officer of Banco de Investimentos Garantia S.A. until 1998 and is currently a member of the board of directors of Lojas Americanas S.A. He is also a member of the boards of directors of Brahma and AmBev, and holds a degree in economics from Harvard University.

DANILO PALMER. Mr. Palmer joined Brahma in 1969 and in 1972, was made responsible for its Economic Analysis Department. In 1974, he was appointed Manager of Economic Analysis, in 1975 he was named Accounting Manager, and in 1976 he was named Budget Manager. Mr. Palmer was elected Budget Officer of Brahma in 1984 and Chief Financial Officer in 1989. He is currently a member of the

boards of directors of Brahma and AmBev. Mr. Palmer graduated in business administration at *Faculdade Moraes Júnior*.

VICENTE FALCONI CAMPOS. Mr. Campos is the President of the institutional council of *Fundação de Desenvolvimento Gerencial – FDG*, which currently promotes the Project "Total Quality Management". He is a consultant for the Brazilian government, large business groups, Brazilian and multinational companies. Mr. Campos is currently an alternate member of the boards of directors of Brahma and AmBev, and a director of Antarctica. He has a degree in mines and metal engineering from the Federal University of Minas Gerais.

The following table sets forth information with respect to the executive officers of Brahma as of May 31, 2000.

Executive Officers

Name	Age	Title	Current Position Held Since
Magim Rodriguez Júnior	57	Chief Executive Officer	1998
Luis Felipe Pedreira Dutra Leite	34	Chief Financial Officer and Investor Relations Officer	1999
José Adilson Miguel	57	Retail Officer	1990
Cláudio Bráz Ferro	44	Industrial Officer	1994
Carlos Alves de Brito	38	Sales Officer	1996
Guilherme Rodolfo Laager	43	Logistics and Information Officer	1997
Juan Manuel Vergara Galvis	39	Marketing Officer	1997

Following are brief biographies of each of Brahma's executive officers.

MAGIM RODRIGUEZ JÚNIOR. Mr. Rodriguez has been associated with Brahma since 1989, serving first as Marketing Officer. Mr. Rodriguez was appointed Chief Executive Officer of Brahma in 1999 and currently remains in such position. He is also the Chief Executive Officer of AmBev and Antarctica. He holds a degree in business administration and accounting from Mackenzie University.

LUIS FELIPE PEDREIRA DUTRA LEITE. Mr. Leite began his career in Brahma's treasury department in 1990. In 1992, he was named Manager of Financial Transactions, and in 1994 he was named Finance Manager. In 1997, Mr. Leite was appointed General Manager of the New Age beverage division. In 1999, he was appointed Chief Financial Officer and Investor Relations Officer of Brahma. He is also the Chief Financial Officer and Investor Relations Officer of AmBev and the Chief Financial Officer of Antarctica. Mr. Leite holds a degree in economics and an M.B.A. in financial management from the University of São Paulo.

JOSÉ ADILSON MIGUEL. Mr. Miguel has been associated with Brahma since 1962. He was named Commercial Manager in 1970 and General Marketing Manager in 1976. Mr. Miguel was elected Marketing Officer in 1980, and was appointed Retail Officer in 1990, the position he currently holds.

CLÁUDIO BRÁZ FERRO. Mr. Ferro started working with Brahma in 1978 as a Brew Master and was responsible for the production and bottling divisions. In 1984, he was appointed Manager of the Industrial Department and in 1990, Manager of the Rio de Janeiro plant. Mr. Ferro has been serving as Brahma's Industrial Officer since 1994. He is also the Industrial Officer of AmBev and Antarctica. He obtained a degree in industrial chemistry from the Federal University of Santa Maria.

CARLOS ALVES DE BRITO. Mr. Brito started working with Brahma in 1989. In 1990, he became Manager of the Agudos branch and was appointed Soft Drinks Officer in 1992. Since 1996, he has been the Sales Officer of Brahma. He is also the Sales Officer of AmBev and Antarctica. Mr. Brito obtained a degree in mechanical engineering from the Federal University of Rio de Janeiro and an M.B.A. from Stanford University.

GUILHERME RODOLFO LAAGER. Mr. Laager was a manager in Brahma's Minas Gerais and Jacareí plants. He was appointed Supply Director in 1997, and is currently the Logistics and Information Officer of Brahma. He is also the Logistics and Information Officer of AmBev. Mr. Laager holds a degree in civil engineering from the Federal University of Rio de Janeiro.

JUAN MANUEL VERGARA GALVIS. Mr. Galvis has been the Marketing Officer of Brahma since 1997. He was appointed General Officer of the newly created Soft Drinks and Non-Alcoholic Beverages Division of AmBev in April 2000. He has a degree in business administration from the *Colegio de Estudos Superiores de Administración,* in Bogota, Colombia.

There are no pending legal proceedings adverse to Brahma to which any director, nominee for director or executive officer of Brahma is a party.

Brahma has a non-permanent fiscal committee (*Conselho Fiscal*) which generally meets every three months, consists of three to five members and three to five alternates (deputy members) elected by the shareholders at the annual meeting for one-year terms. The primary responsibility of the fiscal committee, which is independent of management and of the external independent accountants appointed by the board of directors, is to review Brahma's financial statements and report on them to the shareholders. The fiscal committee is also charged with issuing special reports on proposed changes in capitalization, corporate budgets and proposed dividend distributions or any corporate reorganization. The fiscal committee has general responsibility for supervising the activities of management and reporting on them to the shareholders, and recommends the selection of independent accountants for Brahma or its subsidiaries. Regular members of the fiscal committee are Ary Waddington, Ricardo Scalzo and Antônio Carlos Monteiro. Alternate members of the fiscal committee are Osmar José Fumagali, Walter Prugger and John Richard Lewis Thompson.

ITEM 11. COMPENSATION OF DIRECTORS AND OFFICERS

BRAHMA

For the year ended December 31, 1999, the aggregate compensation paid by Brahma to all directors and all executive officers (11 persons) for services in all capacities was approximately R$20.9 million (US$11.7 million as of December 31, 1999). The members of the board of directors and the executive officers receive some additional benefits generally provided to Brahma employees and their beneficiaries and covered dependents, such as medical assistance, educational expenses and supplementary social security benefits. All such benefits are provided through the Brahma Welfare Foundation.

ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

BRAHMA

On February 14, 1996, Brahma's board of directors approved the private placement of 404,930,519 subscription warrants at R$50 per 1,000-share lot, convertible on a one-to-one basis in April 2003 at a strike price of R$1,000.00. The strike price is adjusted by inflation plus 12%, minus dividends paid from January 1997 onwards, which are also adjusted by the same conditions. Of the total issue, 35% is convertible into Brahma's common shares. Of the 404,930,519 warrants, 262,891,498 are for subscription of Brahma's preferred shares and 142,039,021 for subscription of Brahma's common shares to the value of US$13.4 million for the preferred shares and US$7.2 million for the common shares, granting purchasers the right to subscribe one warrant for each 17 shares held during the period of 30 days as from February 28, 1996. Each warrant will have the right to subscribe for one share, this number being adjusted proportionately should there by any reverse splits, splits or distributions of stock dividends and may be exercised during the month of April 2003. The subscription price was originally set at R$1.00 (US$0.57) per common or preferred share. We expect that, at the Brahma's shareholders' meeting that would consider the Brahma conversion, common shareholders would approve the cancellation of the Brahma warrants and the issuance of new AmBev warrants, which would entitle holders to subscribe for AmBev shares in accordance with the original terms and conditions applicable to the Brahma warrants.

Pursuant to a financing agreement signed with International Finance Corporation—IFC, funds equivalent to an aggregate of US$158 million were advanced on January 23 and 24, 1996. Together with cash generated by Brahma and BNDES and FINAME lines, these resources financed investment program estimated to be at least US$600 million during the period 1994 through 1996. Under the terms of the facility with the IFC, interest will accrue at the London interbank offered rate (LIBOR) of between 2.5% and 2.75% per annum above LIBOR, falling due in installments through June 2003. Part of this loan (3.16%, or US$5 million) may be converted into Brahma's preferred shares, at the IFC's option and are maintained as treasury shares.

Brahma has a stock option plan designed to promote the company's objectives and to obtain and retain the services of qualified executives and employees. Both common and preferred shares are granted in the plan.

The plan is administered by a committee, which includes non-executive members of the board of directors of Brahma. This committee periodically creates programs of share options, defining the terms and employees to be included, and establishes the price at which the shares are to be issued. This price shall not be less than 90% of the average price of the shares traded on the stock market in the previous three business days, adjusted pursuant to inflation through the date the option is granted. The number of shares which might be granted in each year shall not exceed 5% of the total number of shares outstanding of each group of shares at that date. When share options are exercised, Brahma issues new shares. Share options were granted until October 1999, and they do not specify a final date by which they must be exercised. If an employee leaves the employment of Brahma (other than upon retirement), the Brahma Welfare Foundation may voluntarily repurchase such shares, at a price equal to:

- the inflation-indexed price paid by such employee, if the employee left during the first 30 months after the exercise of the option;

- 50% of the inflation-indexed price paid, and 50% at the prevailing market price, if the employee left after the first 30 months but before the 60th month after the exercise of the option; and

- the market price if the employee left more than 60 months after the exercise of the option.

We expect that, at the Brahma shareholders' meeting that would consider the Brahma conversion, common shareholders would approve the cancellation of Brahma's stock option plan. We expect that, following the cancellation of Brahma's stock option plan, AmBev shareholders would approve a new stock option plan for AmBev.

ITEM 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

Not applicable.

PART II

ITEM 14. DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable.

PART III

ITEM 15. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

Not applicable.

PART IV

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

(a) *List of Financial Statements*

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(b) *List of Exhibits*

None.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant, Companhia Cervejaria Brahma, certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMPANHIA CERVEJARIA BRAHMA

By: /s/ Luis Felipe Pedreira Dutra Leite
Name: Luis Felipe Pedreira Dutra Leite
Title: Chief Financial Officer and Investor Relations Officer

Dated: July 6, 2000

Companhia Cervejaria Brahma

Consolidated Financial Statements at December 31, 1999 and 1998, and for Each of the Three Years in the Period Ended December 31, 1999 and Report of Independent Accountants

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Report of Independent Accountants

To the Board of Directors and Shareholders
Companhia Cervejaria Brahma

1 We have audited the accompanying consolidated balance sheets of Companhia Cervejaria Brahma and its subsidiaries (the "Company") as of December 31, 1999 and 1998, and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity for each of the three years in the period ended December 31, 1999, all expressed in United States dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2 We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3 In our opinion, the accompanying consolidated financial statements audited by us present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers
Auditores Independentes

São Paulo, Brazil
March 11, 2000, except as to
Notes 1(b)(i) and 19 which are
dated as of April 19, 2000

Companhia Cervejaria Brahma

Consolidated Balance Sheet
(Expressed in thousands of United States dollars)

	December 31	
Assets	**1999**	**1998**
Current assets		
Cash and cash equivalents	772,286	723,250
Swap income receivable	41,755	
Trading securities	157,145	157,552
Trade accounts receivable, net	159,148	247,511
Advances to distributors and suppliers	3,750	14,420
Sales and income taxes recoverable	95,441	83,484
Inventories	210,460	298,766
Deferred income tax		7,639
Prepaid expenses	9,168	16,235
Other	30,329	41,415
	1,479,482	1,590,272
Investments		
Investment in affiliates	22,003	33,980
Other	5,840	8,126
	27,843	42,106
Property, plant and equipment, net	1,022,786	1,739,745
Goodwill and intangible assets, net	54,034	83,856
Other assets		
Receivables from affiliated companies	93,780	70,889
Deferred income tax	68,789	69,841
Prepayment to Brahma Welfare Foundation	23,507	41,013
Prepaid Brahma Pension Fund benefit cost	21,663	10,996
Restricted deposits for legal proceedings	23,892	25,854
Tax incentive investments	21,242	33,349
Assets held for sale	7,386	5,855
Other	29,520	17,792
	289,779	275,589
Total assets	2,873,924	3,731,568

Companhia Cervejaria Brahma

Consolidated Balance Sheet
(Expressed in thousands of United States dollars) **(continued)**

	December 31	
Liabilities and shareholders' equity	**1999**	**1998**
Current liabilities		
Suppliers	173,733	207,714
Payroll, profit sharing and related charges	48,156	39,837
Taxes on sales	130,701	159,085
Short-term debt	347,184	443,046
Current portion of long-term debt	227,185	290,465
Interest attributed to shareholders' equity, gross of tax	63,755	76,599
Deferred income tax		488
Other	51,907	63,074
	1,042,621	1,280,308
Long-term liabilities		
Long-term debt	465,855	727,770
Accrued liability for legal proceedings	163,309	208,033
Sales tax deferrals and other tax credits	296,742	341,239
Deferred income tax	860	6,481
Other	32,600	31,951
	959,366	1,315,474
Minority interest	20,383	35,377
Temporary equity – appraisal rights (Note 1(b)(i))	707,913	

Commitments and contingencies (Note 16)

Companhia Cervejaria Brahma

Consolidated Balance Sheet
(Expressed in thousands of United States dollars, except number of shares) **(continued)**

	December 31	
	1999	**1998**
Shareholders' equity		
Preferred shares - no par value, 8,266,559 thousand authorized - 4,289,905 thousand issued at December 31, 1999 (1998 - 4,614,948 thousand issued)	405,290	427,906
Common shares - no par value, 4,133,279 thousand authorized - 2,635,679 thousand issued at December 31, 1999 (1998 - 2,667,456 thousand issued)	241,964	244,516
Treasury shares	(154,441)	(350,203)
Advances to employees for purchase of shares	(49,770)	(63,568)
Appropriated retained earnings	89,449	119,061
Unappropriated retained earnings	791,324	832,842
Accumulated other comprehensive income	(472,262)	(110,145)
	851,554	1,100,409
Temporary equity – appraisal rights (Note 1(b)(i))	(707,913)	
	143,641	1,100,409
Total liabilities, minority interest, temporary equity and shareholders' equity	2,873,924	3,731,568

The accompanying notes are an integral part of these consolidated financial statements.

Companhia Cervejaria Brahma

Consolidated Statement of Operations
(Expressed in thousands of United States dollars, except per share amounts and number of shares)

	Years ended December 31		
	1999	**1998 (reclassified)**	**1997 (reclassified)**
Gross sales, net of discounts, returns and allowances			
Total gross sales	3,689,885	5,933,040	5,140,326
Value-added and excise tax on sales	(1,913,942)	(3,263,702)	(2,696,223)
Net sales	1,775,943	2,669,338	2,444,103
Cost of sales	(1,026,021)	(1,554,573)	(1,393,395)
Gross profit	749,922	1,114,765	1,050,708
Selling and marketing expenses	(313,899)	(627,251)	(426,222)
General and administrative expenses	(188,070)	(281,601)	(338,298)
Other operating (expense) income, net	(51,341)	3,476	1,409
Operating income	196,612	209,389	287,597
Non-operating income (expenses)			
Financial income	390,318	198,636	136,992
Financial expenses	(442,022)	(289,504)	(142,318)
Other (expense) income, net	(8,448)	14,994	40,310
Income before income tax, equity in affiliates and minority interest	136,460	133,515	322,581
Income tax benefit (expense)			
Current	37,999	90,526	107,696
Deferred	1,391	2,170	(7,806)
	39,390	92,696	99,890
Income before equity in affiliates and minority interest	175,850	226,211	422,471
Equity in earnings (losses) of affiliates	5,404	2,962	(28,138)
Minority interest	3,498	9,404	1,133
Net income	184,752	238,577	395,466

Companhia Cervejaria Brahma

Consolidated Statement of Operations
(Expressed in thousands of United States dollars, except per share amounts and number of shares) **(continued)**

DATETIME

	Years ended December 31		
	1999	**1998**	**1997**
Earnings per thousand shares (US$)			
Basic			
Preferred shares	28.92	36.56	57.91
Common shares	26.29	33.24	52.64
Diluted			
Preferred shares	28.12	35.70	56.02
Common shares	25.56	32.45	50.93
Weighted-average number of shares outstanding (in thousands)			
Basic			
Preferred shares	4,232,516	4,346,727	4,622,175
Common shares	2,371,589	2,396,620	2,428,003
Diluted			
Preferred shares	4,406,174	4,486,158	4,825,779
Common shares	2,381,869	2,418,471	2,456,931

The accompanying notes are an integral part of these consolidated financial statements.

Companhia Cervejaria Brahma

Consolidated Statement of Cash Flows
(Expressed in thousands of United States dollars)

	Years ended December 31		
	1999	**1998**	**1997**
Cash flows from operating activities			
Net income	184,752	238,577	395,466
Adjustments to reconcile net income to cash provided by operating activities			
Gain on translation			(39,096)
Stock based compensation	4,593	4,512	4,622
Depreciation	228,690	254,628	237,933
Amortization of goodwill and intangible assets	6,213	8,726	5,103
(Gain) loss on disposal of property, plant and equipment, net	(5,323)	(10,036)	10,397
Impairment provision on property, plant and equipment to be held and used	3,121		
Equity in (earnings) losses of affiliates	(5,404)	(2,962)	28,138
Sales tax deferrals	65,252	145,489	130,195
Deferred income tax (benefit) expense	(1,391)	(2,170)	7,806
Minority interest	(3,498)	(9,404)	(1,133)
Other	(14,032)	(951)	(947)
(Increase) decrease in assets			
Trading securities	(12,638)	(45,451)	18,200
Trade accounts receivable	15,982	9,804	(158,516)
Advances to distributors and suppliers	(6,821)	(10,978)	2,616
Sale and income taxes recoverable	(30,043)	(23,548)	6,621
Inventories	13,149	5,518	54,968
Prepaid expenses	2,656	(1,024)	(3,978)
Receivables from affiliated companies	(45,234)	(34,428)	(40,962)
Other	(15,935)	8,452	(6,798)
(Decrease) increase in liabilities			
Suppliers	26,679	(23,984)	32,151
Payroll, profit sharing and related charges	(274)	(70,327)	19,936
Income tax and social contribution	7,273		(27,319)
Taxes on sales	22,111	(8,554)	9,461
Accrued liability for legal proceedings, net of restricted deposits	16,004	(98,854)	(151,040)
Other	55,110	50,990	(64,097)
Net cash provided by operating activities	510,992	384,025	469,727

Companhia Cervejaria Brahma

Consolidated Statement of Cash Flows
(Expressed in thousands of United States dollars) **(continued)**

	Years ended December 31		
	1999	**1998**	**1997**
Cash flows from investing activities			
Investments in affiliates	3,983	(4,621)	
Other investments	(345)	357	(3,370)
Property, plant and equipment	(108,451)	(249,105)	(467,508)
Intangible assets	(3,628)	(3,452)	(7,872)
Proceeds on disposal of property, plant and equipment	29,097	83,870	59,897
Purchase of minority interest participation			(18,694)
Minority interest and dividends of subsidiaries	2,716	6,798	7,863
Payment for purchase of subsidiary, net of cash acquired		(48,423)	
Net cash used in investing activities	(76,628)	(214,576)	(429,684)
Cash flows from financing activities			
Loans with original maturities of less than 90 days, net	(1,684)	41,902	27,513
Short-term debt			
Issuances	490,327	389,139	298,593
Repayments	(494,577)	(415,177)	(275,859)
Long-term debt			
Issuances	245,753	404,903	488,856
Repayments	(323,994)	(255,238)	(250,939)
Capital subscriptions and contributions	11,169	41,046	46,947
Repurchase of treasury shares	(6,377)	(137,638)	(267,615)
Dividends and interest distributions paid	(88,822)	(104,450)	(101,402)
Net cash used in financing activities	(168,205)	(35,513)	(33,906)

Companhia Cervejaria Brahma

Consolidated Statement of Cash Flows
(Expressed in thousands of United States dollars) **(continued)**

	Years ended December 31		
	1999	**1998**	**1997**
Effect of exchange rate changes on cash	(217,123)	(68,120)	1,406
Net increase in cash and cash equivalents	49,036	65,816	7,543
Cash and cash equivalents, at beginning of year	723,250	657,434	649,891
Cash and cash equivalents, at end of year	772,286	723,250	657,434
Supplemental disclosure of cash flow information			
Cash paid during the year for			
Interest, net of capitalized interest	137,825	147,670	75,003
Taxes on income	9,911	23,357	60,811

The accompanying notes are an integral part of these consolidated financial statements.

Companhia Cervejaria Brahma

Statement of Changes in Shareholders' Equity
(Expressed in thousands of United States dollars, except number of shares)

	1999		1998		1997	
	Shares	**US$**	**Shares**	**US$**	**Shares**	**US$**
Share capital						
Preferred shares						
At beginning of year	4,614,948,375	427,906	4,523,713,704	397,020	4,728,367,970	398,716
Exercise of stock options	39,327,184	11,169	91,234,671	30,886	64,021,734	19,747
Cancellation of shares	(364,371,000)	(33,785)			(268,676,000)	(21,443)
At end of year	4,289,904,559	405,290	4,614,948,375	427,906	4,523,713,704	397,020
Common shares						
At beginning of year	2,667,456,468	244,516	2,706,374,468	239,718	2,655,424,468	213,293
Exercise of stock options			19,575,000	10,160	59,853,000	27,200
Cancellation of shares	(31,777,000)	(2,552)	(58,493,000)	(5,362)	(8,903,000)	(775)
At end of year	2,635,679,468	241,964	2,667,456,468	244,516	2,706,374,468	239,718
Treasury shares						
Preferred shares						
At beginning of year	(372,874,300)	(204,646)	(165,338,300)	(98,701)	(72,915,300)	(38,178)
Repurchase of shares	(2,242,000)	(978)	(207,536,000)	(105,945)	(361,099,000)	(237,306)
Cancellation of shares	364,371,000	204,395			268,676,000	176,783
At end of year	(10,745,300)	(1,229)	(372,874,300)	(204,646)	(165,338,300)	(98,701)
Common shares						
At beginning of year	(31,777,000)	(17,750)	(41,264,000)	(25,076)	(1,440,000)	(882)
Repurchase of shares	(7,228,000)	(2,926)	(49,006,000)	(28,313)	(88,927,000)	(55,536)
Cancellation of shares	31,777,000	17,750	58,493,000	35,639	8,903,000	6,317
Sale of shares					40,200,000	25,025
At end of year	(7,228,000)	(2,926)	(31,777,000)	(17,750)	(41,264,000)	(25,076)

Companhia Cervejaria Brahma

Statement of Changes in Shareholders' Equity
(Expressed in thousands of United States dollars, except number of shares) **(continued)**

	1999		1998		1997	
	Shares	**US$**	**Shares**	**US$**	**Shares**	**US$**
Treasury shares held by Brahma Welfare Foundation (Note 15(c))						
Preferred shares						
At beginning of year	(30,699,304)	(13,408)	(20,003,149)	(13,436)	(16,848,408)	(9,207)
Fair value adjustment		(10,903)		3,408		(3,366)
Purchase of shares	(3,511,136)	(929)	(10,696,155)	(3,380)	(3,154,741)	(863)
At end of year	(34,210,440)	(25,240)	(30,699,304)	(13,408)	(20,003,149)	(13,436)
Common shares						
At beginning of year	(260,889,354)	(114,399)	(260,889,354)	(162,415)	(260,889,354)	(150,160)
Fair value adjustment		(9,103)		48,016		(12,255)
Purchase of shares	(3,850,000)	(1,544)				
At end of year	(264,739,354)	(125,046)	(260,889,354)	(114,399)	(260,889,354)	(162,415)
Total Brahma Welfare Foundation		(150,286)		(127,807)		(175,851)
Total treasury shares		(154,441)		(350,203)		(299,628)

Companhia Cervejaria Brahma

Statement of Changes in Shareholders' Equity
(Expressed in thousands of United States dollars, except number of shares) **(continued)**

	1999	1998	1997
Additional paid-in capital			
Stock purchase warrants (issued, net of exercised)			
At beginning and end of year			
Preferred shares	13,393	13,393	13,393
Common shares	7,218	7,218	7,218
Outstanding employee stock options (Note 14(h))			
Preferred shares			
At beginning of year	13,588	10,065	6,649
Stock options granted, net of exercised	12,349	3,523	3,416
At end of year	25,937	13,588	10,065
Common shares			
At beginning of year	5,513	4,524	3,318
Stock options granted, net of exercised	(5,513)	989	1,206
At end of year		5,513	4,524

Companhia Cervejaria Brahma

Statement of Changes in Shareholders' Equity
(Expressed in thousands of United States dollars, except number of shares) **(continued)**

	1999	1998	1997
Other additional paid-in capital			
At beginning of year	168,455	91,265	37,292
Gain on sale of treasury shares			202
Capitalization of unappropriated retained earnings		534	597
Transfer from unappropriated retained earnings	158,966	76,656	53,174
At end of year	327,421	168,455	91,265
Brahma Welfare Foundation			
At beginning of year	88,279	139,703	124,082
Fair value adjustment of treasury shares (Note 14(c))	20,006	(51,424)	15,621
At end of year	108,285	88,279	139,703
Cancellation of treasury shares			
At beginning of the year	(296,446)	(266,168)	(105,286)
Cancellations	(185,808)	(30,278)	(160,882)
At the end of the year	(482,254)	(296,446)	(266,168)
Total additional paid-in capital			
Advances to employees for purchase of shares			
At beginning of year	(63,568)	(48,480)	(24,990)
Exchange losses on advances	20,620		
Advances net of repayments	(6,822)	(15,088)	(23,490)
At end of year	(49,770)	(63,568)	(48,480)

Companhia Cervejaria Brahma

Statement of Changes in Shareholders' Equity
(Expressed in thousands of United States dollars, except number of shares) **(continued)**

	1999	1998	1997
Appropriated retained earnings			
Statutory reserve			
At beginning of year	100,160	93,701	78,691
Transfer (to) from unappropriated retained earnings	(23,481)	6,459	15,010
At end of year	76,679	100,160	93,701
Tax incentive reserve			
At beginning of year	18,901	18,696	15,449
Transfer (to) from unappropriated retained earnings	(6,131)	205	3,247
At end of year	12,770	18,901	18,696
Interest attributed to shareholders' equity			
At the beginning of year		40,628	148,409
Transfer to unappropriated retained earnings		(40,628)	(107,781)
At end of year			40,628
Total appropriated retained earnings	89,449	119,061	153,025

Companhia Cervejaria Brahma

Statement of Changes in Shareholders' Equity
(Expressed in thousands of United States dollars, except number of shares and distributions to shareholders) **(continued)**

	1999	1998	1997
Unappropriated retained earnings			
At beginning of year	832,842	818,540	488,722
Net income for the year	184,752	238,577	395,466
Distributions declared (US$ per thousand shares)			
Dividends			
1998 - Preferred - US$ 2.37; Common - US$ 2.15		(15,440)	
1997 - Preferred - US$ 6.52; Common - US$ 5.92			(44,506)
Interest attributed to shareholders' equity			
1999- Preferred - US$ 15.17; Common -US$13.79	(96,916)		
1998 - Preferred- US$ 25.38; Common - US$ 23.07		(165,609)	
1997 - Preferred - US$ 8.33; Common - US$ 7.57			(56,896)
Transfer from appropriated retained earnings	29,612	33,964	89,525
Transfer to additional paid-in capital	(158,966)	(77,190)	(53,771)
Total unappropriated retained earnings	791,324	832,842	818,540
Accumulated other comprehensive income			
Cumulative translation adjustment			
At beginning of year	(110,145)		
Recognition of deferred tax liability on change in functional currency (Note 2(b))		(8,016)	
Net translation loss in the year	(362,117)	(102,129)	
At end of year	(472,262)	(110,145)	
Total shareholders' equity	851,554	1,100,409	1,260,195
Comprehensive income (loss)			
Net income	184,752	238,577	395,466
Cumulative translation adjustment	(362,117)	(110,145)	
Comprehensive income (loss)	(177,365)	128,432	395,466

The accompanying notes are an integral part of these consolidated financial statements.

Companhia Cervejaria Brahma

Notes to the Financial Statements at December 31, 1999 and 1998

(Expressed in thousands of United States dollars, unless otherwise stated)

1 Our Group and Operations

(a) Our business

Companhia Cervejaria Brahma, together with its subsidiaries, is a Brazilian limited liability company (collectively referred to as "Brahma" or "we"). We operate mainly in the production and sale of beer and soft drinks in Brazil and certain other South American countries.

Our shares are traded on the São Paulo and Rio de Janeiro Stock Exchanges and, as from June 1997, our American Depository Receipts (ADRs) are listed on the New York Stock Exchange. We have registered two classes of American Depositary Shares (ADSs) on Form 20-F pursuant to the U.S. Securities Act of 1933, as amended: ADSs evidenced by ADRs representing 20 preferred shares without par value and ADSs evidenced by ADRs representing 20 common shares without par value.

(b) Significant acquisitions

(i) Combination of Brahma and Antarctica and the Formation of AmBev

On July 1, 1999, the controlling shareholders of Brahma and the controlling shareholders of Companhia Antarctica Paulista Indústria Brasileira de Bebidas e Conexos ("Antarctica") announced a proposed combination. The combination involves the formation of Companhia de Bebidas das Américas – AmBev ("AmBev"), a holding company that will have Brahma and Antarctica as wholly-owned subsidiaries. The combination involves three steps:

(1) The contribution of common and preferred shares of the controlling shareholders of Brahma and Antarctica in exchange for shares of the same type and class of AmBev (the "Controlling Shareholders' Contribution"). This step occurred on July 1, 1999 and AmBev became the owner of 88.1% of the voting shares and 87.9% of the total shares of Antarctica and 55.1% of the voting shares and 21.2% of the total shares of Brahma. Each share of Brahma was exchanged for one share of the same type and class of AmBev, and each share of Antarctica was exchanged for 48.6361 shares of the same type and class of AmBev shares.

(2) On September 15, 1999 the remaining non-controlling shareholders of Antarctica exchanged their shares of Antarctica for shares of AmBev (the "Antarctica Conversion"). Upon consummation of this transaction, Antarctica became a 100% wholly owned subsidiary of AmBev. Each share of Antarctica was exchanged for 84 shares of the same type and class of AmBev shares.

(3) The remaining Brahma non-controlling shares (which include the Brahma ADRs) are expected to be converted into the same type and class of AmBev shares following the registration of the preferred and common shares of AmBev with the U.S. Securities and Exchange Commission – SEC (the "Brahma Conversion"). Each share of Brahma will be exchanged for one share of the same type and class of AmBev. This step has not yet occurred, but is expected to occur during 2000. Until such time as the exchange occurs, AmBev owns 55.1% of the voting shares and 21.2% of the total shares of Brahma. Upon conversion of these shareholders, AmBev will increase its ownership percentage in Brahma to 100% and AmBev will become the successor to Brahma.

On July 14, 1999, the *Conselho Administrativo de Defesa Econômica* ("CADE"), the Brazilian antitrust authority, issued an interim order in connection with the Controlling Shareholders' Contribution. Under this order, CADE determined that until such time as it announced its final decision, Brahma and Antarctica could not take actions that might have the effect of changing the structure, conditions or characteristics of their markets in a manner which, if later reversed, might cause material irreparable adverse consequences. Although the order came into effect 13 days after the Controlling Shareholders' Contribution, no significant integration measures had been taken by Brahma or Antarctica in the intervening period. In particular, the interim order prohibited the following actions by Brahma and Antarctica, and established a daily fine for non-compliance: (i) closing down or partially deactivating plants; (ii) laying off employees as part of an integration strategy; (iii) ceasing to use trademarks or other assets; (iv) changing sales and distribution structures and practices; (v) changing contractual relationships with third parties; (vi) integrating administrative structures; or (vii) adopting uniform commercial policies. These conditions remained in force through the date CADE handed down its final decision on April 7, 2000 (Note 19).

The combination of Brahma and Antarctica will be accounted for using the purchase method as defined by U.S. Accounting Principles Board (APB) No. 16, "Business Combinations", in which Brahma will be the accounting acquiror. An acquisition date as defined by APB No. 16 was not obtained until April 7, 2000, the date CADE approved the Controlling Shareholders' Contribution and the provisional government-imposed restrictions ceased to apply allowing Brahma and Antarctica to proceed with their integration.

About Antarctica

Certain selected financial data of Antarctica as of and for the year ended December 31, 1999 are set forth below. This unaudited financial information has been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

	Antarctica 1999
Income statement data	
Net sales	750,369
Gross profit	247,992
Operating expenses	(366,056)
Operating loss	(117,586)
Financial expenses, net	(318,130)
Net loss	(440,920)
Balance sheet data	
Cash and cash equivalent	30,064
Net working capital (1)	(628,851)
Property, plant and equipment,net	708,019
Total assets	1,228,205
Short-term debt(2)	800,345
Long-term debt(3)	99,111
Shareholders' deficit	(201,350)

Antarctica generated a loss for the six-month period ended December, 31 1999 of US$ 175,366.

(1) Represents total current assets less total current liabilities.
(2) Includes short-term debt, debentures, promissory notes and current portion of long-term debt.
(3) Includes the long-term portion of long-term debt.

Brahma dissenting shareholders appraisal rights

At December 31, 1999, approximately 79% of Brahma's total shares had not been exchanged for AmBev shares. Under Brazilian Corporation Law, the Brahma shareholders may either: (i) exchange their shares for AmBev shares; or (ii) exercise appraisal rights requiring Brahma to repurchase their shares at book value of Brahma, as determined under Brazilian Corporation Law and accounting principles set forth therein.

This potential obligation is presented in the balance sheet caption "Temporary equity-appraisal rights" and reflects the Brazilian legal book value of all shares available for conversion, as

though all these shareholders were to exercise their appraisal rights and withdraw as shareholders of Brahma. Temporary equity is deducted from shareholders' equity and reclassified between liabilities and equity (mezzanine equity). The balance approximates the proportion of shareholders' equity attributable to the shareholders who had not yet converted at December 31, 1999 as determined under accounting principles prescribed in Brazilian Corporation Law, translated to U.S. dollars at the exchange rate in effect at that date. This balance approximates the amount which would be paid by Brahma if all dissenting shareholders were to exercise their appraisal rights, based on the December 31, 1999 balance sheet date. No assurances can be given that in the event of the shareholders exercising their appraisal rights, the December 31, 1999 Brazilian Corporate Law balance sheet would be the balance sheet used for determining the repurchase of shares.

(ii) The Pepsi transaction

On October 22, 1997 we acquired all of the outstanding shares of Pepsi-Cola Engarrafadora Ltda. ("Engarrafadora") and PCE Bebidas Ltda. ("PCE"), both of which are Brazilian limited liability companies, for a consideration of one Brazilian *real*, R$ 1.00. Engarrafadora and PCE produce and distribute Pepsi-Cola products under license in designated areas of Brazil.

The Engarrafadora and PCE acquisitions have been recorded using the purchase method of accounting; and accordingly, the results of operations of Engarrafadora and PCE for the period from October 22, 1997 through December 31, 1997 have been included in these financial statements. The purchase price took into consideration the net liabilities assumed by Brahma. The fair value of assets acquired by Brahma totaled US$ 209,500 at December 31, 1997, while liabilities totaled US$ 249,326 which resulted in a goodwill of US$ 39,826 as of December 31, 1997, which is being amortized over 10 years. Purchase accounting adjustments relate primarily to an adjustment of US$ 35,750 reflecting property, plant and equipment at appraised value, net of the deferred tax effects.

The following summarized combined unaudited pro forma financial information assumes the acquisition of Engarrafadora and PCE had occurred on January 1, 1996:

	1997
Net sales	2,721,184
Net income	170,022
Earnings per share – Basic	
Preferred	24.89
Common	22.63
Earnings per share – Diluted	
Preferred	24.08
Common	21.89

In our management's opinion, the unaudited pro forma combined results of operations are not indicative of the actual results that would have been generated had the acquisition occurred at January 1, 1996.

The vendor has agreed to indemnify us against 80% of certain contingencies, but in no event to exceed US$ 20,000 in aggregate within a period of five years from the date of purchase. Additionally, we have an indemnity agreement, without limit, from PepsiCo, Inc. (“PCI”), which requires PCI to reimburse us for 80% of certain contingencies within a period of five years from the date of purchase. To date we have not made any substantial payments in relation to these contingencies.

At the date of purchase Engarrafadora and PCE had unused net operating tax loss carryforwards. If such loss carryforwards are utilized by us within a five year period from the date of purchase, we will be required to reimburse 80% of these amounts to the vendor and PCI. Amounts payable will be reduced by amounts owed to us under the indemnification provisions discussed above.

As of December 31, 1998 Engarrafadora or PCE have not used any tax loss carryforwards. Tax losses existing at the date of purchase will only be used after all current period losses have been fully realized. We have limited recognition of net operating tax loss carryforwards to 20% of the total losses. We consider the remaining losses to be contingent upon future events and have fully offset them by a valuation allowance. We do not owe any amounts to the vendor or PCI.
We also signed a franchise commitment letter with PCI on October 22, 1997, under which we obtained the rights to produce, sell and distribute PCI products on an exclusive basis in certain designated regions of Brazil. The original term of the franchise agreement is twenty years with

renewal terms of ten years being subject to the approval of both parties. We have agreed to purchase certain raw materials from PCI under the franchise agreement.

(iii) The Maltaria Pampa transaction

Adding to our 40% interest, we purchased a further 20% interest in the voting capital of our equity investee, Maltaria Pampa S.A., on April 23, 1998, for US$ 18,060, increasing our share to 60%, and on August 27, 1998, we purchased the remaining 40% for US$ 34,700. The purchase price exceeded the fair value of assets acquired and liabilities assumed by US$ 33,094, which is being amortized over the useful lives of these assets, a period which does not exceed 40 years. The subsidiary has been consolidated as though it had been acquired at the beginning of 1998.

(c) Our joint ventures and licensing agreements

The CADE has powers to investigate any transaction which results in the concentration of a market share greater than 20% of any relevant market, among other factors.

In September 1995, we entered into a joint venture with Miller Brewing Co. USA to distribute Miller products in Brazil. We both have an equal participation in the capital of the joint venture, Miller Brewing do Brasil Ltda. On May 6, 1998, we received a favorable ruling from CADE, approving the joint venture formed with the Miller Brewing Co.

In February 1997, Skol entered into a licensing agreement with Carlsberg A/S. Under the agreement, Skol acquired the license to begin the production of Carlsberg beer in Brazil for sale and distribution throughout South America. In June 1999, the licensing arrangement with Carlsberg was approved by CADE.

In August 1997, Brahma entered into a joint venture with Indústrias Gessy Lever Ltda., creating Ice Tea do Brasil Ltda., in which the two partners have an equal interest. CADE approval was received on December 8, 1998 in respect to this joint venture.

In October 1997, Brahma entered into a franchise agreement with PepsiCo International, Inc. to bottle, sell and distribute Pepsi products in an area covering the southeastern and northeastern regions of Brazil. Pepsi Cola Engarrafadora e Pepsi Cola Bebidas were acquired on October 22, 1997. Pepsi was consolidated in Brahma in 1997 as it had been acquired at the beginning of the period. The purchase of PCE was not subject to CADE ruling/approval. On October 9, 1998, we received approval from CADE for the production and distribution of Pepsi products.

Companies in Brazil are permitted to implement transactions that require antitrust review without submitting the relevant transaction to the prior review of the authorities and without suspending or delaying the effectiveness of the transaction. The reviews described above were not subject to restrictions by the CADE which would have prevented us from controlling the acquisitions, limiting our interests by granting minority partner participating rights or otherwise restricting the planned consummation of the transaction.

(d) Our group consolidation principles

The consolidated financial statements include our accounts and those of all of our subsidiaries, as listed below. All significant inter-company accounts and transactions are eliminated. Direct and indirect ownership percentage of the capital of significant subsidiary companies at December 31 are presented below:

Subsidiary companies	1999	1998	1997
	%	%	%
Arosuco Aromas e Sucos S.A. (i)	99.4		
Brahmaco International Ltd.	100	100	100
CA Cervecera Nacional (ii)	50.2	50.2	50.2
CCBA S.A.	70.0	70.0	70.0
CCB Paraguay S.A.	100	100	100
Cervejaria Águas Claras S.A.	93.3	96.3	99.5
Cervejarias Reunidas Skol Caracu S.A.	99.7	99.9	99.6
CRBS Indústria de Refrigerantes S.A. - Salvador (iii)			100
CRBS S.A. (iv)	99.7	99.7	99.7
Dahlen S.A.	100	100	100
Eagle Distribuidora de Bebidas S.A.	100	100	100
Jalua S.A.	100	100	100
Mahler Investment Limited	100	100	100
Malteria Pampa S.A.	100	100	
Panaro S.A. (v)		100	100
PCE Bebidas Ltda. (vi)			100
Pepsi Cola Engarrafadora Ltda.	100	100	100
Universal Breweries Limited	51.0	51.0	51.0

(i) Arosuco Aromas was formed in 1999, upon a carve-out of its operation from Miranda Corrêa.
(ii) Consolidated as control, through direct and indirect ownership, ultimately rests with us.
(iii) Company name changed to Fratelli Vita Indústria e Comércio S.A and then merged into CRBS S.A..
(iv) Company name changed from CRBS Indústria de Refrigerantes Ltda.

(v) Holding company extinguished in 1999.
(vi) PCE Bebidas Ltda. was merged into Pepsi Cola Engarrafadora Ltda.

(e) Affiliated companies

Investments in affiliated companies in which we have the ability to exercise significant influence over the operating and financial policies are accounted for under the equity method. Accordingly, our share of net earnings (losses) of these companies is included in consolidated net income. Direct and indirect ownership percentages of the capital of significant affiliated companies at December 31 are presented below:

Affiliated companies	1999	1998	1997
Cervejaria Astra S.A.	43.1	43.1	43.1
Cervejaria Miranda Corrêa S.A. (*)	60.8	60.8	60.8
Maltaria Pampa S.A.			40.0
Miller Brewing do Brasil Ltda.	50.0	50.0	50.0
Pilcomayo Participações Ltda.	50.0	50.0	50.0

(*) Accounted for under the equity method as we have a 50% interest in the investee's voting share capital and do not exercise control.

Other investments in which we do not exercise significant influence or have less than a 20% interest in the voting capital, are accounted for at cost. Long-term receivables from related parties at December 31, 1999 relate primarily to advances made to Cervejaria Astra S.A. and Pilcomayo Participações Ltda.

We have suspended applying the equity method in relation to Cervejaria Miranda Corrêa S.A., Miller Brewing do Brasil Ltda. and Pilcomayo Participações Ltda., as our investment in each affiliate has been reduced to zero. Accordingly, as we have a commitment to cover our investees' losses, a provision for additional losses in excess of the carrying amount of our original investments, of US$ 23,596, has been included in "Other long-term liabilities."

2 Summary of Our Significant Accounting Policies

(a) Basis of presentation of our financial statements

These consolidated financial statements include our accounts and those of our majority-owned subsidiaries. The consolidated financial information has been prepared in accordance with U.S. GAAP, which differ from the Brazilian accounting principles applied by us in our statutory financial statements.

Shareholders' equity and net income included in these financial statements differ from those included in the statutory accounting records as a result of:

- differences between the rate of devaluation of the Brazilian *real* against the United States dollar;
- indices mandated for indexation of statutory financial statements in the past in Brazil; and
- adjustments made to reflect the requirements of U.S. GAAP including the reclassification of mezzanine equity (Note 1(b)(i)).

(b) Basis of presentation and translation

In preparing these consolidated financial statements, our management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses for the reporting periods. Such estimates include the selection of useful lives of property, plant and equipment, provisions necessary for contingent liabilities, income tax valuation allowances and other similar evaluations. Actual results for future periods could differ from those estimates.

The U.S. dollar amounts for the periods presented have been remeasured (translated) from the Brazilian currency amounts in accordance with the criteria set forth in Statement of Financial Accounting Standards (SFAS) No. 52.

For periods before July 1997, the Brazilian economy was considered highly inflationary as cumulative 3-year inflation rates were above 100%. The local currency in a highly inflationary economy is not considered stable enough to serve as a functional currency, the currency of the primary economic environment in which it operates, and a more stable currency is used instead. We decided to adopt the U.S. dollar as our functional currency during the period through December 31, 1997 and used the following remeasurement procedures:

(i) inventories, property, plant and equipment and accumulated depreciation, as well as shareholders' equity accounts, were translated at historical exchange rates and monetary assets and liabilities denominated in Brazilian currency were translated at period-end exchange rates (December 31, 1997- R$ 1.1164: US$ 1.00);

(ii) depreciation and other costs and expenses relating to assets remeasured at historical exchange rates were calculated based on the U.S. dollar value of the assets. Other accounts in the statements of operations and cash flows were translated at the average exchange rates prevailing during the period;

(iii) the translation gain or loss resulting from this remeasurement process was included in the statements of operations currently; and

(iv) as per paragraph 9(f) of SFAS No. 109 "Accounting for Income Taxes", deferred taxes were not recorded with respect to differences relating to assets and liabilities translated at historical rates that resulted from changes in exchange rates or indexing for Brazilian tax purposes.

As from January 1, 1998, Brahma concluded that the Brazilian economy ceased to be considered highly inflationary and we changed our functional currency to the local currency (the Brazilian *real)*. Accordingly, at January 1, 1998, we translated the U.S. dollar amounts of non-monetary assets and liabilities into *reais* at the current exchange rate and those amounts became the new accounting bases for such assets and liabilities. The resulting deferred taxes associated with the differences between the new functional currency bases and the tax bases ((iv) above) were recorded as a deferred tax liability and a charge to the cumulative translation adjustment component of shareholders' equity.

For the years ended December 31, 1999 and 1998, we have translated all assets and liabilities into U.S. dollars at the current exchange rate (December 31, 1999 - R$ 1.7890 : US$ 1.00; December 31, 1998 - R$ 1.2087: US$ 1.00) and all accounts in the statements of operations and cash flows at the average rates of exchange in effect during the period (1999-R$ 1.8148 : US$ 1.00; 1998-R$ 1.1605 : US$ 1.00). The reclassification from shareholders’ equity to mezzanine equity, to reflect the appraisal rights of all shareholders who have the right to dissent from the Brahma Conversion is translated to U.S. dollars at the rate at the balance sheets date based on the Brazilian Corporation Law legal balance sheet. The translated amounts include local currency indexation and exchange variances on assets and liabilities denominated in foreign currencies. The related translation adjustments are made directly to the cumulative translation adjustment ("CTA") account in shareholders' equity.

On January 15, 1999, the Brazilian Central Bank ceased to intervene in the foreign exchange market, except in exceptional circumstances to prevent excessive volatility, and the *real* to U.S. dollar exchange rate was allowed to fluctuate freely. The effects of the significant devaluation of the *real* in 1999 have resulted in a net translation loss, arising from the translation of the balance sheet accounts (monetary and non-monetary assets and liabilities) from Brazilian *reais* to U.S. dollars. The translation loss has been allocated directly to the CTA account in shareholders' equity. Foreign exchange transaction gains or losses are reflected directly in income for each period.

(c) Derivative financial instruments

Brahma uses derivative financial instruments for purposes other than trading and does so to manage and reduce its exposures to market risk resulting from fluctuations in interest rates and foreign currency exchange rates. These instruments do not qualify for deferral, hedge, accrual or settlement accounting and are marked to market value, with the resulting gains and losses reflected in the statement of operations within, “Financial income and expense.”

We have a policy of only entering into contracts with parties that have credit ratings. The counterparties to these contracts are major financial institutions and Brahma does not have significant exposure to any single counterparty (Note 13).

(d) Reclassifications

Certain amounts in 1998 and 1997 have been reclassified to conform to the 1999 presentation.

(e) Cash and cash equivalents

Cash and cash equivalents are carried at cost plus accrued interest. Cash equivalents, primarily consisting of time deposits denominated in Brazilian *reais*, have a ready market and an original maturity of 90 days or less. We also invest in time deposits denominated in U.S. dollars through our subsidiaries located outside Brazil.

(f) Trading securities

We buy and sell debt and equity securities with the objective of selling in the short term. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", these securities are measured at fair value at the balance sheet dates and unrecorded gains/losses are included in financial income/expense. The securities comprise fixed-term investments and Government securities and are primarily managed by an outside investment company.

(g) Accounts receivable

Accounts receivable are stated at estimated realizable values. Allowances are provided, when necessary, in an amount considered by our management to be sufficient to meet probable future losses related to uncollectible accounts.

(h) Inventories

Inventories are stated at the lower of average cost of purchase or production, or realizable values.

(i) Property, plant and equipment

Property, plant and equipment are recorded at cost and include interest capitalized during construction of major facilities. Interest on construction-period borrowings denominated in *reais* is capitalized, net of related purchasing power gains. Interest on construction-period borrowings denominated in foreign currencies is capitalized using contractual interest rates, exclusive of foreign exchange gains or losses. Expenditures for maintenance and repairs are charged to expense when incurred.

Bottles classified as fixed assets are used during normal bottling operations. These are returnable bottles and, accordingly, are depreciated and written off when breakages occur. Brahma maintains a small amount of bottles for sale to distributors to replace bottles broken in the distribution network. These bottles are recorded in inventory and are not used during our day to day operations. They are not subject to depreciation and are written off when breakages occur.

Depreciation is computed on a straight-line basis over the useful lives of the assets as follows:

	Years
Buildings	25
Machinery and equipment, including equipment with third parties	5 to 10
Bottles and crates	5
Vehicles	5

In 1999 we adopted Statement of Position ("SOP") No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" and SOP No. 98-5, "Reporting on the Costs of Start-up Activities." SOP No. 98-1 requires certain costs incurred in connection with developing or obtaining internal-use software to be capitalized and other costs to be expensed. We applied SOP 98-1 to internal-use software costs, for all projects, including those projects in progress. The effect of the adoption of this SOP did not result in significant differences from our established practices.

(j) Assets held for sale

Assets held for sale includes land and buildings. Depreciation relating to such assets was terminated on transfer to the “Assets held for sale” category. As required by SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and Long-lived Assets to be Disposed of", long-lived assets held for sale are reported at the lower of their carrying amounts or their fair values less costs to sell.

(k) Acquisitions and intangible assets

Acquisitions from third parties have been accounted for under the purchase method of accounting. Accordingly, the purchase price, plus direct costs of acquisition, is allocated to assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The excess of the purchase consideration over the estimated fair value of net assets acquired is recorded as goodwill. Results of operations are included as from the acquisition date.

Goodwill and other intangible assets are stated at cost and are amortized on a straight-line basis, over the estimated future periods to be benefited. Recoverability of goodwill is assessed on a regular basis using undiscounted future cash flows and any impairment would be recognized in operating results if a permanent decrease in value were to occur.

(l) Prepayment to Brahma Welfare Foundation

We provide postretirement benefits to certain employees through *Fundação Assistencial Brahma* (the "Brahma Welfare Foundation") (Notes 15 (b) and (c)). We adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions", as of January 1, 1995, which requires a provision for the costs of postretirement benefits expected to be paid to current, former or inactive employees upon retirement. Our contributions to the Brahma Welfare Foundation are classified as prepayments to the Brahma Welfare Foundation. The Brahma Welfare Foundation, upon receipt of the contributions, invests primarily in bank certificates of deposits. The cash and shares contributed to the Brahma Welfare Foundation are not considered plan assets for purposes of SFAS No. 106. Expenses relating to benefits we provide to our current employees are expensed as incurred whereas those relating to retired employees and their dependents are amortized in accordance with SFAS No. 106.

The shares, which we contribute to the Brahma Welfare Foundation, are included in treasury shares at their fair market value at each of the balance sheet dates. The difference between historical reacquisition cost and fair market value is included as additional paid-in capital.

The prepayments and contributions made to the Brahma Welfare Foundation are restricted and may only be used by the Brahma Welfare Foundation for purposes stated in its charter (Notes 15 (b) and (c)).

(m) Recoverability of our long-lived assets

In accordance with SFAS No. 121, our management reviews long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. For the purpose of determining and measuring impairment, our management primarily reviews property, plant and equipment to be held and used in the business, investments accounted for under the equity method, goodwill and certain deposits and tax incentive investments.

Assets are grouped and evaluated for possible impairment at a plant level; impairment is assessed based on undiscounted cash flows from forecasted operating results of the business over the estimated remaining lives of the assets (Note 8).

(n) Compensated absences

The liability for future compensation for employee vacations is fully accrued as earned.

(o) Income taxes

Brazilian income taxes consist of federal income and social contribution taxes, the latter a federally mandated tax based on income, as recorded in our statutory accounts and the respective statutory accounting records of our subsidiaries. There are no state or local income taxes in Brazil.

For the purposes of these financial statements, we have applied SFAS No. 109 for all periods presented. The effect of adjustments made to reflect the requirements of U.S. GAAP as well as the differences between the tax basis of non-monetary assets and the statutory accounting basis prepared in accordance with Brazilian Corporation Law have been recognized as temporary differences for the purpose of recording deferred income taxes. Prior to 1998, in accordance with paragraph 9(f) of SFAS No. 109, deferred taxes were not recorded with respect to differences relating to assets and liabilities translated as historical rates that resulted from changes in exchange rates or indexing for Brazilian tax purposes. Such accumulated differences were recognized in shareholders' equity when we changed our functional currency to the *real* on January 1, 1998 (Note 2(b)).

All net operating loss carryforwards are recorded as deferred tax assets. Valuation allowances are established when our management is not confident that utilization of such tax assets are more likely than not going to occur sometime in the future.

All current and non-current deferred tax liabilities and assets are offset unless they relate to different tax paying entities or to entities operating in different tax jurisdictions.

(p) Pension plan

We operate a funded defined-benefit pension fund, the *Instituto Brahma de Seguridade Social* - IBSS ("Brahma Pension Plan"). The Brahma Pension Plan is accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions" under the projected unit method. The accompanying notes to the financial statements have been presented in accordance with SFAS No. 132, "Employer's Disclosures about Pensions and other Post-retirement Benefits" (Notes 15 (a) and (c)).

(q) Stock-based compensation

We have chosen to account for stock-based compensation using the intrinsic value method described in U.S. Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees", and related interpretations. Accordingly, compensation cost for stock options is measured as the excess of the quoted market price of our stock at the date of the grant over the amount an employee or director must pay to acquire the stock. The value of the option is determined when the option is granted but is charged ratably to compensation cost and shareholders' equity over a period of five years from the date the option is granted, the period over which the related employee or director services are rendered.

SFAS No. 123, "Accounting for Stock-Based Compensation" encourages, but does not require us to record compensation cost for stock-based employee compensation plans at fair value. Pro forma net income and earnings per share, calculated using the fair value based method, as required by SFAS No. 123, are disclosed in Note 14(h). This information is not representative of the effects on net income for future periods, as the options vest over five years and additional awards may be made each year.

We provide advances to certain employees, who may also be directors or shareholders, to finance the purchases of these shares. Financing arrangements are normally for periods not exceeding four years and accrue interest of 8% per year over a designated general price index. As the advances are collaterized by the stock issued upon exercise of the stock option, the receivable from advances is recorded as a reduction of shareholders' equity.

(r) Treasury shares

Treasury shares are recorded at cost, which approximates market prices at the date of purchase. Treasury shares held by the Brahma Welfare Foundation (Note 2 (l)) are recorded at fair market value as at the date of the balance sheet. Treasury shares cancelled are recorded as a reduction of share capital and additional paid-in capital. Amounts allocated to share capital are determined based upon the proportion of the number of shares cancelled to the number of shares outstanding at the date of cancellation. This proportion is applied to share capital at the date of cancellation. The difference between reacquisition cost of treasury shares and the reduction of share capital is recorded as a component of additional paid-in capital.

(s) Subscription warrants

The fair value of subscription warrants is recorded as additional paid-in capital when such amounts are received. When subscription warrants are exercised, the amount originally recorded as additional paid-in capital is transferred to share capital.

(t) Interest attributed to shareholders' equity

Brazilian corporations are permitted to deduct for tax purposes interest attributed to shareholders' equity, which is paid in the form of a dividend. For financial reporting purposes, interest attributed to shareholders' equity is recorded as a deduction from unappropriated retained earnings. We pay the withholding tax on behalf of our shareholder (Note 14(f)).

(u) Revenues and expenses

Sales revenues and related cost of sales are recognized when products are shipped. Other expenses and costs are recognized on the accrual basis.

(v) Marketing costs

Marketing costs are reported in selling and marketing expenses include costs of advertising and other marketing activities. Marketing costs not deferred at year-end are charged to expense ratably in relation to sales over the year in which incurred. Advertising expenses were US$ 121,436, US$ 244,319, and US$ 203,690 for the years ended December 31, 1999, 1998, and 1997, respectively. Deferred advertising consists of media and advertising-related prepayments and promotional and production costs of future media advertising. These assets are expensed in the first period used. There were no deferred advertising assets recorded at the balance sheet dates presented. Additionally, in the year ended December 31, 1999, we expensed certain promotional materials and other related costs totaling US$ 7,959**.**

(w) Environmental expenditures

Expenditures relating to ongoing environmental programs are charged against earnings as incurred. Ongoing programs are designed to minimize the environmental impact of our operations and to manage the environmental risks of our activities. Provisions with respect to such costs are recorded at the time they are considered to be probable and reasonably estimable. We believe that, at present, there are no significant environmental contingencies that we have not accounted for.

(x) Earnings per share

Basic earnings per share is computed by dividing consolidated net income by the weighted-average number of common and preferred shares outstanding during the relevant years. Share options and share warrants issued to employees and directors are considered as common stock equivalents in calculating diluted earnings per share. Pursuant to SFAS No. 128, "Earnings Per Share", we have presented our earnings per share for each class of share. Beginning in 1997, pursuant to Law 9457/97, preferred shares, not accruing minimum or fixed dividends, are entitled to a dividend of 10% in excess of that paid to common shares. Earnings per share amounts have been determined as though all earnings will be distributed. Earnings may be capitalized, used to absorb losses or otherwise appropriated; consequently, such earnings would no longer be available to be paid as dividends. Therefore, no assurance can be made that preferred shareholders will receive the 10% premium on undistributed earnings.

(y) Comprehensive income (loss)

We have adopted SFAS No. 130, "Reporting Comprehensive Income". We have elected to present comprehensive income (loss) in the statement of changes in shareholders' equity. Comprehensive income (loss) consists of net income (loss) for the period and the cumulative translation adjustment.

(z) New accounting standards

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair value. This statement is effective for fiscal years beginning after June 15, 2000 (January 1, 2001 in our case). We are evaluating SFAS No. 133 to determine its impact, if any, on our consolidated financial statements.

3 Other Operating (Expense) Income, net

The significant components of "Other operating (expense) income, net" in December 1999 and 1998, respectively, are as follows:

- 1999 – Income from the reversal of a value-added tax (ICMS) provision in February 1999 of US$ 8,386 (Note 16 (a) (iii)) relating to a lawsuit ruled in our favor and a gain of US$5,323 on sale of our property, plant and equipment which was offset by expenses of US$ 19,183 relating to a provision for the interest portion of ICMS and excise tax (IPI) contingent credits. (Note 16 (a) (iii)); US$17,333 of impairment loss recognized during the year on our plant, property and equipment (Note 8); US$ 5,680 involving an assessment raised against a subsidiary of Brahma for not filing ICMS documentation in a magnetic format (Note 16 (a) (iii)); US$ 6,947 relating to over 100 different cases with individual Brazilian states relating principally to the payment of ICMS substitute and ICMS (Note 16 a (iii)) and US$ 21,207 of provisions made for distributor, supplier, consumer and various other claims;

- 1998 – Gain on the sale of property, plant and equipment of US$10,036 which partially offset by various expenses of lesser amounts arising in the ordinary course of business.

- 1997- The movement in this account is not significant.

4 Financial Income and Expense

	Year ended December 31		
	1999	**1998**	**1997**
Financial income			
Interest income on cash equivalents	93,028	118,535	96,817
Trading securities - realized gains	347	26,001	8,609
Gains on foreign currency and interest rate swap activities	205,927	4,478	
Interest income on tax and social contribution	27,219	7,745	11,021
Foreign exchange gains	35,515	19,093	
Other	28,282	22,784	20,545
	390,318	198,636	136,992
Financial expense			
Charges on Brazilian *real* debt	(76,396)	(82,691)	(25,407)
Charges on U.S. dollar debt	(61,429)	(64,979)	(54,690)
Foreign exchange losses principally on loans	(189,531)	(52,673)	(5,760)
Interest on liabilities other than loans (principally contingencies)	(25,053)	(26,619)	(20,324)
Trading securities - realized losses	(1,653)		(13,747)
Losses on foreign currency and interest rate swap activities	(61,729)	(26,745)	(1,525)
Banking charges, taxes and other	(26,231)	(35,797)	(20,865)
	(442,022)	(289,504)	(142,318)

5 Income Taxes

(a) Tax rates

Income taxes in Brazil include federal income tax (25%) and social contribution (8%). The composite income tax and social contribution tax rate used for establishing the net deferred tax asset for 1999 and 1998 is 33%. For the period from May 1 to December 31, 1999, if enacted, the composite rate will increase by 4% reflecting the increase in the social contribution rate. However, a more recent bill proposes limiting the increase to 1%. Such an increase is not expected to have a material effect on the net deferred tax asset which will reverse during this period. No adjustments will be reflected in the financial statements until such time the rate changes are enacted. Unless a new law is enacted, the social contribution rate will return to the previous 8% rate, therefore for the calculation of the deferred tax balance as of December 31, 1999, we used a tax rate of 33% (25% income tax + 8% social contribution).

(b) Income tax reconciliation

	Year ended December 31		
	1999	**1998**	**1997**
Income before income taxes, equity in affiliates and minority interest	136,460	133,515	322,581
Tax expense, at statutory rates – 33%	(45,032)	(44,060)	(106,452)
Adjustments to derive effective rate			
Deferred tax on adjustments made to local book above basis of equity in affiliates	(1,909)	(432)	(2,705)
Permanent differences	5,830	19,381	25,593
Difference in foreign income tax rates	25,251	11,182	9,721
Benefit from deductibility of interest attributed to shareholders' equity	32,399	53,643	33,896
Reversal of income tax provision on profits generated offshore (1)		18,598	
Current net operating losses for which deferred tax assets have not been constituted	(29,476)	(29,200)	(9,733)
Constitution of deferred tax assets on tax losses from prior years			21,273
Income tax incentives		104	4,313

	Year ended December 31		
	1999	**1998**	**1997**
Tax assets recorded on re-filing of prior years tax returns (2)	27,044		
Reversal of tax contingency provisions	19,228	67,962	109,465
Effects of difference between indexation and translation (3)			20,340
Other	6,055	(4,482)	(5,821)
Tax benefit per statement of operations	39,390	92,696	99,890

(1) The deferred tax liability on earnings from affiliates located outside Brazil, provided through to December 31, 1997, was reversed to income in 1998 following the enactment of a law which confirms such earnings will be taxed upon repatriation on a prospective basis. We are confident that prudent, feasible and cost effective tax planning strategies will assure no tax will be payable upon repatriation or distribution from offshore earnings occurring prior to 1998.

(2) We re-filed our 1993 tax return upon receiving a new interpretation of tax legislation in connection with a review performed in 1999 by external tax consultants who identified a tax loss in 1993, which we had not fully utilized. Prior to this review, we believed that we did not have rights to this tax benefit. The issue arose because in 1992 Brahma made advances to a wholly owned offshore subsidiary in anticipation of future capital increases. As this was considered to be a permanent investment (under accounting principles prescribed by Brazilian Corporation Law), the Brazilian tax authorities prohibited Brahma from treating as tax deductible, the interest expense on the loan it had advanced to the subsidiary. Following the in-depth analysis conducted by the external tax consultants in 1999 and their new interpretation of the tax situation in 1993, Brahma re-filed its 1993 tax return, creating a tax loss for that year.

(3) These differences arise due to the indexation of financial statements and temporary differences by the Fiscal Reference Unit (UFIR) for Brazilian income tax purposes through to December 31, 1995 and the remeasurement into the U.S. dollar functional currency for purposes of these financial statements, excluding results of changes in exchange rates or prior indexing for inflation in local currency for tax purposes.

The major components of the deferred tax asset and liability accounts are as follows:

	1999	1998
Deferred income tax assets		
Brazilian net operating loss carryforwards	96,993	55,849
Foreign net operating loss carryforwards	42,354	33,339
Provisions for payments to Brahma Welfare Foundation	2,163	2,115
Deferred charges	7,487	14,750
Provision for employee profit sharing	7,181	2,500
Accrued liability for legal proceedings	43,841	50,238
Fair value adjustment on acquisition	8,611	14,371
Provision for losses on equity investments	7,797	20,884
Other	16,602	11,281
Total deferred income tax assets	233,029	205,327
Valuation allowance for Brazilian net operating loss carryforwards	(30,984)	(38,392)
Valuation allowance for foreign net operating loss carryforwards	(42,354)	(33,339)
Deferred income tax assets, net of valuation allowances	159,691	133,596
Deferred income tax liabilities		
Brahma Pension Fund and Brahma Welfare Foundation (Note 15)	(5,962)	(5,075)
Accelerated depreciation	(13,203)	(25,903)
Equity in offshore companies	(57,847)	(16,057)
Capitalized interest on property, plant and equipment	(1,061)	(1,809)
Other	(13,689)	(14,241)
Total deferred income tax liabilities	(91,762)	(63,085)
Net deferred tax assets	67,929	70,511

Components of the deferred tax accounts in the balance sheet are as follows:

	1999	1998
Deferred tax assets		
Current		7,639
Non-current	68,789	69,841
Deferred tax liabilities		
Current		(488)
Non-current	(860)	(6,481)
Net deferred tax assets	67,929	70,511

(c) Net operating loss carryforwards

Net deferred income tax assets include Brazilian net operating losses, which have no expiration dates, available for offset against future taxable income. Carryforward losses are available for offset within any year up to 30% of annual income before tax, determined in accordance with the Brazilian Corporation Law. Tax losses are not inflation-indexed.

The deferred income tax asset relating to foreign net operating losses has been fully provided for as our management is not confident that realization is more likely than not. Movement in the deferred tax asset arising from foreign net operating loss carryforwards is as follows:

	1999	1998
At beginning of year	33,339	20,048
Net operating losses	9,015	13,291
At end of year	42,354	33,339

These losses expire as follows:

Country	Expiry date	Pre-tax
Argentina	December 2000 to 2004	98,371
Venezuela	December 2000 to 2003	29,975
		128,346

Tax losses of Engarrafadora and PCE acquired on acquisition approximated US$ 259,000 (Note 1(b)). As 20% of this total, at current exchange rates, US$ 32,325, is not subject to provisions of the purchase agreement, we have recorded this amount as an asset at December 31, 1997. However, this deferred tax asset, in addition to further losses incurred in the Pepsi business, continues to be fully provided for as we are not confident that realization of this asset is more likely than not to occur sometime in the future.

6 Trade Accounts Receivable

Trade accounts receivable relate primarily to sales to domestic customers. Allowances are provided, when necessary, in an amount considered by our management to be sufficient to meet probable future losses related to uncollectible accounts. At December 31, 1999, we have provided US$ 18,804 as an allowance for doubtful accounts (1998 - US$ 23,543). Credit risk is minimized due to the large customer base and control procedures which monitor the creditworthiness of customers.

7 Inventories

	1999	1998
Raw materials	108,750	139,451
Finished products	36,768	63,152
Work in process	14,727	20,731
Production materials	17,720	30,618
Bottles and crates	6,858	8,070
Maintenance materials	24,216	33,434
Other	1,421	3,310
	210,460	298,766

8 Property, Plant and Equipment

	1999		
	Cost	Accumulated depreciation	Net
Land	40,057		40,057
Buildings	441,981	(118,912)	323,069
Machinery and equipment	1,233,401	(706,860)	526,541
Bottles	51,387	(15,483)	35,904
Crates	48,900	(19,120)	29,780
Vehicles	15,552	(6,043)	9,509
Equipment with third parties	56,064	(19,755)	36,309
Other	4,336	(756)	3,580
	1,891,678	(886,929)	1,004,749
Construction in progress	21,158		21,158
Impairment provision for assets to be disposed of	(3,121)		(3,121)
	1,909,715	(886,929)	1,022,786

	1998		
	Cost	Accumulated depreciation	Net
Land	62,152		62,152
Buildings	637,799	(147,679)	490,120
Machinery and equipment	1,776,068	(853,242)	922,826
Bottles	84,463	(21,635)	62,828
Crates	79,545	(25,788)	53,757
Vehicles	26,720	(10,112)	16,608
Equipment with third parties	67,764	(25,894)	41,870
Other	7,831	(1,139)	6,692
	2,742,342	(1,085,489)	1,656,853
Construction in progress	82,892		82,892
	2,825,234	(1,085,489)	1,739,745

Construction in progress at December 31, 1999 and 1998, relate primarily to upgrades and operational improvements.

The commissioning of new plants in December of 1998 marked the conclusion of this phase of Brahma's formal plan to increase installed capacity and modernize its plant. As a result, beginning in December 1998, management began a review of its operating capacity requirements by plant, geographic area and asset grouping. Brahma management did not consider the completion of its capital projects as a significant event, which changed the circumstances in relation to these assets. We identified certain plants and assets, primarily in our beer segment, with a carrying value of US$ 91,322 for inclusion in an impairment analysis. Prior to the date of the financial statements, we had not committed to a formal plan of either continued use or disposal of these assets. Therefore as no impairment indicators were present, we did not believe that an impairment analysis was warranted as of December 31 1998.

In 1999, when we were able to gauge the market demand generated from our increased capacity, the projected undiscounted revenue streams generated by these assets indicated signs of impairment. Based on this preliminary analysis, in June of 1999 we recognized an impairment provision of US$ 11,829, which was charged to "Other operating expense." We finalized our impairment analysis in the second half of 1999 recognizing an additional charge of US$5,504. Both analyses indicated that on an undiscounted cash flow basis, certain of our machinery and

equipment, buildings, land and land improvements would not be recovered or utilized at other plants. Both groups of assets were written down to discounted or market values. Fair value of these assets was determined by obtaining quoted market prices, where available, or by estimating fair value considering market prices for similar assets. Impaired assets consist principally of beer segment assets, which have a total carrying value of US$ 15,890. For the year ended December 31, 1999, the identified results of operations of these assets was US$3,000. We physically destroyed US$ 14,212 of the impaired assets during the second half of 1999. In relation to the remaining US$ 3,121 we have developed a plan for their disposal and actions to be taken to complete these plans.

Also as a part of our analyses, we approved and committed US$ 7,386 (1998 - US$ 5,855) of non-operational assets comprised of buildings (US$ 3,803) and land (US$ 3,583) as held-for-sale. Depreciation relating to such assets was terminated on transfer to the "Assets held for sale" category. As required by SFAS No. 121, the assets held for sale have been reported at their carrying amounts, which is less than their fair market values. We have developed a plan for disposal of these assets no longer in service and actions to be taken to complete these plans. There is an active program to find buyers, but eventual sale is dependent upon prevailing market conditions.

9 Goodwill and Intangible Assets, net

Goodwill	**1999**	**1998**
At beginning of year, net	71,421	48,649
Goodwill on acquisitions		33,094
Amortization	(3,995)	(5,586)
Exchange rate variations	(23,225)	(4,736)
At end of year, net	44,201	71,421
Other intangible assets, net of amortization	9,833	12,435
Total goodwill and intangible assets	54,034	83,856

Goodwill on acquisition (Note 1(b))	Fair value of net liabilities on acquisition	Goodwill 1998
Engarrafadora	(28,759)	
PCE	(11,067)	
Malteria Pampa S.A.	(33,094)	33,094
		33,094

Accumulated amortization of goodwill and intangible assets was US$ 21,637 and US$ 15,196 at December 31, 1999 and 1998, respectively.

10 Short-term Debt

	1999	1998
Raw material importation and financing	237,732	335,418
Importation of equipment	25,128	80,862
Working capital financing	84,324	26,766
	347,184	443,046

Short-term debt denominated in U.S. dollars at December 31, 1999 totaled US$ 333,828 (1998 - US$ 426,677) with a weighted average interest rate of approximately 9% at December 31, 1999 (1998 - 8%). Raw material import finance terms are normally for payment in a single installment on the 360th day. We have no formal lines of credit at December 31, 1999. We have lines of credit only in regards to our long-term debt, specifically with BNDES. Our current liabilities are composed of short-term debt and the current portion of long-term debt.

11 Long-term Debt

(a) Summary

	Index(1)	Nominal annual interest rates - %	1999	1998
Brazilian *reais*				
	UMBNDES	6 to 8	23,989	25,255
	TJLP	0 to 4	378,592	485,135
		4 to 6	73,102	163,765
		6 to 12	2,683	4,246
	TR	6 to 8	13,526	18,535
		10 to 14	11,317	7,921
U.S. dollar – denominated				
		2 to 6	1,367	20,052
		6 to 8	43,774	110,355
		8 to 10	135,861	174,218
		10 to 12	8,829	8,753
			693,040	1,018,235
Less current portion			(227,185)	(290,465)
			465,855	727,770

(1) UMBNDES — Weighted-Average exchange rate variations on currencies held by BNDES (Brazilian Economic and Social Development Bank), used to index certain liabilities: 1999-45.43 %; 1998-11.80%

TJLP — Long-Term Interest Rate fixed by the government on a quarterly basis (average annual year-end rate): 1999-12.50%; 1998- 18.06%

TR — Referential Rate published by the government on a daily basis – (average annual year-end rate): 1999- 5.73%; 1998- 7.78%

We have several loans, principally for plant expansion, outstanding with Governmental agencies including the International Finance Corporation, BNDES and other Brazilian government agencies.

(b) BNDES line of credit

In July 1997, we entered into a line of credit agreement with the BNDES, which was utilized for investments through 1998.

	R$	US$	
Annual finance charge	Original line of credit	Balance drawn down December 31, 1999	Balance drawn down December 31, 1998
TJLP + 3.1%	670,338	283,408	434,133
TJLP + 1.6%	14,289	7,535	12,162
	684,627	290,943	446,295

The line of credit is payable in 72 monthly installments with final maturity from July 2004 through July 2005.

In the event the TJLP exceeds 6% per annum, the differential is added to the principal balance outstanding.

(c) Project financing agreement - IFC

We have loans from the International Finance Corporation (IFC), the balance at December 31, 1999 totals US$ 112,216 (1998 - US$ 155,243; 1997 - US$ 172,548), which contain certain restrictive covenants. The loans are U.S. dollar-denominated and accrue annual interest of between 2.5% and 2.75% above LIBOR, falling due in installments through June 2003. Part of the loans (3.16%) may be converted into our preferred stock at the option of IFC. Restrictive covenants include a requirement to invest all the funds in the approved investment program and compliance with certain minimum liquidity and indebtedness ratios.

(d) Long-term debt maturities

	1999
2000	227,185
2001	152,769
2002	106,685
2003	85,541
Thereafter	120,860
	693,040

(e) Guarantees

Certain loans, principally long term, are secured by liens on equipment in the amount of approximately US$ 65,790.

12 Sales tax deferrals and other tax credits

Certain states in Brazil provide tax incentives in the form of deferrable tax payments and partial or complete tax abatements for periods ranging from one to twenty years to promote investments in the region. We currently participate in programs whereby a percentage of payments of Value-Added Tax on Sales and Services ("ICMS"), due from sales generated by specific production facilities, are deferrable for periods of, generally, five years from their original due date. Percentages deferrable usually range from 75% in the first year to 40% in the final year or a fixed percentage over the life of the program. Amounts deferrable under these programs are without limit, except in the State of Santa Catarina, where we have attained approximately 100% (US$ 50,145) of the limit at December 31, 1999. Balances deferred generally accrue interest and are only partially inflation indexed, such adjustment being linked, in the majority of cases, from 60% to 80% of a general price index. Of the total amount deferred, as of December 31, 1999, US$ 198,625 will become payable in 2003 and the balance of US$ 98,117 thereafter.

Brahma also participates in ICMS tax credit programs offered by various Brazilian States, which provide tax credits to offset ICMS tax payable. In return, Brahma is committed to meet certain operational prerequisites including, depending on the State, volume production and employment targets, among others. The grants are received over the lives of the respective programs. During 1999, Brahma recorded US$35,202 of tax credits as a reduction of taxes on sales. No such

benefits were recorded in 1998 and 1997 as the pre-conditions had not yet been satisfied. The benefits granted are not subject to drawback provisions in the event Brahma does not meet the program target, however, future benefits may be withdrawn.

13 Financial Instruments and Risk Management

(a) Concentration of credit risk

Our sales are to distributors and direct to customers. Credit risk is minimized due to this large customer base and ongoing control procedures which monitor the creditworthiness of customers. Historically, we have not experienced significant losses on trade receivables.

In order to minimize credit risk from investments, we have adopted policies restricting cash and/or investments that may be allocated among financial institutions, which take into consideration monetary limits and financial institution credit ratings.

(b) Foreign Exchange and Interest Rate Risk Management

Off-balance sheet derivative financial instruments at December 31,1999 and 1998 include foreign currency forward contracts and foreign currency swap agreements. During 1999, Brahma also entered into interest rate swap agreements, although none were outstanding at December 31, 1999.

Brahma enters into short-term foreign currency forward exchange contracts to mitigate foreign exchange risk on U.S. dollar denominated debt, financing on imports and foreign suppliers. These contracts reduce the risk to financial positions and results of operations of changes in the underlying foreign exchange rate. The contracts are marked-to-market and the realized and unrealized gains and losses on these financial instruments used as hedges of anticipated, but not firmly committed, foreign currency cash flow exposures are reported in the statement of operations and included in the amounts reported in “Financial income and expense.” At December 31, 1999, Brahma has 10 foreign currency forward contracts outstanding of which the notional amount is US$ 160,000.

Brahma enters into short-term foreign currency swap agreements (principally for U.S. dollars), to mitigate foreign exchange risk on U.S. dollar denominated debt, financing on imports and foreign suppliers. The swap agreements are marked-to-market and the realized and unrealized gains and losses on these financial instruments used as hedges of anticipated, but not firmly

committed, foreign currency cash flow exposures are reported in the statement of operations and included in the amounts reported in "Financial income and expense." At December 31, 1999, Brahma has 35 foreign currency swap agreements outstanding of which the notional amount is US$ 660,608.

Brahma enters into interest rate swaps to manage its short-term debt portfolio. Under these swaps, Brahma will pay a floating rate of interest (the *Certificado de Depósito Bancário* - CDI) and receive a fixed rate of interest. At December 31, 1999, Brahma did not have any interest rate swaps outstanding.

Off-balance sheet derivative financial instruments outstanding at December 31, 1999, held for purposes other than trading, were as follows:

Description	Currency	Notional Outstanding Amount	Fair Market Value Gain	Fair Market Value Loss
Foreign currency forward contracts	US$	160,000		(10,987)
Foreign currency swaps	US$	660,608	25,489	(8,459)
Total		820,608	25,489	(19,446)

The notional amounts of derivatives do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of Brahma through its use of derivatives. The amounts exchanged during the term of the derivatives are calculated on the basis of the notional amounts and the other contractual conditions of the derivatives, which relate to interest rates, indices and foreign currency exchange rates.

Gains/(losses) from derivative activities totaled approximately US$ 144,198, (US$ 22,267), and (US$ 1,525) for the years ended December 31, 1999, 1998 and 1997, respectively.

(c) Fair value of financial instruments

The carrying amount of our current financial instruments generally approximates fair market value because of the short-term maturity or frequent repricing of these instruments. In estimating the fair value of our derivative positions, we utilized quoted market prices, if available, or quotes obtained from outside sources. Fair market value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument.

14 Shareholders' Equity

(a) Capital and shareholders' rights

(i) Capital

Subscribed and paid-in capital comprises 6,925,584 thousand (1998 - 7,282,405 thousand) shares of no par value, of which 4,289,905 thousand (1998 - 4,614,948 thousand) are preferred shares and 2,635,679 thousand (1998 - 2,667,456 thousand) are common shares. Preferred shares issued during the year of 39,327 thousand relate to the stock option plan (Note 14(h)).

(ii) Share rights

Preferred shares are non-voting but have priority in the return of capital in the event of liquidation. Common shares have the right to vote at shareholder meetings. According to Brahma's bylaws preferred shares have priority to the receipt of a mandatory non-cumulative dividend of 25%, due to both preferred and common shares, of their proportionate share of net income (based on the number of outstanding preferred shares in relation to total outstanding shares). The mandatory dividend includes amounts paid as interest attributed to shareholders' equity, which is equivalent to a dividend but is more a tax efficient way to distribute earnings, as it is deductible for income tax purposes. As from 1997, and as reflected in the determination of earnings per share, preferred shares are entitled to a dividend premium of 10% over that received by the common shareholders. Earnings per share amounts for all year presented have been determined as though all earnings would be distributed. As such earnings may be capitalized, used to absorb losses or otherwise appropriated, there can be no assurance that preferred shareholders will receive the 10% premium referred to above, unless earnings are fully distributed.

(iii) Subscription warrants

In February 1996 our Board of Directors approved the private placement of 404,930,519 subscription warrants, of which 262,891,498 for subscription of preferred shares valuing US$ 13,393, and 142,039,021 for subscription of common shares valuing US$ 7,218. Each warrant (granted for 17 shares then held) will have the right to subscribe for one share and may be exercised during April 2003 at the total value of US$ 266,624 for preferred shares and US$ 144,056 for common shares. This ratio will be adjusted proportionately should there be any reverse splits, splits or distribution of stock dividends.

(iv) Share buy-back program

	Thousands of shares				
	Authorized		Purchased		
Program approval	Preferred	Common	Preferred	Common	Cost
November 14, 1997 (extended to May 14, 1998)	432,701	82,567	161,885	60,798	139,892
May 12, 1998 (extended to August 10, 1998)	258,022	78,491	79,602	24,264	61,409
August 10, 1998 (extended to November 8, 1998)	173,521	51,170	109,892	1,159	49,403
November 10, 1998 (extended to February 7, 1999)	51,846	44,266	12,992	4,049	7,010
February 9, 1999 (extended to July 1, 1999)	404,932	63,717		7,228	2,926

(b) Appropriated retained earnings

(i) Under the Brazilian Corporation Law, we, together with our Brazilian subsidiaries, are required to appropriate 5% of our annual local currency earnings, after absorbing accumulated losses, to a statutory reserve. The reserve may be used to increase capital or absorb losses, but may not be distributed as dividends.

(ii) The tax incentive reserve results from an option to apply a portion of income tax otherwise payable for the acquisition of capital stock of companies undertaking specified government-approved projects. The amount is credited to income tax and subsequently appropriated from retained earnings to this reserve. No provisions are made unless the corresponding capital reserve, presented in the financial statements prepared in accordance with the Brazilian Corporation Law, is used to pay dividends. We do not intend to pay dividends out of our capital reserves, as such amounts are generally restricted to distribution in the form of dividends.

(c) Unappropriated retained earnings

Dividend distributions are limited to our retained earnings as determined in accordance with the Brazilian Corporation Law. Distributable retained earnings at December 31, 1999 are limited to the amount provided for in our statutory financial statements as at December 31, 1999: *Reserva para futuro aumento de capital* (US$ 233,276 at the year-end exchange rate) reduced by *Açoes em tesouraria* (US$ 3,707 at the year-end exchange rate).

(d) Advances for purchase of shares

We operate a stock-based compensation plan and finance the purchase of shares at the option of employees and directors (Note 14(h)). Financing arrangements are normally for periods not exceeding five years and accrue interest of 8% per year over a designated general price index.

(e) Dividends

Dividends are payable in Brazilian *reais* and may be converted into United States dollars and remitted to shareholders abroad provided that the non-resident shareholder's capital is registered with the Brazilian Central Bank.

(f) Interest attributed to shareholders' equity

We are required by the Brazilian Corporation Law and our by-laws to propose dividends at year-end to meet the 25% of adjusted annual net income mandatory dividend requirements; a requirement met through payments made in the form of dividends and interest attributed to shareholders' equity. A proposal to provide for interest attributed to equity of US$ 62,199 has been made at December 31, 1999 to meet the 25% minimum, in addition US$ 34,718 of interest attributed to shareholders' equity was prepaid during the year.

(g) Payroll, profit sharing and related charges

Our by-laws provide for the distribution to employees of up to 10% of consolidated net income, determined in accordance with the Brazilian Corporation Law. Executive officers are entitled to profit sharing in an amount not to exceed their annual remuneration or 5% of net income in the aggregate, whichever is lower. Payments under this profit sharing plan are subject to the availability of cash resources of Brahma. The distribution of the executive officers' bonus is determined based on individual performance and efficiency as approved by our Board of Directors. Expenses incurred under the performance-based compensation programs, are included in “General and administrative expenses” and amounted to US$ 1,862 (paid to employees) in the year ended December 31, 1999 (1998- employees - US$ 29,849; executive officers - US$ 6,569; 1997 - employees - US$ 24,475; executive officers - US$ 7,854). No individual bonuses were paid to employees and executive officers in respect to the fiscal year ended December 31, 1998 as our goals set earlier in that year were not met. Liabilities for accrued profit sharing totaled US$ 22,284 at December 31, 1999. The year-end provision is an estimate made by our management as the final determination of the amount payable is not available at the date of preparation of the financial statements. Amounts paid with respect to the program may differ from the liability accrued.

(h) Stock option plan

Our stock option plan (the "Plan") is designed to obtain and retain the services of executives and certain employees. Both common and preferred shares are granted in the Plan.

The Plan is administered by a committee comprised of non-executive members of our Board of Directors. This committee periodically creates programs of share options defining the terms, vesting requirements and employees to be included and establishes the price at which the preferred and common shares are to be issued. This price cannot be less than 90% of the average price of the shares traded on the Rio de Janeiro stock exchange in the previous three business days, inflation indexed through the date the option is granted. The number of shares which may be granted each year through the Plan cannot exceed 5% of the total number of shares outstanding of each group of shares at that date. When share options are exercised, we either issue new shares or transfer treasury shares to the new shareholder. The share options granted to date do not specify a final date by which they must be exercised. If an employee leaves us (other than upon retirement), the Brahma Welfare Foundation may repurchase such shares, at its option, at a price equal to (i) the inflation-indexed price paid by such employee, if the employee leaves during the first thirty months after the exercise of such option, (ii) 50% at the inflation-indexed price paid, and 50% at the prevailing market price, if the employee leaves after the first thirty months but before the sixtieth month after the exercise of such option, and (iii) the market price thereafter.

	1999	1998	1997
Outstanding at beginning of year (in thousands of shares)	372,350	361,109	408,808
Granted	131,600	145,649	136,600
Exercised	(39,327)	(110,810)	(123,875)
Forfeited	(30,892)	(23,598)	(60,424)
Outstanding and exercisable at December 31, 1999	433,731	372,350	361,109
Shares available at end of each year for options that may be granted in the subsequent year	346,279	364,120	361,504

	1999	1998	1997
Range of exercise prices for outstanding options (US$ per thousand shares)	129.74 to 366.55	111.57 to 487.34	156.07 to 563.09
Weighted average grant-date exercise price of options (US$ per thousand shares)	334.16	335.48	556.32
Weighted average grant-date quoted market price of shares (US$ per thousand shares) (based on quoted market value at date granted)	384.83	410.77	611.26
Weighted average grant-date value (difference between quoted market price and exercise price) of options granted during the year (US$ per thousand shares)	50.67	75.30	54.94

Compensation cost recognized in the income statement was US$4,593, US$ 4,512 and US$ 4,622 at December 31, 1999, 1998 and 1997 respectively.

Weighted-average exercise prices	1999	1998	1997
At beginning of year	397.31	417.35	333.31
Granted	334.16	335.48	556.32
Exercised	218.86	370.42	379.30
Forfeited	340.63	380.15	208.88
At end of year	388.40	397.31	417.35

Outstanding and exercisable:

Range of exercise prices (US$ per thousand shares) (1)	Number of shares (thousands)			Weighted - average exercise prices (US$ per thousand shares)		
	1999	1998	1997	1999	1998	1997
156.07 - 237.30	17,135	35,390	82,853	219.25	219.28	214.76
237.31 - 318.92	28,347	44,068	52,300	304.86	303.71	304.86
318.93 - 484.70	305,709	204,049	89,356	360.60	379.67	458.61
484.71 - 563.09	82,540	88,843	136,600	555.19	555.19	556.32
	433,731	372,350	361,109	388.40	397.31	417.35

(1) Ranges of exercise prices have been translated at their historical U.S. dollar amounts.

We have calculated the pro forma effects of accounting for the Plan in accordance with SFAS No. 123. Had compensation cost for the Plan been determined based on the fair value at the grant date in accordance with the provisions of SFAS No. 123, our net income and earnings per thousand shares, would have been as follows:

	1999	1998	1997
Net income - pro forma	169,481	224,049	384,214
Earnings per thousand shares - pro forma			
Basic			
Preferred	26.53	34.33	56.25
Common	24.12	31.21	51.14
Diluted			
Preferred	25.79	33.52	54.43
Common	23.45	30.47	49.48

These pro-forma results are not necessarily indicative of future amounts.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1999: dividend yield 19.0% (1998 - 10.0%, 1997 – 2.2%), expected volatility 48% (1998 - 59%, 1997 – 28%), risk-free interest rate- nominal terms- 19% (1998 nominal terms- 30%; 1997- above inflation index real terms-11%) and expected lives of three years for all periods.

	1999	1998	1997
Weighted average grant date fair value (US$ per thousand shares)	161.92	254.02	251.05
Market value of options granted in the year, all of which were less than the quoted market price of the stock on grant date (in thousands)	21,308	36,998	34,293

Weighted average shares outstanding used in determining diluted earnings per share (in thousands) are as follows:

	1999	1998	1997
Weighted average number of shares outstanding during the year - diluted			
Preferred	4,406,174	4,486,158	4,825,779
Common	2,381,869	2,418,471	2,456,931
	6,788,043	6,904,629	7,282,710

15 Employee Benefits

(a) Brahma Pension Plan

The Brahma Pension Fund is a defined-benefit pension plan, which supplements benefits that the Brazilian government social security system provides to our employees and Brazilian subsidiaries. The Brahma Pension Fund was established solely for the benefit of our employees and its assets are held independently. We nominate the three directors to the Brahma Pension Fund.

The Brahma Pension Fund is available to both active and retired members. Upon joining us, or six months thereafter if contracted after June 30, 1990, employees may opt to join the Brahma Pension Fund. Upon leaving (unless upon retirement) members are required to leave the Brahma Pension Fund. Members who joined after June 30, 1990 and request to leave, receive the minimum benefit in a single installment based on past contributions.

(b) Brahma Welfare Foundation

The Brahma Welfare Foundation was formed in 1983 to provide medical, dental, educational, sporting and social assistance to sponsoring employees and their dependents (approximately 23,527 and 25,100 beneficiaries at December 31, 1999 and 1998, respectively). At our option, we may contribute up to 10% of our Brazilian Corporation Law consolidated net income to support the Brahma Welfare Foundation.

Beneficiaries pay up to a maximum of 50% of the cost of medical and dental consultations and the balance remaining is paid by the Brahma Welfare Foundation. In-patient health services are normally fully covered by the Brahma Welfare Foundation. The Brahma Welfare Foundation also offers medical assistance to approximately 1,174 former employees and their 1,467 dependents. The Brahma Welfare Foundation primarily administers its medical and dental assistance through independent health providers.

(c) Funded status

Based on the report of the Brahma Pension Fund's and the Brahma Welfare Foundation's independent actuary, the funded status and amounts recognized in our balance sheet have been disclosed in accordance with SFAS No. 132, "Employer's Disclosures about Pensions and other Post-retirement Benefits", as follows:

	Brahma Pension Fund		Brahma Welfare Foundation	
	1999	**1998**	**1999**	**1998**
Change in benefit obligation				
Net benefit obligation at beginning of year	132,569	153,465	42,112	39,977
Service cost	3,789	8,198		
Interest cost	6,839	11,727	2,160	3,031
Actuarial (loss)/gain	13,983	(13,723)	1,382	4,003
Curtailments	(3,178)			
Settlements	(10,322)			
Gross benefits paid	(8,073)	(15,120)	(1,312)	(1,784)
Foreign exchange gains	(43,460)	(11,978)	(13,819)	(3,115)
Net benefit obligation at end of year	92,147	132,569	30,523	42,112
Change in plan assets				
Fair value of plan assets at beginning of year	191,674	173,137		
Actual return on plan assets	33,414	41,048		
Employer contributions	769	2,315		
Plan participants contributions	1,927	4,866		
Gross benefits paid	(8,073)	(15,120)		
Settlements	(8,406)			
Foreign exchange losses	(62,119)	(14,572)		
Fair value of plan assets at end of year	149,186	191,674		
Funded status at end of year	57,039	59,105	(30,523)	(42,112)
Unrecognized net actuarial (gain)/loss	(37,131)	(51,647)	13,301	18,652

	Brahma Pension Fund		Brahma Welfare Foundation	
	1999	**1998**	**1999**	**1998**
Unrecognized net transition obligation	1,755	3,538	10,666	17,050
Prepaid (accrued) benefit cost	21,663	10,996	(6,556)	(6,410)

Included within the fair value of the Brahma Pension Fund's plan assets as of December 31, 1999 and 1998 are 1,919,034 of our preferred shares and 17,732,970 of our common shares, with a total fair value of US$ 14,500 (1998 - US$ 13,764) at such date.

	Brahma Pension Fund		Brahma Welfare Foundation	
	1999[(1)]	**1998[(1)]**	**1999[(1)]**	**1998[(1)]**
Weighted-average assumptions as of December 31 - %				
Discount rate	8.12%	8.12%	8.12%	8.12%
Expected return on plan assets	8.12%	8.12%		
Rate of compensation increase	5.10%	5.10%		
Health care cost trend on covered charges			7.10%	7.10%

(1) Expressed in real terms (% above consumer price index)

It has been assumed, for measurement purposes, that health care cost trends for 2000 will not be considerably different from 1999. As the Brazilian health care market continues to develop and trend cost data continues to be accumulated, our actuaries are unable to project the direction and pattern of changes in the assumed trend rates, the ultimate trend rates, nor estimate when the rates are expected to be achieved.

	Year ended December 31					
	Brahma Pension Fund			Brahma Welfare Foundation		
Components of net periodic benefit cost	**1999**	**1998**	**1997**	**1999**	**1998**	**1997**
Service cost	3,789	8,198	7,092			
Interest cost	6,839	11,727	8,079	2,160	3,031	2,027
Expected return on assets	(10,107)	(13,581)	(8,975)			
Amortization of:						
Transition obligation/assets	384	614	639	749	1,199	1,248
Actuarial (gain)/loss	(2,532)			577	725	477
Employee contribution	(2,705)	(5,590)	(5,010)			
Total net periodic benefit cost	(4,332)	1,368	1,825	3,486	4,955	3,752

The accounting for the Brahma Welfare Foundation anticipates future cost-sharing changes. Assumed health care cost trend rates have a significant effect on the amounts reported for the welfare plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (all assumptions have been held constant):

	One-percentage point increase		One-percentage point decrease	
	1999	**1998**	**1999**	**1998**
Total service and interest cost components	259	398	(223)	(330)
Post-retirement benefit obligation	3,195	4,896	(2,746)	(4,067)

Our shares held by the Brahma Welfare Foundation at year-end and included in treasury shares are as follows:

	1999		1998	
	Number of shares	Market value	Number of shares	Market value
Preferred shares	34,210,440	25,240	30,699,304	13,408
Common shares	264,739,354	125,046	260,889,354	114,399
Total		150,286		127,807

Prepayment to Brahma Welfare Foundation movements are as follows:

	1999	1998
At beginning of year	41,013	48,756
Income on investments	9,856	14,875
Benefits paid	(12,072)	(15,684)
Foreign exchange losses	(12,817)	(3,554)
Purchase of treasury shares	(2,473)	(3,380)
At end of year	23,507	41,013

16 Commitments and Contingencies

(a) Tax and legal claims

We are contesting the payment of certain taxes and contributions and have made court escrow deposits (restricted deposits for legal proceedings) of equivalent or lesser amounts pending final legal decisions. Our management believes that the accrued liability for legal proceedings, including interest, is sufficient to meet probable and reasonably estimable losses in the event of unfavorable rulings. It is not currently possible to estimate the amount of all potential costs that might be incurred or penalties that may be imposed other than those amounts provided for where this is applicable.

The following probable losses have been identified based on the advice of outside legal counsel and have been provided as liabilities in our financial statements.

	1999	1998
Income tax	2,705	48,867
Social contribution	1,612	6,804
Value-added sales taxes (ICMS) and taxes on revenues (PIS and COFINS)	100,571	81,379
Labor claims	25,165	35,917
Claims from distributors	15,239	19,338
Supplier and product claims	4,433	4,584
Others	13,584	11,144
Total accrued liabilities for legal proceedings	163,309	208,033

(i) Income taxes

During 1999, we reversed US$ 30,929 of contingent liabilities to "Income tax benefit " relating to unasserted income tax risks which were eliminated upon expiry of the statutes of limitations, following the completion of a five-year period without issue of notification by the tax authorities. The most significant amount reversed related to the methodology for price-level restating equity accounting adjustments in monthly balance sheets for tax purposes. Insufficient guidance was provided by tax regulation as to an acceptable methodology, however the tax authorities had taken a position with other taxpayers, which if applied to Brahma would have resulted in a contingency. A tax contingency was established in 1993. Refiling of our 1993/2 tax return took

place in 1996 in which we presented recalculated taxes for 1992 thereby increasing our tax loss carryforwards for that year. The Brazilian tax authorities had not issued an assessment against Brahma and, from the date of the filing of the 1998 tax return on April 30, 1999, (the date of the expiry of the statute of limitations), the authorities are no longer able to appeal the interpretations, considered by management to be valid, with respect to the 1993 income tax return. However, through to the date of expiration of the statute of limitations, the level of uncertainty was such that management considered the liability to be probable and estimable. We have subsequently realized the tax asset through offsetting of tax payments due. Accordingly, we reversed an income tax contingency provision of US$ 21,654 during 1999.

In 1991, the Federal government recognized that the inflation index used for tax accounting purposes in previous years, and in particular in 1990, had been understated. Law 8,200 required companies to reprocess 1990 taxes based on a consumer price index for tax-inflation accounting purposes. Although the effects of reprocessing 1990 taxes resulted in amendments to the tax due, prior period effects were only for pro-forma purposes. Brahma recomputed its income tax obligations for 1990 and for 1988 and 1989 based on a criterion agreed with tax and legal counsel. The differences in interpretation affected the determination of the tax deductions through 1993. In view of the uncertainties with regard to the interpretation of the Law and Brahma's ultimate obligation, legal counsel considered the risk of being required to settle the obligation based on the tax authorities' interpretation to be high. The loss contingency was considered to be probable.

An assessment was issued against the Brahma holding company of US$ 25,738 on January 10, 1996. However, the *Conselho dos Contribuintes* ("Taxpayers Council Lower Court") issued, a favorable administrative decision on January 7, 1998, published on June 12, 1998, agreeing with our interpretation of the determination of the liability under Law 8200. As the ruling eliminates any right of appeal by the authorities, we have considered the possibility of loss no longer to be probable. In September 1998, we reversed US$ 21,070 relating to income tax and social contribution payable, among other issues, which the tax authorities claimed should not have been offset by depreciation charges generated from supplemental indexation of property, plant and equipment accounts applied by a law enacted in 1991.

During 1998, following the expiration of a five-year statute of limitations period without issue of notification by the tax authorities, Brahma reversed US$ 80,366, relating to these unasserted income tax and social contribution risks upon expiry of the statutes of limitations. Expiry of the statute of limitations, in the opinion of Brahma's tax and legal counsel, reduces the probable contingency to a remote contingency.

(ii) Social contribution

Beginning in 1997, an amendment to the tax law confirmed the deductibility of interest on shareholders' equity (a form of dividend distribution) for social contribution purposes as well as for income tax. Brahma is claiming recovery of US$11,547 of social contribution taxes paid relating to fiscal year 1996, but no final ruling has been handed down to Brahma by the Brazilian Supreme court to date. An injunction granted to Brahma in 1999 permitted compensation of the amount claimed against the social contribution paid in 1999. No compensation of this amount has been made against other taxes to date.

(iii) Value-added sales taxes (ICMS) and taxes on revenues (PIS and COFINS)

We entered into an administrative legal proceeding in connection with a tax assessment for the alleged non-payment of ICMS totaling US$ 99,280. In February 1999, the lawsuit was ruled in our favor and we reversed the amounted provisioned of US$8,386.

In October 1996, a tax ruling allowed value-added tax (ICMS) and excise tax (IPI) credits on capital expenditures to be compensated against the amounts payable on these taxes. Brahma filed a lawsuit to permit offsetting of ICMS and IPI taxes paid prior to 1996 against similar taxes payable. Brahma offset US$ 16,944 and US$ 20,286 in relation to these taxes in 1999 and 1998, respectively. Compensation resulted in a reduction of "Taxes on sales" and a credit to "Other operating income". Simultaneously, a contingent liability was recorded within "Accrued liability for legal proceedings" in the same amount with a corresponding debit to "Other operating income". The net impact of the above ICMS and IPI compensations is the reclassification of amount offset from "Taxes on sales" to "Accrued liability for legal proceedings. As Brahma did not receive an injunction obtaining favorable, non-appealable judicial rulings, the corresponding assets, which might arise in the future, are only recognized once realization is assured. Also provisioned in this line item is US$ 19,183 in relation to the interest portion of these ICMS and IPI contingent tax credits.

During 1999, Brahma provisioned US$ 13,121 through "Value-added and excise tax on sales" principally in relation to a new law enacted in the first quarter of 1999 alleging the obligation of Brazilian companies to pay PIS and COFINS (taxes on revenues) on interest income. Brahma obtained an injunction for the non-payment of this additional tax in the first quarter of 1999 and simultaneously provided for the amount due, as the obligation is deemed probable. The injunction was received on the basis that the new law was unconstitutional and gave Brahma the right to withhold payment of PIS and COFINS alleged by the new law. Although Brahma has filed a claim against the tax authorities to support its view that this tax is unconstitutional,

Brahma is required by this new law to pay PIS and COFINS until such time it receives a favorable ruling or when the law itself is struck down.

Brahma is involved in over 100 different cases, of relatively small amounts, with individual Brazilian states relating principally to the payment of ICMS substitute and ICMS of approximately US$ 31,037 at December 31, 1999. During the year, Brahma made provisions for new ICMS cases of US$ 12,627 in "Other operating income (expense)", of which the most relevant case represents US$ 5,680 in relation to an assessment raised against a subsidiary of Brahma for not providing adequate ICMS documentation in a magnetic disk format as required by a new fiscal law passed in 1999.

(iv) Labor claims

Brahma is involved in more than 5,361 legal proceedings with former and current employees, mainly relating to dismissals, severance, health and safety, premiums, supplementary retirement benefits and other matters. We have established provisions in connection with all proceedings for which we believe there is a probable chance of loss. Escrow deposits (restricted deposits for legal proceedings), principally for labor claims totaled US$ 9,755 at December 31, 1999 (1998 -US$ 13,986).

In the year ended December 31, 1998 we reversed US$ 30,234 of labor contingency provisions. Labor related cases usually take over three years to obtain a final judgement and in the past courts had frequently ruled in favor of the employee-plaintiff. At each period end, Brahma management, with input from its external and internal counsel, evaluates these contingencies in light of SFAS No. 5, "Accounting for Contingencies" requirements and provides for losses where probable and estimable. Management of Brahma perceived that the ruling trends had changed in the period through 1998, and in that year, requested legal counsel to reevaluate the strategy outlook with respect to the probability or possibility of loss from such cases. Based on the more favorable trend of actual settlements, and counsel's opinion of future probable and estimable losses, Brahma change its estimation criteria in respect to labor claims and accordingly reversed US$ 30,234 of the labor related contingency provision to "General and administrative income," consistent with the account in which the original provisions were recorded.

(v) Distributors claims

As of December 31, 1999, 120 breach of contract claims had been filed against Brahma by former distributors of Brahma whose contracts were terminated due to low sales volumes, failure of distributors to meet Brahma guidelines and a general restructuring of the distribution network. Most of these claims were originally filed between 1996 and 1999. Of these claims, 96 are still in the lower courts, 17 have been appealed and are now in intermediary court levels, and seven claims are currently being reviewed by the highest level appeal court in Brazil, the Supreme Court of Justice (STJ)

Brahma has provisions for probable losses of US$ 15,239, based on advice of outside legal counsel.

(vi) Other tax matters

We have also filed claims against the tax authorities to support our view that certain taxes levied are unconstitutional, although we have been required by law to pay these amounts, deposit the amounts into court legal escrow accounts and/or make provisions for amounts legally due. These legal proceedings include claims for taxes on income, ICMS value-added taxes and IPI excise taxes among others. We are prosecuting claims against the tax authorities to assure we effectively benefit from IPI tax exemptions on certain inputs. Currently the "exemption" becomes a mere tax deferral at the time of sale. As this and other claims are contingent upon Brahma obtaining favorable, non-appealable judicial rulings, the corresponding assets, which might arise in the future are only recognized once realization is assured.

(b) Postemployment benefits

We maintain a pension plan and other postemployment benefits (Note 15) for our employees and make monthly contributions based on payroll expense to the government pension, social security and severance indemnity plans. Brahma is required to contribute 8% of each employee's gross pay to an account maintained in the employee's name in the Government Severance Indemnity Fund (FGTS). No other contributions to the FGTS are required. Such payments are expensed as incurred.

Under Brazilian law, Brahma is also required to pay termination benefits to employees dismissed without just cause. The amount of the benefit is calculated as 40% of the accumulated contributions made by Brahma to the FGTS during the employee's period of service. Brahma does not accrue for these termination payments before a decision to terminate has been made,

since the benefits are neither probable nor reasonably estimable. Any such terminations occur in the ordinary course of business and are not material to our consolidated statement financial condition, statement of operations or liquidity. Termination expenses were US$ 4,044**,** US$ 6,615, US$ 6,202 in the years ended December 31, 1999, 1998 and 1997, respectively.

(c) Environmental issues

We are subject to federal, state and local laws and regulations relating to the environment. These laws generally provide for control of air and effluent emissions and require responsible parties to undertake remediation of hazardous waste disposal sites. Civil penalties may be imposed for noncompliance.

We provide for remediation costs and penalties when a loss is probable and the amount is reasonably determinable. It is not presently possible to estimate the amount of all remediation costs that might be incurred or penalties that may be imposed. Our management does not presently anticipate that such costs and penalties, to the extent not previously provided for, will have a material adverse effect on our consolidated statement financial condition, statement of operations or liquidity

At present there are no unasserted environmental claims or assessments.

We have made substantial capital expenditures to bring existing facilities into compliance with various environmental laws. Recent expenditures are as follows:

Year ended December 31	Property, plant and equipment	Waste treatment	Total
1999	1,369	6,963	8,332
1998	5,709	15,387	21,095
1997	16,148	7,829	23,977

Budgeted expenditures for the five-year period ending December 31, 2004 total approximately US$ 37,000 (unaudited).

17 Business Segments

We report our business segment data in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," The management approach under SFAS No. 131 designates the internal information that is used by management for making operating decisions and assessing performance as the source of the company's reportable segments and requires disclosure about products and services, geographical areas, and major customers.

We have two identifiable reportable segments, beer and soft drinks. The accounting policies underlying the financial information provided for the segments are based on Brazilian accounting principles used for statutory purposes, except that certain expenses were not allocated to the segments. These unallocated expenses are corporate overheads, minority interests, income taxes and financial interest income and expense. We evaluate segment performance information generated from the statutory accounting records. Certain operating units do not separate operational expenses, total assets, depreciation and amortization. These amounts were allocated based on statutory gross sales.

The local currency information related to the statement of operations data has been translated to U.S. dollars, for convenience purposes, at the average rates of exchange in effect for each period presented. The balance sheet information has been translated to U.S. dollars at the respective period-end exchange rates.

We have prepared a reconciliation of segment information to our consolidated financial statements.

	1999	1998	1997
Beer	1,516,418	2,187,505	2,155,974
Soft Drinks	212,556	454,869	338,546
Others	60,905	76,863	83,818
U.S. GAAP adjustments	(13,936)	(49,899)	(134,235)
Net sales (U.S. GAAP)	1,775,943	2,669,338	2,444,103
Beer	263,145	410,216	541,834
Soft Drinks	(34,519)	(33,878)	(30,131)
Others	4,169	13,183	13,223
U.S. GAAP adjustments	(36,183)	(180,132)	(237,329)
Operating income before net financial expense (U.S. GAAP)	196,612	209,389	287,597
Less:			
Financial expense, net	(71,252)	(114,925)	(48,285)
Other non-operating income (expense)	(1,365)	29,384	(5,327)
Income tax benefit (expense)	9,690	(29,620)	(49,776)
Minority interest participation	7,725	9,223	1,767
U.S. GAAP adjustments	43,342	135,126	209,490
Net income (U.S. GAAP)	184,752	238,577	395,466

Revenues from no individual customer represents more than 10% of our consolidated sales.

	1999	1998	1997
Beer	1,109,472	1,890,654	2,022,148
Soft Drinks	291,687	405,556	491,603
Others	186,044	225,548	118,099
U.S. GAAP adjustments	(115,022)	(97,625)	(103,412)
Total segments assets (U.S. GAAP)	1,472,181	2,424,133	2,528,438
General corporate (U.S. GAAP)	1,401,743	1,307,435	1,172,782
Total assets (U.S. GAAP)	2,873,924	3,731,568	3,701,220
Beer	210,608	228,356	218,888
Soft Drinks	27,906	51,020	28,392
Others	2,862	5,658	5,498
U.S. GAAP adjustments	(6,473)	(21,680)	(9,742)
Total depreciation and amortization (U.S. GAAP)	234,903	263,354	243,036

Information on our geographic areas is as follows:

	1999	1998	1997
Domestic	1,581,863	2,521,407	2,422,493
International	208,016	197,830	155,845
U.S. GAAP adjustments	(13,936)	(49,899)	(134,235)
Total net sales (U.S. GAAP)	1,775,943	2,669,338	2,444,103
Domestic	861,220	1,567,779	1,725,397
International	323,295	389,997	341,627
U.S. GAAP adjustments	(79,852)	(92,069)	(74,309)
Total long-lived assets (U.S. GAAP)	1,104,663	1,865,707	1,992,715

International sales and operations arise from our subsidiaries in Argentina and Venezuela.

18 Supplemental Cash Flow Information

As described in Note 11, pursuant to current legislation, we defer payment of certain sales taxes recorded as sales tax deferrals. Amounts deferred during 1999 approximated US$ 65,252. As discussed in Note 11, Brahma recorded US$35,202 of tax credits during 1999 by offsetting taxes payable. Non-cash transactions include the reversal of the contingency provisions detailed in Note 16.

19 Subsequent Events

On April 7, 2000, the CADE approved the combination between Brahma and Antarctica but determined that some restrictions should apply. On April 19, 2000, AmBev executed a performance commitment instrument with CADE in which AmBev agreed to fulfill all requirements of CADE under their decision. The main requirements are as follows:

- By January 1, 2001, AmBev must enter into an agreement with a single purchaser for (a) the sale of Antarctica's *Bavaria* brand; (b) the sale of one beer plant in each of five different Brazilian regions; and (c) the sharing of its distribution network for a period of four years, renewable for an additional two-year period. The purchaser must be a company with a market share of no more than 5% of the Brazilian beer market. Two of the plants to be sold are Antarctica's plants: one is located in Getúlio Vargas, in the state of Rio Grande do Sul and the other is in Ribeirão Preto, in the state of São Paulo. The sale includes equipment for the production of cans in the Ribeirão Preto plant. Three of the plants to be sold are Brahma's plants: one is located in the state of Mato Grosso, one in the state of Bahia and one in the state of Amazonas.

- For a period of four years, AmBev must share its distribution network with one beer company in each of five different regions of Brazil;

- For a period of four years, if AmBev decides to close or dispose of any of its beer plants, it must first promote a public bid for the sale of such plant;

- For a period of five years, AmBev must maintain its employment levels. If AmBev dismisses any employees under the restructuring process caused by the combination, it must attempt to place them within the AmBev group, and provide them with employment re-training; and

- As from April 7, 2000, AmBev and its distributors cannot generally demand that their points-of-sale work on an exclusive basis.

The performance commitment instrument has a term of five years. In the event of non-compliance by AmBev, CADE may appoint a judicial officer to proceed with the sale of Bavaria, the five plants and sharing of distribution network, as well as to promote the sharing of the network with five companies in different regions of Brazil. CADE has the authority to revoke its approval of the controlling shareholders' contribution and to file an administrative proceeding against AmBev, in case it does not comply with its obligations and does not present justifications for such non-compliance.

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