

# Strategic Alliance with San Miguel Brewery, Inc

**February 20, 2009**  
**Kirin Holdings Company, Limited**

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**Note: Amounts in this material are calculated on the basis of 1 Philippine peso = JPY1.9 (as of February 18, 2009)**

# Transaction overview

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**KIRIN**

Kirin Holdings Company, Limited (“KH”) decided to newly acquire a shareholding in San Miguel Brewery, Inc. (“SMB”) while San Miguel Corporation (“SMC”), which established SMB as its domestic beer company and in which KH has a 19.91% shareholding, made its fully fledged entry into infrastructure business

San Miguel Corporation made an entry into infrastructure business ⇒ KH to sell its 19.91% ownership

2007 July: Began to enter new businesses, such as infrastructure business (power generation, power distribution, water supply, public works, mining, infrastructure development, etc.)

**Oct.: Established SMB as a separate domestic beer company through spin-off**

Dec.: Sold National Foods (AU) to KH; sold Tasmanian beer company J. Boag to Lion Nathan

2008 Oct.: Acquired 27% stake in Manila Electric Company, the largest power distribution company in the Philippines

Dec.: Concluded option contract for the acquisition of shares Petron Corporation, the largest petroleum refining company in the Philippines

San Miguel Brewery (“SMB”) (KH agreed to acquire 43.249% ownership)

2008 May: SMC implemented IPO of SMB, offering approximately 5.75% to the public shareholders

## Transaction overview

- KH and SMC today concluded a stock purchase agreement regarding KH’s acquisition of a 43.249% stake in SMB, Philippines stock exchange-listed domestic beer subsidiary of SMC
- Tender offers to other SMB shareholders will be conducted separately at the same price as the shares purchased from SMC. This will enable KH to acquire up to 49% of SMB issued shares
- KH will sell its ownership in SMC and the proceeds will be used to acquire shares in SMB
- SMC granted an exclusivity for the share acquisition of its overseas beer companies to be negotiated by KH, SMB and SMC

# Transaction overview (continued)

## Contract outline

<b>Structure</b>	KH will acquire 43.249% of SMB from SMC through a privately negotiated transaction
<b>Consideration</b>	Acquisition price per share: 8.841 pesos; total acquisition amount: approx. 58.93 billion pesos (approx. ¥112.0 billion)
<b>Valuation</b>	SMB corporate value: 173.47 billion pesos (approx. ¥329.6 billion) (including SMB's planned issuance of corporate bonds of 38.8 billion pesos) Enterprise Value at approximately 9.4 times of adjusted forecast 2008 EBITDA* *Adjusted for royalty and property lease fees payable by SMB
<b>KH participation in management</b>	Three directors dispatched, of which two are full-time directors acting as the Executive Vice President and the Deputy Chief Financial Officer. (SMB has a total of 9 directors, including 2 independent directors.) In addition, four other full-time executives will be dispatched to main divisions
<b>Schedule for SMB share acquisition</b>	End of April: 14.181% acquisition End of May: 29.068% acquisition

In addition, tender offer to other SMB shareholder will be conducted separately at the same price as the shares purchased from SMC. This will enable KH to acquire up to 49% of SMB issued shares.

### Sale of SMC shares

- On February 20, 2009, KH concluded an agreement with Q-Tech Alliance Holdings, Inc to sell its entire holding of San Miguel shares to Q-Tech Alliance Holdings, Inc.
- SMC shares to be sold at 63 pesos per share\*; total sale amount of 39.61 billion pesos (approx. ¥75.3 billion) ; proceeds will be used as a part of the consideration for acquisition of SMB shares  
\*39% premium to 6-month average of SMC type B shares at 45.5 pesos

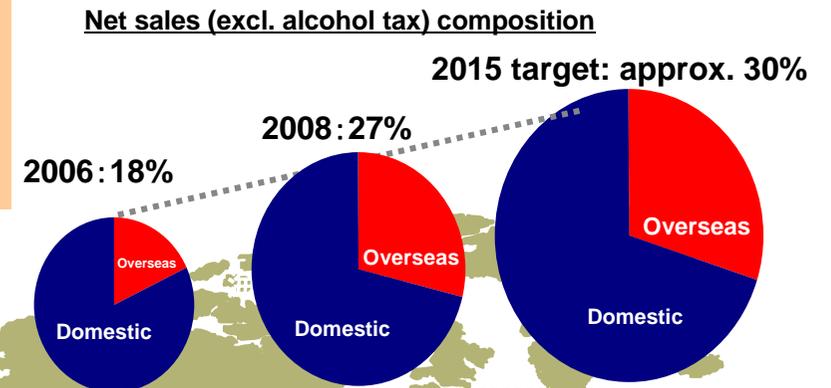
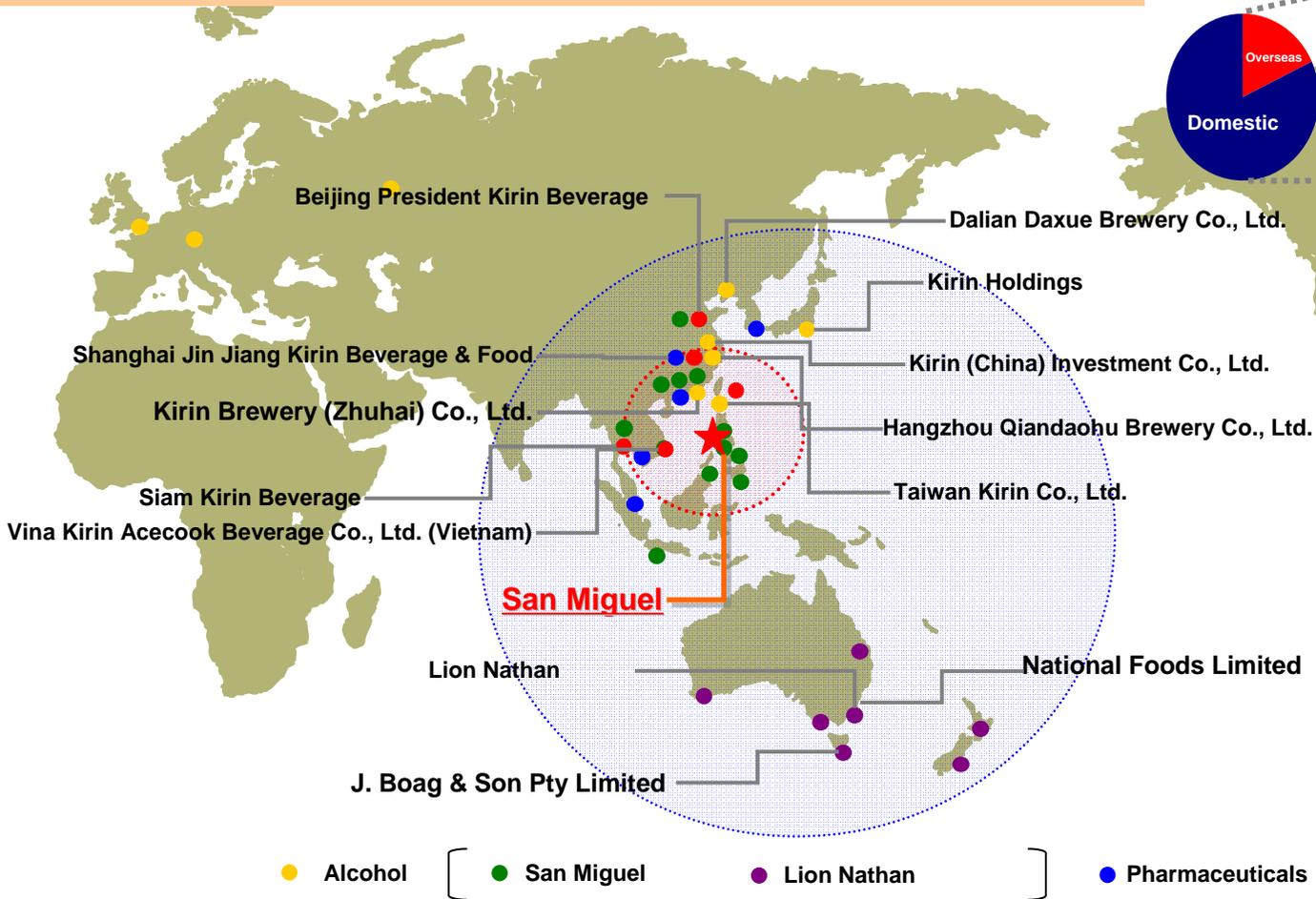
## Objectives of the transaction

- Strengthen alcohol beverages operations in Asia
  - Pursue strategy of becoming a comprehensive beverages maker in Asia and Oceania
  - Activate further growth through engagement in high margin business in Asia Oceania and realization of synergies
- Increase presence in Asia and Oceania**
- ⇒ **Contribute substantially to realization of goal of becoming the *leading company in Asia and Oceania*, as stated in long-term business vision KV2015**

<b>International strategy</b>	<ul style="list-style-type: none"> <li>■ Contributes substantially to KH international strategy of becoming a leading company in Asia and Oceania in the areas of food and health</li> </ul>
<b>Secure platform for becoming comprehensive beverages group in South East Asia</b>	<ul style="list-style-type: none"> <li>■ Secures alliance with a beer company that has a dominant market share (approx. 95%) in the Philippines, a market that is continuing to grow</li> <li>■ Acquires exclusive negotiation rights for the overseas beer and beverage companies that sell <i>San Miguel</i> brand, a highly recognized brand in South East Asia. ⇒ Supports strategy of becoming a comprehensive beverages group</li> </ul>
<b>Profitable Business</b>	<ul style="list-style-type: none"> <li>■ Allows KH to consolidate the financial result of SMB, one of world's most profitable beer producers, by application of equity method</li> </ul>
<b>Opportunity to promptly realize synergies through participation in management</b>	<ul style="list-style-type: none"> <li>■ Enables KH to promptly realize synergies by participating in the management of SMB through the dispatch of two full-time directors (who will also assume executive posts) and four executives to main divisions</li> </ul>

# Kirin Group strategy in Asia and Oceania

- Pursue unique business model that combines alcohol and soft drinks operations and aim to maximize synergies
- Advance business expansion in East Asia economic sphere and Oceania
- Pursue alliances with local partners to propose products and services that reflect regional cultures and needs



# Overview of SMB

<b>Name</b>	San Miguel Brewery, Inc.
<b>Head office</b>	Manila, Philippines
<b>Chairman</b>	Ramon S. Ang
<b>Capital<sup>1</sup></b>	Net assets: approx.15.3 bn pesos (approx.¥29.1 bn) Total assets: approx. 22.6 bn pesos (approx.¥42.9 bn)
<b>Results<sup>2</sup></b>	Net sales: approx. 48.8 bn pesos (approx. ¥92.7 bn) Operating income: approx. 15.6 bn pesos (approx. ¥29.6 bn) Net income: approx.10.0 bn pesos (approx. ¥19.0 bn)
<b>No. of employees<sup>1</sup></b>	Approx. 2,823
<b>Main business</b>	Domestic beer production and sale in Philippines
<b>Core brands</b>	San Miguel Pale Pilsen, San Mig Light, Red Horse, Gold Eagle
<b>Production locations</b>	Total of 5 factories

Source:

<sup>1</sup> Figures are as of December 31, 2007

<sup>2</sup> Results are December 31, 2008 actual results

# Overview of SMB (continued)

Core SMB brands: Strong brand lineup accounting for a **95%** share in the Philippine market

## Low-priced product



### RED HORSE

A low-priced brand targeting the youth segment. Higher alcohol percentage compared to other beers



### GOLD EAGLE

A pleasant, easy to drink low-priced brand

## Mid-priced product



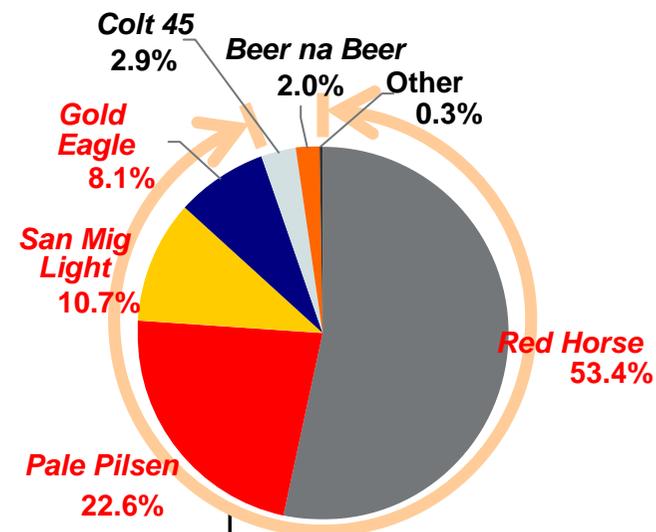
### San Miguel Pale Pilsen

SMB's representative mid-priced brand. A pale lager targeting a very wide customer segment



### San Mig Light

A pioneering low-calorie product in the Philippine market. A high-priced brand



**SMB's 4 core brands comprise a 95% market share**

Source: SMB Company (FY 2007 Market share)

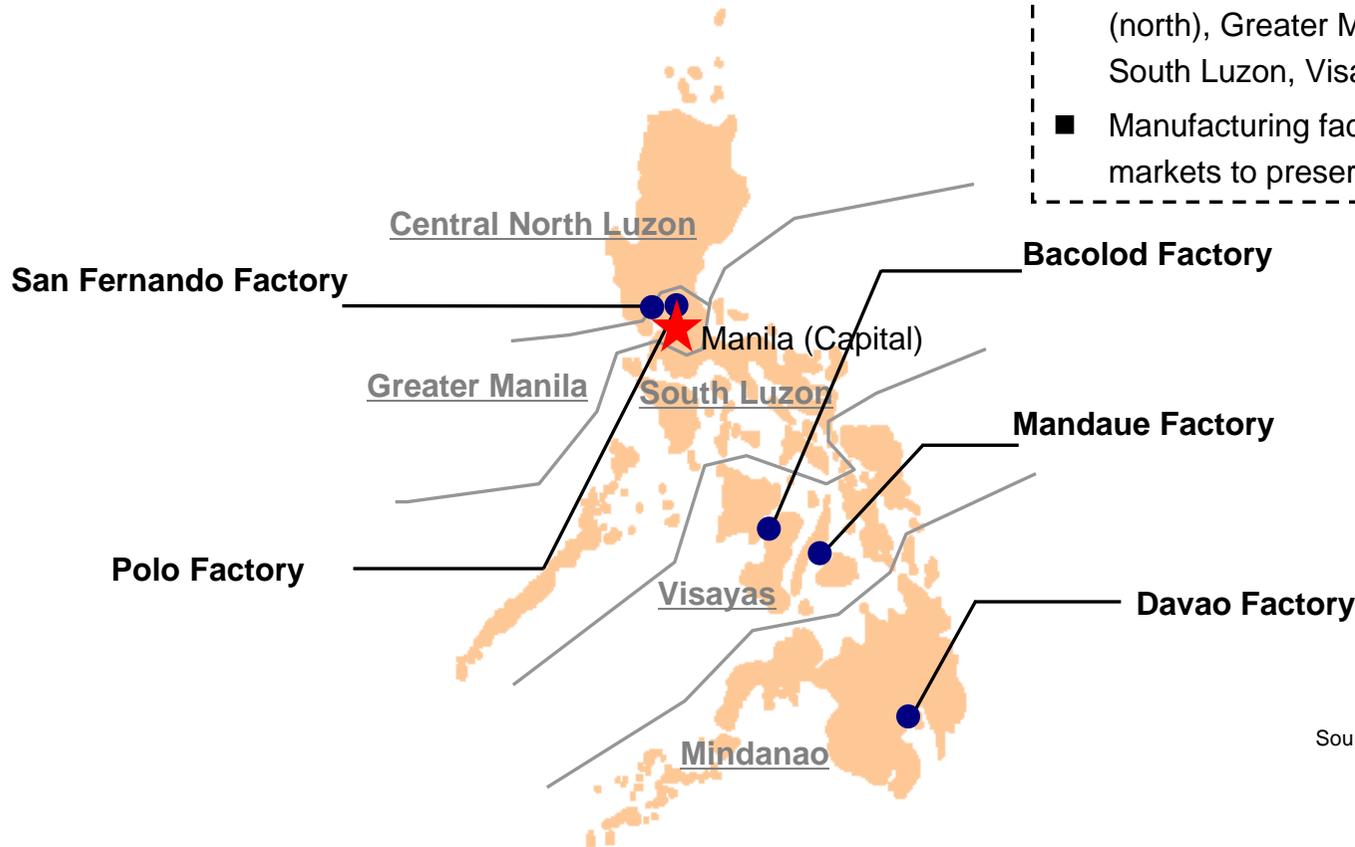
Regarding the SMB brands:

On March 31, 2009, SMB plans to acquire 100% of the shares of Iconic Beverage Inc, a wholly owned subsidiary of SMC, who owns beer-related brands of SMB, for 32.0 bn pesos. As a result, SMB will own, maintain and administrate beer-related brands of SMB.

# Overview of SMB (continued)

## ■ SMB manufacturing facilities (5 factories)

- 6 operating areas for all SMB companies: Greater Manila (north), Greater Manila (south), Central North Luzon, South Luzon, Visayas and Mindanao
- Manufacturing facilities established close to consumer markets to preserve product freshness



Source: SMB issued prospectus

## ■ Powerful SMB domestic sales network

- 49 operating locations and 468 dealers (As of December 31, 2007)
- Manufacturing and sales through about 471,000 locations in the Philippines

# Impact on Kirin consolidated financial results

<p><b>Impact on profits (including impact on goodwill)</b></p>	<ul style="list-style-type: none"> <li>■ Goodwill                     <ul style="list-style-type: none"> <li>■ Amount corresponding to KH's equity holding (Goodwill related to the transaction assuming 49% ownership): approx. 59.3 bn peso</li> <li>⇒ If amortized over 20 years, annual impact on KH's net profit to be approx. 2.9 bn pesos (approx. ¥5.5 bn)</li> <li>*Based on the current estimates and actual amount may differ</li> <li>(Reference)                             <ul style="list-style-type: none"> <li>• 2008 SMB net income was 10.04 bn pesos ⇒ assuming 49% ownership, KH's equity method income, after amortization of goodwill, would be approx. 2.0 bn pesos (¥3.8 bn)</li> <li>• 2008 SMC net income was ¥56.0 bn (including extraordinary impact of ¥4.3bn) ⇒ KH's equity method income, after amortization of goodwill, would be ¥4.7bn (after extraordinary impact of ¥4.3bn)</li> </ul> </li> </ul> </li> </ul>
<p><b>Impact on Cash flows</b></p>	<ul style="list-style-type: none"> <li>■ 2008 Dividend from SMC: Approx. ¥2bn ⇒ Dividend from SMB: expected to increase</li> </ul>
<p><b>Impact on EPS</b></p>	<ul style="list-style-type: none"> <li>■ EPS before goodwill amortization expected to increase from first year</li> </ul>
<p><b>Impact on fund procurement</b></p>	<ul style="list-style-type: none"> <li>■ KH plans to procure funds for SMB share acquisition in manner consistent with financial strategy outlined in revised medium-term business plan                     <ul style="list-style-type: none"> <li>■ KH to sell its stake in SMC</li> <li>■ KH to also use debt financing</li> </ul> </li> </ul>
<p><b>Impact on credit rating</b></p>	<ul style="list-style-type: none"> <li>■ Anticipating a debt-to-equity ratio of around 0.75 times following the transaction, which is within the assumed range of the revised business plan</li> <li>■ In the short term, interest-bearing debt will increase in line with the financing for the acquisition. However we are aiming for early repayment of interest-bearing debt using the steady cash flow generated by the transaction</li> </ul>
<p><b>Impact on results</b></p>	<ul style="list-style-type: none"> <li>■ No change as of the present time to our earnings forecasts for the current fiscal year</li> </ul>

# Appendix

# Overview of SMC

<b>Name</b>	San Miguel Corporation, "SMC"
<b>Head office</b>	Manila, Philippines
<b>CEO</b>	Eduardo M. Cojuangco, Jr.
<b>Capital<sup>1</sup></b>	Net assets: Approx. 146.1 bn peso (About ¥277.6 bn) Total assets: Approx. 288.1 bn peso (About ¥547.4 bn)
<b>Results<sup>1</sup></b>	Net sales: Approx. 154.9 bn peso (About ¥294.3 bn) Operating income: Approx. 12.0 bn peso (About ¥22.8 bn)
<b>No. of employees<sup>1</sup></b>	Approx. 19,000
<b>Main business</b>	Beverages business: Beer, liquors, production and sale of chilled beverages Foods business: Production and sale of milk products, sale of processed meats Packaging business: Canning, plastics and glass businesses

Source: Annual report 2007, Company homepage

<sup>1</sup> As of FY ended December 31, 2007

# San Miguel results overview (For reference: 2008 financial results)

## Results overview (Figures adapted for KH)

### ■ Oct. 2007 to Sep. 2008

\*Php1.00=¥2.50 (Oct. 2007 to Sep. 2008 average rate)

Net sales: 166.8 bn pesos (approx. ¥417.1 bn, -30%)

Operating income: 14.2 bn pesos (approx. ¥35.6 bn, -22%)

Net income: 22.4 bn pesos (approx. ¥56.0 bn, +95%)

### ■ Oct. 2006 to Sep. 2007

\*Php1.00=¥2.51 (Oct. 2006 to Sep. 2007 average rate)

Net sales: 236.3 bn pesos (approx. ¥593.2 bn, +43%)

Operating income: 18.1 bn pesos (approx. ¥45.4 bn, +36%)

Net income: 11.4 bn pesos (approx. ¥28.7 bn, +105%)

From fiscal 2006, the period adapted for the reflection to KH financial has been changed. Calculations for fiscal 2007 and fiscal 2008 are based on San Miguel's results for Oct. 2006 to Sep. 2007 and Oct. 2007 to Sep. 2008 respectively

## Reference: FY 2008 Jan. to Sep. net sales and operating income performance by major SMC group companies

Net sales increased in all major group companies, resulting in a 15% YoY increase on a consolidated basis.

Operating income rose 26% YoY with contribution from Beer International

Net income rose by almost 200% due to sale of non-core businesses and the IPO of SMB

	Group Companies	2008	2007	Change
Net sales	<b>Consolidated (Billions of pesos)</b>	<b>122.2</b>	<b>105.8</b>	<b>+15%</b>
	San Miguel Brewery	35,225	31,959	+10%
	Beer International (US\$ million)	213.0	170.5	+25%
	Ginebra SM	11,150	9,492	+17%
	San Miguel Food	53,103	44,792	+19%
	San Miguel Packaging	14,754	13,660	+8%
Operating income	<b>(Billions of pesos) consolidated</b>	<b>11.7</b>	<b>9.33</b>	<b>+26%</b>
	San Miguel Brewery	10,763	8,776	+23%
	International Beer (US\$ million)	1.32	(2.02)	+165%
	Ginebra SM	621	543	+14%
	San Miguel Food	1526	1764	-14%
	San Miguel Packaging	978	504	+94%
Net income	<b>(Billions of pesos) consolidated</b>	<b>20.9</b>	<b>7.07</b>	<b>+195%</b>

Source: <http://www.sanmiguel.com.ph/uploads/IR/SMC3rdqtr08results.pdf>

Unit: Millions of pesos unless otherwise indicated

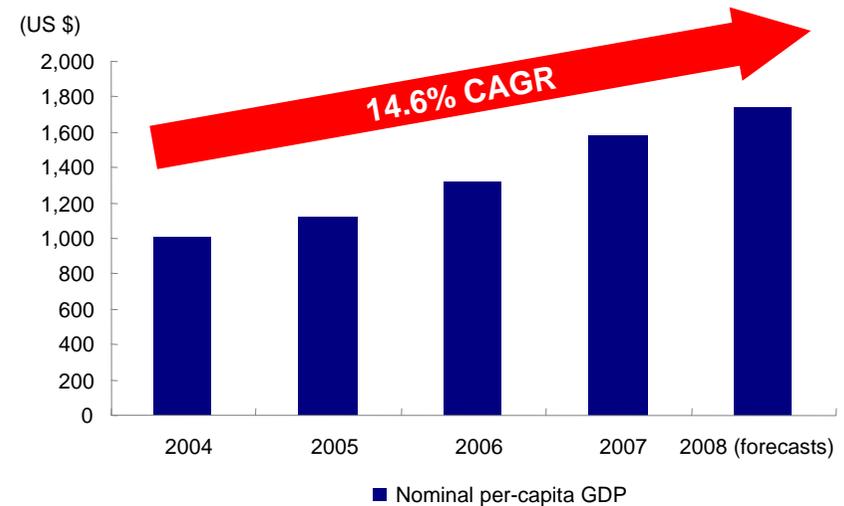
# Overview of the Philippine market

## Philippine economic environment

- Steady growth in nominal per-capita GDP (2004 to 2008 CAGR was 14.6%)
- The younger age-group (current and prospective beer consumer targets) comprises a large proportion of overall population (approx. 75% under 40)

<b>Population</b>	Approx. 91 million
<b>Real GDP growth rate</b>	7.2% (2007)
<b>Nominal GDP</b>	6,648.2 bn pesos (2007)
<b>Nominal per-capita GDP</b>	US \$1,739 (2008 forecast)

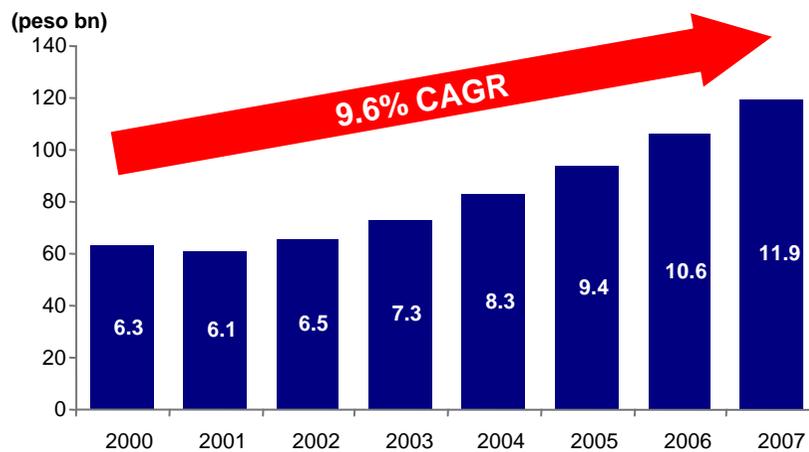
Source: Canadean, Economist Intelligence Unit



Source: Economist Intelligence Unit

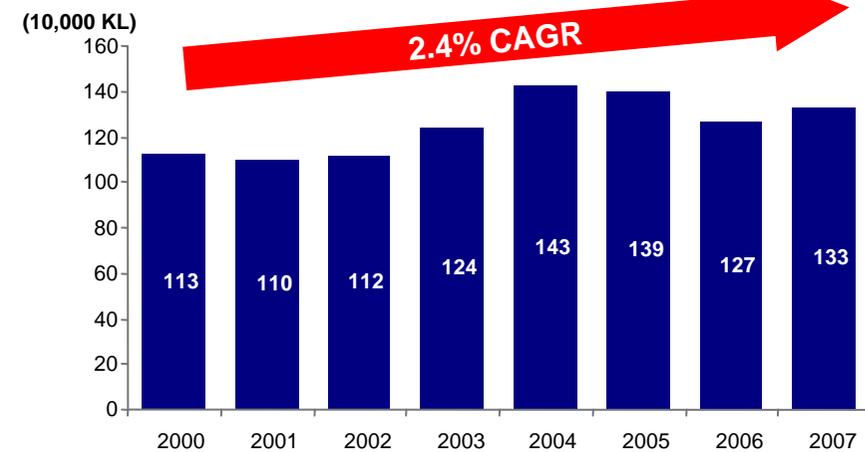
## Philippine beer market

- High growth rates in beer market value, particularly due to inflation



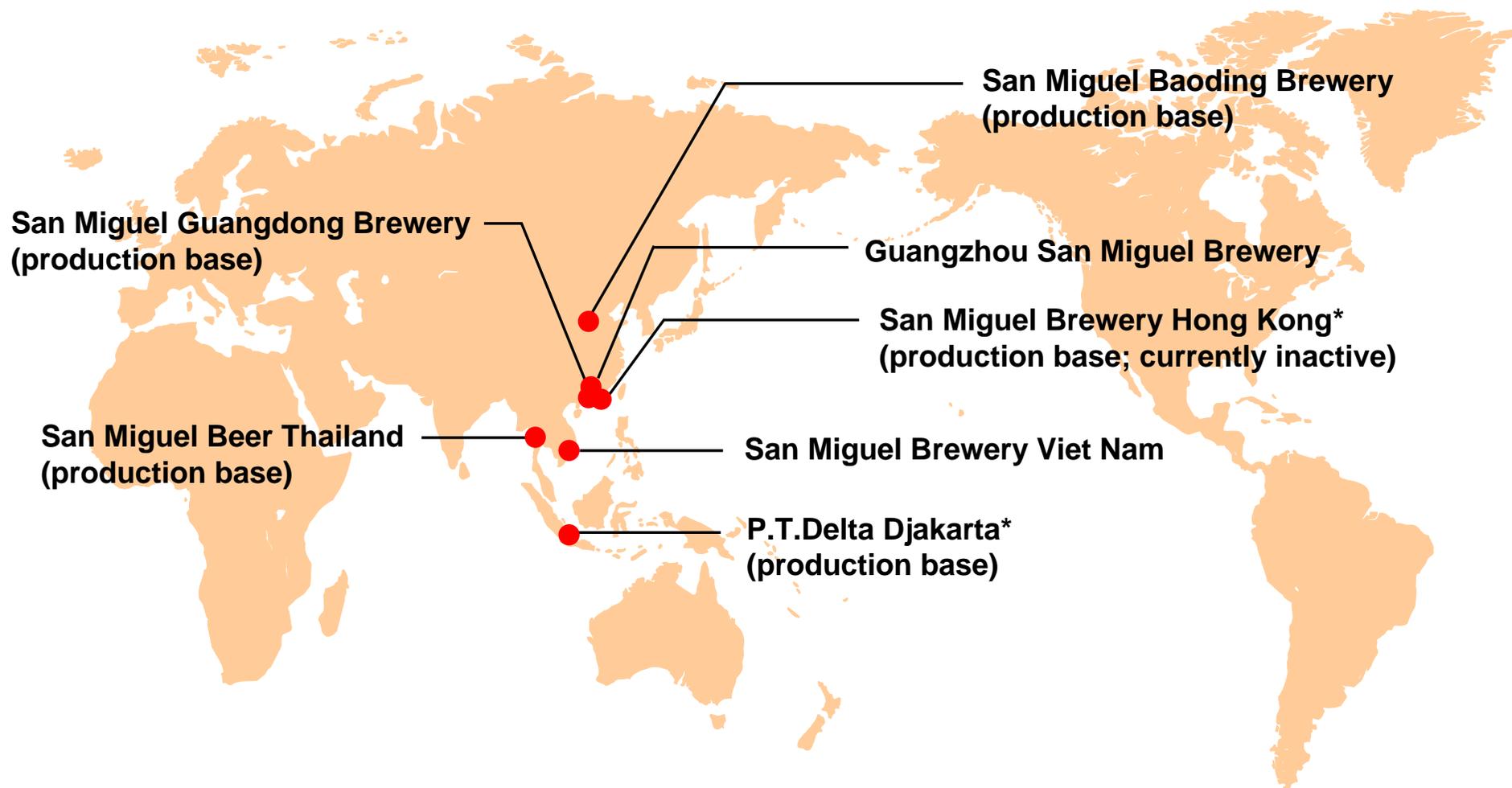
Source: Euromonitor

- Stable growth rates in beer market volume



Source: Canadean, SMB

# SMC overseas beer operations



Source: SMC website

Note: \* indicates listed companies

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