



NEWS RELEASE

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R&I View: Kirin and Suntory End Merger Negotiations - No immediate impact on ratings

M&A-related debts weigh on the companies; R&I will follow future business strategies and efforts to improve financial profiles

Kirin Holdings Co., Ltd. (Sec. Code: 2503, Kirin HD) and Suntory Holdings Ltd. (Unlisted, Suntory HD) announced on February 8 that the negotiations for their merger have been terminated. The companies have been in talks, initially aiming to reach a basic agreement by the end of 2009. However, as they negotiated how the new entity should be managed, including the way of its governance, the companies found that there were, at present, differences in their views on some important points. They appear to have failed to fill the gap, after all.

The Issuer Ratings for Kirin HD and Suntory HD are both AA-. A successful merger would have created one of the world's largest food manufacturers and was expected to support the ratings since the expansion of their earnings bases would mostly likely have a positive impact on their creditworthiness. That said, because the success or failure of the merger negotiations was uncertain, R&I did not incorporate the effect of the merger into the ratings. Consequently, R&I does not believe that the termination of the merger negotiations mentioned above will immediately affect the ratings.

Nevertheless, debts of both companies have increased substantially as they have been aggressively engaged in M&As. When Suntory HD acquired a major French beverage maker Orangina Schweppes Group in November 2009, R&I changed the Rating Outlook to Negative from Stable, since it could not overlook the deterioration of the debt to cash flow ratio. The debt to equity ratio of Kirin HD has also rose to nearly 1x, after it made Australia-based Lion Nathan Ltd. a wholly owned subsidiary and acquired shares of San Miguel Brewery, Inc. in the Philippines. The financial profiles of both companies look slightly inferior for a company rated in the AA zone.

R&I expects the companies to maintain their relatively strong abilities to generate earnings and cash flows. Nevertheless, further large-scale M&As may continue to increase debts, or investment recovery, particularly that relating to M&As, may not proceed as expected. In such cases, there could be a delay in the improvement of their financial profiles, and the ratings may come under increasing downward pressure. As the companies are expected to seek their business strategies on their own going forward, R&I will keep a close eye on the details of the strategies and the initiatives to improve the weakened financial profiles.

The primary rating methodologies applied to this rating are provided at "Basic Methodologies for R&I's Credit Rating" and "R&I's Analytical Approach to Pure Holding Companies". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/rating/rating/methodology.html>

Rating and Investment Information, Inc. Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan
Investors Service Division TEL.03-3276-3511 FAX.03-3276-3413 <http://www.r-i.co.jp>

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