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June 30, 2009

The Honorable Mike Crapo  
U.S. Senate  
Washington, DC 20510

Dear Senator Crapo:

We appreciate the opportunity to respond to the recent legislative proposals impacting over-the-counter (OTC) derivatives. MillerCoors is an end user of OTC products to manage price risk for our raw materials and energy requirements.

MillerCoors is the second largest beer company in America, capturing nearly 30 percent of U.S. beer sales. MillerCoors will produce and ship over 66 million barrels of beer annually within the domestic United States. MillerCoors employs 10,000 people and has eight manufacturing facilities located in Irwindale, CA, Trenton, OH, Eden, NC, Fort Worth, TX, Albany, GA, Elkton, VA, Golden, CO, and Milwaukee, WI. MillerCoors insists on building its brands the right way through brewing quality, responsible marketing and environmental and community impact. MillerCoors is a joint venture of SABMiller plc and Molson Coors Brewing Company.

Our use of these derivatives is governed by a Board approved commodity risk management policy and overseen by our Treasury Committee. The objective of our hedging program is to mitigate price risks. By design, we distribute our counterparty risk across multiple companies to minimize concentration with any one institution. Each of our hedge transactions are carefully matched with underlying price risks from our business operations.

We support Congress and the regulator's initiative to increase transparency and OTC reporting requirements. We also believe developing OTC position limits for non-commercial participants makes sense. The following is our response to your three questions.

1. How does your company use customized OTC derivatives to help stabilize prices and mitigate risk?

MillerCoors uses customized OTC products to reduce commodity price volatility and to manage predictability of our cash flows. The customization allows us to match the underlying commodity price risk with a corresponding derivative having the same characteristics. The customization allows us to qualify for hedge accounting treatment. Without hedge accounting, we are subject mark-to-market volatility in our earnings unrelated to our core business.

2. What are the possible effects of severely restricting access to customized OTC derivatives on your ability to manage risk and on the prices you charge your customers?

1. Standardization of OTC products centrally cleared would make it increasingly difficult to meet hedge accounting criteria and would therefore require companies to mark-to-market positions, increasing earnings volatility and distracting from operating results.
  2. Margin requirements and credit support documentation are present in OTC markets today. Participants have credit terms, collateral, and thresholds which must be met. Current legislative proposals would add rigid margin requirements, including initial and variation margin across all OTC markets, resulting in higher financing and operational costs.
3. What safeguards are in place to ensure that your derivative portfolio is a tool for hedging rather than a source of risk for your company?
1. MillerCoors has clearly defined hedging policies
  2. Independent hedge accounting group oversees the risk management team
  3. A formalized approval process is in place through the Treasury Committee
  4. Complete separation of duties exists between Finance and commercial risk managers
  5. Full transparency of all commodity hedge positions reported in real time
  6. All positions brought to market on a daily basis
  7. Monitoring of counterparty risk
4. What does standardized mean, and how much of the OTC markets can and should be shifted on exchanges?

Our OTC transactions are executed under a negotiated ISDA with the necessary credit support. Exchanges require cash and/or government securities be posted as collateral. Under our ISDA agreements, we can leverage our strong balance sheet and minimize cash/government securities necessary as collateral. Requiring standardized contracts centrally cleared may lead to increased collateral costs.

Senator Crapo, thank you again for considering our perspective relative to the pending OTC legislation and for your continued support of an appropriate federal role to address the financial crisis while preserving end users' ability to manage various commodity risks through customized OTC products while addressing important issues of improved transparency and creditworthiness.

Sincerely,



Craig R. Reiners  
Director – Risk Management