SAN MIGUEL CORPORATION

December 14, 2016

The Philippine Stock Exchange, Inc.
Disclosure Department
3rd Floor, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Attention: **Mr. Jose Valeriano B. Zuño III**
OIC-Head, Disclosure Department

Gentlemen:

Enclose herewith for the information of the Exchange, is a copy of the Rating News, dated December 13, 2016, of the Philippine Rating Services Corporation relating to the proposed issuance by San Miguel Corporation of a Fixed-Rate Bond of up to P20 billion.

Very truly yours,

FERDINAND K. CONSTANTINO
Corporate Information Officer

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PhilRatings PHILIPPINE RATING SERVICES CORPORATION ***The Pioneer Domestic Credit Rating Agency***	**RATING NEWS** **December 13, 2016**

San Miguel Corporation's Proposed Bond Issuance of up to P20 billion Assigned an Issue Credit Rating of PRS Aaa

San Miguel Corporation's (SMC) proposed fixed-rate bond issuance of P15 billion, with an Oversubscription Option of up to P5 billion, was assigned an issue credit rating of **PRS Aaa**, with a **Stable Outlook**, by Philippine Rating Services Corporation (PhilRatings). The bonds are part of the Company's three-year Shelf Registration of up to P60 billion. The bonds will mainly be used to partially refinance loans provided by various local banks to SMC to prepay a portion of its US Dollar-denominated debt.

Obligations rated **PRS Aaa** are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. **PRS Aaa** is the highest rating assigned by PhilRatings.

On the other hand, an Outlook is an indication as to the possible direction of any rating change within a one year period and serves as a further refinement to the assigned credit rating for the guidance of investors, regulators, and the general public. A **Stable Outlook** is defined as: "The rating is likely to be maintained or to remain unchanged in the next twelve months."

The rating was assigned given the following key considerations: (1) ample cash flow generation that is seen to strengthen further as the Company's energy and infrastructure projects are completed; (2) manageable and improving debt position, especially considering the capital-intensive nature of its recent projects in energy and infrastructure; (3) adequate liquidity and financial flexibility; (4) solid market position and substantial track record of its subsidiaries, backed by stable demand and boosted by an improving economy; (5) seasoned management team with sound strategies; and (6) use of proceeds.

PhilRatings' ratings are based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to SMC and may change the ratings at any time, should circumstances warrant a change.

SMC is one of the largest conglomerates in the Philippines with diversified businesses ranging from beverages, food, packaging, fuel and oil, energy and infrastructure. The Company's subsidiaries either enjoy a dominant or strong and leading market position. These companies include: San Miguel Brewery Inc. (SMB), the largest beer producer in the country; Ginebra San Miguel, Inc. (GSMI), reportedly the world's largest producer of gin by volume; San Miguel Pure Foods Company, Inc. (San Miguel Pure Foods), offering some of the country's most recognizable brands including Magnolia, Purefoods, Monterey, Dari Crème and B-Meg; San Miguel Yamamura Packaging Corporation (SMYPC) and its subsidiaries called the Packaging Group, a leading packaging company that offers total packaging solutions; Petron Corporation (Petron), the largest integrated oil refining and marketing company in the Philippines and a major player in Malaysia; SMC Global Power Holdings Corp. (SMC Global Power), which accounts for 22% and 17% of the Luzon and national grids, respectively; and San Miguel Holdings Corp. (SMHC), operator and developer of key infrastructure projects, including the South Luzon Expressway (SLEX), the Skyway System, the Southern Tagalog Arterial Road Tollway (STAR), the Tarlac-Pangasinan-La Union Expressway (TPLEX) and the Boracay Airport, among others.

SMC's management team is well accustomed to the Philippine operating environment, having managed the Company through periods of crisis and instability in the Philippines. Most senior managers have been with the Company for a considerable amount of time. SMC continues to invest in businesses that have the potential to be leaders in their respective industries. SMC also seeks to diversify into industries that support and ride on the growth and development of the Philippine economy, hence its recent foray into fuel and oil, energy and infrastructure. In addition, SMC consciously identifies and pursues synergies across its different businesses.

For the first nine months of 2016, SMC reported strong results with operating income reaching P73.2 billion, 24% higher than that for 2015, mainly driven by the sustained growth momentum from its beverage, food and packaging businesses, higher contributions from the power and infrastructure businesses and higher refining margins from Petron. On the other hand, consolidated revenues amounted to P498.3 billion, slightly lower than last year due to the volatility in crude oil prices that affected the revenues of Petron. Nevertheless, reported consolidated net income reached P43 billion while net income from continuing operations amounted to P31 billion, 54% higher than the 2015 level of P20 billion.

During the period 2011 to 2015, the Company was able to maintain a relatively healthy average current ratio and acid test ratio of 1.5x and 1.0x, respectively. As of end-September 2106, current ratio and acid test ratio improved to 1.6x and 1.0x, respectively, from 1.3x and 0.9x, correspondingly, as of end-2015.

While SMC's investments have been capital-intensive, it still maintained a relatively manageable leverage profile, with reported Net Debt to EBITDA (Earnings before interest, taxes, depreciation and amortization) ratio at 2.6x for 2015, which improved to 2.2x for the 9-month period in 2016. Due to lower debt levels and higher equity, SMC recorded improvements in its total debt to equity ratio, which was at 1.6x as of end-September 2016 vs. 1.8x as of end-2015. Solvency ratio likewise inched higher to 1.5x as of end-September 2016, from 1.4x as of end 2015.

The growth momentum of the Philippine economy was sustained in the third quarter of 2016 as GDP grew by 7.1% year-on-year, making the country one of the fastest growing economies during the period. Household consumption increased by 7.3% during the same period.

Some of SMC's subsidiaries also have outstanding PRS-rated bond issuances. These are SMB with P37.81 billion bonds, Petron with P20 billion bonds, South Luzon Tollway Corporation (SLTC) with P7.3 billion bonds and SMC Global Power with P15 billion bonds. All of these issuances have an outstanding issue credit of **PRS Aaa** with a **Stable Outlook** from PhilRatings.