SAN MIGUEL CORPORATION

OFFER SUPPLEMENT

Offer of ₱20,000,000,000.00 Fixed Rate Bonds
with an Oversubscription Option of up to ₱10,000,000,000.00 Fixed Rate Bonds
under its ₱60,000,000,000.00 Shelf Registration

consisting of:
Series E Bonds: 6.2500% p.a. due 2023
Series F Bonds: 6.6250% p.a. due 2025
Series G Bonds: 7.1250% p.a. due 2028
Offer Price: 100% of Face Value

to be listed and traded through the Philippine Dealing & Exchange Corp.

Joint Lead Underwriters and Bookrunners
BDO Capital & Investment Corporation
BPI Capital Corporation
China Bank Capital Corporation
First Metro Investment Corporation
ING Bank N.V., Manila Branch
SB Capital Investment Corporation
Standard Chartered Bank

Selling Agent
Bank of Commerce
United Coconut Planters Bank

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS OFFER SUPPLEMENT IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

This Offer Supplement is dated March 1, 2018.

SAN MIGUEL CORPORATION
40 San Miguel Avenue
Mandaluyong City
1550 Philippines
Telephone number (632) 632-3000
http://www.sanmiguel.com.ph

San Miguel Corporation ("SMC", the "Company", the "Parent Company", or the "Issuer"), prepared the Prospectus dated February 10, 2017 (the "Prospectus") relating to the shelf registration and the offer, and sale in the Philippines within the Shelf Period (as defined below) in tranches of Philippine Peso-denominated fixed rate bonds (the "Bonds") with an aggregate principal amount of Sixty Billion Pesos (₱60,000,000,000.00). The Bonds will be issued at face-value and listed and traded through the Philippine Dealing & Exchange Corp. ("PDEx").

The Bonds shall be taken down from the shelf in tranches within a period of 3 years from the effective date of the Registration Statement, subject to applicable regulations (the "Shelf Period").

This Offer Supplement dated March 1, 2018 ("this Offer Supplement" and as the context may require, the term includes the Prospectus) relates to the takedown of the third tranche of the Bonds (the "Offer Bonds") and the public offer for sale, distribution and issuance by the Company of the Offer Bonds (the "Offer").The Offer will have an aggregate principal amount of Twenty Billion Pesos (₱20,000,000,000.00) (the "Base Offer"), and in the event of an oversubscription, the Joint Lead Underwriters and Bookrunners, in consultation with the Issuer, may increase the size of the Offer by up to Ten Billion Pesos (₱10,000,000,000.00) (the "Oversubscription Option", and the Offer Bonds pertaining to such option, the "Oversubscription Option Bonds") to an aggregate issue size of up to Thirty Billion Pesos (₱30,000,000,000.00). In case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the Bonds under shelf registration will be automatically increased by such principal amount of the Oversubscription Option Bonds that will not be taken up or exercised.

The Offer Bonds will be issued on March 19, 2018 (the "Issue Date") and will be comprised of 5-year Series E Bonds due 2023 (the "Series E Bonds"), 7-year Series F Bonds due 2025 (the "Series F Bonds"), and 10-year Series G Bonds due 2028 (the "Series G Bonds").

The Series E Bonds shall have a term of 5 years from Issue Date with a fixed interest rate equivalent to 6.2500% per annum. The Series F Bonds shall have a term of 7 years from Issue Date with a fixed interest rate equivalent to 6.6250% per annum. The Series G Bonds shall have a term of 10 years from Issue Date with a fixed interest rate equivalent to 7.1250% per annum. For a detailed discussion on the Interest Payment Dates, please refer to 41.

Subject to the consequences of default as may be contained in the Trust Agreement, and unless otherwise redeemed or purchased prior to the relevant Maturity Date, the Offer Bonds will be redeemed at par or 100% of the face value thereof on the relevant Maturity Date. For a more detailed discussion on the redemption of the Offer Bonds, please refer to the discussion under the section "*Description of the Offer Bonds – Redemption and Purchase*" starting on page 42 of this Offer Supplement.

The Company reserves the right to withdraw the offer and sale of the Offer Bonds at any time, and the Joint Lead Underwriters and Bookrunners reserve the right to reject any application to purchase the Offer Bonds in whole or in part and to allot to any prospective purchaser less than the full amount of the Offer Bonds sought by such purchaser. If the Offer is withdrawn or discontinued, the Company shall subsequently notify the Securities and Exchange Commission of the Philippines (the "SEC") and, as applicable, the PDEx. Any of the Joint Lead Underwriters and Selling Agents may acquire for their own account a portion of the Offer Bonds.

It is expected that the Offer Bonds will be delivered in book-entry form against payment thereof to the Philippine Depository & Trust Corp. ("PDTC").

This Offer Supplement contains the final terms of the Offer Bonds and must be read in conjunction with the Prospectus. Unless defined in this Offer Supplement, terms used herein shall be deemed to be defined as set forth in the Prospectus. Full information on the Issuer and this Offer is only available on the basis of the combination of this Offer Supplement, the Prospectus, and all other Bond Agreements. All information contained in the Prospectus are deemed incorporated by reference in this Offer Supplement.

Unless otherwise stated, the information contained in the Prospectus and this Offer Supplement has been supplied by the Company. The Company (which has taken all reasonable care to ensure that such is the case)

confirms that the information contained in the Prospectus and this Offer Supplement is correct, and that there is no material misstatement or omission of fact which would make any statement in the Prospectus and this Offer Supplement misleading in any material respect. The Joint Lead Underwriters and Bookrunners have exercised reasonable due diligence required by regulations in ascertaining that all material representations contained in the Prospectus and this Offer Supplement are true and correct and that no material information was omitted, which was necessary in order to make the statements contained in said documents not misleading.

Unless otherwise indicated, all information in the Prospectus and this Offer Supplement is as of the date provided. Neither the delivery of the Prospectus and this Offer Supplement nor any sale made pursuant to the Prospectus and this Offer Supplement shall, under any circumstances, create any implication that the information contained herein is correct as of any date after the date hereof or that there has been no change in the affairs of the Company and its subsidiaries since such date. Market data and certain industry forecasts used throughout the Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified and the Company does not make any representation, undertaking or other assurance as to the accuracy or completeness of such information, or that any projections will be achieved, or in relation to any other matter, information, opinion or statements in relation to the Offer. Any reliance placed on any projections or forecasts is a matter of commercial judgment. Certain agreements are referred to in the Prospectus in summary form. Any such summary does not purport to be a complete or accurate description of the agreement and prospective investors are expected to independently review such agreements in full.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED THEREIN IS TRUE AND CURRENT.

SAN MIGUEL CORPORATION

By:

RAMON S. ANG
President and Chief Operating Officer

REPUBLIC OF THE PHILIPPINES)
MANDALUYONG CITY, METRO MANILA) S.S.

SUBSCRIBED AND SWORN to before me this _____ in Mandaluyong City, affiant exhibiting to me his Philippine Passport No. EC3542718 expiring on February 26, 2020 as competent evidence of identity.

Doc No. _____;
Page No. _____;
Book No. _____;
Series of 2018.

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Definition of Terms

In this Offer Supplement, unless the context otherwise requires, the following terms shall have the meanings set forth below.

Affiliate	With respect to any Person, means any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person, or who is a director or officer of such Person or (ii) any subsidiary of such Person or of any Person referred to in clause (i) of this definition. For purposes of this definition, control (including, with correlative meanings, the terms controlling, controlled by and under common control with), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.
Applicable Law	Any statute, law, regulation, ordinance, rule, judgment, order, decree, directive, guideline, policy, requirement or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority.
Applicant	A Person who seeks to subscribe to the Offer Bonds and submits a duly accomplished Application to Purchase, together with all the requirements set forth therein.
Application to Purchase	The application form accomplished and submitted by an Applicant for the purchase of a specified amount of the Series E, Series F or Series G Bonds, together with all the other requirements set forth in such application form.
BDO Capital	BDO Capital & Investment Corporation.
BIR	Bureau of Internal Revenue of the Philippines.
Base Offer	Has the meaning ascribed to it in page 2 of this Offer Supplement.
Bond Agreements	Collectively, the Underwriting Agreement, the Trust Agreement and the Registry and Paying Agency Agreement, and any amendments and supplements thereto.
Bondholder	A Person whose name appears, at any relevant time, as the registered owner of the Offer Bonds in the Registry of Bondholders.
Bonds	Collectively, the Philippine Peso-denominated fixed rate bonds of up to an aggregate principal amount of ₱60,000,000,000.00, inclusive of the Offer Bonds, to be issued in one or more tranches within the Shelf Period.
BPI Capital	BPI Capital Corporation.
BSP	Bangko Sentral ng Pilipinas.
Business Day	A day other than a public non-working holiday, Saturday or Sunday on which the facilities of the Philippine banking

	system are open and available for clearing and banks are open for business in Metro Manila, Philippines.
Capital Stock	With respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of such Person's capital stock and/or equity interest, whether outstanding on the date of the Trust Agreement or issued thereafter, including, without limitation, all common stock and preferred stock of such Person.
Change in Law or Circumstance	Each of the events described as such under "*Description of the Offer Bonds – Redemption by Reason of Change in Law or Circumstance*".
Change of Control	The occurrence of any of the following: (a) the Controlling Stockholders collectively cease to be the beneficial owners of at least 35% of the total voting power of the Voting Stock of the Issuer; or (b) the Controlling Stockholders collectively cease to be the largest beneficial owners of the total voting power of the Voting Stock of the Issuer; or (c) the Issuer consolidates with or merges into or sells or transfers all or substantially all of its assets to any Person or Persons (other than any of the Controlling Stockholders where such Controlling Stockholder assumes all of the obligations of the Issuer under the Trust Agreement and the Offer Bonds) unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring control over the Issuer or the successor entity.
China Bank Capital	China Bank Capital Corporation.
Code	Securities Regulation Code of the Philippines.
Consolidated EBITDA	In respect of any Relevant Period, the net income of the Group (excluding items between any or all of the Issuer and its Consolidated Subsidiaries): (a) before any provision on account of taxation; (b) before any interest, commission, discounts or other fees incurred or payable, received or receivable by the Issuer or any of its Consolidated Subsidiaries in respect of Debt; (c) before any items treated as exceptional or extraordinary items; (d) before any amount attributable to the amortization of intangible assets and depreciation of tangible assets; and (e) in respect of a calculation of a financial covenant under the section entitled "*Description of the Offer Bonds – Financial Ratio*", Project Debt is excluded from a determination of Consolidated Total Debt,

	excluding income attributable to or generated by the Ring-Fenced Subsidiaries.
Consolidated Net Debt	At any date, the Consolidated Total Debt less the aggregate amount at that time of all freely available, unencumbered cash and cash equivalents (on a consolidated basis) to which the Company or any of its subsidiaries is beneficially entitled at that time and which is not subject to any security interest.
Consolidated Net Worth	At any date, the total stockholders' equity (including minority interests) which would appear on a consolidated balance sheet of the Group prepared as of such date in accordance with PFRS.
Consolidated Subsidiary	A Subsidiary of any Person which for financial reporting purposes, in accordance with PFRS, is accounted for by such Person as a consolidated Subsidiary.
Consolidated Total Debt	At any date, the aggregate amount (without duplication) of all Debt of the Group as at such date and including all obligations of the IPPAs (under their respective IPPA Agreements) owned or acquired by the Group which are Guaranteed pursuant to a standby letter of credit or other credit support document, issued on behalf of the administrator of the relevant IPPA (but excluding (a) items between any or all of the Issuer and its Consolidated Subsidiaries which would be excluded in a consolidated balance sheet of the Group prepared as of such date in accordance with PFRS; (b) Project Debt; and (c) all obligations of the IPPAs (under their respective IPPA Agreements) which represent periodic financial lease payments to PSALM or any other counterparty to an IPPA Agreement.
Controlling Stockholders	(i) Top Frontier Investment Holdings, Inc., (ii) Privado Holdings, Corp. and (iii) any Affiliate of, or any Person who is a Related Person with respect to, those mentioned in (i) or (ii) above.
Debt	Any indebtedness of a Person for or in respect of: (a) all obligations of such Person for borrowed money; (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business; (d) all obligations of such Person as lessee which are capitalized in accordance with PFRS; (e) all Debt (of any Person) secured by a Lien on any asset of such first-mentioned Person, whether or not such Debt is otherwise an obligation of such first-mentioned Person; (f) all obligations of such Person in respect of any redeemable stock of such Person provided that

	such redeemable stock (i) is required to be redeemed prior to March 19, 2028; or (ii) redeemable at the option of the holder thereof or any other Person at any time prior to March 19, 2028 provided such right has been exercised or notice of such exercise has been made; or (iii) convertible into or exchangeable for (a) Capital Stock; or (b) Debt of any Person having a scheduled maturity prior to March 19, 2028, and such has been converted into Debt having a scheduled maturity prior to March 19, 2028; (g) all non-contingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit, Guarantee or similar instrument; (h) all Debt of others Guaranteed by such Person; (i) all indebtedness of such Person for or in respect of receivables sold or discounted (other than on a non-recourse basis); and (j) all indebtedness of such Person for or in respect of any interest rate swap, currency swap, forward foreign exchange transaction, cap, floor, collar or option transaction or any other treasury transaction or any combination thereof or any other transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and the amount of the indebtedness in relation to any such transaction described shall be calculated by reference to the mark-to-market valuation of such transaction at the relevant time), and so that where the amount of Debt falls to be calculated, no amount shall be taken into account more than once in the same calculation and, where the amount is to be calculated on a consolidated basis in respect of a corporate group, monies borrowed or raised, or other indebtedness, as between members of such group shall be excluded.
Disruption Event	Either or both of: (i) a material disruption to those payment communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the transactions contemplated by the Trust Agreement to be carried out which disruption is not caused by, and is beyond the control of, any of the parties; or (ii) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a party preventing that party from: (a) performing its payment obligations under the Trust Agreement and the Registry and Paying Agency Agreement; or (b) communicating with other relevant parties (including, but not limited to, the Trustee and Paying Agent) in accordance with the terms of the Trust Agreement and the Registry and Paying Agency Agreement.
FMIC	First Metro Investment Corporation.

Governmental Authority	Any government agency, authority, bureau, department, court, tribunal, legislative body, public official, statutory or legal entity (whether autonomous or not), commission, corporation, or instrumentality, whether national or local, of the Philippines.
Group	At any time, the Company and its Subsidiaries at such time.
Guarantee	Any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such first-mentioned Person entered into for the purpose of assuring in any manner the obligee of such Debt or other obligation or to protect such obligee against loss (in whole or in part), provided that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term Guarantee used as a verb has a corresponding meaning.
ING	ING Bank N.V., Manila Branch.
Interest Payment Date	June 19, 2018 and thereafter, each of September 19, December 19, March 19, and June 19 of each year, or the next Business Day if such date falls on a non-Business Day, during which any of the Offer Bonds are outstanding.
IPPA	An independent power producer administrator.
IPPA Agreement	Each independent power producer administrator agreement entered into between an IPPA and PSALM or any party, including a transferee of such IPPA Agreement.
Issue Date	March 19, 2018 or such other date as the Issuer and the Joint Lead Underwriters and Bookrunners may agree in writing; provided, that such date shall be a date which is within the validity of the Permit to Sell.
Joint Lead Underwriters and Bookrunners	Collectively, BDO Capital & Investment Corporation, BPI Capital Corporation, China Bank Capital Corporation, First Metro Investment Corporation, ING Bank N.V., Manila Branch, SB Capital Investment Corporation, and Standard Chartered Bank.
Lien	With respect to any property or asset, (i) any mortgage, lien, pledge, charge, security interest, encumbrance or other preferential arrangement of any kind in respect of such property or asset, including, without limitation, any preference or priority under Article 2244(14) of the Civil Code of the Philippines, as the same may be amended from time to time, in each case, to the extent securing payment or performance of a Debt prior to any general creditor of such Person; and (ii) the right of a vendor, lessor, or similar party under any conditional sales agreement, capital lease or other title retention agreement relating to such property or asset, and any other right of or arrangement with any creditor to have its claims satisfied out of any property or asset, or the proceeds therefrom, prior to any general creditor of the owner thereof.

Majority Bondholders	(a) with respect to matters relating only to the Series E Bonds, Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Series E Bonds; (b) with respect to matters relating only to the Series F Bonds, Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Series F Bonds; (c) with respect to matters relating only to the Series G Bonds, Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Series G Bonds; and (d) with respect to matters affecting all Offer Bonds, Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Offer Bonds.
Master Certificate of Indebtedness	For each of the Series E Bonds, Series F Bonds, and Series G Bonds, the bond certificate issued by the Issuer in the name of the Trustee for the benefit of the Bondholders covering the entire principal amount of the relevant series purchased during the Offer Period and to be issued by the Issuer on the Issue Date, which shall be substantially in the form attached as Annex B of the Trust Agreement.
Material Adverse Effect	In the reasonable opinion of the Majority Bondholders, acting in good faith and in consultation with the Issuer, a material adverse effect on (i) the ability of the Issuer to observe and comply with the provisions of and perform its financial obligations under the Offer Bonds and the Bond Agreements; or (ii) the validity or enforceability of the Offer Bonds or any of the Bond Agreements; or (iii) the financial condition, business or operations of the Issuer taken as a whole.
Material Subsidiary	At any time: (a) A Subsidiary of the Issuer as of such date with respect of which: (i) the Issuer's proportionate share (based on the Issuer's direct or indirect equity interest therein) of the net income (excluding extraordinary gains and losses) thereof, as shown by the latest audited accounts of such Subsidiary (which accounts shall be consolidated if such Subsidiary has any Subsidiaries), constitutes at least 25% of the consolidated net income of the Issuer (excluding extraordinary gains and losses) as shown by the consolidated audited accounts of the Issuer in respect of the same period; or (ii) the Issuer's proportionate share (based on the Issuer's direct or indirect equity interest therein) of the total assets thereof, as shown by the then latest audited accounts of such Subsidiary (which accounts shall be consolidated if such Subsidiary has any Subsidiaries) constitute at least 25% of the total consolidated assets of the Issuer as shown by the consolidated audited accounts of the Issuer in respect of the same period.

	Provided that for the purpose of the above: (1) in the case of a Subsidiary acquired, or a Person becoming a Subsidiary, after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer, for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the acquisition is made, or as the case may be, in which the person becomes a Subsidiary are published, be deemed to be a reference to the then latest consolidated audited accounts of such Subsidiary (which accounts shall be consolidated if such Subsidiary has any Subsidiaries) into such accounts (as if such latest consolidated audited accounts of the Issuer are prepared in respect of the same period as such latest audited accounts of such Subsidiary); (2) if at any time when a determination must be made under this definition with respect to the Issuer or any Subsidiary for which consolidated audited accounts of the Issuer are necessary no such consolidated audited accounts are prepared and audited, net income (excluding extraordinary gains and losses) and total assets of the Issuer shall be determined on the basis of the pro forma consolidated accounts prepared for this purpose by the auditors at that time of the Issuer (which pro forma accounts shall be procured by the Issuer as soon as reasonably practicable upon request by the Trustee); and (3) if at any time when a determination must be made under this definition with respect to any Subsidiary for which audited accounts of such Subsidiary are necessary, no such accounts are prepared and audited, its net income (excluding extraordinary gains and losses) and total assets shall be determined on the basis of the pro forma accounts of such Subsidiary (which account should be consolidated if such Subsidiary has any Subsidiaries) prepared for this purpose by the auditors at that time of such Subsidiary (which pro forma accounts shall be procured by the Issuer as soon as reasonably practicable upon request by the Trustee); and (b) any Subsidiary of the Issuer to which is transferred all or substantially all of the assets of a Subsidiary which immediately prior to such transfer was a Material Subsidiary, provided that the Material Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Material Subsidiary.

<table>
<tr><td>Maturity Date</td><td>For the Series E Bonds, the 5th anniversary of the Issue Date or on March 19, 2023; for the Series F Bonds, the 7th anniversary of the Issue Date or on March 19, 2025, and for the Series G Bonds, the 10th year anniversary of the Issue Date or on March 19, 2028; provided, that if the relevant Maturity Date falls on a day that is not a Business Day, then the payment of the principal shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and principal to be paid.</td></tr>
<tr><td>MWSS</td><td>Metropolitan Manila Waterworks and Sewerage System.</td></tr>
<tr><td>Offer</td><td>The public offer for sale, distribution and issuance by the Issuer of the Offer Bonds by the Issuer to eligible investors.</td></tr>
<tr><td>Offer Bonds</td><td>The SEC-registered Series E Bonds, Series F Bonds and Series G Bonds, to be issued by SMC in the aggregate amount of up to ₱30,000,000,000.00, consisting of the Base Offer of ₱20,000,000,000.00 and the Oversubscription Option of up to ₱10,000,000,000.00. As the context may require, the term shall include Bonds issued by SMC on the Issue Date pursuant to the Prospectus, this Offer Supplement and the other Bond Agreements.</td></tr>
<tr><td>Offer Period</td><td>The period when the Offer Bonds are publicly offered for sale, distribution and issuance by the Issuer to eligible investors, commencing at 9:00 a.m., Manila time, on, March 5, 2018 and ending at 5:00 p.m., Manila time, on March 9, 2018, or such other date as may be mutually agreed between the Issuer and the Joint Lead Underwriters and Bookrunners.</td></tr>
<tr><td>Offer Supplement</td><td>This document so titled and dated March 1, 2018 issued along with and supplementary to the Prospectus and containing the specific terms and conditions of the Offer and the Offer Bonds.</td></tr>
<tr><td>Optional Redemption Date</td><td>The Issuer shall have the right, but not the obligation, to redeem in whole (but not in part), any outstanding Series E, Series F and Series G Bonds on the dates set out below (each an “Optional Redemption Date”):
<table>
<tr><th colspan="2">Series E Bonds</th></tr>
<tr><th>Optional Redemption Date</th><th>Optional Redemption Price</th></tr>
<tr><td>On the 3rd year from Issue Date</td><td>100.5%</td></tr>
</table>
<table>
<tr><th colspan="2">Series F Bonds</th></tr>
<tr><th>Optional Redemption Dates</th><th>Optional Redemption Price</th></tr>
<tr><td>On the 5th year from Issue</td><td>101.0%</td></tr>
<tr><td>On the 6th year from Issue</td><td>100.5%</td></tr>
</table>
</td></tr>
</table>

	<table><tr><th colspan="2">Series G Bonds</th></tr><tr><th>Optional Redemption Dates</th><th>Optional Redemption Price</th></tr><tr><td>On the 7th year from Issue Date</td><td>102.0%</td></tr><tr><td>On the 8th year from Issue Date</td><td>101.0%</td></tr><tr><td>On the 9th year from Issue Date</td><td>100.5%</td></tr></table> Provided, that if the relevant Optional Redemption Date falls on a day that is not a Business Day, then the payment of the optional redemption price shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and optional redemption price to be paid.
Oversubscription Option	The option that may be exercised by the Joint Lead Underwriters, in consultation with the Issuer, to offer up to an additional ₱10,000,000,000.00 Offer Bonds to the investing public, to cover oversubscriptions, if any.
Paying Agent	The Philippine Depository & Trust Corp., a corporation with a quasi-banking license duly organized and existing under and by virtue of the laws of the Philippines, whose principal obligation is to handle payments of the principal of, interest on, and all other amounts payable on the Offer Bonds, to the Bondholders, pursuant to the Registry and Paying Agency Agreement. The term includes, wherever the context permits, all other Person or Persons for the time being acting as paying agent or paying agents under the Registry and Paying Agency Agreement.
Payment Account	The account to be opened and maintained by the Paying Agent with such Payment Account Bank designated by the Issuer and managed by the Paying Agent, in trust and for the irrevocable benefit of the Bondholders, into which the Issuer shall deposit the amount of the interest and/or principal payments due on the Outstanding Bonds on a relevant date and exclusively used for such purpose, the beneficial ownership of which shall always remain with the Bondholders. As used in this definition, the terms “Outstanding Bonds” and “Payment Account Bank” have the respective meanings given to such terms in the Registry and Paying Agent Agreement.
Payment Date	As the context may require, each Interest Payment Date, the Maturity Date for the Offer Bonds, and/or the relevant Redemption Date.
PDEx	Philippine Dealing & Exchange Corp.
PDEx Rules	The applicable rules, conventions and guidelines of PDEx.
PDS Group-Registered Cash Settlement Banks	Banking institutions that provide cash payment services for client investors arising from fixed income securities activities in PDS Group Subsidiaries.
PDTC	Philippine Depository & Trust Corp.
Permit to Sell	The Certificate of Permit to Sell or Offer for Sale of Securities issued by the SEC in respect of the Offer.

Permitted Liens	Means: (a) Any Lien existing as of the date of the Trust Agreement; (b) Liens for taxes or assessments or governmental charges or levies not yet delinquent or which are being contested in good faith; (c) Liens arising by operation of law (other than any preference or priority under Article 2244(14)(a) of the Civil Code of the Philippines) on any property or asset of the Issuer or its Material Subsidiaries, including without limitation, amounts owing to a landlord, carrier, warehouseman, mechanic or materialman; (d) Liens over or affecting any asset of any company which becomes a member of the Group after the date of the Trust Agreement, where the Lien is created prior to the date on which that company becomes a member of the Group; (e) Liens (not otherwise permitted in paragraphs (b) to (d) above) securing Debt owed under any government lending program or incurred by the Issuer and/or its Material Subsidiaries (in each case) in the ordinary course of any real property development business and in an aggregate principal amount (such aggregate being the aggregate for the Issuer and the Material Subsidiaries) at any date not to exceed 5% of Consolidated Net Worth as of such date; (f) To the extent notified to the Trustee in writing, any Lien created by a Ring-Fenced Subsidiary securing Project Debt incurred by that Ring-Fenced Subsidiary; (g) To the extent notified to the Trustee in writing, any Lien created over shares in any Ring-Fenced Subsidiary securing Project Debt incurred by that Ring-Fenced Subsidiary; (h) Any Lien upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including uncalled capital) of any of the Material Subsidiaries to secure: (1) any Debt which (subject to paragraph (2) of this definition below) is not Public Debt; or (2) any Public Debt (A) which (i) by its terms does not provide that the Company or any Material Subsidiary is an obligor; (ii) by its terms does not provide that a Guarantee or credit support of any kind is given by the Company or any of the Material Subsidiaries; and (iii) does not have the legal effect of providing recourse against any of the assets of the Company or any of the Material Subsidiaries; and (B) no default with respect to which would permit upon notice,

	lapse of time or both any holders of any other Debt of the Company or any of the Material Subsidiaries to declare a default on such other Debt or cause the payment of such other Debt to be accelerated or payable prior to its stated maturity, which, in either case (either alone or when aggregated with all other present or future business, undertaking, assets or revenues (including uncalled capital) of any of the Material Subsidiaries upon, or with respect to, which Liens are subsisting), does not exceed 15% of the consolidated Total Assets of the Group taken as a whole. (i) Liens created with the prior written consent of the Majority Bondholders; and (j) any extension, renewal, supplement, or replacement (or successive extensions, renewals, supplements, or replacements) in whole or in part of any Lien referred to in paragraphs (a), (f), (g) and (h), or any Debt secured thereby; provided that such extension, renewal, supplement, or replacement is limited to all or any part of the same property that secured the Lien extended, renewed, supplemented, or replaced (plus any construction, repair, or improvement on such property) and shall secure no larger amount of financial Debt than that existing at the time of such extension, renewal, supplement, or replacement.
Person	Any individual, firm, corporation, partnership, association, joint venture, tribunal, limited liability company, trust, government or political subdivision or agency or instrumentality thereof, or any other entity or organization.
PFRS	Philippine Financial Reporting Standards which includes statements named PFRS and Philippine Accounting Standards (PAS), and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC) or, at any time, generally accepted accounting principles in the Philippines in conformity with international accounting standards in effect at such time.
Philippines	The Republic of the Philippines.
Philippine Peso, Peso, PHP or ₱	Philippine Peso, the legal currency of the Philippines.
PhilRatings	Philippine Rating Services Corporation.
Project Debt	Debt incurred by a Ring-Fenced Subsidiary in relation to project finance in respect of which there is no recourse to the Company or any other member of the Group, and in respect of which neither the Company nor any other member of the Group has any actual or contingent liability of any nature, whether as principal, guarantor, surety or otherwise, except in respect of any security interest granted by the Company or any member of the Group over its shares in a Ring-Fenced Subsidiary.

Public Debt	Any present or future Debt (whether being principal, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being, capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, and any Guarantee or indemnity of any such Debt.
Prospectus	The prospectus dated February 10, 2017 and any amendments, supplements and addenda thereto for the offer and sale to the public of the Bonds (inclusive of the Offer Bonds) within the Shelf Period. As the context may require, the term includes this Offer Supplement.
PSE	The Philippine Stock Exchange, Inc.
Purchase Price	In respect of each Offer Bond, an amount equal to the face amount of such Offer Bond, which is payable upon submission of the duly executed Application to Purchase.
Record Date	As used with respect to any Payment Date, (i) 2 Business Days immediately preceding the relevant Payment Date, which shall be the cut-off date in determining the Bondholders entitled to receive interest, principal or any amount due under the Offer Bonds or (ii) such other date as the Issuer may duly notify PDTC.
Redemption Date	The date when the Offer Bonds (or any series thereof) are redeemed earlier than the relevant Maturity Date in accordance with the terms and conditions of the Offer Bonds; provided that if the relevant Redemption Date falls on a day that is not a Business Day, then the payment of the principal shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and principal to be paid. For the avoidance of doubt, the term "Redemption Date" includes Optional Redemption Date.
Registrar	Philippine Depository & Trust Corp. The term includes, wherever the context permits, all other Person or Persons for the time being acting as registrar or registrars under the Registry and Paying Agency Agreement.
Registration Statement	The registration statement filed with the SEC in connection with the offer and sale to the public of the Bonds (inclusive of the Offer Bonds) and rendered effective by the SEC under MSRD Order No. 3 (series of 2017) dated February 14, 2017.
Registry of Bondholders	The electronic registry book of the Registrar containing the official information on the Bondholders and the amount of the Offer Bonds they respectively hold, including all transfers and assignments thereof or any liens or encumbrances thereon, to be maintained by the Registrar pursuant to and under the terms of the Registry and Paying Agency Agreement.
Registry and Paying Agency Agreement	The Registry and Paying Agency Agreement dated March 1, 2018, and its annexes and attachments, as may be modified, supplemented or amended from time to time, and entered into between the Company and the Registrar and Paying Agent in relation to the Offer Bonds.

Related Person	With respect to any Person means: (a) any controlling stockholder or a majority (or more) owned Subsidiary of such Person, or, in the case of an individual, any spouse or immediate family member of such Person, any trust created for the benefit of such individual or such individual's estate, executor, administrator, committee or beneficiaries; or (b) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a majority (or more) controlling interest of which consist of such Person and/or such other Persons referred to in the immediately preceding paragraph.
Relevant Period	A period of 12 calendar months ending on the last day of any quarter of any of the Issuer's fiscal years.
Ring-Fenced Subsidiary	Any entity that satisfies the following conditions: (a) such entity is a Subsidiary of the Issuer but not a Material Subsidiary; (b) such entity, to the extent directly owned by the Issuer or a member of the Group (other than another Ring-Fenced Subsidiary), is a limited liability company or corporation organized and existing under the laws of the Philippines; (c) the Issuer has delivered a written notification to the Trustee designating such entity as a Ring-Fenced Subsidiary until such designation has been withdrawn in writing by the Issuer; (d) no member of the Group (other than that Ring-Fenced Subsidiary) shall be contingently liable for any Debt of such entity or its Subsidiaries, except in respect of the granting by a member of the Group of Liens over its shares in such entity or such entity's Subsidiaries; and (e) all transactions conducted between any member of the Group and such entity or its Subsidiaries must be on an arm's length basis and on normal commercial terms, and each Subsidiary of any such entity shall also be a Ring-Fenced Subsidiary.
RTGS	The Philippine Payment Settlement System via Real Time Gross Settlement that allows banks to effect electronic payment transfers which are interfaced directly to the automated accounting and settlement systems of the BSP.
SB Capital	SB Capital Investment Corporation.
SCB	Standard Chartered Bank.
SEC	Securities and Exchange Commission of the Philippines.

Selling Agents	Bank of Commerce, United Coconut Planters Bank, and such other selling agents as may be advised by the Joint Lead Underwriters and Joint Bookrunners to the Registrar in writing on or before the last day of the Offer Period.
Series E Bonds	The Offer Bonds to be issued by the Issuer, with an aggregate principal amount of ₱13,145,600,000.00, and in case the Oversubscription Option is exercised, such additional principal amount equivalent to the Offer Bonds as may have been taken up for this series, having a term beginning on the Issue Date and ending five years from the Issue Date or on March 19, 2023, with a fixed interest rate equivalent to 6.2500% per annum.
Series F Bonds	The Offer Bonds to be issued by the Issuer, with an aggregate principal amount of ₱2,438,500,000.00, and in case the Oversubscription Option is exercised, such additional principal amount equivalent to the Offer Bonds as may have been taken up for this series, having a term beginning on the Issue Date and ending seven years from the Issue Date or on March 19, 2025, with a fixed interest rate equivalent to 6.6250% per annum.
Series G Bonds	The Offer Bonds to be issued by the Issuer, with an aggregate principal amount of ₱4,415,900,000.00, and in case the Oversubscription Option is exercised, such additional principal amount equivalent to the Offer Bonds as may have been taken up for this series, having a term beginning on the Issue Date and ending ten years from the Issue Date or on March 19, 2028, with a fixed interest rate equivalent to 7.1250% per annum.
Shelf Period	Subject to applicable regulations, a period of 3 years from the effective date of the Registration Statement within which the Bonds under shelf registration may be offered and sold in tranches.
Subsidiary	An entity of which a Person has direct or indirect control or owns directly or indirectly more than 50% of the voting capital or similar right of ownership.
Tax Code	Philippine National Internal Revenue Code of 1997 (as amended).
Total Assets	With respect to any Person, the total consolidated assets of such Person and its Subsidiaries as determined by reference to the most recently available quarterly or annual consolidated financial statements of such Person and its Subsidiaries prepared in accordance with PFRS.
Transaction Date	With respect to the incurrence of any Debt, the date such Debt is incurred.
Trust Agreement	The Trust Agreement dated March 1, 2018 and its annexes and attachments, as may be modified, supplemented or amended from time to time, and entered into between the Company and the Trustee.
Trustee	Rizal Commercial Banking Corporation – Trust and Investments Group. The term includes, wherever the context permits, all other Person or Persons for the time

	being acting as trustee or trustees under the Trust Agreement.
Underwriting Agreement	The Underwriting Agreement dated March 1, 2018, and its annexes and attachments, as may be modified, supplemented or amended from time to time, and entered into between the Company and the Joint Lead Underwriters and Bookrunners in relation to the Offer Bonds.
US$	U.S. Dollars, the legal currency of the United States of America.
Voting Stock	With respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

Executive Summary

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and audited financial statements, including notes thereto, found in the appendices of this Offer Supplement.

Prospective investors should read this entire Offer Supplement fully and carefully, including the section on "Risk Factors" in the Prospectus. In case of any inconsistency between this summary and the more detailed information in this Offer Supplement, then the more detailed portions, as the case may be, shall at all times prevail.

Brief Background on the Company

San Miguel Corporation, together with its subsidiaries (collectively referred to as the "SMC Group"), is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales of about 4.7% of the Philippine gross domestic product in 2016.

Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a market-leading beverage, food and packaging business with a globally recognized beer brand, into a diversified conglomerate with market-leading businesses in fuel and oil, energy, infrastructure, and investment in banking. SMC owns a portfolio of companies that is tightly interwoven into the economic fabric of its home market, benefiting from and contributing to, the development and economic progress of the Philippines. The common shares of SMC were listed on November 5, 1948 at the Manila Stock Exchange, now the PSE.

In 2007, in light of the opportunities presented by the global financial crisis, the ongoing program of asset and industry privatization of the Philippine government, the strong cash position of SMC enhanced by its divestments and the strong cash flow generated by its established businesses, SMC adopted an aggressive business diversification program. The program channeled the resources of SMC into what it believes were attractive growth sectors, aligned with the development and growth of the Philippine economy. SMC believes this strategy will achieve a more diverse mix of sales and operating income, and better position for SMC to access capital, present different growth opportunities and mitigate the impact of downturns and business cycles.

Since January 2008 up to the 3rd quarter of 2017, SMC has either directly or through its subsidiaries, made a series of acquisitions in the fuel and oil, energy, infrastructure and banking industries.

SMC, through its subsidiaries and affiliates, has become a Philippine market leader in its businesses with 23,858 regular employees and more than 100 production facilities in the Asia-Pacific region as of September 30, 2017. The extensive portfolio of SMC products includes beer, liquor, non-alcoholic beverages, poultry, animal feeds, flour, fresh and processed meats, dairy products, coffee, various packaging products and a full range of refined petroleum products, most of which are market leaders in their respective markets. In addition, the SMC Group contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers.

Through the partnerships it has forged with major international companies, the SMC Group has gained access to the latest technologies and expertise, thereby enhancing its status as a world-class organization.

SMC has strategic partnerships with international companies among them are Kirin Holdings Company, Limited ("Kirin") for beer, Hormel Foods International Corporation ("Hormel") for processed meats, Nihon Yamamura Glass Company, Ltd. ("NYG"), Fuso Machine & Mold Mfg. Co. Ltd. ("Fuso") and Can-Pack S.A. ("Can-Pack") for packaging products and Korea Water Resources Corporation ("K-Water") for its power business.

Major developments in the SMC Group are discussed in *Management's Discussion and Analysis of Results of Operation and Financial Condition*, found on page 165.

Core Businesses

Beverages

San Miguel Brewery Inc. ("SMB") is primarily engaged in the manufacture and sale of fermented and malt-based beverages, particularly beer of all kinds and classes. SMB has 6 production facilities in the Philippines strategically located in Luzon, Visayas and Mindanao and operates 1 brewery each in Hong Kong, Indonesia,

Vietnam, Thailand, and 2 breweries in China. In addition, SMB also operates the non-alcoholic beverage business of the Company.

The SMC Group also produces hard liquor through its majority-owned subsidiary, Ginebra San Miguel Inc. ("Ginebra"). Named after its flagship product and among the world's largest-selling gin brand, *Ginebra San Miguel*, Ginebra is also the owner of some of the most recognizable brands in the Philippine liquor market. It operates 1 distillery, 1 cassava starch milk plant and 5 bottling plants which are strategically located throughout the Philippines and 1 bottling and distillery plant in Thailand.

Food

The food operations of SMC hold numerous market-leading positions in the Philippine food industry, offering a wide range of high-quality food products and services to household, institutional and foodservice customers. The food business is conducted through San Miguel Pure Foods Company, Inc. ("San Miguel Pure Foods"). In addition to its Philippine operations, the food business also has a presence in Indonesia and Vietnam.

San Miguel Pure Foods has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Super Coffee* for coffee, *La Pacita* for biscuits and *B-Meg* for animal feeds.

Packaging

The packaging business is a total packaging solutions business servicing many of the leading food, pharmaceutical, chemical, beverages, spirits and personal care manufacturers in the region. The packaging business is comprised of San Miguel Yamamura Packaging Corporation ("SMYPC"), San Miguel Yamamura Packaging International Limited ("SMYPIL"), San Miguel Yamamura Asia Corporation ("SMYAC"), SMC Yamamura Fuso Molds Corporation ("SYMFC"), Can Asia, Inc. ("CAI") and Mindanao Corrugated Fibreboard, Inc. ("Mincorr"), collectively referred to as the Packaging Group.

The Packaging Group has one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, Polyethylene Terephthalate ("PET") and other packaging products and services such as beverage tolling for PET bottles and aluminum cans. The packaging business is the major source of packaging requirements of other business units of SMC. It also supplies its products to customers across the Asia-Pacific region, United States, and Australasia, as well as to major multinational corporations in the Philippines, including Coca-Cola Femsa Philippines, Inc., Nestle Philippines, Inc. and Pepsi Cola Products Philippines, Inc.

The Packaging Group has 14 international packaging facilities located in China (glass, plastics and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, and woven bags) and Australia (glass, trading, wine closures and wine bottling facilities) and New Zealand (plastics and trading).

Aside from extending the reach of the packaging business overseas, these facilities also allow the Packaging Group to serve the packaging requirements of SMB breweries in China, Vietnam, Indonesia and Thailand.

Properties

San Miguel Properties Inc. ("SMPI") was created in 1990 initially as the corporate real estate arm of SMC. It is the primary property subsidiary of the SMC Group, currently 99.94% owned by SMC. SMPI is presently engaged in commercial property development, sale and lease of real properties, management of strategic real estate ventures and corporate real estate services.

New Businesses

Fuel and Oil

SMC operates its fuel and oil business through Petron Corporation ("Petron"), which is involved in refining crude oil and marketing and distribution of refined petroleum products mainly in the Philippines and Malaysia. Petron is the number one integrated oil refining and marketing company in the Philippines, with an overall market share of 31.5% of the Philippine oil market for the first half of 2017, in terms of sales volume based on Petron estimates using its internal assumptions and calculation and industry data from the Department of Energy of the Philippines ("DOE"). Petron participates in the reseller (service station), industrial, lube and

liquified petroleum gas ("LPG") sectors. In addition, Petron is also engaged in non-fuels business by earning income from billboards and locators, which are largely situated within the premises of the service stations.

In Malaysia, Petron ranked 3rd in the retail market with a 19.7% share as of the 3rd quarter of 2017, based on Petron estimates using its internal assumptions and calculations and industry data from The Concillium Group Sdn Bdh formerly known as "Fahrenheit Research (M) Sdn. Bhd", a market research consultant appointed by Malaysian retail market participants to compile industry data.

Petron owns and manages the most extensive oil distribution infrastructure comprising of 11 terminals in Luzon, 9 in the Visayas and 7 in Mindanao, 2 airport installations in Luzon and 2 in Mindanao with approximately 2,300 retail service stations in the Philippines, and 10 product terminals and a network of approximately 600 retail service stations in Malaysia, as of September 30, 2017. Petron also exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

Petron owns and operates a petroleum refining complex, with a capacity of 180,000 barrels per day located in Limay, Bataan Philippines. The refinery has its own piers and 2 offshore berthing facilities. In 2010, Petron upgraded its refinery by undertaking the Petron Bataan Refinery Master Plan Phase-2 Upgrade ("RMP-2") which was completed in 2014. RMP-2 upgraded the Petron Bataan Refinery to a full conversion refining complex, where all its fuel oil production is converted to higher value products – gasoline, diesel, jet fuel and petrochemicals, making it comparable to highly complex refineries worldwide. The completion of RMP-2 made Petron the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standards for fuels. Petron also has a refinery in Malaysia with a capacity of 88,000 barrels per day.

Energy

SMC Global Power Holdings Corp. ("SMC Global Power") is a holding company which owns subsidiaries that are primarily engaged in the generation, supply and sale of electric power in the Philippines. SMC Global Power, together with its subsidiaries, is one of the largest power companies in the Philippines, controlling 3,213 megawatts ("MW") of combined capacity as of December 31, 2017 and which benefits from diversified fuel sources, including natural gas, coal and hydroelectric. Based on the installed generating capacities under Energy Regulatory Commission of the Philippines ("ERC") Resolution No. 05, Series of 2017, SMC Global Power, through its Independent Power Producer Administrator ("IPPA") and Independent Power Producer ("IPP") subsidiaries, has a 16% market share of the power supply of the National Grid, a 21% market share of the Luzon Grid and a 5% market share of the Mindanao Grid, in each case based on the latest available ERC data as of December 31, 2017. SMC Global Power entered the power industry in 2009 following the acquisition of IPPA rights in privatization auctions conducted by the Government. Under the IPPA business model, SMC Global Power, through its subsidiaries San Miguel Energy Corporation ("SMEC"), Strategic Power Devt. Corp. ("SPDC"), and South Premiere Power Corp. ("SPPC"), gained the right to sell electricity generated by the power plants owned and operated by the IPPs without having to bear any of the large upfront capital expenditures for power plant construction or maintenance. As IPPAs, SMEC, SPDC and SPPC all have the ability to manage both market and price risk by entering into bilateral contracts with offtakers while capturing potential upside from the sale of excess capacity through the Wholesale Electricity Spot Market ("WESM").

SMC Global Power, through SMEC, SPDC and SPPC, controls the 2,545 MW combined contracted capacity of the Sual, San Roque and Ilijan Power Plants, respectively (collectively, the "IPPA Power Plants") through their Independent Power Producer Administration Agreements ("IPPA Agreements"). SMEC acquired the IPPA rights for the Sual Power Plant in November 2009, SPDC for the San Roque Power Plant in January 2010 and SPPC for the Ilijan Power Plant in June 2010. The Sual Power Plant is a coal-fired thermal power plant, the San Roque Power Plant is a hydro-electric power plant, and the Ilijan Power Plant is a natural gas-fired combined cycle power plant.

In September 2013, SMC Global Power through SMC PowerGen, Inc ("SPI") acquired 100% of the 140 MW Limay Cogeneration Power Plant (the "Limay Cogeneration Plant") from Petron. On December 23, 2016, the Limay Cogeneration Plant was sold back by SPI to Petron. In November 2014, SMC Global Power through its subsidiary, PowerOne Ventures Energy Inc. ("PVEI") acquired a 60% stake in Angat Hydropower Corporation ("AHC"), the owner and operator of the 218 MW Angat Hydroelectric Power Plant ("AHEPP"). In October 2013, SMC Global Power through SMC Consolidated Power Corporation ("SCPC"), a wholly-owned subsidiary, commenced construction works for its 4 x 150 MW coal-fired power plant in Limay, Bataan (the "Limay Greenfield Power Plant"). The second 2 x 150 MW of the Limay Greenfield Power Plant was used to be owned by another subsidiary, the Limay Premiere Power Corp., but this was later transferred to SCPC in June 2017. Units 1 and 2 with a rated capacity of 150 MW each of the Limay Greenfield

Power Plant attained commercial operations on May 26, 2017 and September 26, 2017, respectively. SCPC was granted a retail electricity supplier ("RES") license by the ERC on August 24, 2016, which gave it the ability to directly contract with industrial customers. As of December 31, 2017, the total capacity of the subsidiaries of SMC Global Power is 3,213 MW including the entire capacity of the AHEPP.

SMC Global Power, through SMEC, SPDC, SPPC, SCPC, and AHC, sells power through offtake agreements directly to customers, including Manila Electric Company ("Meralco") and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. The majority of the consolidated sales of SMC Global Power are through long-term take-or-pay offtake contracts which have provisions for passing on fuel costs, foreign exchange differentials and certain other fixed costs.

In April 2013, SMC Global Power, through SMC Power Generation Corp. ("SPGC"), acquired a 35% equity stake in Olongapo Electricity Distribution Company, Inc. ("OEDC"). In October 2013, SMC Global Power entered into a 25-year concession agreement with Albay Electric Cooperative, Inc. ("ALECO"). It became effective upon the confirmation of the National Electrification Administration of the Philippines ("NEA") in November 2013. SMC Global Power organized and established a wholly-owned and controlled subsidiary, Albay Power and Energy Corp. ("APEC"), which assumed, as the concessionaire, all the rights and interests and performs the obligations of SMC Global Power under the concession agreement with ALECO.

The experience of SMC Global Power, through its subsidiaries, in acting as an IPPA and its ownership of the Limay Cogeneration Plant and the AHEPP have enabled SMC Global Power to gain expertise in the Philippine power generation industry. With this experience, SMC Global Power believes it has a strong platform to participate in the expected future growth of the Philippine power market, through both the development of greenfield power plants and the acquisition of existing power generation capacity.

SMC Global Power, as the project sponsor, initiated 2 greenfield power projects in July 2013 and October 2013 with the construction of the 2 x 150 MW Davao coal-fired power plant (the "Davao Greenfield Power Plant") and the 4 x 150 MW Limay Greenfield Power Plant, respectively. SMC Global Power, through Mariveles Power Generation Corporation ("MPGC"), will also construct an additional greenfield coal-fired power project in Mariveles, Bataan with an initial capacity of 4 x 150 MW. SMC Global Power is possibly considering the further expansion of its power portfolio of additional capacity nationwide through greenfield power projects over the next few years, depending on market demand. With the increased development of greenfield power plants from 2016 onwards, an increasing portion of the portfolio of SMC Global Power is expected from Company-owned and Company-operated IPPs. In order to continue its strategic acquisitions of existing power generation capacity, SMC Global Power intends to participate in the bidding of selected National Power Corporation of the Philippines ("NPC")-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework, and privately-owned plants with commercial and technical profile that fit its existing portfolio of power assets.

Furthermore, to the extent viable and allowed under prevailing industry regulations, SMC Global Power is open to opportunities for vertical integration by expanding into businesses along the power sector value chain that complement its current power generation operations. In particular, SMC Global Power intends to pursue downstream integration by capitalizing on changes in the Philippine regulatory structure which allow the expansion into the sale of power to a broader range of customers, including retail customers. In August 2011, as part of the reorganization of the power-related businesses of SMC, SMC Global Power acquired from the Company a 100% equity interest in San Miguel Electric Corp. ("SMELC"), which holds a RES license from the ERC. With open access and retail competition already implemented, the RES license will allow SMC Global Power, through SMELC, to enter into retail supply contracts ("RSCs") with end-users who have a choice on their supplier of electricity as may be certified by the ERC ("Contestable Customers").

SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy Resources, Inc. ("Bonanza Energy"), Daguma Agro-Minerals, Inc. ("Daguma Agro") and Sultan Energy Phils. Corp. ("Sultan Energy"), also owns coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao which, depending on prevailing global coal prices and the related logistical costs, may be tapped to eventually serve as an additional source of coal fuel for its planned and existing greenfield power plants.

Infrastructure

The infrastructure business, conducted through San Miguel Holdings Corp. ("SMHC"), consists of investments in companies that hold long-term concessions in the infrastructure sector in the Philippines. Current operating toll roads include the South Luzon Expressway ("SLEX"), Skyway Stages 1 and 2 and the Southern Tagalog Arterial Road ("STAR"), Tarlac-Pangasinan-La Union Toll Expressway ("TPLEX") and NAIA Expressway ("NAIAx") tollways and ongoing toll road projects are Skyway Stages 3 and 4, and SLEX TR4. It also operates

and is currently expanding the Boracay Airport. In addition, it has the concession right to construct, operate and maintain the Mass Rail Transit Line 7 ("MRT-7"). Other investments include Manila North Harbour Port Inc. ("MNHPI") and Luzon Clean Water Development Corporation ("LCWDC") for the Bulacan Bulk Water Project.

SLEX / Skyway Stage 1 and 2

As of March 5, 2015, SMHC has a 95% stake in Atlantic Aurum Investments B.V. ("AAIBV"), a company which has the following shareholdings:

- 80% stake in South Luzon Tollway Corporation ("SLTC"), through MTD Manila Expressways, Inc. ("MTDME"), a wholly-owned subsidiary of AAIBV. SLTC holds a 30-year concession rights to operate the 36.1 km SLEX, one of the 3 major expressways that link Metro Manila to Southern Luzon, and SLEX TR4 (56.86 km), which will navigate from Sto. Tomas, Batangas to Lucena City, Quezon;

- 87.84% beneficial ownership in Citra Metro Manila Tollways Corporation ("CMMTC"), through Atlantic Aurum Investments Philippines Corporation ("AAIPC"), a wholly-owned subsidiary of AAIBV. CMMTC holds a 30-year concession to construct, operate and maintain the 29.59 km Skyway Stage 1 and 2.

STAR Tollway

SMHC, through Cypress Tree Capital Investments, Inc. ("CTCII") has an effective 100% interest in Star Infrastructure Development Corporation ("SIDC"). SIDC holds the 30-year concession rights of the STAR Project consisting of: Stage 1 - operation and maintenance of the 22.16 km toll road from Sto. Tomas to Lipa City; and Stage 2 - financing, design, construction, operation and maintenance of the 19.74 km toll road from Lipa City to Batangas City.

TPLEX

SMHC, through its subsidiary, Rapid Thoroughfares, Inc. ("Rapid"), owns a 70.11% equity interest in Private Infra Dev Corporation ("PIDC"). PIDC is a company which holds a 35-year Build-Transfer-Operate ("BTO") concession rights to construct, operate and maintain an 88.85 km toll expressway from La Paz, Tarlac, through Pangasinan, to Rosario, La Union.

NAIAx

On May 31, 2013, SMHC incorporated Vertex Tollways Devt. Inc. ("Vertex"), a company that holds the 30-year concession rights for the construction and operation of the NAIAx – a 4 lane elevated expressway with end-to-end distance of 5.4 km that will provide access to NAIA Terminals 1, 2 and 3. NAIAx connects to the Skyway system, the Manila-Cavite Toll Expressway ("CAVITEX") and the Entertainment City of the Philippine Amusement and Gaming Corporation ("PAGCOR").

Skyway Stage 3

On February 28, 2014, SMHC through AAIBV incorporated Stage 3 Connector Tollways Holdings Corp. ("S3HC"), which holds an 80% ownership interest in Citra Central Expressway Corp. ("CCEC"). CCEC holds a 30-year concession to construct, operate, and maintain the Skyway Stage 3, an elevated roadway with the entire length of approximately 14.82 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. This is envisioned to inter-connect the southern and northern areas of Metro Manila to help decongest traffic and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

Skyway Stage 4

Skyway Stage 4 Project is a 34.81 km roadway from South Metro Manila Skyway to Batasan Complex, Quezon City. Skyway Stage 4 serves as another expressway system that aims to further decongest EDSA, C5 and other major arteries of the Metropolis. Further, it aims to provide faster alternate route and accessibility to the motorist when travelling from the province of Rizal and Calabarzon area to Metropolis. The project covers a concession period of 30 years (from start of operations), with a target completion date by end of year 2022.

Boracay Airport

SMC, through the 99.80% interest of SMHC in Trans Aire Development Holdings Corp. ("TADHC"), is undertaking the expansion of Boracay Airport under a 25-year Contract-Add-Operate-and-Transfer concession granted by the Republic of the Philippines ("ROP"), through the Department of Transportation ("DOTr") formerly known as the "Department of Transportation and Communications of the Philippines".

Manila North Harbor

MNHPI is the terminal operator of Manila North Harbor, a 52-hectare port facility situated at Tondo, City of Manila. The port has a total quay length of 5,200 meters and 41 berths which can accommodate all types of vessels such as containerized and non-container type vessels. Under the Contract for the Development, Operation and Maintenance of the Manila North Harbor entered with the Philippine Ports Authority on November 19, 2009, the Philippine Ports Authority awarded MNHPI the sole and exclusive right to manage, operate, develop and maintain the Manila North Harbor for 25 years, renewable for another 25 years. MNHPI commenced operations on April 12, 2010. SMC through SMHC owns 43.33% of MNHPI.

MRT-7

In October 2010, SMC, through SMHC, acquired a 51% stake in Universal LRT Corporation (BVI) Limited ("Universal LRT"), which holds the 25-year Build-Gradual Transfer-Operate-Maintain-and-Manage ("BGTOM") concession for MRT-7. MRT-7 is a planned expansion of the metro rail system in Manila which mainly involves the construction of 22 km mass rail transit system with 14 stations that will start from San Jose del Monte City and end at the integrated LRT-1 / MRT-3 / MRT-7 station at North EDSA and a 22 km 6 lane asphalt highway that will connect the North Luzon Expressway to the intermodal transport terminal in San Jose del Monte City, Bulacan and a 22-km road component from San Jose del Monte City, Bulacan to the Bocaue exit of the NLEX. As of July 1, 2016, SMC, through SMHC holds 100% ownership in Universal LRT.

Bulacan Bulk Water Supply Project

The Bulacan Bulk Water Supply Project aims to provide clean and potable water to the province of Bulacan that is environmentally sustainable and with a price that is equitable. The project also aims to help various water districts in Bulacan to meet the increasing water demand of consumers, expand its current service area coverage and increase the number of households served by providing a reliable source of treated bulk water. SMC through SMHC owns 90% of Luzon Clean Water Development Corporation, which will serve as the concessionaire for a period of 30 years (inclusive of the 2-year construction period). The target completion of the project is Q1 2019.

Competitive Strengths

SMC believes that its principal strengths include the following:

Diversified platform with broad exposure to the Philippine economy

The Philippines is one of the fastest growing economies in Asia, with continuous positive gross domestic product growth since 1999. According to the Bangko Sentral ng Pilipinas, the Philippines had a gross domestic product of 6.7% in 2016. In addition, the Philippine population is young, comparably literate and growing, which provides the Philippine economy with favorable demographics for further growth.

As one of the largest conglomerates in the Philippines by revenues and total assets, with sales of about 4.7% of the Philippine gross domestic product in 2016, the SMC Group is broadly exposed to the Philippine economy through its diverse range of businesses spanning the beverage, food, packaging, fuel and oil, energy, infrastructure, property, and investment in banking. This diversified portfolio aligns SMC to key sectors that it believes will benefit from the forecast growth of the Philippine economy.

Market leading positions in key Philippine industries

Many of the businesses of SMC are leaders in their domestic markets.

> **Beverages:** The domestic beer business of SMC has consistently dominated the Philippine beer market, with a market share of more than 90% by volume in 2016, according to GlobalData formerly known as "Canadean", with no significant changes thereafter. SMB has held this position since 1999. SMC also

has a growing non-alcoholic beverage business which produces non-carbonated ready to drink teas and fruit juices.

Food: San Miguel Pure Foods is a leading Philippine food company with market-leading positions in key food categories and offers a broad range of high-quality food products and services to household, institutional and foodservice customers. According to Nielsen, San Miguel Pure Foods has a 29% share of market in the Trade animal feeds industry as of December 2016. Based on data from certain Philippine government agencies and internal assumptions and calculations, San Miguel Pure Foods believes it had market shares of 38% for poultry, 31% for fresh meats (based on sow population of large commercial farms) and 16% for flour as of December 2016.

According to Kantar Worldpanel, San Miguel Pure Foods has a market shares of 35% for hotdogs, 83% in the chicken nugget product category, and market shares of 43% for butter, 99% for refrigerated margarine, 74% for non-refrigerated margarine and 19% for cheese, in each case based on data as of June 2017.

According to Nielsen, San Miguel Pure Foods has a market share of 63% for hotdogs sold in Philippine supermarkets, and 96% market share for non-refrigerated margarine as of December 2016. San Miguel Pure Foods has continuously enhanced brand recognition and trust with consumers by consistently maintaining high product quality, as well as through active and targeted advertising and promotional campaigns.

Packaging: The Packaging Group has one of the largest packaging operations in the Philippines with diversified businesses producing glass, molds, metal closures, aluminum cans, plastics and pallet/crate leasing, PET beverage packaging and filling, flexibles, paper, as well as other packaging products. The packaging business is the major source of packaging requirements of the other businesses of SMC. It also supplies packaging products to customers in the Asia-Pacific region, the United States, and Australasia, as well as to major multinational corporations in the Philippines, including Coca Cola Femsa Philippines, Inc., Nestle Philippines, Inc. and Pepsi Cola Products Philippines, Inc.

Fuel and Oil: Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, Petron is the number one integrated oil refining and marketing company, with an overall market share of 31.5% of the Philippine oil market for the first half of 2017 in terms of sales volume based on Petron's estimates using its internal assumptions and calculations and industry data from the DOE. In Malaysia, Petron ranked 3rd in the retail market with a 19.7% share as of the 3rd quarter of 2017, based on Petron estimates using its internal assumptions and calculations and industry data from The Concilium Group Sdn Bhd, a market research consultant appointed by Malaysian retail market participants to compile industry data.

Energy: SMC Global Power is one of the largest power companies in the Philippines, holding a 21% market share of the total installed capacity of the Luzon power grid, 16% market share of the national grid and 5% market share of the Mindanao grid as of December 31, 2017, according to the ERC. SMC Global Power administers 3 power plants, located in Sual, Pangasinan (coal-fired), Ilijan, Batangas (natural gas) and San Roque, Pangasinan (hydroelectric) and owns 2 new power plants located in Limay, Bataan and Malita, Davao. In addition, SMC also owns 60% interest in the AHEPP. This brings total combined capacity of SMC Global Power to 3,213 MW as of December 31, 2017. The energy trading team of SMC comprises of pioneers in WESM trading.

Infrastructure: SMHC has become one of the major infrastructure companies in the country, with concessions in toll roads, airport and mass rail transit. SMHC has rights to about 55.6% of the total road length of awarded toll road projects. This includes operating toll roads such as SLEX, Skyway Stages 1 and 2, STAR tollways, TPLEX and NAIAx while ongoing projects include Skyway Stage 3, extension of SLEX through SLEX-TR4 project by another 57.04 km from Sto. Tomas, Batangas up to Lucena in Quezon Province and Skyway Stage 4, a 58.09 roadway from South Metro Manila Skyway to Batasan Complex, Quezon City. SMHC also operates the Boracay Airport which is currently doing improvement and expansion activities that will take advantage of the growing number of tourists in the area. In addition, SMHC holds the concession to construct, operate and maintain the MRT-7 project, a 22-km rapid mass rail transit system, which spans from North EDSA to San Jose del Monte City, Bulacan, and a 22-km road component from San Jose del Monte City, Bulacan to the Bocaue exit of the NLEX. SMHC, together with K-Water, is currently constructing the Bulacan Bulk Water project. This project will involve the supply of treated bulk water to 24 different water districts to the province of Bulacan. SMHC also has an investment in MNHPI, the terminal operator of Manila North Harbor.

Experienced management team

SMC has an extensive pool of experienced managers who have been with SMC for more than 20 years. The management team has a deep knowledge and understanding of the Philippine operating environment and has been able to effectively manage SMC through periods of crisis and instability in the Philippines. In addition, the management team has successfully directed the diversification strategy of SMC, including retaining key management personnel from acquired companies in order to maintain their expertise and leverage their industry experience.

Operating businesses provide sustainable stream of income and cash flows

The beverage, food and packaging businesses provide SMC with a sustainable stream of income. These businesses demonstrated resilience during the global financial crisis and provided SMC with a strong financial base from which to pursue its diversification strategy. In 2016, the core businesses of beverage, food and packaging businesses provided 37% of total SMC sales and 38% of total SMC EBITDA. For the period ended September 30, 2017, core businesses provided 34.1% of total SMC sales and 35.9% of total SMC EBITDA.

For the period ended September 30, 2017, SMC generated ₱108,786 million of EBITDA and ₱20,891 million of net income attributable to the Parent Company with ₱27,942 million of capital expenditure. In 2016, SMC generated ₱130,875 million of EBITDA and ₱29,289 million of net income attributable to the Parent Company with ₱40,649 million of capital expenditure. In 2015, it generated ₱110,309 million of EBITDA and ₱12,448 million of net income attributable to the Parent Company with ₱59,973 million of capital expenditure.

Well-positioned for significant future growth

SMC is well-positioned for significant future growth. The established businesses of SMC in beverage, food and packaging continue to provide stable cash flow, while its new businesses have enabled SMC to expand its ability to generate higher returns.

Beverage: The beverage business is well-positioned to benefit from the increasing affluence and population growth in the Philippines, which SMB believes are significant opportunities in the premium beer market. Additionally, the international beer business is experiencing increased sales through increasing brand recognition in selected overseas markets such as Indonesia, Thailand, Singapore, Hong Kong, the Middle East, United States and Asia-Pacific region. Ginebra is expanding its liquor business throughout the Philippines. Ginebra has been creating rapid deployment task forces, particularly in the southern Philippines, where market penetration is low and where there is no existing dealership system. With the transfer of the non-alcoholic beverage business from Ginebra to SMB, SMC believes that the strong distribution infrastructure of SMB will be able to increase margins and improve profitability of the beverage business as a whole. The beverage business continues to introduce new products and new package formats to increase consumer interest and overall market size, as well as address the needs of an increasingly fragmenting market, especially in high growth segments.

Food: The food business aims to become the least-cost producer through its vertically-integrated meats business model, which allows it to secure stable raw material supply and develop cheaper alternative raw materials. San Miguel Pure Foods is also streamlining its operations to improve the profitability of its established business segments, such as poultry, feeds, meats and flour, maximize synergies across operations and improve margins by shifting to stable-priced and value-added products.

Packaging: The packaging business provides a total packaging solution that enables the company to serve a wide spectrum of customers thereby increasing its potential for higher growth. It also aims to benefit from trade liberalization and globalization in the ASEAN region as it further expands its exports market. The rising environmental awareness also provides opportunities for the production of more environmentally friendly products such as heavy metal-free paint glass and recycled PET resin. The packaging business plans to improve margins by developing alternative sources of raw materials and optimizing recycling efforts to lower its material costs.

Fuel and Oil: Petron operates as an integrated oil refining and marketing company in the Philippines and Malaysia, both of which, it believes, have favorable oil industry dynamics. The Philippines operates under a free market scheme with movements in regional prices and foreign exchange reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an Automatic Pricing Mechanism (“APM”) that provides stable returns to fuel retailers.

Petron owns refineries, in both the Philippines and Malaysia, capable of producing finished petroleum products. Petron believes it has the competitive advantage against other oil players that only import finished petroleum products. Petron plans to continue its service station network expansion and seek growth in complementary non-fuel businesses. Petron also increased its production of higher margin products with the completion of RMP-2. The RMP-2 is the second phase of the refinery expansion project, which includes further enhancements to its operational efficiencies, increase in conversion capability and reduce production of lower-value products. In addition to RMP-2 and the expansion of the service station network, Petron is operating the coal cogeneration power plant to supply the power requirements of the Petron Bataan Refinery that replaced some of the existing turbo and steam generators. The coal cogeneration power plant is utilizing more efficient and environmentally-friendly technology and generating power at lower costs.

Energy: SMC Global Power is expanding its power generating capacity over the next 5 years and believes its energy business will benefit from growing demand for electricity in the Philippines, which is forecasted to exceed the growth rates of the Philippine gross domestic product, and the shortage in electricity supply, with the industry constrained by aging power generation assets and minimal additional capacities. Also, if spot electricity rates move higher as a result of increased demand, the margins of SMC Global Power are expected to increase.

Infrastructure: SMHC believes there are significant opportunities in building or acquiring infrastructure assets in a growing economy that has historically under-invested in infrastructure. In addition, concession agreements for the various projects will provide strong and stable long-term income streams, as well as serve as a barrier to entry to new players to the business.

Synergies across businesses

SMC expects significant opportunities to develop and increase synergies across many of its businesses, including:

Ancillary business opportunities: SMC believes it has opportunities within its existing businesses to secure growth in its new businesses by using the relevant areas to conduct business and activities. Potential initiatives of this type include installing SMC Group advertisements, building service stations, retail outlets, rest stops and kiosks along toll roads.

Immediate distribution channel: The extensive retail distribution network of SMC provides an effective platform for roll-out of new products and services. For example, the network of Petron service stations provides an immediate distribution channel for retail sales for the beverage and food products of SMC.

Economies of scale: SMC believes the size and scale of its distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC should also result in substantial leverage and bargaining power with suppliers and retailers.

Integration: SMC plans to continue pursuing vertical integration across the established and strategic businesses, such as supplying the fuel and oil and power requirements of its businesses internally.

Business Strategies of SMC

The principal strategies of SMC include the following:

Enhance value of established businesses

SMC aims to enhance the value of its established businesses by pursuing operational excellence, brand enhancement, improving product visibility, targeting regions where SMC has lower market share, implementing pricing strategies and pursuing efficiencies.

Continue to diversify into industries that underpin the development and growth of the Philippine economy

In addition to organic growth, SMC intends to continue to seek strategic acquisition opportunities to position itself for the economic growth and industrial development of the Philippines.

Identify and pursue synergies across businesses through vertical integration, platform matching and channel management

SMC intends to create an even broader distribution network for its products and expand its customer base by identifying synergies across its various businesses. In addition, SMC is pursuing plans to integrate its production and distribution facilities for its established and newly acquired businesses to enable additional cost savings and efficiencies.

Invest in and develop businesses with leading market positions

SMC intends to further enhance its market position in the Philippines by leveraging its financial resources and experience to continue introducing innovative products and services. Potential investments to develop existing businesses include possibly constructing new power plants and expanding its power generation portfolio, building additional service and micro-filling stations and expanding distribution networks for its beverage and food products. SMC believes its strong domestic market position and brand recognition provide an effective platform to develop markets for its expanding product portfolio. SMC plans to continue to invest in and develop businesses it believes have the potential to gain leading positions in their respective markets.

Adopt world-leading practices and joint development of businesses

SMC continues to develop strategic partnerships with global industry leaders, such as Kirin for beer, Hormel for processed meats, K-Water for power and NYG, Fuso and Can-Pack for packaging products. These partnerships provide marketing and expansion opportunities.

Risks of Investing

Prospective investors should also consider the following risks of investing in the Offer:

1. Macroeconomic risks, including the current and immediate political and economic factors in the Philippines and the experience of the country with natural catastrophes, as a principal risk for investing in general;

2. Risks relating to SMC, its subsidiaries and their business and operations; and

3. The nature, the absence of a liquid secondary market and volatility, and other risks relating to the Offer.

For a more detailed discussion, see “Risk Factors” in the Prospectus.

Summary of Financial Information

Prospective purchasers of the Offer should read the summary financial data below together with the financial statements, including the notes thereto, included in this Offer Supplement and "Management's Discussion and Analysis of Results of Operations and Financial Condition". The summary financial data for the 3 years ended December 31, 2016, 2015 and 2014 are derived from the audited financial statements of SMC, including the notes thereto, which are found as Annex "B" of this Offer Supplement. The detailed financial information for the 3 years ended December 31, 2016, 2015 and 2014 are found on Annex "B" of this Offer Supplement and the 9 months ended September 30, 2017 and 2016 are found on Annex "A" of this Offer Supplement.

The summary of financial and operating information of SMC presented below as of and for the years ended December 31, 2016, 2015 and 2014 were derived from the consolidated financial statements of SMC, audited by R.G. Manabat & Co. formerly known as "Manabat Sanagustin & Co." and prepared in compliance with the Philippine Financial Reporting Standards ("PFRS"). The financial and operating information of SMC presented below as of and for the 9 months ended September 30, 2017 and 2016 were derived from the unaudited consolidated financial statements of SMC prepared in compliance with Philippine Accounting Standards ("PAS") 34, "Interim Financial Reporting". The information below should be read in conjunction with the consolidated financial statements of SMC and the related notes thereto, which are included in Appendices "A" and "B" of this Offer Supplement. The historical financial condition, results of operations and cash flows of SMC are not a guarantee of its future operating and financial performance.

	For the years ended December 31,			For the nine months ended September 30,	
	2014 (As Restated)	2015 (As Restated)	2016	2016	2017
	(Audited)			(Unaudited)	
	(in millions except per share data)				
Consolidated Statements of Income Data					
Sales	₱ 772,243	₱ 672,243	₱ 685,314	₱ 498,312	₱ 596,998
Cost of sales	660,061	532,067	514,021	367,110	462,076
Gross profit	112,182	140,176	171,293	131,202	134,922
Selling and administrative expenses	(55,908)	(59,627)	(71,639)	(57,965)	(52,162)
Interest expense and other financing charges	(29,708)	(32,518)	(34,803)	(25,324)	(26,931)
Interest income	3,977	4,286	3,693	2,769	3,270
Equity in net earnings (losses) of associates and joint ventures	2,091	(120)	203	210	267
Gain (loss) on sale of investments and property and equipment	777	(79)	154	104	698
Other income (charges) - Net	6,185	(6,506)	(11,426)	(6,010)	(1,136)
Income before income tax	39,596	45,612	57,475	44,986	58,928
Income tax expense	10,149	16,781	17,053	13,851	17,487
Income from continuing operations	29,447	28,831	40,422	31,135	41,441
Income (loss) after income tax from discontinued operations	(869)	162	11,818	11,818	-
Net income	₱ 28,578	₱ 28,993	₱ 52,240	₱ 42,953	₱ 41,441
Attributable to:					
Equity holders of the Parent Company	₱ 15,137	₱12,448	₱ 29,289	₱ 25,921	₱ 20,891
Non-controlling interests	13,441	16,545	22,951	17,032	20,550
	₱ 28,578	₱ 28,993	₱ 52,240	₱ 42,953	₱ 41,441
Earnings per common share from continuing operations attributable to equity holders of the Parent Company basic	₱ 4.19	₱ 2.50	₱ 4.49	₱ 3.85	₱ 6.47
Earnings per common share from continuing operations attributable to equity holders of the Parent Company diluted	₱ 4.17	₱ 2.49	₱ 4.49	₱ 3.84	₱ 6.46

	As of the years ended December 31,			As of the nine months ended September 30,
	2014 (As Restated)	2015	2016	2017
		(Audited)		(Unaudited)
		(in millions)		
Consolidated Statements of Financial Position Data				
Assets				
Total current assets	₱ 530,450	₱ 422,611	₱ 479,427	₱ 489,348
Total non-current assets	687,039	823,411	827,397	860,754
Total assets	₱ 1,217,489	₱ 1,246,022	₱ 1,306,824	₱1,350,102
Liabilities and Equity				
Current liabilities				
Total current liabilities	₱ 354,411	₱ 319,719	₱ 379,608	₱ 373,129
Total non-current liabilities	473,158	541,426	490,435	515,902
Total liabilities	₱ 827,569	₱ 861,145	₱ 870,043	₱ 889,031
Equity				
Equity attributable to equity holders of the Parent Company	240,900	238,137	279,942	294,823
Non-controlling interests	149,020	146,740	156,839	166,248
Total equity	389,920	384,877	436,781	461,071
Total liabilities and equity	₱ 1,217,489	₱ 1,246,022	₱ 1,306,824	₱ 1,350,102

	For the years ended December 31,			For the nine months ended September 30,	
	2014 (As Restated)	2015 (As Restated)	2016	2016	2017
		(Audited)		(Unaudited)	
			(in millions)		
Cash Flow Data					
Net cash provided by (used in):					
Operating activities	₱ 39,343	₱ 65,441	₱ 79,193	₱ 45,556	₱ 76,449
Investing activities	18,134	(58,729)	(23,257)	(20,507)	(34,862)
Financing activities	9,904	(88,253)	(34,147)	(31,771)	(32,175)
Effect of exchange rates changes in cash and cash equivalents	(388)	3,693	606	2,216	(214)
Net increase/(decrease) in cash and cash equivalents	66,993	(77,848)	22,395	(4,506)	9,198
Cash and cash equivalents at beginning of year	191,613	258,606	180,758	180,758	203,153
Cash and cash equivalents at end of period	₱ 258,606	₱ 180,758	₱ 203,153	₱ 176,252	₱ 212,351

Summary of the Offer

The terms and conditions of this Offer are as follows:

Issuer……	San Miguel Corporation
Instrument……	Fixed rate bonds constituting the direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of SMC.
Offer Size……	Base Offer: ₱20,000,000,000.00 Oversubscription Option: ₱10,000,000,000.00
Oversubscription Option……..	The Joint Lead Underwriters and Bookrunners, in consultation with the Issuer, reserve the right to increase the size of the Offer Bonds through the Oversubscription Option. For a detailed discussion on the Oversubscription Option, please see the section on "Plan of Distribution".
The Offer……	The Offer Bonds may be issued in up to 3 series, at the discretion of the Issuer: • 5-year Series E Bonds due 2023; • 7-year Series F Bonds due 2025; and • 10-year Series G Bonds due 2028. The Offer Bonds will be issued from the ₱60,000,000,000.00 Fixed Rate Bonds Shelf Registration Program of SMC. The Issuer has the discretion to allocate the principal amount among the different series of the Offer Bonds based on the bookbuilding process, and may opt not to allocate any amount to any of these series.
Manner of Distribution……	Public offering in the Philippines to eligible investors.
Use of Proceeds……	The entire proceeds for this Offer will be used either for: (i) refinancing the existing loan obligations and/or re-denomination of US Dollar denominated obligations of the Company or (ii) investments in its subsidiaries in existing businesses of the Company. The decision to use the net proceeds for either purpose is subject to the sound business judgment of Management taking into consideration among others, favorable market conditions; the demands of the business and operations of the Company; the capital requirements of its relevant subsidiary, including funding requirements of its projects; and opportunities and developments in the relevant industries of the businesses. For a detailed discussion on the Use of Proceeds please refer to the section on "Use of Proceeds" in this Offer Supplement and in the Prospectus.
Form and Denomination of the Offer Bonds……	The Offer Bonds shall be issued in scripless form in minimum denominations of ₱50,000.00 each, and in integral multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market.

Purchase Price…….	The Offer Bonds shall be issued at 100% of face value.
Offer Period……..	The Offer shall commence at 9:00 a.m., Manila time, on March 5, 2018 and end at 5:00 p.m., Manila time, on March 9, 2018, or on such date as the Issuer and the Joint Lead Underwriters and Bookrunners may agree upon.
Issue Date of the Offer Bonds……	March 19, 2018
Maturity Date……	Series E Bonds: March 19, 2023 or 5th anniversary of the Issue Date Series F Bonds: March 19, 2025 or 7th anniversary of the Issue Date Series G Bonds: March 19, 2028 or 10th anniversary of the Issue Date
Interest Rate……	Series E Bonds: 6.2500% per annum Series F Bonds: 6.6250% per annum Series G Bonds: 7.1250% per annum
Interest Payment Dates and Interest Payment Computation……	Interest payment on the Offer Bonds shall commence on June 19, 2018 and thereafter, on September 19, December 19, March 19, and June 19 of each year, or the next Business Day if any such dates fall on a non-Business Day, during the term of the Offer Bonds (each, an "Interest Payment Date"). Interest on the Offer Bonds shall be calculated on a European 30/360-day count basis regardless of the actual number of days in a month. Interest shall be paid quarterly in arrears.
Final Redemption……	The Offer Bonds shall be redeemed at par or 100% of face value on their respective Maturity Dates, unless earlier redeemed or purchased and cancelled by the Company. In the event the relevant Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Issuer through the Paying Agent, without adjustment for accrued interest, on the succeeding Business Day.

Optional Redemption……	The Issuer shall have the right, but not the obligation, to redeem in whole (but not in part), any outstanding Series E, Series F and Series G Bonds on the dates set out below (each an "Optional Redemption Date"): **Series E Bonds** **Optional Redemption Date** / **Optional Redemption Price** On the 3rd year from Issue Date / 100.5% **Series F Bonds** **Optional Redemption Dates** / **Optional Redemption Price** On the 5th year from Issue Date / 101.0% On the 6th year from Issue Date / 100.5% **Series G Bonds** **Optional Redemption Dates** / **Optional Redemption Price** On the 7th year from Issue Date / 102.0% On the 8th year from Issue Date / 101.0% On the 9th year from Issue Date / 100.5% provided, that if the relevant Optional Redemption Date falls on a day that is not a Business Day, then the payment of the optional redemption price shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and optional redemption price to be paid. The amount payable to the Bondholders upon the exercise of the optional redemption by the Issuer shall be calculated, based on the principal amount of Offer Bonds being redeemed, as the sum of: (i) accrued interest computed from the last Interest Payment Date up to the relevant Optional Redemption Date; and (ii) the product of the principal amount of the Offer Bonds being redeemed and the optional redemption price in accordance with the above table. The Issuer shall give no less than 30 nor more than 60 days' prior written notice to the Trustee, the Registrar and Paying Agent of its intention to redeem the Offer Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Offer Bonds on the Optional Redemption Date stated in such notice. For a detailed discussion on Optional Redemption please refer to the section on "Description of the Offer Bonds – Optional Redemption" in this Offer Supplement.

Redemption for Taxation Reasons……	If payments under the Offer Bonds become subject to additional or increased taxes, other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Offer Bonds in whole, but not in part, on any Interest Payment Date (having given not more than 60 days nor less than 30 days' prior written notice to the Trustee, the Registrar and Paying Agent) at par (or 100% of the face value) and paid together with the accrued interest thereon, subject to the requirements of Applicable Law. For a detailed discussion on Redemption for Taxation Reasons please refer to the section on "Description of the Offer Bonds – Redemption for Taxation Reasons" in this Offer Supplement.
Redemption by Reason of Change in Law or Circumstance……	Upon the occurrence of a Change in Law or Circumstance, the Issuer may redeem the Offer Bonds in whole, but not in part, having given not more than 60 days nor less than 30 days' written notice to the Trustee, the Registrar and the Paying Agent, at par or 100% of the face value) and paid together with accrued interest thereon. For a detailed discussion on Redemption for Taxation Reasons please refer to the section on "Description of the Offer Bonds – Redemption by Reason of Change in Law or Circumstance" in this Offer Supplement.
Redemption by Reason of Change of Control……..	Upon the occurrence of a Change of Control, Bondholders holding at least 2/3 of the outstanding principal amount of the Offer Bonds may require the Issuer to redeem all (but not some) of the Offer Bonds, at par (or 100% of face value), which shall be paid together with the accrued interest thereon. The decision of the Bondholders holding at least 2/3 of the outstanding principal amount of the Offer Bonds shall be conclusive and binding upon all the Bondholders. For a detailed discussion on Redemption for Taxation Reasons please refer to the section on "Description of the Offer Bonds – Redemption by Reason of Change of Control" in this Offer Supplement.
Status of the Bonds…….	The Offer Bonds shall constitute the direct, unconditional, unsubordinated and unsecured obligations of SMC and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsubordinated and unsecured Debt of SMC, other than Debt mandatorily preferred by law, and preferred claims under any bankruptcy, insolvency, reorganization, moratorium, liquidation or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity (but not the preference or priority established by Article 2244(14)(a) of the Civil Code of the Philippines).
Negative Pledge……	The Offer Bonds will have the benefit of a negative pledge on all properties and assets of the Issuer, subject to the exceptions as described in this Offer Supplement.
Listing……	The Issuer intends to list the Bonds in the PDEx on the Issue Date.

Purchase and Cancellation……	The Issuer may purchase the Offer Bonds at any time in the open market or by tender or by contract, in accordance with PDEx Rules, as may be amended from time to time, without any obligation to make pro rata purchases from all Bondholders. Offer Bonds so purchased shall be redeemed and cancelled and may not be re- issued. Upon listing of the Offer Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.
Bond Rating……	The Offer Bonds have been rated PRS AAA by the Philippine Rating Services Corporation ("PhilRatings") on January 30, 2018. The rating is subject to regular annual reviews, or more frequently as market developments may dictate, while the Offer Bonds are outstanding.
Transfer of the Offer Bonds……	Trading of the Offer Bonds will be coursed through a PDTC Participant under the scripless book-entry system of the PDTC. Trading, transfer and/or settlement of the Offer Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and the Registrar. Upon any assignment, title to the Offer Bonds will pass by recording of the transfer from the transferor to the transferee in the Registry of Bondholders to be maintained by the Registrar. Please see the sections on "Description of the Offer Bonds – Transfer; Tax Status" in this Offer Supplement for a more detailed discussion on transfer of the Offer Bonds.
Joint Lead Underwriters and Bookrunners……	BDO Capital & Investment Corporation ("BDO Capital") BPI Capital Corporation ("BPI Capital") China Bank Capital Corporation ("China Bank Capital") First Metro Investment Corporation ("FMIC") ING Bank N.V., Manila Branch ("ING") SB Capital Investment Corporation ("SB Capital") Standard Chartered Bank ("SCB")
Registry and Paying Agent……	Philippine Depository & Trust Corp.
Trustee……	Rizal Commercial Banking Corporation – Trust and Investments
Counsel to SMC……	Picazo Buyco Tan Fider & Santos.
Counsel to the Joint Lead Underwriters and Bookrunners……..	SyCip Salazar Hernandez & Gatmaitan.

<table>
<tr><td>Incorporation by way of Reference…….....</td><td>All disclosures, reports, and filings of the Company made after the date of the Prospectus and this Offer Supplement (the “Company Disclosures”) and submitted to the SEC and/or the PSE pursuant to the Corporation Code, the Securities Regulation Code, and the Revised Disclosure Rules of the PSE are incorporated or deemed incorporated by reference in this Offer Supplement. Copies of the Company Disclosures may be viewed at the website of the Company at www.sanmiguel.com.ph. The Company Disclosures contain material and meaningful information relating to the Company and investors should review all information contained in the Prospectus, this Offer Supplement and the Company Disclosures incorporated or deemed incorporated herein by reference.</td></tr>
<tr><td>Indicative Timetable……...</td><td><table>
<tr><td>January 30, 2018</td><td>Filing of the Registration Statement with the SEC</td></tr>
<tr><td>March 1, 2018</td><td>Interest rate setting and allocation</td></tr>
<tr><td>March 2, 2018</td><td>Receipt of SEC Permit to Sell</td></tr>
<tr><td>March 5 – March 9, 2018</td><td>Public Offer Period</td></tr>
<tr><td>March 19, 2018</td><td>Settlement Date
Issue and Listing Date</td></tr>
</table></td></tr>
</table>

Description of the Bonds

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Offer Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the articles of incorporation, by-Laws and resolutions of the board of directors of the Company submitted to the SEC, the information contained in the Prospectus, this Offer Supplement, the Trust Agreement, and the other Bond Agreements, Application to Purchase or other documents relevant to the Offer, Applicable Law, rules and regulations of PDTC and PDEx relevant to the Offer, and to perform their own independent investigation and analysis of the Issuer and the Offer Bonds. Prospective Bondholders must make their own appraisal of the Issuer and the Offer, and must make their own independent verification of the information contained herein and the other aforementioned documents and any other investigation they may deem appropriate for the purpose of determining whether to participate in the Offer. They must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis. Prospective Bondholders are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Offer Bonds.

The offer and issuance of the Offer Bonds was authorized by a resolution of the Board of Directors of the Company on 25 January 2018. The Offer Bonds with an aggregate principal amount of up to ₱20,000,000,000.00 shall be issued for the third tranche with an Oversubscription Option of up to ₱10,000,000,000.00. The Offer Bonds will be issued on the Issue Date, that is March 19, 2018 as 5-year Series E Bonds due 2023, 7-year Series F Bonds due 2025, 10-year Series G Bonds due 2028.

The Offer Bonds shall be governed by a Trust Agreement to be executed on March 1, 2018 between the Issuer and Rizal Commercial Banking Corporation–Trust and Investments Group as Trustee. The Trustee has no interest in or relation to the Issuer which may conflict with the performance of its functions. The description of the terms and conditions of the Offer Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement.

A Registry and Paying Agency Agreement in relation to the Offer Bonds will be executed on March 1, 2018 between the Issuer and PDTC as Registrar and Paying Agent.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Trust Agreement and all the provisions of the Registry and Paying Agency Agreement applicable to them.

Form and Denomination

The Offer Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing each of the Series E Bonds, Series F Bonds, and Series G Bonds sold in the Offer shall be issued to and registered in the name of the Trustee for the benefit of the Bondholders.

The Offer Bonds shall be issued in minimum denominations of ₱50,000.00 each, and in integral multiples of ₱10,000.00 thereafter and traded in denominations of ₱10,000.00 in the secondary market.

Title

Legal title to the Offer Bonds will be shown in the Registry of Bondholders maintained by the Registrar. A notice confirming the principal amount of the Offer Bonds purchased by each Applicant in the Offer shall be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Offer Bonds shall pass by recording the transfer from the transferor to the transferee in the Registry of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Offer Bonds, including the settlement of any cost arising from such transfer or change, including, but not limited to, documentary stamps taxes, if any, shall be for the account of the relevant Bondholder or the transferee, as applicable.

BOND RATING

The Offer Bonds have been rated PRS Aaa with Stable Outlook by PhilRatings. PRS Aaa is the highest rating assigned by PhilRatings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The rating is subject to annual review, or more frequently as market developments may dictate, for as long as the Offer Bonds are outstanding. After Issue Date, the Trustee shall monitor the compliance of the Offer Bonds with the regular annual reviews.

TRANSFER OF THE OFFER BONDS

Registry of Bondholders

The Issuer shall cause the Registry of Bondholders to be kept by the Registrar in electronic form. The names and addresses of the Bondholders and the particulars of the Offer Bonds held by them and of all transfers and assignments of Offer Bonds, including any liens and encumbrances thereon, shall be entered into the Registry of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Registry of Bondholders.

As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Bondholder a written statement of registry holdings at least every quarter (at the cost of the Issuer), and a written advice confirming every receipt or transfer of the Offer Bonds that is effected in the Registrar's system. Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfer of the Offer Bonds may be made during the period commencing on a Record Date.

Transfers; Tax Status

Settlement in respect of such transfers or change of title to the Offer Bonds, including the settlement of any documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder or the transferee, as applicable.

Subject to the provisions of the Registry and Paying Agency Agreement, the relevant rules, conventions and guidelines of PDEx and PDTC, the Bondholders may not transfer their Offer Bonds as follows:

(a) transfers across Tax Categories on a date other than an Interest Payment Date that falls on a Business Day; provided, however, that transfers from a tax-exempt Tax Category to a taxable Tax Category on a date other than an Interest Payment Date shall be allowed using the applicable tax-withheld series name on PDEx, ensuring the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt person shall be treated as being of the same Tax Category as its taxable counterparty for the interest period within which such transfer occurred; provided, finally, that this restriction shall be in force until a Non-Restricted Trading & Settlement Environment for Corporate Securities is implemented. For purposes hereof, "Tax Categories" shall refer to the 4 final withholding tax categories in the PDEx system covering, particularly, tax-exempt persons, 20% tax-withheld persons, 25% tax-withheld persons, and 30% tax-withheld persons, as such categories may be revised, amended or supplemented by PDEx in accordance with its rules and Applicable Law;

(b) transfers by Bondholders with deficient documents; and

(c) transfers during a Closed Period. For purposes hereof, "Closed Period" means the period during which the Registrar shall not register any transfer or assignment of the Offer Bonds, specifically: (i) the period of 2 Business Days preceding any Interest Payment Date or the due date for any payment of the Final Redemption Amount of the Offer Bonds; or (ii) the period when any of the Offer Bonds have been previously called for redemption.

Transfers taking place in the Registry of Bondholders after the Offer Bonds are listed in PDEx may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if/and or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC.

A Bondholder claiming tax-exempt status is required to submit to the Registry of Bondholders the required tax-exempt documents as detailed in the Registry and Paying Agency Agreement upon submission of the account opening documents to the Registrar. Please see the section on "*Description of the Offer Bonds – Tax-Exempt Status or Entitlement to Preferential Tax Rate*" for a detailed discussion on the requirements for claiming a preferential tax status.

Notwithstanding the submission by the Bondholder, or the receipt by the Issuer, the Registrar, the Joint Lead Underwriters and Bookrunners of documentary proof of tax-exempt status of a Bondholder, the Issuer may, in its sole and reasonable discretion, determine that such Bondholder is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the Offer Bonds. Any question on such determination shall be referred to the Issuer.

The Bondholders shall be responsible for monitoring and accurately reflecting their tax status in the Registry of Bondholders. The payment report to be prepared by the Registrar and submitted to the Issuer in accordance with the Registry and Paying Agency Agreement, which shall be the basis of payments on the Offer Bonds on any Interest Payment Date, shall reflect the tax status of the Bondholders as indicated in their accounts as of the Record Date.

Secondary Trading of the Offer Bonds

The Issuer intends to list the Offer Bonds on PDEx for secondary market trading and, for that purpose, the Issuer has filed an application for such listing. However, there can be no assurance that such a listing will actually be achieved or whether such a listing will materially affect the liquidity of the Offer Bonds on the secondary market. Such listing would be subject to the Issuer's execution of a listing agreement with PDEx that may require the Issuer to make certain disclosures, undertakings and payments on an ongoing basis.

For so long as any of the Offer Bonds are listed on PDEx, the Offer Bonds will be traded in a minimum board lot size of ₱10,000.00, and in multiples of ₱10,000.00 in excess thereof. Secondary market trading in PDEx shall follow the applicable PDEx Rules, including rules, conventions and guidelines governing trading and settlement between Bondholders of different tax status, and shall be subject to the relevant fees of PDEx and PDTC, all of which shall be for the account of the Bondholders.

RANKING

The Offer Bonds shall constitute the direct, unconditional, unsecured and unsubordinated obligations of the Issuer ranking at least *pari passu* and ratably without any preference or priority among themselves and at least *pari passu* with all its other present and future contingent or otherwise, unsecured and unsubordinated obligations of the Issuer, except for statutory preference or priority established by law.

INTEREST

Interest Payment Dates

The Series E Bonds shall bear interest on its principal amount from and including the Issue Date at the rate of 6.2500% *per annum*, payable quarterly in arrears starting on June 19, 2018 as the first Interest Payment Date, and on September 19, December 19, March 19, and June 19 of each year at which the Series E Bonds are outstanding as the subsequent Interest Payment Dates, or the subsequent Business Day, without adjustment for accrued interest, if the relevant Interest Payment Date falls on a non-Business Day.

The Series F Bonds shall bear interest on its principal amount from and including the Issue Date at the rate of 6.6250% *per annum*, payable quarterly in arrears starting on June 19, 2018 as the first Interest Payment Date, and on September 19, December 19, March 19, and June 19 of each year at which the Series F Bondsare outstanding as the subsequent Interest Payment Dates, or the subsequent Business Day, without adjustment for accrued interest, if the relevant Interest Payment Date falls on a non-Business Day.

The Series G Bonds shall bear interest on its principal amount from and including the Issue Date at the rate of 7.1250% *per annum*, payable quarterly in arrears starting on June 19, 2018 as the first Interest Payment Date, and on September 19, December 19, March 19, and June 19 of each year at which the Series G Bonds are outstanding as the subsequent Interest Payment Dates, or the subsequent Business Day, without adjustment for accrued interest, if the relevant Interest Payment Date falls on a non-Business Day.

The cut-off date in determining the existing Bondholders entitled to receive interest, principal or any other amount due under the Offer Bonds shall be 2 Business Days prior to the relevant Payment Date or such other date as the Issuer may duly notify PDTC (the "**Record Date**"). The Record Date shall be the reckoning date in determining the Bondholders entitled to receive interest, principal or any other amount due under the Offer Bonds. No transfers of the Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Date.

Interest Accrual

The Offer Bonds shall cease to bear interest from and including the relevant Maturity Date, as defined in the discussion on "*Description of the Offer Bonds - Final Redemption*" below, unless, upon due presentation, payment of the principal in respect of the Offer Bonds then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see "*Description of the Offer Bonds - Penalty Interest*" below) shall apply.

Determination of Interest

Interest on the Offer Bonds shall be calculated on a European 30/360-day count basis, regardless of the actual number of days in a month.

REDEMPTION AND PURCHASE

Final Redemption

Unless otherwise earlier redeemed or purchased and cancelled, each of the Offer Bonds shall be redeemed at par or 100% of face value on their respective Maturity Dates. However, if the relevant Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Issuer through the Paying Agent, without adjustment for accrued interest, on the succeeding Business Day.

Each Bondholder in whose name the Offer Bonds are registered in the Registry of Bondholders at the close of business on the Record Date preceding any Maturity Date shall be entitled to receive the principal amount of the Offer Bonds. In all cases, repayment of principal shall be remitted to the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Optional Redemption

The Issuer shall have the right, but not the obligation, to redeem in whole (but not in part), any outstanding Series E, Series F and Series G Bonds, on the dates set out below (each an "**Optional Redemption Date**"):

Series E Bonds	
Optional Redemption Date	**Optional Redemption Price**
On the 3rd year from Issue Date	100.5%
Series F Bonds	
Optional Redemption Dates	**Optional Redemption Price**
On the 5th year from Issue Date	101.0%
On the 6th year from Issue Date	100.5%
Series G Bonds	
Optional Redemption Dates	**Optional Redemption Price**
On the 7th year from Issue Date	102.0%
On the 8th year from Issue Date	101.0%
On the 9th year from Issue Date	100.5%

provided, that if the relevant Optional Redemption Date falls on a day that is not a Business Day, then the payment of the optional redemption price shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and optional redemption price to be paid.

The amount payable to the Bondholders upon the exercise of the optional redemption by the Issuer shall be calculated, based on the principal amount of Offer Bonds being redeemed, as the sum of: (i) accrued interest computed from the last Interest Payment Date up to the relevant Optional Redemption Date; and (ii) the product of the principal amount of the Offer Bonds being redeemed and the optional redemption price in accordance with the above table.

The Issuer shall give no less than 30 nor more than 60 days' prior written notice to the Trustee, Registrar and Paying Agent of its intention to redeem the Offer Bonds, which notice shall be irrevocable and binding upon

the Issuer to effect such early redemption of the Offer Bonds on the Optional Redemption Date stated in such notice. Upon receipt by the Trustee of such notice, the Trustee through the Issuer shall secure from the Registrar an updated list of Bondholders as of the Record Date indicated in the notice from the Issuer and provide written notices to all registered Bondholders of the intended early redemption. Each Bondholder in whose name the Offer Bonds subject of the early redemption are registered in the Registry of Bondholders at the close of business on the relevant Record Date shall be entitled to receive the interest and optional redemption price. The Issuer shall pay the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Redemption for Taxation Reasons

If payments under the Offer Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the relevant Offer Bond series in whole, and not in part only, on any Interest Payment Date (having given not more than 60 nor less than 30 days' written notice to the Trustee, Registrar and Paying Agent) at par (or 100% of face value) and paid together with the accrued interest thereon, subject to the requirements of Applicable Law; provided that if the Issuer does not redeem the Offer Bonds then all payments of principal and interest in respect of the Offer Bonds shall be made free and clear of, and without withholding or deduction for, any such new or additional taxes, duties, assessments or governmental charges, unless such withholding or deduction is required by Applicable Law. In that event, the Issuer shall pay to the Bondholders concerned such additional amount as will result in the receipt by such Bondholders of such amounts as would have been received by them had no such withholding or deduction for new or additional taxes been required.

Upon receipt by the Trustee of a written notice from the Issuer hereunder, the Trustee through the Issuer shall secure from the Registrar an updated list of Bondholders as of the Record Date indicated in the notice from the Issuer and provide written notices to all registered Bondholders of the intended early redemption. Each Bondholder in whose name the Offer Bonds subject of the early redemption are registered in the Registry of Bondholders at the close of business on the relevant Record Date shall be entitled to receive the principal of the Offer Bonds subject of the early redemption and the interest accrued thereon. The Issuer shall pay the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Redemption by Reason of Change in Law or Circumstance

Upon the occurrence of a Change in Law or Circumstance (as enumerated below), the Issuer may redeem the Offer Bonds in whole, but not in part, having given not more than 60 days nor less than 30 days' written notice to the Trustee, the Registrar and the Paying Agent, at par (or 100% of the face value) and paid together with the accrued interest thereon.

The following events shall be considered as changes in law or circumstance ("Change in Law or Circumstance") as it refers to the obligations of the Issuer and to the rights and interests of the Bondholders under the Trust Agreement:

(a) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Offer Bonds shall be modified, withdrawn or withheld in a manner which will materially and adversely affect the ability of the Issuer to comply with such obligations; or

(b) Any provision of the Bond Agreements (in whole or in part) is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations thereunder or to enforce any provision thereunder; or any law is introduced or any existing Applicable Law is modified or rendered ineffective or inapplicable to prevent or restrain the performance by the Issuer of its obligations under the Bond Agreements; or

(c) Any concession, permit, right, franchise or privilege required for the conduct of the business and operations of the Issuer shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer; or

(d) The Philippines or any competent authority thereof takes any action to suspend the whole or a substantial portion of the operations of the Issuer and to condemn, seize, nationalize or appropriate (either with or without compensation) the Issuer or any material portion of its properties or assets,

unless such act, deed or proceedings are contested in good faith by the Issuer or the same does not materially and adversely affect the financial condition or operations of the Issuer.

Upon receipt by the Trustee of a written notice from the Issuer on the occurrence of any Change in Law or Circumstance, the Trustee shall secure from the Registrar an updated list of Bondholders and as of the Record Date indicated in the notice from the Issuer and provide written notices to all registered Bondholders of the intended early redemption. Each Bondholder in whose name the Offer Bonds subject of the early redemption are registered in the Registry of Bondholders at the close of business on the relevant Record Date shall be entitled to receive the principal of the Offer Bonds subject of the early redemption and the interest accrued thereon. The Issuer shall pay the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Accrued interest on the Offer Bonds to be redeemed under this section for the last Interest Payment Date up to the relevant redemption date shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

Redemption by Reason of Change of Control

Upon the occurrence of a Change of Control, Bondholders holding at least 2/3 of the outstanding principal amount of the Offer Bonds may require the Issuer to redeem all (but not some) of the Offer Bonds, at par (or 100% of face value), which shall be paid together with the accrued interest thereon. Within 15 days following a Change of Control, the Issuer shall notify the Trustee, which shall, in turn, notify the Bondholders (i) that a Change of Control has occurred and that the Bondholders holding at least 2/3 of the outstanding principal amount of the Offer Bonds may require the Issuer to redeem all (but not some) of the Bonds, and (ii) the date set by the Issuer for such redemption (which shall not be earlier than 45 days and no later than 60 days from the date written notice is received by the Trustee). The decision of the Bondholders holding at least 2/3 of the outstanding principal amount of the Offer Bonds under this section shall be conclusive and binding upon all the Bondholders.

Each Bondholder in whose name the Offer Bonds are registered in the Registry of Bondholders at the close of business on the Record Date indicated in the notice to the Bondholders shall be entitled to receive the principal of the Offer Bonds and the interest accrued thereon. The Issuer shall pay the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Accrued interest on the Offer Bonds to be redeemed under this section for the last Interest Payment Date up to the relevant redemption date shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

Purchase and Cancellation

The Issuer may purchase the Offer Bonds at any time in the open market or by tender or by contract, in accordance with PDEx Rules, as may be amended from time to time, without any obligation to make pro rata purchases from all Bondholders. Offer Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Offer Bonds in the PDEx, the Issuer shall disclose any such transaction in accordance with the applicable PDEx disclosure rules.

Payments

The principal of, interests on, and all other amounts payable on the Offer Bonds shall be paid to the Bondholders through the Paying Agent. The Paying Agent shall credit the proper amounts received from the Issuer via RTGS, net of final taxes and fees (if any), to the cash settlement banks of the Bondholders (nominated by the Bondholders in the Application to Purchase or as the Bondholder may notify the Paying Agent in writing), for onward remittance to the relevant cash settlement account of the Bondholder with the cash settlement bank. The principal of, and interest on, the Offer Bonds shall be payable in Philippine Pesos.

In the event that the details of the cash settlement account indicated by the relevant Bondholder in the Application to Purchase are incomplete or erroneous, or the cash settlement account of the relevant Bondholders has been closed, dormant, or inexistent, due to which payments to the Bondholders cannot be effected in a timely manner, the relevant cash settlement bank shall handle such funds in accordance with its

own internal procedures until the correction of the cash settlement account is effected and until credit of the relevant cash entitlement is completed. In these cases, the Issuer and the Registrar and Paying Agent shall not be liable to the relevant Bondholder for any failure or delay in the Bondholder's receipt of such payments.

The Issuer shall ensure that so long as any of the Offer Bonds remain outstanding, there shall at all times be a Paying Agent for the purposes of the Offer Bonds and the Issuer or the Paying Agent may only terminate the appointment of the Paying Agent as provided in the Registry and Paying Agency Agreement. In the event the appointed office of any institution shall be unable or unwilling to continue to act as the Paying Agent, the Issuer shall appoint such other leading institution in the Philippines authorized to act in its place.

Payment of Additional Amounts – Taxation

Interest income on the Offer Bonds is subject to a withholding tax at rates of between 20% and 30% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

(a) The withholding tax applicable on interest earned on the Offer Bonds prescribed under the Tax Code, as amended, and its implementing rules and regulations as may be in effect from time to time; provided, further, that all Bondholders are required to provide the Issuer through the Paying Agent their validly issued tax identification numbers issued by the BIR;

(b) Gross Receipts Tax under Section 121 of the Tax Code;

(c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding;

(d) Value-Added Tax under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337; and

(e) Any applicable taxes on any subsequent sale or transfer of the Offer Bonds by any holder which shall be for the account of such holder (or its buyer, as the holder and the buyer may have agreed upon).

Documentary stamp tax for the primary issue of the Offer Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

Please see the section on "*Taxation*" on page 181 of this Offer Supplement for a more detailed discussion on the tax consequences of the acquisition, ownership and disposition of the Offer Bonds.

Tax-Exempt Status or Entitlement to Preferential Tax Rate

An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer, as being sufficient in form and substance:

(a) BIR-certified true copy of a valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR and addressed to the relevant applicant or Bondholder, confirming its exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto;

(b) with respect to tax treaty relief,

  (i) for Applicant investors, (1) 3 originals of a duly accomplished valid, current and subsisting Certificate of Residence for Tax Treaty Relief ("CORTT") Form or the prescribed certificate of residency of their country together with the CORTT Form as required under BIR Revenue Memorandum Order No. 8-2017 and (2) 3 originals of the Special Power of Attorney executed by the Bondholder in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) shall be submitted by the Bondholder to the Issuer upon the submission of the Application to Purchase or no later than the 1st day of the month when the initial interest payment date shall fall due. For subsequent

interests due, 3 originals of Part II (D) of the CORTT Form shall be submitted by the Bondholder to the Issuer through the Registrar no later than the 1st day of the month when such subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto.

(ii) For transferee Bondholders, (1) 3 originals of a duly accomplished valid, current and subsisting CORTT Form or the prescribed certificate of residency of their country together with the CORTT Form as required under BIR Revenue Memorandum Order No.8-2017 and (2) 3 originals of the Special Power of Attorney executed by the Bondholder in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) shall be submitted by the Bondholder to the Issuer through the Registrar upon the submission of the account opening documents or no later than the 1st day of the month when the first interest payment date shall fall due following the transfer of the Offer Bonds to the said transferee Bondholder. For subsequent interests due, 3 originals of Part II (D) of the CORTT Form shall be submitted by the Bondholder to the Issuer through the Registrar no later than the 1st day of the month when such subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto.

(c) a duly notarized undertaking executed by (i) the corporate secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases, or the Bondholder holds, the Offer Bonds for its account, or (ii) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Offer Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer, the Registrar and the Paying Agent (1) of any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Registry and Paying Agency Agreement; (2) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature and method of operation, which are inconsistent with the basis for its income tax exemption; or (3) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Offer Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Issuer, the Registrar and the Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or incorrect withholding of the required tax, provided, that in case of corporate, partnership or trust account investors, such investor shall also submit an original certification from the corporate secretary or an equivalent officer of the investor, setting forth the resolutions of its board of directors or equivalent body authorizing the execution of the undertaking and designating the signatories, with their specimen signatures, for the said purpose. In the event that the Issuer is assessed by the relevant taxing authority or other authorities arising from the exemption, reduced withholding tax rate and/or an incorrect or non-withholding of tax due to the above representation of the Bondholder, the Issuer shall pay the said assessed amount to the relevant taxing authority or other authorities and the Bondholder shall immediately reimburse Issuer for any amount/s paid subject to the imposition of interest as may be deemed appropriate by the Issuer; and

(d) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty relief, shall include a duly accomplished Certificate of Residence for Tax Treaty Relief (CORTT) Form or the prescribed certificate of residency of their country together with the CORTT Form, consularized proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines to support the applicability of a tax treaty relief; provided, that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided, further, that all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges (or with reduced rates, as the case may be), subject to the submission by the Bondholder claiming the benefit of any exemption or preferential rate of the required documents and of additional reasonable evidence of such tax-exempt or preferential rate status to the Registrar.

Unless otherwise indicated above, the foregoing requirements shall be submitted, (i) in respect of an initial issuance of Offer Bonds, upon submission of the Application to Purchase to the Joint Lead Underwriters and

Bookrunners or Selling Agents (if any) who shall then forward the same to the Registrar; or (ii) in respect of a transfer from a Bondholder to a purchaser, to the Registrar upon submission of the account opening documents.

Failure on the part of the Bondholder to submit the aforementioned document/s within the time prescribed shall result in the application of the regular tax rates.

FINANCIAL RATIO

The Issuer may incur Debt if on the Transaction Date, after giving effect to the incurrence of such Debt, but not giving any effect to the receipt or application of proceeds therefrom, the ratio of the Consolidated Net Debt as at the last day of each Relevant Period immediately preceding the Transaction Date (and giving effect to the incurrence of the Debt) to the Consolidated EBITDA in respect of the Relevant Period immediately preceding the Transaction Date does not exceed 5.5:1.

NEGATIVE PLEDGE

The Issuer will not, and shall procure that none of its Material Subsidiaries shall, without the consent of the Majority Bondholders, (i) create, assume, incur or suffer to exist any Lien upon any of its properties or assets; and (ii) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Issuer or any member of the Group, in each case, where the arrangement or transaction is entered into primarily as method of raising Debt or of financing acquisitions of an asset, provided that the foregoing restrictions shall not apply to any Permitted Liens.

EVENTS OF DEFAULT

Each of the following events shall constitute an "**Event of Default**" under the Offer Bonds and the Trust Agreement:

(a) the Issuer defaults in the payment when due of any amount payable to the Bondholders under the Trust Agreement unless such failure arises solely as a result of an administrative or technical error or a Disruption Event and payment is made within 3 Business Days after the date such payment is due (a "Payment Default");

(b) the Issuer fails to perform, comply with, or violates any material provision, term, condition, covenant or obligation contained in the Trust Agreement (other than by reason of paragraph (a) above), and any such failure, non-compliance or violation is not remediable or, if remediable, continues unremedied for a period of 30 days (or such longer curing period granted to the Issuer by the Majority Bondholders) from the date after written notice thereof shall have been given to the Issuer by the Trustee;

(c) any representation or warranty which is made by the Issuer or any of the directors or officers of the Issuer in the Trust Agreement or otherwise in connection with the Trust Agreement, or in any certificate delivered by the Issuer under or in connection with the Trust Agreement, shall prove to have been untrue or incorrect in any material respect as of the time it was made;

(d) any Debt of the Issuer, whether singly or in the aggregate, in excess of US$25 million or its equivalent in Pesos or other currencies, using the Philippine Dealing System (PDS) closing rate of the immediately preceding Business Day, is not paid on its due date or within any applicable grace period or is declared to be due and payable prior to its stated date of payment (except where liability for payment of that Debt is being contested in good faith by appropriate means);

(e) a decree or order by a court or other Governmental Authority having jurisdiction over the premises is entered without the consent or application of the Issuer:

(1) adjudging the Issuer bankrupt or insolvent;

(2) approving a petition seeking a suspension of payments by or a reorganization of the Issuer under any applicable bankruptcy, insolvency or reorganization law;

(3) appointing a receiver, liquidator or trustee or assignee in bankruptcy or insolvency of the Issuer or of all or substantially all of the business or assets of the Issuer;

(4) providing for the winding up or liquidation of the affairs of the Issuer;

(5) with a view to the rehabilitation, administration, liquidation, winding-up or dissolution of the Issuer; or

(6) taking other action under Applicable Law which is similar to any of the events mentioned in paragraphs (1) to (5) above (inclusive);

provided, that, the issuance of any such decree or order shall not be an Event of Default if the same shall have been dismissed or stayed by injunction or otherwise within 90 days from issuance thereof;

(f) the Issuer:

(1) institutes voluntary proceedings to be adjudicated bankrupt or insolvent or consents to the filing of a bankruptcy or insolvency proceeding against it;

(2) files a petition seeking a suspension of payments by it or its reorganization under any applicable bankruptcy, insolvency or reorganization law or consents to the filing of any such petition;

(3) seeks or consents to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its business or assets;

(4) makes an assignment for the benefit of its creditors or admits in writing its inability to pay its debts generally as they become due;

(5) files a petition seeking the winding up or liquidation of its affairs or consents to the filing of any such petition;

(6) takes any other step with a view to its rehabilitation, administration, liquidation, winding-up or dissolution or a suspension of payments by it; or

(7) takes other action under Applicable Law which is similar to any of the events mentioned in paragraphs (1) to (6) above (inclusive);

(g) final and executory judgment(s) or order(s) are rendered by a court of competent jurisdiction against the Issuer or its properties or assets from which no appeal may be made for the payment of money which will have a Material Adverse Effect and such judgment or order shall continue unsatisfied or undischarged after 90 days;

(h) the Issuer shall suspend or discontinue all or a substantial portion of its business operations, whether voluntarily or involuntarily for a period of 30 consecutive days except in cases of strike, lockout, or closure when necessary to prevent business losses or when due to fortuitous events, or in cases of *force majeure*, *provided* that in any such event of strikes, lockouts, closure, or force majeure, there is no Material Adverse Effect; and

(i) any event or circumstance that will have a Material Adverse Effect has occurred and is continuing.

Notice of Default

The Trustee shall, within 5 Business Days after receipt of written notice from the Issuer or the Majority Bondholders of the occurrence of an Event of Default, give to all the Bondholders written notice of any such Event of Default unless the same shall have been cured before the giving of such notice; provided, that in the case of a Payment Default (as described in paragraph (a) of the "*Description of the Offer Bonds – Events of Default*") the Trustee shall immediately notify the Bondholders upon the occurrence of such Payment Default.

Consequences of Default

(a) If any one or more of the Events of Default shall have occurred and be continuing after the lapse of the period given to the Issuer within which to cure such Event of Default, if any, or upon the occurrence of such Event of Default for which no cure period is provided, (i) the Trustee upon the written direction of the Majority Bondholders, by notice in writing delivered to the Issuer, or (ii) the Majority Bondholders, by notice in writing delivered to the Issuer and the Trustee, may declare the Issuer in default

("Declaration of Default") and declare the principal of the Offer Bonds then outstanding, together with all accrued and unpaid interest thereon and all amounts due thereunder, to be due and payable not later than 5 Business Days from the receipt of the Declaration of Default ("Default Payment Date") with a copy to the Paying Agent who shall then prepare a payment report in accordance with the Registry and Paying Agency Agreement. Thereupon, the Issuer shall make all payments due on the Offer Bonds in accordance with the Registry and Paying Agency Agreement.

(b) All the unpaid obligations under the Offer Bonds, including accrued interest, and all other amounts payable thereunder, shall be declared to be forthwith due and payable, whereupon all such amounts shall become and be forthwith due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Issuer.

Penalty Interest

In case any amount payable by the Issuer under the Offer Bonds, whether for principal, interest, or otherwise, is not paid on the relevant due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay a penalty fee on the defaulted amount(s) at the rate of 12% per annum (the "Penalty Interest") from the time the amount fell due until it is fully paid in accordance with the Terms and Conditions of this Offer and the Trust Agreement.

Payments in the Event of Default

Upon the occurrence of any Event of Default, and provided that there has been a Declaration of Default and acceleration of payment of the Offer Bonds by the Majority Bondholders, then in any such case:

(a) the Issuer will pay the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on such outstanding Offer Bonds with interest at the rate borne by the Offer Bonds on the overdue principal and with Penalty Interest, where applicable, based on the payment report no later than the Default Payment Date. The Issuer also undertakes that it shall give the Trustee written notice of its intention to make any payments under this paragraph (a); and

(b) the Trustee shall have the right to require the Registrar and the Paying Agent, upon demand in writing, to do the following:

(i) to hold all sums, documents and records held by them in respect of the Offer Bonds on behalf of the Trustee; and/or

(ii) deliver all evidences of the Offer Bonds and all sums, documents and records held by them in respect of the Offer Bonds to the Trustee or as the Trustee shall direct in such demand; provided, that such demand shall be deemed not to apply to any documents or records which the Paying Agent or the Registrar is not allowed to release by any law or regulation; and/or

(iii) subject to the terms of the Registry and Paying Agency Agreement, apply any money received from the Issuer pursuant to this section in the order of preference provided in the "*Description of the Offer Bonds – Application of Payments"* below.

Application of Payments

Any money collected by the Trustee as a consequence of a Declaration of Default and any other funds held by it, subject to any other provision of the Trust Agreement relating to the disposition of such money and funds or to the Registry and Paying Agency Agreement, shall be applied by the Trustee in the order of preference as follows:

(a) *First*: To the *pro rata* payment to the Trustee, the Registrar, Paying Agent and PDEx of the reasonable, actual and documented costs, expenses, fees, and other charges of collection, including reasonable compensation to them, their agents, attorneys, and all reasonable, actual and documented expenses and liabilities incurred or disbursements made by them, without gross negligence or bad faith in carrying out their respective obligations under their respective agreements with the Issuer in connection with the Offer Bonds.

(b) *Second*: to the payment of all outstanding interest, including any Penalty Interest, in the order of maturity of such interest, based on the information on Bondholders reflected in the relevant registry

account to be provided by the Registrar and Paying Agent in accordance with the Registry and Paying Agency Agreement.

(c) *Third*: to the payment of the principal amount of the Offer Bonds then due and payable based on the information on Bondholders reflected in the relevant registry account to be provided by the Registrar and Paying Agent in accordance with the Registry and Paying Agency Agreement.

(d) *Fourth*: the remainder, if any, shall be paid to the Issuer, its successors, or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Prescription

Claims in respect of principal and interest or other sums payable under the Offer Bonds shall prescribe unless the claim is made within 10 years (in the case of principal or other sums) or 5 years (in the case of interest) from the date on which payment becomes due.

Remedies

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Agreement, subject to the discussion under "*Description of the Offer Bonds – Ability to File Suit*."

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Agreement to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer under the Trust Agreement on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Offer Bonds in accordance with the provisions on notice of default (See *Description of the Offer Bonds – Notice of Default*); (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in its own name; (iii) the Trustee, for 60 days after the receipt of such notice and request, shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no Bondholder shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Offer Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may, on behalf of the Bondholder, waive any past default except the Events of Default defined as a Payment Default, insolvency default or closure default, and its consequences. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights under the Trust Agreement; provided, that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Offer Bonds.

SUBSTITUTION

Substitution of the Offer Bonds is not contemplated.

TRUSTEE; NOTICES

The following discussion is qualified by the more detailed information as contained in the Trust Agreement.

Notice to the Trustee

All documents required to be submitted to the Trustee and all other notices, requests and other communications must be in writing and will be deemed to have been duly given only if delivered personally, by facsimile transmission, or mailed (first class postage prepaid) or emailed to the Trustee at the following address, facsimile number or email address; and addressed to the individuals named below:

To the Trustee:

RIZAL COMMERCIAL BANKING CORPORATION –
TRUST AND INVESTMENTS GROUP
9th Floor, Yuchengco Tower RCBC Plaza 6819 Ayala Avenue,
Makati City

Attention: Ryan Roy W. Sinaon

Telephone No.: (+632) 894-9000 local 1278
Facsimile: (+632) 878-3377

Email: rwsinaon@rcbc.com

All such notices, requests and other communications will: (i) if delivered personally to the address as provided above, be deemed given upon delivery; (ii) if delivered by facsimile transmission to the facsimile number as provided above, be deemed given upon receipt in readable form; and (iii) if delivered by mail or email in the manner described above to the address as provided above, be deemed given upon receipt and in case of email if received in readable form (in each case regardless of whether such notice, request or other communication is received by any other Person on behalf of such individual to whom a copy of such notice, request or other communication is to be delivered). The Trustee may from time to time change its address, facsimile number or other information for the purpose of notices hereunder by giving notice specifying such change.

Any notice, report or communication received on a non-working day or after business hours in the place of receipt will only be deemed given on the next working day in that place.

Notice to the Bondholders

The Trustee shall send all notices to Bondholders to their mailing address as set forth in the Registry of Bondholders. Except where a specific mode of notification is provided for in the Bond Agreements, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) ordinary mail; (iii) by publication for at least once a week for 2 consecutive weeks in at least 2 newspapers of general circulation in the Philippines; (iv) personal delivery to the address of record in the Registry of Bondholders; or (v) disclosure through the Online Disclosure System of the PDEx. The Trustee shall rely on the Registry of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) 10 days from posting if transmitted by registered mail; (ii) 15 days from mailing, if transmitted by ordinary mail; (iii) on the date of last publication, if notice is made by publication; or (iv) on the date of delivery, for personal delivery; or (v) on the date of disclosure, if notice is made by disclosure through the Online Disclosure System of the PDEX.

A notice made by the Issuer to the Trustee is notice to the Bondholders. The publication in a newspaper of general circulation in the Philippines of a press release or news item about a communication or disclosure made by the Issuer to the PDEx on a matter relating to the Offer Bonds shall be deemed a notice to the Bondholders of said matter on the date of the first publication or the date of the disclosure, as the case may be.

Duties and Responsibilities of the Trustee

(a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement. The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.

(b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use such diligence, judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters will exercise in the management of their own affairs.

(c) None of the provisions contained in the Trust Agreement, the Prospectus and this Offer Supplement shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers under the Trust Agreement.

Resignation and Change of Trustee

(a) The Trustee may resign at any time by giving 90 days' prior written notice to the Issuer of such resignation.

(b) Upon receipt of such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, 1 copy of which instrument shall be delivered to the resigning Trustee and 1 copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a bona fide holder for at least the immediately preceding 6 months may, for and in behalf of the Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee.

(c) Subject to paragraph (f) below, a successor trustee must possess all the qualifications required under pertinent laws and the Trust Agreement.

(d) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, or for other causes set out in the Trust Agreement, then the Issuer may within 30 days therefrom remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, 1 copy of which instrument shall be delivered to the Trustee so removed and 1 copy to the successor trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor trustee, any bona fide Bondholder for at the least the immediately preceding 6 months may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee.

(e) The Majority Bondholders may at any time remove the Trustee for cause, and with consent of the Issuer, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Issuer of the required evidence of the action in that regard taken by the Majority Bondholders, which removal shall take effect 30 days from receipt of such notice by the Trustee; provided, that if no successor trustee shall have been appointed within 90 days from the receipt of the Issuer of the required evidence of the action taken, the Majority Bondholders may appoint a successor trustee without the consent of the Issuer. This is without prejudice to whatever remedies may be available to the Majority Bondholders under the law or in equity.

(f) Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions in the Trust Agreement shall become effective upon the earlier of: (i) the acceptance of appointment by the successor trustee as provided in the Trust Agreement; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Agreement; provided, however, that after the effectivity of the resignation notice and, as relevant, until such successor trustee is qualified and appointed, the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor trustee promptly upon the appointment thereof by the Issuer.

Successor Trustee

(a) Any successor trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as Trustee in the Trust Agreement. The foregoing notwithstanding, on the written request of the Issuer or of the successor trustee, the trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor trustee, all the rights, powers and duties of the trustee so ceasing to act as such. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties.

(b) Upon acceptance of the appointment by a successor Trustee, the Issuer shall notify the Bondholders in writing of the succession of such trustee to the trusteeship and/or by publication once in a newspaper of general circulation in Metro Manila, Philippines. If the Issuer fails to notify the Bondholders within 10 days after the acceptance of appointment by the successor trustee, the latter shall cause the Bondholders to be notified at the expense of the Issuer.

Reports to the Bondholders

The Trustee shall submit to the Bondholders on or before March 1 of each year from the Issue Date until full payment of the Offer Bonds a brief report dated as of December 31 of the immediately preceding year with respect to:

(a) the property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report which shall be based on the report to be given by the Paying Agent to the Trustee upon request by the Trustee through the Issuer; and

(b) any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Offer Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

The Trustee shall submit to the Bondholders a brief report within 90 days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, the remaining unpaid amounts of such advance is at least 10% of the aggregate outstanding principal amount of the Offer Bonds at such time.

Inspection of Documents

Upon due notice to the Trustee, the following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:

(a) the Trust Agreement;
(b) the Registry and Paying Agency Agreement;
(c) the Articles of Incorporation and By-laws of the Company; and
(d) the Registration Statement of the Company with respect to the Bonds (including the Offer Bonds) with the Prospectus and this Offer Supplement.

MEETINGS OF THE BONDHOLDERS

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Offer Bonds under any other provisions of the Trust Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Offer Bonds.

The following discussion is qualified by the more detailed information as contained in the Trust Agreement.

Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, on its own accord or upon the written request by the Issuer, or the Majority Bondholders, for purposes of taking any actions authorized under the Trust Agreement. The meeting may be held at such time and at such place as the Trustee shall determine.

Unless otherwise provided in the Trust Agreement, the Trustee shall give notice of every meeting of the Bondholders (which notice must set forth the time, place, and purpose of such meeting in reasonable detail) to the Issuer and each of the registered Bondholders not earlier than 45 days nor later than 15 days prior to the date fixed for the meeting and shall publish such notice once in a newspaper of general circulation; provided, that the Trustee shall fix the record date for determining the Bondholders entitled to notice and vote during the meeting, which record date shall not be earlier than 45 days before the date of the meeting; provided, further, that all reasonable, actual and documented costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within 10 days from receipt of the duly supported billing statement, subject to obtaining prior written consent of the Issuer for reasonable, actual and documented costs and expenses in excess of Fifty Thousand Pesos (₱50,000.00) per occurrence; provided, further, that any meetings of the Bondholders shall be held at such time and place within Metro Manila as the party requesting such meeting may determine.

Failure of the Trustee to Call a Meeting

Failure of the Trustee to call a meeting upon the written request of either the Issuer or the Majority Bondholders within 5 Business Days from receipt of such request shall entitle the requesting party to send and publish the appropriate notice of Bondholders' meeting and fix the record date for determining the Bondholders entitled to attend and vote in accordance with the procedure set forth under "*Description of the Offer Bonds – Notice of Meetings*". The costs for calling such a meeting shall be for the Trustee's account in case of unjustified failure of the Trustee to call the meeting is due to its willful misconduct, fraud, evident bad faith or gross negligence.

Quorum

The presence of Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders. The Trustee shall determine and record the presence of the Majority Bondholders based on the list of Bondholders prepared by the Registrar in accordance with the Registry and Paying Agency Agreement (which list shall include (v) the complete names of the Bondholders (including the name of the authorized representative of the Bondholder, where applicable) (w) the amount of Offer Bonds held by the Bondholders as of the Record Date, (x) the complete address and contact details of the Bondholders, (y) specimen signatures of the Bondholders' authorized signatories and (z) such other information necessary for the performance of the duties and powers of the Trustee under this Agreement as may be requested by the Trustee through the Issuer). The Registrar shall provide the Trustee with the foregoing list and information upon receipt of a written request from the Trustee.

Procedure for Meetings

(a) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Majority Bondholders as provided under "*Description of the Offer Bonds – Failure of the Trustee to Call a Meeting*" in which case the Issuer or the Majority Bondholders calling the meeting, as the case may be, shall move for the election of the chairman and secretary of the meeting. The elected secretary shall take down the minutes of the meeting, covering all matters presented for resolutions by and the results of the votes cast by the Bondholders entitled to vote at the meeting and/or the Person appointed in writing by a public instrument as proxy or agent by any such Bondholder in accordance with the procedure set forth in "*Description of the Offer Bonds – Voting Rights*". The elected secretary shall immediately provide the Trustee with a copy of the minutes of the

meeting which copy shall be made available at any time to the Issuer and all Bondholders upon receipt of written request.

(b) Any meeting of the Bondholders may be adjourned from time to time for a period or periods not to exceed in the aggregate 1 year from the date for which the meeting shall originally have been called, and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by Persons representing a majority of the aggregate principal amount of the Offer Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a Person should be a registered holder of the Offer Bonds as reflected in the Registry of Bondholders on the relevant record date fixed by the Trustee, the Issuer, or the Majority Bondholders, as the case may be, or a Person appointed in writing by a public instrument as proxy or agent by any such Bondholder (and, in case of corporate or institutional Bondholders, duly supported by the resolutions of its board of directors or equivalent body authorizing the appointment of the proxy or agent duly certified by its corporate secretary or an authorized officer) for the meeting. Bondholders shall be entitled to one vote for every Ten Thousand Pesos (₱10,000.00). The only Persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the Persons entitled to vote at such meeting, the Trustee, and any representative of the Issuer and its legal counsel.

Voting Requirement

Except as provided in "*Description of the Offer Bonds - Amendments*", all matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders (present or represented in a meeting at which there is a quorum). Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Trustee as if the votes were unanimous.

Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations (not inconsistent with the Trust Agreement) as it may deem advisable for any meeting of the Bondholders, with regard to proof of ownership of the Offer Bonds, the appointment of proxies by the Bondholders, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

Evidence Supporting the Action of the Bondholders

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Offer Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing, or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

Non-Reliance

Each Bondholder represents and warrants to the Trustee and to the Issuer that it has independently and, without reliance on the Trustee or the Issuer, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that it has subscribed to the Offer Bonds and on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee or the Issuer. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all claims, liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations under the Trust Agreement, except for its gross negligence, fraud, evident bad faith or willful misconduct.

Amendments

The Issuer and the Trustee may, without prior notice to or the consent of the Bondholders or other parties, amend or waive any provisions of the Trust Agreement if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency; provided, in all cases, that such amendment or waiver does not adversely affect the interests of the Bondholders; provided, further, that all Bondholders are notified of such amendment or waiver.

With the consent of the Majority Bondholders, the Issuer, when authorized by a resolution of its board of directors or the executive committee of its board of directors, and the Trustee may, from time to time and at any time, enter into an agreement or agreements supplemental to the Trust Agreement for the purpose of adding any provision to or changing in any manner or eliminating any of the provisions of the Trust Agreement; provided, that no such supplemental agreement shall:

(a) without the consent of all Bondholders affected thereby: (i) extend the maturity date of the Offer Bonds; or (ii) reduce the principal amount of the Offer Bonds; or (iii) reduce the rate or extend the time of payment of interest and principal thereon;

(b) impair the right of any Bondholder to (i) receive payment of principal of and interest on the Offer Bonds on or after the due dates therefore or (ii) to institute suit for the enforcement of any payment on or with respect to such Bondholder;

(c) affect the rights of some of the Bondholders without similarly affecting the rights of all the Bondholders;

(d) make any Offer Bond payable in money other than that stated in the Offer Bond;

(e) subordinate the Offer Bonds to any other obligation of the Issuer;

(f) amend or modify the provisions of the Terms and Conditions on Taxation, the Events of Default or the waiver of default by the Bondholders;

(g) reduce the percentage of the Bondholders required to be obtained under the Trust Agreement for their consent to or approval of any supplemental agreement or any waiver provided for in the Trust Agreement, without the consent of all the Bondholders; or

(h) make any change or waiver of the conditions under paragraphs (a) to (g) inclusive.

It shall not be necessary to obtain the consent of the Bondholders under the foregoing paragraphs for the purpose of approving the particular form of any proposed supplemental agreement but such consent shall be necessary for the purpose of approving the substance thereof.

Any consent given pursuant to this section shall be conclusive and binding upon all Bondholders and upon all future holders and owners of the Offer Bonds or of any Offer Bonds issued in lieu thereof or in exchange therefor, irrespective of whether or not any notation of such consent is made upon the Offer Bonds.

GOVERNING LAW

The Bond Agreements are governed by and are construed in accordance with Philippine law.

VENUE

Any suit, action, or proceeding arising out of, or relating to, the Offer Bonds or the Trust Agreement shall be brought before the proper courts in the Cities of Makati and Mandaluyong, to the exclusion of all other courts, and the parties submit to the exclusive jurisdiction of such courts for the purpose of any such suit, action, proceeding or judgment, the Issuer, Trustee and Bondholders expressly waiving other venue.

WAIVER OF PREFERENCE

The obligations created under the Bond Agreements and the Offer Bonds shall not enjoy any priority of preference or special privileges whatsoever over any Debt or obligations of the Issuer. Accordingly, whatever priorities or preferences that the Bond Agreements may have or any Person deriving a right hereunder may have under Article 2244, paragraph 14(a) of the Civil Code of the Philippines are hereby absolutely and unconditionally waived and renounced. This waiver and renunciation of the priority or preference under Article

2244, paragraph 14(a) of the Civil Code of the Philippines shall be revoked if it be shown that any Debt of the Issuer has a priority or preference under the said provision.

Use of Proceeds

SMC expects to raise ₱20,000,000,000.00 as gross proceeds from the Base Offer. The Company estimates that the net proceeds from the Base Offer after deducting expenses payable by the Company, will be approximately ₱19,741,437,500.00, estimated as follows:

Particulars	Total (₱)
Estimated proceeds from the Base Offer……	**20,000,000,000.00**
Less: Estimated fees, commissions and expenses	
Gross Underwriting Fees ……	90,000,000.00
Documentary Stamp Taxes to be paid by the Company……..	150,000,000.00
SEC Registration fee ……	6,250,000.00
SEC Legal Research and Publication Fee……..	62,500.00
SEC Publication Fee……..	100,000.00
PDEx Listing Application Fee ……..	300,000.00
Listing and Maintenance Fee……..	450,000.00
Legal and other professional fees……..	5,500,000.00
Rating Fee……..	4,800,000.00
Printing Cost……..	200,000.00
Trustee Fees……	150,000.00
Paying Agency and Registry Fees……	200,000.00
Other expenses……	550,000.00
Total estimated fees, commissions and expenses ….	258,562,500.00
Estimated net proceeds……	**₱** 19,741,437,500.00

Assuming full exercise of the Oversubscription Option, the Company estimates that the net proceeds from the full exercise of the Oversubscription Option shall amount to approximately ₱9,917,600,000.00, after deducting the following fees, commissions and expenses:

Particulars	Total (₱)
Estimated proceeds from the Oversubscription……	**10,000,000,000.00**
Less: Estimated fees, commissions and expenses	
Gross Underwriting Fees ……	5,000,000.00
Documentary Stamp Taxes to be paid by the Company……..	75,000,000.00
Rating Fee……	2,400,000.00
Total estimated fees, commissions and expenses ….	82,400,000.00
Estimated net proceeds……	**₱** 9,917,600,000.00

Aside from the foregoing one-time costs, SMC expects the following annual expenses related to the Offer Bonds:

1. The Issuer will be charged by the PDEx for the first annual maintenance fee in advance upon approval of the listing and thereafter, the Issuer will pay PDEx an annual maintenance listing fee amounting to ₱450,000.00 per annum;

2. The Issuer will pay an annual retainer fee to the Trustee amounting to ₱120,000.00 per annum;

3. After the Issue Date, a Paying Agency fee amounting to approximately ₱150,000.00 is payable every Interest Payment Date. The Registrar will charge a monthly maintenance fee based on the face value of the Offer Bonds and number of Bondholders; and

4. The Issuer will pay an annual monitoring fee of ₱560,000 to PhilRatings.

The entire proceeds for this Offer will be used either for: (i) refinancing the existing loan obligations and/or re-denomination of US Dollar denominated obligations of the Company or (ii) investments in its subsidiaries in existing businesses of the Company. The decision to use the net proceeds for either purpose is subject to the sound business judgment of Management taking into consideration among others, favorable market conditions; the demands of the business and operations of the Company; the capital requirements of its relevant subsidiary, including funding requirements of its projects; and opportunities and developments in the relevant industries of the businesses.

The Company shall file the appropriate SEC Form 17-C with the SEC and the PSE upon making any disbursement of the proceeds of the Offer, for any of the aforementioned purposes.

Refinancing of Existing Loan Obligations and/or US Dollar Loan Obligations of the Company

The entire net proceeds of the Offer may be used to fully or partially repay the existing loan obligations and/or re-denominate US Dollar loan obligations of the Company, details of which may be found in the unaudited consolidated financial statements of the Company as of and for the nine months ended September 30, 2017 which form part of the Offer Supplement.

If Management decides to use the entire net proceeds of the Offer to repay existing loan obligations and/or re-denominate US Dollar loan obligations of the Company, repayment or redenomination of said obligations will be made within 6 months from the Issue Date.

The Board of Directors of the Company authorized its Management to cause the repayment or redenomination of the foregoing at any time and from time to time, subject to the determination by Management of, among others, favorable market conditions, agreements with creditors, and the demands of the business and operations of the Company.

Investments in Existing Businesses

The Company may decide to use the entire net proceeds from the Offer to invest, by way of equity, in any of the following subsidiaries: SMC Global Power Holdings Corp., San Miguel Holdings Corp., and San Miguel Properties, Inc.

If Management decides to use the entire net proceeds from the Offer to make such investments, such investments shall be made within 1 year from the Issue Date.

The Board of Directors of the Company authorized its management to make additional investments in any of the aforementioned subsidiaries, at such time and in such amount as Management may deem appropriate, taking into consideration the capital requirements of the relevant subsidiary, including funding requirements of its projects, opportunities and developments in the relevant industries of the businesses, and requirements of relevant regulatory agencies, among others.

In summary, the proceeds of the Offer may either be used as follows:

Use of Proceeds	Allocation	Timing of Disbursement
Refinancing of Existing US Dollar Denominated Obligations of the Company....	₱20 billion	within six (6) months from the Issue Date
OR		
Investments in Existing Businesses……	₱20 billion	within one (1) year from the Issue Date

Pending the above use of proceeds, the Company shall invest the net proceeds from the Offer Bonds in short-term liquid investments including but not limited to short-term government securities, bank deposits and money

market placements which are expected to earn at prevailing market rates. In the event such investments should incur losses, any shortfall will be financed from the Company's internally generated funds.

No amount of the proceeds is to be used to reimburse any officer, director, employee, or shareholder, for services rendered, assets previously transferred, money loaned or advanced, or otherwise.

Except for the underwriting fees, issue management fees and expenses related to the Offer Bonds, no amount of the proceeds will be utilized to pay any outstanding financial obligations to the Joint Lead Underwriter and Bookrunners. Please see section on *"Plan of Distribution".*

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on the Company's current plans and anticipated expenditures. In the event there is any change in the Company's development plan, including force majeure, market conditions and other circumstances, the Company will carefully evaluate the situation and may reallocate the proceeds for future investments or other uses, and/or hold such funds in investments, whichever is better for the Company's and its shareholders' interest taken as a whole. The Company's cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Company's management may find it necessary or advisable to alter its plans. In the event of any substantial deviation, adjustment or reallocation in the planned use of proceeds, the Company shall inform the SEC and the stockholders in writing at least 30 days before such deviation, adjustment or reallocation is implemented.

Plan of Distribution

The Offer Bonds shall be the third tranche to be issued under the ₱60,000,000,000.00 Fixed Rate Bonds Shelf Registration Program of SMC. The Company shall issue the Offer Bonds to institutional and retail investors in the Philippines through a public offering to be conducted through the Joint Lead Underwriters and Bookrunners. The Offer does not include an international offering. The Joint Lead Underwriters and Bookrunners, in consultation with the Issuer, may increase the Base Offer size of ₱20,000,000,000.00 by an additional up to ₱10,000,000,000.00 under the Oversubscription Option.

A total of ₱20,000,000,000.00 Bonds, or in the event the Oversubscription Option is fully exercised, up to ₱30,000,000,000.00 Bonds will be taken down from the shelf. Upon completion of the Offer and assuming full exercise of the oversubscription option, all Bonds of the Issuer under its shelf registration of ₱60,000,000,000.00 worth of fixed-rate bonds would have been issued. However, in the event the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, such portion of the Offer Bonds under the Oversubscription Option which have not been taken up or exercised in the third tranche shall remain under shelf registration and form part of the remaining bonds in the shelf available for issuance with the Shelf Period.

Joint Lead Underwriters and Bookrunners

BDO Capital & Investment Corporation, BPI Capital Corporation, China Bank Capital Corporation, First Metro Investment Corporation, ING Bank, N.V., Manila Branch, SB Capital Investment Corporation, and Standard Chartered Bank (the "Joint Lead Underwriters and Bookrunners") have agreed to distribute and sell the Offer Bonds at the Purchase Price, pursuant to an Underwriting Agreement with SMC dated March 1, 2018 (the "Underwriting Agreement"). Subject to the fulfillment of the conditions provided in the Underwriting Agreement, the Joint Lead Underwriters and Bookrunners have committed to underwrite the following amounts on a firm basis:

Joint Lead Underwriters and Bookrunners	Underwriting Commitment
BDO Capital & Investment Corporation	₱2,857,150,000.00
BPI Capital Corporation	₱2,857,150,000.00
China Bank Capital Corporation	₱2,857,140,000.00
First Metro Investment Corporation	₱2,857,140,000.00
ING Bank N.V., Manila Branch	₱2,857,140,000.00
SB Capital Investment Corporation	₱2,857,140,000.00
Standard Chartered Bank	₱2,857,140,000.00
Total	**₱20,000,000,000.00**

The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to SMC of the net proceeds of the Offer Bonds.

The underwriting fees and any selling fees to be paid by the Company in relation to the Offer shall be equivalent to 0.45% of the gross proceeds of the Offer. This shall be inclusive of fees to be paid to the Joint Lead Underwriters and Bookrunners and any commissions to be paid to the Selling Agents.

The Joint Lead Underwriters and Bookrunners have no direct relations with SMC in terms of ownership by either of their respective major shareholder/s and have no right to designate or nominate any member of the Board of Directors of SMC.

The Joint Lead Underwriters and Bookrunners have no contract or other arrangement with SMC by which it may return to SMC any unsold Offer Bonds.

For the purpose of complying with their respective commitments under the Underwriting Agreement, each Joint Lead Underwriter and Joint Bookrunner may, under such terms and conditions not inconsistent with the provisions of the Underwriting Agreement, particularly the underwriting commitment of the Joint Lead Underwriters and Bookrunners, enter into agreements with co-lead managers and co-managers, and appoint Selling Agents for the sale and distribution to the public of the Offer Bonds; provided, that the Joint Lead Underwriters and Bookrunners shall remain solely responsible to the Issuer in respect of their obligations under the Underwriting Agreement entered into by them with the Issuer, and except as otherwise provided in the Underwriting Agreement, the Issuer shall not be bound by any of the terms and conditions of any agreements entered into by the Joint Lead Underwriters and Bookrunners with the co-lead managers, co-managers, and Selling Agents.

The Joint Lead Underwriters and Bookrunners are duly-licensed by the SEC to engage in the underwriting or distribution of the Offer Bonds. The Joint Lead Underwriters and Bookrunners may, from time to time, engage in transactions with and perform services in the ordinary course of its business, for SMC or any of its subsidiaries.

BDO Capital was incorporated in the Philippines in December 1998. It is duly licensed by the SEC to operate as an investment house and was licensed by the SEC to engage in underwriting or distribution of securities to the public. As of December 31, 2016, it had ₱3.43 billion and ₱3.24 billion in consolidated resources and capital, respectively. It has an authorized capital stock of ₱1.1 billion, of which approximately ₱1 billion represents its paid-up capital.

BPI Capital is a Philippine corporation organized in the Philippines as a wholly owned subsidiary of the Bank of the Philippine Islands. It obtained its license to operate as an investment house in 1994 and is licensed by the Philippine SEC to engage in underwriting and distribution of securities to the public. As of June 30, 2016, its total assets amounted to ₱5.7 billion and its capital base amounted to ₱5.6 billion. It has an authorized capital stock of ₱2.0 billion, of which approximately ₱506.0 million represents its paid-up capital.

China Bank Capital, a subsidiary of China Bank, provides a wide range of investment banking services to clients across different sectors and industries. Its primary business is to help enterprises raise capital by arranging or underwriting debt and equity transactions, such as project financing, loan syndications, bonds and notes issuances, securitizations, initial and follow-on public offerings, and private equity placements. China Bank Capital also advises clients on structuring, valuation, and execution of corporate transactions, including mergers, acquisitions, divestitures, and joint ventures. It was established and licensed as an investment house in 2015 as the spin-off of China Bank's investment banking group, which was organized in 2012.

FMIC is a leading investment bank in the Philippines with over fifty years of service in the development of the country's capital markets. It is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the country. FMIC and its subsidiaries offer a wide range of services, from debt and equity underwriting to loan syndication, project finance, financial advisory, investment advisory, government securities and corporate debt trading, equity brokering, online trading, asset management, and research. FMIC has established itself as a leading bond house with key strengths in origination, structuring and execution.

ING is the Philippine branch of ING Bank N.V., a global financial institution operating in more than 40 countries in Europe, the Americas, Asia and Australia. ING Bank is present and active in 13 major economies in Asia. In the Philippines, ING is a banking corporation duly organized and existing by virtue of the laws of The Kingdom of The Netherlands and authorized to operate as a universal bank by the BSP. Over its 26-year presence in the Philippines, ING has advised on the largest and most prominent mergers and acquisitions deals in the country and has arranged many landmark local debt capital market transactions. With a strong track record of providing clients with sound financial solutions, the Philippine franchise is a recognized top investment bank, consistently awarded for overall execution and structuring expertise.

SB Capital is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital provides a wide range of investment banking services including financial advisory, underwriting of equity and debt securities, project finance, privatizations, mergers and acquisitions, loan syndications and corporate advisory services. SB Capital is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major equity and debt issues, both locally and internationally.

SCB is a banking corporation duly organized and incorporated in England with limited liability by Royal Charter in 1853, and licensed to act as a banking institution under and by virtue of the laws of the Republic of the Philippines through its Philippine branch. It has operated for over 150 years in some of the world's most dynamic markets and earns more than 90% of its profits in Asia, Africa, and the Middle East. Operating in the Philippines since 1872, SCB is a universal bank and is the longest established foreign bank in the country. The principal banking products include deposits, lending and related services, treasury and capital market operations, trade services, payments and cash management, and custodial services. The bank also provides capital raising solutions such as local currency and G3 currency fixed income and loan syndications.

SALE AND DISTRIBUTION

The distribution and sale of the Offer Bonds shall be undertaken by the Joint Lead Underwriters and Bookrunners who shall sell and distribute the Offer Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Joint Lead Underwriters from purchasing the Offer Bonds for their own respective accounts.

There are no Persons to whom the Offer Bonds are allocated or designated. The Offer Bonds shall be offered to the public at large and without preference.

The obligations of each of the Joint Lead Underwriters and Bookrunners will be several, and not solidary, and nothing in the Underwriting Agreement shall be deemed to create a partnership or joint venture between and among any of the Joint Lead Underwriters. Unless otherwise expressly provided in the Underwriting Agreement, the failure by an Underwriter to carry out its obligations thereunder shall neither relieve the other Joint Lead Underwriters of their obligations under the same Underwriting Agreement, nor shall any Underwriter be responsible for the obligation of another Underwriter.

OFFER PERIOD

The Offer Period shall commence at 9:00 a.m., Manila time, on March 5, 2018 and end at 5:00 p.m., Manila time, on March 9, 2018, or such other date as may be mutually agreed by the Company and the Joint Lead Underwriters and Bookrunners.

APPLICATION TO PURCHASE

The procedure set out in this section and the succeeding sections should be read together with the more detailed procedure and other conditions set out in the Application to Purchase.

Applicants may purchase the Offer Bonds during the relevant Offer Period by submitting to the Joint Lead Underwriters properly completed Applications to Purchase, together with 2 signature cards, and the full payment of the Purchase Price of the Offer Bonds in the manner provided in the said Application to Purchase.

Corporate and institutional applicants must also submit, in addition to the foregoing:

(a) an original notarized certificate of the corporate secretary or an equivalent officer of the Applicant setting forth resolutions of the board of directors, partners or equivalent body (i) authorizing the purchase of the Offer Bonds indicated in the Application to Purchase; and (ii) designating the signatories, with their specimen signatures, for the said purposes;

(b) copies of its Articles of Incorporation and By-Laws and latest amendments thereof, together with the Certificate of Incorporation issued by the SEC or other organizational documents issued by an equivalent government institution, stamped and signed as certified true copies by the SEC or the equivalent government institution, or by the corporate secretary, or by an equivalent officer(s) of the Applicant who is/are authorized signatory(ies);

(c) 2 duly accomplished signature cards containing the specimen signatures of the authorized signatories of the Applicant, validated by its corporate secretary or by an equivalent officer(s) who is/are authorized signatory(ies) (whose authority(ies) and specimen signatures will be submitted to the Registrar);

(d) validly issued tax identification number issued by the BIR;

(e) identification document(s) of the authorized signatories of the Applicant, as specified in item (a) of the immediately succeeding paragraph below; and

(f) such other documents as may be reasonably required by any of the Joint Lead Underwriters, Selling Agents (if any) or the Registrar in the implementation of its internal policies regarding "know your customer" and anti-money laundering.

Individual applicants must also submit, in addition to accomplished Applications to Purchase and its required attachments:

(a) identification document ("ID") of the Applicant which shall consist of any one of the following valid identification documents bearing a recent photo, and which is not expired: Passport, Driver's License, Professional Regulation Commission ID, National Bureau of Investigation Clearance, Police Clearance, Postal ID, Voter's ID, Barangay Certification, Government Service Insurance System e-Card, Social Security System Card, Senior Citizen Card, Overseas Workers Welfare Administration ID, OFW ID, Seaman's Book, Alien Certification of Registration/Immigrant Certificate of Registration, MARINA ID, Government Office and government-owned and controlled corporation ID, *e.g.*, Armed Forces of the Philippines, Home Development Mutual Fund, Certification from the National Council for the Welfare of Disabled Persons, Department of Social Welfare and Development Certification, Integrated Bar of the Philippines ID, company IDs issued by private entities or institutions registered with or supervised or regulated either by the BSP, SEC or the Insurance Commission, or school ID duly signed by the principal or head of the school (for students who are beneficiaries of remittances/fund transfers who are not yet of voting age);

(b) 2 duly accomplished signature cards containing the specimen signature of the Applicant;

(c) validly issued tax identification number issued by the BIR; and

(d) such other documents as may be reasonably required by the Joint Lead Underwriters, Selling Agents (if any) or the Registrar in implementation of its internal policies regarding "know your customer" and anti-money laundering.

An Applicant who is claiming exemption from any applicable tax, or entitlement to preferential tax rates shall, in addition to the requirements set forth above, be required to submit the following requirements to the relevant Joint Lead Underwriter and Bookrunner or Selling Agent (if any) (together with their respective Applications to Purchase), subject to acceptance by the Issuer as being sufficient in form and substance:

(i) for Applicant investors, (1) 3 originals of a duly accomplished valid, current and subsisting Certificate of Residence for Tax Treaty Relief ("CORTT") Form or the prescribed certificate of residency of their country together with the CORTT Form as required under BIR Revenue Memorandum Order No. 8-2017 and (2) 3 originals of the Special Power of Attorney executed by the Bondholder in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) shall be submitted by the Bondholder to the Issuer upon the submission of the Application to Purchase or no later than the 1st day of the month when the initial interest payment date shall fall due. For subsequent interests due, 3 originals of Part II (D) of the CORTT Form shall be submitted by the Bondholder to the Issuer through the Registrar no later than the 1st day of the month when such subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto.

(ii) For transferee Bondholders, (1) 3 originals of a duly accomplished valid, current and subsisting CORTT Form or the prescribed certificate of residency of their country together with the CORTT Form as required under BIR Revenue Memorandum Order No.8-2017 and (2) 3 originals of the Special Power of Attorney executed by the Bondholder in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) shall be submitted by the Bondholder to the Issuer through the Registrar upon the submission of the account opening documents or no later than the 1st day of the month when the first interest payment date shall fall due following the transfer of the Offer Bonds to the said transferee Bondholder. For subsequent interests due, 3 originals of Part II (D) of the CORTT Form shall be submitted by the Bondholder to the Issuer through the Registrar no later than the 1st day of the month when such subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto.

(c) a duly notarized undertaking executed by (i) the corporate secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases, or the Bondholder holds, the Offer Bonds for its account, or (ii) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Offer Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer, the Registrar and the Paying Agent (1) of any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Registry and Paying Agency Agreement; (2) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature and method of operation, which are inconsistent with the basis for its income tax exemption; or (3) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Offer Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Issuer, the Registrar and the Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or incorrect withholding of the required tax, provided, that in case of corporate, partnership or trust account investors, such investor shall also submit an original certification from the corporate secretary or an equivalent officer of the investor, setting forth the resolutions of its board of directors or equivalent body authorizing the execution of the undertaking and designating the signatories, with their specimen signatures, for the said purpose. In the event that the Issuer is assessed by the relevant taxing authority or other authorities arising from the exemption, reduced withholding tax rate and/or an incorrect or non-withholding of tax due to the above representation of the Bondholder, the Issuer shall pay the said assessed amount to the relevant taxing authority or other authorities and the Bondholder shall immediately reimburse Issuer for any amount/s paid subject to the imposition of interest as may be deemed appropriate by the Issuer; and

(d) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty relief, shall include a duly accomplished Certificate of Residence for Tax Treaty Relief (CORTT) Form or the prescribed certificate of residency of their country together with the CORTT Form, consularized proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines to support the applicability of a tax treaty relief; provided, that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided, further, that all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges (or with reduced rates, as the case may be), subject to the submission by the Bondholder claiming the benefit of any exemption or preferential rate of the required documents and of additional reasonable evidence of such tax-exempt or preferential rate status to the Registrar.

Unless otherwise indicated above, the foregoing requirements shall be submitted, (i) in respect of an initial issuance of Offer Bonds, upon submission of the Application to Purchase to the Joint Lead Underwriters and Bookrunners or Selling Agents (if any) who shall then forward the same to the Registrar; or (ii) in respect of a transfer from a Bondholder to a purchaser, to the Registrar upon submission of the account opening documents.

Failure on the part of the Bondholder to submit the aforementioned document/s within the time prescribed shall result in the application of the regular tax rates.

The Purchase Price for each Offer Bond is payable in full upon submission of the duly executed Application to Purchase. Payments of the Purchase Price shall be made either in checks or appropriate debit instructions or payment instructions made out to the order of the relevant Joint Lead Underwriter and Bookrunner or Selling Agent (if any). All payments must be made or delivered to the Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) to whom the Application to Purchase is submitted.

Completed Applications to Purchase and corresponding payments must reach the Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) prior to the end of the Offer Period, or such earlier date as may be specified by the Underwriters. Acceptance by the Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) of the completed Application to Purchase shall be subject to the availability of the Offer Bonds and the acceptance by SMC. In the event that any check payment is returned by the drawee bank for any reason

whatsoever or the nominated bank account to be debited is invalid, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase shall be deemed revoked.

MINIMUM PURCHASE

A minimum purchase of ₱50,000.00 shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of ₱10,000.00.

ALLOTMENT OF THE OFFER BONDS

If the Offer Bonds are insufficient to satisfy all Applications to Purchase, the available Offer Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice and subject to Joint Lead Underwriters' and Bookrunners' exercise of the right of rejection on behalf of the Issuer.

ACCEPTANCE OF APPLICATIONS

SMC and the Joint Lead Underwriters and Bookrunners reserve the right to accept or reject applications to purchase the Offer Bonds, and in case of oversubscription, allocate the Offer Bonds available to the Applicants in a manner they deem appropriate.

REJECTION OF APPLICATIONS

The Joint Lead Underwriters and Bookrunners shall accept, reduce or reject Applications to Purchase on behalf of the Issuer in accordance with the following provisions and the allocation plan. Reasons for rejection may include the following:

a) Applications may be rejected if: (i) the Purchase Price is unpaid; (ii) payments are insufficient or where checks, as applicable, are dishonoured upon first presentation; (iii) the Application to Purchase is not received by the Joint Lead Underwriters and Bookrunners or the Selling Agent (if any) on or before the end of the Offer Period; (iv) the number of Offer Bonds subscribed is less than the minimum amount of subscription; (v) the applications do not comply with the terms of the Offer; or (vi) the applications do not have sufficient information or are not supported by the required documents.

b) Applications may be reduced if the Offer is oversubscribed, and the Oversubscription Option has been exercised and the Oversubscription Option Bonds are not sufficient to cover such oversubscription, in which case the number of Offer Bonds covered by the applications shall be reduced pro rata.

In the event an Application to Purchase is rejected or the amount of Offer Bonds applied for is scaled down for a particular Applicant, the relevant Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) shall notify the Applicant concerned that his/her application has been rejected or that the amount of Offer Bonds applied for is scaled down.

REFUNDS

If any application is rejected or accepted in part only, payments made by the Applicant or the appropriate portion thereof shall be returned without interest to such Applicant through the relevant Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) with whom such Application to Purchase was made.

Refunds shall be made, at the option of each Joint Lead Underwriter and Bookrunner or the Selling Agent (if any), either (i) through the issuance of check(s) payable to the order of the relevant Applicant and crossed "Payees' Account Only" and mailed or delivered, at the risk of the Applicant, to the address specified in the Application to Purchase, or (ii) through the issuance of instructions for automatic credit payments to the accounts of the relevant Applicants, as indicated in their respective Applications to Purchase.

PAYMENTS

The Paying Agent shall open and maintain a Payment Account for each series of the Offer Bonds, which shall be operated solely and exclusively by the said Paying Agent in accordance with the Registry and Paying Agency Agreement, provided that beneficial ownership of the Payment Accounts shall always remain with the Bondholders. The Payment Account shall be used exclusively for the payment of the principal, interest and other payments due on the Offer Bonds on the relevant Payment Date.

The Paying Agent shall maintain the relevant Payment Account while the relevant series of the Offer Bonds are outstanding, and until 6 months past the relevant Maturity Date or date of early redemption, as applicable. Upon closure of the Payment Accounts, any balance remaining in such Payment Account shall be returned to the Issuer and shall be held by the Issuer in trust and for the irrevocable benefit of the Bondholders with unclaimed interest and principal payments and such other payments that due on the relevant series of the Offer Bonds.

UNCLAIMED PAYMENTS

Any payment of interest on, or the principal of the Offer Bonds which remain unclaimed after the same shall have become due and payable, shall be held in trust by the Paying Agent for the Bondholders at the latter's risk and shall be dealt with in accordance with the relevant provisions of the Registry and Paying Agency Agreement.

PURCHASE AND CANCELLATION

The Issuer may purchase the Offer Bonds at any time in the open market or by tender or by contract, in accordance with PDEx Rules, as may be amended from time to time, without any obligation to make *pro rata* purchases from all Bondholders. Offer Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Offer Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.

SECONDARY MARKET

SMC intends to list the Offer Bonds in the PDEx.

For a more detailed discussion, please refer to the section "*Description of the Offer Bonds – Secondary Trading of the Offer Bonds*".

REGISTRY OF BONDHOLDERS

The Offer Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing the Series E Bonds, Series F Bonds and Series G Bonds sold in the Offer shall be issued in the name of the Trustee for the benefit of the Bondholders.

Legal title to the Offer Bonds shall be shown in the Registry of Bondholders to be maintained by the Registrar. The names and addresses of the Bondholders and the particulars of the Offer Bonds held by them and all transfers of the Offer Bonds shall be entered into the Registry of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Registry of Bondholders.

For a more detailed discussion, please refer to the section "*Description of the Offer Bonds – Transfer of the Offer Bonds*".

Capitalization

The following table sets forth the unaudited consolidated short-term and long-term debt and capitalization of SMC as of September 30, 2017. This table should be read in conjunction with the more detailed information and reviewed and unaudited financial statements, including notes thereto, found in Annex "B" of the Prospectus.

(in ₱ Millions)	As of September 30, 2017 (Unaudited)	Adjustments	Notes	As adjusted for maximum Offer Size of ₱30.00 billion (Upon issuance of Offer Bonds)
Current Liabilities				
Loans payable……....	₱166,885			₱166,885
Accounts payable and accrued expenses……...	133,204			133,204
Finance lease liabilities – current portion…….....	16,075			16,075
Income and other taxes payable……	16,294			16,294
Dividends payable……...	3,938			3,938
Current maturities of long-term debt – net of debt issue cost……	36,733			36,733
Total Current Liabilities……	**373,129**			**373,129**
Non-current Liabilities				
Long term debt – net of current maturities and debt issue costs..	327,747	29,659	*1*	357,406
Deferred tax liabilities……..……...	19,302			19,302
Finance lease liabilities – net of current portion.....	144,400			144,400
Other noncurrent liabilities……..	24,453			24,453
Total Non-current Liabilities……	**515,902**			**545,561**
Equity				
Equity Attributable to Equity Holders of the Parent Company				
Capital stock – common	16,435			16,435
Capital stock – preferred	10,187			10,187
Additional paid-in capital	177,750			177,750
Equity Reserve	(5,841)			(5,841)
Retained Earnings				
Appropriated	55,447			55,447
Unappropriated	150,346			150,346
Treasury stock	(109,501)			(109,501)
	294,823			294,823
Non-controlling interests……..	166,248			166,248
Total Equity……	**461,071**			**461,071**
Total Capitalization……	**₱1,350,102**		*2*	**₱1,379,761**

Notes:
1. Adjusted amount as of September 30, 2017 includes proceeds of P30 billion of the Offer, after deduction of fees, commissions and expenses
2.Total capitalization is the sum of debt and equity

The Company

Overview

SMC is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales of about 4.7% of the Philippine gross domestic product in 2016. Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a market-leading beverages, food and packaging business with a globally recognized beer brand, into a large and diversified conglomerate with additional market-leading businesses and investments in the fuel and oil, energy, infrastructure, and investment in banking. SMC has a portfolio of companies that is interwoven into the economic fabric of the Philippines, benefiting from, as well as contributing to the development and economic progress of the Philippines. As of September 30, 2017, SMC had a market capitalization of ₱234,177 million, with a common share price of ₱98.30. The consolidated sales and recurring EBITDA of SMC in 2016 were ₱685,314 million and ₱130,875 million, respectively.

Corporate Transformation of SMC

Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a market-leading beverage, food and packaging business with a globally recognized beer brand, into a diversified conglomerate with market-leading businesses and investments in the fuel and oil, energy, infrastructure, and investment in banking. SMC owns a portfolio of companies that is tightly interwoven into the economic fabric of its home market, benefiting from and contributing to, the development and economic progress of the Philippines. The common shares of SMC were listed on November 5, 1948 at the Manila Stock Exchange, now the PSE.

In 2007, in light of the opportunities presented by the global financial crisis, the ongoing program of asset and industry privatization of the Philippine government, the strong cash position of SMC enhanced by its divestments and the strong cash flow generated by its established businesses, SMC adopted an aggressive business diversification program. The program channeled the resources of SMC into what it believes were attractive growth sectors, aligned with the development and growth of the Philippine economy. SMC believes this strategy will achieve a more diverse mix of sales and operating income, and better position SMC to access capital, present different growth opportunities and mitigate the impact of downturns and business cycles.

Since January 2008, SMC has either directly or through its subsidiaries, made a series of acquisitions in the fuel and oil, energy, infrastructure, and investment in banking.

The Businesses of SMC

SMC is one of the largest and most diversified conglomerates in the Philippines. Its portfolio comprises of the following businesses, which are market leaders in their respective industries:

Beverages

The beverage business consists of brewing, distilling, selling, marketing and distributing beer, liquor and non-alcoholic beverages. SMB sells the dominant beer brands in the Philippines, with a total market share by volume of more than 90% in 2016, according to the GlobalData, with no significant change thereafter. Its products include *San Miguel Pale Pilsen*, which is the flagship beer of SMB and is sold throughout the world, *San Miguel Super Dry*, *San Mig Light*, *San Mig Strong Ice* and *San Miguel Premium All-Malt*. Other SMB beer brands include *Cerveza Negra*, *Red Horse*, *Gold Eagle*, *Oktoberfest Brew*, *San Miguel Flavored Beer, San Mig Zero* and *Alcoholic Malt Beverage*. In addition to its Philippine beer operations, SMB has brewery and sales operations in China, Hong Kong, Thailand, Vietnam and Indonesia and exports to 50 countries. SMB recently added in its portfolio the non-alcoholic beverage business, which produces non-carbonated, ready-to-drink tea and fruit juice products, primarily under the Magnolia brand. Ginebra is the largest gin producer by volume in the world with some of the most recognizable brands in the Philippine liquor market, including *Ginebra San Miguel*, *GSM Blue*, *GSM Blue Light*, *Primera Light* and *Vino Kulafu*.

Food

The food business of SMC holds numerous market-leading positions in the Philippine food industry, offering a wide range of high-quality food products and services to household, institutional and foodservice customers.

The food business is conducted through San Miguel Pure Foods. In addition to its Philippine operations, the food business has presence in Indonesia and Vietnam.

San Miguel Pure Foods has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Super Coffee* for coffee, *La Pacita* for biscuits *and B-Meg* for animal feeds.

Packaging

The Packaging Group has one of the largest packaging operations in the Philippines with diversified businesses producing glass, molds, metal closures, aluminum cans, plastics and pallet/crate leasing, PET beverage packaging and filling, flexibles, paper, as well as other packaging products. The packaging business is the major source of packaging requirements of the other businesses of SMC. It also owns and operates 14 overseas packaging facilities located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, and woven bags) and Australia (glass, trading, wine closures, and wine filling facilities) and New Zealand (trading and plastics).

Properties

SMPI was created in 1990 initially as the corporate real estate arm of SMC. It is the primary property subsidiary of the SMC Group, currently 99.54% owned by SMC. SMPI is presently engaged in commercial property development, sale and lease of real properties, management of strategic real estate ventures and corporate real estate services.

Fuel and Oil

SMC operates its fuel and oil business through Petron in which it holds a 68.26% interest. Petron is the number 1 integrated oil refining and marketing company in the Philippines, supplying almost 40% of the refined oil requirements of the country and is the largest LPG distributor, with an overall market share of 31.5% of the Philippine oil market for the first half of 2017 in terms of sales volume, based on Petron's estimate using its internal assumptions and calculations and industry data from the DOE. The core business of Petron involves the refining of crude oil and the marketing and distribution of refined petroleum products, mainly for the Philippine market. Petron owns and manages the most extensive oil distribution infrastructure comprising of 11 terminals in Luzon, 9 in the Visayas and 7in Mindanao, 2 airport installations in Luzon and 2 in Mindanao and approximately 2,300 retail service stations in the Philippines, and 10 product terminals and a network of approximately 600 retail service stations in Malaysia, as of September 30, 2017. Petron also exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

In March 2012, Petron increased its regional presence when it acquired an integrated refining, distribution, and marketing business in Malaysia. Petron Malaysia operates an 88,000 barrel-per-day refinery and ranked 3rd in the retail market with a 19.7% share as of the 3rd quarter of 2017, based on Petron estimates using its internal assumptions and calculations and industry data from The Concilium Group Sdn Bhd, a market research consultant appointed by Malaysian retail market participants to compile industry data.

Energy

The energy business is one of the leaders in the Philippine power generation industry in terms of installed capacity. SMC Global Power administers 3 power plants, located in Sual, Pangasinan (coal), Ilijan, Batangas (natural gas) and San Roque, Pangasinan (hydroelectric), pursuant to IPPA agreements with PSALM and NPC. In addition, SMC Global Power also owns 60% interest in the AHEPP plant in Bulacan. This brings total capacity to 3,213 MW as of December 31, 2017. SMC Global Power is one of the largest power companies in the Philippines and holds a 21% market share of the total installed power generation capacity for the Luzon power grid and a 16% market share of the national grid and 5% in the Mindanao grid based on the latest available ERC data as of December 31, 2017. SMC Global Power, through SMEC, likewise owns 3 mining companies which are concession holders of coal deposits in Southern Mindanao.

Infrastructure

The infrastructure business, through SMHC, consists of investments in companies that hold long-term concessions in the infrastructure sector in the Philippines. Current operating tollroads include the SLEX, Skyway Stage 1 and 2, the STAR, TPLEX and NAIAx Tollways and ongoing tollroad projects such as the

Skyway Stage 3, the extension of SLEX – TR4 and Skyway Stage 4. SMHC also operates and is currently expanding Boracay Airport. In addition, SMHC has the concession right to construct, operate and maintain the MRT-7. SMHC also has a stake in Manila North Harbour Port, Inc.

The following table sets forth the contribution of each of the businesses of SMC to its revenues for the periods indicated:

	2014		2015		2016		As of and for the Nine Months Ended September 30, 2017	
	Revenues	%	Revenues	%	Revenues	%	Revenues	%
	(in millions)		(in millions)		(in millions)		(in millions)	
Beverages	₱ 94,516	12.2%	₱ 99,002	14.7%	₱ 115,732	16.9%	₱ 95,986	16.1%
Food	102,999	13.3%	106,860	15.9%	111,586	16.3%	84,452	14.1%
Packaging	24,226	3.1%	25,050	3.7%	27,386	4.0%	22,360	3.7%
Energy	84,294	10.9%	77,507	11.5%	77,972	11.4%	62,117	10.4%
Fuel and Oil	482,535	62.5%	360,178	53.6%	343,840	50.2%	313,505	52.5%
Infrastructure	922	0.1%	13,288	2.0%	19,866	2.9%	16,520	2.8%
Other Operations, Investments and Eliminations	(17,249)	(2.1%)	(9,642)	(1.4%)	(11,068)	(1.7%)	2,058	0.4%
Total	**₱ 772,243**	**100.0%**	**₱672,243**	**100.0%**	**₱685,314**	**100.0%**	**₱ 596,998**	**100.0%**

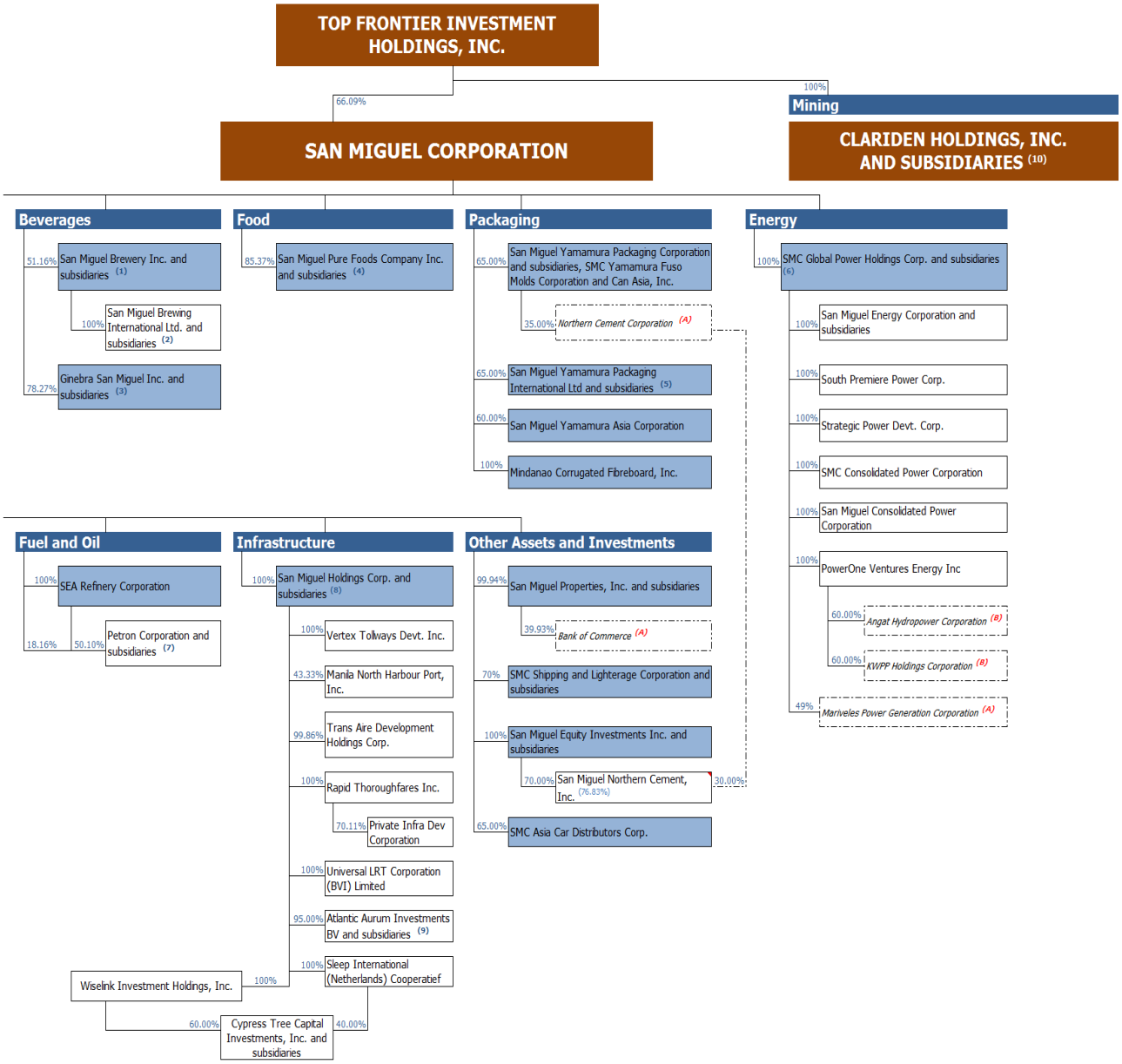
The foreign operations of the SMC Group in 2016 contributed about 23.29% of consolidated sales and 10.39% of consolidated net income. Foreign sales are broken down by market as follows:

	(%) to Consolidated Sales		
Market	**2014**	**2015**	**2016**
Malaysia…….	23.92	17.80	16.25
Singapore	2.17	4.26	4.01
China……	0.93	0.90	0.90
Indonesia……..	0.96	0.78	0.86
Vietnam……..	0.33	0.25	0.27
Others…….	0.66	0.91	1.00

Corporate Organization

Set forth below is the corporate organizational chart of SMC as of September 30, 2017.

SAN MIGUEL CORPORATION
GROUP STRUCTURE *



* The group structure includes the Parent Company, Top Frontier Investment Holdings, Inc., its co-subsidiary, Clariden Holdings, Inc. and its subsidiaries and San Miguel Corporation's major subsidiaries, associates and joint ventures.

Note:
(A) Associate
(B) Joint Venture

I. Subsidiaries

1. San Miguel Brewery Inc. subsidiaries also include Iconic Beverages, Inc. and Brewery Properties Inc. and subsidiary.

2. San Miguel Brewing International Ltd. subsidiaries include San Miguel Brewery Hong Kong Limited and subsidiaries, PT Delta Djakarta Tbk and subsidiaries, San Miguel (Baoding) Brewery Company Limited, San Miguel Brewery Vietnam Limited, San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited.

3. Ginebra San Miguel Inc. subsidiaries include Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc., Ginebra San Miguel International, Ltd., GSM International Holdings Limited, Global Beverage Holdings Limited and Siam Holdings Limited.

4. San Miguel Pure Foods Company Inc. subsidiaries include San Miguel Foods, Inc. and subsidiary, San Miguel Mills, Inc. and subsidiaries, The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiaries, San Miguel Super Coffeemix Co., Inc., PT San Miguel Pure Foods Indonesia and San Miguel Pure Foods International, Limited and subsidiary, San Miguel Pure Foods Investment (BVI) Limited and subsidiary, San Miguel Pure Foods (VN) Co., Ltd., formerly known as "San Miguel Hormel (VN) Co., Ltd."

5. San Miguel Yamamura Packaging International Limited subsidiaries include San Miguel Yamamura Phu Tho Packaging Company Limited, Zhaoqing San Miguel Yamamura Glass Co., Ltd., Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty. Ltd. and subsidiaries including Cospak Pty Limited and subsidiary, San Miguel Yamamura Vinocor Pty Ltd. , San Miguel Yamamura Portavin Ltd. and subsidiaries, San Miguel Yamamura Barrosa Ltd. and San Miguel Yamamura Best Bottlers Pty. Ltd., and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary.

6. SMC Global Power Holdings Corp. subsidiaries also include San Miguel Electric Corp., SMC PowerGen Inc. and subsidiary, SMC Power Generation Corp. and Albay Power and Energy Corp.

7. Petron Corporation subsidiaries include Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation Ltd., Limay Energen Corporation, New Ventures Realty Corporation and subsidiaries, Petron Singapore Trading Pte., Ltd., Petron Global Limited, Petron Oil & Gas International Sdn. Bhd. and subsidiaries including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Berhad (collectively Petron Malaysia), Petron Finance (Labuan) Limited and Petrochemical Asia (HK) Limited and subsidiaries.

8. San Miguel Holdings Corp. subsidiaries include Optimal Infrastructure Development, Inc., ULCOM Company Inc., Terramino Holdings, Inc. and subsidiary, Alloy Manila Toll Expressways Inc., SMC Mass Rail Transit 7 Inc. and Luzon Clean Water Development Corporation.

9. Atlantic Aurum Investments B.V. subsidiaries include Atlantic Aurum Investments Philippines Corporation and subsidiaries, Stage 3 Connector Tollways Holding Corporation and subsidiary, Citra Central Expressway Corp. and Citra Metro Manila Tollways Corporation and subsidiary, Skyway O&M Corporation, MTD Manila Expressways Inc. and subsidiaries, Manila Toll Expressway Systems Inc. and South Luzon Tollway Corporation.

II. Co-Subsidiary

10. Clariden Holdings, Inc. subsidiaries include V.I.L. Mines, Incorporated, Asia-Alliance Mining Resources Corp., Prima Lumina Gold Mining Corp., Excelon Asia Holding Corporation, New Manila Properties, Inc. and Philnico Holdings Limited and subsidiaries including Pacific Nickel Philippines, Inc., Philnico Industrial Corporation and Philnico Processing Corp. (collectively the Philnico Group).

None of the SMC Group companies is involved in any bankruptcy or receivership proceedings. Except as disclosed in the Prospectus and this Offer Supplement, none of the SMC Group companies is involved in any reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business which has a material effect on SMC.

Strengths of SMC

SMC believes that its principal strengths include the following:

Diversified platform with broad exposure to the Philippine economy

The Philippines has become one of the fastest growing economies in Asia, with consecutive annual positive gross domestic product growth since 1999. According to the ASEAN briefing, the Philippines announced a

gross domestic product growth of 6.7% in 2017 and according to the International Monetary Fund, the Philippines is expected to experience a strong gross domestic product growth at the rate of 6.4% for 2018. In addition, the Philippine population is young, comparably literate and growing, which provides the Philippine economy with favorable demographics for further growth.

As one of the largest conglomerates in the Philippines by revenues and total assets, with sales of about 4.7% of the Philippine gross domestic product in 2016, the SMC Group is broadly exposed to the Philippine economy through its diverse range of businesses spanning the beverage, food, packaging, fuel and oil, energy, infrastructure, property and investment in banking. The diversified portfolio aligns SMC to key sectors that it believes will benefit from the forecast growth of the Philippine economy.

Market leading positions in key Philippine industries

Many of the businesses of SMC are leaders in their domestic markets.

Beverages: The domestic beer business of SMC has consistently dominated the Philippine beer market, with a market share of more than 90% by volume in 2016, according to GlobalData, with no significant change thereafter. SMB has held this position since 1999. Ginebra is the market leader in the gin segment and also produces some of the most recognizable brands in the Philippine liquor market. SMC also has a growing non-alcoholic beverage business which produces non-carbonated ready to drink tea and fruit juices.

Food: San Miguel Pure Foods is a leading Philippine food company with market-leading positions in key food categories and offers a broad range of high-quality food products and services to household, institutional and foodservice customers.

According to Nielsen, San Miguel Pure Foods has a 29% share of market in the Trade animal feeds industry as of December 2016. Based on data from certain Philippine government agencies and internal assumptions and calculations, San Miguel Pure Foods believes it had market shares of 38% for poultry and 31% for fresh meats (based on sow population of large commercial farms) 16% for flour as of December 2016.

According to Kantar Worldpanel, San Miguel Pure Foods had a market share of 35% for hotdogs, 83% in the chicken nugget product category, and market shares of 43% for butter, 99% for refrigerated margarine, 74% for non-refrigerated margarine and 19% for cheese, in each case based on value as of June 2017.

According to Nielsen, San Miguel Pure Foods had a market share of 63% for hotdogs sold in Philippine supermarkets, and 96% market share for non-refrigerated margarine as of December 2016. San Miguel Pure Foods has continuously enhanced brand recognition and trust with consumers by consistently maintaining high product quality, as well as through active and targeted advertising and promotional campaigns.

Packaging: The Packaging Group has one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, Polyethylene Terephthalate ("PET") and other packaging products and services such as beverage tolling for PET bottles and aluminum cans. The packaging business is the major source of packaging requirements of the other business units of SMC. It also supplies its products to customers across the Asia-Pacific region, the United States, and Australasia, as well as to major multinational corporations in the Philippines, including Coca-Cola Femsa Philippines, Inc., Nestle Philippines, Inc. and Pepsi Cola Products Philippines, Inc.

The Packaging Group has 14 international packaging facilities located in China (glass, plastics and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, and woven bags), Australia (glass, trading, wine closures and wine bottling facilities) and New Zealand (plastics and trading).

Aside from extending the reach of the packaging business overseas, these facilities also allow the Packaging Group to serve the packaging requirements of SMB breweries in China, Vietnam, Indonesia and Thailand.

Fuel and Oil: SMC operates its fuel and oil business through Petron Corporation ("Petron"), which is involved in refining crude oil and marketing and distribution of refined petroleum products mainly in the Philippines and Malaysia. Petron is the number one integrated oil refining and marketing company in the

Philippines, with an overall market share of 31.5% of the Philippine oil market for the first half of 2017, in terms of sales volume based on Petron estimates using its internal assumptions and calculation and industry data from the DOE. Petron participates in the reseller (service station), industrial, lube and LPG sectors. In addition, Petron is also engaged in non-fuels business by earning income from billboards and locators, which are largely situated within the premises of the service stations.

In Malaysia, Petron ranked third in the retail market with a 19.7% shared as of the 3rd quarter of 2017, based on Petron estimates using its internal assumptions and calculations and industry data from The Concilium Group Sdn Bhd, a market research consultant appointed by Malaysian retail market participants to compile industry data.

Petron owns and manages the most extensive oil distribution infrastructure comprising of 11 terminals in Luzon, 9 in the Visayas and 7 in Mindanao, 2 airport installations in Luzon and 2 in Mindanao with approximately 2,300 retail service stations in the Philippines, and 10 product terminals and a network of approximately 600 retail service stations in Malaysia, as of September 30, 2017. Petron also exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

Energy: SMC Global Power, together with its subsidiaries, is one of the largest power companies in the Philippines, controlling 3,213 megawatts ("MW") of combined capacity as of December 31, 2017 and which benefits from diversified fuel sources, including natural gas, coal and hydroelectric. Based on the installed generating capacities under Energy Regulatory Commission of the Philippines ("ERC") Resolution No. 05, Series of 2017, SMC Global Power, through its Independent Power Producer Administrator ("IPPA") and Independent Power Producer ("IPP") subsidiaries, has a 16% market share of the power supply of the National Grid, a 21% market share of the Luzon Grid and a 5% market share of the Mindanao Grid, in each case as of December 31, 2017.

Infrastructure: SMHC has become one of the major infrastructure companies in the country, with concessions in toll roads, airport and mass rail transit. SMHC has rights to about 55.6% of the total road length of awarded toll road projects. This includes operating toll roads such as SLEX, Skyway Stages 1 and 2, STAR tollways, TPLEX and NAIAx while ongoing projects include Skyway Stage 3, extension of SLEX by another 57.04 km from Sto. Tomas, Batangas up to Lucena in Quezon Province and Skyway Stage 4, a 58.09 roadway from South Metro Manila Skyway to Batasan Complex, Quezon City. SMHC also operates the Boracay Airport which is currently doing improvement and expansion activities that will take advantage of the growing number of tourists in the area. In addition, SMHC holds the concession to construct, operate and maintain the MRT-7 project, a 22-km rapid mass rail transit system, which spans from North EDSA to San Jose del Monte City, Bulacan, and a 22-km road component from San Jose del Monte City, Bulacan to the Bocaue exit of the NLEX. SMHC, together with K-Water, is currently constructing the Bulacan Bulk Water project. This project will involve the supply of treated bulk water to 24 different water districts to the province of Bulacan. SMHC also has an investment in MNHPI, the terminal operator of Manila North Harbor, Inc.

Experienced management team

SMC has an extensive pool of experienced managers, who have been with SMC for more than 20 years. The management team has a deep knowledge and understanding of the Philippine operating environment and has been able to effectively manage SMC through periods of crisis and instability in the Philippines. In addition, the management team has successfully directed the diversification strategy of SMC, including retaining key management personnel from acquired companies in order to maintain their expertise and leverage their industry experience.

Operating businesses provide sustainable stream of income and cash flows

The beverage, food and packaging businesses provide SMC with a sustainable stream of income. These businesses demonstrated resilience during the global financial crisis and provided SMC with a strong financial base from which to pursue its diversification strategy. In 2016, the core businesses of beverage, food and packaging businesses provided 37% of consolidated sales and 38% of total EBITDA of SMC. For the period ended September 30, 2017, core businesses provided 34.1% of total SMC sales and 35.9% of total SMC EBITDA.

For the period ended September 30, 2017, SMC generated ₱108,786 million of EBITDA and ₱20,891 million of net income attributable to the Parent Company with ₱27,942 million of capital expenditure. In 2016, SMC generated ₱130,875 million of EBITDA and ₱29,289 million of net income attributable to the Parent Company

with ₱40,649 million of capital expenditure. In 2015, it generated ₱110,309 million of EBITDA and ₱12,448 million of net income attributable to the Parent Company with ₱59,973 million of capital expenditure.

Well-positioned for significant future growth

SMC is well-positioned for significant future growth. The established businesses in beverage, food and packaging continue to provide stable cash flow, while its new businesses have enabled the SMC to expand its ability to generate higher returns.

Beverage: The beverage business is well-positioned to benefit from the increasing affluence and population growth in the Philippines, which SMB believes are significant opportunities in the premium beer market. Additionally, the international beer business is experiencing increased sales through increasing brand recognition in selected overseas markets such as Indonesia, Thailand, Singapore, Hong Kong, the Middle East, United States and Asia-Pacific region. Ginebra is expanding its liquor business throughout the Philippines. Ginebra plans to create rapid deployment task forces, particularly in the southern Philippines, where market penetration is low and where there is no existing dealership system. With the transfer of the non-alcoholic beverage business from Ginebra to SMB, SMC believes that the strong distribution infrastructure of SMB will be able to increase margins and improve profitability of the beverage business as a whole. The beverage business continues to introduce new products and new package formats to increase consumer interest and overall market size, as well as address the needs of an increasingly fragmenting market, especially in high growth segments.

Food: The food business aims to become the least-cost producer through its vertically-integrated meats business model, which allows it to secure stable raw material supply and develop cheaper alternative raw materials. San Miguel Pure Foods is also streamlining its operations to improve the profitability of its established business segments, such as poultry, feeds, meat and flour, maximize synergies across operations, and improve margins by shifting to stable-priced and value-added products.

Packaging: The packaging business aims to provide a total packaging solution to be able to serve a wide spectrum of customers thereby increasing its potential for higher growth. It also aims to benefit from trade liberalization and globalization in the ASEAN region as it further expands its exports market. The rising environmental awareness also provides opportunities for the production of more environmentally friendly products such as heavy metal free paint glass and recycled PET resin. Packaging plans to improve margins by developing alternative sources of raw materials and optimizing recycling efforts to lower its material costs.

Fuel and Oil: Petron operates as an integrated oil refining and marketing company in the Philippines and Malaysia, which it believes have favorable oil industry dynamics. The Philippines operates under a free market scheme with movements in regional prices reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an APM that provides stable returns to fuel retailers.

Petron owns refineries, in both the Philippines and Malaysia, capable of producing finished petroleum products. Petron believes it has the competitive advantage against other oil players that only import finished petroleum products. Petron plans to continue its service station network expansion and seek growth in complementary non-fuel businesses. Petron also plans to increase the production of higher margin products mainly from the benefits of RMP-2. The RMP-2 is the second phase of the refinery expansion project, which includes further enhancements to the operational efficiencies of the refinery, increase in conversion capability and reduction of production of lower-value fuel oils. In addition to RMP-2 and the expansion of the service station network, Petron is operating the new coal cogeneration power plant to supply the power requirements of the Petron Bataan Refinery that replaced some of the existing turbo and steam generators. The new coal cogeneration power plant is utilizing more efficient technology and generating power at lower costs.

Energy: SMC Global Power is expanding its power generating capacity over the next 5 years, and it intends to utilize its strong platform, extensive relationships and experienced management team to address the growing demand for power in the Philippines. SMC Global Power plans to continue its strategic development of greenfield power projects in parallel with its plan to acquire existing power generation capacity by bidding for selected NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework.

Infrastructure: SMHC believes there are significant opportunities in building or acquiring infrastructure assets in a growing economy that has historically under-invested in infrastructure. In addition, SMC

believes its operating licenses will provide strong and stable long-term income streams, as well as serve as a barrier to entry of new players to the business.

Synergies across businesses

SMC believes there are significant opportunities to develop and increase synergies across many of its businesses, including:

Ancillary business opportunities: SMC believes it has opportunities within its existing businesses to secure growth in its new businesses by using the relevant areas to conduct business and activities. Potential initiatives of this type include installing SMC Group advertisements and building service stations, retail outlets, rest stops and kiosks along toll roads.

Immediate distribution channel: The extensive retail distribution network of SMC provides an effective platform for roll-out of new products and services. For example, the network of Petron service stations provides an immediate distribution channel for retail sales for the beverage and food products of SMC.

Economies of scale: SMC believes the size and scale of its distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC should also result in substantial leverage and bargaining power with suppliers and retailers.

Integration: SMC plans to continue pursuing vertical integration across the established and strategic businesses, such as supplying the fuel and oil and power requirements of its businesses internally.

Business Strategies of SMC

The principal strategies of SMC include the following:

Enhance value of established businesses

SMC aims to enhance the value of its established businesses by pursuing operational excellence, brand enhancement, improving product visibility, targeting regions where SMC has lower market share, implementing pricing strategies and pursuing efficiencies.

Continue to diversify into industries that underpin the development and growth of the Philippine economy

In addition to organic growth, SMC intends to continue to seek strategic acquisition opportunities to position itself for the economic growth and industrial development of the Philippines.

Identify and pursue synergies across businesses through vertical integration, platform matching and channel management

SMC intends to create an even broader distribution network for its products and expand its customer base by identifying synergies across its various businesses. In addition, SMC is pursuing plans to integrate its production and distribution facilities for its established and newly acquired businesses to enable additional cost savings and efficiencies.

Invest in and develop businesses with leading market positions

SMC intends to further enhance its market position in the Philippines by leveraging its financial resources and experience to continue introducing innovative products and services. Potential investments to develop existing businesses include possibly constructing new power plants and expanding its power generation portfolio, building additional service and micro-filling stations and expanding food distribution networks. SMC believes its strong domestic market position and brand recognition provide an effective platform to develop markets for its expanding product portfolio. SMC plans to continue to invest in and develop businesses it believes have the potential to gain leading positions in their respective markets.

Adopt world-leading practices and joint development of businesses

SMC continues to develop strategic partnerships with global industry leaders, such as Kirin for beer, Hormel for processed meats, K-Water for power and NYG for packaging products. These partnerships provide marketing and expansion opportunities.

Recent Developments

Investment in SMC Asia Car Distributors Corp.

On July 17, 2017, the SEC approved the incorporation of a joint venture company, SMC Asia Car Distributors Corp ("SMAC"), 65% owned by SMC and 35% owned by Mr. Jose Ch. Alvarez, which will engage in the business of importation, distribution and servicing of BMW vehicles in the Philippines. By the 4th quarter of 2017, SMAC commenced operation as the exclusive distributor of BMW vehicles in the Philippines.

Sale of 34.83% equity interest in MNHPI by Petron

On September 21, 2017, Petron signed a Share Purchase Agreement with International Container Terminal Services Inc. for the sale of its investment in 10,449,000 shares of stock or 34.83% equity interest in MNHPI for a total consideration of ₱1,750 million. The completion of the Share Purchase Agreement was subject to several conditions. On October 30, 2017, all conditions for the completion of the sale had been complied with and the purchase price had also been paid.

Acquisition of Best Bottlers Pty Ltd.

On October 31, 2017, SMYA acquired 100% of the issued capital of Best Bottlers Pty Ltd. ("Best Bottlers"), located in Victoria, Australia. Best Bottlers is a wine bottling and packaging facility specializing in various formats of contract filing. Its line of business includes still and sparkling wines, cider, ready-to-drink, and non-alcoholic beverages, including fruit juices.

SEC Fine

SMC has initiated the appropriate action before the Court of Appeals to contest the Decision of the SEC, dated 21 November 2017, denying the appeal of SMC from the Order of the SEC Corporation Finance Department imposing a fine for the late filing of the Statement of Initial Beneficial Ownership and Statement of Changes in the Beneficial Ownership (SEC Form 23-A and B, respectively) under the SRC in the amount of ₱769,293,968.10.

Acquisition of Masinloc Power Plant

On December 17, 2017, SMC Global Power Holdings Corp. executed a Share Purchase Agreement with AES Phil Investment Pte. Ltd ("AES Phil") and Gen Plus B.V. ("Gen Plus") for the purchase of (i) 51% and 49% equity interests of AES Phil and Gen Plus respectively in Masin-AES Pte. Ltd. (ii) 100% equity interest of The AES Corporation in AES Transpower Private Ltd., and (iii) 100% of equity interest of AES Phil in AES Philippines Inc.

The Masinloc Power plant owns and/or operates the 2 x 315 MW coal-fired power plant, the power project expansion of 335 MW unit known as Unit 3 which is under construction, and the 10 MW battery energy storage project, all located in the Province of Zambales, Philippines. The total consideration is US$1.9 billion and the enterprise value is approximately US$2.4 billion.

The completion of the acquisition is subject to certain conditions, including but not limited to the approval by the Philippine Competition Commission ("PCC"), to fully implement the acquisition. Upon completion, the parties will execute definitive agreements on the transaction.

On February 23, 2018, SMC Global Power received the decision of the PCC which states that the acquisition of shares in Masin-AES Pte. Ltd., AES Transpower Private Ltd., and AES Philippines Inc. does not result in a substantial lessening of competition in the relevant markets. The PCC resolved that it will take no further action with respect to the transaction.

Issuance of ₱20 Billion Fixed Rate Bonds by SMC Global Power

On December 22, 2017, SMC Global Power issued and listed ₱20 Billion Fixed Rate Bonds under its ₱35 Billion Shelf Registration. The Bonds consisted of Series D Bonds: 5.3750% p.a. due 2022, Series E Bonds: 6.2500% p.a. due 2024 and Series F Bonds: 6.6250% p.a. due 2027.

Consolidation of Food and Beverage Businesses of SMC

On 3 November 2017, the Board of Directors of San Miguel Pure Foods approved the following amendments to its Articles of Incorporation in connection with the consolidation of the Food and Beverage businesses of SMC, and such amendments were approved by San Miguel Pure Foods' stockholders on 18 January 2018, namely:

- Change of name from San Miguel Pure Foods Company Inc. to San Miguel Food and Beverage, Inc.
- Change in purpose to include beverage business
- Change in par value from Php 10.00 to Php 1.00
- Denial of pre-emptive rights
- Increase in the authorized capital stock
- Acquisition of shares of SMC in GSMI and SMB

Issuance of US$500,000,000 Senior Perpetual Capital Securities by Petron

On January 11, 2018, Petron issued and listed in the Singapore Stock Exchange (SGX-ST) US$500,000,000.00 Senior Perpetual Capital Securities with an initial rate of distribution of 4.6% per annum. The net proceeds will be applied for the repurchase, refinancing and/or redemption of undated subordinated capital securities, repayment of indebtedness and for general corporate purposes, including capital expenditures.

Resignation of Mr. Ferdinand K. Constantino as Director of SMC

On February 28, 2018, Mr. Ferdinand K. Constantino resigned as a member of he Board of Directors of SMC. Mr. Constantino resigned from the Board to allow him to devote his time to oversee and support the continuing expansion of the core and new businesses of the SMC Group and ensure the attainment of the goals and objectives set by Management.

Compliance with environmental laws

The SMC Group is in compliance with environmental laws, except where such non-compliance will not have a material adverse effect on the business of SMC. On an annual basis, operating expenses incurred by the SMC Group Philippine Performance of Agriculture Report comply with environmental laws are not significant or material relative to the total costs and revenues of the SMC Group.

Employees

As of September 30, 2017, the SMC Group has 23,858 regular employees. Substantially all of the employees are based in the Philippines and other areas in the Asia-Pacific region. As of September 30, 2017, the approximate number of employees in each of the businesses is set forth below:

Number of Employees

Beverages	5,888
Food	3,492
Packaging	3,843
Energy	893
Fuel and Oil	3,123
Infrastructure	3,418
Other Operations and Investments	3,201
Total	23,858

As of September 30, 2017, approximately 25% of the employees are parties to various collective bargaining agreements. Employees of SMC are not members of any labor unions. On the other hand, a total of 43 labor

unions represent the employees of the subsidiaries of SMC. In the past decade, the SMC Group has not experienced any strikes or work stoppages. The SMC Group considers its relationship with its employees to be good.

In addition to the statutory benefits, SMC initiates benefits to provide for the increased security of its employees in the following areas: health care, leaves, miscellaneous benefits, loans and financial assistance applicable to a variety of uses, retirement benefits, and survivor security and death benefits.

Within the ensuing 12 months, SMC may require additional hiring of employees to support its business expansion, the number of which cannot be determined.

Beverage Business

The beverage business consists of brewing, distilling, selling, marketing and distributing beer, liquor and non-alcoholic beverages. SMC conducts its beverage business through its majority-owned subsidiaries: SMB for beer and non-alcoholic beverages, which is 51.16%-owned, and Ginebra for liquor, which is 76.06%-owned of its total outstanding common shares.

The beverages business of SMC had sales of ₱115,732 million and ₱95,986 in 2016 and the first 9 months of 2017, respectively. The following table sets forth certain information with respect to the beer, liquor and non-alcoholic beverage sales of SMC in 2016 and the first 9 months of 2017:

	Year Ended December 31, 2016		Period Ended September 30, 2017	
	(₱ in millions, except percentages)			
Beer and Non-Alcoholic Beverages…..……	97,160	83.9	80,656	84.0
Liquor……..	18,572	16.1	15,330	16.0
Total……	**115,732**	**100.0%**	**95,986**	**100.0%**

Beer and NAB Business

SMB is the largest producer of beer in the Philippines, with a total market share of more than 90% by volume in 2016, according to GlobalData. It has 6 production facilities strategically located across the Philippines and a highly-developed distribution system with a network of close to 500 dealers and serving more than 400,000 on-premise and off-premise outlets nationwide. In addition to its Philippine beer operations, SMB has 1 brewery each and sales operations in Hong Kong, Indonesia, Thailand and Vietnam, and 2 breweries in China through its wholly-owned subsidiary, San Miguel Brewing International Ltd. ("SMBIL"). SMBIL also exports its beer products to over 50 countries and territories worldwide in North America, Africa, the Middle East, Australia and the rest of Asia. The exports of SMBIL are primarily sold under various beer brands as well as under private labels. SMBIL has a sales office in Taiwan, which is one of SMBIL's major export markets while other countries are served through various importers and distributors. Apart from this, SMBIL also has licensing agreements in Nepal and the UK as well as a distribution agreement in Cambodia.

In 2016, SMB was the largest contributor to the beverages business of SMC, which accounted for 83.9% of sales of the beverages business. SMB markets its beer under the following brands: *San Miguel Pale Pilsen*, which is SMB's flagship brand, *San Miguel Super Dry*, *San Mig Light*, *San Miguel Premium All-Malt, San Miguel Flavored Beer, Cerveza Negra, Red Horse, San Mig Zero,* and *Gold Eagle. San Mig Zero*, described as the lowest calorie, lowest carb and zero sugar beer, is the most recent addition to SMB's beer portfolio. SMB also exclusively distributes *Kirin Ichiban* in the Philippines.

On December 5, 2014, the Board of Directors of Ginebra authorized the sale and transfer to SMB of certain non-alcoholic beverage assets consisting of machinery and equipment as of December 31, 2014, and inventories as of March 31, 2015. The non-alcoholic beverage segment stands to benefit from the distribution and marketing expertise of SMB and further strengthen the growth potential of SMB as it taps new sources of growth in the beverage industry.

In April 2015, SMB acquired the assets of Ginebra used in its NAB business, comprising of machinery, vehicles, coolers, chillers and other equipment, finished goods inventories and other inventories consisting of

containers (bottles, shells/crates and pallets) on hand, packaging materials, goods in process and raw materials. Total amount paid was ₱398 million (VAT exclusive).

With SMB's expansion in the NAB business, the company's portfolio includes *Magnolia Healthtea* (ready-to-drink tea), *Magnolia Fruit drink* (ready-to-drink juice), *San Mig Cola* (carbonates), alongside *Cali,* the country's only malt-based non-alcoholic drink. SMB is discontinuing the distribution of imported *Berri* (pure juice) and *Magnolia Purewater* in plastic bottles in line with SMC's initiative to reduce its environmental footprint and support a more sustainable business model.

Beer remains to be the key business of SMB, accounting for approximately 90% of total company revenues.

Philippine Beer & Beverage Industry

In 2016, the Philippine beverage market had a size of 15 billion liters with the non-alcoholic beverages and alcoholic drinks accounting for 58% and 18%, respectively, according to GlobalData. The rest of the market is comprised of hot beverages and dairy drinks.

Sales of beverages are closely tied to the purchasing power and disposable income levels of consumers. Consumer income has been improving in recent years supported by favourable Philippine economic performance. The company believes there is a positive correlation between per capita gross domestic product and beverage consumption in the Philippines. In 2016, gross domestic product per capita in the Philippines was over ₱78,000.00 while beer consumption per capita was 17 liters per person for beer and 87 liters per person for non-alcoholic beverages.

In terms of the beer market, the Philippines is the 3rd largest in Southeast Asia (following Vietnam and Thailand) and the 6th largest beer market in greater Asia by sales volume. In 2016, sales volume for beer in the Philippines was 17 million hectoliters, per GlobalData.

The beer market in the Philippines is highly concentrated, with SMB and AB Heineken Philippines Inc. ("ABHP"), a joint venture formed in 2016 between domestic brewer Asia Brewery Inc., ("ABI") and Heineken International B.V, as key players. The market share of ABHP was estimated at less than 10% in 2016. SMB recorded a high market share of more than 90% by volume in 2016, according to GlobalData as a result of its extensive distribution network and strong brand portfolio. Key brands include *San Miguel Pale Pilsen, Red Horse* and *San Mig Light.*

Imported beer and local craft beer comprise a small proportion of the market and its distribution is normally limited to upscale hotels, bars, restaurants and supermarkets in Metro Manila and other key cities in the country.

The Philippines is composed of over 7,100 islands which makes distribution highly complex and expensive and represents a significant barrier to market entry for new brewers looking to distribute nationally.

Meanwhile, the non-alcoholic beverage market is fragmented, with many players in different sub-categories such as carbonates, ready-to-drink tea and ready-to-drink juice, among others. Key players include ABI, Universal Robina Corp. (URC), Coca-Cola FEMSA Philippines Inc. (CCFPI), Pepsi-Cola Products Philippines Inc. (PCPPI) and Asiawide Refreshments Corp. (ARC), among others.

The beverage market in the Philippines is seen to sustain its growth at an average rate of 3% in the medium term.

Strengths

The principal strengths of the beverage business include the following:

Strong market share and brand leadership

From a single product produced in a single brewery in 1890, San Miguel beer has, over the years, expanded with an array of popular beer products catering to the distinct tastes and preferences of beverage drinkers in the Philippines. In the beer market, *San Miguel Pale Pilsen*, the flagship brand of SMB, has been an iconic Philippine brand for most of the 20th century and up to today. After considering the evolving preferences of the Filipino beer drinker, other brands and products have been introduced, and these have been very successful. Today, SMB offers a beer portfolio of 9 strong and popular local brands: *San Miguel Pale Pilsen, Red Horse, San Mig Light, San Miguel Super Dry, Cerveza Negra, Gold Eagle, San Miguel Premium All-Malt, San Miguel*

Flavored Beer, San Mig Zero, and also imports and distributes *Kirin Ichiban* under a distribution agreement with Kirin and is sold in key outlets. The beer products of SMB have been internationally recognized for quality, garnering more than 80 gold, silver and bronze medals as well as more than 10 trophies and awards from the Monde Selection International since 2000. For non-alcoholic beverages, the portfolio includes *Magnolia Healthtea, Magnolia Fruit drink, San Mig Cola* and *Cali.* The various products carry distinct attributes that cater to the various segments of the Philippine beverage market.

Strong brand equity

SMB brands have consistently led in the market for beer in the Philippines, the largest alcoholic beverage segment in the country. The top 5 beer brands in the country are all produced by SMB. Despite the entry of local competition in 1981 and the introduction of locally-brewed versions of foreign brands, craft beers and imported beers, SMB has maintained a high market share supported by the popular acceptance and widespread availability of the products of SMB. Imported brands account for less than 1% of the market, according to GlobalData, with distribution primarily in upscale bars, hotels and modern trade channels. The size and scale of the operations of SMB provide significant economies of scale in production, research and development, distribution, and managerial and marketing functions over a diversified product portfolio and geographic base.

SMB conducts trademark nationwide and local events such as *San Miguel Oktoberfest, Red Horse Muziklaban, Sarap Mag Babad* summer program and *National Beer Drinking* contest. It has a presence in major fiestas and festivals, thereby increasing brand exposure to the consumers.

Efficient manufacturing process

Proximity of Production Facilities to Consumer Markets

To ensure product availability and freshness, as well as to minimize distribution costs, SMB maintains a network of 6 production facilities that are strategically located in the 3 main islands of the Philippines: Luzon, Visayas and Mindanao. SMB has facilities in Valenzuela City in Metro Manila, Sta. Rosa City in Laguna, San Fernando City in Pampanga, Mandaue City in Cebu, Bacolod City in Negros Occidental and Darong, Sta. Cruz in Davao del Sur, with a total annual production capacity of approximately 16 million hectoliters. The facilities are equipped with automated equipment capable of manufacturing and packaging the products of SMB in a variety of sizes and formats, including bottles, cans, and kegs. The strategic location of the production facilities of SMB reduces overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country. This also assists SMB in ensuring that the products are freshly delivered to dealers and retailers at an optimal cost. The archipelagic nature of Philippine geography and the relative difficulty of transporting products to the substantial rural population make these dispersed production facilities particularly valuable.

Cost leadership

SMB maintains a strong cost leadership position through high productivity and efficiency, as well as cost control measures, which facilitate pricing flexibility and greater profit growth by maintaining its margins. Product quality initiatives, process enhancements, and improvement programs for plant operations and facilities management are all expected to be sustained. SMB continuously implements process optimization efforts and technology enhancements to generate cost savings.

Extensive distribution system and wide dealership network

SMB has a far-reaching and efficient distribution system in the Philippines. Its over 50 sales offices, third-party logistics service providers and transportation assets including hauling trucks, routing trucks, pre-sell vans and service pickups and its network of close to 500 dealers across the Philippines enable it to maintain optimum stock levels in terms of quality and quantity in more than 400,000 on-premise and off-premise outlets nationwide. The products of SMB from any one of its 6 production facilities reach sales offices or dealer warehouses within 5 days from production date. The sales office or dealer then delivers the products to the wholesaler or retailer promptly afterward, ensuring ample stock and quality wherever and whenever the products of SMB are needed.

Returnable glass bottle system

The returnable glass bottle system of SMB helps keep the price of its products affordable. SMB is able to achieve more than 90% retrieval rate for its bottles, maximizing bottle usage and substantially reducing its packaging costs.

Positioned in strategic growth markets in Asia-Pacific

SMB through its subsidiary, SMBIL, has business operations in 5 countries which are major beer markets in Asia and offer attractive growth prospects in the medium-term (i.e., China, Hong Kong, Vietnam, Indonesia and Thailand). SMBIL has a broad portfolio of strong international and local brands, with the premium brand *San Miguel* growing in most of its international markets while local brands *Blue Star* in Baoding in northern China, *Dragon* in Shunde in southern China and *Anker* in Indonesia remain as major brands in their respective markets. SMBIL also employs focused sales and distribution systems and owns 6 breweries which have a total production capacity of approximately 7.5 million hectoliters to support its operations. The footprint of SMB in the global beer market is also backed by the export operations of SMBIL which cover over 50 markets worldwide.

Financial strength

SMB has consistently shown a strong financial position with attractive growth prospects. Sales growth and cost efficiencies have resulted in consistently high EBITDA. SMB continues to exhibit strong cash flows due to efficient working capital management and prudent capital expenditure programs.

Business Strategies

Domestic Operations

The principal strategy of SMB is to sustain volume expansion and strengthen leadership in the alcoholic beverage market by focusing on demand-generating and value creating initiatives while diversifying into non-alcoholic beverages as an additional source of growth. It plans to achieve this through the following:

Assert market leadership in the alcobev market and expand NAB business

SMB intends to fortify its market leadership in the beer and alcobev beverage industry by ensuring that its products offer relevant and compelling value proposition to consumers. Volume-generating and brand-building programs consisting of thematic campaigns, visibility initiatives and below-the-line activities will be pursued in an integrated manner, complemented by enhanced trade efficiencies via intensified outlet penetration, availability programs, price campaigns and other trade initiatives. Furthermore, it plans to execute targeted sales and marketing initiatives in the regions and localities where growth opportunities exist and where competition is aggressive. In the broader alcobev industry, SMB intends to reinforce its leadership by further strengthening consumer preference for beer and intensifying defense programs against competition from other alcoholic products.

In the non-alcoholic beverage market, SMB intends to sustain the expansion of its NAB business through enhanced brand visibility and availability in key channels and areas as well as efficient operations.

Expansion of the market

SMB also plans to increase its sales volume by expanding the total market for beer sales. Its primary strategies to achieve this include:

Segmented pricing strategy

SMB intends to keep its products affordable for the middle and lower socio-economic sectors by maintaining a moderate pricing strategy for its products in the mainstream and economy markets, where sales are highly price elastic. For the more upscale market, where sales are less price elastic, SMB plans to sustain the higher price positioning of its specialty brands, supported by image-building activities to strengthen their premium positioning and improve their profitability. In the medium term, SMB intends to sustain the different price points among segments to ensure coverage of all market segments while sustaining a healthy brand mix.

Enhancing the value proposition of its products

SMB intends to enhance the value proposition of its products via relevant brand-building initiatives backed by on-ground activations. These will enable SMB to strengthen patronage for its products as well as take advantage of segment-specific growth opportunities and shifts in consumer profile and patterns. Programs and initiatives to protect its core customers and strengthen preference of new and younger drinkers for the brands of SMB will be pursued. SMB expects to further grow its main brands *San Miguel Pale Pilsen*, *Red Horse* and *San Mig Light* through the brand-building initiatives, demand-generating programs, on-ground and digital activations as well as special events aligned with the respective positioning of these brands in the market.

Grow in different market segments and tap growing channels

The premium market for beer in the Philippines is relatively a small segment but plays an important role in brand-building and overall market development. The segment offers promising prospects, underpinned by rising consumer incomes, increasing consumer sophistication, rapidly changing drinker habits and preferences, as well as increasing urbanization. SMB intends to support programs that develop the upscale segment of the beer industry through higher-priced and higher-margin specialty products. For example, *San Miguel Premium All-Malt*, *Cerveza Negra* and *San Miguel Super Dry* are promoted by highlighting product qualities via programs to take advantage of opportunities in the upscale market as well as counter foreign brands. Furthermore, SMB intends to continuously tap growth prospects in the mainstream market brought about by expansion in different sectors such as business process outsourcing, overseas Filipino workers and tourism as well as implement programs to engage millennials aside from traditional ads.

Recognizing the importance of growing modern trade channels (e.g., supermarkets, convenience stores, etc.) especially in urban areas, SMB is also implementing initiatives in these emerging segments which offer growth potential.

Intensify trade execution and innovation

SMB intends to expand its trade reach and increase the visibility and availability of its products to support volume growth and profitability. In pursuing this strategy, SMB will focus on improving trade efficiencies and creating new markets for volume expansion while enhancing dealer operations and trade partnerships. Furthermore, SMB will likewise implement programs to improve outlet servicing, strengthen channel management as well as enhance sourcing and distribution schemes to ensure availability of its products in specific channels and locations. In addition, SMB will sustain presence in growing modern retail formats while optimizing growth in tertiary outlets and other channels to effectively reach consumers.

Increase sales through special events and promotions

SMB intends to pursue volume-generating initiatives such as innovative consumer promotions and campaigns, on-ground activations as well as occasion-creation programs and special events. Examples of these activities include the presence of SMB in town fiestas and conduct of trademark events, such as *San Miguel Beer Oktoberfest*, *Red Horse Muziklaban*, *San Mig Light Party All Night*, *Sarap Mag Babad* summer program activations as well as the National Beer Drinking Contest that aim to make the beer drinking experience more relevant and closer to the consumers.

Develop new products and packaging innovations

SMB will continue to explore the introduction of new products and innovative package formats. SMB believes this strategy can tap new consumer segments as well as address the needs of an increasingly fragmenting market. For example, to capitalize on the health and wellness trend, SMB introduced *San Mig Zero* in 2013 which was formulated to offer the lowest calorie, lowest carbohydrate and zero sugar proposition to health-conscious individuals. To excite the market, SMB introduced canned variants of *San Miguel Flavored Beer* and released limited edition *San Miguel Pale Pilsen* cans in 2014. In 2016, SMB likewise introduced draft variants for *Premium All-Malt, Super Dry* and *Cerveza Negra*. SMB also intends to pursue other packaging innovations to capitalize on the market trends toward convenience packaging as well as increasing sophistication of consumers.

Improve resource allocation and value creation in the supply chain

SMB aims to improve resource allocation and cost management towards programs that would create more value for SMB as well as ensure appropriate mix of advertising and promotions that would generate higher

sales for SMB. In support of value creation in the supply chain, SMB intends to broaden its base for suppliers and materials to drive down costs without sacrificing quality. Third party service providers will also be managed more effectively and anchored on stronger partnership and shared objectives. Process and productivity improvements will be vigorously pursued in the different stages and areas of production, distribution and promotions to deliver products of superior quality while protecting profitability. SMB also intends to increase its production capacity via establishment of new breweries and expansion of existing facilities to meet growing demand.

Strategy for International Operations

In the international beer business, the overall objective of SMBIL is to achieve strong volume and profit growth trend following the improvement in its performance. This will be achieved through market-specific programs that cater to local tastes and preferences while pursuing an integrated and consistent campaign for San Miguel beer brands in the region. In particular, key strategies include the following:

Strengthening the portfolio of local and international brands

SMBIL intends to further push the appropriate combination of local and international brands in its operating units to capitalize on the varied preferences of consumers in the international markets and pursue a healthy and profitable brand mix.

Accelerating the expansion of the San Miguel brand

SMBIL aims to accelerate growth of San Miguel beer brands mainly *San Miguel Pale Pilsen* and *San Mig Light*, consistent with the thrust of SMB to promote *San Miguel* as the lead brand in the portfolio in international markets. This will be done primarily through consumer and trade promotions events as well as development of new advertising campaigns and creative merchandising materials. SMBIL will continue to support the growth of *Red Horse* through trade coverage expansion as well as conduct brand building and volume generating programs. SMBIL is also working on expanding its portfolio in selected markets through the launch of other San Miguel brands such as *Cerveza Negra* and *San Miguel Premium All-Malt* as well as the introduction of draught variant for its *San Mig Light*, *Red Horse*, and *Cerveza Negra* brands.

Improving sales and distribution management

Supporting the thrust on volume expansion and appropriate brand mix is the objective of improving the efficiency of sales and distribution. This involves strengthening the management of dealers/wholesalers, outlet and channel-specific programs such as bar games, sports viewing parties and promotions aligned with the respective positioning of brands. SMBIL also aims to strengthen its position in its core markets through increasing outlet penetration in existing areas as well as geographic expansion to new territories. SMBIL will also grow volumes in markets beyond Asia and the Middle East.

Cost reduction and efficiency improvements

To increase the cost competitiveness of SMBIL, efficiency improvement programs and cost containment measures will be implemented in the different aspects of the business such as logistics, manufacturing, sales, procurement and marketing. Processes are regularly evaluated for optimization, capability-building and development of potential synergies, where applicable, among the different units. SMBIL intends to reduce freight and distribution costs through improvements in sourcing and ordering of stocks as well as implementation of packaging improvements, lower cost formulation and procurement of materials on a regional scale, among others.

Selected operating metrics for the beer business of SMB for 2014, 2015, 2016 and the 3rd quarter of 2017 are set forth in the table below:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2014	2015	2016	2016	2017
	(₱ in millions, except percentages)				
Sales	79,005	82,374	97,160	69,298	80,656
Gross profit	36,211	37,563	44,851	31,694	35,221
Gross profit margin(1)	45.8%	45.6%	46.2%	45.7%	43.7%
EBITDA(2)	25,106	25,685	31,345	20,825	23,856
EBITDA margin(3)	31.8%	31.2%	32.3%	30.1%	29.6%
Net income before tax	19,595	19,339	25,019	17,216	20,199
Net income before tax margin(4)	24.8%	23.5%	25.8%	24.8%	25.0%

Notes:
(1) Calculated as gross profit divided by revenues.
(2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.
(3) Calculated as EBITDA divided by revenues.
(4) Calculated as net income before income tax divided by revenues.

Domestic Beer and NAB Sales

SMB markets its beer under the following brands: *San Miguel Pale Pilsen*, which is SMB's flagship brand, *San Miguel Super Dry*, *San Mig Light*, *San Miguel Premium All-Malt, San Miguel Flavored Beer, Cerveza Negra, Red Horse, San Mig Zero,* and *Gold Eagle. San Mig Zero*, described as the lowest calorie, lowest carb and zero sugar beer, is the most recent addition to SMB's beer portfolio. SMB also exclusively distributes *Kirin Ichiban* in the Philippines.

In the non-alcoholic beverage market, SMB's sells *Magnolia Healthtea* (ready-to-drink tea) *Magnolia Fruit drink* (ready-to-drink juice), and *San Mig Cola* (carbonates) as well as, *Cali*, the country's only malt-based non-alcoholic drink.

Over the years, products of SMB have been consistent recipient of numerous international awards for product quality and excellence, including the Monde Selection awards. Monde Selection, founded in 1961, is an international and independent quality institute based in Belgium that evaluates the quality of various products including alcoholic beverages. SMB considers Monde Selection awards as an advertising asset which highlights the quality of products to consumers. The latest awards in 2016 gave SMB a total of more than 80 gold, silver and bronze medals, as well as more than ten trophies and awards since 2000.

SMB beer products compete in the premium, popular/mainstream and economy market segments in the Philippines. The popular/mainstream segment continues to be the key driver but the share of premium or upscale brands of SMB to total SMB sales has been increasing since 2000. These trends primarily reflect shifts in consumer preferences given improvements in income, increased urbanization and changes in lifestyle.

International Beer Sales

SMB has brewery operations in Hong Kong, China, Vietnam, Thailand, and Indonesia through SMBIL. These breweries have a combined annual capacity of approximately 7.5 million hectoliters and sell their products locally as well as in various export markets.

In addition, SMB exports its beer products to over 50 countries, with key markets in Asia, the Middle East, Africa, North America and Australia. Exports of SMB are primarily sold under various San Miguel brands as well as under private labels.

Grupo Mahou San Miguel of Madrid, Spain has the rights to the *San Miguel* brand for beer in Europe and the Mediterranean, and is not affiliated with either SMB or SMC.

Production and Raw Materials

Due to the high cost of shipping within the Philippines relative to product cost as well as the importance of maintaining freshness and other distribution considerations, SMB maintains a system of regional breweries rather than a central consolidated brewing facility. SMB currently owns and operates 6 production facilities in the Philippines. These facilities are located in the 3 main island groups of Luzon, Visayas and Mindanao in the Philippines, and are located close to the intended end-markets in order to reduce transportation costs.

As of September 30, 2017, the 6 production facilities of SMB had a total production capacity of approximately 16 million hectolitres.

The Polo Brewery is located north of Metro Manila and serves the Metro Manila and Southern Luzon markets. Established in 1947, it is the oldest operating brewery of SMC. The San Fernando Brewery was built in 1981, and is located in Pampanga province north of Metro Manila and serves Central and Northern Luzon. The Mandaue Brewery, located on the island of Cebu, serves part of the Visayas region and Mindanao. The Bacolod Brewery was built in 1990 on the island of Negros which serves Negros and the island of Panay. The Davao Brewery was built in 1995 and serves the Mindanao market. The Sta. Rosa Plant in the province of Laguna was established in 2011. The production facilities were upgraded and modernized from time to time to ensure quality and efficiency. While production at each facility is typically targeted to serve the geographical area around it, the distribution system can shift production from 1 facility to another if operational issues or demand changes require.

SMB's non-alcoholic beverage products are manufactured by SMB and third-party operators via tolling arrangements.

SMB employs state-of-the-art brewing equipment and technology which are sourced from leading manufacturers in Germany, United States, Japan and Italy. These include the modern beer fermentation and maturation tanks, filtering systems, pasteurizers with energy saving systems and camera-type electronic bottle inspectors, among others. Each of the facilities of SMB is equipped with automated facilities capable of manufacturing products in a variety of packages to meet market preferences, including bottles, cans and kegs.

All of the facilities of SMB are compliant with the requirements of the International Organization for Standardization ("ISO") ISO 9001:2008 and ISO 14001:2004, as assessed by its pool of technical assessors. All of the facilities are also certified by the Food Development Center as compliant to food safety requirements of current Good Manufacturing Practices (cGMP)–Hazard Analysis of Critical Control Points (HACCP).

The main raw materials for brewing beer include malted barley, hops, water and yeast. Adjuncts, such as sugar and non-malted grains, can also be used in conjunction with malted barley. For non-alcoholic beverages, the main ingredients include water, sugar, sweeteners, fruit juice concentrates, tea extract, flavors, colorants and vitamins.

SMB depends on raw materials sourced from third parties to produce its products. SMB procures key raw materials through a procurement group that uses standardized procurement procedures. Beer production requires malted barley and hops, which are sourced generally from North America, Australia, Europe, China and Germany; and adjuncts, which are generally sourced domestically. For non-alcoholic beverages, SMB primarily sources its ingredients from Singapore, China and Europe.

SMB enters into supply contracts with key raw material suppliers with terms ranging from approximately 1 year to 5 years. These contracts typically provide for a pre-determined fixed and formula price for the duration of the contract. In addition, depending on considerations such as price trends and the quality of raw materials, SMB also makes spot purchases in the open market. To ensure the quality of its products, SMB closely monitors the quality of its raw materials.

All water supply used by SMB in its production is provided by company-owned and operated deep wells, except for water used at the Polo Brewery, which is supplied by the Maynilad Water Services, Inc., a privatized water company serving parts of Metro Manila. While for the international operations, water is supplied by company-owned deep wells or by water utility service providers.

The packaging materials of SMB are primarily sourced from the SMYPC Group.

Packaging costs are also a significant factor in the manufacture of beer. SMB sells its products in glass bottles as well as in aluminum cans and kegs. A significant portion of glass bottles used by SMB are returnable glass bottles which account for majority of sales in 2016. These returnable glass bottles are used for over 50 cycles.

Retail outlets selling SMB products collect deposits on these bottles for every beer purchase and return the deposit when the bottles are returned. New glass bottles are purchased from time to time to support accelerating sales and to replace broken and scuffed bottles.

Cans are less popular mainly because they are more expensive, although the volume of cans has been increasing in recent years with greater availability and expansion of modern trade. Kegs for draft beer which come in 15, 30 and 50 liter sizes are very limited.

SMB's third party production operators for its water products handle the sourcing of raw materials and packaging materials used in their production.

SMB's international operations include 6 production facilities located in China, Hong Kong, Vietnam, Indonesia and Thailand.

Research and Development

SMB employs state-of-the-art brewing technology. Its highly experienced brewmasters and quality assurance practitioners provide technical leadership and direction to continuously improve and maintain high standards in product quality, process efficiency, cost effectiveness and manpower competence.

Technology and processes are constantly updated, and new product development is ensured through continuing research and development of beer and non-alcoholic beverages. Research and development activities are conducted in a technical center and pilot plant located in one of SMB's production facilities. SMB also has a central analytical laboratory which is equipped with modern equipment necessary for strategic raw materials analysis and validation, beer and non-alcoholic beverage product evaluation and new raw material accreditation. Specialized equipment includes gas chromatography, high performance liquid chromatography, atomic absorption spectroscopy, protein analyzer, and laboratory scale mashing/milling system for malt analysis. Analytical methods and validation procedures are constantly enhanced and standardized across all the laboratories of SMB. The central analytical laboratory runs proficiency tests for brewery laboratories and suppliers to ascertain continuous reliability and quality of analytical test results. It is also tasked with ensuring compliance of all systems with international standards, specifically ISO 17025-2005.

To promote technical manpower development, SMB runs the San Miguel School of Brewing, which offers various programs spanning all levels of professional brewing technical training, starting from the basic brewing course for newly hired personnel to the advanced brewing course for senior technical personnel. Courses offered at the school included those highly advanced classes necessary to qualify the most senior of its technical personnel known as brewmasters. Each of the more than 35 brewmasters has extensive advanced coursework and over 10 years of on-the-job-training experience with SMB.

Sales and Distribution

SMB markets, sells and distributes its products principally in the Philippines. SMB believes it maintains an extensive distribution network of 6 strategically located production facilities across the country and 6 production facilities in the Asian region with a broad network of sales offices and warehouses and effective management of dealership and third-party service providers.

The strategic location of the production facilities of SMB in the Philippines reduces overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country. This also assists SMB in ensuring that the products are freshly delivered to customers at an optimal cost. Products are delivered from any one of the 6 production facilities by contract haulers and, in certain circumstances, by a fleet of boats contracted by SMB, to a sales office or dealer warehouse generally within 5 days from production in the breweries. From the sales office or dealer, the products are then promptly delivered to the retailer or wholesaler, ensuring the quality and sufficient stocks wherever and whenever San Miguel products are needed. As of December 31, 2016, SMB's products are distributed and sold at more than 400,000 outlets, including off-premise outlets such as supermarkets, grocery stores, sari-sari stores, and convenience stores, as well as on-premise outlets such as bars, restaurants, hotels and beer gardens. SMB also manages over 50 sales offices and partners with close to 500 dealers throughout the Philippines.

For distribution efficiency, SMB closely works with the dealers and provides support such as systems and promotional support and various trainings related to dealer operations. SMB enters into distribution agreements with its dealers that specify the territory in which the dealer is permitted to sell the products of SMB, the brands that the dealer is permitted to sell, the performance standards as applicable, procedures to

be followed and circumstances upon which distribution rights may be terminated. Distribution rights, performance standards and sales procedures are developed by SMB and implemented in tandem with dealers to ensure high quality of services.

SMB formed a key accounts group to handle accounts management and business building of the modern trade accounts such as hypermarkets and convenience stores, and high visibility in selected on-premise outlets.

Marketing Activities

SMB actively pursues marketing initiatives to promote new and existing products, as well as to maintain and enhance brand awareness of its existing products. These initiatives include media advertisements featuring Filipino celebrities, sponsorship of special events, conducting various consumer and trade promotions and other merchandising activities. SMB taps various channels such as television, radio, print and digital space to reach targeted segments while deploying outdoor billboards and posters that can be placed on the walls of retail outlets and restaurants, bars and other on-premise outlets. SMB operates a beer delivery service in Metro Manila and selected key cities via its "632-BEER" (632-2337) hotline delivery program wherein customers can place their orders by calling, text messaging or online ordering (www.smbdelivers.com). The delivery service enables SMB to tap emerging segments such as the home market and online consumers.

SMB holds trademark special events. San Miguel Beer *Oktoberfest* has been the flagship event of the brand for over 3 decades. This beer festival takes places at numerous locations across the Philippines and offers beer, popular bands, celebrities, games, and raffle prizes. The National Beer Drinking Contest is also organized by SMB, consisting of beer drinking competitions in various locations across the country and culminating in one grand national competition, to gather the best beer drinkers in the country. SMB also holds *San Miguel Pale Pilsen*'s nationwide *Sarap Mag Babad* summer program, which is an annual get-together involving games, concerts and parties at the country's popular summer destinations. In addition to *San Miguel Pale Pilsen*, *Red Horse* is also strongly associated with rock concerts and has its own *Muziklaban*, the biggest annual rock challenge in the country. For *San Mig Light*, SMB conducts music party initiatives such as *Party All Night* and club music events. SMB also conducts beer tasting bar tours in upscale outlets for its specialty brands *San Miguel Premium All-Malt*, *San Miguel Super Dry* and *Cerveza Negra*.

Competition

In the Philippine beer market, the SMB's major competitor is ABHP which offers a portfolio of local and foreign beers, some of which are produced under license from foreign brewers, and alcomix beverage products.

ABHP competes mainly through licensed Colt 45, a strong alcohol brand which is positioned against SMB's strong alcohol beer *Red Horse*, and local Beer na Beer in the economy segment. Other brands include Brew Kettle, Manila Beer and Manila Light. It is also the exclusive distributor of Asahi Super Dry in the country. Following the joint venture in 2016, ABHP started the marketing and selling of imported Heineken and Tiger in the country, competing with SMB's upscale brands.

ABHP also offers Tanduay Ice which is a line of alcopop beverages positioned similar to beer, Ultimo Craft, a wine and brandy mix, as well as Red Oak Sangria, an alcomix beverage. Competition from imported beers and local craft beers is minimal. These products comprise a small proportion of the market and are primarily found in upscale hotels, bars, restaurants and supermarkets in Metro Manila.

SMB also competes with producers of other alcoholic beverages, primarily gin, rum, brandy, and recently, alcopops which are close substitutes to beer. In the beer industry — and more generally the alcoholic beverage industry—competitive factors generally include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. SMB believes that its market leadership, size and scale of operations, and extensive distribution network in the Philippines create high entry barriers and provide SMB with a competitive advantage in the Philippines.

In the non-alcoholic beverage market, SMB faces competition from established players and brands in the segments where it is present (i.e., ready-to-drink juice and ready-to-drink tea). For example, Zest-O, Tropicana Twister and Minute Maid compete with *Magnolia Fruit Drink* and C2, Lipton and Nature's Spring Iced Tea with *Magnolia Healthtea.*

In its main international markets, SMB contends with both foreign and local beer brands, such as Blue Girl (Hong Kong), Carlsberg (Hong Kong, Thailand), Heineken (Hong Kong, South China, Thailand, Vietnam and Indonesia), Tsingtao (Hong Kong, China), Yanjing (China), Tiger (Thailand, Vietnam and Indonesia), Guinness

(Hong Kong and Indonesia), Bintang (Indonesia), Budweiser and Snow (China, Hong Kong), Singha and Asahi (Thailand), and Saigon Beer (Vietnam).

Liquor Business

As of September 30, 2017, the liquor operations of SMC had sales of ₱15,330 million, accounting for 16% and 2.6% of the beverages sales and total consolidated sales of SMC, respectively.

Ginebra traces its roots to a family-owned Spanish era distillery that introduced the Ginebra San Miguel brand in 1834. The distillery was then acquired by La Tondeña Incorporada in 1924, and thereafter by SMC in 1987 to form La Tondeña Distillers, Inc. In 2003, the company was renamed Ginebra San Miguel Inc. in honor of the pioneering gin brand.

Ginebra enjoys adequacy in its supply of alcohol with majority being sourced from its related parties- Distileria Bago, Inc. ("DBI"), which is located in Bago City, Negros Occidental, and Thai San Miguel Liquor Co., Ltd. (TSMl), in Kanchanaburi, Thailand.

In 2012, Ginebra ramped up both its production capacities and capabilities with the acquisition of East Pacific Star Bottlers Philippines Inc., which operates bottling plants in Cauayan, Isabela and Ligao, Albay.

The Philippine Liquor Industry is oligopolistic in nature with major categories such as Brandy, Gin, Rum, and Chinese Wine. Ginebra is one of the biggest players owing to a diverse portfolio of products. Core brands such as Ginebra San Miguel and Vino Kulafu continue to dominate the Gin and Chinese Wine categories, respectively.

The majority of domestic sales of liquor are made to those segments of the population seeking economy products. While quality and drinkability of liquor are important, popular pricing strategies are essential, especially for new products. Local manufacturers enjoy a competitive advantage as the market is highly price sensitive.

Domestic brands, namely *Ginebra San Miguel*, Tanduay 5, and Emperador Light continue to dominate the hard liquor market. The products sold consist mainly of Gin, Rum and Brandy.

Competitive Strengths

Ginebra believes that its principal strengths include the following:

Market leading brands

Ginebra is amongst the leading players of the Philippine liquor market with dominant brands in the Gin and Chinese Wine categories. Its flagship brand *Ginebra San Miguel* has shown strength through the years with its continued dominance of the Gin category. The company offers other gin products such as *Ginebra San Miguel Premium Gin, GSM Blue and GSM Blue Flavors*. Another popular product is leading Chinese Wine brand *Vino Kulafu* which is pervasive in the Southern Philippines.

In 2015, Ginebra launched a new light brandy product, *Primera Light Brandy,* to complement its gin portfolio by targeting loyal brandy drinkers.

Streamlined distribution network

Ginebra has a streamlined distribution network consisting of 13 Sales Offices situated strategically across the country. Direct shipments are made to a diversified base of about 100 dealers assigned to specific geographic areas or territories that serve around 150,000 retail outlets nationwide through routing trucks, pre-sell van and service pickups. Ginebra operates 5 bottling plants which includes toll bottlers to ensure that all its products are available nationwide.

Strong Cost Leadership

Ginebra has established a diversified raw material base. It has a strong cost advantage as provided by its efficient production practices and cost management measures. It also continues to identify and evaluate improvements in processes to protect its cost advantage.

Business Strategies

The principal strategies of Ginebra include the following:

Organic growth of existing products

Ginebra is expanding its distributors and setting up direct selling operations particularly in the Greater Manila Area (GMA) and Southern Philippines. It reinforces its distribution network through wholesalers, extending its reach in underserved areas of GMA, Visayas and Mindanao.

Wholesaler development programs continue to be implemented to support and boost productivity of dealers.

Protect and expand the Gin market

Ginebra is focusing on growing its core gin products. Recent thematic campaigns such as the "*Ganado sa Buhay*" fortify dominance of its flagship brand *Ginebra San Miguel* in the gin category. Purposive product launches allow the company to capture new drinkers and markets. New product offerings also aim to serve the dynamic consumer market in key areas in Northern Philippines, such as the lower proof alcohol products through the re-launch of *GSM Blue*.

As the dominant gin player, the Ginebra San Miguel brand spearheads the annual commemoration of World Gin Day, which is held in June. The local version has been extended into a month-long festivity with pocket activations in popular hangouts nationwide.

Secure raw material sources

Ginebra has embarked on initiatives that will allow the use of alternative raw materials to complement or replace sugarcane molasses, which is under threat from increasing prices and decreasing availability as it is used as a raw material for the clean fuel program of the Philippine government. Cassava has proven to be a reliable substitute for molasses and Ginebra, through its subsidiary DBI, has installed this capability. Ginebra will also import more crude alcohol as an alternative if proven to be more cost efficient at certain points in time.

Sustain cost improvement programs

Increased use of second-hand bottles, and better distillery and bottling efficiencies, have yielded reduced production spending for Ginebra. The company also continues to evaluate the use of cheaper alternative raw materials. Fixed costs are being kept in check with more prudent spending, particularly with advertising and promotion.

Selected operating data for the liquor business are set forth in the table below for the periods indicated:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	(₱ in millions, except percentages)				
Sales	14,921	16,555	18,572	13,202	15,330
Gross profit	3,973	4,373	4,686	3,346	3,823
Gross profit margin[(1)]	26.6%	26.4%	25.2%	25.3%	24.9%
EBITDA[(2)]	1,009	1,319	1,514	1,130	1,334
EBITDA margin[(3)]	6.8%	8.0%	8.2%	8.6%	8.7%
Net income (loss) before tax	(54)	146	509	357	662
Net income (loss) before tax margin[(4)]	(0.4%)	0.9%	2.7%	2.7%	4.3%

Notes:

(1) Calculated as gross profit divided by revenues.

(2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.

(3) Calculated as EBITDA divided by revenues.

(4) Calculated as net income before income tax divided by revenues.

Ginebra Sales

Ginebra is among the leading players in the Philippine liquor market and produces, markets, and sells some of the most recognizable brands including *Ginebra San Miguel*, *GSM Blue*, *GSM Blue Flavors, Ginebra San Miguel Premium Gin, Vino Kulafu, Primera Light Brandy, Antonov Vodka and Don Enrique Mixkila.*

Ginebra offers a wide range of liquor in the popular and economy market segments, including gin, brandy, chinese wine, vodka and tequila.

The quality of the products has been recognized by a number of organizations, including the Monde Selection of Belgium which has awarded gold medals to various brands in past years, the International Wines & Spirits Competition, and San Francisco World Spirits Competition, to name a few.

Consumer preferences in the Philippine liquor market vary largely by geographical region. Consumers in Northern Philippines prefer gin and brandy, while consumers in Southern Philippines prefer rum and Chinese Wine. In recent years, brandy has gained popularity in both Northern and Southern Philippines.

Ginebra capitalizes on the strength of its flagship brand Ginebra San Miguel in expanding its market, particularly in the Southern Philippines.

Exports and Overseas Operations

The primary export markets of Ginebra are in areas with high concentration of Filipino communities such as the UAE, Taiwan, Vietnam and the United States. Competition in the export markets is intense. The competitors include a number of international liquor producers, some of which may have greater production, marketing, financial and other resources.

In addition to exports of liquor, Ginebra also sells and distributes liquor in Thailand through its joint venture with Thai Life Group of Companies via Thai San Miguel Liquor Co., Ltd.

Raw Materials and Production

Alcohol is the main raw material used in the production of liquor. Ginebra produces most of its alcohol at its distillery plant in Bago City, Negros Occidental. Alcohol is produced primarily from sugarcane molasses, which is purchased from a variety of third-party suppliers pursuant to supply contracts as well as in the open market. Recently, as the price for molasses has increased, Ginebra has been considering alternative raw materials such as cassava starch milk. Ginebra constructed a cassava starch milk plant in the Philippines to enable the use of this alternative raw material in the production of alcohol.

The liquor products of Ginebra are packaged in glass bottles which are sourced from the packaging business of SMC. In addition to using new glass bottles, Ginebra maintains a network of bottle suppliers in the Philippines that recycles second-hand bottles back to the plants. Even with the additional cost of maintaining a quality control system for the safety of recycled bottles, the cost of recycled bottles is approximately half of the cost of new bottles. As a result, bottling costs for any particular product are generally expected to decrease over time with the increased use of recycled bottles.

Distribution

Ginebra distributes its products directly to its dealers. It has recently streamlined its distribution network by reorganizing its network of dealers by assigned geographic areas. The reorganization was designed to enhance the efficiency of the distribution network by having fewer but larger dealers. Ginebra has over 100 dealers for its liquor products. It utilizes third party services in the warehousing and delivery of its products.

Recently, Ginebra has embarked on a program to increase its distributor base throughout the country, including Southern Philippines. It also maintains an organization for direct selling operations to gain better control of market operations. The sales force of Ginebra has a Key Accounts Group which handles the modern trade and on-premise outlets in key cities.

Marketing and Competition

Ginebra trumps competition by being the only major player with a professional basketball team, the *Barangay Ginebra San Miguel.* As the Philippines continues to be a basketball-crazy nation, Ginebra regularly uses its

basketball players in its advertising campaigns. Product advertisements are commonly streamed through television, radio, print and billboards. Ginebra has kept abreast with technology by utilizing digital advertising, and frequently sponsors special events, consumer and trade promotions.

Ginebra targets the popular and economy market segments. The major competitors of Ginebra are Emperador Distillers Inc. and Tanduay Distillers Inc.

As Ginebra endeavors to create a niche in the premium segment with the introduction of premium brand names, it will continue to rely on its competitive advantages including price, quality and extensive distribution network.

Food Business

SMC operates its food business through San Miguel Pure Foods and its subsidiaries. San Miguel Pure Foods was formed in 2001 through the operational integration of 2 leading Philippine food groups - the food businesses of SMC and Pure Foods Corporation. SMC currently owns 85.37% of the common shares of San Miguel Pure Foods. San Miguel Pure Foods has been listed on the PSE since 1973.

San Miguel Pure Foods is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional and foodservice customers. San Miguel Pure Foods has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream, and milk products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Super Coffee* for coffee, *La Pacita* for biscuits *and B-Meg* for animal feeds.

San Miguel Pure Foods organizes its operations into 4 business segments: agro-industrial, branded value-added, milling, and others. The agro-industrial business segment includes the animal feeds, poultry and fresh meats businesses; the branded value-added business segment includes the processing and marketing of value-added refrigerated processed meats and canned meats, dairy spreads, oils, coffee, biscuits and condiments as well as the marketing of the flour mixes; the milling business segment includes the production of flour, customized and premixes, other flour-based products and grain terminal operations; and others include foodservice, franchising businesses and international operations.

In 2016 and for the period ended September 30, 2017, the contribution of each business segment to the revenues of San Miguel Pure Foods was as follows(1):

	Year Ended December 31, 2016		Period Ended September 30, 2017	
	Revenues	% of Revenues	Revenues	% of Revenues
	(₱ in millions, except percentages)			
Agro-industrial	74,464	66.7	57,862	68.5
Branded Value-added	27,339	24.5	19,471	23.1
Milling	8,253	7.4	5,832	6.9
Others	1,530	1.4	1,287	1.5
Total	**111,586**	**100.0**	**84,452**	**100.0**

Notes:
(1) Represents the external revenues of each segment and excludes inter-segment revenues

The contribution of the international operations of San Miguel Pure Foods to its total revenues was 0.8% in 2016 and 0.9% for the period ended September 30, 2017.

The following table sets forth the operating results of San Miguel Pure Foods by business segment for the periods indicated [(1)]:

	Year Ended December 31, 2016		Period Ended September 30, 2017	
	Operating Results	% of Total Operating Results	Operating Results	% of Total Operating Results
	(₱ in millions, except percentages)			
Agro-industrial	3,992	44.7	4,494	66.6
Branded Value-added	2,589	29.0	1,398	20.7
Milling	1,861	20.8	1,059	15.7
Others	484	5.4	(201)	(3.0)
Eliminations	5	0.1	-	-
Total	**8,931**	**100.0**	**6,750**	**100.0**

Notes:

(1) Includes operating results from inter-segment revenues. For information concerning the amount of inter-segment revenue for each segment, see Note 3 to the September 30, 2017 unaudited condensed consolidated interim financial statements and Note 6 to the 2016 audited consolidated financial statements. Inter-segment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meats from the agro-industrial segment to the branded value-added segment, and (iii) service revenue of the grain terminal operations of the milling segment from the agro-industrial segment.

Philippine Food and Agriculture Industry

According to the Philippine Statistical Authority, there was a general upward movement in food prices in the Philippines as of March 31, 2016, brought about by the uptick in the indices of corn, fish, meat, sugar and chocolate confectionery as well as milk, cheese and egg. In the National Capital Region ("NCR"), food index climbed by 2.2% during same period while the index increased by 1.6% in Areas Outside National Capital Region (AONCR).

According to the Philippine Performance of Agriculture Report, chicken inventory as of January 1, 2016 is 179 million birds or 1.3% higher than the previous year. Layer and native chicken grew by 3% and 2.9% respectively while broiler chicken decreased by 1.4% than the previous year. Chicken egg production for 2015 increased by 7% and value at current prices is pegged at ₱42.65 billion.

Competitive Strengths

San Miguel Pure Foods believes that it has the following competitive strengths:

Portfolio of leading and highly recognized brands known for quality

San Miguel Pure Foods has successfully developed a strong portfolio of well-recognized brands known for quality in the Philippines, including *Magnolia* for chicken, ice cream and milk products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Super Coffee* for coffee, *La Pacita* for biscuits and *B-Meg* for animal feeds. As a testament to the strength of its brands in the Philippines, San Miguel Pure Foods has established market-leading positions in several segments and product categories. According to Nielsen, San Miguel Pure Foods has a 29% share of market in the Trade animal feeds industry as of December 2016. Based on data from certain Philippine government agencies and internal assumptions and calculations, San Miguel Pure Foods believes it had market shares of 38% for poultry and 31% for fresh meats (based on sow population of large commercial farms) and 16% for flour as of December 2016. According to Kantar Worldpanel, San Miguel Pure Foods had a market share of 35% for hotdogs, 83% in the chicken nugget product category, and market shares of 43% for butter, 99% for refrigerated margarine, 74% for non-refrigerated margarine and 19% for cheese, in each case based on data as of June 2017. According to Nielsen, San Miguel Pure Foods had a market share of 63% for hotdogs sold in Philippine supermarkets, and 96% market share for non-refrigerated margarine as of December 2016. San Miguel Pure Foods has continuously enhanced brand recognition and trust with consumers by consistently maintaining high product quality, as well as through active and targeted advertising and promotional campaigns.

Through these efforts, San Miguel Pure Foods has not only developed leading brands for traditionally branded food segments, but has also established successful branding for traditionally commoditized product segments such as *Magnolia* for poultry, *Monterey* for fresh meats, *B-Meg* for animal feeds, *Emperor, King and Queen* for flour. San Miguel Pure Foods believes that its well-recognized brands have allowed it to develop strong customer loyalty resulting in repeat purchases that provide it with greater pricing power relative to its competitors. In addition, the multi-brand strategy of San Miguel Pure Foods allows it to reach customers more easily than its competitors given its significant brand recognition and reputation for quality.

San Miguel Pure Foods and its products have won a number of industry and consumer awards. The *Magnolia* fresh chicken and *Monterey* brands were recipients of the *Platinum Reader's Digest Philippines Trusted Brands* awards in 2016 and 2017 consecutively. The *Magnolia* chicken brand was also awarded the 2011 *Asian Livestock Industry Award* by Asian Agribusiness Media Pte Ltd.

Highly diversified product portfolio catering to a broad spectrum of customers

San Miguel Pure Foods offers one of the widest arrays of food products in the Philippines. San Miguel Pure Foods produces food products for household, institutional and foodservice customers and derives its revenues from different product segments, including poultry, fresh meats, refrigerated processed meats and canned meats, basic flour and flour premixes, dairy, spreads and oils, coffee, biscuits and condiments. San Miguel Pure Foods also produces animal and aquatic feeds.

The product diversity of San Miguel Pure Foods reduces its dependence on any single product segment and makes it more resilient to changes in competitive dynamics or raw material price fluctuations that may impact product particular segment. Its diverse product portfolio also provides marketing and product synergies across segments, as products can complement each other and provide an integrated, one-stop solution for everyday food needs of the customers. For example, *Monterey Meatshops* also carry value-added meats, flour premixes and dairy products, as well as other complementary products such as vegetables, eggs and condiments, allowing San Miguel Pure Foods to leverage on its wide array of products and offer creative food solutions to its customers.

In addition, San Miguel Pure Foods believes that its presence in multiple segments provides different avenues for future growth, both within and across several product categories. San Miguel Pure Foods believes that, it is only present in about 39% of the total packaged food industry (measured by number of categories currently present in versus total number of packaged food categories as defined by Nielsen and Kantar), thus presenting tremendous opportunities for San Miguel Pure Foods to expand into other packaged food categories that are adjacent or complementary to its existing categories.

Strong commitment to product innovation

San Miguel Pure Foods continues to introduce new and innovative products and is very mindful of growing trends for more convenient and healthy foods.

Since 2014, San Miguel Pure Foods has introduced 70 new products through its branded value-added segment. More convenient options were offered to the market such as *Purefoods Crispy Fried Chicken, Purefoods Canned Chicken, and Purefoods Chicken Popcorn Nuggets* which are all fully cooked and ready-to-eat products that only take a few minutes to heat and serve. San Miguel Pure Foods continues to penetrate the huge semi-processed meats category with new variants of the native line segment such as the *Purefoods Honey Glazed Tocino* and *Purefoods Chicken Longanisa.* Exciting new flavors under the ice cream line are *Avocado Macchiato, Mango Salted Caramel, Banoffee Pie, Strawberry Crumble Pie, dual-flavored Popsies* and *Twin Popsies*. The other new product introductions include *San Mig Barako 3-in-1 coffee, Essenso* and powdered condiments under the *Wandah!* Brand. San Miguel Pure Foods also launched *Star Chunky Cheese* and *Star Meat Loaf* to strengthen its mid-priced portfolio. During the 3rd quarter of 2017, San Miguel Pure Foods launched the following products in the market: Purefoods Pulled Pork, new Purefoods luncheon meat flavors – cheese and bacon, La Pacita Graham Cracker Sandwiches, Oat cookies, dual-flavored popsies and the Avocado Classic Ice Cream with carabao's milk. San Miguel Pure Foods' innovation platform and thrust to enter into new categories will continue to drive the growth of its value-added segment.

In the last 3 years, San Miguel Pure Foods through its agro-industrial group launched *Magnolia Free Range Chicken* (raised free from cages and antibiotics) and *Magnolia Brown Eggs* to provide options to discerning customers. Products introduced to provide consumer convenience are *Magnolia Chicken and Monterey Smart packs* – chicken and pork choice cuts, good for 1-2 persons, sealed in sanitary packaging. Within the same period, San Miguel Pure Foods launched several feed variants for both hogs and poultry such as *B-MEG*

Premium Grower 2, B-MEG Expert Premium, B-MEG Alertone, B-MEG Integra 4000 & 5000 and *B-MEG Integra Powermaxx*. In addition, *B-MEG Integra Veterinary Medicine Line* was launched as support in the prevention and treatment of infectious diseases for game fowls.

San Miguel Pure Foods continues to pioneer value added customized flours and premixes for bakeries, food manufacturers, food service outlets and retail markets. One of its new products is a versatile bread mix which can be made into several types of bread and pastry varieties.

Extensive market penetration through multi-channel distribution network

The Philippines is the 2nd largest archipelago in the world, with a population widely distributed over 7,100 islands, presenting significant logistical challenges for food and beverage companies trying to reach consumers nationwide and a barrier to entry for new players. San Miguel Pure Foods operates and manages one of the most extensive distribution networks across the Philippines, with its products available in every major city, and it believes that this provides a significant competitive advantage.

To maximize market penetration, San Miguel Pure Foods has a multi-channel distribution network that supplies its products to supermarkets and traditional retail outlets, trade, foodservice channels and franchised stores. For the branded value-added business, San Miguel Pure Foods centrally manages sales and distribution through San Miguel Integrated Sales ("SMIS") which is responsible for selling its value-added products to modern trade, such as major supermarket chains, hypermarkets, groceries, convenience stores; general trade, such as market traders and "*sari-sari*" stores (small neighborhood stores) and export markets. For its animal feeds, poultry, fresh meats and flour businesses, San Miguel Pure Foods also maintains business-specific sales forces to service trade channels and manage its distributors and dealers. Great Food Solutions of San Miguel Pure Foods, on the other hand, manages sales to key foodservice customers, such as hotels, restaurants, bakeshops, fast-food and pizza chains.

San Miguel Pure Foods believes that its multi-channel distribution platform allows it to maximize customer reach and is one of the key factors to its success in building and developing its market-leading positions.

Vertically-integrated meats business model allowing for higher efficiency, profitability and operational synergies

San Miguel Pure Foods manages a fully integrated meats operation. This starts at the plantations level, where San Miguel Pure Foods works with farmers to ensure availability of raw materials. These raw materials are then mixed in the feed milling facilities wherein approximately half of the output is for external customers and the remaining balance is for the internal requirements of the poultry and fresh meats businesses.

San Miguel Pure Foods imports breeder animals from leading global suppliers to produce stock for raising broilers and hogs. These animals are raised by contract growers, who are paid based on set standards such as harvest recovery, average live weight and feed conversion ratio. At harvest, these animals are processed (dressed and slaughtered) for both retail and institutional sales, while some are further processed and converted into higher-margin, value-added products, such as hotdogs, chicken nuggets, and luncheon meats.

San Miguel Pure Foods controls the branding and marketing of products to ensure the highest brand recognition and loyalty from customers for all its brands. These are then distributed through all channels, namely, the modern trade, general trade via exclusive distributors, foodservice and franchised stores of San Miguel Pure Foods.

Extensive distribution network

San Miguel Pure Foods has access to all distribution channels which allows it to significantly expand customer reach.

Revenues are obtained through modern trade channels (such as hypermarkets, supermarkets and convenience stores), general trade (such as wet markets, *"sari-sari"* stores, small groceries and dealers) and through foodservice and institutional clients (such as bakeries, foodservice clients and hotels).

In addition, San Miguel Pure Foods has demonstrated the ability for innovation in distribution through the development of franchised channels such as *Monterey Meatshops* and *Magnolia Chicken Stations*. As of September 30, 2017, there are almost 640 *Monterey Meatshops* and over 1,000 *Magnolia Chicken Stations*. In 2012, the *Kambal Pandesal* bakery outlets were launched to complement and expand the distribution reach of its flour business, which as of September 30, 2017, has around 500 outlets.

Business Strategies

San Miguel Pure Foods plans to maintain its market-leading position and expand its business operations by implementing the following three-pronged business strategy:

Enhance product offering and distribution

Focus on increasing stable-priced and value-added product offerings

San Miguel Pure Foods categorizes its product portfolio into 3 groups: value-added products, stable-priced products and basic food products. Value-added products include processed meats, dairy, bread spreads, oils, ice cream, coffee, biscuits, powdered condiments and meal mixes. These products are typically branded and command higher selling prices than stable-priced and basic food products. Stable-priced products include flour premixes and bakery ingredients and poultry and fresh meats products that are distributed through differentiated stable-priced sales channels. These products include minimally processed branded products sold through *Magnolia Chicken Stations* and *Monterey Meatshops*, branded products that have undergone further processing, such as marinated meats, ready-to-cook and ready-to-eat products sold through *Magnolia Chicken Stations* and *Monterey Meatshops*, and products sold to foodservice clients. Basic food products include animal feeds, live chickens and hogs, fresh-chilled and frozen whole chicken, and chicken, pork and beef cuts sold through wet markets and supermarkets, and basic flour products.

San Miguel Pure Foods has limited pricing power for its basic food products due to the lack of product differentiation, while it believes that its stable-priced and value-added products are able to command higher and more stable prices and margins due to strong brand equity with customers, processing or customization to cater to specific needs or tastes, and/or sale through its branded distribution outlets (such as *Monterey Meatshops* and *Magnolia Chicken Stations*), where cleanliness, convenience and quality assurance allow for premium pricing and higher margins. San Miguel Pure Foods has made a concerted effort to improve its product mix by shifting away from basic food products, which generally have lower and more volatile margins, and into value-added and stable-priced products, which it believes have higher and more consistent margins.

San Miguel Pure Foods has successfully implemented several initiatives to improve its product mix towards a higher percentage of stable-priced and value-added products. Some of these initiatives include the introduction of new and more innovative products, such as chicken nuggets, fully-cooked fried chicken, canned chicken and other ready-to-cook and ready-to-eat offerings to take advantage of the growing needs of consumers for convenience, concentration on selling its fresh meats and poultry products through its branded distribution outlets, marketing of customized flour to institutional clients, and expansion of its foodservice business by providing food solutions, which include menu analysis and planning, food safety training and recipe and product development.

Through these initiatives, San Miguel Pure Foods has significantly increased the proportion of value-added and stable-priced products in its product offerings over the past 10 years. As of September 30, 2017, the contribution of value-added and stable-priced products accounted for 52% of the total revenues of San Miguel Pure Foods as compared to approximately one-fourth in 2000.

Continuous investment in brand equity

San Miguel Pure Foods aims to continue building its brand equity through advertising and promotional activities. San Miguel Pure Foods advertises on television, radio and billboards, as well as in print and on the web. This year, San Miguel Pure Foods advertised through television commercials which featured its key brands: *Tender Juicy, Purefoods Nuggets, Star Margarine, Dari Crème, San Mig Original and Magnolia Cheezee*. San Miguel Pure Foods also supported the launch of its new products such as Star Chunky Cheese, Best of the Philippines Mango Salted Caramel and Avocado Macchiato, Wandah! powdered mixes and San Mig Barako 3-in-1 coffee with television commercials. San Miguel Pure Foods also has strategic alliances with institutions, such as theme parks, event venues, cinemas and schools. San Miguel Pure Foods participates in fiestas and food fairs and is active in merchandising activities in supermarkets, wet markets and foodservice accounts, to further build on the brand equity of *Tender Juicy and its other brands* with the objective of being omnipresent across all consumer touch points.

As part of its brand-building activities, San Miguel Pure Foods maintains a professional basketball team in the Philippine Basketball Association, the premiere basketball league in the country. In the past, the team carried the banners of *Purefoods Tender Juicy*, *B-Meg Llamados and San Mig Super Coffee Mixers*, among others. Currently, the team is called *Magnolia Hotshots Pambansang Manok* and the brand will benefit from the

franchise's mass market appeal and the team's physical attributes to strengthen the "*Angat ka with Purefoods Star Hotdogs*" brand position.

Improve profitability through cost leadership

San Miguel Pure Foods believes that it can improve its margins by adopting a multi-faceted approach of managing input costs with respect to its raw materials and optimizing its production efficiency.

Continue sourcing alternative raw materials

The use of alternative raw materials, from grains and by-products used for animal feed ingredients, to alternative protein sources and flavors for processed meats, is critical for cost management given the volatile nature of global commodity supply and prices.

San Miguel Pure Foods expects to continue to expand its raw material supply base and identify alternative raw materials that are critical to cost management. One key breakthrough is the use of cassava as a substitute for corn, a key feed ingredient. San Miguel Pure Foods has implemented a program to encourage farmers to plant cassava and other crops that can be used as animal feed ingredients. San Miguel Pure Foods encouraged local farmers to develop approximately 77,000 hectares of cassava plantations, which will satisfy the cassava requirements of San Miguel Pure Foods during the year. San Miguel Pure Foods will continue to focus on developing alternative raw materials to manage its cost base.

Based on certain internal assumptions and calculations, San Miguel Pure Foods estimates that it realized cost avoidance of approximately ₱276 million for the 9 months ended September 30, 2017, computed based on the cost differential between actual cassava costs and estimated corn costs, from the use of cassava as a substitute for corn.

The strong research and development team of San Miguel Pure Foods is responsible for the continued effort in identifying cost improvements while maintaining product quality standards.

Focus on efficiency improvements

San Miguel Pure Foods is focused on improving efficiency of existing operations and implementing targeted initiatives in its businesses. For example, the adoption of climate-controlled housing systems for its poultry and hog farms has increased production cycles per farm per year, improved feeds-consumed-to-weight-gained ratio and resulted in better harvest recovery. During the last quarter of 2013, Golden Bay Grain Terminal in Mabini, Batangas started operations, which allowed San Miguel Pure Foods to ship grains through panamax vessels, consequently lowering freight costs and addressing grain handling requirements for the animal feeds and flour operations.

In addition, San Miguel Pure Foods intends to continuously review its product portfolio to rationalize unprofitable products. Consistent with this, San Miguel Pure Foods aims to enhance the price stability of its revenue streams and margins by increasing the percentage of sales of products that have historically performed well and which it believes will continue to do so.

Continue harvesting synergies through further integration of the businesses

San Miguel Pure Foods continues to maximize its vertically-integrated meats business model, simplify its organizational structure and standardize its business processes to achieve operational synergies and prepare for future growth. An example is the establishment of a shared service delivery center for finance, which is able to serve all of the business segments of San Miguel Pure Foods and perform transaction processing activities, reducing administrative expenses. It also continues to strive to have a world class supply chain that will reduce inventory days' level and improve service levels.

Explore additional growth opportunities

San Miguel Pure Foods believes the Philippine market is still underserved in certain product categories and there are growth opportunities to improve its distribution network, particularly in remote areas in the Visayas and Mindanao. It also intends to enter new product categories and expand its existing production capabilities to support its growing range of product offerings to meet the changing consumer needs.

San Miguel Pure Foods continues to explore new opportunities through acquisitions or greenfield and capacity expansion in food or food-related businesses, as part of its growth strategy. In February 2015, San Miguel

Pure Foods acquired the trademarks, formulations, recipes and other intangible properties (IP rights) relating to *La Pacita* biscuit and flour-based snack business from Felicisimo Martinez & Co. Inc. ("FMC"), which initiated the entry of San Miguel Pure Foods into the biscuit segment.

San Miguel Pure Foods produces a wide range of food products. It believes its brands include some of the most recognizable and well-regarded brands in the Philippines, such as *Magnolia*, *Monterey*, *Purefoods*, *Purefoods Tender Juicy, Purefoods Star, Star*, *Dari Crème*, *San Mig Super Coffee*, *La Pacita and B-Meg*. Its business is organized into the following segments: agro-industrial, branded value-added, milling and others.

The table below sets forth the major products and services of each business segment.

Business Segment	Major Products and Services
Agro- industrial Feeds.....	Hog, poultry, aquatic and other customized animal feeds are primarily sold under the *B-Meg, B-Meg Premium, Integra, Expert, Dynamix, Essential, Pureblend, Bonanza*, and *Jumbo* brands. Veterinary medicines are sold under the San Miguel Animal Health Care brand.
Poultry.....	Branded products are sold under the *Magnolia Fresh Chicken* label and include fresh-chilled, frozen whole, cut-up chicken, ready-to-cook (timplados) chicken products, customized products for foodservice and export customers, supermarket house-brands, live chicken and brown eggs.
Fresh Meats.....	Branded fresh meats are sold under the *Monterey* brand and include pork and beef carcasses and cuts, lamb products, marinated meats and live hogs.
Branded value-added Value-added meats	Refrigerated processed meats, including hotdogs, nuggets, cold cuts, hams, bacon, and other ready-to-heat meal products, as well as canned meats, including corned beef, luncheon meats, sausages, canned chicken, spreads, sauces and viands are primarily sold under the *Purefoods*, *Purefoods Tender Juicy*, and *Purefoods Star* brands.
Dairy, Spreads and Oils	Bread spreads, cheese, milk, ice cream, all purpose cream, jelly-based snacks and cooking oils are primarily sold under the *Magnolia*, *Star* and *Dari Creme* brands.
Coffee	Coffee sold under the *San Mig Super Coffee* brand.
Biscuits.....	Biscuits sold under the *La Pacita* brand.
Condiments and Meal Mixes.....	Powdered condiments sold under the *Wandah!* brand.
Milling	A full range of basic, specialty and customized flour is primarily sold under the *Emperor*, *King and Queen*, *Baron*, *Prince* and *Princess* brands. The grain terminal operation is also under the milling business segment and provides grain handling (e.g. unloading, storage, bagging, and outloading) services to clients.
International Operations.....	Processed meats in Indonesia are sold under the *Farmhouse* and *Vida* brands, while processed meats in Vietnam are sold under the *Le Gourmet* brand. In addition, Vietnam is also licensed to engage in live hog farming and the production of feeds.
Other Businesses.....	Foodservice and franchising businesses.

The products of San Miguel Pure Foods are produced using both company-owned and tolled facilities. As of September 30, 2017, San Miguel Pure Foods owns 40 production facilities and has contracts with about 1,700 tolled facilities and contract farms.

Selected operating data for the business of San Miguel Pure Foods are set forth in the table below for the periods indicated:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2014	2015	2016	2016	2017
	(₱ in millions, except percentages)				
Sales	102,999	106,860	111,586	80,582	84,452
Gross profit	20,485	22,751	25,633	18,050	19,883
Gross profit margin[1]	19.9%	21.3%	23.0%	22.4%	23.5%
EBITDA[2]	8,801	10,266	11,827	7,815	9,086
EBITDA margin[3]	8.5%	9.6%	10.6%	9.7%	10.8%
Net income before tax	5,676	6,969	8,565	5,392	6,631
Net income before tax margin[4]	5.5%	6.5%	7.7%	6.7%	7.9%

Notes:
(1) *Calculated as gross profit divided by revenues.*
(2) Calculated as net income plus the following: income tax expense, net financing charges (interest expense and other financing charges net of interest income), foreign exchange losses (gains), and depreciation and amortization.
(3) Calculated as EBITDA divided by revenues.
(4) Calculated as net income before income tax divided by revenues.

Agro-industrial Business Segment

The agro-industrial business segment of San Miguel Pure Foods includes its animal feeds, poultry and fresh meats businesses.

Feeds

The commercial feed products include hog feeds, layer feeds, poultry feeds, aquatic feeds, branded feed concentrates and specialty and customized feeds. These animal feeds are sold and marketed under various brands including *B-Meg*, *B-Meg Premium*, *Integra*, *Expert, Dynamix, Essential*, *Pureblend*, *Bonanza* and *Jumbo*.

The Philippine feeds industry comprises 3 segments of animal feed users: (i) the commercial segment, which comprises small farms that purchase animal feeds from retail outlets supplied by commercial feed manufacturers as well as medium-to-large farms that purchase directly from these manufacturers, (ii) the intra-segment, which comprises large, integrated livestock and poultry farms that operate their own feedmills and (iii) the homemix segment, which comprises small-to-medium farms producing their own animal feeds for self-use.

The Philippine feeds industry derives its sales mainly from hog and broiler producers. Many of these feed millers have evolved from merely selling feed products to offering total value service packages to customers, such as technical services and after-harvest payment schemes. The feed milling industry is a commodity-based industry, with most of its major raw materials consisting of commodities, such as corn, soybean meal and feed wheat. Since most feed millers use imported raw materials, the industry is affected by foreign exchange fluctuations.

Based on the latest data from Nielsen and certain internal assumptions and calculations, San Miguel Pure Foods believes the Philippine feeds market is approximately ₱246 billion in 2017, of which the commercial feeds segment accounted for approximately ₱105 billion.

Production and Raw Materials

Compound feeds are manufactured at 8 San Miguel Pure Foods-owned facilities that are operated by third parties and 34 third party-owned and operated feeds plants, located throughout the Philippines. Most of these plants can produce pelleted and crumble format feeds, and 5 plants have extrusion capabilities to produce

aquatic floating feeds. San Miguel Pure Foods also maintains tolling arrangements for 6 rendering facilities that convert animal by-products used as raw materials in some feed types.

The largest single component of the cost of sales of San Miguel Pure Foods for animal feeds is the cost of ingredients used to prepare nutritionally balanced feed, including: corn, soybean meal, cassava, feed wheat, pollard, rice bran, copra and pork meal. San Miguel Pure Foods purchases corn locally from corn traders and occasionally from suppliers in the United States and Southeast Asia. Soybean meal is imported from Argentina, the United States and India, while other raw materials are purchased from various suppliers in North America, Asia, Europe and the Philippines. In 2016, San Miguel Pure Foods bought over 61% of its total grain purchases in the domestic market and the rest from the United States, Southeast Asia and Argentina.

Raw materials used in the animal feeds business of San Miguel Pure Foods are sourced by its Business Procurement Group ("BPG"). San Miguel Pure Foods also uses as raw materials spent grain, malt dust and yeast, which are by-products of SMB, pollard from San Miguel Mills, Inc. ("SMMI") and offals and feathers from the poultry dressing plants of San Miguel Pure Foods.

Sales and Distribution

San Miguel Pure Foods produces animal feeds for its own poultry and meats businesses and the commercial feeds market, which accounted for 51% and 49%, respectively, of the feeds production volumes as of December 30, 2016. Feeds supplied to the poultry and fresh meats businesses are not included in the revenue or volume sold of the feeds business.

San Miguel Pure Foods sells its commercial feeds products through several distribution channels, with 80% of products sold through authorized distributors within a defined territory and 20% sold directly to hog, poultry and aquatic farm operators. The commercial feeds business has 18 sales offices across the Philippines with dedicated sales teams supported by technical experts focused on growing existing markets and developing new ones.

Competition

Based on retail trade audit data from Nielsen and certain internal assumptions and calculations, San Miguel Pure Foods believes it is the largest producer of commercial feeds in the Philippines, with an estimated market share of approximately 27% of the commercial trade feeds market by volume as of December 2016.

In its animal feeds business, San Miguel Pure Foods competes on quality, customer service, distribution network and price. San Miguel Pure Foods competes with major domestic producers such as Pilmico Foods Corporation, Univet Nutrition and Animal Healthcare Company, Universal Robina Corporation, as well as numerous regional and local feed mills. It also faces increasing competition from foreign feeds manufacturers, such as Charoen Pokphand Foods of Thailand and New Hope Group of China, which have established operations in the Philippines.

Poultry

In its poultry business, San Miguel Pure Foods breeds broilers and produces and markets chicken products, mostly for retail. The broad range of chicken products is sold under the *Magnolia Fresh Chicken* brand. These products include fresh-chilled or frozen whole and cut-up products. Through its *Magnolia Chicken Stations*, San Miguel Pure Foods offers a wide variety of fresh and marinated products as well as brown eggs. San Miguel Pure Foods also sells customized products to foodservice and export clients, supplies supermarket house brands, serves chicken products to wet markets through distributors, and sells live chickens to dealers.

The poultry business of San Miguel Pure Foods operates a vertically-integrated poultry production process that spans from breeding broilers to producing chickens and related products.

Traditionally, the Philippine poultry industry was highly fragmented and primarily a commercial industry. However, several major producers, including San Miguel Pure Foods, have been successful in introducing modern technologies and processes to the industry, allowing them to consolidate market share and achieve economies of scale. Most of the major integrated producers employ contract-growing schemes to produce live broilers, and also engage in contract breeding and toll dressing arrangements. The Philippine poultry industry has commodity characteristics and is subject to frequent changes in demand and supply. Based on data from the Philippine Statistics Authority and certain internal assumptions and calculations, San Miguel Pure Foods estimates the Philippine market for poultry was approximately ₱202 billion as of December 31, 2016.

Production and Raw Materials

San Miguel Pure Foods primarily utilizes third party-owned facilities operated under tolling arrangements for its poultry production. Approximately 100% of its poultry growing output and 96% of its processing output come from tolled facilities, allowing San Miguel Pure Foods to outsource production at a lower cost and direct more resources toward improving its marketing, sales and distribution capabilities. Approximately 91% of these poultry growing facilities employ climate-controlled systems, which provide more comfortable and stable temperatures in growing facilities, thus, increasing efficiency and reducing mortalities. As of December 31, 2016, San Miguel Pure Foods contracted with tolled growing farms with an aggregate estimated annual capacity of more than 330 million birds. The vertically controlled poultry operations of San Miguel Pure Foods also include 2 owned and 31 processing plants operated under tolling arrangements and utilizes an extensive network of third party cold storage warehouses and distribution facilities throughout the Philippines.

The primary raw materials used in the chicken operations of San Miguel Pure Foods are live chickens raised primarily by independent contract growers. Breeder flocks (grandparents of birds that are ultimately sold) are raised to maturity in grandparent growing and laying farms where fertile eggs are produced. Fertile eggs are hatched at the grandparent hatchery and produce day-old parent stock (parents of birds that are ultimately sold). Parent stocks are then sent to breeder houses, and the eggs produced are sent to the hatcheries. Once eggs are hatched, the chicks are sent to the broiler farms. There, contract growers care for and raise the chicks according to the standards of San Miguel Pure Foods, with feeds supplied by the feeds business and with advice from its technical service personnel, until the chicks reach marketable weight. Grown chickens are transported to processing plants, where they are dressed and processed into finished products, which are then sent to distribution centers and sold to customers.

As of September 30, 2017, feeds accounted for the majority of production costs for the poultry business, representing approximately 57% of the cost of growing a live chicken. All of the feeds required by the poultry business are supplied by its feeds business.

Sales and Distribution

San Miguel Pure Foods sells its poultry products through a variety of channels, including, Magnolia *Chicken Stations*, supermarkets, convenience stores, warehouse clubs, institutional accounts such as quick service restaurants and hotels, export clients, wet market, commissaries, wholesalers, distributors, and buyers of live birds.

The poultry business distributes its products to 2 market segments through the different channels mentioned above in order to maximize market penetration throughout the Philippines:

- commodity segment (including wet markets and supermarkets), which accounted for 49% of the poultry business for the period ended September 30, 2017; and

- stable-priced segment (including Magnolia Chicken Stations in supermarkets, Monterey Meatshops, and foodservice and export clients) accounted for 51% of the total revenues of the poultry business for the period ended September 30, 2017.

In 2004, San Miguel Pure Foods began its “bringing the wet market to the supermarket” strategy, by introducing *Magnolia Chicken Stations* in supermarkets. These stations offer more choices of cuts and better customer service. As of September 30, 2017, approximately 33% of these *Magnolia Chicken Stations* are franchisee-owned and the rest are company-owned and third party-operated, with over 1,000 *Magnolia Chicken Stations* in operation. While wet markets remain the most popular source of chicken for consumers in the Philippines, San Miguel Pure Foods intends to focus on its *Magnolia Chicken Station* outlets in the coming years, as it looks to further build on its strong brand reputation, increase the contribution of the stable-priced product segment and further protect market share.

San Miguel Pure Foods distributes some of its products from processing plants located throughout the Philippines to cold storage facilities and warehouses, which serve as a midpoint in distribution to wholesalers and local customers. Majority are distributed directly from the plants to supermarkets and foodservice operations. For its distribution infrastructure, San Miguel Pure Foods engages various third-party logistics providers for its distribution infrastructure, which includes cold-storage warehouses and facilities throughout the Philippines and a large fleet of vehicles.

Competition

Based on data from the Philippine Bureau of Animal Industry and certain internal assumptions and calculations, San Miguel Pure Foods believes that it held an approximately 38% market share in the Philippine broiler market as of December 2016 based on volume sold, ahead of the second and third major players, which had market shares of approximately 25% and 5%, respectively.

In its poultry business, San Miguel Pure Foods competes on quality, distribution network and customer service. The poultry business faces competition from large integrated producers such as Bounty Fresh Foods Inc., Bounty Agro Ventures, Inc., Gama Foods Corp. and the Charoen Pokphand Group, as well as numerous smaller independent broiler producers. San Miguel Pure Foods also faces competition from lower-priced imports from the United States, Canada and Brazil.

Fresh Meats

The fresh meats business breeds, grows and processes hogs and cattle and produces and trades beef and pork products. Its operations include slaughtering live hogs and cattle and processing beef and pork carcasses into primal and sub-primal meat cuts, such as shoulder, leg, loin and belly, and case-ready products, such as steaks and chops. It sells a wide variety of products in the Philippines, including pork, beef and lamb retail cuts and marinated products, under the well-recognized *Monterey* brand name.

The Philippine fresh meats industry remains highly fragmented despite the attempts of larger producers to modernize the industry. Consolidation of the fresh meats industry is expected to increase in the future as larger producers continue to invest in new technologies and processes.

Production and Raw Materials

The fresh meats business raises its hogs using a two-site system, which separates breeding from nursery and growing into isolated facilities to minimize the risk of disease.

San Miguel Pure Foods believes that it pioneered the use of the vertically controlled pork and beef production system in the Philippines, controlling the entire value chain including selection of genetic stocks, growing and processing of hogs and cattle and selling, mainly through its *Monterey Meatshop* operations. Approximately 97% of its hog production capacities are third party-owned and operated under tolling arrangements. As of December 31, 2016, approximately 62% of the hog growing facilities employ climate-controlled and elevated housing systems, which provide more comfortable and stable temperatures in growing facilities, thus increasing efficiencies and reducing mortalities.

The primary raw materials for the processing plants are live hogs and cattle. In 2015, San Miguel Pure Foods sourced about 99% of its live hogs from its contract growing farms. With respect to sourcing beef supply in 2015, San Miguel Pure Foods imported all of its feeder cattle from Australia and its boxed beef from Australia, New Zealand, Canada, Netherlands, Ireland, United States and Brazil. Other primary raw materials of the fresh meats business are hog and cattle feed. All of the feeds required by the fresh meats business are supplied by the feeds business.

Sales and Distribution

The fresh meats business distributes its products through a variety of channels, including supermarket-based meat shops, *Monterey* neighbourhood meat shops, wet markets, foodservice clients, membership shopping club outlets, and to the value-added meats business. Live hogs and cattle are also sold to dealers.

San Miguel Pure Foods adopted a strategy focusing on the supermarket-based modern trade market to accelerate pork sales by introducing a *Monty's* supermarket meat shop in 1990. In 1993, the fresh meats business introduced *Monterey* stand-alone neighborhood meat shops as part of the strategy to differentiate its products from those of its competitors by branding the selling outlets. Pork, beef and lamb retail cuts and marinated products are sold in *Monterey Meatshops* through franchisees.

As of September 30, 2017, more than 630 Monterey Meatshops selling San Miguel Pure Foods fresh meat products were in operation across the Philippines. As of the same date, approximately 69% of its meat shops were franchised operations and certain functions, such as inventory monitoring and staffing, were also undertaken by third party operators and franchisees. As part of its strategy to increase sales volumes and

improve profitability and customer service in these shops, the fresh meats business provides marketing support to franchisees and actively seeks entrepreneurs to become franchisees.

Competition

Based on data from the Philippine Swine Producers Association and certain internal assumptions and calculations, San Miguel Pure Foods believes that it holds the largest market share in the Philippine hogs industry among the large commercial farms in the Philippines.

In the fresh meats business, San Miguel Pure Foods competes on quality, distribution network and customer service. Its main competitors are Robina Farms and Foremost Farms. It also competes with several commercial-scale and numerous small-scale hog and cattle farms that supply live hogs and cattle to live buyers, who in turn supply hog and cattle carcasses to wet markets and supermarkets. While the majority of fresh meats sales in the Philippines continue to be made in the more traditional, outdoor wet markets, San Miguel Pure Foods considers supermarkets selling their own house-brand products as its main competition.

Value-added Meats Business Segment

The value-added meats business produces both refrigerated processed meats and canned meats. Refrigerated processed meats include hotdogs, nuggets, bacon, hams, and a line of local Philippine products, which are sold under the *Purefoods, Purefoods Tender Juicy, Purefoods Star, Purefoods Beefies, Vida, Purefoods Nuggets,* and *Monterey* brands. Canned meats, such as corned beef, luncheon meats, canned chicken, sausages, sauces, meat spreads and ready-to-eat viands, are sold under the *Purefoods, Purefoods Star* and *Ulam King* brands.

Production and Raw Materials

San Miguel Pure Foods owns a value-added meats processing plant located in Cavite. The Cavite plant manufactures hotdogs, nuggets, hams, bacon, sausages, meat toppings, cold cuts and sauces. San Miguel Pure Foods maintains toll-manufacturing agreements for halal-accredited facilities to augment its production capacity, meet periodic volume increases, and enable exports of corned beef and hotdogs to the Middle East and predominantly Muslim countries.

The primary raw materials used in the value-added meats business are commodity-based raw materials, including chicken, beef and pork primal cuts. The value-added meats business sources most of its raw materials through its BPG, which strives to secure prices lower than prevailing market or published rates. BPG maintains a pool of San Miguel Pure Foods accredited suppliers for local and imported raw materials, which are regularly audited by a quality assurance team. As of September 2017, the value-added meats business sourced approximately 24% of its raw materials from the other businesses of San Miguel Pure Foods and 42% from imports.

Sales and Distribution

The value-added meats products are distributed locally by the SMIS and Great Foods Solution. SMIS Sales handles product distribution to supermarkets and traditional trade markets in the Philippines, such as groceries, convenience stores, wet markets and *"sari-sari"* stores. Great Foods Solution distributes products to foodservice operators, such as hotels, restaurants, fast food chains, food kiosks and carts. Domestic distribution is handled by the Supply Chain group of the branded business, which manages planning, technical logistics services, warehousing and transportation. SMIS also handles exports to Asia, North America, Middle East, and Europe, mainly to supply Filipino communities abroad.

Competition

The combined shares of its hotdog brands have positioned San Miguel Pure Foods as a market leader in the hotdogs category, with a market share of 63% for hotdogs sold in Philippine supermarkets. It is also the dominant player in the non-refrigerated margarine category with a 96% market share based on value shares as of December 2016 from AC Nielsen.

San Miguel Pure Foods holds a market share of 83% in the nuggets category, 43% share for butter and a dominant share of 99% for refrigerated margarine. All market shares are based on value as of June 2017 and as reported by Kantar Worldpanel.

In the value-added meats business, San Miguel Pure Foods competes on quality, product innovation, distribution network and customer service. In recent years, the value-added meats business of San Miguel Pure Foods has faced increased competition both from established local players, which are employing aggressive pricing and promotion schemes, and from new entrants to the market. Competitors and competing brands in the value-added or processed meats business include Foodsphere, Inc. (CDO), Virginia Foods, Inc. (Winner and Champion), Century Pacific Food Inc. (Swift, Argentina and 555), Mekeni Food Corporation (Mekeni), Frabelle Food Corp. (Bossing) and the distributors of Maling. To maintain its leadership position, San Miguel Pure Foods has responded by maintaining high product quality, continuing innovation, increasing advertising and promotions, and by enhancing consumer experience through strategic alliances with institutions such as theme parks, event venues, cinemas and schools.

Dairy, Spreads and Oils

The dairy, spreads and oils business manufactures and markets a variety of bread spreads, milk, ice cream, jelly-based snacks, salad aids and cooking oils. Bread spreads make up the largest portion of the dairy, spreads and oils business and as of September 30, 2017, accounted for approximately 72% of revenues from this category. Bread spreads include butter, refrigerated and non-refrigerated margarines and cheeses sold primarily under its *Magnolia*, *Dari Crème*, *Star* and *Cheezee* brands. Dairy products include ready-to-drink milk, ice cream and all-purpose cream all under the *Magnolia* brand. Jelly snacks and fruit jams are under the *Magnolia Jellyace* brand while salad aids like mayonnaise and dressings are under the *Magnolia* brand. Cooking oil products are sold under the *Magnolia Nutri-Oil* brand.

Production and Raw Materials

San Miguel Pure Foods produces bread spreads products at its own facility in Cavite, through a process that includes pasteurization, blending, chilling and packing for bread spreads and cooking, filling, pre-packing and end-packing for cheeses. Ice cream is manufactured in Santa Rosa, Laguna. Milk, jelly-based snacks and cooking oil products are manufactured in third party plants under tolling arrangements, each of which is required to meet quality standards.

All of the raw materials required by the dairy, spreads and oils business are sourced through BPG. Approximately 64% of dairy materials, such as cheese curds, rennet-casein and milk powders are imported from various suppliers in Oceania. Vegetable oils are sourced from various suppliers in Malaysia and in the Philippines.

Sales and Distribution

Supermarkets are the largest distribution channel for the dairy, spreads and oils business, and other channels include groceries, warehouse clubs, *"sari-sari"* stores, market stalls, bakeries, wholesale outlets and convenience stores. SMIS serves as the distribution arm of the dairy, spreads and oils business for both modern and general trade channels. Food chain and other institutional distribution channels for dairy, spreads and oils business include bakeshops, food manufacturing companies, quick service restaurants and hotels. The distribution channels of the majority of the dairy, spreads and oils business are in the Greater Manila and Luzon areas, which have seen substantial growth in consumption for these products. The dairy, spreads and oils business is further developing regional distribution channels through exports primarily to Asia, the United States and the Middle East.

Competition

According to Kantar Worldpanel, as of June 2017, San Miguel Pure Foods has a market share of 43% for butter, followed by Fonterra Brands Philippines Inc. and New Zealand Creamery, Inc. San Miguel Pure Foods dominates the refrigerated margarine segment with a 99% share of the market. New Zealand Creamery, Inc. and RFM Corporation also compete in this category. In the cheese category, Mondelez Philippines, Inc. is the leading player followed by Magnolia Inc. ("Magnolia") with a 19% market share.

According to Nielsen, as of December 2016, San Miguel Pure Foods has a 96% market share for non-refrigerated margarine with San Pablo Manufacturing and AD Gothong Manufacturing as its competitors. In the ice cream market, Unilever-RFM is the dominant player while Magnolia has an 8% market share.

Coffee

The coffee business is a joint venture with a Singaporean partner, Super Coffee Corporation Pte. Ltd., and is 70%-owned by San Miguel Pure Foods. The joint venture commenced operations in 2005 and sells coffee-

mix products under the *San Mig Super Coffee* brand. As of December 2016, according to Nielsen, San Miguel Pure Foods has a 2% market share for coffee based on value sold. Competitors in the coffee-mix segment include Nestlé (Nescafe), URC (Great Taste), and Tridharma Marketing Corp. (Kopiko). All of the procurement, manufacturing and pre-packing of the raw materials of the coffee business are handled by the partner of San Miguel Pure Foods in Singapore and Thailand and San Miguel Pure Foods manages re-packing, marketing, selling and distribution in the Philippines.

Biscuits

In February 2015, San Miguel Pure Foods acquired the trademarks, formulations, recipes and other intangible properties (IP rights) relating to *La Pacita* biscuit and flour-based snack business from FMC, which initiated the entry of San Miguel Pure Foods into the biscuit segment. Its product offerings include crackers, biscuits and cookies, distributed here in the Philippines as well as in other countries.

Condiments and Meal Mixes

San Miguel Pure Foods entered the powdered condiments and meal mixes category under the *Wandah! All-Around Mix* brand. Sweet tomato catsup, gravy, cheese, mayonnaise and cream variants were initially launched in the last quarter of 2015.

Milling Business Segment

San Miguel Pure Foods offers a variety of flour products, including bread flour, noodle flour, biscuit and cracker flour, all-purpose flour, cake flour, whole wheat flour, customized flour and flour premixes, such as pancake mix, cake mix, brownie mix, pandesal mix, and puto mix. San Miguel Pure Foods believes that it started the trend in the Philippines of using customized flours for specific applications, such as noodles and *pandesal*, a soft bread commonly eaten in the Philippines during breakfast. The flour products are sold under 17 brand names and San Miguel Pure Foods believes that it enjoys strong brand loyalty among its institutional clients and other intermediaries, such as bakeries and biscuit manufacturers.

In 2012, San Miguel Pure Foods launched *Kambal Pandesal* bakery outlets, which is an innovative concept in the local baking industry. SMMI simplifies bakery operations for entrepreneurs, providing its proprietary bread premixes and technical assistance such as site search and training on bakery operations and management. SMMI also provides continuous product development and marketing support, thus, helping ensure the continuous introduction of high quality and innovative bread products to consumers. As of September 30, 2017, there are around 500 *Kambal Pandesal* bakery outlets which are all third party-owned and operated.

San Miguel Pure Foods believes that while rice has traditionally been the primary source of carbohydrates in the Philippines, bread and noodles have become increasingly popular alternatives in recent years, which helped drive growth in the Philippine flour industry. In addition, while the bread market is generally still dominated by traditional neighborhood bakeries, large bakery chains are expanding rapidly in the Philippines. San Miguel Pure Foods believes these larger chains often place greater emphasis on the quality of the flour they use, providing an opportunity for flour producers to sell customized, higher-margin flour products.

Production and Raw Materials

San Miguel Pure Foods believes it owns and operates one of the largest flour milling facilities in the Philippines based on aggregate annual rated milling capacity. It owns 2 flour mills, located in Mabini and Tabangao in Batangas. Its flour mills have a combined rated milling capacity of 1,660 tons per day. The milling facilities include 2 flour blending facilities in Mabini, which allow San Miguel Pure Foods to produce customized flours. The flour business also operates a premix plant, which produces different premix products for both the retail and the institutional markets. Its production capabilities are augmented by its Flour Technology Center, which it believes is the first of its kind in the Philippines. The center develops customized flour blends and new flour-based products.

In the last quarter of 2013, San Miguel Pure Foods, through SMMI, inaugurated and commenced operations of the Golden Bay Grain Terminal in Mabini, Batangas which can accommodate panamax sized vessels. This facility has an estimated discharge rate of at least 10,000 metric tons per day. San Miguel Pure Foods believes that this new facility has provided it with a significant advantage in materials handling, as vessels can offload larger quantities of raw materials directly to the flour milling facilities, thus, minimizing intermediate handling, leakage and costs as well as generate savings in freight costs from the use of bigger vessels. This facility is

adjacent to the flour mill in Mabini, Batangas and also services the grain handling requirements of its feeds business. It expects to service external customers such as commercial grains traders in the future.

The principal raw material used by the flour business is wheat. Historically, more than 80% of the wheat requirements of the flour business are sourced from the United States with the remaining balance sourced from various other countries. San Miguel Pure Foods monitors worldwide wheat prices daily to determine its long-term and short-term buying strategies to control costs in its flour business.

Sales and Distribution

The marketing strategy for its milling business focuses on offering the widest array of differentiated flour products in the Philippine market. The sales team, supported by flour application specialists, determines the specific flour product requirements of its various customers. In addition, the flour application specialists conduct field baking tests of the products and demonstrate their applications. For customized products, the research and development team and the sales team work with the customers to develop formulations specific to their requirements. San Miguel Pure Foods manages a nationwide distribution network that distributes flour and other bakery ingredients to major flour users, such as Gardenia Bakeries, the Jollibee group, KFC, Monde MY San and smaller users across the Philippines.

Competition

Based on data from the Philippine Association of Flour Millers and certain internal assumptions and calculations, San Miguel Pure Foods believes it is the largest producer, seller and distributor of flour in the Philippines, with a 16% market share based on volume sold as of December 2016.

The flour business competes on price, quality, customer service and distribution. Its main competitors are Philippine Foremost Milling Corporation, Pilmico Foods Corporation and Universal Robina Corporation. Currently, most of the competitors only produce a limited number of flour types such as hard flour for bread products and soft flour for biscuits. San Miguel Pure Foods differentiates itself by focusing on the production of more specialized, higher quality and higher priced flours.

The industry also experiences stiff competition from regional players such as Interflour Group as they take advantage of various free trade agreements in penetrating the Philippine market. Imported flour has increased its presence through low cost flour offerings. In order to aggressively compete head-on, San Miguel Pure Foods launched “fighting brands” such as *Red Dragon Nova* and *Red Dragon Vega* that matches quality and price of imported flour but still manages to maintain a healthy margin.

Others Business Segment

The other business segment of San Miguel Pure Foods is divided into the following businesses: foodservice, franchising and international operations.

Foodservice

Great Foods Solutions, the foodservice business of San Miguel Pure Foods, was established in 2002 and is one of the largest foodservice providers in the Philippines. It distributes and markets foodservice formats for value-added meats, fresh meats, poultry, dairy, oil, flour and coffee. Great Foods Solutions receives a development fee from the subsidiaries of San Miguel Pure Foods for selling their products to foodservice institutional clients. The key strategies of the foodservice business include selling customized solutions, direct marketing to customers and focused relationship management.

Franchising

San Miguel Pure Foods has developed franchise models to serve as contact points with consumers, a trial venue for new product ideas and a channel to introduce product applications for its products. These franchise models include roast chicken and rice toppings outlets under the *Hungry Juan* franchise, and convenience store outlets under the *San Mig Food Ave* franchise, most of which are in Petron stations.

International Operations

Vietnam

The Vietnam food business primarily engages the sale of processed meats, which are under the *Le Gourmet* brand. It is also licensed to engage in live hog farming and the production of feeds.

In January 2015, San Miguel Pure Foods acquired the remaining 49% of San Miguel Pure Foods Investment (BVI) Limited, through San Miguel Pure Foods International, Limited, a wholly-owned subsidiary of San Miguel Pure Foods, to bring total ownership to 100%. San Miguel Pure Foods International is the sole investor in San Miguel Pure Foods (Vn) Co. Ltd., which is engaged in the production of processed meats and owns assets in hog farming and feed milling.

Indonesia

The business in Indonesia is a joint venture with Penderyn Pte. Ltd. (formed in 1995) which produces a variety of halal-certified processed meats for the Indonesian market under the brands *Farmhouse* and *Vida*. The joint venture is 75% owned by San Miguel Pure Foods.

Quality Control, Health, Safety and Environmental Matters

San Miguel Pure Foods conforms to the statutory and regulatory requirements in relation to quality assurance and food safety. Compliance to Good Manufacturing Practice is a mandatory requirement across all food businesses, based on international hygiene standards, to ensure high quality and safe food products.

San Miguel Pure Foods is subject to a number of laws and regulations relating to the protection of the environment and human health and safety, including those governing food safety, air emissions, water and wastewater discharges, and odor emissions and the management and disposal of hazardous materials.

San Miguel Pure Foods applies its quality and food safety standards uniformly across all of its production facilities, whether company-owned or contracted, including through training it provides to its third-party operators before they commence operations. San Miguel Pure Foods representatives oversee toll plant operations on a regular basis, providing technical support and working closely with the management of third-party operators. The quality assurance personnel of San Miguel Pure Foods conduct periodic operational audits.

San Miguel Pure Foods seeks to reduce the risk of contamination of its products through strict sanitation procedures and constant monitoring and response. Consistent with the Hazard Analysis and Critical Control Points model, it has identified specific stages of processing where preventative measures such as equipment sterilization, hygiene, temperature control and regular equipment testing will greatly reduce risks and have designed its operations to reduce these risks. San Miguel Pure Foods follows Good Manufacturing Practice, which is a key factor to produce good quality, safe, and affordable products.

San Miguel Pure Foods intends to continue to strengthen its commitment to food safety standards. Its Quality Assurance and Food Safety Management System Guidelines is anchored on Hazard Analysis and Critical Control Points, Good Manufacturing Practice, ISO: 22000, ISO: 9001 and FSSC: 22000 with the objective of complying with the Food Safety Act of the Philippines (RA 10611) and the requirements of the customers.

San Miguel Pure Foods believes it is in material compliance with applicable health, safety and environmental laws.

San Miguel Pure Foods and its subsidiaries incurred about ₱33.7 million in expenses for environmental compliance for the year 2016. On an annual basis, operating expenses incurred by San Miguel Pure Foods and subsidiaries to comply with environment laws are not significant or material relative to the total costs and revenues.

Research and Development

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, San Miguel Pure Foods engages in research and development to identify cost improvements and improvements that can be made to its production processes. Among others, cost reductions have been achieved using alternative raw materials, from grains and by-products used in the feed products to alternative protein sources and flavors in processed meats.

San Miguel Pure Foods owns several research and development facilities that analyze average daily weight gain, feed conversion efficiency and other performance parameters. Results of these analyses are immediately applied to commercial feed formulations to minimize costs and maximize animal growth. These research facilities include a bio assay-focused research facility, a metabolizable energy-focused research facility, 2 research facilities for tilapia, 4 hog research farms, 4 broiler research farms, 2 layer research farms, a fry production facility and various hatching facilities for tilapia breeding.

San Miguel Pure Foods also engages in the development, reformulation and testing of new products. It believes that its continued success will be affected in part by its ability to be innovative and attentive to consumer preferences and local market conditions. In recognition of the importance of ongoing product innovation, San Miguel Pure Foods regularly conducts consumer surveys and has a Corporate Innovations Group that spearheads a company-wide innovation program to introduce breakthrough products and services.

Packaging Business

The packaging business began operations in 1938 with the establishment of a glass plant that supplied glass bottles for the beer and non-alcoholic beverage products of SMC. The packaging business of SMC is conducted through: (i) SMYPC, a joint venture of SMC and NYG, one of the largest glass and plastic packaging corporations in Japan; (ii) SMYPIL, which holds the international businesses in Malaysia, Vietnam, China, Australia and New Zealand; (iii) SMYAC, a domestic glass packaging subsidiary; and (iv) Mincorr, a paper corrugated carton manufacturer.

The Packaging Group has one of the largest packaging operations in the Philippines with diversified businesses producing glass, molds, metal closures, aluminum cans, plastics and pallet/crate leasing, PET beverage packaging and filling, flexibles, paper, as well as other packaging products. The packaging business is the major source of packaging requirements of the other businesses of SMC. It also supplies packaging products to customers in the Asia-Pacific region, the United States, and Australasia, as well as to major multinational corporations in the Philippines, including Coca Cola Femsa Philippines, Inc., Nestle Philippines and Pepsi Cola Products Philippines, Inc.

On June 30, 2017, San Miguel Yamamura Australasia Pty Ltd (“SMYA”) acquired 100% shares in Barossa Bottling Services Pty Ltd , a specialist and independent wine bottling and packaging facility servicing artisan wineries in South Australia.

Philippine Packaging Industry

The usage growth rate for glass containers (which is the largest business of the Packaging Group) for beverage applications has been steadily growing. Glass bottles for beverage accounts for the largest share among the glass packaging format. Most of these are available in traditional *sari-sari* stores where carbonated soft drinks, energy drinks and ready-to-drink juices come in returnable glass bottles. Glass packaging also recorded growth in other categories such as food packaging, home care, beauty and personal care because of its ability to portray a premium image while maintaining product quality. Although the growth of glass containers may be tempered by the increasing popularity of lightweight, unbreakable and more affordable packaging types such as PET, the glass packaging industry will likely benefit from creation of a free trade area amongst ASEAN nations. Among the likely positive impact of the free trade area will be the ability for local glass manufacturers, such as the Packaging Group, to further expand their business in the ASEAN economies.

Metal beverage cans saw a flat growth due to tight competition with other beverage packaging formats such as stand-up pouches, glass and rigid plastic bottles.

PET bottles for beverages also recorded growth for the past 5 years due to its aesthetic appeal, light weight and sleek design, which is very convenient for consumers. The Packaging Group has large available capacities and ready know-how to exploit prospects in this packaging format.

Flexible packaging continues to reflect growth due to the several advantages it has, including lower cost, ease of disposing and most importantly, convenience. Flexible packaging is considered to be the most affordable pack type and is therefore used by many consumer products to capture mass markets. It is used extensively in tobacco, confectionery, dried processed food, sweet and savoury snacks and has captured brand manufacturers of canned/preserved food, baby food and agri-chemical products.

It is evident that the growth of the total packaging sector for food and beverages has been at par with the long-term trend of Philippine economic and population growth. As both foreign investor and Philippine consumer confidence continue to rise, the Packaging Group can expect better growth rates for the packaging business. The historical rates for the various packaging formats could be easily outpaced.

Competitive Strengths

The Packaging Group believes that its competitive strengths include the following:

Market leader

The Packaging Group is a market leader in all its product formats in the domestic packaging industry, offering total packaging solutions to clients by providing glass, plastics, metal closures, aluminum cans, PET packaging, flexibles and paper as well as beverage filling for PET bottles and aluminum cans.

State-of-the-art manufacturing facilities

The Packaging Group maintains state-of-the-art manufacturing facilities and best practices in manufacturing and quality procedures.

Compliance to global standards

The Packaging Group complies with global standards, recognized by key multinational and domestic customers, for Food Safety (FSSC 22000), Quality Management (ISO: 9001), Environment Management (ISO 14000), various social accountability standards and other relevant standards. The Packaging Group maintains its presence to relevant organization to keep abreast with the current manufacturing standards and ensure statutory and regulatory compliance.

Synergies from partnerships with key global packaging companies

The Packaging Group gains synergies from its partnerships with global packaging players such as NYG (Japan), Fuso Machine & Mold Mfg. Co. Ltd. (Japan), and Can-Pack S.A. (Poland).

Business Strategies

The strategies of the Packaging Group include the following:

Total Packaging Solutions

The Packaging Group intends to increase adoption of the total packaging solutions approach by proactively offering solutions that range from traditional packaging products to associated graphics design, conceptualization, consultancy, toll filling, trading and logistical requirements. The Packaging Group also has put up a new can filling facility to provide tolling services to the current alcoholic and non-alcoholic customers. In February 2015, the Packaging Group acquired 100% of the wine closure and customized wine bottle business of Vinocor, through SMYV Pty Ltd, located in Australia. In 2017, SMYA acquired all of the issued share capital of Portavin Holdings Pty Ltd, Barrosa Bottling Services Pty Ltd and Best Bottlers Pty Ltd. These acquisitions strengthened the Packaging Group's business in Australia and expanded its product base to include wine filling services, serving the growing wine markets in the Australasia region and in China.

Network and Client Optimization

The Packaging Group intends to optimize and leverage on its significant regional network of facilities and alliances as a gateway to enter into new markets. It is also evaluating opportunities with its international clientele on potentially providing packaging services to them in markets where these customers have a presence and are new to the Packaging Group. There is also a focus on entering into longer term contracts with key customers to enhance earnings visibility.

Product Diversification

The Packaging Group continuously innovate to enter new markets and market segments with new products such as slim cans and ends, down gauged crowns, lug caps, high-impact resistance pallets for cements, agricultural flooring, laminated paper, and wine closures (cork).

Marketing Environmentally Friendly Products

The Packaging Group expects the future consumer trend towards environmentally friendly products and sound manufacturing systems. Hence, the Packaging Group is continuously developing eco-friendly processes such as the use of cullets in glass production, toluene-free flexible packaging and accreditation with various international standards and agencies. In recent years, the Packaging Group has been improving and upgrading its manufacturing facilities to a standard higher than established government regulations. Significant investments have been spent on, for example, the Electrostatic Precipitator of the Packaging Group, a pollution-abating device that cost more than ₱100 million.

Selected operating data for the packaging business is provided below for the periods indicated:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2014	2015	2016	2016	2017
	(₱ in millions, except percentages)				
Sales	24,226	25,050	27,386	19,749	22,360
Gross profit	6,673	7,118	7,888	5,693	6,110
Gross profit margin[(1)]	27.5%	28.4%	28.8%	28.8%	27.3%
EBITDA[(2)]	3,700	4,128	4,633	3,450	3,627
EBITDA margin[(3)]	15.3%	16.5%	16.9%	17.5%	16.2%
Net income before tax	1,614	2,114	2,430	1,834	2,039
Net income before tax margin[(4)]	6.7%	8.4%	8.9%	9.3%	9.1%

Notes:
(1) Calculated as gross profit divided by revenues.
(2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.
(3) Calculated as EBITDA divided by revenues.
(4) Calculated as net income before income tax divided by revenues.

A description of the businesses of the Packaging Group is as follows:

Glass

The Packaging Group is the largest supplier in the Philippine glass packaging industry segment and serves many of the leading beverage, food and healthcare companies in the country.

Metal

The metal business is the second largest business in the Packaging Group. It manufactures metal caps, crowns, resealable caps and the newly modernized 2-piece aluminum beverage cans for a wide spectrum of industries that include beer, soft drinks, non-alcoholic beverages and food.

Composites/Flexible Packaging

The composites/flexible packaging business manufactures flexible packaging, plastic films, industrial laminates, trademarked *Envirotuff* radiant barrier and woven bags. Customers for this segment include companies in the food, beverages, personal care, chemical and healthcare industries.

PET

The PET business produces PET preforms and bottles, plastic caps and handles, serving the beer, liquor, non-alcoholic beverages, food, pharmaceutical, personal care and industrial applications industries. Adding to the existing capacity to fill beverages in PET bottles, the beverage filling facility grew its capability to fill aluminum cans for beer and non-alcoholic beverages.

Paper

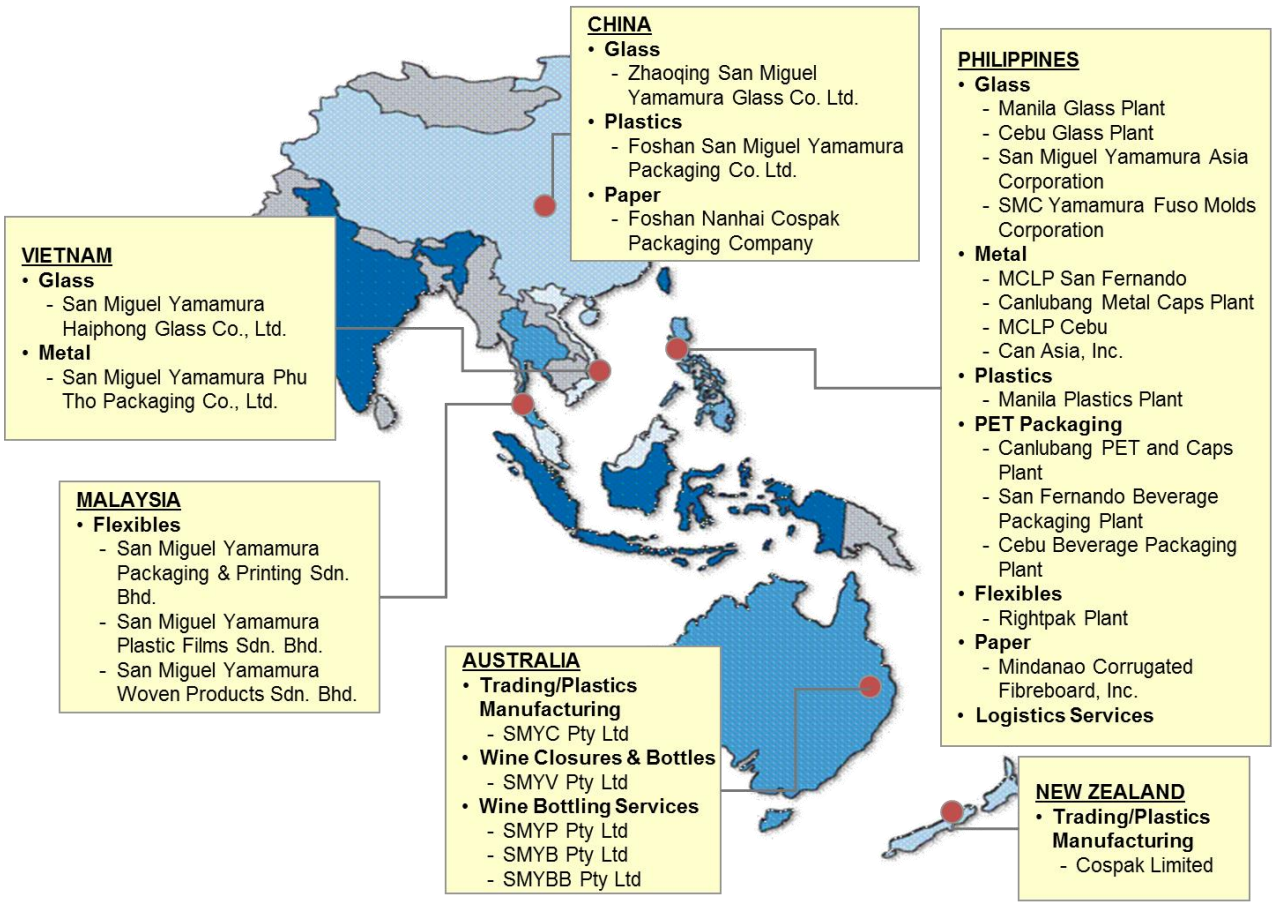
The paper business produces corrugated cartons and partition boxes. In addition, SMYPC also manufactures corrugated cartons and other paper-based packaging products through its wholly owned subsidiary, Mincorr. The paper business serves a broad range of beverage, food and agricultural industries.

Plastics

The plastics business produces bread and food trays, industrial containers, crates, pallets, poultry flooring, pails and tubs to companies in the beer and beverages industries as well as chicken and agricultural industries.

Production

The Packaging Group owns and operates 3 glass plants, 1 glass and PET mold plant, 4 metal packaging plants, 1 plastics packaging plant, 3 PET packaging and filling plants, 1 composite plant, and 1 paper plant. The plants are strategically located throughout the Philippines. It also owns and operates 14 overseas packaging facilities located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, and woven bags), Australia (glass, trading, wine closures, and wine filling facilities) and New Zealand (trading and plastics).



Property Business

Established in 1990 as the corporate real estate arm of SMC, SMPI is aiming to be one of the major players in the property sector through mixed-use developments. SMPI is 99.94% owned by SMC and is primarily engaged in the development, sale and lease of real property. SMPI is also engaged in leasing and managing the real estate assets of SMC.

Cavite Projects

SMPI offers a diverse portfolio of mid-range homes in General Trias, Cavite, namely Bel Aldea, Maravilla, and Asian Leaf, offering townhouse units and single attached house-and-lots, with floor areas ranging from 41.75 to 132 square meters.

Wedge Woods is located west of Sta. Rosa, Laguna – in Silang, Cavite, offering prime lots on a rolling terrain, with a majestic view of Mount Makiling.

Bel Aldea

Bel Aldea, located in General Trias, Cavite, is a 17-hectare development which serves the economic housing segment, offers smartly designed townhouse units, with an average floor area of 42 square meters.

Maravilla

Spanning 24 hectares, Maravilla is a mid-range residential community located at General Trias, Cavite, offering Spanish Mediterranean houses, which currently offers new house models to suit the changing needs of the market.

Asian Leaf

Launched in 2011, Asian Leaf is a 7-hectare premier residential community in the heart of General Trias, Cavite, composed of single attached house-and-lots, with floor areas ranging from 88.50 to 108.30 square meters. Fusing modern Asian architecture and vibrant landscaping, Asian Leaf is perfect for homeowners looking for a tranquil and ideal haven.

Metro Manila Projects

The first project of SMPI is the SMC Head Office Complex, now considered as a landmark, which has served as a catalyst in transforming the area now known as the Ortigas Business District.

SMPI has expanded its portfolio, serving the high-end market with its foray into townhouse developments, such as Dover Hill in San Juan, One Dover View and Two Dover View in Mandaluyong, and Emerald 88 in Pasig.

Makati Diamond Residences, a luxury serviced apartment across Greenbelt 5 in Legaspi Village, Makati City, is already operational as of 2015.

Dover Hill

A 93-unit luxury townhouse development in Addition Hills, San Juan that offers 3 to 5-bedroom units ranging from 202 up to 355 square meters. Each multi-level unit affords ample space for family and friends. A three-car parking area located directly below each unit ensures maximum convenience. Within the Dover Hill compound is Dover Club, a 5-storey amenity building which includes a fully-equipped, state-of-the-art fitness gym, and a party venue with its own kitchen and dining area good for up to 30 guests. Dover Hill also has a swimming pool and playground.

One Dover View & Two Dover View

Both located along Lee St., Mandaluyong, One Dover View and Two Dover View are exclusive and premier condominium-townhouse projects, offering 3 and 4 bedrooms, with only 23 and 8 units, respectively, with floor areas ranging from 222.80 to 327.10 square meters.

Emerald 88

Located along Dr. Sixto Avenue, Pasig City, Emerald 88 is a 14-unit townhouse development, with floor areas ranging from 187.48 to 216.94 square meters.

Fuel and Oil Business

SMC operates its fuel and oil business through its 68.26% ownership in Petron. Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia.

Petron was incorporated under the Corporation Code of the Philippines (the "Corporation Code") and registered with the SEC on December 22, 1966. On September 13, 2013, the SEC approved the extension of the 50-year corporate term of the company to 2066. Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia.

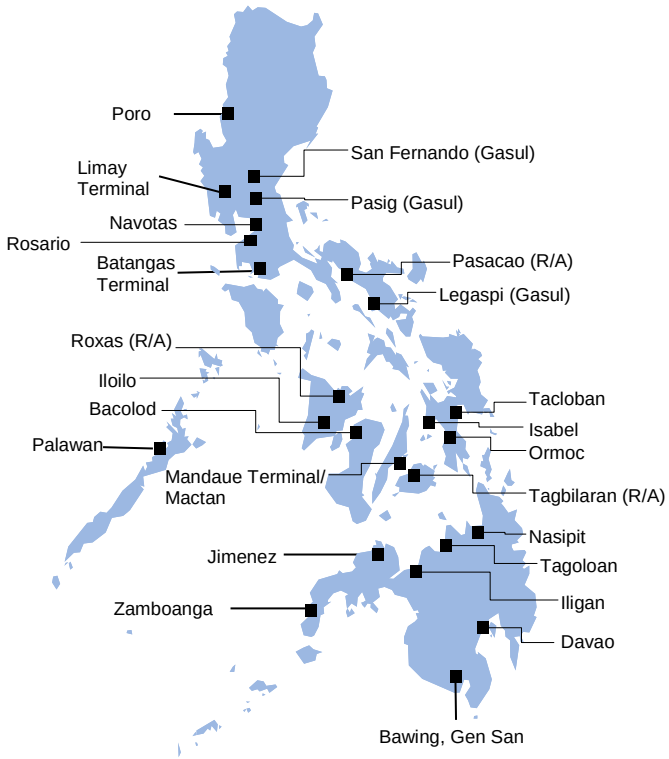
Petron is the largest integrated oil refining and marketing company in the Philippines. Petron had an overall market share of approximately 31.5%[1] of the Philippine oil market in the first half of 2017 in terms of sales volume based on Petron's estimates using its internal assumptions and calculations and industry data from the DOE.

Petron's IMS-certified Petron Bataan Refinery in Limay, Bataan in the Philippines, which has a crude oil distillation capacity of 180,000 barrels per day, processes crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, naphtha and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene. The completion of RMP-2, a US$2 billion project for the Petron Bataan Refinery, enables Petron to produce more valuable White Products, increase its production of petrochemicals, and made Petron the first oil company in the Philippines capable of producing Euro IV-standard fuels, the global standard for clean air fuels.

From the Petron Bataan Refinery, Petron moves its products, mainly by sea, to terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 11 terminals in Luzon, 9 in the Visayas and 7 in Mindanao, as well as 2 airport installations in Luzon and 2 in Mindanao. Through this nationwide network, Petron supplies its various petroleum products such as gasoline, diesel, and LPG to its customers. Petron also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

The map below shows the geographic coverage of Petron's terminals and depots in the Philippines as of September 30, 2017.

Geographic coverage of Petron's terminals and depots in the Philippines



[1] Market share is derived from Petron's estimates based on Company information and date from the Philippine Department of Energy for the first half of 2017. Petron estimates exclude all direct imports of end users.

Note:
R/A indicates that a rationalization agreement is in place in relation to the relevant depot, which is a contract between the owner-operator of the depot and another oil company regarding product supply and the use of the facilities to rationalize operations and reduce costs.

Through its network of approximately 2,300 retail service stations in the Philippines as of September 30, 2017, Petron sells gasoline, diesel, kerosene, and auto-LPG (in some stations) to motorists and to the public transport sector. Petron also sells its LPG brands "*Gasul*" and "*Fiesta Gas*" to households and other consumers through its extensive dealership network.

Petron owns and operates a fuel additives blending plant in the Subic Bay Freeport Zone in the Philippines, which has a tolling agreement with Innospec, a global fuel additives supplier. Regional customers of Innospec and Petron's own requirements are served from the output of the Subic plant.

Petron diversified into petrochemicals and in 2000 added a mixed xylene recovery unit to the Petron Bataan Refinery and a propylene recovery unit in 2008. Its benzene-toluene extraction unit became operational in May 2009. In March 2010, Petron acquired a 40% stake in Petrochemical Asia (HK) Ltd. ("PAHL"), which owns PPI through a wholly owned subsidiary of Robinson International Holdings Limited ("RIHL"). Philippine Polypropylene, Inc. (PPI) operated a polypropylene plant owned by RIHL located in Mariveles, Bataan in the Philippines, which has the capacity to produce 160,000 metric tons of polypropylene resin annually. On July 1, 2014, Petron acquired and took over the operations of the polypropylene plant in order to enhance the overall efficiency of its petrochemical operations. As of July 25, 2016, Petron had increased its stake in PAHL to 100%.

Petron entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream oil business in Malaysia for a purchase price of US$577.3 million. For the 3rd quarter of 2017, Petron ranked 3rd in the Malaysian retail market with a 19.7% market share based on Petron's estimates using its internal assumptions and calculations and industry data from The Concilium Group Sdn Bhd, a market research consultant appointed by Malaysian retail market participants to compile industry data. With this acquisition, Petron extended its portfolio of oil refining and marketing businesses outside the Philippines. Petron owns and operates the Port Dickson Refinery, which has a crude oil distillation capacity of 88,000 barrels per day, and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and LSWR. As of September 30, 2017, Petron had 10 product terminals and a network of approximately 600 retail service stations in Malaysia.

The products of Petron are primarily sold to customers in the Philippines and Malaysia, and Petron also exports various petroleum products and petrochemical feedstocks, including LSWR, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region. Revenues of Petron from these export sales amounted to ₱26.5 billion, or 8.5% of total sales, as of September 30, 2017.

Competitive Strengths

Petron believes that its principal competitive strengths include the following:

Market leadership in the Philippine downstream oil sector.

With an overall market share of approximately 31.5% of the Philippine oil market in the first half of 2017 in terms of sales volume pursuant to company estimates using its internal assumptions and calculations and industry date from the DOE, Petron believes it is the leader in the Philippine oil industry, ahead of the other 2 major oil companies and other smaller players operating in the Philippines. In particular, Petron believes that it is the market leader based on domestic sales volume in the retail trade as well as in the industrial and LPG market segments.

In the Philippines, Petron owns and operates the largest petroleum refinery complex, with a total crude oil distillation capacity of 180,000 barrels per day, which is 70,000 barrels per day higher compared to the only other operating petroleum refinery in the Philippines.

Petron has the most extensive distribution network for petroleum products in the Philippines, which allows it to operate and serve its customers across the Philippines. This distribution network includes 31 terminals and airport installations and reaches most key points in the Philippines. Given the challenges of distribution across the Philippine archipelago, this capability plays a significant role in securing Petron's leading position in the Philippines. Since 2011, Petron has focused on expanding its distribution network to accommodate the

increasing demand across the Philippines, and will continue to invest in the expansion of its distribution network. Petron's strong participation in the different market segments such as retail, LPG and bulk industrial customer operations also plays a large role in its success in the Philippine downstream oil sector. As of September 30, 2017, Petron had approximately 2,300 service stations nationwide, an increase of approximately 79% from about 1,288 service stations in 2008, which Petron believes to be greater than any other market participant. Petron intends to grow this number to utilize the increased production from RMP-2. The company believes it is the leader in the LPG segment with approximately 1,100 branch stores as of September 30, 2017. Petron's industrial sales cover approximately 1,000 direct industrial accounts as of September 30, 2017.

Established position in the Malaysian downstream oil sector.

Petron has acquired an established position in the Malaysian downstream oil sector through its acquisition of ExxonMobil's downstream oil business in Malaysia, which has a recognized health, safety and environmental track record. This provides geographic diversification to its portfolio, an additional platform to expand its business and added stability to its operations.

JBC Energy ("JBC"), a research and consultancy service provider for the oil and energy sector, estimates that the Malaysian market will continue to grow annually by approximately 2.8% up to 2021. At its current market size of approximately 880,000 barrels per day, as estimated by JBC, it is more than double the size of the Philippine market. Based on company estimates using its internal assumptions and calculations and industry data from The Concilium Group Sdn Bhd, Petron ranked 3rd in the Malaysian retail market with a 19.7% share in the first 9 months of 2017.

Petron's network of service stations and distribution infrastructure in Malaysia also facilitate the capture of a growing share of the market. Petron's network in Malaysia includes approximately 600 service stations, about 265 convenience stores and 10 product terminals as of September 30, 2017. Petron rebranded ExxonMobil Esso-branded service stations to the *Petron* brand to increase the awareness of the *Petron* brand in Malaysia. Concurrent with the rebranding, Petron launched a comprehensive refurbishment initiative with the goal of creating a convenient one-stop service experience for customers. This refurbishment initiative included upgrading the service stations with a modern look, brighter lights and more efficient display of products and services. Petron also has a presence in the aviation segment with a 20% ownership of a multi-product pipeline ("MPP") to Kuala Lumpur International Airport ("KLIA"). The joint venture through which the company owns its interest in the MPP also owns a fuel terminal, the Klang Valley Distribution Terminal ("KVDT"). In the 2nd quarter of 2015, Petron completed a project linking the Port Dickson Refinery to the KVDT through the MPP to supply the central region more efficiently.

The retail and certain selected transportation sectors in Malaysia operate under a regulated market pursuant to the APM, which mandates (i) the prices of certain refined petroleum products, (ii) quotas and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. This regulated environment provides stability to Petron's Malaysian operations in such sectors.

Operating a highly complex refinery.

Over the years, Petron has developed and maintained a strong core base of petroleum products, and consistently made significant investments in upgrading its facilities and focused on increasing production of higher margin White Products and petrochemicals while minimizing production of low margin fuel products.

RMP-2, a US$2 billion project completed in the 4th quarter of 2014, enables the Petron Bataan Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products, and increase Petron's production of petrochemical feedstock like propylene, benzene, toluene and xylene. The completion of RMP-2 has made the company the first oil company in the Philippines capable of producing Euro IV-standard fuels, the global standard for clean air fuels. The upgraded production capability has improved refinery utilization rate to about 86% and increased White Products to Black Products ratio to approximately 97% for the 9 months ended September 30, 2017, compared to previous operating levels of approximately 57% utilization rate and White Products to Black Products ratio of approximately 80% for the year ended December 31, 2014.

Operations in markets with favorable industry dynamics.

Petron operates as an integrated oil refining and marketing company in the Philippines and Malaysia, both of which Petron believes have favorable oil industry dynamics. The Philippines operates under a free market scheme with movements in regional prices and foreign exchange reflected in the pump prices on a weekly

basis. Malaysia, on the other hand, operates under a regulated environment and implements an APM that provides stable returns to fuel retailers. According to the International Monetary Fund, as of October 2017, the Philippine and Malaysian economies are expected to experience stable real gross domestic product growth at annual rates of 6.7% and 4.8% respectively in the year 2018. This favorable economic backdrop is expected to contribute to energy and petroleum products demand growth in these countries. Both the Philippines and Malaysia are importers of finished petroleum products. Petron believes it is well-positioned to benefit from this supply shortfall with its current production capacities of 180,000 and 88,000 barrels per day in the Philippines and Malaysia, respectively, giving it a significant competitive advantage over its competitors.

Differentiated service experience driving retail volumes.

Petron's network of service stations in the Philippines and Malaysia offers differentiated and comprehensive services to customers. Beyond just a petroleum station, Petron's service station provides a one-stop service experience to travelers on the road, offering amenities such as Treats convenience stores, restaurants, and specialty shops. These convenience stores, restaurants and specialty shops help generate non-fuel revenues and improve traffic in the service stations. In Malaysia, Petron rebranded all ExxonMobil Esso-branded service stations to the Petron brand and refurbished the stations. As of September 30, 2017, 265 of Petron's network of approximately 600 service stations in Malaysia have convenience stores. Petron has also partnered with the Royal Malaysia Police to set up "Go-to Safety Points" at selected Petron stations in Malaysia.

Petron also offers loyalty programs that complement its retail business. Petron continues to upgrade existing loyalty programs and offer new and diverse programs to cater to customers' unique needs. Some of the benefits of the program include 24-hour free towing and roadside assistance, reward points for every purchase and complimentary annual personal accident insurance coverage (Philippines). As of September 30, 2017, approximately 5 million Petron Value Cards (including Petron Super Driver Cards) had been issued in the Philippines and approximately 5.9 million Petron Miles Privilege Cards had been issued in Malaysia.

Experienced management team and employees and strong principal shareholder in San Miguel Corporation.

Petron has an experienced team of managers with substantial relevant experience in refining operations and development of service stations. In addition, the company has a team of employees skilled in managing the various aspects of its business, including a highly experienced management team at the Petron Bataan Refinery, a focused sales and marketing team, which includes a group that has years of experience in service station engineering and construction, and a research and development team that has overseen years of product development and production process improvement. Petron is also committed to the development of its employees by adopting on-going training and development programs to ensure that operations will be run by well-equipped and capable employees. The average tenure of employees of Petron is approximately 9 years for the Philippines and 10 years for Malaysia.

SMC, directly and indirectly, holds an effective 68.26% of Petron's outstanding common equity. Petron believes that it benefits from its relationship as a key material subsidiary of SMC, primarily by realizing synergies, including the provision of fuels for SMC's expanding power generation business, SMC's infrastructure business and its various production facilities as well as cross-marketing opportunities with SMC's consumer and energy-related businesses. Petron also believes that SMC's strong balance sheet and international reach and relationships increase its leverage and bargaining power with suppliers and financial institutions as well as enhance its sources of funding for its capital expenditure projects

Strategies

Maximize production of high margin refined petroleum products and petrochemicals.

Over the years, Petron has made significant investments in upgrading its facilities and is focused on increasing production of White Products and petrochemicals while minimizing production of low margin fuel products. In recent years, it has shifted production from lower margin fuel oils to higher margin products, including petrochemical feedstock such as propylene, mixed xylene, toluene and benzene. The RMP-2 program, which exemplifies this strategic focus, increases revenues, reduces costs, and places the Petron Bataan Refinery's utilization, processing and energy efficiency at par with more advanced refineries in the region, improving its competitiveness. Going forward, Petron expects to continue investing in upgrading its production capability.

In the medium term, Petron will assess the viability of further expanding the Petron Bataan Refinery's value generation through upgrading its petrochemicals facilities to increase production of petrochemicals benzene, toluene and mixed xylene, and enable production of higher value para-xylenes.

Further increase market share in the downstream oil markets in the Philippines and Malaysia.

Petron intends to leverage on its leading market position and extensive retail and distribution network in the Philippines to maximize its revenue and margin potential.

Petron believes that the downstream oil market in the Philippines is still underserved and has a strong potential for growth. To capture this growth and further strengthen its market position, it will embark on: (i) increasing its retail outlets for fuels and LPG to improve market penetration and arrest the growth of other industry players; (ii) introducing new products with differentiated and superior qualities; (iii) expanding lubes distribution network by putting up more sales channels such as new lube outlets, sales centers and car care centers, and penetrating non-traditional outlets such as auto parts and repair shops; (iv) continuing to expand its non-fuel businesses by leasing additional service station spaces to food chains, coffee shops and other consumer services to provide "value conscious" customers with a one-stop full service experience; and (v) intensifying its dealer and sales personnel training to further improve customer service experience. These initiatives will support its growing retail business and continuing service station network expansion.

In Malaysia, Petron intends to increase its market share by expanding its existing Malaysian retail network of approximately 600 retail service stations. It plans to strategically increase its presence in urban areas with high traffic to make its products and services accessible to more Malaysians. In addition, Petron seeks to maintain and further strengthen its established position in the Philippines and Malaysia by reinforcing business relationships with existing customers by providing differentiated service offerings in its retail service stations and promoting enhanced loyalty programs in both countries.

Continue investments to increase operational efficiency and profitability and to increase market reach.

Petron has undertaken a number of strategic projects such as the RMP-2 aimed at improving operational efficiency and profitability, and increasing market reach through the expansion of Petron's service station network.

Petron also intends to enhance efficiency and reduce production costs through supply chain improvements and enhancements to its existing facilities through a range of initiatives including: (i) enhancing its crude optimization program (a program which determines the crude mix that will yield the best product value at the lowest cost) and expanding its crude oil supply sources in addition to its major crude oil suppliers; (ii) reducing inventory levels in the Philippines by sourcing feedstock from suppliers located near the Petron Bataan Refinery; (iii) investing in new receiving and storage facilities and improving the existing facilities to attain greater sourcing flexibility and support new growth areas; (iv) managing crude oil freight costs and availability of terminal-compliant vessels with contracts of affreightment that guarantee cost competitiveness with the spot market; and (v) reducing distribution costs through rationalization of the terminal network, joint operations with other companies and optimized utilization of its marine and tank truck fleet. Petron also expects to continue utilizing operational synergies by leveraging on SMC's network, products and services.

Pursue selective synergistic acquisitions.

In addition to organic growth, Petron will continue to consider and evaluate selective opportunities to expand both within and outside the Philippines through strategic acquisitions that will create operational synergies and add value to the existing business. For example, in March 2010, Petron acquired a 40% stake in PAHL, which owned PPI through a wholly owned subsidiary of RIHL. PPI operated a polypropylene plant owned by RIHL located in Mariveles, Bataan in the Philippines, which has the capacity to produce 160,000 metric tons of polypropylene resin annually. On July 1, 2014, Petron acquired and took over the operations of the polypropylene plant in order to enhance the overall efficiency of the petrochemical operations of Petron. As of July 25, 2016, Petron had increased its stake in PAHL to 100%. In addition, on March 30, 2012, Petron completed its acquisition of ExxonMobil's downstream business in Malaysia, extending its portfolio of oil refining and marketing businesses outside the Philippines.

On December 23, 2016, Petron acquired from SMC Powergen Inc. a 140 MW cogeneration power plant located in the Petron Bataan Refinery, which supplies the power and steam requirements of the Petron Bataan Refinery. The acquisition is expected to lower steam and power costs.

Selected financial data for the business of Petron are set forth in the table below for the periods indicated:

	(Unaudited)				
	For the nine months ended September 30				
	2016	% of Sales	2017	% of Sales	% Change
	(₱ in millions, except percentages)				
Sales	247,770	100.0	313,505	100.0	26.5
Cost of goods sold	221,164	89.3	281,151	89.7	27.1
Gross profit	26,606	10.7	32,354	10.3	21.6
Selling and administrative expenses	(9,765)	(3.9)	(10,283)	(3.3)	5.3
Interest expense and other financing charges	(5,496)	(2.2)	(6,523)	(2.1)	18.7
Interest income	379	0.2	359	0.1	(5.3)
Share in net income of an associate	77	-	63	-	(18.2)
Other expenses - net	(1,244)	(0.5)	(400)	(0.1)	(67.8)
Income before income tax	10,557	4.3	15,570	4.9	47.5
Income tax expense	3,130	1.3	3,809	1.2	21.7
Net income	7,427	3.0	11,761	3.7	58.4

Production Facilities

The Philippines

In the Philippines, Petron owns a petroleum refinery complex located in Limay, Bataan. The Petron Bataan Refinery has a crude oil distillation capacity of 180,000 barrels per day. Its facilities include 3 crude oil distillation units, 2 vacuum pipestill units, a delayed coker unit, 2 catalytic cracking units, a continuous catalyst regeneration reformer unit, a semi-regenerative reformer unit, 3 naphtha hydro-treaters, 2 kerosene merox treaters, 3 gas oil hydro-treater units, a coker gas oil hydro-treater, a polynaphtha oligomerization unit, 4 LPG treaters, 2 selective hydro-processing units, an isomerization unit, benzene, toluene, and mixed xylene recovery units, 2 propylene recovery units, 4 sulfur recovery units, a hydrogen production unit, a hydrogen recovery facility, a nitrogen plant, 2 waste water treatment facilities, 4 sour water facilities, a desalination facility, 8 steam generators, 5 turbo generators, 4 cooling towers, a reverse osmosis unit, flare facilities, bulk asphalt receiving facilities, several crude oil storage tanks, as well as a number of refined petroleum products storage tanks. It has its own piers and other berthing facilities, one of which can accommodate very large crude oil carriers, or VLCCs.

The Petron Bataan Refinery is capable of producing a range of petroleum products such as LPG, naphtha, gasoline, kerosene, jet fuel, and diesel. In 2000, the Petron Bataan Refinery commenced petrochemical production with the commercial operation of its mixed-xylene plant, designed to produce 232,000 tons per year of mixed xylene. The Petron Bataan Refinery started producing propylene in 2008 with the commissioning of its first propylene recovery unit, which has a demonstrated capacity of 148,000 tons per year of polymer-grade propylene. Also in 2008, the Petron Bataan Refinery started the construction of the benzene-toluene extraction unit to further expand its capability to produce petrochemical feedstock. The benzene-toluene extraction unit, which became operational in May 2009, is designed to produce benzene and toluene at respective capacities of 24,000 and 158,000 tons per year. In early 2011, PPI commissioned a rehabilitated polypropylene plant in Mariveles, Bataan, to capture the incremental margin from converting the Petron Bataan Refinery's propylene production into polypropylene. The facility has the capacity to produce 160,000 metric tons of polypropylene resin annually. In July 2014, Petron acquired the polypropylene business of PPI to enhance efficiency. As a result of the acquisition, the operation of the polypropylene plant was integrated into the Petron Bataan Refinery's propylene production operation which expanded in 2015 with the commissioning of the second propylene recovery unit, increasing propylene production capacity to 415,000 tons per year.

Petron completed a fuel additives blending plant in the Subic Bay Freeport Zone in July 2008 with a capacity of 12,000 metric tons per year, which serves the fuel additive requirements of Innospec's customers in the Asia-Pacific region. Petron is Innospec's exclusive blender in the Asia-Pacific region.

Malaysia

In Malaysia, Petron owns a petroleum refinery complex located in Port Dickson, Negeri Sembilan. The Port Dickson Refinery has a crude oil distillation capacity of 88,000 barrels per day. Its facilities include a crude oil distillation unit, a naphtha hydro-treating unit with a processing capacity of 26,000 barrels per day, 2 semi-regeneration reformer units with a combined processing capacity of 19,000 barrels per day and a kerosene

hydro-treating unit with a processing capacity of 12,000 barrels per day. The Port Dickson Refinery has waste water treatment facilities, a boiler, a cooling water plant, flare and safety relieving facilities, 6 crude oil storage tanks with a total capacity of approximately 1.1 million barrels, 20 refined petroleum products storage tanks and 5 spheres for LPG storage with a total capacity of approximately 1.1 million barrels. The Port Dickson Refinery produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and LSWR. With the exception of naphtha and LSWR, these products are intended to meet domestic demand in Malaysia. Petron exports its naphtha and LSWR to various customers in the Asia-Pacific region under term and spot contracts.

Crude oil for the Port Dickson Refinery is received by means of a single buoy mooring ("SBM") and crude pipeline facilities that are jointly owned with Shell Refining Company (Federation of Malaya) Berhad ("SRC (FOM)") through an unincorporated joint venture. The SBM is operated by SRC (FOM) and Petron shares the operating costs equally with SRC (FOM). Petron also pays a levy of 1/3 of the overhead and administrative charges incurred by SRC (FOM) in connection with the operation of the SBM.

Raw Materials

Philippine Operations

The main raw material used in the Petron Bataan Refinery's production process is crude oil. Petron acquires crude oil for the Petron Bataan Refinery from foreign sources, through a combination of term purchase contracts and spot market purchases. Petron has a term contract with Saudi Aramco, entered into in 2008, to purchase various Saudi Arabian crude. The pricing and payment mechanisms under this contract are consistent with Saudi Aramco's standard practice for its Far East customers. Pricing is determined through a formula that is linked to international industry benchmarks, and payment is on an open account basis and secured by an irrevocable standby letter of credit. The contract is automatically renewed annually unless either Petron or Saudi Aramco elects to terminate the contract upon at least 60 days' written notice prior to its expiration date. As of September 30, 2017, neither Petron nor Saudi Aramco had terminated the contract.

Petron also has a term contract with Kuwait Petroleum Corporation to purchase Kuwait crude. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is renewable subject to mutual agreement of the parties. As of September 30, 2017, neither Petron nor Kuwait Petroleum Corporation had terminated the contract. Several other crude oils are purchased on a spot basis from various suppliers.The Petron Bataan Refinery is capable of processing various types of crude oil. Petron's crude oil optimization strategy includes the utilization of various types of crude oil that are not confined to light and sweet crude, which the Petron Bataan Refinery has been processing predominantly, to provide additional value. The completion of the RMP-2 has given the Petron Bataan Refinery greater flexibility to use heavier, more sour alternative crude.

Petron entered into a contract for the 2017 term supply of group I base oils (SN500, SN150 and BS150) with Shell International Eastern Trading Co. in December 2016. This contract is renewable annually and pricing is calculated using a formula based on an international standard price benchmark for base oils. Group I base oils are its main feedstock for the production of automotive, industrial and marine lubricants.

Petron has an exclusive offtake agreement with Philippine-based San Carlos Bioenergy, Inc. pursuant to a 10-year supply contract expiring in May 2019 based on a formula price. The balance of Petron's ethanol requirements is sourced from other local ethanol producers based on the local monthly allocation given by the DOE to the oil players, and the remainder on imports. Ethanol is blended with gasoline to comply with the current requirement under the Philippine Biofuels Act of 2006 that all gasoline, with the exception of Premium Plus grade, sold by every oil company in the Philippines should contain 10% bioethanol starting August 6, 2011.

Petron also imports aviation gas, asphalt and some gasoline blending components. These imports are necessary as it does not produce aviation gas and asphalt. Petron ceased producing fuel oil, a lower margin product, upon the completion of the RMP-2. Imports of LPG, diesel, gasoline and jet fuel may also be necessary during maintenance of the Petron Bataan Refinery. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline and some gasoline blending components, or Saudi Aramco contract prices ("Saudi CP") for LPG.

Malaysian Operations

The main raw materials used in the Port Dickson Refinery's production process are crude oil and condensate. Petron acquires crude oil and condensate for the Port Dickson Refinery from various sources, through a combination of term purchase contracts and spot market purchases. It has a long-term supply contract for Tapis crude oil and Terangganu condensate with EMEPMI, supplemented by other spot crude purchases. Pricing is determined through a formula that is linked to international industry benchmarks.

The Port Dickson Refinery is designed to process sweet crude oil. Petron's crude oil optimization strategy includes diversification in processing different types of sweet crude oil.

Petron buys POME from Malaysian government-approved local suppliers for its biodiesel mix. POME is the bio-component of the biodiesel mix sold to domestic customers in Malaysia as a replacement for diesel. It produces a biodiesel mix initially comprising 5% POME and 95% diesel. Subsequently, the Malaysian Biofuel Industry Act of 2007 changed the mix to 7% POME and 93% diesel. In October 2014, the Malaysian government announced the implementation of the B7 programme (blending of 7% POME and 93% diesel) for the subsidized sector. Implementation was completed in the second quarter of 2015.

Petron also imports LPG, diesel, gasoline and some gasoline blending components. These imports, which Petron purchases through term purchase contracts and in the spot market, are necessary as it does not produce enough refined products to meet domestic demand in Malaysia. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline and some gasoline blending components, or Saudi CP for LPG.

Utilities

The principal utilities required for Petron's production process are water, electricity and steam.

Water

Deep wells provide the Petron Bataan Refinery's water requirements.

The Port Dickson Refinery's clean water requirements for the process units are sourced from the local municipal cooling water source. Water for fire-fighting purposes is sourced from a natural lagoon located within the Port Dickson Refinery complex.

Electricity and Steam

The Petron Bataan Refinery's electricity and steam requirements are sourced from the Petron Bataan Refinery's existing turbo and steam generators as well as from the SMC Powergen Power Plant, the new cogeneration power plant in Limay, Bataan, which was sold by Petron in 2013 to SMC Powergen Inc., a subsidiary of SMC and an affiliate of Petron.

The Port Dickson Refinery's electricity requirements are purchased from Tenaga Nasional Berhad, the Malaysian national electricity provider, while the Port Dickson Refinery's fired and waste heat boilers supply the steam requirements of the refinery's process units.

Sales and Marketing

Philippines

In the Philippines, Petron is the largest integrated oil refining and marketing company. Petron had an overall market share of 31.5% of the Philippine oil market in the first half of 2017 in terms of sales volume based on Petron's estimates using its internal assumptions and calculations and industry data from the DOE.

Retail Service Stations

Petron has approximately 2,300 retail service stations in the Philippines as of September 30, 2017, representing approximately 28% of the country's total service station count of approximately 8,100, according to Petron's estimates. Most of these stations are located in Luzon, where demand is heaviest. Petron employs 2 types of service station operating structures in the Philippines, namely: company-owned-dealer-operated service stations ("CODO") and dealer-owned-dealer-operated service stations ("DODO"). For CODOs, Petron buys or leases the land and owns the service station structures and equipment, but third-party dealers operate the CODOs. For DODOs, third party dealers buy or lease the land, build service station structures according

to Company specifications, lease the service station equipment from Petron, and operate the DODOs. As of September 30, 2017, approximately 30% of Petron's retail service stations in the Philippines were CODOs, and approximately 70% were DODOs.

In 2009, Petron launched its pioneering Petron Bulilit Stations, which are small service stations that provide the flexibility to establish a presence even in remote rural areas and make Petron's products and services accessible to more Filipinos.

To improve traffic in Petron's service stations and increase potential revenues of Petron's non-fuel business, Petron established Treats convenience stores and leases space to quick-serve restaurants and other consumer service shops in strategic service stations nationwide. The Treats convenience stores were rebranded under the brand name San Mig Food Ave in 2011 pursuant to an agreement with San Miguel Foods, Inc. The convenience stores are operated by dealers through a franchise obtained from San Miguel Foods, Inc. In 2014, Petron opened 2 bakeshops in Manila under the brand name "Treats," with permission from San Miguel Foods, Inc. for the use of the brand name. The Treats bakeshops are operated by PMC. As of September 30, 2017, there are about 16 Treats outlets nationwide.

Petron continues to install the point of sale ("POS") system across its retail network throughout the Philippines. POS systems are used for gaining efficiencies through automating retail transactions and the proper monitoring of actual sales in service stations. As of September 30, 2017, Petron had installed POS terminals in 1,184 retail service stations in the Philippines.

Industrial Sales

Petron believes it is the leading supplier to the Philippine industrial sector, which includes major manufacturing, aviation, marine, and power accounts. Petron had more than 1,000 direct industrial account customers as of September 30, 2017.

LPG

Petron is the leading market participant in the Philippine LPG market in terms of market share. The company has set up approximately 1,100 branch stores through its *Gasul* and *Fiesta Gas* LPG dealers as of September 30, 2017. Petron commissioned 11 mini-refilling plants in the Philippines as of September 30, 2017 to broaden the reach of Petron's LPG products and make them accessible to more Filipinos.

Lubricants, Specialties and Petrochemicals

To augment lubricants and greases sales, Petron has a network of approximately 26 Car Care Centers, 12 Lube Centers and 12 Motorcycle Centers throughout the Philippines as of September 30, 2017. Petron capitalizes on its expanded LPG-outlet network by utilizing its LPG branch stores as outlets for Petron's lubricants and specialty products. Petron has expanded into blending and export of fuel additives, leveraging on its technology partnership with Innospec, a global fuel additives supplier. Petron also provides technical services to Innospec's customers, and can tap the customer base of Innospec in Asia to broaden the market for its own lubricant brands. Petron exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region. These products are sold through accredited traders and to end-users under term or spot contracts. Polypropylene is sold mostly to companies engaged in the manufacture of packaging materials.

Loyalty Programs

Petron actively pursues initiatives to improve customer service and promote customer loyalty. In 2004, Petron launched the Petron Fleet Card, the first microchip-powered card in the Philippines, which is a credit card that offers rebates and discounts on fuel, lubricants, services and provides 24-hour free towing and roadside assistance to cardholders. As of September 30, 2017, approximately 176,000 Petron Fleet Cards had been issued. In 2008, Petron launched Petron e-Fuel Card as a promotional item. To maximize patronage of its service stations and related businesses, Petron launched a loyalty program in October 2011 through its Petron Value Card, which offers 24-hour free towing and roadside assistance, rewards points for every purchase and complimentary annual personal accident insurance coverage. In the 4th quarter of 2014, Petron introduced the Petron Super Driver Card, a variant of the Petron Value Card, to the public utility vehicle sector, specifically targeting the taxi and tricycle markets. As of September 30, 2017, Petron has issued approximately 5 million Petron Value Cards (including Petron Super Driver Cards).

Malaysia

Petron's fuels marketing business in Malaysia is divided into retail business and commercial sales.

Retail Service Stations

The retail business markets fuel and other retail products through a dealer network comprising of approximately 600 retail service stations located throughout Peninsular and East Malaysia. In Malaysia, Petron uses the CODO and DODO operating structures for its retail service stations. As of September 30, 2017, Petron's approximately 600 retail service stations, approximately 67% were CODOs and approximately 33% were DODOs. 265 of the service station sites had convenience stores, which generate non-fuel revenues and improve traffic in the service stations.

To further enhance the customer service experience in Malaysia, Petron launched the Fuel Happy campaign in March 2015 with many marketing activities and events organized to reward and enchant the customers. In January 2016, the company pioneered the country's first premium fuel with the roll out of the new Blaze 100 to 8 pilot sites in Klang Valley. As of September 30, 2017, Blaze 100 is available in about 70 stations, mainly located in Klang Valley and the southern city, Johor Bahru.

Commercial Sales

Petron's commercial sales are divided into 3 segments: industrial and wholesale fuels, LPG and lubricants and specialties.

Industrial and Wholesale Fuels

The industrial segment sells diesel and gasoline to unbranded mini-stations and power plants, as well as to the manufacturing, plantation, transportation and construction sectors. Petron's sales to unbranded mini-stations represented approximately 71.6% of such sales in Malaysia by volume for the first 9 months of 2017, based on Petron's estimates and information and data from The Concilium Group Sdn Bhd. Sales to the mini-stations are priced according to the APM. Many power plants in Malaysia run on natural gas and use diesel as alternative fuel when there are gas curtailments. Petron sells diesel to such power plants on an ad-hoc basis at spot prices. The pricing of these sales is determined through a formula that is linked to international industry benchmarks. Sales of diesel to the manufacturing, plantation and construction sectors are not regulated by the Malaysian government, and the pricing of these sales is subject to market supply and demand. Sales of diesel to selected transportation sectors are priced according to the APM. Since sales to these transportation sectors are subject to a quota system in Malaysia, Petron's sales to these transportation sectors are subject to volume limits. Sales more than the approved quotas are not entitled to subsidies. Accordingly, when the government-mandated prices are lower than the fuel products' built-up costs per the APM, Petron has to manage its sales of subsidized products to ensure that such sales do not exceed the amount permitted under the approved quotas.

The Malaysian wholesale segment consists of sales, primarily of diesel, to company-appointed distributors, which subsequently sell Petron's products to industrial customers. As of September 30, 2017, Petron had about 228 active distributors.

In Malaysia's aviation sector, the company is 1 of the 3 major jet fuel suppliers at KLIA and KLIA 2 pursuant to a throughput agreement with the Kuala Lumpur Aviation Fuelling System Sdn Bhd, the operator of the KLIA's storage and hydrant facility.

LPG

Petron markets LPG in 12-kg, 14-kg and 50-kg cylinders for domestic use through redistribution centers, stockists and dealers. LPG redistribution centers are owned by Petron and distribute bottled LPG to dealers. Stockists are dealer-owned and distribute cylinders to other dealers. Dealers generally collect bottled LPG directly from redistribution centers and stockists for onward sale to domestic consumers. Prices of 12-kg and 14-kg cylinders are regulated under the APM. The company also sells bulk LPG to industrial users through appointed dealers and to resellers. Prices of 50-kg and bulk LPG are not covered by the APM.

Lubricants and Specialties

Petron established a lubricants and specialties segment in April 2012 to introduce Petron lubricants and greases into the Malaysian market. These products are marketed through a network of appointed distributors

in both West and East Malaysia to various industry segments, namely, car and motorcycle workshops, transport and fleet operators, manufacturing and industrial accounts. Petron's wide range of automotive lubricants is sold through Petron's extensive network of service stations in Malaysia.

Petron exports surplus intermediate products LSWR and naphtha from the Port Dickson Refinery through accredited traders and to end-users under term or spot contracts.

Loyalty Programs

Since acquiring its Malaysian operations in March 2012, Petron has been actively pursuing initiatives to improve customer service and promote customer loyalty at its Malaysian retail service stations. Petron rebranded its loyalty card programs to Petron Miles Privilege Cards in April 2014 as part of its rebranding program in Malaysia. As of September 30, 2017, approximately 5.9 million Petron Miles Privilege Cards had been issued in Malaysia.

Capital Expenditures

Petron Bataan Refinery

Petron completed Phase 1 of the Refinery Master Plan ("RMP-1") in May 2009, under which it completed the construction of the PetroFCC unit, the propylene recovery unit and the benzene-toluene extraction unit. RMP-1 enhanced the Petron Bataan Refinery's capability to convert low-margin fuel oil into White Products such as LPG, gasoline and diesel. RMP-1 also expanded Petron's venture into production of petrochemical feedstocks such as propylene, benzene, toluene and additional mixed xylene.

Petron completed RMP-2 in the 4th quarter of 2014. RMP-2 was a US$2 billion investment project which enabled the Petron Bataan Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products and increase Petron's production of petrochemicals. The completion of the RMP-2 made the company the first oil company in the Philippines capable of producing Euro IV-standard fuels, the global standard for clean air fuels.

The Petron Bataan Refinery is now also able to produce petcoke, which is used as fuel for the new cogeneration power plant for the Petron Bataan Refinery, lowering Petron's power generation costs. RMP-2 places the Petron Bataan Refinery's utilization, processing and energy efficiency on par with more advanced refineries in the region and improve its competitiveness.

Petron will continue to make investments in the Petron Bataan Refinery facilities that will ensure sufficiency of inputs to critical refinery processes, and storage facilities for more crude and petroleum products. In the medium term, Petron will also assess the viability of further improving the Petron Bataan Refinery's value generation by upgrading its current petrochemical facilities to increase production of high value petrochemicals, benzene, toluene and mixed xylene, and a new capability to produce para-xylenes and feedstock for plastic production.

Philippine Retail Network Expansion

To support growth in sales in the Philippines, Petron intends to continue to increase the number of its service stations in urban and rural areas. LPG and lube outlets will also be expanded for a wider market reach. The retail network expansion will also support the optimized disposition of the increased sales volume from RMP-2.

Logistics Expansion and Upgrade

Petron is upgrading and expanding its storage capacity to support the increase in volume from RMP-2. Investments in new terminals are considered in different locations such as the municipalities of Caticlan, and others, will also be done, along with improvements in pier facilities. These logistics expansion and upgrade programs also aim to improve product supply reliability to customers and end-users.

In 2013, the construction of new storage facilities in the NAIA and the Navotas terminals were completed to shore up Petron's ability to serve increasing Jet A-1 requirements.

Malaysia Expansion and Improvements

Petron will continue to construct new service stations and expand its retail network in Malaysia. The facilities at the Port Dickson Refinery will also be enhanced to improve operating efficiency. Petron also plans to construct a new diesel hydroteater to meet Euro-5M regulation by 2020. These projects will be financed through a combination of net cash flows provided by operating activities and debt instruments.

Competition

Philippines

In the Philippines, Petron operates in a deregulated business environment, selling its products to individual, commercial and industrial customers. The enactment of the Downstream Oil Industry Deregulation Law in 1998 effectively removed the rate-setting function of the Philippine government through what was then known as the Energy Regulatory Board, leaving price-setting to market forces. It also opened the oil industry to free competition.

The Philippine downstream oil industry is dominated by 3 major oil companies: Petron, Shell and Chevron, which, according to Petron's estimates based on its internal assumptions and industry data from the DOE for the first half of 2017, together constituted 61.6% of the Philippine market based on sales volume. Deregulation has seen the entry of more than 200 other industry market participants, rendering the petroleum business more competitive. Petron, with total crude oil distillation capacity of 180,000 barrels per day, and Shell, with total crude oil distillation capacity of 110,000 barrels per day, operate the only petroleum refineries in the country. The rest of the industry market participants are importers of finished petroleum products or purchase finished petroleum products from other market participants in the local market. In the Philippines, Petron competes with other industry market participants based on price, product quality, customer service, operational efficiency and distribution network, with price being the most important competitive factor. Providing total customer solutions has increased in importance as consumers became more conscious of value.

Petron participates in the reseller (service station), industrial, LPG and lube sectors through its network of service stations, terminals, dealers and distributors throughout the Philippines. In the reseller sector, competition is most dynamic among the major firms, as seen through the construction of service stations by Shell, Chevron, Total Philippines, Phoenix Petroleum, Seaoil and other new participants in major thoroughfares. Petron has approximately 2,300 retail service stations as of September 30, 2017 representing approximately 28% of the country's total service station count of about 8,100, reaching more customers throughout the Philippines. The small market participants continued to grow, with station count increasing from 695 in 2001 to 2,260 stations as of September 30, 2017. Participants in the reseller and LPG sectors continue to resort to aggressive pricing and discounting to expand their market share. The number of major LPG importers in the Philippines increased from 3, prior to deregulation, to about 7, with new entrants having more flexible and bigger import receiving capacities. Although Petron is the biggest participant in the Philippine LPG sector, one of the new participants in this sector, Liquigaz, had a substantial market share of 23.6% in the first half of 2017 based on Petron's estimates using its internal assumptions and calculations and industry data from the DOE. In the industrial sector, the major market participants continue to invest heavily to increase their market share and tap new markets. In the lubricants sector, intense competition among over 50 brands, including global brands such as Castrol, Mobil, Shell and Caltex, continues. Brands compete for limited shelf space, which has led to the penetration of previously unutilized markets, such as auto-dealerships in malls.

Petron is the leader in the Philippine downstream oil industry, with an overall market share of 31.5% of the Philippine oil market in the first half of 2017, ahead of the other two major oil companies, which have a combined market share of 30.1%, in terms of sales volume based on Petron's estimates using its internal assumptions and calculations and industry data from the DOE. Approximately 200 smaller oil market participants, which started operations after the deregulation of the oil industry in 1998, account for the remaining market share. Petron believes that it is the leader in terms of sales volume in the retail, industrial and LPG market segments based on Petron's estimates using its internal assumptions and calculations and industry data from the DOE in the first half of 2017. Petron's retail sales volumes for the years ended 2014, 2015 and 2016 and for the 9 months ended September 30, 2016 and 2017 were approximately 50,000 barrels per day, 55,000 barrels per day, 58,000 barrels per day, 57,000 barrels per day and 62,000 barrels per day, respectively. Petron's non-retail sales volumes (including industrial, LPG, and export and supply sales) for the years ended 2014, 2015 and 2016 and for the 9 months ended September 30, 2016 and 2017 were approximately 93,000 barrels per day, 117,000 barrels per day, 126,000 barrels per day, 128,000 barrels per day and 118,000 barrels per day, respectively.

Petron believes that its competitive advantages include organization, technology, assets, resources and infrastructure. Petron continues to implement initiatives aimed at improving operational efficiencies, managing costs and risks, and maximizing utilization of its assets and opportunities.

Malaysia

In the retail service station business, the Malaysian operations of Petron compete with 4 other main participants in the market, namely: subsidiaries of Petroliam Nasional Berhad ("Petronas"), Royal Dutch Shell plc, Caltex and Boustead Petroleum Marketing Bhd ("BHPetrol"). Of these competitors, Petronas and Shell also have refinery operations in Malaysia. The Malaysian government regulates the pricing of gasoline and diesel at retail service stations through the APM.

Despite being the newest participant in the market, Petron continued to grow its retail market share to 19.7%, with approximately 600 service stations in Malaysia as of September 30, 2017. With Petron's customer-centric programs, completion of the rebranding of service stations and facilities, continuous implementation of retail network expansion program, introduction of new product lines, and improvements in logistics and refinery capabilities, Petron believes that it is well positioned to compete in the retail segment.

Petron continues to face intense competition in the industrial, aviation and wholesale market segments from other local and multi-national oil companies. The company uses its local production from the Port Dickson Refinery and its strategic terminal locations across Malaysia to remain competitive in these segments. Besides the mini stations, fisheries and some selected transportation sectors, which are governed by the APM, other sectors do not benefit from the subsidies provided for under the APM. Major participants resort to aggressive pricing in these segments to expand market share. The aviation market is also very competitive, as the 3 local refiners offload their jet fuel through the MPP to KLIA. Sales of jet fuel at the other Malaysian airports are supplied by the oil companies having the necessary storage and logistics capability. In the LPG segment, Petron competes with Petronas and NGC Energy Sdn Bhd, among others. The APM applies only for sales of LPG in domestic cylinders while industrial and bulk LPG are not covered. Competition in this market is driven by supply reliability, dealer network efficiency and customer service. Petron, being well established, remains competitive in this segment. Overall, Petron's commercial sales volume registered significant growth in all sectors as a result of Petron's reliable and steady supply of quality fuel to sectors such as transportation, manufacturing, construction, mining, agriculture, and power generation. Petron's retail sales volumes for the years ended 2014, 2015 and 2016 and for the 9 months ended September 30, 2016 and 2017 were approximately 96,000 barrels per day, 99,000 barrels per day, 105,000 barrels per day, 104,000 barrels per day and 114,000 barrels per day, respectively.

The lubricants and specialties market is dominated by the traditional global brands as well as established local participants. Petron has the advantage of an extensive network of service stations to market its products and to provide brand presence. Price is a major competitive factor in this market. Petron believes that it is well positioned to compete in this market, due to its efficient blending plant and supply chain, and national consumer promotion through service station and independent workshops.

Health, Safety and Environmental Matters

Petron is guided by its Corporate Health, Safety and Environment Policy (the "Corporate HSE Policy"). The principles of the Corporate HSE Policy apply to all assets, facilities, and operating and support groups of Petron. Petron has a Corporate Technical Services Group ("CTSG") responsible for formulating, implementing and enforcing its employee health, safety and environment policies, as well as ensuring compliance with applicable laws and regulations in the Philippines.

Research and Development

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, Petron engages in research and development to identify improvements that can be made to its production processes. In addition to research and product development, Petron's Research and Development Department engages in quality control and technical training. The development, reformulation and testing of new products are continuing business activities of the company.

The Research and Development Department develops revolutionary products that meet and exceed the highest industry quality standards. Petron utilizes appropriate technology in developing new fuel and lubricant products to improve performance, cost-effectiveness, and environment-friendliness of its products. Petron also enhances the quality level of its existing products. Petron remains fully compliant with all government laws

and regulations such as the Clean Air Act and the Biofuels Act. To be more competitive both in local and international markets, Petron obtained certifications and approvals from globally-accepted licensing organizations and original equipment manufacturers. These approvals are applicable to specific Petron products in the Philippines, Malaysia, China, Brunei, and Cambodia.

Petron believes that its continued success is influenced in part by its ability to be innovative and attentive to consumer preferences and local market conditions. Expenses relating to research and development amounted to approximately ₱66 million in 2014, approximately ₱65 million in 2015, and approximately ₱66 million in 2016, which are equivalent to 0.01% of total revenues in 2014, 0.02% of total revenues in 2015, and 0.02% of total revenues in 2016

As of September 30, 2017, 26 of Petron's employees were employed in Research and Development Department, which has a long-standing partnership with leading global technology providers in fuels, lubricants and grease products. It is engaged in the customization of products at globally competitive quality and performance. It also manages a petroleum and allied products testing facility that meets global standards. In addition, it provides technical training to keep internal and external customers updated of the latest technology trends in the industry.

Energy Business

SMC operates its energy business through its wholly-owned subsidiary, SMC Global Power and its subsidiaries. SMC Global Power is one of the leaders in the Philippine power generation industry in terms of installed capacity. Incorporated in 2008, SMC Global Power, through its subsidiaries, has successfully bid for the privatization of electrical power generation plants in the Philippines, which are administered pursuant to IPPA agreements with PSALM, an entity owned by the Philippine government. SMC Global Power entered into a joint venture with K-Water for the acquisition of the AHEPP through PVE. SMC Global Power is also embarking on greenfield power plants along with strategic ventures into related businesses to vertically integrate its power assets.

SMC Global Power, through its subsidiaries, initiated 2 greenfield power projects - the 2 x 150 MW Davao coal-fired power plant (the "Davao Greenfield Power Plant") and the 4 x 150 MW Limay coal-fired power plant (the "Limay Greenfield Power Plant"), respectively. SMC Global Power, through its subsidiaries, will also possibly construct additional Greenfield coal-fired power projects in Mariveles, Bataan, and Pagbilao, Quezon, with initial capacities of 4 x 150 MW each. SMC Global Power is considering the further expansion of its power portfolio of additional capacity nationwide through greenfield power projects over the next few years, depending on market demand.

SMC Global Power currently has interests in a portfolio of 6 operating power plants, 3 of which are under IPPA agreements, with a combined capacity of 3,213 MW including the entire capacity of AHEPP as of December 31, 2017.

As of December 31, 2014, December 31, 2015, and December 31, 2016, SMC Global Power had total assets of ₱313,749 million, ₱331,210 million and ₱333,949 million, respectively. Moreover, for the years ended December 31, 2014, December 31, 2015, and December 31, 2016, SMC Global Power had total revenues of ₱84,294 million, ₱77,507 million and ₱77,972 million, respectively. As of and for the period ended September 30, 2017, SMC Global Power had total assets of ₱353,276 million and revenues of ₱62,117 million.

Philippine Power Generation Industry

The current framework of the Philippine power sector is governed by the EPIRA, which was enacted in 2001. The Philippine power industry, following the passage of the EPIRA, is undergoing major reforms. The EPIRA aims to improve the power sector in the Philippines by ensuring and accelerating total electrification of the country and providing a fairer and competitive landscape for power sector participants, resulting in a more efficient and transparent industry. Among other things, the EPIRA mandated: (i) the creation of the ERC, which is an independent quasi-judicial regulatory body under the EPIRA; (ii) separation of the industry into generation, transmission, distribution and supply sectors; (iii) break-up and privatization of generation assets of the NPC, and the privatization of transmission assets by PSALM; (iv) removal of the monopoly distribution utilities held on retailing electricity within their franchise areas to allow retail competition; and (v) RCOA to distribution networks.

The open access regime commenced on June 26, 2013 in Luzon and Visayas. Under the open access regime, all electricity end-users with an average monthly peak demand of 1MW for the past 12 months, as certified by

the ERC, will have the right to choose their own electricity suppliers. By June 26, 2016, the threshold for these end-users with the right to choose their electricity suppliers will be reduced to 750 KW.

The Philippine power industry has evolved into a competitive market with clear separation among the generation, transmission, distribution and supply sectors. Under the EPIRA, cross ownership is not allowed in the transmission sector with the generation and distribution sector.

According to the DOE, peak demand is expected to grow significantly within the next 5 years in line with the growth of the Philippine economy. SMC Global Power believes this increase in demand will lead to opportunities for new power plants to enter the market. SMC Global Power is confident of its abilities to capture this growth through power supply agreements while leveraging on arbitrage and spot sale opportunities in the WESM.

IPPA Framework

PSALM, together with NPC, has Energy Conversion Agreements ("ECA") or other PPAs in place with various IPPs in the Philippines. Under the EPIRA, PSALM is required to achieve, through open and competitive bidding, the transfer of the management and control of at least 70% of the total energy output of the IPP plants under contract with NPC to IPPAs pursuant to IPPA Agreements, such as those held by SMC Global Power, through SMEC, Strategic Power Dev. Corp. ("SPDC") and SPPC.

Under IPPA Agreements, the IPPAs have the right to sell the electricity generated by such IPP in the WESM and also by entering into PSCs with specific customers and will, in general, manage procurement of the fuel supply to the associated IPP. The IPPA has to pay PSALM a fixed monthly payment and a variable energy or generation fee the amount of which depends on the dispatch and performance of the IPP. IPPA Agreements provide relief for IPPAs such as SMC Global Power, through SMEC, SPDC and SPPC, in the event the associated IPPs are unable to dispatch for a certain period of time not due to the fault of the IPPA.

PSALM/NPC in turn, pays the IPPs capacity and energy payments based on their respective ECAs or PPAs. In some cases, IPPA Agreements provide the IPPA with the right to acquire ownership of the power plants or generation facilities at the end of the terms of the ECAs or PPAs. Under the IPPA Agreements of SMEC, SPDC and SPPC, these subsidiaries of SMC Global Power have the right to acquire the Sual Power Plant in October 2024, the Ilijan Power Plant in June 2022 and the San Roque Power Plant in May 2028 or at an earlier date due to certain events such as changes in applicable law or non-performance by the IPP.

The IPPA framework is intended to provide successful bidders a way to enter and trade in the WESM for a minimal capital outlay without the expense of building a new power plant and for IPPAs to enjoy the benefits normally attributed to owners of power generation plants, including controlling the fuel and its dispatch, trading, and contracting of the power plant, without maintenance costs or capital upgrades, which remain with the IPPs. Also, many of the risks of owning a power plant are explicitly managed through the contract. If there is an extended outage at the power generation plants, for example, there is up to a 50% discount on the monthly fees, and PSALM bears the force majeure risks to the power generation plants. The IPPA framework also permits an IPPA to assume the role of NPC as an offtaker of power generated by IPPs without affecting NPCs underlying agreements with the IPP.

IPPAs are permitted to trade in the WESM, and are also free to enter into bilateral contracts and seek other markets for the balance of their contracted capacities and energy, as well as enter into other forms of financial hedging instruments, if desired, to manage their position in and exposure to the market.

Competitive Strengths

Leading power company in the Philippines with a strong growth platform.

SMC Global Power and its subsidiaries form one of the largest power companies in the Philippines based on its combined capacity of 3,213 MW as of December 31, 2017. The subsidiaries of SMC Global Power, namely SMEC, SPDC and SPPC, are the IPPAs for the Sual, San Roque and Ilijan Power Plants, respectively, which have a combined contracted capacity attributable to SMC Global Power of 2,545 MW. SMC Global Power also owns a 60% stake in AHC, the owner and operator of the 218 MW AHEPP, and wholly owns SCPC and SMCPC, the owners of the Limay and Davao Greenfield Power Plants, respectively. Based on the total installed capacity of the market, SMC Global Power, through its subsidiaries, on a contracted capacity basis for the Sual, San Roque and Ilijan Power Plants and with the full capacity of Units 1 and 2 of the Limay Greenfield Power Plant, Unit 1 of Davao Greenfield Power Plants and the AHEPP, has a 16% market share of the power supply of the National Grid of the Philippines, a 21% market share of the Luzon Grid and a 5%

market share of the Mindanao Grid in each case as of December 31, 2017, based on ERC Resolution No. 05, Series of 2017.

The IPPA business model provides SMC Global Power, through the IPPA subsidiaries, with the benefit of having the right to sell electricity generated by the IPPs without having to incur large upfront capital expenditures for the power plant construction, or to bear any related development risk or ongoing maintenance capital expenditures. The IPPA subsidiaries of SMC Global Power manage the amount of power to be produced by the IPP for supply to the customers of the IPPA and sell the power generated by the IPPs either pursuant to offtake agreements directly with customers or through the WESM. This business model provides SMC Global Power the ability to manage both market and price risk by entering directly into bilateral contracts with established customers while capturing potential upside through the sale of excess capacity through the WESM when spot market prices are attractive.

The experience of SMC Global Power, through its subsidiaries, in acting as IPPA and its history of power plant ownership and operation, has enabled SMC Global Power to gain significant expertise in the Philippine power generation industry. With this experience, SMC Global Power believes it is in a strong position to participate in the expected future growth of the Philippine power market, through both the development of greenfield power projects and the acquisition of existing power generation capacity of selected NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework.

In addition, capitalizing on changes in the Philippine regulatory structure, SMC Global Power, through SMELC and SCPC, holds a RES license from the ERC allowing it to enter into offtake agreements with Contestable Customers. SMC Global Power, through SMEC and its subsidiaries, also maintains its coal concession assets which may serve as a back-up fuel source for its greenfield coal plants.

Stable and predictable cash flows underpinned by long-term offtake agreements.

SMC Global Power, through its subsidiaries, sells power either through offtake agreements directly to customers, including Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. The majority of the combined capacity of SMC Global Power, through its subsidiaries, has bilateral contracts that cover the term of the IPPA Agreements.

These offtake agreements provide SMC Global Power, through its subsidiaries, with stable and predictable cash flow, by enabling it to manage both market and price risks. Despite the general volatility in market prices for electric power due to supply and demand imbalances, SMC Global Power has been able to manage such risks through the contracted sale prices with offtakers which also provide a long-term stable source of demand. The tariffs under these agreements take into account adjustments for fuel, foreign exchange, and inflation, thereby allowing SMC Global Power to pass through these costs to its offtakers. In addition, SMC Global Power's diversified portfolio of baseload and peaking power plants helps mitigate market risks through long-term, inter- company, replacement power contracts.

Flexible and diversified power portfolio.

SMC Global Power manages the capacity of a balanced portfolio of some of the newest and largest power plants in the Philippines, which benefit from diversified fuel sources. The IPPA Power Plants have an average age of 15 years. In terms of installed capacity in the Philippines, the Sual Power Plant is the largest coal-fired power plant, the San Roque Power Plant is one of the largest and newest hydroelectric power plants, and the Ilijan Power Plant is the largest natural gas-fired power plant.

The existing power portfolio of SMC Global Power consists of (i) IPPAs, covering coal-fired (Sual Power Plant through SMEC), which represents 31% of the capacity of SMC Global Power, hydro- powered (San Roque Power Plant through SPDC), which represents 11% of the capacity of SMC Global Power, and natural gas-fired (Ilijan Power Plant through SPPC), which represents 37% of the capacity of SMC Global Power, (ii) the AHEPP, through AHC, which represents 7% of the capacity of SMC Global Power, and (iii) power plants owned by SMC Global Power, particularly the Limay Greenfield Power Plant of SCPC, which represents 9% of the capacity of SMC Global Power, and Davao Greenfield Power Plant, which represents another 5% of the capacity of SMC Global Power as of September 30, 2017. Power generated by the Sual, Ilijan, Limay and Davao Power Plants are primarily used as baseload supply, and sold to customers pursuant to offtake agreements. Power generated by the San Roque Power Plant and the AHEPP is used as peaking supply, and sold through the WESM or as replacement power to affiliates.

SMC Global Power believes that the size and diversity of the fuel supply of its power portfolio reduces the exposure of SMC Global Power and its customers to fuel-type specific risks such as variations in fuel costs,

and regulatory concerns that are linked to any one type of power plant or commodity price. SMC Global Power believes that its management of the capacity of this diverse portfolio of power plants allows it to respond efficiently to market requirements at each point of the electricity demand cycle. This diversity helps it to improve the profitability of its portfolio by flexibly dispatching electricity in response to market demand and fuel cost competitiveness. SMC Global Power and its subsidiaries can enter into bilateral contracts and trade in the WESM for the balance of its contracted capacities and energy. By managing the IPPA Power Plants as a single portfolio and actively managing the energy output of the plants, SMC Global Power seeks to offer more competitive electricity rates compared to other power companies with smaller and less diverse portfolios.

Established relationships with world class partners.

The IPPA Power Plants are owned, operated and maintained by world-class partners, including Marubeni Corporation, Tokyo Electric Power Corporation, Korea Electric Power Corporation and Mitsubishi Corporation. Since entering the power business, SMC Global Power has established relationships with internationally recognized fuel suppliers in Indonesia and Australia, as well as with its customers, including Meralco, its largest customer. SMC Global Power believes that these well-established relationships provide a strong foundation for its existing business and a platform of potential partners for future expansion.

Strong Parent Company support.

SMC, the principal shareholder of SMC Global Power, is a highly diversified conglomerate with over 125 years of operations in the Philippines. SMC today has become one of the largest companies listed on the PSE in terms of revenues and assets. In addition to its power business, SMC has investments in vital industries that support the economic development of the country, including the food and beverage, packaging, fuel and oil, infrastructure, banking and property businesses.

Under the stewardship of SMC, SMC Global Power has become one of the market leaders in the Philippine power industry in a relatively short period of time. SMC provides SMC Global Power with key ancillary and support services in areas that promote operational efficiency, such as human resources, corporate affairs, legal, finance, and treasury functions. SMC Global Power believes it will continue to benefit from the extensive business networks of SMC, its in-depth understanding of the Philippine economy and expertise of its senior managers to identify and capitalize on growth opportunities. Given the substantial electricity requirements of the other businesses of SMC, SMC Global Power believes that it can benefit from potential revenue and operational synergies within the SMC group of companies, and it can potentially provide a large captive energy demand base for SMC Global Power.

Experienced management, operating, trading and marketing teams.

The senior management of SMC Global Power has extensive experience in the Philippine power industry and has a deep understanding of the Philippine electricity markets with respect to the operational, financial, regulatory, and business development aspects of the operation and management of power plants. The senior management team of SMC Global Power has strong professional relationships with key industry participants, such as the DOE, PSALM, NPC, National Transmission Corporation ("TransCo"), National Grid Corporation of the Philippines ("NGCP"), PEMC and ERC, as well as people from other government offices and agencies. The employees of SMC Global Power include experienced energy traders who pioneered WESM trading and marketing executives who have established strong relationships with the extensive customer base of NPC. The members of the Executive Committee of SMC Global Power have on average more than 25 years of experience in executive management and related government experience in the power industry, including strengths in key areas of engineering and finance. The executive and senior management have displayed a strong track record of growth and delivery since SMC Global Power commenced operations in November 2009.

Well-positioned to capitalize on the anticipated growth of the Philippine electricity market.

Over the period from 2015 to 2020, growth in demand for electricity in the Philippines is expected to exceed the growth rate of the Philippines' gross domestic product, according to the DOE. Construction of new power plants on average takes a minimum of 3 years. Given the gap between projected electricity demand and committed power projects, SMC Global Power expects that there will be a power supply shortage in the medium term until new capacity is built to meet the growing consumption.

SMC Global Power believes it is well-positioned to take advantage of opportunities from continued growth in the Philippine electricity market, as well as from the existing power supply shortage. The latter is exacerbated

by an existing base of old Government-owned power plants, which are nearing the end of their useful life, as well as a large base of seasonal power supply such as the hydropower plants particularly in Mindanao. To meet this need, SMC Global Power has a defined roadmap to increase capacity by developing greenfield power plants and bidding for selected NPC-owned power generation plants that are scheduled for privatization.

SMC Global Power through its subsidiaries, SMCPC and SCPC is in the process of completing the construction of 2 greenfield power plants, the Limay and Davao Greenfield Power Plants, with 750 MW of plants' combined generation capacity commissioned in 2016 and 2017 and the last 150 MW is expected to be commissioned in 2018. In addition, as a leading power company in the Philippines with a large customer base, SMC Global Power believes that it is in a strong position to leverage its relationships with its existing customers to service their expected increased electricity demand.

Business Strategies

Optimize the generation capacity of its power portfolio.

SMC Global Power and its subsidiaries intends to actively manage its sales and optimize the operations of its power plant portfolio in order to achieve a balanced mix of power sales through (i) contractual arrangements with electricity customers including distribution utilities, industrial and commercial customers, and the contestable market and (ii) sales through the WESM. This approach provides SMC Global Power with the certainty and predictability of sales from contracted sales while being able to capture sales upside from the WESM. The objective of SMC Global Power is to supply customers based on the least cost while dispatching according to the requirements of the IPPA Agreements, and to sell available excess energy of the IPPA Power Plants through the WESM at favorable prices.

Specifically, in case of high prices in the WESM, SMC Global Power can optimize its portfolio and take advantage of such pricing and sell the excess output of the IPPA Power Plants to the WESM after delivering the contractual amounts required under its offtake agreements. Alternatively, in case of low prices in the WESM, SMC Global Power can minimize the generation output of its power plants and deliver the contractual amounts required under its offtake agreements either with output from the San Roque Power Plant or with energy purchased from the WESM. In the event of tripping or shutdown of either the Sual or Ilijan Power Plant, SMC Global Power can maximize the dispatch of its remaining units by lowering the bid prices so that the bilateral contract quantity requirements will be served without buying at high prices from the WESM.

SMC Global Power also leverages on the diversity of its portfolio to create operational synergies and improve its supply offers to offtakers. Having a portfolio of baseload, mid-merit, and peaking power plants utilizing different fuel sources allows SMC Global Power to actively respond to the needs of its offtakers and the market, particularly with regards to replacement power and pricing competitiveness.

Grow its power portfolio through the development and acquisition of power generation capacity.

SMC Global Power intends to utilize its strong platform, extensive relationships and experienced management team to address the growing demand for power in the Philippines. SMC Global Power plans to continue its strategic development of greenfield power projects in parallel with its plan to acquire existing power generation capacity by bidding for selected NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework. SMC Global Power seeks to capitalize on regulatory and infrastructure developments by scheduling the construction of greenfield power projects to coincide with the planned improvements in the interconnectivity of the Luzon and Visayas grids, as well as the eventual interconnectivity and implementation of WESM in Mindanao. In addition, SMC Global Power seeks to maintain the cost competitiveness of these new projects by strategically locating them in high-demand areas and in proximity to the grid. SMC Global Power is considering the further expansion of its power portfolio of new capacity nationwide through greenfield power plants over the next few years, depending on market demand. SMC Global Power plans to carry out the expansion of its power portfolio in phases across Luzon, Visayas and Mindanao. SMC Global Power plans to use clean coal technology for its planned and existing greenfield power plants.

Integrate complementary businesses.

SMC Global Power intends to continue to expand into businesses along the power sector value chain that complement its current power generation business. SMC Global Power has obtained a RES license, through SMELC and SCPC, to expand its customer base and diversify its sales. With the open access and retail competition fully implemented, the RES license allows SMC Global Power through SMELC and SCPC, to enter

into retail electricity supply agreements with Contestable Customers. In addition, SMC Global Power has invested in distribution assets, namely OEDC and APEC, which create a competitive advantage through integrated generation and distribution operations.

On the other hand, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, has acquired coal exploration, development and production rights over approximately 17,000 hectares of land in Mindanao. Depending on the prevailing global coal prices and the related logistical costs, SMC Global Power could develop these assets which could potentially provide a significant additional source of coal fuel for its planned and existing greenfield power plants. SMC Global Power believes that a successful integration of viable coal mining operations into its power generation business could provide it with an additional competitive advantage over its competitors in the local power industry.

Leverage operational synergies.

SMC Global Power intends to establish a track record of reliability by partnering with world-class IPP partners. SMC Global Power believes that the high caliber of these IPP partners enhances the likelihood that the IPPA Power Plants are in good working condition if SMEC, SPDC and SPPC exercise their respective options to purchase them upon the expiration of their IPPA Agreements. SMC Global Power, through PVEI, also gains knowledge and expertise with its joint venture partnership with K-Water in AHEPP. SMC Global Power believes that this approach complements its strategic development of greenfield power projects. Further, SMC Global Power creates operational synergies within and among its subsidiaries by performing key management functions at the holding company level under management agreements. Key management functions include sales and marketing, energy trading, finance, legal, human resources, and billing and settlement. This allows all the subsidiaries to benefit from the wealth of experience of the management team of SMC Global Power while optimizing initiatives at a portfolio level. SMC Global Power also intends to establish customer relationships with other subsidiaries and affiliates of SMC for the sale and supply of power.

The table below summarizes certain operating metrics in respect of the 6 power generation facilities owned or administered by SMC Global Power:

Project	Placed in service	Date SMC Global Power assumed operations	Operator	Installed capacity (MW)	Fuel	Energy Generation (GWh)		Capacity Utilization (%)		Availability Factor (%)	
						Jan-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Sep 2017
Sual	10/25/1999	11/6/2009	TeaMSual Corp	2 x 500[(1)]	Coal	5,361	4,474	81%	68%	93%	77%
Ilijan	6/5/2002	6/26/2010	KEILCO	2 x 600	Natural Gas	6,229	6,059	79%	77%	94%	93%
San Roque	5/1/2003	1/26/2010	SRPC	345	Hydro	467	540	21%	24%	98%	96%
Angat	Main 1 & 2 and Aux 1 & 2 – 1967 Main 3 & 4 – 1968 Aux 3 – 1978	November 2014	Angat Hydropower Corporation	218	Hydro	250	349	17%	24%	84%	91%
Limay	Unit 1 - 5/26/2017 Unit 2 - 9/26/2017	Unit 1 - 5/26/2017 Unit 2 - 9/26/2017	Mantech	4 x 150[(2)]	Coal	-	289	-	60%	-	69%
Davao	Unit 1 - 7/26/2017	Unit 1 - 7/26/2017	Safetech	2 x 150[(3)]	Coal	-	130	-	30%	-	72%

Notes:
(1) Installed capacity is 2 x 647 MW but contracted capacity of the Sual Power Plant is 2 x 500 MW.
(2) Unit 3 and 4 are still under construction.
(3) Unit 2 is still under construction.

The table below sets forth the gross profit margin, EBITDA margin and net income before tax margin of SMC Global Power for the periods indicated:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2014	2015	2016	2016	2017
	(₱ in millions, except percentages)				
Revenues	84,294	77,507	77,972	60,700	62,117
Operating income	25,896	23,703	26,730	22,838	19,668
Operating income margin[(1)]	30.7%	30.6%	34.3%	37.6%	31.7%
EBITDA[(2)]	10,150	5,458	10,475	6,425	6,956
EBITDA margin[(3)]	12.0%	7.0%	13.4%	10.58%	11.2%
Net income before tax	13,323	4,532	7,516	9,205	9,101
Net income before tax margin[(4)]	15.8%	5.8%	9.6%	15.2%	14.7%

Notes:
(1) Calculated as operating income divided by revenues.
(2) EBITDA is Calculated as (a) net income (excluding items between any or all of the company and its subsidiaries) plus (b) income tax expense (benefit), finance cost (less interest income) and depreciation, in each case excluding amounts attributable to ring-fenced subsidiaries less (c) foreign exchange gain (loss), gain on sale of investment and aggregate fixed payments made to PSALM.
(3) Calculated as EBITDA divided by revenues.
(4) Calculated as net income before income tax divided by revenues.

In addition, SMC Global Power, through its subsidiaries, Daguma Agro, Bonanza Energy and Sultan Energy, owns various coal properties that it may develop as a hedge against international coal price fluctuations.

Extent of Power Generation Facilities

Sual Power Plant

Background

The Sual Power Plant is a 2 x 647 MW coal-fired thermal power plant located in Sual, Pangasinan on the Lingayen Gulf that commenced commercial operations in October 1999. It is the largest coal-fired thermal power plant in the Philippines in terms of installed capacity. The Sual Power Plant was built by CEPA Pangasinan Electric Limited pursuant to an ECA with NPC under a 25-year Build-Operate-Transfer ("BOT") scheme that expires on October 24, 2024. On September 1, 2009, SMEC, was declared the winning bidder and received the notice of award for the IPPA for the Sual Power Plant. On November 6, 2009, SMEC assumed the administration of the Sual Power Plant in accordance with the provisions of the IPPA Agreement with PSALM (the "Sual IPPA Agreement").

Sual IPPA

Power Plant Capacity and Fuel Supply

SMC Global Power, through its wholly-owned subsidiary, SMEC, has the contractual right to manage, control, trade, sell or otherwise deal in up to 1,000 MW of the generation capacity of the Sual Power Plant pursuant to the Sual IPPA Agreement. Under the Sual IPPA Agreement, SMEC has the option to acquire the Sual Power Plant in October 2024 without additional consideration. SMEC may exercise the option to acquire the Sual Power Plant prior to October 2024 under certain circumstances, such as changes in law or non-performance by TeaM Energy of its obligations under the ECA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the Sual IPPA Agreement.

Power Offtakers

Unit 1 of the Sual Power Plant is fully contracted to Meralco under a long-term offtake agreement expiring in 2019 subject to extension up to 2024, while the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives and industrial customers under existing PSCs.

Fuel Supply

SMEC has an existing coal supply agreement with KPC which will ensure a steady supply of coal for SMEC. For the period 2017 to 2021, KPC will be supplying coal to SMEC. For 2017, KPC supplied 8 panamax shipments which will be increased to 12 panamax shipments per year from 2018 to 2021. Each shipment shall comprise 65,000 metric tons +/- 10%. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by KPC. SMEC also has other coal supply contracts with other suppliers.

Operations and Maintenance

The Sual Power Plant is operated by TeaM Energy. Under the Sual ECA, TeaM Energy is responsible, at its own cost, for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Sual Power Plant. TeaM Energy is required to use its best endeavors to ensure that the Sual Power Plant is in good operating condition and capable of converting fuel supplied by SMEC under the Sual IPPA Agreement, into electricity in a safe and reliable manner.

The maintenance plan for the Sual Power Plant is agreed upon annually between SMEC, NPC, PSALM, NGCP and TeaM Energy. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage. Planned outages for maintenance are scheduled in such a way that only 1 unit is scheduled for shut down at any given time. The maintenance plan is established with consideration given to the dispatch requirements of SMEC and recommendations of the plant manufacturer. TeaM Energy is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. TeaM Energy performs periodic maintenance activities on the generating units of the Sual Power Plant during the operations of the plant. The Sual ECA requires TeaM Energy to conduct an annual test to check the capacity and heat rate of the generating units of the Sual Power Plant, if requested by SMEC.

Each of the generating units of the Sual Power Plant historically has been, and is expected to continue to be, shut down for routine maintenance for approximately 30 days per calendar year. SMEC also expects that TeaM Energy will shut down these units for more significant maintenance and repair work for a total of approximately 60 days in every 5th calendar year.

Power Transmission

Power from the Sual Power Plant is transmitted through a 25-kilometer 230 kV transmission line from the Sual Power Plant switchyard to the Kadampat Substation located at Labrador, Pangasinan. The transmission line is owned by the TransCo and operated and maintained by its concessionaire, NGCP.

San Roque Power Plant

Background

The 345 MW San Roque multi-purpose hydroelectric power plant in San Manuel, Pangasinan commenced operations on May 1, 2003 and is a peaking plant that was constructed by a consortium composed of Marubeni Corporation, Sithe Philippines Holdings, Ltd., and Italian-Thai Development Public Company Limited pursuant to a power purchase agreement with NPC under a BOT scheme (the "San Roque PPA").

The San Roque Power Plant utilizes the Agno River for peaking power, irrigation, flood control and water quality improvement for the surrounding region, and comprises 3 power generation units of 115 MW each. The San Roque Power Plant provides an annual energy generation of 1,065 gigawatt hours ("GWh") from the 345 MW hydroelectric power plant, the irrigation of approximately 34,450 hectares of agricultural land, storage of water that would otherwise flood the Pangasinan plains, and improvement of water quality of the Agno River which, otherwise, would pollute the downstream rivers.

On December 15, 2009, SPDC, a wholly owned subsidiary of SMC Global Power, successfully bid for the appointment to be the IPPA for the San Roque Power Plant and received a notice of award on December 28, 2009. SPDC assumed administration of the San Roque Power Plant on January 26, 2010 in accordance with an IPPA Agreement with PSALM (the "San Roque IPPA Agreement"). PSALM remains responsible under the San Roque PPA to remunerate the IPP of the San Roque Power Plant for the electricity it produces.

San Roque IPPA

Power Plant Capacity

Under the San Roque IPPA Agreement, SPDC has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the San Roque Power Plant, while NPC, which owns and operates the dam and related facilities thereof, obtained and maintains water rights necessary for the testing and operation of the power plant. SPDC is required to assist PSALM so that the San Roque Power Plant can draw water from the Agno River required by the power plant and necessary for it to generate the electricity required to be produced under the San Roque PPA of NPC with San Roque Power Corporation ("SRPC"). Under the San Roque IPPA Agreement, SPDC has the right to acquire the San Roque Power Plant in May 2028, which is the end of the cooperation period between NPC and SRPC, or on some earlier date due to certain events such as changes in law or non-performance by SRPC pursuant to the San Roque PPA.

The San Roque Power Plant is a peaking plant. Under the terms of the San Roque PPA, power and energy are delivered to SPDC at the delivery point (the high voltage side of the step-up transformers) located at the perimeter fence of the San Roque Power Plant site. SPDC is responsible for contracting with the NGCP to wheel power from the delivery point.

Water Rights

The generated output energy of the San Roque Power Plant is limited by the "Irrigation Diversion Requirements" set by the National Irrigation Administration of the Philippines. Water allocation is usually dictated by rule curve that is derived from historical data of river flows and water demands. A rule curve shows the minimum water level requirement in the reservoir at a specific time to meet the needs for which the reservoir is designed. The rule curve must generally be followed except during periods of extreme drought and when public interest requires.

Generally, the output energy of San Roque Power Plant is high during planting seasons which covers the months of December through April (dry planting season) and July through September (wet planting season).

The water releases from the dam, and thus, energy generation, during the dry planting season is much higher due to the absence of rain. The water rights of NPC are used by the San Roque Power Plant, and NPC, until the date of transfer of the San Roque Power Plant to NPC (or SPDC, as the case may be), must obtain such renewals or extensions as may be required to maintain the water rights in full force and effect at all times. NPC derives its water rights from a permit granted by the National Water Resources Board.

Operations and Maintenance

SRPC is responsible for the operations and maintenance of the San Roque Power Plant for 25 years effective May 1, 2003. SRPC is owned by Marubeni Corporation and Kansai Electric Power Company Ltd. Under the San Roque PPA, SRPC is responsible for the management, operation, maintenance and repair of the San Roque Power Plant at its own cost until transfer to NPC or SPDC, as the case may be. As operator, SRPC is entitled to conduct the normal inspection, regular maintenance, repair and overhaul for a period of 15 days for each unit comprising the San Roque Power Plant. In addition, SRPC has the right to enter into contracts for the supply of materials and services, including contracts with NPC; appoint and remove consultants and professional advisers; purchase replacement equipment; appoint, organize and direct staff; manage and supervise the power plant; establish and maintain regular inspection, maintenance and overhaul procedures; and otherwise run the power plant within the operating parameters set out in the San Roque PPA.

The maintenance plan for the San Roque Power Plant is agreed upon annually between SPDC, NPC, PSALM, NGCP and SRPC. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage and details as to the personnel required to complete each inspection. Planned outages for maintenance of the generating units are scheduled in such a way that only 1 unit is shut down at any given time. The power tunnel that delivers water from the reservoir to the generating units also undergoes routine annual maintenance inspections, during which all units are shut down. The maintenance plan is established with consideration given to the dispatch requirements of SPDC and recommendations of the plant manufacturer. SRPC is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. SRPC performs periodic maintenance activities on the generating units of the San Roque Power Plant during the course of the operation of the plant. The San Roque PPA requires SRPC to conduct an annual test to check the capacity of the generating units of the San Roque Power Plant. As of the date of this Offer Supplement, the generating units of the San Roque Power Plant have attained and maintained the required contracted capacity specified in the San Roque PPA.

Each of the generating units of the San Roque Power Plant historically has been, and is expected to continue to be, shut down for routine maintenance for approximately 15 days per calendar year sometime between April to June of each year, when water levels at the reservoir are low. Since 2010, during periods when a generating unit is shut down for routine maintenance, the San Roque Power Plant has historically been, and is expected to continue to be, able to generate power at the applicable minimum run rate from the other generating units. The San Roque Power Plant does not have a regular schedule for significant maintenance and repair work.

The power tunnel that delivers water from the reservoir to the generating units also undergoes routine maintenance inspections for approximately 15 days per calendar year. Power tunnel inspections historically have been, and are expected to continue to be, conducted between April to June of each year, after the end of the irrigation period and when water levels at the reservoir are low.

Power Transmission

Power from the San Roque Power Plant is transmitted through a nine-kilometer 230 kV transmission line from the San Roque Power Plant switchyard to the San Manuel substation located in Pangasinan. The transmission line is owned by TransCo, and operated and maintained by NGCP.

Ilijan IPPA

Background

The Ilijan Power Plant commenced commercial operations on June 5, 2002, and is located on a 60-acre site at Arenas Point, Barangay Ilijan, Batangas City. The Ilijan Power Plant was constructed and is owned by KEPCO Ilijan Corporation ("KEILCO") pursuant to a 20-year ECA with NPC ("Ilijan ECA") under a BOT scheme that expires on June 4, 2022. NPC/PSALM supplies natural gas to the Ilijan Power Plant from the Malampaya gas field in Palawan under a gas supply agreement with Shell Exploration Philippines BV. The Ilijan Power Plant consists of 2 blocks with a rated capacity of 600 MW each.

The Ilijan Power Plant can also run on diesel oil stored on site. On April 16, 2010, SMC successfully bid for the appointment to be the IPP Administrator for the Ilijan Power Plant and received a notice of award on May 5, 2010. On June 10, 2010, SMC and SPPC, entered into an assignment agreement with assumption of obligations whereby SMC assigned all of its rights and obligations with respect to the Ilijan Power Plant to SPPC. SPPC assumed administration of the Ilijan Power Plant on June 26, 2010 in accordance with an IPPA Agreement with PSALM (the "Ilijan IPPA Agreement").

Power Plant Capacity and Fuel Supply

SMC Global Power, through its wholly-owned subsidiary, SPPC, has the contractual right to manage, control, trade, sell or otherwise deal in the generation capacity of the Ilijan Power Plant pursuant to the Ilijan IPPA Agreement. Although the installed capacity of the Ilijan Power Plant totals 1,271 MW, ERC records attribute to SPPC a capacity of 1,200 MW for the Ilijan Power Plant. Accordingly, for purposes of this Offer Supplement, the contracted capacity of the Ilijan Power Plant is referred to as 1,200 MW.

Under the Ilijan ECA, NPC/PSALM is required to deliver and supply to KEILCO the fuel necessary to operate the Ilijan Power Plant. If natural gas is unavailable, SMC Global Power, through SPPC, may require KEILCO to run the Ilijan Power Plant using diesel fuel. NPC/PSALM remains responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant.

Under the Ilijan IPPA Agreement, SPPC has the option to acquire the Ilijan Power Plant in June 2022 without any additional payment by SPPC. SPPC may exercise the option to acquire the Ilijan Power Plant prior to June 2022 under certain circumstances, such as changes in law or non-performance by KEILCO of its obligations pursuant to the Ilijan ECA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the Ilijan IPPA Agreement.

Power Offtakers

The entire capacity of the Ilijan Power Plant is contracted to Meralco under a long-term power supply agreement up to 2019, which can be extended up to the end of the IPPA Agreement.

Fuel Supply

NPC is responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant. Under a fuel supply and management agreement between Shell Exploration B.V. and Occidental Philippines, Inc., NPC supplies natural gas to the Ilijan Power Plant through a 480-km undersea pipeline from the Camago-Malampaya field in Palawan to the Shell Refinery in Tabangao. From there, the natural gas is transported through a 16-in-diameter onshore pipeline running 15 km to the power plant.

Operations and Maintenance

KEILCO is responsible for the operations and maintenance of the Ilijan Power Plant for 20 years from June 2002. Under the Ilijan ECA, KEILCO is required to operate the Ilijan Power Plant pursuant to certain operating criteria and guidelines, including the output of 1,200 MW guaranteed contracted capacity, base load operation, and spinning reserve capability. Under the Ilijan ECA, KEILCO is responsible, at its own cost, for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Ilijan Power Plant.

The maintenance plan for the Ilijan Power Plant is agreed upon annually between SPPC, NPC, PSALM, NGCP and KEILCO. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage and details as to the personnel required to complete each inspection. Planned outages for maintenance are scheduled in such a way that only 1 unit is scheduled for shut down at any given time. The maintenance plan is established with consideration given to the dispatch requirements of SPPC and recommendations of the plant manufacturer. KEILCO is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. KEILCO performs periodic maintenance activities on the generating units of the Ilijan Power Plant during the operations of the plant. The Ilijan ECA requires KEILCO to conduct an annual test to check the capacity of the generating units of the Ilijan Power Plant.

Each of the generating units of the Ilijan Power Plant historically has been, and is expected to continue to be, shut down for routine maintenance for approximately 26 days per calendar year. SPPC also expects that KEILCO will shut down these units for more significant maintenance and repair work for a total of 35 to 43 days in every 5th calendar year.

Power Transmission

Power from the Ilijan Power Plant is transmitted through a 500-kV transmission line that connects to the Luzon grid through the Ilijan-Dasmarinas line and Ilijan-Tayabas line. The transmission line is owned by TransCo, and operated and maintained by NGCP.

Angat Hydroelectric Power Plant

AHEPP is an operating hydroelectric power plant located at the Angat reservoir in San Lorenzo, Norzagaray, Bulacan, approximately 58 km northeast of Metro Manila. AHEPP was privatized through an asset purchase agreement between PSALM and K-Water. K-Water assigned its rights in favor of "AHC", a joint venture between K-Water and PVEI.

The project has a total electricity generating capacity of 218 MW, comprising of 4 main units and 3 auxiliary units of 6-MW capacity each. The Main Units 1 and 2 were commissioned in 1967 and the Main Units 3 and 4 in 1968. The Auxiliary Units 1 and 2 were commissioned in 1967 and the Auxiliary Unit 3 in 1978. The Auxiliary Unit 3 was manufactured by Allis-Chalmer and Ebara and all the other units were manufactured by Toshiba Corporation of Japan. All units are run by the Francis-type turbines, which is the most commonly used model in hydroelectric power generation.

Fuel Supply & Water Rights

The AHEPP utilizes water resources of the Angat reservoir. The Angat reservoir is 35-km long and 3-km wide at its widest points, and has surface of 2,300 hectares and viable storage volume of 850 million cubic meters. The water discharged by the project is used for the following 2 purposes: (i) water resources from water discharged through Auxiliary Units and through the spillway flows to the Ipo reservoir are used to supply 97% of the residential drinking water of Metro Manila; and (ii) water resources from water discharged through Main Units flows downstream to the Bustos reservoir are utilized for irrigation purposes.

Water rights surrounding the project are co-owned and governed by the following entities, pursuant to the Water Code of the Philippines, Angat Reservoir Operation Rules issued and regulated by NWRB as implemented by a Memorandum of Agreement on the Angat Water Protocol between MWSS, NIA, AHC, PSALM, NPC and NWRB: (i) MWSS, for domestic water supply to Metro Manila; (ii) Provincial government of Bulacan, for water supply in the Bulacan Province; (iii) NIA, for irrigation diversion requirements; and (iv) AHC/KWPP, for power generation.

Power Offtakers

AHC sells majority of its generated capacity to the WESM at the prevalent spot price. The main units are being operated as peaking units. The strategy for the Main Units is to allocate daily water release during the peak hours. Auxiliary Units are being operated as base load units, as the water requirement from MWSS is continuous throughout the day, thus eliminating any discrete optionality to choose the hour of allocation.

AHC is exploring options to contract the capacity of its Auxiliary Units.

Operations & Maintenance

AHC undertakes the operation and maintenance of AHEPP in-house. The operations and maintenance team consist of the incumbent local technical team who have been operating the AHEPP supported by technical experts seconded from K-Water.

AHC has entered into technical services agreements with K-Water and PVEI respectively to ensure that the appropriate level of technical and management support will be provided to support operation and maintenance requirements of AHC.

Limay Greenfield Power Plant

Background

The Limay Greenfield Power Plant owned by SMC Global Power through its subsidiary, SCPC, is a 4 x 150 MW coal-fired thermal power plant located in Limay, Bataan that commenced constructions in October 2013. Units 1 and 2 of the Limay Greenfield Power Plant achieved commercial operations in May 2017 and

September 2017, respectively. Units 3 and 4 are expected to go on-line in 2018 and 2019, respectively. The engineering, procurement, and construction contractors of the Limay Greenfield Power Plant are Formosa

Heavy Industries and True North Manufacturing Services Corporation. SCPC acquired all of the rights and obligations on the completion of Units 3 and 4 of the Limay Greenfield Power Plant from another wholly-owned subsidiary, Limay Premiere Power Corp., in June 2017. Mantech Power Dynamics Services Inc., another wholly-owned subsidiary of SMC Global Power, is responsible for the operation and maintenance of the plant.

Power Offtakers

Units 1 and 2 of the Limay Greenfield Power Plant is fully contracted to various distribution utilities, electric cooperatives and industrial customers under long-term offtake agreements mostly expiring in 10 years from effective date subject to extension upon mutual agreement between the parties. Units 3 and 4 of the Limay Greenfield Power Plant are also contracted with distribution utilities and industrial customers. SCPC was granted a RES license on August 24, 2016, which gave it the ability to directly contract with industrial customers.

Fuel Supply

SCPC has executed two long-term coal supply agreements with Bayan and KPC, with terms of until 2022 and 5 years from effectivity date, respectively. As base quantity, Bayan is required to supply 5 panamax shipments during the term of the contract, with an optional additional quantity of 3 shipments. KPC on the other hand will supply 4 panamax shipments, with an option on the part of SCPC to add 4 more shipments upon prior notice. Each shipment shall comprise 65,000 metric tons +/- 10% vessel tolerance. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by the supplier. SCPC also has executed spot coal supply contracts with other suppliers. SCPC also has a 3-year contract of affreightment with D'Amico Shipping Singapore Pte. Ltd. from January 1, 2017 to December 31, 2019.

Davao Greenfield Power Plant

Background

The Davao Greenfield Power Plant owned by SMC Global Power through its subsidiary, SMCPC, is a 2 x 150 MW coal-fired thermal power plant located in Malita, Davao Occidental that commenced constructions in September 2013. Unit 1 of the Davao Greenfield Power Plant achieved commercial operations in July 2017. Unit 2 is expected to commence operations in 2018.

The engineering, procurement, and construction contractors of the Davao Greenfield Power Plant are Formosa Heavy Industries and True North Manufacturing Services Corporation. Safetech Power Services Corp., another wholly-owned subsidiary of SMC Global Power, is responsible for the operation and maintenance of the plant.

Power Offtakers

Units 1 and 2 of the Davao Greenfield Power Plant is substantially contracted to various distribution utilities, electric cooperatives and industrial customers under long-term offtake agreements mostly expiring in 10 years from effective date subject to extension upon mutual agreement between the parties.

Fuel Supply

SMCPC has existing spot coal supply contracts with Bayan and KPC among others. Currently, SMCPC is evaluating opportunities to lock-in long-term coal supply agreements.

Distribution and Retail Services

Albay Power and Energy Corp.

On October 29, 2013, after the open and competitive bidding, SMC Global Power entered into a concession agreement for the operation and maintenance of ALECO which is the franchise holder for the distribution of electricity in the province of Albay, Luzon. There is no transfer of the franchise to operate the distribution system or the ownership of the distribution assets. At the end of the concession period, the distribution system will be turned over back to ALECO. Under the concession agreement, SMC Global Power established APEC

as its wholly-owned subsidiary, and in January 2014, SMC Global Power assigned all its rights and obligations under the concession agreement to APEC. On February 26, 2014, APEC assumed the role of SMC Global Power under the concession agreement.

Retail Electric Supply

SMC Global Power is pursuing downstream integration by capitalizing on changes in the Philippine regulatory structure to expand its sales of power to a broader range of customers, including retail customers. The two RES licenses issued to SMC Global Power, through SMELC and SCPC, allow it to enter into RSCs with contestable customers and expand its customer base.

Coal Investments

Pursuant to its strategy of integrating viable complementary business to its power generation business, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, has acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao, which depending on prevailing coal prices and the related logistical costs, may provide a significant additional source of coal fuel for its planned and existing greenfield power plants.

Investments in the Distribution Sector

SMC Global Power entered into a joint venture with Cagayan Electric Power & Light Co., Inc. ("CEPALCO") for the ownership and operation of the franchise area of the Public Utilities Department ("PUD") of Olongapo City through OEDC. SMC Global Power has a 35% stake in this project. OEDC formally took over operations of the PUD on June 24, 2013.

SMC Global Power, through subsidiary APEC, is also the concessionaire of the electricity distribution franchise of ALECO. On February 26, 2014, APEC formally took over the operations of ALECO in line with its 25-year concession agreement.

Competition

The Group form one of the largest power companies in the Philippines, with a 16% share of the power supply of the National Grid, 21% share of the Luzon Grid and 5% share of the Mindanao Grid in each case as of December 31, 2017, based on ERC Resolution No. 05, Series of 2017. Its main competitors are the Lopez Group and the Aboitiz Group. The Lopez Group holds significant interests in First Gen Corporation and Energy Development Corporation, while the Aboitiz Group holds interests in Aboitiz Power Corporation and Hedcor, Inc., among others.

With the government committed to privatizing the majority of PSALM-owned power generation facilities and the establishment of WESM, the generation facilities of SMC Global Power will face competition from other power generation plants that supply the grid during the privatization phase.

Multi-nationals that currently operate in the Philippines and could potentially compete against SMC Global Power in the privatization process include KEPCO, Marubeni Corporation, Tokyo Electric Power Corporation, AES Corporation and Sumitomo, among others. Several of these competitors have greater financial resources, and have more extensive operational experience and other capabilities than SMC Global Power, giving them the potential ability to respond to operational, technological, financial and other challenges more quickly than SMC Global Power. SMC Global Power will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing for these activities. The performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects within the Philippines. Accordingly, competition for and from new power projects may increase in line with the long-term economic growth in the Philippines.

Compliance with Environmental Law

Power operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations include the Philippine Clean Air Act of 1999 ("Clean Air Act"), the Philippine Clean Water Act of 2004 ("Clean Water Act"), Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990, and the Department of Labor and Employment Occupational Safety and Health Standard of 1989, as amended. Such legislation addresses, among other

things, air emissions, wastewater discharges as well as the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste. It also regulates workplace conditions within power plants and employee exposure to hazardous substances. The Occupational Safety and Health Standard, meanwhile, was formulated to safeguard the workers' social and economic well-being as well as their physical safety and health.

SMC Global Power complies for its company-owned generation plants, and it believes that the IPPs for each of the IPPA Power Plants managed by SMC Global Power, through its subsidiaries, comply, in all material respects with all applicable safety, health and environmental laws and regulations.

The Sual Power Plant received its Environmental and Management System Certificate (ISO: 14001) in 2004, its Occupational Standard on Health Safety Certificate (ISO: 18001) in 2007 and its Quality Management System Certificate (ISO: 9001) in 2008.

For each of its greenfield power plants, SMC Global Power is in compliance with all applicable safety, health and environmental laws and regulations, including securing the necessary ECC in accordance with Philippine law.

In addition, coal mining in the Philippines is subject to environmental, health and safety laws, forestry laws and other legal requirements. These laws govern the discharge of substances into the air and water, the management and disposal of hazardous substances and wastes, site cleanup, groundwater quality and availability, plant and wildlife protection, reclamation and rehabilitation of mining properties after mining is completed and the restriction of open-pit mining activities in conserved forest areas.

Notwithstanding the foregoing, the discharge of chemicals, other hazardous substances and pollutants into the air, soil or water by the power plants owned or managed by SMC Global Power or the coal mines of SMC Global Power may give rise to liabilities to the Government and to local Government units where such facilities are located, or to third parties. In addition, SMC Global Power may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

Further, the adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require that SMC Global Power make additional capital expenditures or incur additional operating expenses in order to maintain the operations of its generating facilities at their current level, curtail power generation or take other actions that could have a material adverse effect on the financial condition, results of operations and cash flow of SMC Global Power.

Insurance coverage for generation plants.

The IPPs of the IPPA Power Plants are responsible for maintaining insurance for all of the facilities, equipment and infrastructure for those power plants, with the exception of the dam and spillway of the San Roque Power Plant, for which NPC is obligated to maintain insurance coverage. The IPPA of these IPPA Power Plants, namely SMEC, SPDC and SPPC, however, are not beneficiaries of any of these insurance policies. These IPPA have no business interruption insurance coverage and are therefore uninsured for liabilities or any direct or indirect costs and losses which may be incurred, as a result of any business interruption that their respective IPPA Power Plant may experience. SMC Global Power believes that there is no business interruption insurance available for the IPPA business model under which its IPPA subsidiaries are currently operating. Accordingly, any uninsured liabilities or direct or indirect losses, including any third-party claims that result from an interruption to the business of these IPPAs could have a material adverse effect on its financial condition and results of operations.

For the greenfield power plants of SMC Global Power, SCPC and SMCPC have already secured the necessary insurances for its respective power plants to cover for physical material loss or damage caused by natural disasters, breakdowns or other events that could affect the facilities and processes used by its businesses. However, for loss of opportunity cost or marginalized income, SCPC and SMCPC are still in the process of securing business interruption insurance to cover debt servicing cost and fixed operating cost. This however does not cover any decline in production or adverse publicity that SCPC or SMCPC may suffer as well as any significant resource that SCPC or SMCPC may invest to address such losses.

Any unexpected losses caused by such events against which these subsidiaries are not fully insured could have a material adverse effect on its businesses, financial condition and results of operations.

While SMC Global Power has not experienced any major downturn in the operations of the IPPA Power Plants brought about by unexpected losses caused by natural disasters or other events that could affect its facilities, the company believes that it can withstand such events with its business strategies in place. SMC Global Power also has a system of financial prudence and corporate governance that provides the foundation for its risk management initiatives

Infrastructure Business

SMC has made investments in the infrastructure industry in the Philippines, through its wholly-owned subsidiary, SMHC, consisting of concessions for toll roads, an airport, a bulk water supply and a mass rail transit system. Certain details of these investments are set forth in the table below:

	% SMC Effective Ownership Interest	Expected Project Cost (in millions)		Concession Length
Concession				
TPLEX Tollway ……..	70.11%[1]	₱29,988	US$ 595[11]	35 years
Boracay Airport ……..	99.80%[2]	₱13,782	US$ 273[11]	25 years
MRT-7 …….	100.00%[3]	₱77,616	US$1,540[12]	25 years
SLEX Toll Road (TR) 1, 2, & 3……	76.00%[4]	Completed	-	25 years
SLEX TR4……..……	77.93%[4]	₱16,690[4]	US$ 344[11]	25 years
Skyway Stage 1 & 2……...	87.84%[5]	Completed	-	25 years
Skyway Stage 3……..	76.00%[6]	₱ 51,598	US$ 1,024[11]	30 years
Skyway Stage 4……..	77.93%[7]	₱ 52,704	US$1,046[11]	30 years
NAIAx…….....	100.00%	Completed	US$ 527[11]	30 years
Star Tollway ……	100.00%[8]	Completed	-	30 years
Manila North Harbor……..	43.33%[9]	₱ 22,000	US$ 454[11]	30 years
Bulacan Bulk Water Supply Stage 1 & 2……	90.00%[10]	₱ 7,747	US$ 153[11]	30 years

Notes:
(1) Ownership through PIDC, through RTI through SMHC equity interest.
(2) Ownership through TADHC, through SMHC equity interest.
(3) Ownership through Universal LRT through SMHC equity interest.
(4) Ownership through SMHC equity interest: 95% SMHC to AAIBV, 100% AAIBV to MTDME and 80% MTDME to SLTC. All major capex has been completed prior to equity acquisition.
(5) Ownership through SMHC equity interest: 95% SMHC to AAIBV, 100% AAIBV to AAIPC and 87.84% AAIPC to CMMTC. All major capex has been completed prior to equity acquisition.
(6) Ownership through SMHC equity interest: 95% SMHC to AAIBV, 100% AAIBV to S3HC and 80% S3HC to CCEC. 400,000 worth of shares are reserved for PNCC for future subscription.
(7) Ownership through SMHC equity interest: 100% SMHC to SMCI, 77.93% SMCI to CITI.
(8) Ownership through SMHC equity interest: 100% SMHC to Sleep Coop, 40% Sleep Coop to CTCII, 100% CTCII to SIDC and 100% SMHC to Wiselink, 60% Wiselink to CTCII and 100% CTCII to SIDC.
(9) Ownership through SMHC common equity interest: 43.33% SMHC to MNHPI.
(10) Ownership through SMHC common equity interest: 90% SMHC to LCWDC.
(11) Conversion rate used – US$1.00 / ₱50.40
(12) Based on conversion rate used by the National Economic Development Authority of the Philippines.

Philippine Infrastructure Industry

As part of the government's "Build, Build, Build' campaign to invest in high impact infrastructure projects, a budget of ₱305.64 billion was approved in 2017 to accelerate the execution of these projects. This, while incorporating the Public-Private Partnership ("PPP") Center which was helmed by the previous administration. The PPP Center is the main driver of PPP projects as it functions as the coordinating and monitoring agency of all the projects.

Private sector investors will be selected through open competition under the fair and transparent terms outlined by the BOT Law (Republic Act No. 6957 as amended by Republic Act No. 7718). All interested investors will be given a level playing field with reasonable returns and appropriate sharing of risks without compromising the protection of public interests. Through this program, end users will be provided with adequate, safe, efficient, reliable, and reasonably-priced infrastructure services.

Currently, the list of infrastructure projects under the PPP includes the following: (i) LRT Line 6 Project; (ii) Regional Prison Facilities; (iii) LRT Line 2 – Operations and Maintenance; (iv) New Manila International Airport Project; (v) East-West Rail Project; (vi) New Bohol (Panglao) Airport – Operations and Maintenance; (vii) Metro Manila Bus Rapid Transit (BRT) Project-System Manager and Operator Contracts.

Strengths

Project portfolio vital to the growth of the Philippine economy

SMHC has ownership in various companies which hold concession rights in infrastructure projects which are vital to the development and growth of the Philippine economy. These include operating tollways, such as the SLEX TR 1, 2 & 3, Skyway Stages 1 & 2 , STAR tollways, TPLEX and NAIAx, serving as the main thoroughfare for motorists. According to the National Statistics and Coordination Board data, in 2017, the gross regional domestic product of Southern Luzon Region is 4.8% which accounts for 16.8% of the total gross domestic product of the country. SMHC is also currently progressing the development of the following projects: Boracay Airport, Manila North Harbor, Skyway Stages 3 and 4 and SLEX TR4.

SMHC has benefited from this economic growth as evidenced in the increasing traffic volume during the said period as set forth in the table below.

	As of and for the years ended December 31,				As of and for the nine months ended September 30, 2017
	2013	2014	2015	2016	
	Annual Average Daily Traffic ("AADT")				
SLEX TR 1, 2 & 3.....	231,234	247,124	277,810	314,279	333,271
Skyway Stages 1 & 2	218,553	228,079	241,906	251,594	260,618
STAR	29,724	33,436	41,148	48,080	49,961
TPLEX*…….....		8,488	12,750	16,740	18,111
NAIAx ……..	-	-	-	10,939	55,982

**partial operations - Sections 1 and 2*

SMHC also has ongoing projects such as SLEX TR4, Skyway Stages 3 and 4, Bulacan Bulk Water Supply and MRT-7 which are also projected to further support the growth in areas they will serve.

Highly experienced technical team

The infrastructure business is composed of a highly experienced and qualified technical team, with an extensive knowledge in the Philippine infrastructure industry. In addition, the technical team has gained further expertise in the regulatory, business development and financial aspect of the infrastructure business during construction and operations of various infrastructure projects. Strong professional relationships have also been developed with key industry participants, such as DOTr, DPWH, Civil Aviation Authority of the Philippines ("CAAP"), Philippine National Construction Company ("PNCC") and Toll Regulatory Board ("TRB") as well as reputable construction contractors such as D.M. Consunji, Inc., EEI Corporation and Matiére S.A.S.

Strong principal shareholder

With SMC as one of the largest and most diversified conglomerates in the Philippines, the infrastructure business believes that it can increase its leverage and bargaining ability that is vital to the implementation and completion of its projects. SMC has continuously provided the necessary financial support to the infrastructure business whose projects are capital-intensive.

Under the stewardship of SMC, the infrastructure business was able to become one of the major players in the industry in a relatively short period of time. SMHC believes it will continue to benefit from the extensive business networks of SMC, its in-depth understanding of the Philippine economy and expertise of its senior managers to identify and capitalize on growth opportunities.

Business Strategies

Focusing on the improvement of infrastructure in the Philippines

SMHC believes there are significant opportunities in building and participating in infrastructure projects in the country that has historically under invested in infrastructure. These infrastructure projects will support the continued growth of the Philippine economy. Thus, SMHC believes its long-term concessions will provide strong and stable cash flows.

Potential to extract synergies across businesses

Areas and projects being developed by the infrastructure business present opportunities for the other businesses of SMC. For example, the TPLEX, Boracay Airport, MRT-7 and other road projects are expected to complement and present opportunities for fuel and oil, energy, and other businesses of SMC, as well as further expand the distribution network for food and beverages business of SMC.

Selected financial highlights for the infrastructure business are provided below for the periods indicated:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2014	2015	2016	2016	2017
	(₱ in millions, except percentages)				
Sales	922	13,288	19,866	14,672	16,520
Gross profit	383	8,971	13,139	10,568	10,044
Gross profit margin[(1)]	42%	68%	66%	72%	61%
EBITDA[(2)]	1,419	10,277	14,026	10,444	11,933
EBITDA margin[(3)]	154%	77%	71%	71%	72%
Net income before tax	555	2,731	5,656	3,167	5,027
Net income before tax margin[(4)]	6%	21%	28%	22%	30%

Notes

(1) Gross Profit Margin is calculated by sales less cost of sales divided by sales.
(2) EBITDA is calculated as net income before income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), and depreciation and amortization and impairment losses.

(3) EBITDA margin is calculated by EBITDA divided by sales.

(4) Net income before tax margin is calculated by net income before income tax divided by sales.

Toll road concessions

Presidential Decree No. 1112 was signed authorizing the establishment of toll facilities on public improvements, creating a board for the regulation thereof and for other purposes. It is the same decree that states that the resources of the private sector can be tapped to provide certain infrastructure services to the general public and in return would have the right to collect toll fees in order to get a reasonable rate of return. The TRB (under the DOTr) was established to be the governing authority of all tolled infrastructure facilities in the Philippines. It is also empowered to enter into contracts, determine public improvements that can be operated as tolls, monitor operations and maintenance of tolled facilities, and approve tariff or toll rates for public infrastructure projects.

Currently, there are 8 operational toll road facilities in the country recognized by the TRB, which are the TPLEX, Skyway Stages 1 and 2, SLEX, STAR, Subic-Clark-Tarlac Expressway (“SCTEX”), North Luzon Expressway (“NLEX”), CAVITEX and MCX. Out of the 8 operating toll facilities in the country, 4 are owned and controlled by SMHC namely Skyway Stages 1 and 2, SLEX, STAR tollways, TPLEX and NAIAx. Several projects are still under construction while some are still in the design and planning stage. SMC has rights to about 55.2% of the total road length of awarded toll road projects in the country.

TOLL ROAD PROJECT	Length (km)	Status
SMC		
TPLEX	88.85	Section 1 & 2 Operational. Section 3 On going
Skyway (Stage 1 and 2)	29.59	Operational
South Luzon Expressway (SLEX TR1-TR3)	36.12	Operational
Southern Tagalog Arterial Road (STAR)	41.85	Operational

NAIAx	5.40	Operational
Skyway Stage 3 (NLEX-SLEX Link SMC)	14.82	Ongoing construction
Skyway Stage 4/SEMME/ C6 Expressway (Phase 1&2)	56.74	For Implementation upon delivery of ROW
SLEX TR4	57.04	For Implementation upon delivery of ROW
TOTAL SMC……	**330.41**	**55.2%**
Others		
Subic Clark Tarlac Expressway (SCTEX)	93.77	Operational
North Luzon Expressway (NLEX)	89.12	Operational
CAVITEX	13.75	Operational
Cavite Laguna Expressway (CALAX)	45.35	Awarded by DPWH to MPIC
Muntinlupa Cavite Expressway (MCX)	4.00	Operational
NLEX-SLEX Connector Road	8.00	Awarded by DPWH to MPIC
Cebu-Cordova Link Expressway (CCLEX)	8.00	Awarded by City of Cebu and Municipality of Cordova
Harbor Link Segment 10	5.70	On-going construction
TOTAL OTHERS……..	**267.69**	**44.8%**
GRAND TOTAL……	**598.1**	**100%**

Tarlac-Pangasinan-La Union Expressway

In August 2009, SMC made its first infrastructure investment by acquiring a 35% (currently 70.11%) stake in PIDC. PIDC holds the 35-year BTO concession for TPLEX. The TPLEX is an 88.85 km toll expressway that connects the northern part of Luzon to Manila. The TPLEX is expected to be integrated with other major expressways (including the NLEX and SCTEX) for seamless toll system management and for the convenience of motorists.

Project cost for the development of TPLEX is estimated at ₱29,989 million, which is funded by a combination of debt, equity and Philippine government subsidy which will be available at the start of construction of Section 3 of TPLEX.

Construction commenced in October 2010. Section 1 (from Tarlac to Carmen) was completed in April 2014. Section 2 (from Carmen to Urdaneta) was completed December 2014. Binalonan exit in Section 2 opened last July 2016. The remainder of the expressway from Urdaneta to Rosario is projected to be completed by Q4 2018. In 2016 full year, AADT of TPLEX is around 16,740 vehicles. By September 30, 2017, AADT increased by about 11.06% to 18,111 vehicles.

Construction from Talugtog to Pozorrubio is already completed, while the last leg from Pozorrubio to Rosario is progressing well. Acquisition of ROW for Bued viaduct is ongoing.

South Luzon Expressway

SLTC is the concessionaire of the SLEX which currently spans 36.1 km from Alabang, Muntinlupa to Sto. Tomas, Batangas. SLEX is composed of 4 toll road segments, namely TR1, TR2, TR3 and TR4 which are intended to operate as an integrated expressway. Currently operational are TR1, TR2 and TR3. These were classified into 4 segments to clearly define the scope of work (including rehabilitation and/or construction works) for each.

TR1 involved the rehabilitation and upgrade of the Alabang viaduct which included the widening of the at-grade portion of the roads, retrofitting of the existing structure, and the replacement and expansion of the elevated portion from 6 to 8 lanes.TR2 involved the widening of the SLEX segment between Filinvest exit and Sta. Rosa, Laguna from 4 to 8 lanes and segment between Sta. Rosa, Laguna to Calamba, Laguna from 4 to 6 lanes. TR3 involved the construction of a 4-lane roadway from Calamba, Laguna to Sto. Tomas Batangas. The construction of this section connected Metro Manila, SLEX, and STAR. In 2016, SLEX had a full year AADT of around 314,279 vehicles. As of September 30, 2017, SLEX registered a strong 7.32% growth in vehicular traffic which is approximately 333,271 per day.

The Detailed Engineering Designs of Sections A to E of TR4 (from Sto. Tomas, Batangas to Lucena City in Quezon, which were submitted last December 2014, were approved by TRB. TR4 is expected to start in Q2 2018 which involves a 56.86 km, 4 lane road that will start from Sto. Tomas, Batangas to Lucena City, in Quezon. This will shorten the travel time to about an hour from the current 4 hours. It is divided into 5 sections: Sto. Tomas to Makban in Laguna (11.32 km); Makban to San Pablo City (12.2 km); San Pablo to Tiaong, Quezon (7.5 km); Tiaong to Candelaria, Quezon (15 km); Candelaria to Lucena City (10.93 km). It will include 7 interchanges in Sto. Tomas, Makban, San Pablo City, Tiaong, Candelaria, Sariaya and Lucena City. The whole project is estimated to cost around ₱21,094 million and is set to be finished by year 2022.

Skyway System

Skyway Stage 1 and 2

The Republic of Indonesia was invited by the Philippine government to assist in the realization of the infrastructure development of the Philippines in 1994 through an Indonesian company. As a result of this initiative, a Memorandum of Agreement ("MOA") was signed in Jakarta in 1993 between P.T. Citra Lamtoro Gung Persada ("Citra") and PNCC in the presence of former President Fidel V. Ramos. In 1995, a Business and Joint Venture Agreement ("BJVA") was signed by the said parties to undertake the construction of the Metro Manila Skyway ("MMS") and Metro Manila Expressway ("MME").

On November 27, 1995, CMMTC was incorporated as a stock corporation under the laws of the Republic of the Philippines, as a joint venture between Citra and PNCC, with the primary purpose to finance, design and construct (under a BOT scheme with the Philippine government) the Skyway Stage 1 and 2 projects.

Skyway Stage 1 consists of the construction of a 9.30 km elevated road from Bicutan, Parañaque City to the Buendia, Makati City as well as the rehabilitation of the 13.43 km at-grade road from Alabang, Muntinlupa to Magallanes, Makati City. Skyway Stage 1 was first opened to traffic in 1999, with an AADT of 160,000 vehicles, broken down into 25,000 and 135,000 of vehicles on the elevated highway and at-grade road, respectively. Skyway Stage 2 consists of a 6.86 km elevated toll road from Bicutan, Parañaque City to Alabang, Muntinlupa, to be integrated with Skyway Stage 1 and operated as 1 sub-system of the MMS.

Originally scheduled for completion in April 2011, Phase 1 of Skyway Stage 2 was completed on November 2010 and opened to the public in December the same year. Phase 2 of Skyway Stage 2 was completed on March 2011. In 2016, the full year AADT of Skyway Stages 1 and 2 is at 251,594 vehicles. As of September 30, 2017, the AADT for Skyway Stage 1 and 2 increased to about 260,618 vehicles, representing a 4.2% increase compared to the AADT last year.

As of September 2017, AAIPC, a 95% owned subsidiary of SMC, has an ownership interest of 87.84% in CMMTC.

Skyway Stage 3

Skyway Stage 3 is a 14.82 km elevated roadway from Buendia, Makati City to Balintawak, Quezon City. Skyway Stage 3 is a priority infrastructure project of the government meant to decongest major thoroughfares within Metro Manila and stimulate growth of trade and industry in Southern, Central and Northern Luzon. The project covers a concession period of 30 years (from start of operations) with an estimated cost of ₱51,598 million. Target completion date is Q4 2019.

On November 16, 2012, CCEC was incorporated as a stock corporation under the laws of the Republic of the Philippines with the primary purpose to finance, design and construct (under a BOT scheme with the Philippine government) the Skyway Stage 3 project. Subsequently, the Supplemental Toll Operation Agreement ("STOA") covering the Skyway Stage 3 project was signed on September 26, 2013 among TRB, PNCC, and CCEC.

As of September 2017, S3HC, a 95% owned subsidiary of SMC, has an ownership interest of 80% in CCEC.

Skyway Stage 4

Skyway Stage 4 is a 34.81 km roadway from South Metro Manila Skyway to Batasan Complex, Quezon City. Skyway Stage 4 serves as another expressway system that aims to further decongest EDSA, C5 and other major arteries of the Metropolis. Further, it aims to provide faster alternate route and accessibility to the motorist when travelling from the province of Rizal and Calabarzon area to Metropolis. The project covers a

concession period of 30 years (from start of operations), with an estimated cost of ₱52,704 million. Target completion date is 2022.

On February 17, 2014, CITI was incorporated as a stock corporation under the laws of the Republic of the Philippines to engage in the construction of toll roads, toll road facilities, including but not limited to the Metro Manila Expressway (MME) or C6 and any of its stages, linkages and extensions pursuant to a build and transfer or other scheme duly approved by the appropriate Philippine authorities. Subsequently, the Supplemental Toll Operation Agreement ("STOA") covering the Skyway Stage 4 project was executed on July 4, 2014 among TRB, PNCC, and CITI.

As of September 2017, SMCI, a 100% owned subsidiary of SMC, has an ownership interest of 77.93% in CITI.

STAR Tollway

In 2013, SMHC acquired equity interest in SIDC which holds the concession over the STAR Tollway, through its 58.31% membership interest in Sleep Coop and 50% shares in Wiselink. Sleep Coop and Wiselink owns 40% and 60% of CTCII, respectively which owns 100% of SIDC.

STAR Tollway is composed of 2 stages - Stage 1 which involves the operation and maintenance of the 22.16 km toll road from Sto. Tomas, Batangas to Lipa City, Batangas and Stage 2 which involves the financing, design, construction, operation and maintenance of the 19.74 km toll road from Lipa City, Batangas to Batangas City, Batangas. The entire system has a full year AADT of 48,080 vehicles in 2016. As of September 30, 2017, the AADT in STAR Tollway is 49,961, representing a 6% increase compared to 2016 AADT levels.

With the acquisition of Sleep Coop and Wiselink by SMHC, CTCII became a 100% owned subsidiary of SMC.

NAIAx

Vertex, a wholly-owned subsidiary of SMHC, was incorporated on May 31, 2013 for holding the 30-year concession rights (including a 2-year construction period) for the NAIAx project.

The ₱26,543 million NAIAx was the 3rd PPP project awarded under the administration of President Benigno Aquino III. It was awarded by the DPWH through a competitive bidding process to Optimal Infrastructure Development, Inc. ("Optimal") in 2013. Eventually, Optimal nominated Vertex as the concessionaire of the said project. The concession agreement between DPWH and Vertex was finalized and signed on July 8, 2013.

The project covers the financing, design, construction, operation and maintenance of a new tollway system, approximately 5.4 km in length, serving as interface to the Skyway Stage 1 and 2 and CAVITEX. The NAIAX (i) significantly reduces travel time from Skyway Stage 1 and 2 to Roxas Boulevard; (ii) provides easy access to airports in Metro Manila, linking them to Skyway Stages 1 and 2 and the CAVITEX and (iii) boosts tourism by providing access to and from Entertainment City, paving the way for further developments within the PAGCOR Entertainment City.

Partial operations of Phase 2A commenced last September 22, 2016 while Phase 2B was completed and became fully operational last December 2016 while toll collections started last January 31, 2017. The 2016 AADT of NAIAX is at 10,939. Ramps 1 and 17 opened June 2, 2017 with toll collections starting July 15, 2017. The AADT as of September 30, 2017 is at 55,982.

Airport concession

Boracay Airport

In April 2010, SMHC acquired a 93% stake in Caticlan International Airport Development Corp. (subsequently renamed TADHC). TADHC holds a 25-year BROT granted by the ROP, through the DOTC, to develop and operate Boracay Airport which shall end by 2038. The remaining 7% interest is held by Akean Resorts Corporation, a non-affiliated entity. As of December 31, 2014, SMHC owns 99.8% of TADHC.

Boracay airport is the principal gateway to the Boracay Island, a popular resort for passengers traveling from Manila. The airport has seen recent upgrades including a longer runway and accommodation of international flights. With the influx of tourist during the holidays, the Boracay island has welcomed 1.7 million tourists by end of 2016. As of September 2017, approximately 449,330 tourists passed through Boracay Airport as compared to the 356,077 passenger tourists in 2016.

The planned expansion of the airport is expected to be completed in a number of stages and involves the following: (i) upgrade and extension of the runway, from original scale of 950 meters long and 30 meters wide, to 2,100 meters long and 45 meters wide to accommodate larger international and domestic aircraft; (ii) upgrade of the Boracay Airport and its facilities to comply with International Civil Aviation Organization standards and the Manual of Standards for Aerodromes of the CAAP; (iii) replacement of the old 550 square meter terminal with a new world class passenger and cargo terminal and to commence construction of new terminal in 2016; (iv) improvement of road networks around Boracay Airport and its facilities; and (v) upgrade of air navigational systems.

Construction of the interim arrival hall and the new passenger terminal are progressing well. Preparation of the extension of the runway from 1.8 km to 2.1 km is ongoing.

Mass rail transit concession

MRT-7

In October 2010, SMC acquired a 51% stake in Universal LRT, which holds the 25-year concession for the MRT-7 project, a planned expansion of the Metro Manila mass transit rail system, home to over 10 million inhabitants. MRT-7 is a BGTOM project for the development, financing, operation and maintenance of a 22-km light rail transit that will be linked with the existing MRT-3 Line at SM North EDSA, Quezon City. The construction period for the project is about 42 months. The rail component of the MRT-7 is envisioned to have 14 stations plus a depot and will operate 108 rail cars in a 3-car train configuration, with capacity of 448,000 to as many as 850,000 passengers daily. The project also includes an Intermodal Transport Terminal that can accommodate up to 60 buses and other public utility vehicles, and a 22-km 6-lane access road connecting the Intermodal Transport Terminal to the Bocaue exit of NLEX.

SMC fully acquired 100% stake in Universal LRT, effective July 1, 2016.

Bulacan Bulk Water Supply Project

The Bulacan Bulk Water Supply Project aims to provide clean and potable water to the province of Bulacan that is environmentally sustainable and with a price that is equitable. The project also aims to help various water districts in Bulacan to meet the increasing water demand of consumers, expand its current service area coverage and increase the number of households served by providing a reliable source of treated bulk water. The project proponent will serve as the concessionaire for a period of 30 years (inclusive of the 2-year construction period) and has an estimated cost of ₱7,747 million for Stage 1 and 2. The target completion of the project is Q1 2019.

On December 17, 2015, Luzon Clean Water Development Corporation was incorporated as a stock corporation under the laws of the Republic of the Philippines with the primary purpose to finance, design, construct, maintain, and operate water treatment and conveyance facilities. LCWDC and MWSS officially signed the Concession Agreement on January 15, 2016.

The common equity ownership of SMC in LCWDC as of September 2016 is 90%.

Ports concession

Manila North Harbor

MNHPI is the terminal operator of Manila North Harbor, a 70-hectare port facility situated at Tondo, City of Manila. The port has a total quay length of 5,200 meters and 41 berths which can accommodate all types of vessels such as containerized and non-container type vessels. Under the Contract for the Development, Operation and Maintenance of the Manila North Harbor entered with the Philippine Ports Authority on November 19, 2009, the Philippine Ports Authority awarded MNHPI the sole and exclusive right to manage, operate, develop and maintain the Manila North Harbor for 25 years, renewable for another 25 years. MNHPI commenced operations on April 12, 2010.

To ensure fast, efficient and effective delivery of port services, MNHPI has increased its cargo handling capacity which now boasts of major equipment such as 6-ship-to-shore quay container cranes and 20 rubber-tyred gantry cranes, all part of the plans and programs of MNHPI to transform Manila North Harbor into a premier and modern port. Anticipating growth in the coming years, MNHPI expects delivery of 2 additional brand-new ship-to-shore quay container cranes and 7 rubber-tyred gantry cranes, bringing its major equipment fleet to 8 and 27 units, respectively by Q2 2017.

On October 19, 2013, MNHPI formally inaugurated the North Passenger Terminal Complex, a passenger terminal facility which boasts of facilities designed to provide utmost safety, security and comfort to passengers and is the first of its kind in the Philippines, able to accommodate 2,000 passengers at any given time.

The ownership of SMC in MNHPI through San Miguel Holdings, Corp. as of September 2017 is 43.33%.

Other Operations and Investments

Banking

SMC through SMPI made a series of acquisitions of Bank of Commerce ("BOC") shares in 2007 and 2008 and has a current ownership of 39.9%. BOC is a commercial bank licensed to engage in banking operations in the Philippines.

Legal Proceedings

Neither SMC nor any of its subsidiaries is a party to nor its properties subject of, any material pending legal proceeding that could be expected to have a material adverse effect on each Offer and on the results of the financials and the operations of SMC.

SMC has initiated the appropriate action before the Court of Appeals to contest the Decision of the SEC, dated 21 November 2017, denying the appeal of SMC from the Order of the SEC Corporation Finance Department imposing a fine for the late filing of the Statement of Initial Beneficial Ownership and Statement of Changes in the Beneficial Ownership (SEC Form 23-A and B, respectively) under the SRC in the amount of ₱769,293,968.10.

For further details on pending legal proceedings of the Company and some of its subsidiaries, please refer to notes 25 and 45 of the audited financial statements of the Company for the period ended December 31, 2016.

Security Ownership of Management and Certain Record and Beneficial Owners

Owners of more than 5% of the Company's voting[2] securities as of December 31, 2017 were as follows:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common…..	Top Frontier Investment Holdings Inc.[3] 5th Floor, ENZO Bldg., No. 339 Sen. Gil Puyat, Makati City	Iñigo Zobel, Filipino, Director of the Company, and Ramon S. Ang, Filipino, the President and Chief Operating Officer of the Company, are beneficial owners of 59.96% and 26.02%[4] of the outstanding common stock of Top Frontier, respectively.	Filipino	1,573,100,340	40.81%
Common…..	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ entities	Filipino	166,160,487	24.27%
Series "2" Preferred Shares……..	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ entities	Filipino	769,470,125	
Common…..	Privado Holdings, Corp. Room 306 Narra Building, 2776 Pasong Tamo Extension, Makati City	Ramon S. Ang, Filipino, as beneficial owner of 100% of the outstanding capital stock of Privado.[5]	Filipino	368,140,516	9.55%
Common…..	PCD Nominee Corporation Makati City	Various individuals/ entities	Filipino	44,256,684	8.52%
Series "2" Preferred Shares……..	PCD Nominee Corporation Makati City	Various individuals/ Entities	Filipino	284,295,825	

[2]*Common stockholders have the right to vote on all matters requiring stockholders' approval The holders of the Series "2" Preferred shares shall not be entitled to vote except in matters provided for in the Corporation Code: amendment of articles of incorporation; adoption and amendment of by-laws; sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; incurring, creating or increasing bonded indebtedness; increase or decrease of capital stock; merger or consolidation with another corporation or other corporations; investment of corporate funds in another corporation or business; and dissolution.*

[3]*The shares owned by Top Frontier Investment Holdings, Inc. are voted, in person or by proxy, by its authorized designate. As of December 31, 2017, Top Frontier Investment Holdings, Inc. has voting rights to a total of 1,573,100,340 shares of the Company which represent about 66.03% of the outstanding common capital stock of the Company.*

[4]*As of September 30, 2016, through Privado Holdings, Corp. and Master Year Limited, both stockholders of record of Top Frontier*

[5]*As of September 30, 2016.*

The following are the number of shares comprising the capital stock of the Company (all of which are voting shares) owned of record by Chief Executive Officer, the directors, key officers of the Company, and nominees for election as director, as of December 31, 2017:

Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares
	Common	Preferred		
Eduardo M. Cojuangco, Jr……..	3,484,134 (D)		Filipino	3,484,134 (0.11%)
Ramon S. Ang……..	1,345,429 (D) 368,140,516 (I)[6]		Filipino	369,485,945 (9.59%)
Leo S. Alvez…….	19,326 (D)		Filipino	19,326 (0.00%)
Aurora T. Calderon……..	22,600 (D)		Filipino	22,600 (0.00%)
Joselito D. Campos, Jr……	9,149 (D)		Filipino	9,149 (0.00%)
Ferdinand K. Constantino……..	408,329 (D)	200,000 (D)	Filipino	608,329 (0.02%)
Reynaldo G. David ……	5,000 (D)		Filipino	5,000 (0.00%)
Menardo R. Jimenez……..	5,000 (D)		Filipino	5,000 (0.00%)
Estelito P. Mendoza ……	31,972 (D)		Filipino	31,972 (0.00%)
Alexander J. Poblador…….	5,000 (D)		Filipino	5,000 (0.00%)
Reynato S. Puno.....	5,000 (D)		Filipino	5,000 (0.00%)
Jose de Venecia.....	5,000 (D)		Filipino	5,000 (0.00%)
Thomas A. Tan.....	5,000 (D)		Filipino	5,000 (0.00%)
Margarito B. Teves.....	5,000 (D)		Filipino	5,000 (0.00%)
Iñigo U. Zobel……..	16,171 (D) 943,230,964 (I)[7]		Filipino	943,247,135 (24.47%)
Virgilio S. Jacinto.....	180,830 (D)		Filipino	180,830 (0.00%)
Joseph N. Pineda…….	62,715 (D)		Filipino	62,715 (0.00%)
Lorenzo G. Formoso III.....	20,000 (D)		Filipino	20,000 (0.00%)
Elenita D. Go.....	71,962 (D)		Filipino	71,962 (0.00%)

Voting Trust Holders of 5% or more

There is no person holding more than 5% of the Company's voting securities under a voting trust arrangement.

Changes in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

[6] *Through his 100% shareholdings in Privado Holdings Corp.*

[7] *Through his 59.96% shareholdings in Top Frontier Investment Holdings, Inc.*

Ownership and Capitalization

Share Capital

As of December 31, 2017, the Company had a total of 3,287,018,252 common shares issued, of which 2,382,265,715 are outstanding common shares; 279,406,667 issued and outstanding Series “1” Preferred Shares; and 1,192,654,600 issued and outstanding Series “2” Preferred Shares.

Top 20 Shareholders (as of December 31, 2017)

#	Name of Stockholders	Common	Series "1" Preferred Shares	Series "2-B" Preferred Shares	Series "2-C" Preferred Shares	Series "2-D" Preferred Shares	Series "2-E" Preferred Shares	Series "2-F" Preferred Shares	Series "2-G" Preferred Shares	Series "2-H" Preferred Shares	Series "2-I" Preferred Shares	Total No. of Shares	% of outstanding
1	TOP FRONTIER INVESTMENT HOLDINGS, INC.	1,573,100,340	0	0	0	0	0	0	0	0	0	1,573,100,340	40.813879%
2	PCD NOMINEE CORPORATION (FILIPINO)	166,160,487	0	0	0	82,570,060	121,764,910	200,666,020	60,852,265	157,379,500	146,237,370	935,630,612	24.274812%
3	PRIVADO HOLDINGS CORP.	368,140,516	0	0	0	0	0	0	0	0	0	368,140,516	9.551357%
4	PCD NOMINEE CORPORATION	44,256,684	0	55,553,900	228,592,950	0	0	146,800	2,175	0	0	328,552,509	8.524251%
5	METROPLEX HOLDINGS CORPORATION	0	106,174,534	0	0	0	0	0	0	0	1,578,000	107,752,534	2.795625%
6	LUCENA HOLDINGS CORPORATION	0	89,410,133	0	0	0	0	0	0	0	1,332,000	90,742,133	2.354293%
7	GINGOOG HOLDINGS CORPORATION	1,830,082	83,822,000	0	0	0	0	0	0	0	1,590,000	87,242,082	2.263484%
8	PCD NOMINEE CORPORATION (NON-FILIPINO)	44,022,205	0	111,920	1,010,980	474,140	630,862	1,751,442	378,545	1,060,154	1,931,310	51,371,558	1.332828%
9	PCGG IN TRUST FOR THE COMPREHEN-SIVE AGRARIAN REFORM PROGRAM	27,636,339	0	0	0	0	0	0	0	0	0	27,636,339	0.717021%
10	SAN MIGUEL CORPORATION RETIREMENT PLAN	15,001	0	26,435,700	0	0	0	0	0	0	0	26,450,701	0.686260%
11	SAN MIGUEL BREWERY INC. RET. PLAN	0	0	53,000	0	2,666,700	1,333,400	8,000,000	0	0	6,153,600	18,206,700	0.472370%
12	G & E SHAREHOL-DINGS INC.	0	0	0	15,000,000	0	0	0	0	0	0	15,000,000	0.389173%
13	MILLENIUM ENERGY, INC.	10,807,380	0	0	0	0	0	0	0	0	0	10,807,380	0.280396%
14	SAN MIGUEL CORP. RET. PLAN - FIP	0	0	1,094,800	0	0	0	5,333,400	0	1,113,500	2,900,000	10,441,700	0.270909%

#	Name of Stockholders	Common	Series "1" Preferred Shares	Series "2-B" Preferred Shares	Series "2-C" Preferred Shares	Series "2-D" Preferred Shares	Series "2-E" Preferred Shares	Series "2-F" Preferred Shares	Series "2-G" Preferred Shares	Series "2-H" Preferred Shares	Series "2-I" Preferred Shares	Total No. of Shares	% of outstanding
15	SAN MIGUEL CORP. RET. PLAN - STP	0	0	560,000	0	0	0	0	2,266,500	0	4,326,100	7,152,600	0.185573%
16	GSIS PROVIDENT FUND	0	0	1,300,000	2,666,700	0	0	0	0	0	0	3,966,700	0.102916%
17	EDUARDO M. COJUANGCO JR.	3,484,134	0	0	0	0	0	0	0	0	0	3,484,134	0.090395%
18	SYSMART CORPORATION	3,457,000	0	0	0	0	0	0	0	0	0	3,457,000	0.089691%
19	KNIGHTS OF COLUMBUS FRATERNAL ASSOCIATION OF THE PHILS., INC.	0	0	0	1,333,300	995,700	0	0	66,000	132,400	133,200	2,660,600	0.069029
20	SAN MIGUEL YAMAMURA PACKAGING CORP. RET. PLAN	0	0	1,120,000	0	0	1,333,300	0	0	0	0	2,453,300	0.063651%
	TOTAL	2,242,910,168	279,406,667	86,229,320	248,603,930	86,706,600	125,062,472	215,897,662	63,565,485	159,685,554	166,181,580	3,674,249,438	95.327912%
	OTHER STOCK-HOLDERS	139,355,547	0	4,198,880	6,955,470	2,626,800	8,937,628	7,435,838	3,101,115	4,314,446	3,151,820	180,077,544	4.672088
	TOTAL	2,382,265,715	279,406,667	90,428,200	255,559,400	89,333,400	134,000,100	223,333,500	66,666,600	164,000,000	169,333,400	3,854,326,982	100.00000%

Market Price of and Dividends on the Equity of SMC and Related Shareholder Matters

Market Information

The common equity of SMC is listed on the PSE. The high and low sales prices for each period are indicated in the table below.

The common, Series "1", and Series "2" preferred equity of SMC are traded on the PSE. The high and low closing prices for each quarter from 2012 to 2016 and for the first 3 quarters of 2017 are as follows.

2012

	Common		Series "1"		Series "2-A"		Series "2-B"		Series "2-C"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	123.00	110.00	80.00	76.60	N/A	N/A	N/A	N/A	N/A	N/A
2nd	117.00	111.00	79.10	74.50	N/A	N/A	N/A	N/A	N/A	N/A
3rd	115.00	110.00	78.10	73.00	75.10	74.90	80.00	74.50	76.00	75.00
4th	111.00	100.00	75.50	75.50	75.20	74.50	81.50	74.00	77.90	74.50

2013

	Common		Series "1"		Series "2-A"		Series "2-B"		Series "2-C"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	125.00	103.20	N/A	N/A	75.00	74.65	77.00	74.50	79.25	74.50
2nd	125.00	83.00	N/A	N/A	80.50	74.95	82.00	75.75	84.00	77.50
3rd	94.50	65.50	N/A	N/A	77.75	74.50	79.60	75.00	81.50	74.95
4th	88.00	57.30	N/A	N/A	77.30	75.60	77.50	75.40	79.80	76.80

2014

	Common		Series "1"		Series "2-A"		Series "2-B"		Series "2-C"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	76.00	54.50	N/A	N/A	77.00	75.00	78.95	76.00	81.00	77.50
2nd	87.00	74.65	N/A	N/A	76.10	74.30	78.90	74.90	81.85	75.00
3rd	83.00	76.90	N/A	N/A	76.00	74.20	76.50	74.50	78.00	75.00
4th	78.95	72.00	N/A	N/A	96.90	75.30	79.00	76.00	82.50	77.00

2015

	Common		Series "1"		Series "2-A"		Series "2-B"	
	High	Low	High	Low	High	Low	High	Low
1st	81.00	66.70	N/A	N/A	76.80	75.00	89.50	78.00
2nd	71.80	59.30	-	-	76.85	75.00	85.60	80.00
3rd	60.60	43.50	-	-	76.00	74.00	85.05	76.00
4th	52.00	44.05	-	-	N/A	N/A	85.00	77.00

	Series "2-C"		Series "2-D"		Series "2-E"		Series "2-F"	
	High	Low	High	Low	High	Low	High	Low
1st	84.50	78.00	N/A	N/A	N/A	N/A	N/A	N/A
2nd	90.00	83.05	N/A	N/A	N/A	N/A	N/A	N/A
3rd	89.00	79.00	80.00	76.00	78.80	76.50	80.00	77.10
4th	84.00	81.00	85.00	78.00	80.10	76.00	80.90	78.50

2016

	Common		Series "1"		Series "2-B"		Series "2-C"		Series "2-D"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	79.20	47.50	-	-	81.00	76.00	83.00	78.50	79.00	75.35
2nd	82.80	65.00	-	-	80.50	76.45	82.00	75.00	80.00	75.50
3rd	86.10	77.50	-	-	79.90	75.00	83.00	78.00	78.80	75.80
4th	101.60	79.05	-	-	80.00	76.40	83.00	80.00	79.00	75.10

	Series "2-E"		Series "2-F"		Series "2-G"		Series "2-H"		Series "2-I"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	79.50	75.50	80.00	75.80	76.00	75.05	75.50	75.00	75.30	71.50
2nd	78.50	75.00	78.90	75.90	78.15	75.00	77.50	74.95	77.10	74.90
3rd	80.50	76.05	80.85	77.50	80.05	77.05	79.00	76.00	79.15	76.00
4th	79.50	77.30	81.00	78.00	79.95	77.00	78.30	76.00	78.55	75.00

2017

	Common		Series "1"		Series "2-B"		Series "2-C"		Series "2-D"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	108.00	92.30	-	-	78.30	76.00	83.50	79.70	78.50	75.50
2nd	111.20	101.50	-	-	78.00	76.00	83.00	80.00	78.00	76.00
3rd	104.00	96.60	-	-	77.00	74.00	82.00	79.40	77.75	75.85
4th	124.50	97.10	-	-	78.05	74.50	82.95	80.00	78.50	75.10

	Series "2-E"		Series "2-F"		Series "2-G"		Series "2-H"		Series "2-I"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	79.10	76.40	81.10	78.10	79.50	77.00	79.50	76.60	80.00	77.20
2nd	81.60	77.00	81.30	79.00	79.50	77.00	79.00	77.50	79.50	77.60
3rd	80.00	76.55	82.00	80.00	79.95	78.00	79.70	77.30	80.90	76.55
4th	80.00	76.25	82.70	79.50	79.95	76.50	79.50	76.15	81.70	77.25

The closing prices as of January 10, 2018, the latest practicable trading date, are as follows:

Common	₱128.00
Series 1 Preferred	not applicable
Series "2-A" Preferred	not applicable
Series "2-B" Preferred	₱76.75
Series "2-C" Preferred	₱79.00
Series "2-D" Preferred	₱75.55
Series "2-E" Preferred	₱76.60
Series "2-F" Preferred	₱78.80
Series "2-G" Preferred	₱76.00
Series "2-H" Preferred	₱77.50
Series "2-I" Preferred	₱77.90

The number of shareholders as of December 31, 2017 is 36,636.

Dividends and Dividend Policy

Cash dividends declared by the Board of Directors of SMC to common shareholders amounted to ₱1.40 per share in 2017.

Cash dividends declared by the Board of Directors of SMC to all Series "2" – Subseries "2-B" Subseries "2-C", Subseries "2-D", Subseries "2-E", Subseries "2-F", Subseries "2-G", Subseries "2-H" and Subseries "2-I" preferred shareholders amounted to ₱5.71875, ₱6.00, ₱4.457325, ₱4.744125, ₱5.1054, ₱4.934475, ₱4.74165 and ₱4.751625 per share, respectively, in 2017.

Dividends may be declared at the discretion of the Board of Directors and will depend upon the future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from its subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations and other factors the Board of Directors may deem relevant.

The table below sets forth the amount of dividends declared and paid since 2012.

Common Shares

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2012 …….	Cash	0.35	January 20	February 6	February 20
	Cash	0.35	April 18	May 4	May 28
	Cash	0.35	July 24	August 10	September 3
	Cash	0.35	October 11	October 26	November 9
	Cash	0.35	December 13	January 4, 2013	January 30, 2013
Total:		1.75			
2013 …….	Cash	0.35	April 11	April 26	May 6
	Cash	0.35	June 11	June 28	July 15
	Cash	0.35	September 19	October 18	November 8
	Property*	1 for 10	October 17	November 5	January 2
	Cash	0.35	December 12	January 17, 2014	February 7, 2014
Total:		1.40			
2014 …….	Cash	0.35	April 10	April 29	May 16
	Cash	0.35	June 10	June 27	July 21
	Cash	0.35	September 18	October 17	November 7
	Cash	0.35	December 11	January 7, 2015	February 2, 2015
Total:		1.40			
2015 …….	Cash	0.35	April 22	May 8	May 20
	Cash	0.35	July 14	July 31	August 14
	Cash	0.35	September 17	October 9	November 4
	Cash	0.35	December 10	January 8, 2016	February 2, 2016
Total:		1.40			
2016 …….	Cash	0.35	March 17	April 8	May 4
	Cash	0.35	June 14	July 1	July 27
	Cash	0.35	September 15	October 7	November 4
	Cash	0.35	December 8	January 2, 2017	January 25, 2017
Total:		1.40			
2017…….	Cash	0.35	March 16	April 7	May 4
	Cash	0.35	June 13	June 30	July 25
	Cash	0.35	September 14	October 9	November 6
	Cash	0.35	December 7	January 2, 2018	January 24, 2018
Total:		1.40			

Preferred Shares - Series 1

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2012 ……	Cash	1.50	March 28	April 17	May 11
	Cash	1.50	June 14	June 29	July 23
	Cash	1.50	August 13	August 31	September 10
	Cash	1.50	August 13	September 11	October 5
Total:		6.00			
2015 ..……..	Cash	1.0546	June 9	June 26	July 8
	Cash	1.0565625	August 20	September 11	September 21
	Cash	1.0565625	November 10	December 17	December 29
Total:		3.167725			
2016 ..……..	Cash	1.0565625	January 15	March 21	April 5
	Cash	1.0565625	May 12	June 21	July 6
	Cash	1.0565625	August 10	September 21	October 6
	Cash	1.0565625	November 10	December 21	January 5, 2017
Total:		4.22625			
2017..……..	Cash	1.0565625	January 12	March 21	April 5
	Cash	1.0565625	May 10	June 21	July 6
	Cash	1.0565625	August 10	September 21	October 6
	Cash	1.0565625	November 10	December 21	January 5, 2018
Total:		4.22625			

Preferred Shares - Series 2A

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2013 ……...	Cash	1.40625	November 14	December 20	January 4
	Cash	1.40625	January 17	March 20	April 4
	Cash	1.40625	May 10	June 18	July 3
	Cash	1.40625	August 12	September 16	October 1
	Cash	1.40625	November 11	December 13	December 27
Total:		7.03125			
2014……	Cash	1.40625	November 10	February 27, 2015	March 25, 2015
	Cash	1.40625	May 12	June 13	June 27
	Cash	1.40625	May 12	September 11	September 26
	Cash	1.40625	November 10	November 28	December 23
Total:		5.625			
2015……	Cash	1.40625	May 14	May 29	June 11
	Cash	1.40625	August 20	September 11	September 21
Total:		2.8125			

Preferred Shares - Series 2B

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2013 …….	Cash	1.4296875	November 14	December 20	January 4
	Cash	1.4296875	January 17	March 20	April 4
	Cash	1.4296875	May 10	June 18	July 3
	Cash	1.4296875	August 12	September 16	October 1
	Cash	1.4296875	November 11	December 13	December 27
Total:		7.1484375			
2014……..	Cash	1.4296875	November 10	February 27, 2015	March 25, 2015
	Cash	1.4296875	May 12	June 13	June 27
	Cash	1.4296875	May 12	September 11	September 26
	Cash	1.4296875	November 10	November 28	December 23
Total:		5.71875			
2015 …….	Cash	1.4296875	May 14	May 29	June 11
	Cash	1.4296875	August 20	September 11	September 21
	Cash	1.4296875	November 10	December 17	December 29
Total:		4.2890625			
2016 …….	Cash	1.4296875	January 15	March 21	April 5
	Cash	1.4296875	May 12	June 21	July 6
	Cash	1.4296875	August 10	September 21	October 6
	Cash	1.4296875	November 10	December 21	January 5, 2017
Total:		5.71875			
2017 ...……..	Cash	1.4296875	January 12	March 21	April 5
	Cash	1.4296875	May 10	June 21	July 6
	Cash	1.4296875	August 10	September 21	October 6
	Cash	1.4296875	November 10	December 21	January 5, 2018
Total:		5.71875			

Preferred Shares - Series 2C

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2013 …….	Cash	1.50	November 14	December 20	January 4
	Cash	1.50	January 17	March 20	April 4
	Cash	1.50	May 10	June 18	July 3
	Cash	1.50	August 12	September 16	October 1
	Cash	1.50	November 11	December 13	December 27
Total:		7.50			
2014 …….	Cash	1.50	November 10	February 27, 2015	March 25, 2015
	Cash	1.50	May 12	June 13	June 27
	Cash	1.50	May 12	September 11	September 26
	Cash	1.50	November 10	November 28	December 23
Total:		6.00			

2015 ……	Cash	1.50	May 14	May 29	June 11
	Cash	1.50	August 20	September 11	September 21
	Cash	1.50	November 10	December 17	December 29
Total:		6.00			
2016 ……	Cash	1.50	January 15	March 21	April 5
	Cash	1.50	May 12	June 21	July 6
	Cash	1.50	August 10	September 21	October 6
	Cash	1.50	November 10	December 21	January 5, 2017
Total:		6.00			
2017 ..……..	Cash	1.50	January 12	March 21	April 5
	Cash	1.50	May 10	June 21	July 6
	Cash	1.50	August 10	September 21	October 6
	Cash	1.50	November 10	December 21	January 5, 2018
Total:		6.00			

Preferred Shares - Series 2D

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2015 ……	Cash	1.11433125	November 10	December 17	December 29
Total:		1.11433125			
2016 ……	Cash	1.11433125	January 15	March 21	April 5
	Cash	1.11433125	May 12	June 21	July 6
	Cash	1.11433125	August 10	September 21	October 6
	Cash	1.11433125	November 10	December 21	January 5, 2017
Total:		4.457325			
2017 ..……..	Cash	1.11433125	January 12	March 21	April 5
	Cash	1.11433125	May 10	June 21	July 6
	Cash	1.11433125	August 10	September 21	October 6
	Cash	1.11433125	November 10	December 21	January 5, 2018
Total:		4.457325			

Preferred Shares - Series 2E

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2015 ……	Cash	1.18603125	November 10	December 17	December 29
Total:		1.18603125			
2016 ……	Cash	1.18603125	January 15	March 21	April 5
	Cash	1.18603125	May 12	June 21	July 6
	Cash	1.18603125	August 10	September 21	October 6
	Cash	1.18603125	November 10	December 21	January 5, 2017
Total:		4.744125			
2017 ..……..	Cash	1.18603125	January 12	March 21	April 5
	Cash	1.18603125	May 10	June 21	July 6
	Cash	1.18603125	August 10	September 21	October 6
	Cash	1.18603125	November 10	December 21	January 5, 2018
Total:		4.744125			

Preferred Shares - Series 2F

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2015 ……	Cash	1.27635	November 10	December 17	December 29
Total:		1.27635			
2016 ……	Cash	1.27635	January 15	March 21	April 5
	Cash	1.27635	May 12	June 21	July 6
	Cash	1.27635	August 10	September 21	October 6
	Cash	1.27635	November 10	December 21	January 5, 2017
Total:		5.1054			
2017 ..……..	Cash	1.27635	January 12	March 21	April 5
	Cash	1.27635	May 10	June 21	July 6
	Cash	1.27635	August 10	September 21	October 6
	Cash	1.27635	November 10	December 21	January 5, 2018
Total:		5.1054			

Preferred Shares - Series 2G

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2016 ……	Cash	1.23361875	May 12	June 21	July 6
	Cash	1.23361875	August 10	September 21	October 6
	Cash	1.23361875	November 10	December 21	January 5, 2017
Total:		3.70085625			
2017 ..……..	Cash	1.23361875	January 12	March 21	April 5
	Cash	1.23361875	May 10	June 21	July 6
	Cash	1.23361875	August 10	September 21	October 6
	Cash	1.23361875	November 10	December 21	January 5, 2018
Total:		4.934475			

Preferred Shares - Series 2H

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2016 ……	Cash	1.1854125	May 12	June 21	July 6
	Cash	1.1854125	August 10	September 21	October 6
	Cash	1.1854125	November 10	December 21	January 5, 2017
Total:		3.5562375			
2017 ..……..	Cash	1.1854125	January 12	March 21	April 5
	Cash	1.1854125	May 10	June 21	July 6
	Cash	1.1854125	August 10	September 21	October 6
	Cash	1.1854125	November 10	December 21	January 5, 2018
Total:		4.74165			

Preferred Shares - Series 2I

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2016 …….	Cash	1.18790625	May 12	June 21	July 6
	Cash	1.18790625	August 10	September 21	October 6
	Cash	1.18790625	November 10	December 21	January 5, 2017
Total:		3.56371875			
2017 ..……..	Cash	1.18790625	January 12	March 21	April 5
	Cash	1.18790625	May 10	June 21	July 6
	Cash	1.18790625	August 10	September 21	October 6
	Cash	1.18790625	November 10	December 21	January 5, 2018
Total:		4.751625			

Similarly, the subsidiaries of SMC may declare dividends at the discretion of their respective boards of directors and will depend upon the future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from their respective subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations and other factors their respective boards of directors may deem relevant.

Sale of Unregistered or Exempt Including Securities Constituting an Exempt Transaction

There were no securities sold by SMC within the past 3 years which were not registered under the SRC, except for the following:

Name of Security Sold	Underwriters	Date of Sale	Amount of Securities	Basis for Exemption
Series "1" Preferred Shares…….	N/A	March 30, 2015	₱1,397,033,335.00 at par value; ₱ 20,955,500,025.00 at issue price of ₱75.00	Section 10 (k) and (l) of the SRC

Other securities issued by SMC within the same period are common shares under the Long-Term Incentive Plan for Stock Options pursuant to Section 10.2 of the SRC.

SMC has filed a notice with the SEC and has not obtained a written confirmation for the foregoing exempt transactions.

Certain Relationships and Related Transactions

Related Party Transactions

The Parent Company, certain subsidiaries and their shareholders, associates and joint ventures purchase products and services from one another in the normal course of business. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of September 30, 2017 and December 31, 2016:

		Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	**September 30, 2017**	**₱5**	**₱-**	**₱6,676**	**₱551**	On demand or less than 2 to 5 years; interest and non-interest bearing	Unsecured; no impairment
	December 31, 2016	1	-	6,598	551		
Retirement Plans	**September 30, 2017**	**299**	**-**	**12,033**	**-**	On demand; interest bearing	Unsecured; no impairment
	December 31, 2016	450	-	11,813	-		
Associates	**September 30, 2017**	**1,784**	**144**	**1,516**	**34**	On demand; interest and non-interest bearing	Unsecured; no impairment
	December 31, 2016	2,085	199	524	56		
	September 30, 2017	**-**	**-**	**-**	**21,840**	Less than 1 to 10 years; interest bearing	Unsecured and secured
	December 31, 2016	-	-	-	26,203		
Joint Ventures	**September 30, 2017**	**88**	**295**	**2,120**	**141**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	72	370	640	8		
Shareholders in Subsidiaries	**September 30, 2017**	**300**	**419**	**78**	**2,634**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	299	711	194	2,595		
Others	**September 30, 2017**	**165**	**1**	**264**	**7,075**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	267	-	178	6,795		
Total	**September 30, 2017**	**₱2,641**	**₱859**	**₱22,687**	**₱32,275**		
Total	December 31, 2016	₱3,174	₱1,280	₱19,947	₱36,208		

a. Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.

b. Amounts owed to related parties consist of trade payables and professional fees. The amount owed to the Ultimate Parent Company pertains to dividend payable.

c. The amounts owed to associates include interest bearing loans payable to BOC presented as part of “Loans payable” and “Long-term debt” accounts in the consolidated statements of financial position.

Management's Discussion and Analysis of Results of Operations and Financial Condition

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended September 30, 2017 (with comparative figures as of December 31, 2016 and for the period ended September 30, 2016). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2017, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2017 SIGNIFICANT TRANSACTIONS

LONG-TERM DEBT

- **Refinancing of Long-term Debt and Short-term Loan**

- *Shelf Registration of P60,000 Million worth of Fixed Rate Peso-denominated Bonds by the Parent Company and Issuance of P30,000 Million Bonds*

  On February 9, 2017, the Philippine Securities and Exchange Commission (SEC) approved the shelf registration of up to P60,000 million worth of Fixed Rate Bonds of the Parent Company, and issued the corresponding Permit to Sell for the first tranche consisting of P15,000 million Fixed Rate Bonds with an Oversubscription Option of P5,000 million Fixed Rate Bonds (collectively, the Bonds).

  The Bonds were issued and listed in the Philippine Dealing & Exchange Corp. (PDEx) on March 1, 2017. The Bonds comprised of five-year Series A Bonds due 2022, seven-year Series B Bonds due 2024, and 10-year Series C Bonds due 2027.

  The Series A, Series B and Series C Bonds have fixed interest rate per annum equivalent to 4.8243%, 5.2840% and 5.7613%, respectively.

  Proceeds from the issuance were used by the Parent Company to partially pay the P25,000 million bridge short-term loan which was availed to partially redenominate the United States dollar (US$)500 million out of the US$1,500 million long-term debt of the Parent Company.

  On March 13, 2017, the Parent Company filed with the SEC the Registration Statement and Offer Supplement for the offer of its second tranche of up to P10,000 million Fixed Rate Bonds with an oversubscription option of up to P5,000 million Fixed Rate Bonds (the Offer Bonds) under its P60,000 million Shelf Registration.

  The Parent Company issued and listed the P10,000 million Bonds in the PDEx on April 7, 2017. The Bonds comprised of five-year Series D Bonds due 2022 with a fixed interest rate per annum equivalent to 5.1923%.

  Proceeds from the issuance were used by the Parent Company to refinance the US$200 million short-term bridge loan used to partially redenominate the US$200 million obligation, under the US$300 million Facility Agreement with the final repayment date on November 22, 2017.

  This redenomination was executed to eliminate the exposure of the Parent Company to changes in the peso-dollar exchange rates.

- *Payment of the US$700 Million Five-Year Term Loan by SMC Global Power Holdings Corp. (SMC Global)*

  On March 31, 2017, SMC Global paid US$200 million out of the US$700 million five-year term loan drawn in 2013 and 2015 to refinance existing indebtedness and to fund the ongoing construction of power plants in Malita, Davao and Limay, Bataan investments in power-related assets, and for general corporate purposes.

  The payment was funded by the US$200 million short-term bridge financing loan availed on March 30, 2017. The refinancing lowered the interest margin from 1.9% to 1%. In September 2017, SMC Global paid the US$200 million short-term bridge financing from the P5,000 million short-term loan availed in September 2017 and from available funds.

  On April 26, 2017, SMC Global availed of a P15,000 million fixed-rate, seven-year term loan to fund the payment of additional US$300 million out of the US$700 million loan.

  The US$700 million loan of SMC Global was partly refinanced with a peso-denominated loan to minimize the Group's exposure to foreign exchange losses brought about by the continuing Philippine peso (Php) depreciation against the US dollar.

  On August 30, 2017, SMC Global availed of US$200 million short-term bridge loan. The proceeds were used to pay the remaining US$200 million out of the US$700 million loan to reduce interest margin. The US$200 million short-term bridge loan was partially settled for US$24 million.

- *Availment of P42,000 Million Term Loan by SMC Consolidated Power Corporation (SCPC)*

  On May 8, 2017, SCPC availed of a US$360 million short-term bridge financing loan to fund the full payment on May 9, 2017 of the US$359 million loan drawn in 2016 from its US$400 million seven-year term loan facility to finance the ongoing construction of the power plant in Limay, Bataan.

  On June 28, 2017, SCPC availed of a P42,000 million 12 year term - loan. Proceeds from the loan were used for the settlement of the US$360 million short-term bridge financing loan and the acquisition of the 300 Megawatt Power Plant Project in Limay, Bataan from Limay Premiere Power Corp. (LPPC), also a wholly-owned subsidiary of SMC Global.

- *Availment of US$600 Million Term Loan by Petron Corporation (Petron)*

  On June 28, 2017, Petron drew US$600 million from the US$1,000 million term loan facility which was signed and executed on June 16, 2017. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a spread. The proceeds were used to fully pay the outstanding balances of US$115 million and US$470 million under the US$475 million and US$550 million term loan facilities, respectively.

  The previous loans were prepaid to benefit from the lower interest rate of the new facility.

- *Availment of P15,000 Million Term Loan by Petron*

  On July 25, 2017, Petron drew P15,000 million from a P15,000 million loan facility which was signed and executed on July 14 and July 17, 2017, respectively. The facility is amortized over seven years and is subject to a fixed interest rate of 5.5834% for the first two years and 5.8185% for the succeeding year until the end of the term. The proceeds were used to refinance the P15,000 million short-term bridge loan availed on December 23, 2016 for the acquisition of the 140MW Power Plant in Limay, Bataan.

- **Payment of Long-term Debt by San Miguel Brewery Inc. (SMB)**

  On April 3, 2017, SMB completed the payment of the P3,000 million Series "D" fixed rate bonds. The Series D bonds was part of the P20,000 million Series "D, E and F" fixed rate bonds issued by SMB in 2012. The payment was funded by cash generated from operations of SMB.

II. FINANCIAL PERFORMANCE

2017 vs. 2016

San Miguel Corporation's consolidated sales revenue for the third quarter of 2017 amounted to P596,998 million, 20% higher than 2016, mainly driven by continuous sales growth from Petron, the Infrastructure business and the combined revenues from the core Beverage, Food and Packaging businesses, which grew 11%.

The consolidated operating income reached P82,760 million, 13% higher than last year as a result of sustained sales growth from the different businesses and effective fixed cost management throughout the group.

The higher interest expense was mainly due to the outright recognition of expense for the unamortized debt issue costs of the pre-terminated foreign currency denominated long-term debt of SMC Global and Petron and the higher average borrowing level and rate of Petron, net of decrease in interest expense due to payment of long-term debt by, MTDME and Series D bonds by SMB.

The increase in interest income was primarily due to higher average US dollar-denominated placements of the Parent Company and average peso placements of SMB and SMC Global. The increase in cash in bank balance came from the proceeds on the sale of the investment in shares of stock of Vega Telecom, Inc. (Vega), cash generated from operations of SMB and balance of the proceeds from the P42,000 million 12-year term loan of SMC Global.

The increase in equity in net earnings in 2017 primarily represents the share of SMC Global in the lower net loss of Angat Hydropower Corporation (Angat Hydro), share of San Miguel Properties Inc. (SMPI) in the higher net income of Bank of Commerce, net of provision by Ginebra San Miguel Inc. (GSMI) for future losses in Thai San Miguel Liquor Co. Ltd.

The gain on sale of investments and property and equipment in 2017 pertains to the sale of service stations by Petron Malaysia to Mass Rapid Transit Corporation Sdn Bhd. Certain service stations of Petron Malaysia were closed since the lot they are occupying will be used for the Mass Rapid Transit project of Malaysia.

The decrease in other charges was primarily due to the recognition of lower foreign exchange loss on the translation of the US Dollar denominated long-term debt and loans payable of the Parent Company, SMC Global and Petron and the finance lease liabilities of SMC Global as a result of the lower depreciation of the Philippine peso against the US dollar in 2017 compared to 2016. The decrease in other charges was partly offset by the loss on derivatives which primarily pertains to the loss on commodity hedging of Petron.

The higher income tax expense was mainly due to increase in taxable net income of Petron Malaysia, SMB, San Miguel Foods Inc. (SMFI) and SMPI and the cessation of the income tax holiday of South Luzon Tollway Corporation (SLTC) in December 2016.

Consolidated net income amounted to P41,441 million in 2017.

Share of non-controlling interests (NCI) on the Group's net income increased in 2017 mainly due to the higher net income of Petron and SMB.

Excluding the effect of foreign exchange translation and the income from discontinued operations in 2016, net income for the period ended September 30, 2017 at P43,783 million was 21% higher than the comparable 2016 net income of P36,259 million.

2016 vs. 2015

As a result of completion of the sale of Vega and subsidiaries on May 30, 2016, the line by line consolidation of Vega and subsidiaries were excluded in the consolidated statements of income for the period ended September 30, 2016 and presented under "Income after income tax from discontinued operations."

San Miguel Corporation's consolidated sales revenues for September 2016 amounted to P498,312 million. This is slightly lower than 2015 with the decline in oil prices resulting to lower sales of Petron. Core Beverage, Food and Packaging Businesses continued to post higher sales with 11% revenue growth. The Energy and Infrastructure Businesses also sustained their higher revenues.

The corresponding consolidated operating income reached about P73,237 million, 24% higher than 2015. Most businesses continued to perform better and sustained double-digit income growth.

The higher interest expense was mainly due to the absence of capitalized interest in 2016, tempered by lower borrowing level and bank charges of Petron.

The decrease in interest income was mainly due to lower average balance of money market placements of the Parent Company, SMC Global and Petron in 2016 compared to the same period in 2015, net of the higher interest income SMB due to higher average balance of money market placements in 2016 and the Infrastructure Group due to nine month-period balance contribution of Atlantic Aurum Investments B.V. (AAIBV) Group compared to seven months in 2015.

The increase in equity in net earnings in 2016 primarily represents the share of SMC Global in the lower loss of Angat Hydro, and the share of San Miguel Yamamura Packaging Corporation (SMYPC) in the higher net income of Northern Cement Corporation in 2016. The increase was partly reduced by the recognition of the Group's share in the net income of: AAIBV Group from January 1 to March 5, 2015, and Manila North Harbour Port Inc. from January 1 to September 30, 2015, prior to consolidation.

The decrease in other charges was primarily due to the lower foreign exchange loss as a result of the lower depreciation of the Philippine Peso against the United States Dollar in 2016 compared to 2015. PhP weakened by P1.44 against US$ in September 2016 compared to P2.02 in September 2015.

The higher income tax expense was primarily due to: a) increase in taxable net income of Petron, SMB, SMC Global and SMFI; b) recognition of income tax on the dividend income from foreign subsidiaries of Petron; and c) nine month-period balance contribution of AAIBV Group compared to seven months in 2015.

Income after income tax from discontinued operations in 2016 pertains to the gain on sale of the Telecommunications Business which represents recovery of previous costs, losses, interest expense, and provisions.

Consolidated net income amounted to P42,953 million.

The share of non-controlling interests (NCI) on the Group's net income increased in 2016 mainly due to the additional issuance by SMC Global of undated subordinated capital securities in August 2015, the higher net income of SMB and Petron in 2016 and the higher net income of Citra Metro Manila Tollways Corporation and SLTC, due to nine month-period balance contribution in 2016 compared to seven months in 2015.

The following are the highlights of the performance of the individual business segments:

1. BEVERAGE

2017 vs. 2016

a. San Miguel Brewery Inc.

The performance of SMB for the nine-month period continued to achieve strong growth with consolidated volumes reaching 188.6 million cases, 13% higher than 2016. This was mainly driven by the impressive performance of the domestic operations posting double digit volume growth at 16%, boosted by the effective promotion campaigns and consumer and trade programs that further strengthened its brand equity and increased consumption of the SMB brands.

With higher domestic volumes, coupled with better selling prices, including the contribution from the International operations, consolidated revenues of SMB reached 80,656 million, 16% higher than last year while operating income grew 14% to P21,408 million.

b. Ginebra San Miguel Inc.

GSMI sustained its growth momentum with sales volumes reaching 20.5 million cases, 14% higher than the same period last year. The flagship brand Ginebra San Miguel and Vino Kulafu continued to post double digit growth which was boosted by the ongoing volume generating programs and equity enhancing campaigns of GSMI.

This drove revenues to reach P15,330 million, 16% higher than last year. Operating income amounted to P947 million, 45% higher than last year.

2016 vs. 2015

a. San Miguel Brewery Inc.

SMB sustained its growth momentum in the third quarter of 2016 to register an 18% increase in consolidated revenues at P69,298 million by end-September. Operating income likewise showed big improvement with a 19% growth to reach P18,714 million.

The favorable financial results were driven by strong domestic sales volume, with a 15% growth at 145.5 million cases. The intensified conduct of demand generating programs alongside improved consumer income continued to increase consumption of SMB brands.

The International Operations registered 21 million cases in sales volume. This translated to P8,890 million in revenues, 6% higher than last year, and operating income of P451 million, a significant increase from the same period in 2015. This improvement was led by Indonesia, with higher volumes and improved margins, as well as growth of exports.

b. Ginebra San Miguel Inc.

GSMI continued its strong performance with a 15% growth in sales revenue, on the back of 13% volume growth. Core brands Ginebra San Miguel and Vino Kulafu continued to lead the increase in overall volume to 17.9 million cases in September 2016. Corresponding sales revenue amounted to P13,202 million.

Operating income jumped 65% to P654 million.

2. FOOD

2017 vs. 2016

San Miguel Pure Foods Company Inc. (SMPFC) sustained its good performance during the nine months period, registering consolidated revenues of P84,452 million, 5% higher than last year as the Poultry, Fresh Meats and Value-Added Meats businesses continued to post higher volumes and favorable selling prices.

The continuous drive to improve operational efficiencies coupled with better sales mix and lower costs of some major raw materials further increased operating income to reach P6,750 million, 20% higher than the previous year.

2016 vs. 2015

SMPFC and its subsidiaries posted a revenue growth of 5%, bringing consolidated revenue in September 2016 to P80,582 million.

Agro-Industrial Cluster achieved a 7% revenue growth as sales volume of Poultry and Feeds Businesses improved, coupled with better market prices of chicken.

Branded Value-added Cluster maintained its good performance as it attained a 7% revenue growth, coming from the strong brand leadership of Magnolia and Pure Foods.

The consolidated operating income of Food Group reached P5,613 million, which was ahead of 2015 results by 25%.

3. PACKAGING

2017 vs. 2016

The consolidated revenues of the San Miguel Yamamura Packaging Group (SMYPG) for the nine-month period grew 13% to P22,360 million from last year. The growth was largely due to higher sales from the metal and plastics businesses and continued growth in contribution from the Australian operations. Operating income grew by 13% to P2,162 million, from the previous year.

2016 vs. 2015

The sales revenue of SMYPG for year-to-date September 2016 amounted to P19,749 million, 9% higher than 2015. Lower requirements of beverage clients tempered growth in glass revenues during the third quarter of 2016 and posted an 8% increase in sales as of September 30, 2016 from the 14% growth reported in the first semester of 2016. On the other hand, Metal Business delivered strong performance in the third quarter of 2016 from its domestic and international operations with the increase in sales to beverage clients and sustained export sales.

With better fixed cost management, the corresponding operating income increased by 12% to P1,919 million in September 2016.

4. ENERGY

2017 vs. 2016

SMC Global posted consolidated off-take volume of 12,818 gigawatt hours (GWH) for the nine-month period, 6% lower than last year which was mainly due to lower bilateral volumes from the Sual and Ilijan power plants. The Ilijan Power plant underwent a scheduled annual maintenance shutdown, concurrently with the Malampaya gas facility from January 28 to February 16, 2017. Likewise, Sual Power Plant's Unit 2 encountered a shutdown starting on June 14, 2017 and is scheduled to be synchronized to the grid on November 10, 2017 using a temporary replacement transformer. The installation of a permanent replacement transformer is expected to be completed in February 2018.

However, the start of the commercial operation of Units 1 for both the new power plants in Malita, Davao and Limay, Bataan and the improvement in San Roque plant's power dispatch covered up for the power requirements needed.

Revenues ended 2% higher than last year to P62,117 million brought about by higher average realization prices and spot market price. Operating income was 14% lower than the previous year at P19,668 million, as a result of higher fuel costs (coal and natural gas prices), replacement power purchases, lower bilateral volumes from both Sual and Ilijan and the sale of the Limay Cogen in 2016.

2016 vs. 2015

SMC Global's off take volume for year-to-date September 2016 was 13,615 GWH, 10% higher than 2015 mainly due to higher bilateral volumes from Sual and Ilijan plants.

Corresponding consolidated net revenue increased by 3% to P60,700 million as a result of higher volumes, partly offset by lower average realization prices for both spot sales and bilateral customers.

The operating income of the Energy Business in September 2016 amounted to P22,838 million, 18% higher than 2015. Major income contributors are still Sual and Ilijan plants, with Ilijan plant showing a much improved income performance versus 2015.

5. FUEL AND OIL

2017 vs. 2016

The performance of Petron for the nine-month period continued to present outstanding results. The sustained performance of Petron was mainly driven by its continued focus on high-value segments and strong sales volumes from both its Philippines and Malaysian operations.

Combined volumes from the Philippines and Malaysia reached 80.3 million barrels, 1% higher than last year. The sales of Petron in the retail segment grew 8% as a result of its continuing network expansion in both markets coupled with innovative loyalty programs. Its lubricants and high-margin products such as gasoline and Jet A-1, including petrochemicals posted double-digit growth.

2016 vs. 2015

Petron sustained momentum, posting a 47% increase in consolidated net income that reached P7,427 million in September 2016, mainly driven by sustained growth in volume sales.

Consolidated sales volume increased by 7% to 73.3 million barrels in the first three quarters of 2016. Philippine Operations sold 50.8 million barrels, higher by 7% compared to 2015, while Malaysia also contributed 28.5 million barrels, a 5% improvement from a year ago. Both markets saw substantial growth across all major business segments namely Reseller, Industrial, LPG, and Lubricants.

The effect of lower crude oil and finished product prices offset the increase in sales volume. In September 2016, the consolidated revenue of Petron decreased by 11% to P247,770 million. Corresponding operating income grew 23% to P16,841 million.

6. INFRASTRUCTURE

2017 vs. 2016

The consolidated revenue of the Infrastructure business as of September 30, 2017 reached P16,520 million, 13% higher than last year, mainly driven by the sustained growth in traffic volume from all of our operating toll roads and increase in passenger arrival at the Boracay airport. Operating income grew 9% to P8,086 million.

2016 vs. 2015

For consolidated Infrastructure, the first nine-month period of 2016 with P14,672 million in revenues and P7,441 million in operating income, registering 14% and 7% growths, respectively. This is attributed to higher traffic volume. The opening of Carmen Exit in July 2016 and Binalonan Exit in September 2016 for Tarlac-Pangasinan-La Union Toll Expressway (TPLEX) also contributed to the increased traffic volume and revenues.

III. FINANCIAL POSITION

2017 vs. 2016

Consolidated total assets as of September 30, 2017 amounted to P1,350,102 million, P43,278 million higher than December 31, 2016. The increase was primarily due to the increase in cash and cash equivalents, inventories, property, plant and equipment and other noncurrent assets.

The increase in cash and cash equivalents by P9,198 million was mainly on account of the remaining balance of the proceeds from the P42,000 million 12-year term loan availed by SCPC on June 28, 2017 net of funds used for debt refinancing/payment and capital expenditures, and cash generated from operations of SMB, Petron and SMPFC net of payment of loans and capital expenditures.

Trade and other receivables decreased by P7,697 million mainly due to the collection of receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega net of the increase in trade receivables of San Miguel Energy Corporation and South Premiere Power Corp. (SPPC) due to higher bilateral sales from external customers.

The increase in inventories by P8,342 million was mainly due to the increased importation by SMPFC of certain major raw materials for feeds and basic flour and the intentional build-up of other major raw materials to support expected increase in volume in the succeeding months, higher prices of crude oil tempered by lower volume of Petron and inventory build-up by the Packaging Business of glass and plastics and physical hedge of resins in anticipation of the peak season for the coming months and price increase, respectively.

Biological assets increased by P498 million mainly due to higher volume of live broilers grown and poultry breeder stocks to support the anticipated demand requirements in 2017.

The decrease in assets held for sale by P119 million was due to the sale of certain machinery and equipment to Northern Cement Corp. by SMC Powergen Inc. in July 2017.

The increase in investments and advances was mainly due to advances for investment made by SMHL to Bryce Canyon Investments Limited.

Noncurrent assets increased by P11,662 million mainly due to the capitalized project costs incurred for the MRT 7 Project, increase in noncurrent portion of the subsidy receivable from DPWH for the construction costs incurred in Section 3A-2 (Binalonan to Pozzorubio) of TPLEX Project, higher noncurrent prepaid input VAT on additional purchases relating to the construction of power plants and the transfer of funds to restricted cash for debt servicing and capital expenditure requirement.

The decrease in loans payable was mainly due to the net payments made by the Parent Company and settlement by Petron of the P15,000 million bridge loan availed on December 23, 2016, offset by availments made by SMC Global and San Miguel Consolidated Power Corporation for Malita, Davao capex requirements.

Accounts payable and accrued expenses increased by P11,602 million mainly due to the purchase and build-up of major raw materials to support expected increase in volume in the peak season and accrual of operating expenses driven by increased level of production of SMFI and higher liabilities for crude and finished product importation of Petron.

The higher amount of long-term debt resulted from the issuance by the Parent Company of fixed rate - bonds on March 1 and April 7, 2017 and the availment by Petron of the P15,000 million term loan, net of payments made by SMB of the Series D Bonds, Infrastructure Group, and Petron Malaysia of their maturing long-term debt.

Deferred tax liabilities increased by P2,073 million mainly due to the: (1) temporary differences arising from the: (a) different method of depreciation used by Petron for tax reporting and financial accounting for the Limay, Bataan power plant and RMP-2 and unrealized foreign exchange differential of Petron, and (b) actual monthly payments to the Power Sector Assets and Liabilities Management Corporation over the finance lease liability-related expenses of SPPC.

The decrease in finance lease liabilities was mainly due to payments, net of interest and the effect of foreign exchange rate changes.

The increase in other noncurrent liabilities was mainly due to retention payable to the contractors of MRT 7 and Bulacan Bulk Water projects, additional long term liability of MNHPI for the purchase of machinery and equipment and the increase in liquefied petroleum gas cylinder deposits.

Equity reserves increased by P1,859 million mainly due to the translation adjustment on the net assets of foreign subsidiaries of Petron and SMB.

Non-controlling interests increased by P9,409 million mainly due to the share of non-controlling stockholders in the higher net income of Petron, SMB, SMPFC and Infrastructure and translation adjustments, net of dividends declared to the non-controlling stockholders of Petron and SMB.

2016 vs. 2015

The Group's consolidated total assets as of September 30, 2016 amounted to P1,274,775 million, P28,753 million higher than 2015. The increase is primarily due to the recognition of receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega and the assignment of the receivables from Vega and its subsidiaries.

Trade and other receivables increased by P20,885 million primarily due to the receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega and the assignment of the receivables from Vega and its subsidiaries.

Inventories increased by P14,355 million mainly due to higher price of crude and finished products of Petron, build-up of inventories in preparation for peak season sales of SMPFC and higher inventory of full goods and purchase of new bottles and shells to support increase in production volume of the domestic operations of SMB.

Biological assets increased by P396 million mainly due to higher cost to produce growing poultry livestock and increased cost of imported cattle.

Investments and advances increased by P5,124 million in 2016 mainly due to additional investments made by SMC Global in Angat Hydro and Mariveles Power Generation Corporation.

Investment property increased by P2,073 million mainly due to the acquisition by E-fare of land in Mariveles, Bataan for the construction of an industrial park.

Other intangible assets decreased by P17,324 million primarily due to the deconsolidation of licenses attributed to the subsidiaries of Vega, net of the recognition of additional concession rights for the various infrastructure projects, such as the Skyway Stage 3, NAIA Expressway, Boracay Airport, Manila North Harbor Development Program and TPLEX in 2016.

Deferred tax assets increased by P2,028 million mainly due to the recognition by the Parent Company of deferred tax asset on net operating loss carry over, provision for doubtful accounts and unrealized foreign exchange loss.

The decrease in loans payable of P15,897 million in 2016 was mainly due to net payments made by Petron.

The decrease in income and other taxes payable of P1,062 million was mainly due to lower income tax payable of SMPFC in 2016 as income tax expense in the fourth quarter of 2015 was higher than the third quarter of 2016, being the peak period for the Food Group and the deconsolidation of Vega's balance.

Dividends payable increased by P1,577 million mainly due to the dividend declared by the Parent Company to its preferred stockholders owning Series 1 and Series 2 – B, C, D, E, F, G, H and I, on August 10, 2016, which was subsequently paid on October 6, 2016. The Parent Company has no outstanding dividends payable to its preferred stockholders as of December 31, 2015.

The increase in long-term debt was mainly due to the availments used to finance the various projects of the Energy business and the Infrastructure business. This was partly offset by the payments made by the Parent Company, Infrastructure Group, Petron, SMC PowerGen Inc. and SMYPC of their maturing long-term debt.

Deferred tax liabilities increased by P1,962 million mainly due to the application of MCIT and higher deferred tax liability on inventories of Petron and the recognition by SPPC and SPDC of deferred income tax expense on the temporary difference between the actual monthly payments to PSALM over the finance lease liability-related expenses for 2016.

The decrease in finance lease liabilities was mainly due to payments, net of interest and foreign exchange rate changes.

Other noncurrent liabilities decreased by P8,097 million mainly due to the deconsolidation of Vega's balance, as a result of the sale of the investment.

Equity reserve decreased by P5,325 million primarily due to the increase in ownership interest in ULC BVI and the acquisition of the remaining non-controlling interest in Petrochemical Asia (HK) Limited by Petron.

Cumulative translation adjustments increased by P2,253 million mainly due to the translation adjustment on the net assets of foreign subsidiaries, particularly of Petron, San Miguel International Limited and SMB, and the fair value adjustment on the investment in common shares of stock of Top Frontier Investment Holdings, Inc.

The decrease in treasury stock pertains to the issuance of Series "2" in Subseries G, H and I preferred shares of the Parent Company at P75.00 per share on March 30, 2016.

Equity

The increase in equity is due to:

(In millions)	**September 30**	
	2017	2016
Income during the period	**P41,441**	P42,953
Other comprehensive income	**3,386**	3,938
Addition (reduction) to non-controlling interests and others	**1,014**	(6,876)
Issuance of capital stock	**119**	69
Reissuance of treasury shares	**-**	29,722
Cash dividends and distributions	**(21,670)**	(20,736)
	P24,290	P49,070

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	**September 30**	
	2017	2016
Net cash flows provided by operating activities	**P76,449**	P45,556
Net cash flows used in investing activities	**(34,862)**	(20,507)
Net cash flows used in financing activities	**(32,175)**	(31,771)

Net cash flows provided by operating activities for the period basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Major components of net cash flows used in investing activities included the following:

(In millions)	**September 30**	
	2017	2016
Additions to property, plant and equipment	**(P27,942)**	(P28,275)
Increase in other noncurrent assets and others	**(20,820)**	(10,846)
Additions to investments and advances and available-for-sale financial assets	**(1,562)**	(7,492)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(1,265)**	(1,905)
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	**13,020**	24,154
Interest received	**1,637**	2,653
Proceeds from sale of investments and property and equipment	**1,262**	479

Major components of net cash flows provided by (used in) financing activities included the following:

(In millions)	**September 30**	
	2017	2016
Proceeds from (payments of) long-term debt - net	**P30,802**	(P2,745)
Payments of short-term loans - net	**(23,007)**	(16,331)
Payment of cash dividends and distributions	**(21,723)**	(19,161)
Payment of finance lease liabilities	**(18,630)**	(17,811)
Decrease in non-controlling interests	**264**	(5,514)
Proceeds from issuance of Series "2" preferred shares - net	**-**	29,722

The effect of exchange rate changes on cash and cash equivalents amounted to (P214) million and P2,216 million for the periods ended September 30, 2017 and 2016, respectively.

V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II "Financial Performance" for the discussion of certain Key Performance Indicators.

	September 2017	December 2016
Liquidity:		
Current Ratio	**1.31**	1.26
Solvency:		
Debt to Equity Ratio	**1.93**	1.99
Asset to Equity Ratio	**2.93**	2.99
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**8.44%**	11.31%
Interest Rate Coverage Ratio	**3.19**	2.99

	Period Ended September 30	
	2017	2016
Operating Efficiency:		
Volume Growth	**3%**	8%
Revenue Growth	**20%**	(1%)
Operating Margin	**14%**	15%

The manner by which the Group calculates the key performance indicators is as follows:

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}}\right)-1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right)-1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting*

External Audit Fees and Services

The Parent Company paid the external auditor Audit Fees amounting to ₱13 million in 2016, ₱12 million in 2015 and ₱10 million in 2014. Said fees include compensation for audit services and other related services such as audit review and research work. There were no fees paid to the external auditor for tax accounting, compliance, advice, planning, and any other form of tax services. There were no other fees paid to the auditors other than the above-described services.

The stockholders approve the appointment of the external auditors of the Company. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of the Board of Directors and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations. Likewise, the Audit Committee evaluates and determines any non-audit work performed by external auditors, including the fees therefor, and ensures that such work will not conflict with External Auditors' duties as such or threaten its independence.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with the external auditors of the Company on accounting and financial disclosure.

Independent Auditors and Counsel

Legal Matters

All legal opinions/matters in connection with the issuance of each Offer will be passed upon by Picazo Buyco Tan Fider & Santos ("Picazo Law") for the Company and SyCip Salazar Hernandez & Gatmaitan for the Underwriters ("SyCip Law"). Picazo Law and SyCip Law have no direct interest in the Company.

Picazo Law and SyCip Law may from time to time be engaged to advise in the transactions of the Company and perform legal services on the basis that Picazo Law and SyCip Law provide such services to its other clients.

Independent Auditors

The consolidated financial statements of the Company as at and for the years ended December 31, 2014, 2015, and 2016 have been audited by R.G. Manabat & Co., a member firm of KPMG, independent auditors, in accordance with Philippine Standards on Auditing as set forth in their report thereon appearing elsewhere in this Offer Supplement.

The Audit Committee of the Company reviews and monitors, among others, the integrity of all financial reports and ensures compliance with both internal financial management manual and pertinent accounting standards, including regulatory requirements. The Audit Committee also performs the following duties and responsibilities relating to the services of the Company's external auditors:

- Asses and monitor the (i) external auditor's professional qualifications, competence, independence and objectivity and require the external auditor to make the statements necessary under applicable auditing standards as regards its relationship and services to the Company, discussing any relationship or services which may derogate its independence or objectivity; and (ii) the effectiveness of the audit process in accordance with applicable standards.

- Obtain objective assurance from the external auditor that the conduct of the audit and the manner of the preparation of the financial statements comply with applicable auditing standards and rules of regulatory bodies, including exchanges on which the securities of the Company are listed.

- Review and approve the nature and scope of the audit plans of the external auditor, including scope, audit resources and expenses, and reporting obligations before the audit commences.

- Review the reports or communications of the external auditor and ensure that management or the Board will provide a timely response to the issues raised in such reports or communications.

- Ensure the development and implementation of policies on the engagement of an external auditor to supply non-audit work, including the fees payable therefor, and evaluate any non-audit work undertaken by the external auditor to ensure that the same does not conflict with its audit functions.

There is no arrangement that experts and independent counsels will receive a direct or indirect interest in the Issuer or was a promoter, underwriter, voting trustee, director, officer, or employee of the Issuer.

Taxation

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Bonds. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Bonds under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Bonds in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Offer Supplement.

The tax treatment applicable to a holder of the Bonds may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of the Bonds.

PROSPECTIVE PURCHASERS OF THE BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines." A non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines. The term "dividends" under this section refers to cash or property dividends. "Tax Code" means the Philippine National Internal Revenue Code of 1997, as amended.

Philippine Taxation

On January 1, 2018, Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion ("TRAIN") took into effect. The TRAIN amended provisions of the Philippine Tax Code including provisions on Documentary Stamp Tax, tax on interest income and other distributions, Capital Gains Tax on the sale and disposition of securities, Estate Tax, and Donor's Tax.

TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

Given the above, all Bondholders are required to provide the Issuer through the Paying Agent their valid Tax Identification numbers issued by the BIR.

TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE

Bondholders who are exempt from or are entitled to a preferential rate on final withholding tax on interest income may avail of such exemption or preferential rate by submitting the necessary documents. Said Bondholder shall submit the following requirements to the Registrar, or to the Issue Manager, Underwriter and Bookrunner (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (i) a BIR-certified true copy of a valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR addressed to the Applicant confirming the exemption; (ii) with respect to tax treaty relief, (a) for initial interest due, 3 originals of a duly accomplished valid, current and subsisting Certificate of Residence for Tax Treaty Relief ("CORTT") Form or the prescribed certificate of residence of their country together with the CORTT Form as required under BIR Revenue Memorandum Order NO. 8-2017 and/or 3 originals of the Special Power of Attorney executed by the Bondholder in favor of its authorized representative (if the CORTT form and other documents are accomplished by an authorized representative); and (b) for subsequent interests due, 3 originals of Part II (D) of the CORTT Form shall be submitted by the Bondholder/Registrar to the Issuer no later than the 1st day of the month when such subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto; (iii) a duly notarized undertaking, in the prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases the Bonds for its account, or (ii.b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer and the Registrar and Paying Agent (a) of any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificates or preferential rate entitlement; (b) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature and method of operation, which are inconsistent with the basis for its income tax exemption; or (c) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential rate, and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding of the required tax; and (iv) such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty relief, shall include a duly accomplished Certificate of Residence for Tax Treaty Relief (CORTT) Form or the prescribed certificate of residency of their country together with the CORTT Form consularized proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines to support the applicability of a tax treaty relief; provided that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges (or with reduced rates, as the case may be), subject to the submission by the Bondholder claiming the benefit of any exemption or preferential rate of reasonable evidence of such exemption or preferential rate treatment to the Registrar and Paying Agent.

Transfers taking place in the Electronic Registry of Bondholders after the Bonds are listed in PDEx may be allowed between taxable and tax-exempt entities without restriction provided the same are in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC. A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Issuer, upon submission of Account Opening documents to the Registry: (i) a written notification of the sale or purchase, including the tax status of the selling or buying party, and (ii) an indemnity agreement wherein the new Bondholder undertakes to indemnify the Issuer for any tax that may later on be assessed from the Issuer on account of such transfer.

VALUE-ADDED TAX

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Bonds sold.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS

Income Tax

Any gain realized from the sale, exchange or retirement of bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to the regular rates of 20-35% effective January 1, 2018 until December 31, 2022 and 15%-35% effective January 1, 2023 for individuals or 30% for domestic and foreign corporations, as the case may be. If the bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the bonds for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

Moreover, any gain arising from such sale, regardless of the original maturity date of the bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the BIR for the availment of tax treaty benefits.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at a fixed rate of 6%. A Bondholder shall be subject to donor's tax at the rate of 6% based on the total gifts in excess of ₱250,000 exempt gift made during the calendar year, whether the donor is a stranger or not.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (i) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (ii) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Securities are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the securities exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes. However, a sale, exchange, or other transfer made in the ordinary course of business (a transaction which is a bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or through an exchange. However, if the transfer constitutes a renewal of the Bonds, documentary stamp tax is payable anew.

Annex

Annex A: Unaudited Consolidated Financial Statements as of and for the nine months ended September 30, 2017

Annex B: Audited Consolidated Financial Statements as of and for the years ended December 31, 2016, 2015, and 2014