

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 12-1, AS AMENDED

REGISTRATION STATEMENT UNDER THE SECURITIES REGULATION CODE



1. SEC Identification Number: PW-277
2. SAN MIGUEL CORPORATION
Exact name of registrant as specified in its charter
3. Metro Manila, Philippines
Province, country or other jurisdiction of incorporation or organization
4. 041-000-060-741
BIR Tax Identification Number
5. Manufacturing food, beverages, packaging, fuel & energy, power, infrastructure, property.
General character of business of registrant.
6. Industry Classification Code: (SEC Use Only)
7. No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines
Address, including postal code, telephone number, FAX number including area code, of registrant's principal offices
8. N/A
If registrant is not resident in the Philippines, or its principal business is outside the Philippines, state name and address including postal code, telephone number and FAX number, including area code, and email address of resident agent in the Philippines.
9. Fiscal Year Ending Date (Month and Day): December 31

Computation of Registration Fee

Title of each class of securities to be registered	Amount to be registered	Proposed Maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
Fixed Rate Bonds				
Short-Term Commercial Paper	With aggregate principal amount of ₱60,000,000,000 consisting of: ₱15,000,000,000 worth of 365-day Series A Commercial Papers with an Oversubscription	N/A	₱ 20,000,000,000.00	₱ 812,500.00 + ₱ 14,750,000.00 Legal Research Fee = 155,625.00

Title of each class of securities to be registered Fixed Rate Bonds	Amount to be registered	Proposed Maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
	Option of up to ₱5,000,000,000.00			
TOTAL SEC REGISTRATION FEE			₱ 60,000,000,000.00	₱15,718,125.00

PART I - INFORMATION REQUIRED IN PROSPECTUS

Item 1. Front of the Registration Statement and Outside Front Cover Page of Prospectus.

Set forth in the front of the registration statement and on the outside front cover page of the Prospectus are the information required by Part VI, paragraph (A) of "Annex C, as amended".

Item 2. Inside Front Cover and First Two or More Pages of Prospectus.

Set forth on the inside cover page and the succeeding pages of the Prospectus are the information required by Part VI, paragraph (B) of "Annex C, as amended".

Item 3. Risk Factors and Other Considerations.

Set forth under the section "Risk Factors" starting on page 29 of the Prospectus are the information required by Part VI, paragraphs (C) and (D) of "Annex C, as amended".

Item 4. Use of Proceeds.

Set forth under the section "Use of Proceeds" starting on page 63 of the Prospectus are the information required by Part VI, paragraph (E) of "Annex C, as amended".

Item 5. Determination of Offering Price.

Set forth under the section "Determination of the Offer Price" starting on page 65 of the Prospectus are the information required by Part VI, paragraph (F) of "Annex C, as amended".

Item 6. Dilution.

Not applicable.

Item 7. Selling Security Holders.

Not applicable.

Item 8. Plan of Distribution.

Set forth under the section "Plan of Distribution" starting on page 66 of the Prospectus are the information required by Part VI, paragraphs (I), (J) and (K) of "Annex C, as amended".

Item 9. Description of the Commercial Papers.

Set forth under the section "Description of the Commercial Papers" starting on page 13 of the Prospectus are the information required by Part II, paragraph (B) of "Annex C, as amended".

Item 10. Interests of Named Experts and Independent Counsel.

Set forth under the section "Independent Auditors and Counsel" starting on page 234 of the Prospectus are the information required by Part VI, paragraph (L) of "Annex C, as amended".

Item 11. Information with Respect to the Registrant.

Information with respect to the registrant:

- (a) Set forth starting on page 89 of the Prospectus are the information required by Part I, paragraph (A) of "Annex C, as amended", Description of the Business;
- (b) Set forth starting on page 219 of the Prospectus are the information required by Part I, paragraph (C) of "Annex C, as amended", Involvement in Certain Legal Proceedings;
- (c) Set forth starting on page 75 of the Prospectus are the information required by Part III, paragraph (A) of "Annex C, as amended", Management's Discussion and Analysis of Financial Condition and Results of Operations;
- (d) Set forth starting on page 235 of the Prospectus are the information required by Part III, paragraph (B) of "Annex C, as amended", Independent Auditors;
- (e) Set forth starting on page 211 of the Prospectus are the information required by Part IV, paragraph (A) of "Annex C, as amended", Board, Management, and Certain Shareholders;
- (f) Set forth starting on page 218 of the Prospectus are the information required by Part IV, paragraph (B) of "Annex C, as amended", Executive Compensation;
- (g) Set forth starting on page 221 of the Prospectus are the information required by Part IV, paragraph (C) of "Annex C, as amended", Security Ownership of Certain Record and Beneficial Owners; and
- (h) Set forth starting on page 229 of the Prospectus are the information required by Part IV, Section (D) of "Annex C, as amended", Certain Relationships and Related Transactions.

Item 12. Financial Information

Please refer to the section "Summary of Financial Information" starting on page 5 of the Prospectus and "Management's Discussion and Analysis of Financial Position and Results of Operations" starting on page 75 of the Prospectus. The Registrant's audited consolidated financial statements for the years ended 31 December 2018, 2017 and 2016 and unaudited consolidated financial statements for the nine months ended 30 September 2018 and 2019 are included as appendices to the Prospectus.

**PART II - INFORMATION INCLUDED IN REGISTRATION STATEMENT BUT NOT
REQUIRED IN PROSPECTUS**

Item 13. Other Expenses of Issuance and Distribution.

Set forth under the section "Use of Proceeds" starting on page 63 of the Prospectus are the information required by Part VI, paragraph (M) of "Annex C, as amended".

Item 14. Exhibits.

Incorporated herein are the following exhibits required by Part VII of "Annex C, as amended":

Exhibit	Document
1.	Undertaking re: Publication of Notice of Filing of Registration Statement and Notice re: Filing of Registration Statement
2.	Mandate Letter of the Joint Lead Underwriters
3.	Underwriting Agreement (Draft)
4.	Latest Amended Articles of Incorporation
5.	Latest Amended By-laws
6.	Opinion re: Legality and Tax Matters
7.	Summary Sheet of Material Contracts, together with copies thereof
8.	Copies of the following reports of the Registrant: <ul style="list-style-type: none">• 2018 Annual Report (SEC Form 17-A)• Quarterly Report (SEC Form 17-Q) for the 1st quarter of 2019• Quarterly Report (SEC Form 17-Q) for the 2nd quarter of 2019• Quarterly Report (SEC Form 17-Q) for the 3rd quarter of 2019
9.	List of Subsidiaries
10.	Statement of Eligibility of Trustee
11.	Directors' Certificate re: board resolutions approving: (a) the securities offering and authorizing the filing of the Registration Statement and (b) the disclosures contained in the registration statement and assuming liability for the information contained therein
12.	Notarized Curriculum Vitae
13.	Authorization Re: Examination of Registrant's Bank Accounts
14.	Secretary's on corporate governance matters: (a) adoption of Manual on Corporate Governance, (b) undertaking to allow SEC to resolve conflicting issues regarding the selection of independent directors
15.	Prospectus
16.	Consolidated audited financial statements for 2018, 2017 and 2016; Consolidated unaudited interim financial statement for the 3 rd quarter of 2019
Additional Documents	
17.	Certification by Issuer and underwriters of their knowledge of the submissions to the SEC
18.	Certification on the registrant's permits and licenses
19.	Certification re: legal proceedings
20.	Certification re: submission by issuer's subsidiaries of Audited Financial Statements
21.	Tax Compliance Report
22.	Certification by underwriters that due diligence has been undertaken
23.	Certificate of Good Standing

[Signature page follows.]

SIGNATURES

Pursuant to the requirements of Republic Act No. 8799, otherwise known as the Securities and Regulation Code, this registration statement is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Mandaluyong on JAN 21 2020.

By:


EDUARDO M. COJUANGCO, JR.
*Chairman of the Board and Chief
Executive Officer*


RAMON S. ANG
*Vice Chairman, President and Chief
Operating Officer*


FERDINAND K. CONSTANTINO
*Senior Vice President – Chief Finance
Officer and Treasurer*


VIRGILIO S. JACINTO
*Senior Vice President – General
Counsel, Compliance Officer and
Corporate Secretary*

REPUBLIC OF THE PHILIPPINES)
MANDALUYONG CITY) ss.

SUBSCRIBED AND SWORN to before me this JAN 21 2020 in Mandaluyong City, Metro Manila, Philippines, affiants exhibiting to me their respective competent evidence of identity, as follows:

<u>Name</u>	<u>Government Issued ID</u>	<u>Date and Place of Issue</u>
Eduardo M. Cojuangco, Jr.	Passport No. 6769283A	13 April 2018 ; DFA-Manila
Ramon S. Ang	Passport No. P2247867B	22 May 2019 ; DFA-Manila
Ferdinand K. Constantino	Passport No. P0341304A	22 September 2016 ; DFA-NCR East
Virgilio S. Jacinto	Passport No. P3157226B	12 September 2019 ; DFA-Manila

Doc. No. 39 ;
Page No. 9 ;
Book No. III ;
Series of 20 20 .




PAULA KATHERINA A. GAN
Commission No. 0308-19
Notary Public for Mandaluyong City
Until December 31, 2020
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 4324707; 01/07/20; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15, QC
MCLE Compliance No. VI-0019930; 03/20/19; Pasig City



SECURITIES AND EXCHANGE
COMMISSION

RECEIVED
FEB 06 2020

MARKET REGULATION DEPT.

BY: [Signature] TIME: 9:30

SAN MIGUEL CORPORATION

40 San Miguel Avenue Mandaluyong City, Philippines 1550

₱60,000,000,000.00 Commercial Papers Program

Initial Offer of ₱15,000,000,000.00 Series A Commercial Papers
with an Oversubscription Option of up to ₱5,000,000,000.00 Commercial Papers

Offer Price: Discount to Face Value

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

Joint Arrangers, Joint Lead Underwriters and Bookrunners

For the Series A Commercial Papers

BDO Capital & Investment Corporation

BPI Capital Corporation

China Bank Capital Corporation

SB Capital Investment Corporation

Sole Issue Manager

Philippine Commercial Capital, Inc.

Selling Agent

[•]

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS 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 Prospectus is dated [February 5, 2020]

SAN MIGUEL CORPORATION
40 San Miguel Avenue
Mandaluyong City
1550 Philippines
Telephone number (632) 8632-3000
<http://www.sanmiguel.com.ph>

This Prospectus (this “**Prospectus**”) relates to the registration and each offer and sale in the Philippines within the RS Effectivity Period as defined below (each, an “**Offer**”) of Commercial Papers (the “**CP**” or “**Commercial Papers**”) with an aggregate principal amount of up to Sixty Billion Pesos (₱60,000,000,000.00) to be issued under a program (the “**Commercial Papers Program**”) by San Miguel Corporation (“**SMC**”, the “**Company**”, the “**Parent Company**”, or the “**Issuer**”), a corporation duly organized and existing under Philippine law. The Commercial Papers will be issued at a discount to face-value (“**Issue Price**”) and listed and traded through the Philippine Dealing & Exchange Corp. (“**PDEX**”).

The Commercial Papers shall be issued from the shelf in one or more series within a period of three (3) years from the effective date of the Registration Statement of the Commercial Papers, subject to applicable regulations (the “**RS Effectivity Period**”). Within the RS Effectivity Period, the Company may issue or re-issue the Commercial Papers up to an aggregate principal amount of ₱60,000,000,000.00, in whole or in part, in one or more series, pursuant to Rule 12.1.2.5 of the Implementing Rules and Regulations of the Securities Regulation Code, provided that the outstanding amount of the commercial papers shall not, at any time, exceed ₱60,000,000,000.00, and none of the CPs will have a maturity of more than 365 days.

The offer and sale of the Commercial Papers, including the terms and conditions for each succeeding series shall be at the sole discretion of the Company. The specific terms of the Commercial Papers for each succeeding series will be determined by the Company considering the prevailing market conditions and shall be provided in a supplement to be circulated at the time of the offer of the relevant series (the “**Issue Supplement**”).

On December 5, 2019, the Board of Directors of the Company authorized the sale and offer of the Commercial Papers during the RS Effectivity Period under such terms and conditions as the management of SMC may deem advantageous to it.

On February [●], 2020, the Company filed an application with the Philippine Securities and Exchange Commission (“**SEC**”) to register the Commercial Papers under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) (“**SRC**”). On [●], the SEC issued an order rendering the Registration Statement effective, and a corresponding permit to offer securities for sale covering the Commercial Papers.

This initial offer relates to the takedown of the first series of the Commercial Papers consisting of Series A Commercial Papers (the “**Offer CPs**”) and the public offer for sale, distribution and issuance by the Company of the Offer CPs (the “**Offer**”). The Offer will have an aggregate principal amount of Fifteen Billion Pesos (₱15,000,000,000.00) (the “**Base Offer**”), and in the event of an oversubscription, the Sole Issue Manager and Joint Arrangers, Joint Lead Underwriters and Bookrunners, in consultation with the Issuer, may increase the size of the Offer by up to Five Billion Pesos (₱5,000,000,000.00) (the “**Oversubscription Option**”), and the Offer CPs pertaining to such option, the “**Oversubscription Option CPs**”) for an aggregate issue size of up to Twenty Billion Pesos (₱20,000,000,000.00). In case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the Commercial Papers under shelf registration will be automatically increased by such principal amount of the Oversubscription Options CPs that will not be taken up or exercised.

The Offer CPs will be issued as 365-day Series A Commercial Papers on [●] 2020 (the “**Issue Date**”). The principal amount of the Series A Commercial Papers shall be repaid in full on their maturity date on [●] 2021, or on the subsequent Business Day without adjustment if such principal repayment date is not a Business Day. For a detailed discussion on the payments due on the Offer CPs, please refer to the discussion under the section “*Description of the Commercial Papers – Payments*” starting on page [●] of this Prospectus.

The Offer CPs 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.

Net proceeds from the Offer, assuming full exercise of the Oversubscription Option, are estimated at [P19,749,743,750.00], and if the Oversubscription Option is not exercised, net proceeds from the Offer are estimated at [P14,807,243,750.00], after deducting fees, commissions and expenses relating to the issuance.

The proceeds of the Offer will be used to partially fund the redemption of the Series 1 Preferred Shares of SMC. For a detailed discussion on the use of proceeds, please refer to the section “*Use of Proceeds*” starting on page [●] of this Prospectus. The use of proceeds for each subsequent series will be set out in the relevant Issue Supplement.

The Company will apply for the listing of the Commercial Papers on the PDEX. However, there is no assurance that such a listing will be achieved either before or after the relevant issue date of the Commercial Papers being offered at a particular time or whether such a listing will materially affect the liquidity of the Commercial Papers on the secondary market. Such listing will be subject to the Company’s execution of a listing agreement with PDEX that may require the Company to make certain disclosures, undertakings and payments on an ongoing basis.

The Commercial Papers will be offered to the public through underwriters that may be engaged by the Company for each series (the “**Underwriters**”). The Company reserves the right to withdraw any offer and sale of the Commercial Papers at any time, and the Underwriters reserve the right to reject any application to purchase the Commercial Papers in whole or in part and to allot to any prospective purchaser less than the full amount of the Commercial Papers applied for by such purchaser. If an offer of the Commercial Papers is withdrawn or discontinued, the Company shall subsequently notify the SEC and, as applicable, the PDEX. The Underwriters, any participating underwriter, co-manager and selling agent for any offer of the Commercial Papers may acquire for their own account a portion of the Commercial Papers.

The Issuer has a rating of PRS Aaa as assigned by PhilRatings on February 5, 2020. The factors considered by PhilRatings in assigning this rating are market leadership and solid track record, ample liquidity, manageable leverage, and experienced management team. 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.

No person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company or any of the Underwriters.

The Commercial Papers will be registered and offered exclusively in the Philippines. The distribution of this Prospectus and the offer and sale of the Commercial Papers may, in certain jurisdictions, be restricted by law. The Company and the Underwriters require persons into whose possession this Prospectus comes, to inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any securities of the Company in any jurisdiction, to or from any person whom it is unlawful to make such offer in such jurisdiction.

The price of securities, such as the Commercial Papers, can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. An investment in the Commercial Papers described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Commercial Papers should carefully consider several risk factors relating to the Company’s business and operations, risks relating to the Philippines and risks relating to the Commercial Papers, as set out in “Risk Factors” found on page [●] of this Prospectus, in addition to the other information contained in this Prospectus, in deciding whether to invest in the Commercial Papers. The risk disclosure discussion does not purport to disclose all the risks and other significant aspects of investing in the Commercial Papers. A person contemplating an investment in the Commercial Papers should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities.

Unless otherwise stated, the information contained in this Prospectus has been supplied by SMC. The Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this Prospectus is correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect.

All information in the Prospectus is as of the date hereof, unless otherwise indicated. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company and its subsidiaries since such date. All information contained in this Prospectus are deemed qualified by, and should be read together with, the all disclosures, reports and filings of the Company as filed with SEC, the PSE, and/or PDEx (collectively, the “**Company Disclosures**”) pursuant to the Revised Corporation Code, the Securities Regulation Code, and the disclosure rules of PDEx are incorporated or deemed incorporated by reference in this Prospectus. Copies of the Company Disclosures may be viewed at the website of the Company. The Company Disclosures contain material and meaningful information relating to the Company and investors should review all information contained in the Prospectus and the Company Disclosures incorporated or deemed incorporated herein by reference.

Market data and certain industry forecasts used throughout this 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 each Offer. Any reliance placed on any projections or forecasts is a matter of commercial judgment. Certain agreements are referred to in this 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.

This Prospectus is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either the Issuer or the Underwriters, or their respective affiliates or legal advisers, that any recipient of this Prospectus should purchase the Commercial Papers. Each person contemplating an investment in the Commercial Papers should make his own investigation and analysis of the creditworthiness of SMC and his own determination of the suitability of any such investment. The risk disclosure herein does not purport to disclose all the risks and other significant aspects of investing in the Commercial Papers. A person contemplating an investment in the Commercial Papers should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially those high-risk securities. Investing in the Commercial Papers involves a higher degree of risk compared to debt instruments. For a discussion of certain factors to be considered in respect of an investment in the Commercial Papers, see the section on “*Risk Factors*” starting on page [●].

The Company owns land as identified in the section on “*Description of Property*” on page [●]. In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60.0% of whose capital is owned by such citizens. For as long as the percentage of Filipino ownership of the capital stock of the Company is at least 60.0% of the total shares outstanding and voting, the Company shall be considered as a 100.0% Filipino-owned corporation.

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE THEREBY, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

SAN MIGUEL CORPORATION

By:



RAMON S. ANG

President and Chief Operating Officer

REPUBLIC OF THE PHILIPPINES)
MANDALUYONG CITY) S.S.

JAN 21 2020

SUBSCRIBED AND SWORN to before me this _____ in Mandaluyong City, Metro Manila, affiant exhibiting to me his Passport No. P2247867B expiring on May 21, 2029 as competent evidence of identity.

Doc No.: 40;
Page No.: 9;
Book No.: III;
Series of 2020.



PAULA KATHERINA A. GAN

Commission No. 0308-19

Notary Public for Mandaluyong City

Until December 31, 2020

SMC, 40 San Miguel Ave., Mandaluyong City

Roll No. 55988

PTR No. 4324707/01/07/20; Mandaluyong City

IBP Lifetime Member No. 013353; 02/05/15, QC

MOLE Compliance No. VI-0019930; 03/20/19; Pasig City

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Forward-looking Statements

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors which may cause actual results, performance or achievements of SMC to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

The words “believe”, “expect”, “anticipate”, “estimate”, “project”, “may”, “plan”, “intend”, “will”, “shall”, “should”, “would” and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in this Prospectus as to the opinions, beliefs and intentions of the Issuer are the opinions, beliefs and intentions of the management of SMC as to such matters at the date of this Prospectus, although the Issuer can give no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section “*Risk Factors*” and elsewhere, important factors that could cause actual results to differ materially from the expectation of the Issuer. All subsequent written and oral forward-looking statements attributable to either the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by cautionary statements. Such forward-looking statements are based on assumptions regarding the present and future business strategies and the environment in which SMC will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the ability of SMC to successfully implement its strategies;
- the ability of SMC to anticipate and respond to consumer trends;
- changes in availability of raw materials used in the production processes of the SMC Group;
- the ability of the SMC Group to successfully manage its growth;
- the condition and changes in the Philippines, Asian or global economies;
- any future political instability in the Philippines, Asia or other regions;
- changes in interest rates, inflation rates and the value of the Peso against the U.S. Dollar and other currencies;
- changes in government regulations, including tax laws, or licensing requirements in the Philippines, Asia or other regions; and
- competition in the beer, liquor, food, packaging, power, fuel and oil, and infrastructure industries in the Philippines and globally.

Additional factors that could cause actual results, performance or achievements of SMC to differ materially include, but are not limited to, those disclosed under “*Risk Factors*” and elsewhere in this Prospectus. These forward-looking statements speak only as of the date of this Prospectus. SMC, the Joint Arrangers, Joint Lead Underwriters and Bookrunners and Selling Agents expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the expectations of SMC with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based.

DEFINITION OF TERMS

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

AAIBV	Atlantic Aurum Investments B.V. including as the context requires, its subsidiaries
AAIPC	Atlantic Aurum Investments Philippines Corporation
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.
AHC	Angat Hydropower Corporation
AHEPP	Angat Hydroelectric Power Plant
ALECO	Albay Electric Cooperative
APEC	Albay Power and Energy Corp.
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 CPs 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 Offer CPs, together with all the other requirements set forth in such application form.
ASEAN	The Association of Southeast Asian Nations, consisting of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.
Base Offer	Means the Offer CPs in the aggregate principal amount of Fifteen Billion Pesos (₱15,000,000,000.00) to be offered for sale and distribution by the Company for this initial series.
BDO Capital	BDO Capital & Investment Corporation.
BIR	Bureau of Internal Revenue of the Philippines.
BPI Capital	BPI Capital Corporation.

Board of Directors	Board of Directors of SMC
Bonanza Energy	Bonanza Energy Resources, Inc
BGTOM	Build-Gradual Transfer-Operate-Maintain
BOT	Build-Operate-Transfer
BOC	Bank of Commerce
BPG	Business Procurement Group
BROT	Build-Rehabilitate-Operate-Transfer
BTO	Build-Transfer-Operate
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.
CAI	Can Asia, Inc.
Can – Pack	Can-Pack S.A.
Capital Stock	With respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) of such Person’s capital stock and/or equity interest, whether outstanding on the date of the Master Trust Agreement or issued thereafter, including, without limitation, all common stock and preferred stock of such Person.
CCEC	Citra Central Expressway Corp.
Change in Law or Circumstance	Each of the events described as such under “Description of the Commercial Papers – Redemption by Reason of Change in Law or Circumstance”.
China Bank Capital	China Bank Capital Corporation.
Clean Air Act	The Philippine Clean Air Act of 1999
Clean Water Act	The Philippine Clean Water Act of 2004
CMMTC	Citra Metro Manila Tollways Corporation
Commercial Papers	Collectively, the Philippine Peso-denominated fixed rate commercial papers of up to an aggregate principal amount of ₱60,000,000,000.00, inclusive of the Offer CPs, to be issued in one or more series within the RS Effectivity Period.
Commercial Paper Agreements	Collectively, the Underwriting Agreement, the Master Trust Agreement and the Master Registry and Paying Agency Agreement, and any amendments thereto.

Consolidated EBITDA	<p>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):</p> <ul style="list-style-type: none"> (i) before any provision on account of taxation; (ii) 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; (iii) before any items treated as exceptional or extraordinary items; (iv) before any amount attributable to the amortization of intangible assets and depreciation of tangible assets; and (v) if in respect of a calculation of a financial covenant under the section entitled “Description of the Commercial Papers – Financial Ratio,” Project Debt is excluded from the determination of Consolidated Total Debt, excluding income attributable to or generated by the Ring-Fenced Subsidiaries, and so that no amount shall be included or excluded more than once.
Consolidated Net Debt	At any date, the Consolidated Total Debt less the aggregate amount (without duplication) of freely available, unencumbered cash and cash equivalents on the consolidated balance sheet of the Group at such time.
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.
Consolidated Total Equity	The consolidated total assets minus consolidated total liabilities plus deposit for future subscription (without double counting any amounts) as reported in the consolidated financial statements of the Company and excluding all amounts attributable to or generated by the Ring-Fenced Subsidiaries.
Consolidated Total Interest Expense	The total Interest Expense per consolidated financial statements of the Company less interest due on the Project Debt.

Controlling Stockholders	(a) Top Frontier Investment Holdings, Inc., (b) Privado Holdings, Corp. and (c) any Affiliate of, or any Person who is a Related Person with respect to, those mentioned in (a) or (b) above.
CTCII	Cypress Tree Capital Investments, Inc.
DA	Department of Agriculture of the Philippines
Daguma	Daguma Agro Minerals, Inc.
Debt	<p>Any indebtedness of a Person for or in respect of:</p> <ul style="list-style-type: none"> (i) all obligations of such Person for borrowed money; (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (iii) 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; (iv) all obligations of such Person as lessee which are capitalized in accordance with PFRS; (v) 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; (vi) 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 the Maturity Date of the applicable series; or (ii) redeemable at the option of the holder thereof or any other Person at any time prior to the Maturity Date of the applicable series 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 the Maturity Date of the applicable series; (vii) 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; (viii) all Debt of others Guaranteed by such Person; (ix) all indebtedness of such Person for or in respect of receivables sold or discounted (other than on a non-recourse basis); and (x) 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.

DENR	Department of Environment and Natural Resources of the Philippines
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 Master 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 Master Trust Agreement and the Master Registry and Paying Agency Agreement; or (b) communicating with other relevant parties (including, but not limited to, the Trustee and Registrar and Paying Agent) in accordance with the terms of the Master Trust Agreement and the Master Registry and Paying Agency Agreement.
Distribution Code	The Philippine Distribution Code
DOE	Department of Energy of the Philippines
DOH	Department of Health of the Philippines, including the FDA
DOTr	Department of Transportation of the Philippines
DPWH	Department of Public Works and Highways of the Philippines
DTI	Department of Trade and Industry of the Philippines
EBITDA	Earnings before interest, taxes, depreciation and amortizations
ECA	Energy conversion agreement
ECC	Environmental Compliance Certificate
EIS	Environmental Impact Statement
EMEPMI	ExxonMobil Exploration and Production Malaysia, Inc.
EPIRA	Electric Power Industry Reform Act of 2001
ERC	Energy Regulatory Commission of the Philippines
Fahrenheit Research	Fahrenheit Research (M) Sdn. Bhd

FDA	The Food and Drug Administration of the Philippines
FDDC Act	The Philippine Foods, Drugs and Devices, and Cosmetics Act, as amended by the Food and Drug Administration Act of 2009
FIA	Foreign Investment Act of 1991
Fuso	Fuso Machine & Mold Mfg. Co. Ltd.
GDP	Gross Domestic Product
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.
Grid Code	The Philippine Grid Code.
Group	At any time, the Company and its Subsidiaries at such time.
GSMI	Ginebra San Miguel Inc., including as the context requires, its subsidiaries
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.
GWh	Giga-watt hours
Hormel	Hormel Foods International Corporation
IMF	International Monetary Fund
Interest Expense	<p>For any Relevant Period, the aggregate amount of the accrued interest, commission, fees, discounts, prepayment fees, premiums or charges and other finance payments (other than payments of principal) in respect of indebtedness paid or payable by any member of the Group in cash or capitalized in respect of that Relevant Period:</p> <ul style="list-style-type: none"> (i) including any upfront fees or costs; (ii) including the interest (but not the capital) element of payments in respect of any lease or hire purchase contract which would, in accordance with PFRS, be treated as a finance or capital lease; (iii) including any commission, fees, discounts and other finance payments payable by (and deducting any such amounts payable to) any member of the Group under any interest rate hedging arrangement;

	<p>(iv) excluding any accrued interest, commission, fees, discounts, prepayment fees, premiums or charges and other finance payments in respect of indebtedness paid or payable by any Ring-Fenced Subsidiaries; and</p> <p>(v) excluding the amount of any cash dividends or distributions paid or made by the Company in respect of that Relevant Period and in each case so that no amount shall be added (or deducted) more than once.</p>
Investors	A Person whose name appears, at any relevant time, as the registered owner of the Commercial Papers in the Registry of Investors.
IPP	Independent Power Producer
IPPA	Independent Power Producer Administrator
ISO	International Organization for Standardization
Issue Date	[●] or such other date as the Issuer and the Joint Arrangers, 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.
Issue Supplement	The document which sets out the terms and conditions for the succeeding series of the Commercial Papers.
Joint Arrangers, Joint Lead Underwriters and Bookrunners	For the Series A Commercial Papers, collectively, BDO Capital & Investment Corporation, BPI Capital Corporation, China Bank Capital Corporation, and SB Capital Investment Corporation; for the succeeding tranches of the Commercial Papers, such entities as may be appointed by the Issuer.
K-Water	Korea Water Resources Corporation
Kirin	Kirin Holdings Company, Limited
LGU	Local government unit
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.
Livestock and Poultry Feeds Act	The Philippine Livestock and Poultry Feeds Act, including its implementing rules and regulations
LPG	Liquefied petroleum gas

Magnolia	Magnolia Inc.
Majority Investors	with respect to matters affecting all Offer CPs, Investors representing more than 50% of the outstanding principal amount of the Offer CPs.
MARINA	Maritime Industry Authority of the Philippines
Master Certificate of Indebtedness	The certificate issued by the Issuer in the name of the Trustee for the benefit of the Investors 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 Master Trust Agreement.
Master Registry and Paying Agency Agreement	The Master Registry and Paying Agency Agreement dated [●], 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 CPs.
Master Trust Agreement	The Master Trust Agreement dated [●] 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.
Material Adverse Effect	In the reasonable opinion of the Majority Investors, 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 CPs and the Commercial Paper Agreements; or (ii) the validity or enforceability of the Offer CPs or any of the Commercial Paper Agreements; or (iii) the financial condition, business or operations of the Issuer taken as a whole.
Material Subsidiary	<p>At any time:</p> <p>A Subsidiary of the Issuer as of such date with respect of which:</p> <ul style="list-style-type: none"> (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:

- (i) 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);
- (ii) 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
- (iii) 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
- (iv) 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.

Maturity Date

365 days from the Issue Date or on [●], 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 principal to be paid.

MNHPI

Manila North Harbour Port, Inc.

Meat Inspection Code	The Meat Inspection Code of the Philippines
Meralco	Manila Electric Company
Metrix	Metrix Research Sdn. Bhd.
Mincorr	Mindanao Corrugated Fibreboard, Inc
MPGC	Mariveles Power Generation Corporation
MRT-7	Mass Rail Transit Line 7
MTDME	MTD Manila Expressways, Inc.
MW	Mega-watt
NAIAx	NAIA Expressway
NCR	National Capital Region of the Philippines
NGCP	National Grid Corporation of the Philippines
NPC	National Power Corporation of the Philippines
NVRC	New Ventures Realty Corporation
NYG	Nihon Yamamura Glass Company, Ltd.
Offer	The public offer for sale, distribution and issuance by the Issuer of the Offer CPs by the Issuer to eligible investors.
Offer CPs	The SEC-registered Series A Commercial Papers to be issued by SMC in the aggregate amount of up to ₱20,000,000,000.00, consisting of the Base Offer of ₱15,000,000,000.00 and the Oversubscription Option of up to ₱5,000,000,000.00. As the context may require, the term shall include Commercial Papers issued by SMC on the Issue Date pursuant to this Prospectus, and the Commercial Paper Agreements.
Offer Period	The period when the Offer CPs are publicly offered for sale, distribution and issuance by the Issuer to eligible investors, commencing at 9:00 a.m., Manila time, on [●] and end at 5:00 p.m., Manila time, on [●], or such other date as may be mutually agreed between the Issuer and the Joint Arrangers, Joint Lead Underwriters and Bookrunners.
Oil Deregulation Act	Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998
Oversubscription Option	The option that may be exercised by the Joint Arrangers, Joint Lead Underwriters and Bookrunners, in consultation with the Issuer, to offer up to an additional ₱5,000,000,000.00 Offer CPs to the investing public, to cover oversubscriptions, if any.
Oversubscription Option CP	The additional ₱5,000,000,000.00 Offer CPs to be offered to the investing public, to cover oversubscriptions, if any, pursuant to the Oversubscription Option.
Packaging Group	San Miguel Yamamura Packaging Corporation, San Miguel Yamamura Packaging International Limited and its

subsidiaries, San Miguel Yamamura Asia Corporation and Mindanao Corrugated Fibreboard Inc.

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, and all other amounts payable on the Offer CPs, to the Investors, pursuant to the Master 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 Master 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 solely managed by the Paying Agent, in trust and for the irrevocable benefit of the Investors, into which the Issuer shall deposit the amount of principal payments due on the Outstanding Commercial Papers on a relevant date and exclusively used for such purpose, the beneficial ownership of which shall always remain with the Investors.

As used in this definition, the terms “Outstanding Commercial Papers” and “Payment Account Bank” have the respective meanings given to such terms in the Master Registry and Paying Agency Agreement.

Payment Date

As the context may require, the Maturity Date for the Offer CPs, and/or the relevant Redemption Date.

PCCI

Philippine Commercial Capital, Inc.

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

The Philippine Depository & Trust Corporation

PEMC

Philippine Electricity Market Corporation

Permit to Sell

The Certificate of Permit to Sell or Offer for Sale of Securities issued by the SEC in respect of the Commercial Papers.

Permitted Liens

Means:

- (i) Any Lien existing as of the date of the Master Trust Agreement;
- (ii) Liens for taxes or assessments or governmental charges or levies not yet delinquent or which are being contested in good faith;
- (iii) 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;

- (iv) Liens over or affecting any asset of any company which becomes a member of the Group after the date of the Master Trust Agreement, where the Lien is created prior to the date on which that company becomes a member of the Group;
- (v) Liens (not otherwise permitted in paragraphs (ii) to (iv) 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;
- (vi) 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;
- (vii) 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;
- (viii) 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:
 - a. any Debt which (subject to paragraph (2) of this definition below) is not Public Debt; or
 - b. 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 25% of the consolidated Total Assets of the Group taken as a whole;

	(ix) Liens created with the prior written consent of the Majority Investors; and
	(x) 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 (i), (vi), (vii) and (viii), or any Debt secured thereby; provided that such extension, renewal, supplements, 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.
Peso or ₱ or PHP	Philippine Peso, the lawful currency of the Republic of the Philippines
PET	Polyethylene Terephthalate
Petron	Petron Corporation including as the context requires, its subsidiaries
PFRS	Philippine Financial Reporting Standards.
PhilRatings	Philippine Rating Services Corporation.
PIDC	Private Infra Dev Corporation
PNCC	Philippine National Construction Company
PNOC	Philippine National Oil Company
PPA	Power purchase agreement
PPP	Public-Private Partnership
Price Act	Republic Act No. 7851 otherwise known as the Price Act
Privado	Privado Holdings, Corp.
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 the granting of Liens over shares in any Ring-Fenced Subsidiary.
Prospectus	The prospectus dated [●] and any amendments, supplements and addenda thereto for the offer and sale to the public of the Commercial Papers (inclusive of Offer CPs) within the RS

	Effectivity Period. As the context may require, the term includes this Issue Supplement.
PSALM	Power Sector Assets and Liabilities Management Corporation
PSC	Power supply contract
PSE	The Philippine Stock Exchange, Inc.
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.
Purchase Price	In respect of each Offer CP, an amount shall be issued at a discount to face value, payable upon submission of the duly executed Application to Purchase.
Purefoods-Hormel	The Purefoods-Hormel Company, Inc.
PVEI	PowerOne Ventures Energy Inc.
Rapid	Rapid Thoroughfares, Inc.
Record Date	As used with respect to any Payment Date, (a) two (2) Business Days immediately preceding the relevant Payment Date, which shall be the cut-off date in determining the Investors entitled to receive the principal or any amount due under the Offer CPs or (b) such other date as the Issuer may duly notify PDTC.
Redemption Date	The date when the Offer CPs are redeemed earlier than the relevant Maturity Date in accordance with the terms and conditions of the Offer CPs; 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 principal to be paid.
Redeemable Stock	Any class or series of Capital Stock of the Issuer that by its terms or otherwise is: <ul style="list-style-type: none"> (i) required to be redeemed prior to the Maturity Date of the Offer CPs; (ii) redeemable at the option of the holder thereof or any other Person at any time prior to the Maturity Date of the Offer CPs; or (iii) convertible into or exchange for (a) Capital Stock or (b) Debt of the Issuer having a scheduled maturity prior to the Maturity Date of the Offer CPs.
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 Master 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 Commercial Papers (inclusive of the Offer CPs).
Registry of Investors	The electronic registry book of the Registrar containing the official information on the Investors and the amount of the Commercial Papers 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 Master Registry and Paying Agency Agreement.
Related Person	<p>With respect to any Person means:</p> <ul style="list-style-type: none"> (i) 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 (ii) 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.
Revised Corporation Code	Republic Act No. 11032, otherwise known as the Revised Corporation Code of the Philippines
Ring-Fenced Subsidiary	<p>Any entity that satisfies the following conditions:</p> <ul style="list-style-type: none"> (i) such entity is a Subsidiary of the Issuer but not a Material Subsidiary; (ii) 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; (iii) the Issuer has delivered a written notification to the Trustee designating such entity as a Ring-Fenced Subsidiary; (iv) 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 (v) 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, <p>and each Subsidiary of any such entity shall also be a Ring-Fenced Subsidiary.</p>

RCOA	Retail Competition and Open Access
RMP-2	Petron Bataan Refinery Master Plan Phase -2 Upgrade
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.
S3HC	Stage 3 Connector Tollways Holdings Corporation
San Miguel Foods	San Miguel Foods, Inc.
Saudi Aramco	Saudi Arabian Oil Company
SB Capital	SB Capital Investment Corporation
SCCP	The Securities Clearing Corporation of the Philippines
SEC	Securities and Exchange Commission of the Philippines
Selling Agents	Means [●] 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 A Commercial Papers	The Offer CPs to be issued by the Issuer, with an aggregate principal amount of ₱15,000,000,000.00, and in case the Oversubscription Option is exercised, such additional principal amount equivalent to the Offer CPs as may have been taken up for this series, having a term beginning on the Issue Date and ending 365 days from the Issue Date or on [●], with a discount rate equivalent to [●]% per annum.
RS Effectivity Period	Subject to applicable regulations, a period of three years from the effective date of the Registration Statement within which the Commercial Papers under shelf registration may be offered and sold in one or more series.
SIDC	Star Infrastructure Development Corporation
SLEX	South Luzon Expressway
SMB	San Miguel Brewery Inc., including as the context requires, its subsidiaries
SMBIL	San Miguel Brewing International, Ltd.
SMC, the Company, the Parent Company or the Issuer	San Miguel Corporation, a corporation incorporated under the laws of the Republic of the Philippines
SMC Global Power	SMC Global Power Holdings Corp. including as the context requires, its subsidiaries
SMC Group	SMC and its subsidiaries
SMEC	San Miguel Energy Corporation

SMEII	San Miguel Equity Investments Inc.
SMELC	San Miguel Electric Corp.
SMFB	San Miguel Food and Beverage, Inc. (formerly San Miguel Pure Foods Company, Inc.), including as the context requires, its subsidiaries
SMHC	San Miguel Holdings Corp., including as the context requires, its subsidiaries
SMMI	San Miguel Mills, Inc.
SMPI	San Miguel Properties, Inc., including as the context requires, its subsidiaries
SMYAC	San Miguel Yamamura Asia Corporation
SYFMC	SMC Yamamura Fuso Molds Corporation
SMYPC	San Miguel Yamamura Packaging Corporation, including as the context requires, its subsidiaries
SMYPIL	San Miguel Yamamura Packaging International Limited
Sole Issue Manager	Philippine Commercial Capital Inc.
SPDC	Strategic Power Dev. Corp.
SPI	SMC Powergen Inc.
SPPC	South Premiere Power Corp.
SRC	Securities Regulation Code of the Philippines
SRPC	San Roque Power Corporation
SSS	Social Security System of the Philippines
STAR	Southern Tagalog Arterial Road
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.
Sultan Energy	Sultan Energy Philippines Corp.
TADHC	Trans Aire Development Holdings Corp.
Tax Code	The 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.
Top Frontier	Top Frontier Investment Holdings, Inc.

TPLEX	Tarlac–Pangasinan–La Union Expressway
Transaction Date	With respect the incurrence of any Debt, the date such Debt is incurred.
TransCo	National Transmission Corporation
TRB	Toll Regulatory Board of the Philippines
Trustee	Rizal Commercial Banking Corporation – Trust and Investment 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.
Underwriters	Underwriters that may be engaged by the Company for each series.
Underwriting Agreement	The Underwriting Agreement dated [●], 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 Arrangers, Joint Lead Underwriters and Bookrunners in relation to the first tranche of the Offer CPs.
Universal LRT	Universal LRT Corporation (BVI) Limited
USD	U.S. Dollars, the legal currency of the United States of America.
VAT	Value added tax
Vertex	Vertex Tollways Devt. Inc.
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.
WESM	Philippine Wholesale Electricity Spot Market

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information and the consolidated financial statements of the Company that appear elsewhere in this Prospectus.

San Miguel Corporation, together with its subsidiaries, (“SMC” or the “**Company**”) is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales equivalent to approximately 5.9% of the Philippine GDP in 2018 based on data from the SMC Consolidated Revenues in 2018 divided by Philippine’s total revenue sourced from Philippine Statistics Authority.

Originally founded in 1890 as a single brewery in the Philippines, SMC today owns market-leading businesses and has investments in various sectors, including beverages, food, packaging, energy, fuel and oil, infrastructure, property, car distributorship and banking services. 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 nation. The common shares of SMC were listed on the Manila Stock Exchange (now The Philippine Stock Exchange, Inc., the “**PSE**”) on November 5, 1948 and as of December 27, 2019, SMC had a market capitalization of ₱390,959 million, with a common share price of ₱164.00.

SMC, through its subsidiaries and affiliates, has become a market leader in its businesses in the Philippines with an extensive portfolio of products that include beer, spirits, 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, SMC contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers.

Since adopting its business diversification program in 2007, SMC has channelled its resources into what it believes are attractive growth sectors, which are aligned with the development and growth of the Philippine economy. SMC believes that continuing this strategy and pursuing growth plans within each business 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. The consolidated sales, gross profit and EBITDA of SMC for the year ended December 31, 2018 were ₱1,024,943 million, ₱199,195 million and ₱157,887 million and for the nine months ended September 30, 2019 were ₱758,634 million, ₱152,050 million and ₱123,000 million, respectively.

SMC’s five key business groups, most of which are market leaders in their respective industries, include the following (1) food and beverage; (2) packaging; (3) fuel and oil; (4) energy; and (5) infrastructure. In addition, SMC has investments in other businesses such as property development and leasing, car distributorship and banking services. Each of these key business groups and the primary entities through which such businesses are conducted are summarized below.

Food and Beverage

On June 29, 2018, SMC completed the consolidation of its beer and non-alcoholic (“**NAB**”) businesses, spirits and food businesses through its subsidiary, San Miguel Food and Beverage, Inc. (“**SMFB**”, formerly San Miguel Pure Foods Company, Inc., and such consolidation, the “**SMFB Consolidation**”).

SMFB is a leading food and beverage company in the Philippines. The brands under which SMFB produces, markets and sells its products are among the most recognizable and top-of-mind brands in the industry and hold market-leading positions in their respective categories. Key brands in the SMFB portfolio include *San Miguel Pale Pilsen*, *San Mig Light*, and *Red Horse* for beer, *Ginebra San Miguel* for gin, *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* and *Purefoods Tender Juicy*, for refrigerated prepared and processed meats and canned meats, *Star* and *Dari Crème* for margarine and *B-Meg* for animal feeds.

SMFB has three primary operating divisions—(i) beer and NAB, (ii) spirits, and (iii) food. SMFB operates its beverage business through San Miguel Brewery Inc. and its subsidiaries (“**SMB**” or the “**Beer and NAB Division**”) and Ginebra San Miguel Inc. and its subsidiaries (“**GSMI**” or the “**Spirits Division**”). The food business (the “**Food Division**”) is managed through a number of other subsidiaries, including San Miguel Foods, Inc. (“**San Miguel Foods**”), Magnolia, Inc., and The Purefoods-Hormel Company, Inc. (“**Purefoods-Hormel**”). SMFB serves the Philippine archipelago through an extensive distribution and dealer network and exports its products to almost 60 markets worldwide.

SMFB is listed on the PSE under stock code “FB” and as of December 27, 2019, had a market capitalization of ₱502,284 million, with a common share price of ₱85.00. As of September 30, 2019, SMC’s ownership in SMFB was 88.76%.

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”) and its subsidiaries, San Miguel Yamamura Packaging International Limited (“SMYPIL”) and its subsidiaries, San Miguel Yamamura Asia Corporation (“SMYAC”), SMC Yamamura Fuso Molds Corporation (“SYFMC”), Can Asia, Inc. (“CAI”), Mindanao Corrugated Fireboard, Inc. (“Mincorr”), and Wine Brothers Philippines Corporation, collectively the “**Packaging Group**.” The Packaging Group has one of the largest packaging operations in the Philippines producing glass containers, metal crowns and caps, plastic crates, pallets and other plastic packaging, aluminum cans, paper cartons, flexibles packaging and other packaging products and services such as beverage toll filling for PET bottles and aluminum cans. As of September 30, 2019, the Packaging Group had 35 packaging facilities located in the Philippines and in China, Vietnam, Malaysia, Australia, and New Zealand. As of September 30, 2019, SMC’s ownership interest in SMYPC was 65%.

Fuel and Oil

SMC operates its fuel and oil business through Petron Corporation (“**Petron**”), which is the largest integrated oil refining and marketing company in the Philippines and is a strong third player in the Malaysian market. Petron has a combined refining capacity of 268,000 barrels per day and refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, Petron operates a refinery in Bataan (the “**Limay Refinery**”), the largest and one of the most modernized, which the Company believes supplies approximately 30% of the country’s total fuel requirements. The Limay Refinery has a crude oil distillation capacity of 180,000 barrels per day, processing 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 common shares of Petron are listed on the PSE under stock code “PCOR”. The market capitalization of PCOR was ₱36,188 million, with a common share price of ₱3.86 as of December 27, 2019. As of September 30, 2019, SMC’s direct and indirect ownership interest in Petron was 68.26%.

Energy

SMC Global Power Holdings Corp. (“**SMC Global Power**”), together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,347 MW of combined capacity as of September 30, 2019. Following the expected commencement of commercial operations of Masinloc Power Plant Unit 3 (currently undergoing commissioning and expected to commence commercial operations in first quarter of 2020, upon receipt of its certificate of compliance from the Energy Regulatory Commission (the “**ERC**”)), SMC Global Power’s combined capacity will increase to 4,682 MW. SMC Global Power benefits from a diversified power portfolio, including natural gas, coal, renewable energy such as hydroelectric power and more recently, battery energy storage systems (“**BESS**”). Based on the total installed generating capacities reported in the ERC Resolution No. 05, Series of 2019 dated June 2019 (“**ERC Resolution on Grid Market Share Limitation**”), SMC Global Power believes that its combined installed capacity comprises approximately 20% of the National Grid, 26% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of September 30, 2019. As of September 30, 2019, SMC’s ownership interest in SMC Global Power was 100%.

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. Currently operating toll roads include the South Luzon Expressway (“**SLEX**”), Skyway Stages 1 and 2, the Southern Luzon Arterial Road tollway (“**STAR**”), the Tarlac-Pangasinan-La Union Expressway (“**TPLEX**”) and the Ninoy Aquino International Airport Expressway (“**NAIAx**”). Ongoing projects include Skyway Stages 3 and 4, the extension of SLEX – Toll Road 4 (“**SLEX-TR4**”) and the Mass Rail Transit Line 7 (“**MRT-7**”). SMHC also operates and is currently expanding the Boracay Airport and has investments in Manila North Harbour Port, Inc. (“**MNHPI**”).

and Luzon Clean Water Development Corporation (“**LCWDC**”) for the Bulacan Bulk Water Supply Project. As of September 30, 2019, SMC’s ownership interest in SMHC was 100%.

Others

Other investments of SMC include real property (development and leasing), through San Miguel Properties, Inc. (“**SMPI**”), car distributorship through SMC Asia Car Distributors Corp., and banking and bank services through Bank of Commerce (“**BOC**”).

RECENT DEVELOPMENTS

On May 10, 2019, the Company announced the acquisition by First Stronghold Cement Industries Inc., (“**FSCII**”), a wholly-owned subsidiary of San Miguel Equity Investments Inc., which in turn is a wholly-owned subsidiary of the Company, of a controlling interest in Holcim Philippines, Inc. (“**HPI**”, and such acquisition, the “**HPI Acquisition**”), a publicly listed company engaged in the manufacture, sale and distribution of cement and cementitious products and aggregates and the provision of technical support on various construction-related quality control, optimization, solutions development, and skills upgrade. As of the date of this Prospectus, the HPI Acquisition is pending the review of the Philippine Competition Commission (“**PCC**”). Upon approval of the HPI Acquisition by the PCC, FSCII is required to conduct a tender offer of the shares of HPI held by its minority shareholders pursuant to the Securities Regulation Code.

On September 12, 2019, the Board of Directors of SMC approved the purchase of 5% of San Miguel Yamamura Asia Corporation; the merger of San Miguel Yamamura Asia Corporation with San Miguel Yamamura Packaging Corporation (“**SMYPC**”), where SMYPC will be the surviving entity. With the merger, all the packaging business of SMC together with its joint venture partner, NYG will be consolidated in SMYPC. On October 23, 2019, SMC completed the acquisition of 5% of SMYPC.

On September 18, 2019, San Miguel Aerocity Inc. (“**SMAI**”) signed a concession agreement with the Philippine Department of Transportation (“**DOTr**”) for the construction, operation and maintenance of a new international airport located in Bulakan, Bulacan with a maximum capacity of up to 100 million passengers per annum. The construction period for the proposed New Manila International Airport (“**NMIA**”) project is five to seven years.

On October 4, 2019, SMC issued and listed an additional ₱10,000,000,000.00 fixed rate bonds under its ₱60,000,000,000.00 shelf registration with 5.5500% p.a due 2024. The net proceeds of the bonds may be used either to fund the redemption of the outstanding Series 2-B Preferred Shares of the Company, which redemption may be initially funded through a bridge loan, or refinancing or redenomination of existing loan obligations of the Company.

On November 5, 2019, SMC announced a consent solicitation to secure the approval of the holders of the U.S.\$800 million, 4.875% Notes Due 2023 (the “**2023 Notes**”) to the proposed amendments to certain terms and conditions of the 2023 Notes and in the trust deed of the 2023 Notes in order to align certain covenants and provisions of the 2023 Notes with the relevant covenants and provisions of SMC’s ₱10 billion retail bond and U.S.\$1.75 billion dollar-denominated syndicated term loan facility issued on October 4, 2019 and September 27, 2019, respectively. On November 28, 2019, the holders of the 2023 Notes consented to the amendments and the supplemental trust deed in respect of the 2023 Notes was entered into on November 29, 2019.

On November 5, 2019, SMC Global Power issued U.S.\$500 million senior perpetual capital securities and on November 7, 2019 redeemed the U.S.\$300 million undated subordinated capital securities issued in May 2014. On January 21, 2020, SMC Global Power issued U.S.\$600 million senior perpetual capital securities.

On November 12, 2019, SMC also announced a consent solicitation to obtain the approval of the holders of the following Philippine Peso-denominated debt securities to the proposed amendments to certain terms and conditions in the respective trust agreements of the following debt securities: 4.8243% Series A Bonds due 2022, 5.2840% Series B Bonds due 2024, 5.7613% Series C Bonds due 2027; 5.1923% Series D Bonds due 2022; 6.2500% Series E Bonds due 2023, 6.625% Series F Bonds due 2025, 7.1250% Series G Bonds due 2028; and 5.2500% Fixed Rate Notes due 2020 (collective, the “**Philippine Debt Securities**”). The proposed amendments are to align the respective covenants and provisions of the Philippine Debt Securities with the relevant covenants and provisions of SMC’s ₱10 billion retail bond and U.S.\$1.75 billion dollar-denominated syndicated term loan facility issued on October 4, 2019 and September 27, 2019, respectively. The Philippine Debt Securities are listed

and traded on the PDEX. On December 18, 2019, SMC obtained the consents required in connection with the Philippine Debt Securities consent solicitations held from November 22, 2019 to December 18, 2019.

On November 14, 2019, SMFB filed a registration statement to the Philippine SEC for its inaugural Philippine Peso denominated retail bonds of ₱15 billion and targets to issue in the first quarter of 2020.

On February 5, 2020, the Company has established a U.S.\$3,000,000,000 Medium Term Note Programme (“**MTN Programme**”) with DBS Bank Ltd. and Standard Chartered Bank as arrangers and Australia and New Zealand Banking Group Limited, Credit Suisse (Singapore) Limited, DBS Bank Ltd., Mizuho Securities Asia Limited, Standard Chartered Bank, and UBS AG Singapore Branch as dealers. Under this MTN Programme, the Company may issue notes or perpetual securities in bearer or registered form and denominated in any currency agreed between the Company and the relevant dealer.

STRENGTHS AND STRATEGIES

Strengths

SMC believes that its principal strengths include the following:

- Robust and diversified platform with broad exposure to the growth of the Philippine economy
- Market leading positions in key Philippine industries
- Operating businesses provide sustainable stream of income and cash flows
- Well-positioned for significant future growth
- Synergies across businesses
- Cohesive and experienced management team

Strategies of SMC

The principal strategies of SMC include the following:

- Enhance value of established businesses
- Prudently diversify into industries that underpin the development and growth of the Philippine economy
- Identify and pursue synergies across businesses through vertical integration, platform matching and channel management
- Invest in and develop businesses with leading market positions
- Strengthen sustainable business strategies in all its operations
- Adopt world-leading practices and joint development of businesses

SUMMARY OF FINANCIAL INFORMATION

Prospective purchasers of the Commercial Papers should read the summary financial data below together with the financial statements, including the notes thereto, and “Management's Discussion and Analysis of Results of Operations and Financial Condition”. The summary financial data for the 3 years ended December 31, 2018, 2017 and 2016 are derived from the audited financial statements of SMC, including the notes thereto, which are found as Appendix “B” of this Prospectus. The detailed financial information for the nine months ended September 30, 2019 and 2018 are found on Appendix “A” of this Prospectus.

The summary of financial and operating information of SMC presented below as of and for the years ended December 31, 2018, 2017 and 2016 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 PFRS. The financial and operating information of SMC presented below as of and for the nine months ended September 30, 2019 and 2018 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 Prospectus. 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,	
	2016	2017	2018	2018	2019
	(Audited)			(Unaudited)	
	(in millions except per share data)				
Consolidated Statements of Income Data					
Sales	₱685,314	₱ 826,086	₱1,024,943	761,173	758,634
Cost of sales.....	514,021	644,221	825,748	603,660	606,584
Gross profit.....	171,293	181,865	199,195	157,513	152,050
Selling and administrative expenses	(71,639)	(70,823)	(82,110)	(59,469)	(63,304)
Interest expense and other financing charges.....	(34,803)	(35,714)	(45,496)	(31,942)	(41,884)
Interest income	3,693	4,525	7,192	4,913	8,152
Equity in net earnings (losses) of associates and joint ventures.....	203	297	(289)	(11)	(14)
Gain on sale of investments and property and equipment	154	879	252	303	-
Other income (charges) - Net.....	(11,426)	154	(5,628)	(12,601)	3,965
Income before income tax.....	57,475	81,183	73,116	58,706	58,965
Income tax expense	17,053	26,369	24,468	16,803	19,270
Income from continuing operations.....	40,422	54,814	48,648	41,903	39,695
Income after income tax from discontinued operations	11,818	-	-		
Net income	₱ 52,240	₱ 54,814	₱ 48,648	₱41,903	₱39,695
Attributable to:					
Equity holders of the Parent Company ..	₱ 29,289	₱ 28,225	₱ 23,077	₱19,859	₱20,243
Non-controlling interests	22,951	26,589	25,571	22,044	19,452
	₱ 52,240	₱ 54,814	₱ 48,648	₱41,903	₱39,695
Earnings per common share from continuing operations attributable to equity holders of the Parent Company basic.....	₱ 4.49	₱ 8.78	₱ 6.61	₱6.03	₱6.19
Earnings per common share from continuing operations attributable to equity holders of the Parent Company diluted	₱ 4.49	₱ 8.77	₱ 6.61	₱6.03	₱6.19

	As of the years ended December 31,			As of the nine months ended September 30,
	2016	2017 (Audited)	2018	2019 (Unaudited)
	(in millions)			
Consolidated Statements of Financial Position Data				
Assets				
Total current assets	₱ 479,427	₱ 506,338	₱ 594,470	₱ 624,085
Total non-current assets	827,397	873,305	1,082,172	1,141,075
Total assets	<u>₱ 1,306,824</u>	<u>₱1,379,643</u>	<u>₱ 1,676,642</u>	<u>₱ 1,765,160</u>
Liabilities and Equity				
Liabilities				
Total current liabilities	₱ 379,608	₱ 361,771	₱ 433,127	₱ 408,035
Total non-current liabilities	490,435	546,810	731,568	779,720
Total liabilities	<u>₱ 870,043</u>	<u>₱ 908,581</u>	<u>₱ 1,164,695</u>	<u>₱ 1,187,755</u>
Equity				
Total equity attributable to equity holders of the Parent	₱ 279,942	₱ 300,297	₱ 337,745	₱ 339,745
Company.....Company Non-controlling interests	156,839	170,765	174,202	237,660
Total equity	<u>436,781</u>	<u>471,062</u>	<u>511,947</u>	<u>577,405</u>
Total liabilities and equity	<u>₱ 1,306,824</u>	<u>₱1,379,643</u>	<u>₱ 1,676,642</u>	<u>₱ 1,765,160</u>

	For the years ended December 31,			For the nine months ended September 30,	
	2016	2017	2018	2018	2019
	(Audited)			(Unaudited)	
	(in millions)				
Cash Flow Data					
Net cash provided by (used in):					
Operating activities.....	₱ 79,193	₱ 79,228	₱ 58,224	39,617	58,362
Investing activities.....	(23,257)	(53,624)	(194,765)	(159,431)	(66,926)
Financing activities.....	(34,147)	(22,386)	174,015	119,134	52,132
Effect of exchange rates changes in cash and cash equivalents.....	606	(298)	(397)	1,529	(901)
Net increase in cash and cash equivalents.....	22,395	2,920	37,077	849	42,667
Cash and cash equivalents at beginning of year	180,758	203,153	206,073	206,073	243,150
Cash and cash equivalents at end of period.....	₱ 203,153	₱ 206,073	₱ 243,150	₱206,922	₱285,817

OVERVIEW OF THE COMERCIAL PAPERS PROGRAM

The Issuer is offering Commercial Papers with an aggregate principal amount of up to ₱60,000,000,000. The Commercial Papers may be issued and reissued, in each case, in whole or in part and in one or more series, within the RS Effectivity Period; provided that notwithstanding any issuance or reissuance: (i) the aggregate outstanding Commercial Papers shall not exceed ₱60,000,000,000 at any given time; (ii) none of the Commercial Papers will have a term of more than 365 days; and (iii) all relevant taxes arising from each issuance and reissuance of the Commercial Papers, including, but not limited to, documentary stamp tax on the indebtedness, shall be paid by the Issuer within the prescribed period provided under applicable law.

The following sections outline the description of the Commercial Papers Program followed by specific indicative terms and conditions applicable to a particular series of the Commercial Papers.

1	Issuer	San Miguel Corporation
2	Instrument	Fixed rate Commercial Papers constituting the direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of SMC.
3	Issue Managers, Arrangers and Underwriters	Issue managers, arrangers and underwriters that may be engaged by the Company for each series of the Commercial Papers.
4	Selling Agents	Such entities as may be appointed by the Issuer for each series of the Commercial Papers in consultation with the issue managers, arrangers and underwriters.
5	Availability	The Commercial Papers may be issued and reissued, in each case, in whole or in part and in one or more series, within the RS Effectivity Period.
6	RS Effectivity Period	The period of three (3) years from the effective date of the Registration Statement of the Commercial Papers, subject to applicable regulations.
7	Method of Issue	<p>Within the RS Effectivity Period, the Company may issue or reissue, in whole or in part, the Commercial Papers covered by such Registration Statement, in one or more series under Rule 12.1.2.5 of the Implementing Rules and Regulations of the Securities Regulation Code (“SRC IRR”) provided that the outstanding amount of the Commercial Papers at any time shall not exceed ₱60,000,000,000, and each Commercial Paper shall have a term of no more than 365 days, and all relevant taxes arising from each issuance and reissuance of the Commercial Papers, including, but not limited to, documentary stamp tax on the indebtedness, shall be paid by the Issuer within the prescribed period provided under applicable law.</p> <p>The specific terms of each succeeding series (which, save in respect of the issue date, issue price, discount rate, maturity date, use of proceeds, and principal amount of such series, will be identical to the terms of the other series) will be set forth in the relevant Issue Supplement.</p>
8	Manner of Distribution	Public offering in the Philippines to eligible investors.
9	Issue Price	The Commercial Papers shall be issued at a discount to face value.
10	Purchase Price	The Commercial Papers shall be issued at a discount to face value.
11	Discount Rate	<p>The discount rate shall, for each series, be set by the Issuer in consultation with the Underwriters.</p> <p>The discount rate will be calculated on a true-discount basis.</p>

12	Issue Date	On a relevant issue date to be set by the Issuer in consultation with the Underwriters on a when and as needed basis, which should be within the RS Effectivity Period
13	Maturity Date	Up to 365 days from Issue Date
14	Reissuance	Issuer reserves the right during the validity of the Registration Statement for the Commercial Papers to (a) issue additional Commercial Papers; or (b) reissue (i) Commercial Papers that mature and are repaid on the relevant Maturity Date; or (ii) Commercial Papers that are repurchased by the Issuer on the open market (PDEx) prior to the relevant Maturity Date, <i>provided that</i> , at any time during the three-year validity of the Registration Statement, there will be no more than ₱60,000,000,000.00 in aggregate principal amount of Commercial Papers outstanding and none of the Commercial Papers will have a maturity date of more than 365 days; <i>provided further</i> , that at the maturity date of any outstanding Commercial Papers, the Issuer may re-offer and re-issue any of the Commercial Papers for another term of not more than 365 days; <i>provided further</i> , that any and all relevant taxes, including, but not limited to, documentary stamp tax on the indebtedness, shall be paid by the Issuer for each issuance and reissuance of the Commercial Papers.
15	Final Redemption	<p>The Commercial Papers shall be repaid in full (or 100% of the face value) on the relevant Maturity Date.</p> <p>In the event the 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 the accrued interest on the succeeding Business Day.</p>
16	Redemption for Taxation Reasons	If payments under the Commercial Papers 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 Commercial Papers in whole, but not in part (having given not more than sixty (60) days' nor less than thirty (30) days' prior written notice to the Trustee) at par (or 100% of the face value).
17	Taxation	<p>Interest income on the Commercial Papers is subject to a withholding tax at rates of 20%, 25% or 30% depending on the tax status of the relevant Investor 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:</p> <ul style="list-style-type: none"> (a) The withholding tax applicable on interest earned on the Commercial Papers 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 Investors 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 Investor, whether or not subject to withholding;

		<p>(d) Value-Added Tax under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337; and</p> <p>(e) Any applicable taxes on any subsequent sale or transfer of the Commercial Papers 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).</p> <p>Documentary stamp tax for the primary issue of the Commercial Papers and the execution of the Commercial Paper Agreements, if any, shall be for the Issuer's account.</p> <p>For a detailed discussion on the taxation of Commercial Papers and claims for tax exemption or preferential rates, please see the section "<i>Description of the Commercial Papers – Payment of Additional Amounts – Taxation, Tax-Exempt Status or Entitlement to Preferential Tax Rate</i>" of this Prospectus.</p>
18	Form of the Commercial Papers	The Commercial Papers shall be issued scripless and shall be maintained in electronic form with the Registrar to be appointed for the purpose.
19	Denomination	Minimum face value and increments shall be determined for each series.
20	Status of the Commercial Papers	The Commercial Papers shall constitute the direct, unconditional, unsubordinated and unsecured obligations of SMC and shall at all times rank <i>pari passu</i> and ratably without any preference or priority amongst themselves and at least <i>pari passu</i> 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).
21	Negative Pledge	The Commercial Papers will have the benefit of a negative pledge on all properties and assets of the Issuer, subject to the Permitted Liens.
22	Listing	The Issuer intends to list the Commercial Papers on PDEX on the relevant Issue Date.
23	Purchase and Cancellation	<p>The Issuer may purchase the Commercial Papers at any time in the open market or by tender or by contract at market price, in accordance with PDEX Rules, as may be amended from time to time, without any obligation to make pro rata purchases (and the Investors shall not be obliged to sell) from all Investors. Any Commercial Papers so purchased shall be redeemed and cancelled or be reissued as part of any subsequent series of the Commercial Papers Program.</p> <p>Upon listing of the Commercial Papers on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.</p>
24	Issuer Rating	<p>The Issuer has a rating of PRS Aaa as assigned by PhilRatings on February 5, 2020.</p> <p>The rating is subject to regular annual reviews, or more frequently as market developments may dictate, while any part of the CPs are outstanding.</p>
25	Registrar and Paying Agent	Philippine Depository & Trust Corp.
26	Trustee	Rizal Commercial Banking Corporation – Trust and Investment Group

27	Governing Law	Philippine law
28	Counsel to SMC	SyCip Salazar Hernandez & Gatmaitan
29	Counsel to the Joint Arrangers, Joint Lead Underwriters and Bookrunners	Picazo Buyco Tan Fider & Santos
Miscellaneous		
30	Incorporation by way of Reference	All disclosures, reports, and filings of the Company made after the date of this Prospectus 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 Prospectus. 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 Company Disclosures incorporated or deemed incorporated herein by reference.

SUMMARY OF THE OFFER OF THE OFFER CPS

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Commercial Papers. 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 and stockholders of the Issuer, the information contained in the Prospectus, the Master Trust Agreement, and the other Commercial Paper Agreements or other agreements relevant to the Offer, and to perform their own independent investigation and analysis of the Issuer and the Commercial Papers. Prospective Investors 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 substitutes for the prospective investor's independent evaluation and analysis. Prospective Investors are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Bonds. Specific references to times hereunder shall mean Philippine Standard Time.

1	Issuer	San Miguel Corporation
2	Instrument	Fixed rate Commercial Papers constituting the direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of SMC.
3	Offer Size	Base Offer: ₱15,000,000,000.00 Oversubscription Option: ₱5,000,000,000.00
4	Oversubscription Option	The Joint Arrangers, Joint Lead Underwriters and Bookrunners, in consultation with the Issuer, reserve the right to increase the size of the Offer through the exercise of the Oversubscription Option. For a detailed discussion on the Oversubscription Option, please see the section on “ <i>Plan of Distribution</i> ”.
5	The Offer	The Offer CPs will be issued as Series A Commercial Papers, with a term of 365 days due [●] 2021. The Offer CPs will be issued from the ₱60,000,000,000.00 Commercial Papers Program of SMC.
6	Use of Proceeds	The entire proceeds for this Offer will be used to partially fund the redemption of the Series 1 Preferred Shares of SMC to be redeemed on [●] at a redemption price of ₱75 per share. For a detailed discussion on the Use of Proceeds please refer to the section on “ <i>Use of Proceeds</i> ” in this Prospectus.
7	Form and Denomination of the Offer CPs	The Offer CPs 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.
8	Purchase Price	The Offer CPs shall be issued at a discount to face value.
9	Offer Period	The Offer shall commence at 9:00 a.m., Manila time, on [●] and end at 5:00 p.m., Manila time, on [●], or on such date as the Issuer and the Joint Arrangers, Joint Lead Underwriters and Bookrunners may agree upon.
10	Issue Date of the Offer CPs	[●]
11	Maturity Date	365 days from Issue Date

12	Discount Rate	[●]% per annum															
13	Issuer Rating	The Offer CPs has a rating of PRS Aaa as assigned by PhilRatings on February 5, 2020. The rating is subject to regular annual reviews, or more frequently as market developments may dictate, while any part of the CPs are outstanding.															
14	Joint Arrangers, Joint Lead Underwriters and Bookrunners	BDO Capital & Investment Corporation (“BDO Capital”), BPI Capital Corporation (“BPI Capital”), China Bank Capital Corporation (“China Bank Capital”), and SB Capital Investment Corporation (“SB Capital”).															
15	Sole Issue Manager	[●]															
16	Selling Agent	[●]															
17	Indicative Timetable	<table><tr><td>[Week of February 3, 2020]</td><td>Filing of the Registration Statement and the Prospectus with the SEC</td></tr><tr><td>[February 6, 2020 to March 17, 2020]</td><td>SEC Review Process</td></tr><tr><td>[March 17, 2020]</td><td>SEC En Bank Pre-Effective Approval</td></tr><tr><td>[March 19, 2020]</td><td>Price Setting and Allocation</td></tr><tr><td>[March 20, 2020]</td><td>Receipt of SEC Permit to Sell</td></tr><tr><td>[March 23 to March 31, 2020]</td><td>Public Offer Period</td></tr><tr><td>[April 3, 2020]</td><td>Settlement Date Issue and Listing Date</td></tr></table>		[Week of February 3, 2020]	Filing of the Registration Statement and the Prospectus with the SEC	[February 6, 2020 to March 17, 2020]	SEC Review Process	[March 17, 2020]	SEC En Bank Pre-Effective Approval	[March 19, 2020]	Price Setting and Allocation	[March 20, 2020]	Receipt of SEC Permit to Sell	[March 23 to March 31, 2020]	Public Offer Period	[April 3, 2020]	Settlement Date Issue and Listing Date
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DESCRIPTION OF THE COMMERCIAL PAPERS

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Commercial Papers. 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 and stockholders of the Company, the information contained in this Prospectus, the Master Trust Agreement, and the other Commercial Paper Agreements or other agreements, 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 Commercial Papers. Prospective Investors must make their own appraisal of the Issuer, the Commercial Papers 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 Investors are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Commercial Papers.

The registration, offer, issuance and reissuance of the Commercial Papers with an aggregate principal amount of ₱60,000,000,000.00 to be issued and reissued, in whole or in part and in one or more series under the Commercial Papers Program, was authorized by a resolution of the Board of Directors of the Company on December 5, 2019. Each series issued under the Commercial Paper Program shall be denominated alphabetically, with the initial series referred to as the “Series A Commercial Paper” and the subsequent series shall be referred to as “Series B Commercial Paper” and so on and so forth. The Issuer, in consultation with the relevant arrangers, issue managers and underwriters for a series, shall have the sole discretion to allocate the principal amount of each series of Commercial Papers among the different subseries, if any, and may opt to allocate the entire amount of each offer to one subseries only.

The initial series of Commercial Papers will be issued (the “**Offer CPs**”) with an aggregate principal amount of ₱15,000,000,000.00 with an Oversubscription Option of up to ₱5,000,000,000.00, maturing 365 days from the Issue Date or on [●], to be issued at a fixed discount rate of [●]% per annum.

On February [●], 2020, the Company filed a Registration Statement with the SEC in connection with the offer and sale to the public of the Commercial Papers up to an aggregate principal amount of ₱60,000,000,000 under a Commercial Papers Program, which shall be issuable and reissuable, in whole or in part, in one or more series.

The SEC is expected to issue an order rendering the Registration Statement effective, and a corresponding permit to offer securities for sale covering the Commercial Papers Program. The Commercial Papers shall be issued in one or more series within a period of three (3) years from the effective date of the Registration Statement of the Commercial Papers, subject to applicable regulations (the “**RS Effectivity Period**”). Within the RS Effectivity Period, the Company may issue or re-issue the Commercial Papers up to an aggregate principal amount of ₱60,000,000,000.00, in whole or in part, in one or more series, pursuant to Rule 12.1.2.5 of the implementing Rules and Regulations of the Securities Regulation Code, provided that the outstanding amount of the commercial papers shall not, at any time, exceed ₱60,000,000,000.00 and subject to the reissuance procedure herein prescribed.

The Commercial Papers shall be governed by a Master Trust Agreement (“**Master Trust Agreement**”) executed on [●] between the Issuer and Rizal Commercial Banking Corporation – Trust and Investment Group (“**Trustee**”). The Trustee has no interest in or relation to the Issuer which may conflict with the performance of its functions as Trustee for the Commercial Papers. The description of the terms and conditions of the Offer CPs set out below includes summaries of, and is subject to, the detailed provisions of the Master Trust Agreement.

A Master Registry and Paying Agency Agreement (“**Master RPAA**”) in relation to the Commercial Papers executed on [●] between the Issuer and The Philippine Depository & Trust Corporation (“**PDTC**”) as Registrar and Paying Agent. PDTC has no interest in or relation to the Issuer which may conflict with its functions as Registrar and as Paying Agent of the Commercial Papers.

Copies of the Master Trust Agreement and the Master RPAA are available for inspection during normal business hours at the specified offices of the Trustee and the Registrar, respectively. The Investors are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Master Trust Agreement and all the provisions of the Master RPAA applicable to them.

Form and Denomination

The Commercial Papers shall be issued in scripless form, in minimum denominations and multiples to be set by the Issuer for each series of Commercial Papers.

The Offer CPs shall be issued in scripless form. A Master Certificate of Indebtedness representing the Offer CPs sold in the Offer shall be issued to and registered in the name of the Trustee for the benefit of the Investors.

The Offer CPs 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 Commercial Papers will be shown in the Registry of Investors maintained by the Registrar. A notice confirming the principal amount of the Commercial Papers purchased by each Applicant in the Offer shall be issued by the Registrar to all Investors following the Issue Date. Upon any assignment, title to the Commercial Papers shall pass by recording the transfer from the transferor to the transferee in the Registry of Investors maintained by the Registrar. Settlement in respect of such transfer or change of title to the Commercial Papers, 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 Investor or the transferee, as applicable.

ISSUER RATING

The Issuer has been rated PRS Aaa 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 Commercial Papers are outstanding. After Issue Date, the Trustee shall monitor the compliance of the Commercial Papers with the regular annual reviews.

TRANSFER OF THE COMMERCIAL PAPERS

Registry of Investors

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

As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Investor 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 Commercial Papers that is effected in the Registrar's system. Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Investor as of the date thereof. Any requests of Investors for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Investor. No transfer of the Commercial Papers may be made during the period commencing on a Record Date.

Transfers and Tax Status

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

Subject to the provisions of the Master RPAA, the relevant rules, conventions and guidelines of PDEX and PDTC, a transfer or assignment of the Commercial Papers by the Investors may be done at any time, except the restricted transfers below:

- (a) transfers between persons of varying tax status;

- (b) transfers by Investors with deficient documents; and
- (c) transfers during a Closed Period. For purposes hereof, “Closed Period” means period during which the Registrar shall not register any transfer or assignment of the Commercial Papers, specifically: (i) the period of two (2) Business Days preceding the Final Redemption of the Commercial Papers; or (ii) the period when any of the Commercial Papers have been previously called for redemption.

An Investor claiming tax-exempt status is required to submit to the Registry of Investors the required tax-exempt documents as detailed in the Master RPAA upon submission of the account opening documents to the Registrar. Please see the sections on “*Description of the Commercial Papers –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 Investor, or the receipt by the Issuer, the Registrar, the Joint Arrangers, Joint Lead Underwriters and Bookrunners of documentary proof of tax-exempt status of an Investor, the Issuer may, in its sole and reasonable discretion, determine that such Investor is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the Commercial Papers. Any question on such determination shall be referred to the Issuer.

The Investors shall be responsible for monitoring and accurately reflecting their tax status in the Registry of Investors. The payment report to be prepared by the Registrar and submitted to the Issuer in accordance with the Master RPAA, which shall be the basis of payments on the Commercial Papers on any Payment Date, shall reflect the tax status of the Investors as indicated in their accounts as of the Record Date.

Secondary Trading of the Commercial Papers

The Issuer intends to list the Commercial Papers 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 Commercial Papers 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 Commercial Papers are listed on PDEX, the Offer CPs 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 Investors 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 Investors.

RANKING

The Commercial Papers 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.

REDEMPTION AND PURCHASE

Final Redemption

Unless otherwise earlier redeemed or purchased and cancelled, each of the Commercial Papers shall be redeemed at par or 100% of face value on the Maturity Date. However, if the 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, on the succeeding Business Day.

Each Investor in whose name the Commercial Papers are registered in the Registry of Investors at the close of business on the Record Date preceding any Maturity Date shall be entitled to receive the principal amount of the Commercial Papers, plus any accrued interest, net of applicable withholding taxes. In all cases, repayment of principal shall be remitted to the Investors in accordance with the terms of the Master RPAA.

Redemption for Taxation Reasons

If payments under the Commercial Papers 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 CP series in whole, and not in part only, at any time after having given not more than sixty (60) nor less than thirty (30) days' written notice to the Trustee, Registrar and Paying Agent, at par (or 100% of face value) and paid together with any accrued interest, net of applicable withholding taxes, subject to the requirements of Applicable Law; provided that if the Issuer does not redeem the Commercial Papers then all payments of principal and other amounts due in respect of the Commercial Papers 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 Investors concerned such additional amount as will result in the receipt by such Investors 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 shall secure from the Registrar an updated list of Investors as of the Record Date indicated in the notice from the Issuer and provide written notices to all registered Investors of the intended early redemption. Each Investor in whose name the Commercial Papers subject of the early redemption are registered in the Registry of Investors at the close of business on the relevant Record Date shall be entitled to receive the principal of the Commercial Papers subject of the early redemption and other amounts accrued thereon. The Issuer shall pay the Investors in accordance with the terms of the Master RPAA.

Purchase and Cancellation

The Issuer may purchase the Commercial Papers 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 Investors. Commercial Papers so purchased shall be redeemed and cancelled or may be reissued as part of any subsequent series of the Commercial Papers Program.

Upon listing of the Commercial Papers in the PDEX, the Issuer shall disclose any such transaction in accordance with the applicable PDEX disclosure rules.

Payments

The principal and all other amounts payable on the Commercial Papers shall be paid in Philippine Pesos to the Investors 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 Investors (nominated by the Investors in the Application to Purchase or as the Investor may notify the Paying Agent in writing), for onward remittance to the relevant cash settlement account of the Investor with the cash settlement bank.

The Issuer shall ensure that so long as any of the Commercial Papers remain outstanding, there shall at all times be a Paying Agent for the purposes of the Commercial Papers and the Issuer or the Paying Agent may only terminate the appointment of the Paying Agent as provided in the Master RPAA. 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 Commercial Papers is subject to a withholding tax at rates of 20%, 25% or 30%, depending on the tax status of the relevant Investor 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:

- (f) The withholding tax applicable on interest earned on the Commercial Papers 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 Investors are required to provide the Issuer through the Paying Agent their validly issued tax identification numbers issued by the BIR;

- (g) Gross Receipts Tax under Section 121 of the Tax Code;
- (h) Taxes on the overall income of any securities dealer or Investor, whether or not subject to withholding;
- (i) Value-Added Tax under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337 and Republic Act No. 10963; and
- (j) Any applicable taxes on any subsequent sale or transfer of the Commercial Papers 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 Commercial Papers and the execution of the Commercial Paper Agreements, if any, shall be for the Issuer's account.

Please see the section on "*Taxation*" in the Prospectus for a more detailed discussion on the tax consequences of the acquisition, ownership and disposition of the Commercial Papers.

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:

- (i) a current and valid BIR-certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR and addressed to the relevant applicant or Investor, confirming its exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto;
- (ii) with respect to tax treaty relief, a duly accomplished Certificate of Residence for Tax Treaty Relief (CORTT) Form or the duly prescribed certificate of residency, in lieu of the tax treaty relief application, as required under the BIR Revenue Memorandum Order (RMO) No. 08-2017, and a duly notarized, consularized or apostilled, if executed outside the Philippines, Special Power of Attorney executed by the Investor in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Investor is not doing business in the Philippines to support the applicability of a tax treaty relief;
- (iii) a duly notarized undertaking executed by (1) the corporate secretary or any authorized representative of such applicant or Investor, who has personal knowledge of the exemption based on his official functions, if the applicant purchases, or the Investor holds, the Commercial Papers for its account, or (2) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Commercial Papers 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 of any suspension or revocation of the tax exemption certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Master RPAA, 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; and
- (iv) 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 withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Investor's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Investor is not doing business in the Philippines; 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 Investor on the interest payments to such Investor; 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, subject to the submission by the Investor claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar;

The foregoing requirements shall be submitted, (i) in respect of an initial issuance of Commercial Papers, to the Joint Arrangers, Joint Lead Underwriters and Bookrunners or Selling Agents (if any) who shall then forward the same with the Application to Purchase to the Registrar; or (ii) in respect of a transfer from an Investor to a purchaser, to the Registrar upon submission of the account opening documents.

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 to Consolidated Total Equity to be equal to or less than 2.10x, and Consolidated EBITDA to Consolidated Total Interest Expense to be equal to or more than 2.00x.

Negative Pledge

The Issuer will not, and shall procure that none of its Material Subsidiaries shall, without the consent of the Majority Investors, (a) create, assume, incur or suffer to exist any Lien upon any of its properties or assets; and (b) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or reacquired 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 Commercial Papers and the Master Trust Agreement:

- (a) the Issuer defaults in the payment when due of any amount payable to the Investors under the Master 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 five (5) 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 Master 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 thirty (30) Days (or such longer curing period granted to the Issuer by the Majority Investors) from the date after written notice thereof shall have been received by the Issuer from 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 Master Trust Agreement or otherwise in connection with the Master Trust Agreement, or in any certificate delivered by the Issuer under or in connection with the Master 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 U.S. \$50 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 ninety (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 all or substantially all of 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 ninety (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 thirty (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 five (5) Business Days after receipt of written notice from the Issuer or the Majority Investors of the occurrence of an Event of Default, give to all the Investors 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 Commercial Papers – Events of Default*”) the Trustee shall immediately notify the Investors 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 Investors, by notice in writing delivered to the Issuer, or (ii) the Majority Investors, 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 Commercial Papers then outstanding, together with all accrued and unpaid interest thereon and all amounts due thereunder, to be due and payable not later than five (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 Master RPAA. Thereupon, the Issuer shall make all payments due on the Commercial Papers in accordance with the Master RPAA.
- (b) All the unpaid obligations under the Commercial Papers, 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 Commercial Papers, 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 six percent (6%) 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 Master 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 Commercial Papers by the Majority Investors, then in any such case:

- (a) the Issuer will pay the Investors, through the Paying Agent, the whole amount which shall then have become due and payable on such outstanding Commercial Papers with interest at the rate borne by the Commercial Papers 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 Commercial Papers on behalf of the Trustee; and/or
 - (ii) deliver all evidences of the Commercial Papers and all sums, documents and records held by them in respect of the Commercial Papers 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 Master RPAA, apply any money received from the Issuer pursuant to this section in the order of preference provided in the “*Description of the Commercial Papers – 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 Master Trust Agreement relating to the disposition of such money and funds or to the Master RPAA, 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 Commercial Papers.
- (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 Investors reflected in the relevant registry account to be provided by the Registrar and Paying Agent in accordance with the Master RPAA.
- (c) *Third:* to the payment of the principal amount of the Commercial Papers then due and payable based on the information on Investors reflected in the relevant registry account to be provided by the Registrar and Paying Agent in accordance with the Master RPAA.
- (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 Commercial Papers shall prescribe unless the claim is made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

Remedies

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

No delay or omission by the Trustee or the Investors 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 Master Trust Agreement to the Trustee or the Investors may be exercised from time to time and as often as may be necessary or expedient.

Ability to File Suit

No Investor shall have any right by virtue of or by availing of any provision of the Master Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer under the Master 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 Investor 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 Investors to take up matters related to their rights and interests under the Commercial Papers in accordance with the provisions on notice of default (See *Description of the Commercial Papers – Notice of Default*); (ii) the Majority Investors 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 sixty (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 Investors, it being understood and intended, and being expressly covenanted by every Investor with every other Investor and the Trustee, that no one or more Investors shall have any right in any manner whatever by virtue of or by availing of any provision of the Master Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Commercial Papers or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right

under the Master Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Investors.

Waiver of Default by the Investors

The Majority Investors 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 Investors 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 Investors shall be restored to their former positions and rights under the Master 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 Investors shall be conclusive and binding upon all Investors 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 Commercial Papers.

SUBSTITUTION

Substitution of the Commercial Papers is not contemplated.

TRUSTEE AND NOTICES

The following discussion is qualified by the more detailed information as contained in the Master 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
Philippines

Attention: Ryan Roy W. Sinaon

Telephone No.: (+632) 8877-7222 (8877-RCBC)

Facsimile: (+632) 8878-3377

Email: customercontact@rcbc.com / 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; 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 Investors

The Trustee shall send all notices to Investors to their mailing address as set forth in the Registry of Investors. Except where a specific mode of notification is provided for in the Commercial Paper Agreements, notices to Investors 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 two (2) consecutive weeks in at least two (2) newspapers of general circulation in the Philippines; (iv) personal delivery to the address of record in the Registry of Investors; or (v) disclosure through the Online Disclosure System of the PDEx. The Trustee shall rely on the Registry of Investors in determining the Investors entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (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.

A notice made by the Issuer to the Trustee is notice to the Investors. 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 Commercial Papers shall be deemed a notice to the Investors of said matter on the date of the first publication.

Duties and Responsibilities of the Trustee

- (a) The Trustee is appointed as trustee for and on behalf of the Investors and accordingly shall perform such duties and shall have such responsibilities as provided in the Master Trust Agreement. The Trustee shall, in accordance with the terms and conditions of the Master 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 Master Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Master 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 Investors, and to whom the Investors 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 Master 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 Master Trust Agreement and this Prospectus 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 Master Trust Agreement.

Resignation and Change of Trustee

- (a) The Trustee may at any time resign by giving ninety (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, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within thirty (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 Investor who has been a bona fide holder for at least the immediately preceding six (6) months may, for and in behalf of the Investors, 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 Master 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 Master Trust Agreement, then the Issuer may within thirty (30) days therefrom remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor trustee, any bona fide Investor for at the least the immediately preceding six (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 Investors may at any time remove the Trustee for cause, 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 Investors, which removal shall take effect thirty (30) days from receipt of such notice by the Trustee; provided, that if no successor trustee shall have been appointed within ninety (90) days from the receipt of the Issuer of the required evidence of the action taken, the Majority Investors may appoint a successor trustee without the consent of the Issuer. This is without prejudice to whatever remedies may be available to the Majority Investors 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 Master Trust Agreement shall become effective upon the earlier of: (i) the acceptance of appointment by the successor trustee as provided in the Master Trust Agreement; or (ii) the effectivity of the resignation notice sent by the Trustee under the Master 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 Master 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 Investors 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 Investors within ten (10) days after the acceptance of appointment by the successor trustee, the latter shall cause the Investors to be notified at the expense of the Issuer.

Reports to the Investors

The Trustee shall submit to the Investors on or before March 1 of each year from the Issue Date until full payment of the Commercial Papers 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 Investors 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 Master Trust Agreement which it has not previously reported and which in its opinion materially affects the Commercial Papers, 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 Investors a brief report within ninety (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 Investors 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 ten percent (10%) of the aggregate outstanding principal amount of the Commercial Papers 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 Master Trust Agreement
- (b) the Master RPAA
- (c) the articles of incorporation and by-laws of the Company
- (d) the Registration Statement of the Company with respect to the Commercial Papers (including the Commercial Papers) with this Prospectus

MEETINGS OF THE INVESTORS

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

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

Notice of Meetings

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

Unless otherwise provided in the Master Trust Agreement, the Trustee shall give notice of every meeting of the Investors (which notice must set forth the time, place, and purpose of such meeting in reasonable detail) to the Issuer and each of the registered Investors not earlier than forty-five (45) days nor later than fifteen (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 Investors entitled to notice and vote during the meeting, which record date shall not be earlier than forty-five (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 ten (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 Investors 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 Investors within five (5) Business Days from receipt of such request shall entitle the requesting party to send and publish the appropriate notice of Investors' meeting and fix the record date for determining the Investors entitled to attend and vote in accordance with the procedure set forth under "*Description of the Commercial Papers – 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 Investors, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Investors. The Trustee shall determine and record the presence of the Majority Investors based on the list of Investors prepared by the Registrar in accordance with the Master RPAA (which list shall include all information necessary to the performance of the duties and powers of the Trustee under the Master Trust Agreement, such as, but not limited to, specimen signatures of the Investors' authorized signatories). 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 Investors, unless the meeting shall have been called by the Issuer or by the Majority Investors as provided under "*Description of the Commercial Papers – Failure of the Trustee to Call a Meeting*" in which case the Issuer or the Majority Investors 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 Investors entitled to vote at the meeting and/or the Person appointed in writing by a public instrument as proxy or agent by any such Investor in accordance with the procedure set forth in "*Description of the Commercial Papers – 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 Investors upon receipt of written request.
- (b) Any meeting of the Investors may be adjourned from time to time for a period or periods not to exceed in the aggregate one (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 Commercial Papers 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 Investors, a Person should be a registered holder of the Commercial Papers as reflected in the Registry of Investors on the relevant record date fixed by the Trustee, the Issuer or the Majority Investors (as the case may be), or a Person appointed in writing by a public instrument as proxy or agent by any such Investor (and, in case of corporate or institutional Investors, 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. Investors 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 Investors 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 Commercial Papers - Amendments*", all matters presented for resolution by the Investors in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Investors (present or represented in a meeting at which there is a quorum). Any resolution of the Investors which has been duly approved with the required number of votes of the Investors as herein provided shall be binding upon all the Investors and the Trustee as if the votes were unanimous.

Role of the Trustee in Meetings of the Investors

Notwithstanding any other provisions of the Master Trust Agreement, the Trustee may make such reasonable regulations (not inconsistent with the Master Trust Agreement) as it may deem advisable for any meeting of the Investors, with regard to proof of ownership of the Commercial Papers, the appointment of proxies by the Investors, 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 Investors

Wherever in the Master Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Commercial Papers 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 Investors 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 Investors duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Investors.

Non-Reliance

Each Investor represents and warrants to the Trustee 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 Issue on the basis of such documents and information it has deemed appropriate and that it has subscribed to the Commercial Papers and on the basis of such independent appraisal, and each Investor represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee or the Issuer. The Investors 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 Master 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 Investors or other parties, amend or waive any provisions of the Master 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 Investors; provided, further, that all Investors are notified of such amendment or waiver.

With the consent of the Majority Investors, 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 Master Trust Agreement for the purpose of adding any provision to or changing in any manner or eliminating any of the provisions of the Master Trust Agreement; provided, that no such supplemental agreement shall:

- (a) without the consent of all Investors affected thereby: (i) extend the maturity date of the Commercial Papers; or (ii) reduce the principal amount of the Commercial Papers; or (iii) reduce the rate or extend the time of payment of interest and principal thereon;
- (b) impair the right of any Investor to (i) receive payment of principal of and interest on the Commercial Papers on or after the due dates therefore or (ii) to institute suit for the enforcement of any payment on or with respect to such Investor;
- (c) affect the rights of some of the Investors without similarly affecting the rights of all the Investors;
- (d) make any Commercial Paper payable in money other than that stated in the Commercial Paper;
- (e) subordinate the Commercial Papers 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 Investors;
- (g) reduce the percentage of the Investors required to be obtained under the Master Trust Agreement for their consent to or approval of any supplemental agreement or any waiver provided for in the Master Trust Agreement, without the consent of all the Investors; 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 Investors 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 Investors and upon all future holders and owners of the Commercial Papers or of any Commercial Papers issued in lieu thereof or in exchange therefor, irrespective of whether or not any notation of such consent is made upon the Commercial Papers.

GOVERNING LAW

The Commercial Paper 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 Commercial Papers or the Master Trust Agreement shall be brought in any competent court 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 Investors expressly waiving other venue.

WAIVER OF PREFERENCE

The obligations created under the Commercial Paper Agreements and the Commercial Papers 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 this instrument 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.

RISK FACTORS

Prior to making any investment decision, prospective investors should carefully consider, among other things, the risks described below, as well as the other information contained in this Prospectus. Any of the following risks could materially adversely affect the business, financial condition or results of operations of the Company and, as a result, investors could lose all or part of their investment. The risks below are not the only risks the Company faces. Additional risks and uncertainties not currently known to the Company, or that it currently deems to be immaterial may also materially adversely affect the business, financial condition or results of operations of the Company. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this section.

The Company believes that the factors described below represent the principal risks inherent in investing in the CPs, but the Company's inability to pay any amounts on or in connection with the CPs may occur for other reasons which may not be considered significant risks by the Company based on information currently available to it or which it may not currently be able to anticipate, and the Company does not represent that the statements below regarding the risks of holding any CPs are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any document incorporated by reference) and reach their own views prior to making any investment decision. In making an investment decision, each investor must rely on its own examination of the Company and the terms of the offering of the CPs.

RISKS RELATING TO SMC AND THE SMC GROUP

Diversification of businesses and acquisition of new businesses

The traditional core businesses of SMC comprise beverage, food and packaging products. Since embarking on its diversification strategy in 2007, SMC has expanded its businesses to include fuel and oil, energy and infrastructure, among others. SMC implemented this strategy through a series of acquisitions and investments and intends to continue to pursue this diversification strategy through further acquisitions and investments to enhance its product and brand portfolio, and realize other strategic and cost benefits.

The diversification strategy of SMC involves a number of risks and challenges, including substantial financial investments, the diversion of management's time and resources, and managing a broader scope of businesses and risks inherent in making new acquisitions and investments. Growth through acquisitions involves business risks, including unforeseen contingent risks, latent business liabilities, and other challenges that may only become apparent after the acquisition is finalized, such as the successful integration and management of the acquired business by SMC, retention of key personnel, joint sales and marketing efforts, and management of a larger business. In addition, there is no assurance that SMC will achieve the anticipated benefits, expected returns, strategic benefits or synergies of an acquisition, or that SMC will be as successful in new businesses as it has been in its traditional core businesses. Failure to successfully implement its diversification strategy, to integrate acquired businesses or to realize the anticipated benefits of acquisitions or investments could materially and adversely affect the business, financial condition, results of operations, and prospects of SMC.

Ability of the largest shareholders to influence corporate actions

Top Frontier Investment Holdings, Inc. ("**Top Frontier**") and Privado Holdings, Corp. ("**Privado**") are the major shareholders of SMC and hold approximately 65.99% and 15.67% of the common shares of SMC, respectively, and collectively control approximately 81.66% of the voting rights of the common shares of SMC, as of September 30, 2019. Top Frontier and Privado are able to influence the businesses of SMC through their ability to vote on corporate actions that require Board and shareholder approval. Top Frontier and Privado are not obligated to provide SMC with financial support. The interests of Top Frontier and Privado may differ from those of the holders of the CPs or of the other shareholders of the Company, which may, as a result, adversely affect the interests such holders. There can be no assurance that any conflicts of interest among holders of CPs or other shareholders of the Company, Top Frontier and Privado will be resolved in favour of such holders, or that Top Frontier and Privado will influence SMC to pursue actions that are in the best interests of such holders.

Possible disagreements with partners of SMC

Some of the businesses of SMC are conducted through joint ventures with other partners, including Kirin Holdings Company Limited for beer, Hormel Netherlands B.V. for processed meats, Korea-Water Resources Corporation ("**K-Water**") for the Angat Hydroelectric Power Project ("**AHEPP**") and Nihon Yamamura Glass Co. Ltd. ("**NYG**"), Fuso Machine & Mold Manufacturing Co. Ltd. ("**Fuso**") and Can Pack SA ("**Can-Pack**") for

packaging products. Cooperation among partners on business decisions is crucial to the sound operation and financial success of these joint venture companies. While the SMC Group believes that it maintains good relationships with its partners, there can be no assurance that these relationships will be sustained in the future or that problems will not develop. For example, such partners may be unable or unwilling to fulfill their obligations, take actions contrary to SMC's policies or objectives, or may experience financial difficulties. If any of these events occur, the businesses of these subsidiaries could be severely disrupted, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on trademarks and proprietary rights

The SMC Group uses various brand names and trademarks, including *San Miguel*, *Ginebra San Miguel*, *Purefoods*, *Magnolia*, *Star*, *Dari Crème*, *B-Meg*, *La Pacita*, *Petron*, *Gasul* and other intellectual property rights to prepare, package, advertise, distribute and sell its products for its various businesses. Protection of those brands and intellectual property rights is important to maintaining the distinctive corporate and market identities of the SMC Group. If third parties sell products which use counterfeit versions or otherwise look confusingly similar to SMC Group brands, consumers may mistake products of the Company with those that they consider to be inferior. This could negatively affect the brand image and sales of the SMC Group, particularly in the beverage and food businesses. In addition, the SMC Group has been granted numerous trademark registrations covering its brands and products, and has filed, and expects to continue to file, trademark applications seeking to protect newly developed brands and products.

There is no assurance that third parties will not challenge, violate or attempt to infringe any existing or future trademarks issued to, or licensed by, the SMC Group. Any failure to protect the proprietary rights of the SMC Group could severely harm its competitive position, which could materially and adversely affect the business, financial condition, results of operations, and prospects, as well as reputation, of the SMC Group. In addition, certain intellectual property rights used by the SMC Group are licensed and there is no assurance that the relevant licensors will agree to renew the licenses on terms acceptable to the SMC Group or at all. The failure to renew one or more of its material licenses could have a material adverse effect on the ability of the SMC Group to market certain products and on the results of operations of the SMC Group.

Availability of financing

The expansion and growth plans of the SMC Group are expected to be funded through a combination of internally generated funds and external fund raising activities, including debt and equity financing. The continued access of the SMC Group to debt and equity financing as a source of funding for new projects and acquisitions and for refinancing maturing debt is subject to many factors including: (i) Philippine regulations limiting bank exposure to a single borrower or related group of borrowers; (ii) the compliance of SMC Group with existing debt covenants, which include debt to equity ratio and debt service coverage ratio covenants; (iii) the ability of the SMC Group to service new debt; and (iv) perceptions in the capital markets regarding the SMC Group and the industries in which it operates, and other factors, including general conditions in the debt and equity capital markets, which are outside of its control. Political instability, an economic downturn, social unrest, or changes in the Philippine regulatory environment could increase the cost of borrowing for the SMC Group or restrict its ability to obtain debt financing.

In addition, certain subsidiaries of SMC have significant finance lease obligations, long-term debt, and have issued perpetual capital securities.

As of September 30, 2019, the noncurrent liabilities of SMC included finance lease liabilities (net of current portion) of ₱122,246 million and long-term debt (net of current maturities and debt issue costs) of ₱610,306 million. As of September 30, 2019, the current liabilities of SMC included accounts payable of ₱138,089 million and finance lease liabilities (current portion) of ₱24,319 million.

There is no assurance that the SMC Group will be able to arrange and obtain additional financing when needed on commercially acceptable terms or at all. Any additional debt financing may place restrictions on the Company, which may, among others:

- increase vulnerability to general adverse economic and industry conditions;
- limit ability to pursue growth plans;

- limit ability to raise additional financing and access credit or equity markets to satisfy its repayment obligations as they become due on favourable terms, or at all;
- require the Company to dedicate a substantial portion of cash flow from operations to payments on debt and capital securities, thereby reducing the availability of its cash flow to fund capital expenditure, working capital requirements, and other general corporate purposes; and/or
- limit its flexibility in planning for, or reacting to, changes in its business and its industry, either through the imposition of restrictive financial or operational covenants or otherwise.

Any inability of the SMC Group to obtain financing from banks and other financial institutions or from the capital markets would adversely affect the ability of the SMC Group to execute its expansion and growth strategies, as well as its financial condition and prospects.

Changes in the legal and regulatory environment

The businesses and operations of the SMC Group are subject to a number of national and local laws, rules and regulations governing several different industries both in the Philippines and in other countries where it conducts its businesses. While each industry where the SMC Group operates has specific regulatory risks, the one common factor among these is that the political and regulatory landscape is continually evolving, and the SMC Group is required to continuously assess and ensure it is up to date with the demands of regulatory compliance. These laws and regulations require the Company to obtain and maintain several approvals, licenses, and permits from various entities such as the Philippine Food and Drug Association (“**FDA**”), the Philippine Department of Environment and Natural Resources (“**DENR**”), the Philippine Energy Regulatory Commission (the “**ERC**”), the Philippine Department of Trade and Industry (“**DTI**”), and the Philippine Department of Transportation (“**DOTr**”), among others. Additionally, the Company may need to apply for more approvals, licenses, and permits and renew such approvals, licenses, and permits that may expire from time to time. In addition, there is no assurance that the Company will not be subject to new licensing requirements in the future or that it will be able to obtain and/or maintain such approvals, licenses or permits in a timely manner, or at all, or that it will not become subject to any regulatory action on account of not having obtained or renewed such approvals, licenses, and permits.

For example, SMC Global Power is subject to extensive regulation in the Philippines, including the Electric Power Industry Reform Act of 2001 (“**EPIRA**”). The enactment and implementation of any such bills or amendments to the EPIRA or other changes to Philippine laws and regulations relevant to the power industry, could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power, or on the rules and regulations governing the power industry, which could materially reduce sales and profitability. For the toll road business, the approval of the Toll Regulatory Board of the Philippines (“**TRB**”), which is under DOTr, is necessary before a toll road concessionaire may implement a toll road increase. In 2017, the TRB approved the toll rate increase for the STAR Tollway, of which 50% of the toll rate increase has been implemented in November 2017.

There can be no assurance that future laws, regulations and/or standards will not have a material adverse effect on the Company. In particular, the enactment and implementation of any such bills or amendments to the National Internal Revenue Code of 1997, as amended (the “**Philippine Tax Code**”), or other changes to Philippine laws and regulations relevant to the food and beverage, packaging, fuel and oil, power, and infrastructure industries, could increase the Company’s costs and have a material adverse effect on the business, financial condition and results of operations. In addition, the Philippine government may periodically implement measures aimed at protecting consumers from rising prices, which may constrain the ability of the SMC Group to pass on price increases to distributors who sell its products, as well as its customers. Implementation of any such measures could have a material adverse effect on the business, financial condition and results of operations of the SMC Group.

Increases and changes in applicable taxes, taxation laws and tax incentives

The businesses and operations of the SMC Group are subject to various taxes, including VAT, excise taxes, duties and tariffs in the Philippines and in other countries where it conducts its businesses. An increase in prices due to additional taxes may affect demand for its products in the Philippines.

On September 9, 2019, the House of Representatives of the Philippines approved on third and final reading House Bill No. 304, or the Passive Income and Financial Intermediary Taxation Act (“**PIFITA**”). The PIFITA bill

provides for, among others, a reduction in the tax rates on interest income from yield or any other monetary benefit earned or received from bank deposits, deposit substitutes, trust fund and similar arrangements from the current 20% to 15%, and an increase in the tax rate on cash and/or property dividends from the current 10% to 15%. In addition, the PIFITA bill provides for the rationalization of documentary stamp taxes. In the event the PIFITA bill is enacted, the amount required to be grossed up by the Company will increase. To date, the House of Representatives is still awaiting the Senate's action on the PIFITA Bill.

On September 13, 2019, the House of Representatives of the Philippines also approved on third and final reading House Bill No. 4157, or the Corporate Income Tax and Incentives Rationalization Act (“CITIRA”). The CITIRA bill provides for the application of lower corporate income taxes. However, the CITIRA bill also provides for the reduction, suspension or cancellation of fiscal incentives for corporations under certain circumstances. If the bill is passed into law, the fiscal incentives currently enjoyed by the Company and/or its subsidiaries may be adversely affected. To date, the House of Representatives is still awaiting the Senate's action on the PIFITA and CITIRA bills.

Increases in excise tax, changes in the applicable tax regime or other taxes and incentives to which the SMC Group is subject, or the imposition of new taxes on its operations or products, including those which may result from ongoing tax reforms by the Government may, (i) if passed on to the consumers by way of upward price adjustments, reduce consumption of SMC Group products, (ii) if prices remain unchanged, reduce margins, or (iii) if additional taxes are not fully passed on to the consumers, have both said effects. Thus, as with other Philippine companies engaged in similar businesses, these may materially and adversely affect the Company's business, financial condition, and results of operations.

There can be no assurance that any pending tax legislation or future changes in the tax regime in the Philippines would not have a material and adverse effect on the Company's business, financial condition, and results of operations.

Compliance with and renewal of licenses, permits and other authorizations

The SMC Group is required to maintain licenses, permits and other authorizations for the operations of its businesses, including business permits and permits concerning, for example, health and safety, and environmental standards. These licenses, permits and other authorizations contain various requirements that must be complied with to keep such licenses, permits and other authorizations valid. If the SMC Group fails to meet the terms and conditions of any of our licenses, permits or other authorizations necessary for operations, these operations may be suspended or terminated.

While the Company believes, to the best of its knowledge, that it has, at all relevant times, materially complied with all applicable laws, rules and regulations and has established a strong compliance culture to ensure that all requirements, permits, and approvals are obtained in a timely manner, there is no assurance that changes in laws, rules or regulations or the interpretation thereof by relevant government agencies, will not result in the Company having to incur substantial additional costs or capital expenditures to upgrade or supplement its existing facilities, or being subject to an fines and penalties. The measures implemented by SMC to comply with laws and regulations may also be deemed insufficient by governmental authorities. If the Company fails to comply, or is deemed to be non-compliant with any applicable laws or regulations, the SMC Group may be subject to penalties, which could disrupt its operations and have a material adverse effect on its business and results of operations. Potential liabilities for such non-compliance with the legal requirements or violations of prescribed standards and limits under these laws include administrative, civil, and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, that could limit or affect its operations such as orders for the suspension and/or revocation of permits or licenses or suspension and/or closure of operations. There can be no assurance that the Company will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings, the costs of which could be material. In the event that the Company becomes involved in any future litigation or other proceedings or is subject to any adverse rulings or decisions, such events may materially and adversely affect its business, financial condition, and results of operations.

There can be no assurance that the SMC Group will continue to be able to renew the necessary licenses, permits, and other authorizations as necessary or that such licenses, permits, and other authorizations will not be revoked. If the Company is unable to obtain or renew them or are only able to do so on unfavorable terms, this could have an adverse effect on the Company's business, financial condition, and results of operations.

Exposure to safety, health and environmental costs and liabilities

The businesses of the SMC Group span several industries and are subject to a variety of laws, rules and regulations that impose limitations, prohibitions, and standards with respect to health and safety, as well as the use, discharge, emission, treatment, release, disposal, and management of regulated materials and waste, and hazardous substances. Safety, health and environmental laws and regulations in the Philippines have become increasingly stringent and it is possible that these laws and regulations will become significantly stricter in the future. 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 additional capital expenditures or the incurrence of additional operating expenses in order to comply with such laws and to maintain current operations as well as any costs related to fines and penalties.

Furthermore, if the measures implemented by the SMC Group to comply with these laws and regulations are not deemed sufficient by governmental authorities, compliance costs may significantly exceed estimates. If the SMC Group fails to meet safety, health and environmental requirements, it may be subject to administrative, civil, and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against the SMC Group, as well as orders that could limit or halt its operations. There is no assurance that the SMC Group will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters in the future, the costs of which could be material. Environmental compliance and remediation costs at sites on which its facilities are located and related litigation and other proceedings could materially and adversely affect the cash flow, results of operations, and financial condition of SMC.

Shortage of raw materials

The products and businesses of the SMC Group, specifically, the beverage, food, packaging, fuel and oil, and energy businesses, depend on the availability of raw materials. Most of these raw materials, including some critical raw materials, are procured from third parties. These raw materials are subject to price volatility caused by a number of factors, including changes in global supply and demand, foreign exchange rate fluctuations, weather conditions, and governmental controls.

Movements in the supply of global crops may affect prices of raw materials, such as wheat, malted barley, adjuncts, and molasses for the beverage and food businesses.

The spirits business may face disruptions in the supply of major raw materials. For example, the current global focus on bioethanol fuel has contributed, and is expected to continue to contribute, to higher prices for molasses, which is a major raw material to produce spirits, as traders can choose to sell their molasses to producers of bioethanol rather than of beverage alcohol, thereby causing higher demand and cost.

Water is critical in the operations of the beer business, and it may not be able to source sufficient quantities or may face increases in water costs in the future. The beer business sources water requirements from deep wells and from water utility service providers. The Water Code of the Philippines (the “**Water Code**”, Presidential Decree No. 1067) and its implementing rules and regulations govern the appropriation and use by any entity of water within the Philippines. Water permits are issued by the National Water Resources Board and restrictions on the use of deep well water could disrupt operations. Likewise, price increases for the use of deep well water or by water utility service providers could adversely affect operating costs, which could adversely affect the beer business, its financial condition, results of operations, and prospects.

The food business may be affected by disruptions in the supply of major raw materials which include anhydrous milk fat, wheat and soybean meal supply due to weather conditions of source countries, outbreak of diseases or other geopolitical developments that may affect trade situations. Another raw material that may be affected is cassava, a substitute raw material in producing animal feeds. Adverse weather conditions and the relative price attractiveness of corn farming versus cassava at certain times may discourage local farmers to plant cassava and switch to planting corn. This may in turn result in the food business’ purchasing a greater quantity of higher cost raw materials which may affect the profit margin of the food business.

The packaging business also needs to obtain sufficient quantities of quality raw materials, including glass, aluminium, paper and composites in a timely manner, and it requires a significant amount of electricity in order to maintain its operations.

The fuel and oil business is primarily affected by the volatility of crude oil prices, which are affected by changes in global supply and demand, international economic conditions, global conflicts or acts of terrorism, weather conditions, domestic and foreign governmental regulation, and other factors over which Petron has no control.

The power business requires sufficient coal supply from its power plants, which have entered into coal supply contracts with PT Kaltim Prima Coal (“**PT KPC**”), PT Bara Tabang (“**Bayan**”), and other reputable coal suppliers. If PT KPC, Bayan, and the other reputable coal suppliers fail to perform their obligations under the coal supply contracts, the disruption of coal supply may materially affect power plant operations.

The SMC Group may also face increased costs or shortages in the supply of raw materials due to the imposition of new laws, regulations or policies.

Although the SMC Group actively monitors the availability and prices of raw materials, there is no assurance that these items will be supplied in adequate quantities or at the required quality to meet its needs or will not be subject to significant price fluctuations in the future. While the SMC Group may, in certain limited instances, be able to shift to alternative raw materials to produce its products, there is no assurance that it will be able to reduce its reliance on these raw materials in the future. The SMC Group may only have a limited ability to hedge against commodity prices and any hedging activities may not be as effective as planned. Moreover, market prices of raw materials could increase significantly if there are material shortages due to, among other things, competing usage, drastic changes in weather or natural disasters. There is no assurance that any increases in product costs could be passed on to consumers. As a result, any significant shortages or material increase in the market price of such raw materials could have a material adverse effect on the financial and operating performance of the SMC Group.

Changes in consumer preferences and purchasing power

The SMC Group’s ability to successfully develop and launch new products, which is a key part of its strategy, as well as the ability to maintain or increase demand for existing products, depend on the acceptance of these products by consumers, as well as consumers’ purchasing power. Consumer preferences may shift for a variety of reasons, including changes in international, national, regional and local economic conditions; culinary, demographic and social trends; leisure activity patterns or consumer lifestyle choices.

There can be no assurance that any new products introduced in the future will generate the estimated consumer interest, projected revenues or expected market share. If the Company’s marketing strategies are not successful or do not respond timely or effectively to changes in consumer preferences, large expenses may be incurred without the benefit of higher revenues and the Company’s businesses and prospects could be materially and adversely affected.

In addition, as the Company continues to take advantage of the “premiumization” trend by strengthening the focus on its higher margin premium and upscale brands, particularly in the food and beverage business and in the Greater Manila and key cities nationwide, the Company’s business and prospects become more closely related to, and affected by, changes in consumer purchasing power and lifestyles.

Moreover, any decrease in consumers’ purchasing power or disposable income levels could have a material adverse effect on the Company’s financial condition and results of operations.

Increased competition in the industries where the SMC Group operates

The businesses of the SMC Group operate in an increasingly competitive environment, as discussed further elsewhere in this Prospectus.

Republic Act No. 10667 or the Philippine Competition Act was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities, prevent economic concentration which will manipulate or constrict the discipline of free markets, and penalize all forms of anti-competitive agreements, abuse of dominant position, and anti-competitive mergers and acquisitions, with the objective of protecting consumer welfare and advancing domestic and international trade and economic development. The move towards a more competitive environment could result in the emergence of new and numerous competitors. These competitors may have greater financial resources or have more extensive experience than the Company and its businesses, giving them the ability to respond to operational, technological, financial, and other challenges more quickly than the SMC Group. In addition, consolidation among competitors, the entry of new, larger competitors or other actions by competitors, such as unanticipated pricing of products at below-market prices or unconventional promotional activities, could exert downward pressure on prices of the SMC

Group's products or cause market share to decline. Finally, the review by the PCC of mergers and acquisitions meeting certain criteria and thresholds can delay or result in revisions to planned mergers and acquisitions, which could impact the SMC Group's plans and diversification program. For example, the acquisition of Holcim Philippines, Inc. is still pending the review of the PCC.

Any failure to successfully compete with competitors, maintain its customer base and market share or respond to new challenges could have a material adverse effect on the Company's business, financial condition, results of operations, and prospects.

Ability of subsidiaries and associates to distribute dividends

SMC is a holding company that conducts all of its operations through its subsidiaries, associates and joint ventures. As a holding company, the revenues of SMC are derived from, among other sources, dividends paid by its subsidiaries and associates. SMC is reliant on such sources of funds with respect to its obligations and in order to finance its subsidiaries. The ability of the subsidiaries, associates and joint ventures of SMC to pay dividends is subject to, (i) the performance and cash flow requirements of such subsidiaries, associates, and joint ventures (ii) applicable law; (iii) restrictions contained in loans and/or debt instruments of such subsidiaries; and (iv) the deduction of taxes.

Any restriction or prohibition on the ability of some or all of the subsidiaries, associates and joint ventures of SMC to distribute dividends or make other distributions to SMC, either resulting from regulatory restrictions, debt covenants, operating difficulties or other limitations, could have a negative effect on the cash flow, financial condition, and results of operations of SMC.

Foreign exchange risk

In 2018, approximately 73.3% of the consolidated sales of the SMC Group was denominated in Philippine Peso, while a substantial portion of its expenses, including raw materials, crude oil purchases and foreign currency denominated debt service costs, are denominated in U.S. dollars. As of September 30, 2019, the percentage of outstanding short-term and long-term loans of the SMC Group denominated in foreign currencies was 31.7%.

In addition, the financial reporting currency of SMC is in Philippine Peso, and therefore depreciation of the Philippine Peso would result in an increase in foreign currency denominated expenses of SMC as reflected in its Philippine Peso financial statements. This could also result in foreign exchange losses due to mark-to-market valuation of foreign currency denominated assets and liabilities, including increases in the Philippine Peso amounts of the foreign currency denominated debt obligations of SMC, thereby possibly adversely affecting its results of operations and financial condition. In addition, there is no assurance that SMC could increase its Peso-denominated product prices to offset increases in costs resulting from any depreciation of the Philippine Peso.

Further, the depreciation or appreciation of the Philippine Peso may result in significantly higher domestic interest rates, liquidity shortages, and capital or exchange controls. This could result in a reduction of economic activity, economic recession, sovereign or corporate loan defaults, lower deposits, and an increased cost of funds. SMC uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure. The occurrence of any of the foregoing events could have a material adverse effect on the businesses, financial condition, liquidity, and results of operations of SMC.

Loss of key personnel

Any loss of key personnel, inability to replace such personnel and failure to train and retain replacement personnel could materially and adversely affect the ability of the SMC Group to provide products and services to its customers. Continued resignation of trained personnel could also result in the SMC Group incurring additional expenses in hiring and training replacement personnel in a competitive job market, and it may take time for these new personnel to reach the level of technical skill and expertise of the personnel being replaced. In addition, the SMC Group has relied and will continue to rely significantly on the continued individual and collective contributions of its senior management team. If any key personnel are unable or unwilling to continue in their present positions, the SMC Group may not be able to replace them easily, and its business may be significantly disrupted. Any of the foregoing could have a material adverse effect on the businesses of the SMC Group.

Labor disruptions

As of September 30, 2019, approximately 16% of the employees of the SMC Group were parties to various collective bargaining agreements and there are 35 labor unions within the businesses of the SMC Group. The SMC Group maintains good labor relationships and a constant line of communication with its employees. SMC also engages its employees through employee relations programs to maintain a high level of employee satisfaction.

Other than the January 4, 2020 strike staged by the Bataan Refiners Union of the Philippines at the Petron Bataan Refinery, to which the Secretary of the DOLE issued an Assumption Order on January 5, 2020 directing the striking union members to return to work, the SMC Group has not experienced any other strikes, work stoppages or other labor disruptions since 2003. However, there is no assurance that it will not experience future labor disruptions to its operations due to disputes or other issues with employees, which could materially and adversely affect its business, financial condition, and results of operations.

Covenants in existing debt agreements

The existing debt agreements of the Company contain various covenants and cross-default clauses in relation to indebtedness of a material subsidiary of the Company. Under a cross-default clause, if a default by such material subsidiary under its debt agreement is not cured or waived, the default could result in the default by the Company under its own existing debt agreements. Moreover, the ability of the Company and its subsidiaries to comply with covenants contained in their respective debt agreements may be affected by events beyond the control of the Company or its subsidiaries, including but not limited to, prevailing economic, financial, and industry conditions. Even if the Company is able to comply with all of the applicable covenants and potential defaults by it or its subsidiaries may be cured or waived, any default by the Company on its existing debt agreements or an occurrence of a cross-default could adversely affect the business of the Company by, among other things, limiting its ability to take advantage of financing and investment opportunities that may be beneficial to the Company and to the SMC Group.

Uninsured losses

The SMC Group ensures that its facilities are adequately covered by insurance policies against certain business risks. However, the SMC Group may not be fully insured against, and insurance may not be available for, unexpected losses caused by natural disasters, breakdowns or other events that could affect the facilities and processes used by its businesses. Any unexpected losses caused by such events against which it is not fully insured could have a material adverse effect on its businesses, financial condition and results of operations. Any accident at the facilities of the SMC Group, which is not adequately covered by insurance, could result in significant losses. It could suffer a decline in production, receive adverse publicity and be forced to invest significant resources in addressing such losses. Such events could materially and adversely affect its financial condition and results of operations.

Outsourcing risk

The Company outsources certain beverage, food and packaging manufacturing and distribution operations to third party contractors. To ensure the timely production and distribution of its products, the SMC Group continuously monitors the efficiency and manufacturing capabilities of the relevant production facilities. However, any of the third party contractors may experience operational issues that could cause production shortages and distribution delays. If one or more of the contract manufacturers, facility operators or distributors of the SMC Group fails to or is unable to manufacture, produce or distribute products in a timely manner, in sufficient quantities or at satisfactory quality levels, then its ability to bring products to the market and its reputation could suffer, and these could have a material adverse effect on the businesses, financial performance, and prospects of SMC. In addition, there is no assurance that it will continue to find new contract manufacturers or distributors in line with increased customer demand in the future, which could materially and adversely affect the business and prospects of SMC.

Outsourcing also carries with it certain inherent risks. These include potential actions from employees of our third-party service providers who may claim an employee-employer relationship with SMC and the risk that our third party contracting arrangements may be found by the Department of Labor and Employment (“DOLE”) to be “labour-only contracting”, which could have a significant impact on labour costs. In addition, a labour dispute involving a substantial number or all of its employees may harm the Company’s reputation, disrupt operations and reduce revenues, while the resolution of disputes may increase costs.

Disruption of operations

The SMC Group's facilities and operations could be severely disrupted by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters, public epidemics, outbreak of diseases, and other unforeseen circumstances and problems. The Philippines has experienced a number of major natural catastrophes over the past years, including typhoons, volcanic eruptions, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. In the past, these events have affected our operating results. For example, the Japanese government banned the entry of any Philippine poultry products after the avian influenza outbreak in August 2017 and as a result, SMFB's customers in Japan cancelled their orders. In April 2017, SMFB suspended production in the flour mills located in Batangas Province for two days after a series of earthquakes hit the area to assess the extent of damage and structural integrity of the building. A fire that occurred last February 1, 2020 in Pandacan, Manila damaged the storage and handling area for the plastic pallets of SMYPC as well as a portion of SMPYPC's Manila plastics plant, which resulted in the suspension of operations at the plant. Said fire also damaged approximately 300 meters portion of the Skyway Stage 3 Project that is still under construction. There is no assurance that insurance coverage for these risks will adequately compensate the Company for all damages and economic losses resulting from natural catastrophes. The Company's business, financial condition and results of operations may be materially and adversely affected by any disruption of operations, whether at its own facilities or that of its suppliers, including those due to any of the events mentioned above.

Performance of information technology systems

The SMC Group relies on its information technology systems to effectively and efficiently manage business data, communications, supply chain, order entry and fulfilment, and other business processes. The failure of such information technology systems to perform as anticipated could disrupt business operations, and could result in transaction errors, processing inefficiencies, and the loss of sales and customers, affecting the business generally and causing results of operations to suffer. In addition, the SMC Group's information technology systems may be vulnerable to damage or interruption from circumstances beyond its control, including fire, natural disasters, power outages, systems failures, security breaches, cyber-attacks, and viruses. Any such damage or interruption could have a material adverse effect on the Company's businesses, financial condition, and results of operations.

Legal and other proceedings

The SMC Group may, from time to time, be involved in disputes with various parties in the operations of its businesses, including those relating to commercial or contractual matters, and may be subject to investigations by regulatory and administrative bodies. Regardless of the outcome, these disputes and investigations may lead to legal or other proceedings and may result in substantial costs and the diversion of resources and management's attention. In addition, the Company and its subsidiaries may also have disagreements with regulatory bodies in the course of operations, which may subject the Company to administrative proceedings and decisions that may result in penalties or other liabilities. Any of these outcomes could materially and adversely affect the Company's business, financial condition, and results of operations. See *"Business— Legal Proceedings."*

The Company enters into numerous transactions with related parties

In the ordinary course of business, the Company transacts with its related parties, such as its subsidiaries and certain of its associates, and joint ventures. These transactions have principally consisted of advances, loans and purchases and sale of products and services.

Under Section 50 of the National Internal Revenue Code, in the case of two or more businesses owned or controlled directly or indirectly by the same interests, the BIR Commissioner is authorized to distribute, apportion, or allocate gross income or deductions between or among such businesses upon determination of the necessity to prevent evasion of taxes or to clearly reflect the income of any such business. On January 23, 2013, the BIR issued Regulation No. 2-2013 on Transfer Pricing Regulations (the **"Transfer Pricing Regulations"**) which adheres to the arm's length methodologies set out under the Organization for Economic Cooperation and Development Transfer Pricing Guidelines in addressing Base Erosion and Profit Shifting (BEPS). The Transfer Pricing Regulations are applicable to cross-border and domestic transactions between related parties and associated enterprises. The BIR Transfer Pricing Regulations defines related parties as two or more enterprises where one enterprise participates directly or indirectly in the management, control, or capital of the other; or if the same persons participate directly or indirectly in the management, control, or capital of the enterprises. The arm's length

principle requires the transaction with a related party to be made under comparable conditions and circumstances as a transaction with an independent party such that if two related parties derive profits at levels above or below comparable market levels solely by reason of the special relationship between them, the profits will be deemed as non-arm's length. In such a case, the BIR pursuant to the BIR Commissioner's authority to distribute, apportion or allocate gross income or deductions between or among two or more businesses owned or controlled directly or indirectly by the same interests (if such is necessary in order to clearly reflect the income of such business), may make the necessary transfer pricing adjustments to the taxable profits of the related parties to ensure that taxpayers clearly reflect income attributable to controlled transactions and to prevent the avoidance of taxes with respect to such transactions. Although the Company has instituted internal policies with respect to related party transactions, including establishing a board committee to oversee such matters, and believes that all past related party transactions have been conducted at arm's length on commercially reasonable terms and documented pursuant to the Transfer Pricing Regulations, there can be no assurance that the BIR may confirm these transactions as arm's length on the basis of the Transfer Pricing Regulations and there can be no assurance that any transfer pricing adjustments by the BIR will not have a material adverse effect on the Company's business, financial condition or results of operations.

For more information on the Company's related party transactions, see "*Related Party Transactions*", Note 33 to the Company's audited consolidated financial information and Note 8 to the Company's interim condensed consolidated financial information included in this Prospectus.

Certain financial information of the Company contained in this Prospectus has not been audited

The Company's interim condensed consolidated financial statements as of September 30, 2019, and for the nine-month periods ended September 30, 2018 and 2019 included in this Prospectus have not been audited in accordance with Philippine Standards on Auditing.

RISKS RELATING TO THE FOOD AND BEVERAGE BUSINESS

Price sensitive market

The market for beverages such as beer and spirits is price-sensitive. At the same time, demand for many products is closely linked to consumers' purchasing power and disposable income levels, which may be adversely affected by unfavourable economic developments in the Philippines. While SMFB endeavours to increase prices at reasonable levels, the increase in price could cause sales volumes to decline and may affect its ability to pass on increases in excise taxes, raw material costs or other expenses, which may negatively affect revenues and results of operations.

Increases in excise tax

In the Philippines, excise tax represents a significant component of production costs of alcoholic beverages. The Philippine Tax Code provides for the excise taxes on alcohol products, including fermented liquors, such as beer, and distilled spirits such as gin. The BIR requires entities subject to such taxes such as the Company to obtain a permit to manufacture such products to enforce the collection and payment thereof.

Under the Philippine Tax Code, excise tax on fermented liquor is determined per litre of volume capacity in relation to the net retail price (excluding the excise tax and value added tax thereon) and is payable by the producer. The tax rate varies depending on the type of alcoholic beverage being produced, with more expensive products being subject to higher rates. Excise tax accounts for a significant portion of SMB's production costs.

Effective January 1, 2017, Republic Act No. 10351 imposed a unitary tax rate of ₱23.50 per litre on all fermented liquors, except those affected by the "no downward classification clause", which was a change from the two-tier tax structure imposed in 2013. Several of SMB's products were affected by the "no downward reclassification" clause in the law and were thus subjected to higher excise tax rates. The unified tax rate in 2017 of ₱23.50 for all fermented liquor products will be increased by 4% annually until reviewed and amended by an act of Congress.

On January 22, 2020, President Duterte signed Republic Act No. 11467, which amended certain provisions of the Philippine Tax Code and sets additional excise tax on alcoholic beverages. Effective January 1, 2020, the new excise tax rates for fermented liquor is ₱35.00 per litre. The excise tax then increases to ₱37.00 per litre in 2021, ₱39.00 per litre in 2022, ₱41.00 per litre in 2023, and ₱43.00 per litre in 2024. Effective January 1, 2025, the excise tax rate shall be increased by 6% every year thereafter.

For distilled spirits, an additional *ad valorem* tax of 22% of the net retail price (excluding excise tax and VAT) shall be assessed and collected. In addition to the *ad valorem* tax, a specific tax at the following rates shall be collected: ₱42.00 per proof litre effective January 1, 2020, ₱47.00 per proof litre in 2021, ₱52.00 per proof litre in 2022, ₱59.00 per proof litre in 2023, and ₱66.00 per proof litre in 2024. The specific tax will be increased by 6% every year thereafter, effective January 1, 2025, through revenue regulations to be issued by the Secretary of Finance.

The sale of beer and non-alcoholic beverages in the Philippines is also subject to value-added tax and withholding tax, when applicable.

Production difficulties

Although SMB continuously seeks to enhance the efficiency and manufacturing capabilities of its production facilities, SMB may, from time to time, experience production difficulties that may cause shortages and delays in deliveries, as is common in the manufacturing industry. If SMB will be unable to increase the efficiency and manufacturing capabilities of its production facilities in line with increased customer demand in the future, this may adversely and materially affect its business and operations. Furthermore, SMB may have to incur significant additional capital expenditures in the future to be able to meet increasing demand for its products.

Outbreak of diseases

SMFB's Food Division is subject to risk of losses caused by outbreaks of disease at any of the hog, cattle or poultry farms it owns or has contracted. The livestock and poultry industries in the Philippines have experienced outbreaks of disease in the past. As of the same period, none of the SMFB's farms have been affected by the outbreak. In addition, there were sporadic cases of porcine epidemic diarrhoea (PED) during the third quarter of 2016 and first quarter in 2017 when two farms were affected, the Newcastle disease outbreak in the first quarter of 2016 and the Avian Influenza (H5N6) during the third quarter of 2017. In addition, in September 2019, the Philippine Department of Agriculture confirmed the outbreak of African swine fever across several regions in the Philippines and restrictions have been imposed by some local government units on movements of hogs across central Luzon in the affected provinces of Rizal, Bulacan and Pampanga. As of the same period, none of the SMFB's farms have been affected by the outbreak. These incidents negatively affected revenue growth of SMFB's Protein segment for those periods.

In addition, any outbreak of contagious diseases in the Philippines, such as bird flu or H1N1 influenza (or swine flu), could have a material adverse effect on our financial condition and results of operations. In particular, any outbreak of contagious diseases could adversely affect the general level of economic activity in the Philippines, including consumer demand for SMFB's products, and our ability to adequately staff operations and distribution networks. There can be no assurance that the policies and controls for outbreak prevention and disease recurrence, including the separation of hog breeding, nursery and growing operations, bird proofing to prevent the entry of migratory birds into our poultry facilities and strict visitor screening and sanitation procedures for entrance to any of our facilities, will be successful in preventing disease outbreaks or recurrences or that any actual or suspected outbreak of bird flu or any other contagious disease affecting our livestock production in the Philippines or elsewhere will not occur. We cannot assure our prospective investors that any future outbreak of contagious diseases will not have a material adverse effect on our business, financial condition, and results of operations.

Moreover, there can be no assurance that our internal controls and policies will be fully effective in preventing all food and beverage safety issues concerning the products we sell, including any occurrences of foodborne illnesses such as Salmonella, E. coli, and Hepatitis A. Particularly for the Food Division, selling conditions in the trade, especially in wet markets, makes fresh food vulnerable to the risk of foodborne illness. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise, that could give rise to claims or allegations on a retroactive basis. One or more instances of food and beverage safety or a foodborne illness related to our products could negatively affect our sales. This risk exists even if it were later determined that the illness was wrongly attributed to our products. The occurrence of food and beverage safety or a foodborne illness incident, or negative publicity or public speculation about an incident, could have a material adverse effect on our business, financial condition, and results of operations.

Product liability claims

The success of the food and beverage business depends largely upon consumers' perception of the reliability and quality of its products. Any event or development that detracts from the perceived reliability or quality of SMFB's

products could materially reduce demand. For example, a contamination of Beer and NAB Division's or Food Division's products by bacteria or other external agents, such as *Listeria monocytogenes*, *Salmonella* or *E. coli*, whether arising accidentally or through deliberate third-party action, could potentially result in product liability claims. Improper storage and handling may result in spoilage, defects, recalls, or complaints that may be encountered by the Food Division for temperature-sensitive products. Product liability claims, whether or not they are successful, could adversely affect the reputation of the Company's brands which may result in reduced sales and profitability. In particular, there is little, if any, control over handling procedures once SMFB's products have been dispatched for distribution and are, therefore, particularly vulnerable to problems in this phase. Even an inadvertent distribution of contaminated products may constitute a violation of law and may lead to increased risk of exposure to product liability claims, product recalls, increased scrutiny and penalties, including injunctive relief and plant closures by regulatory authorities, and adverse publicity, which could aggravate the associated negative consumer reaction. While no material product liability claim has been filed against SMFB, there is no assurance that any such product liability claims will not be filed against us in the future, and any such product liability claim, whether or not successful, could damage the Company's reputation and that of its products, and could have a material adverse effect on SMC's financial condition and results of operations.

Competition in the food and beverage industry

SMFB operates in a highly competitive market and faces competition from domestic or local producers, which sell their own brands and/or foreign brands produced under license, and from foreign producers or imported products. Such competition could result in a loss of market share or reduce operating margins, which could adversely affect SMFB's results of operations and financial condition.

In the food and beverage industry, competitive factors generally include price, product quality, brand awareness and loyalty, distribution coverage, customer service and the ability to respond effectively to shifts in consumer tastes and preferences. SMFB also competes with other discretionary items, including other food and beverage products and other goods and services. While SMFB seeks to continuously develop new and innovative products to meet its customers' demands and to maintain its customer base and market share, if its competitors are able to develop more innovative or better quality products or less expensive products of similar quality, SMFB may not be able to maintain its competitive edge or market share.

In addition, consolidation among competitors, the entry of new, larger competitors into the Philippine food and beverage market or actions by competitors, such as unanticipated pricing of products at below-market prices or unconventional promotional activities, could exert downward pressure on prices of its products or cause our market share to decline.

Any failure to successfully compete with our competitors or maintain our customer base and market share could have a material adverse effect on our business, financial condition, results of operations and prospects.

Importation of lower-priced products

The Food Division may face increased competition from less expensive product imports to the Philippines as import duties on those products are decreased or eliminated. In particular, the Philippines is a signatory to several free trade agreements—the ASEAN Trade in Goods Agreement, the ASEAN Free Trade Agreement, the ASEAN-China Free Trade Agreement, the ASEAN-Korea Free Trade Area Agreement, the ASEAN-Korea Comprehensive Economic Cooperation Agreement, the Japan-Philippines Economic Partnership Agreement, the ASEAN People's Republic of China Comprehensive Economic Cooperation Agreement, the ASEAN-Japan Comprehensive Economic Partnership, the ASEAN-Australia-New Zealand Free Trade Area Agreement, the Philippines-European Free Trade Association Free Trade Agreement, the ASEAN-India Comprehensive Economic Cooperation Agreement, the ASEAN-India Free Trade Area Agreement, the ASEAN Trade in Goods Agreement (ATIGA), the European Free Trade Association (EFTA), and the ASEAN-Hong Kong, China Free Trade Agreement—each of which may lead to increasingly lower-priced imported products entering the Philippine market. For example, with the coming into force of ATIGA, the Philippines eliminated intra-ASEAN import duties on 99.56% of its tariff lines including poultry, meat of bovine animals, flour, sausage, prepared or preserved meat, cereals, bread, pastry, cakes, biscuits, fruit juices, coffee, tea or maté, sauces and preparations, ice cream, beer, certain spirits, liqueurs, and spirituous beverages.

SMFB's Food Division have already experienced the effects of increased competition as a result of the elimination of these import duties, and expect that competition from imported products will continue to increase. In addition, any reduction in tariffs on imports from other ASEAN countries, such as Thailand and Vietnam, and from other

countries party to a Free Trade Agreement with the Philippines, such as China and Japan, could give rise to increased competition for products.

Moreover, the Food Division faces competition from other countries. The Protein segment competes with the import of chicken leg quarters from U.S. and Brazil; the flour milling business competes with imported flour sourced from Turkey, Vietnam, and Indonesia; and the Prepared and Packaged Food segment faces challenges from imports of butter, corned beef, luncheon meat, cheese, milk and biscuits, partly due to a decrease of the tariffs imposed on specific products under the free trade agreements. If SMFB is unable to compete effectively with lower-priced imports, its market share and sales may decrease, and its business, financial condition, results of operations and prospects could be materially and adversely affected.

Derivative and hedging transactions

From time to time, SMFB enters into various commodity derivative instruments, such as forward purchases, caps and collars for wheat and soybean meal, to manage price risks on strategic commodities. For hedging transactions, if prices decrease, hedging positions may result in mark-to-market losses, which are, in turn, expected to be offset by lower raw material costs. SMFB endeavours to generally hedge up to 20% of its wheat and soybean meal requirements. As hedging transactions are mark-to-market, to the extent that the market price of the raw materials subject to such hedging transactions falls below the fixed price under futures contracts, net income will be lower than it would be had such transactions not been entered into. Consequently, the Company's financial performance could be adversely affected during periods in which prices of raw materials are volatile.

Implementation of expansion strategy

SMFB intends to increase sales volume through, among others, the introduction of new products and entry into new categories to broaden its product offering, expansion of its distribution network, and possible acquisitions of, or joint ventures with, other food and beverage businesses in the Philippines and in other countries. The expansion strategy will allow SMFB to expand production and generate additional value for SMFB and may be financed by a combination of additional borrowings and equity. The implementation of this expansion strategy may face uncertainties and risks and there can be no assurance that SMFB will be successful in implementing these initiatives or the implementation of any growth plans would result in an increase in income. There is also no assurance that acquisitions made or joint ventures entered into as part of these expansion plans would be successfully integrated into our operations or may result in possible contingent liabilities or other financial or legal exposure which were not sufficiently quantified during the due diligence prior to the acquisition, joint venture or other investment. As a result, these may have a material adverse effect on our liquidity, financial condition or results of operations.

International and export operations

SMFB exports products and maintains international operations in certain countries outside of the Philippines, with plans for further international expansion. Expansion in international markets may be affected by the respective domestic economic and market conditions as well as social and political developments in these countries, and there is no guarantee that the existing business and export operations as well as expansion plans will be successful in those countries. SMFB's business, financial condition, prospects and results of operations could be adversely affected if it is not successful in the international markets in which it has operations or if exports of products to these international markets are affected by changes in political, economic and other factors, over which it has no control.

Price monitoring by the Government

Basic necessities such as bread, fresh pork, beef and poultry meats, fresh eggs, milk, coffee and cooking oil, and prime commodities such as flour, processed meats, other dairy products and swine and poultry feeds may be made subject to price monitoring by the Government. Under the Philippine Republic Act No. 7581 (the "**Price Act**"), as amended by Republic Act No. 10623, the President of the Philippines may impose a price ceiling on basic necessities and prime commodities in the event of a calamity, an emergency, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. In addition, the DTI issues a "Suggested Retail Price" list for certain prime commodities, which includes some of the Food Division's products. The DTI should be informed of any price movement in these products prior to implementing the same.

The Price Act imposes an automatic price control on the prices of basic commodities in areas declared as disaster areas, under emergency or martial law or in a state of rebellion or war. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of 60 days, except for price control on basic necessities that are wholly imported and deregulated. The President of the Philippines may likewise impose a price ceiling on basic necessities and prime commodities in cases of calamities, emergencies, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. The implementing government agencies of the Price Act are also given the authority thereunder to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of concerned trade, industry and consumer sectors. Any resulting price control may have a material adverse effect on SMFB's business, financial condition, and results of operations.

RISKS RELATING TO THE PACKAGING BUSINESS

Handling of products

While the Packaging Group strictly implements product safety policies, there is no assurance that products packaged by the Packaging Group would not be contaminated during manufacturing, distribution or retail process. Lack of care in the handling or storage by distributors of products produced by the customers of the Packaging Group, tampering, vandalism or terrorist activities could result in the contamination or adulteration of the finished products. Any lack of care or tampering of such products, especially in instances where it is not readily capable of detection, could negatively impact the reputation of the Packaging Group and may have a material adverse effect on its business, financial performance and results of operations.

Competition and challenges in product development and production processes

One of the success factors of the Packaging Group is its ability to identify, adapt to, and meet changing customer requirements and trends in the industry. Any failure to timely develop and introduce new products, or enhance existing products in response to changing customer requirements or industry standards could have a material adverse effect on its business, financial condition, and results of operations.

In addition, new technology or production methods require significant capital investments and could take substantial amount of time to implement. There is no assurance that the Packaging Group will successfully develop such technology and production methods that will be accepted by existing customers or attract new customers, which could have a material adverse effect on its business, financial condition, and results of operations.

RISKS RELATING TO THE FUEL AND OIL BUSINESS

Volatility in the price of crude oil and petroleum products

The financial results of Petron are primarily affected by the relationship, or margin, between the prices for its refined petroleum products and the prices for the crude oil that is the main raw material for these refined petroleum products. Crude oil generally accounts for a large portion of Petron's total cost of goods sold. For example, in the year ended December 31, 2018 and for the nine months ended September 30, 2019, crude oil accounted for approximately 52% and 30% of Petron's total cost of goods sold. The cost of crude oil sold as of September 30, 2019 is lower because of the four-month turnaround that occurred in the refinery.

Many factors influence the price of crude oil, including changes in global supply and demand for crude oil, international economic conditions, global conflicts or acts of terrorism, weather conditions, domestic and foreign governmental regulation and other factors over which Petron has no control. Historically, international crude oil prices have been volatile, and may continue to be volatile in the future. In addition, the Philippine government has historically intervened to restrict increases in the prices of petroleum products in the Philippines from time to time. For example, on October 2, 2009, then President Gloria Macapagal Arroyo declared a state of national calamity in view of the devastation caused by typhoons "Ondoy" and "Pepeng." President Arroyo subsequently issued Executive Order 839 mandating that prices of petroleum products in Luzon be kept at October 15, 2009 levels effective October 23, 2009, which adversely affected Petron's profitability during the period until the price freeze was lifted on November 16, 2009. Any inability or limitation on the ability to pass on fluctuations in the price of crude oil may have a material adverse effect on the Petron's business, results of operations and financial condition. In addition, even if Petron was able to pass on increases in the price of crude oil to its customers, demand for its products may decrease as a result of such price increases.

Dependence on a small number of suppliers for a significant portion of its crude oil requirements in the Philippines and Malaysia

Petron purchases a significant portion of the crude oil for its Philippine operations from Saudi Arabian Oil Company (“**Saudi Aramco**”), the state-owned national oil company of Saudi Arabia. For example, in 2018, Petron purchased approximately 46% of the total crude oil supply requirements of the Limay Refinery from Saudi Aramco. Petron has a term contract with Saudi Aramco entered into in 2008 to purchase various Saudi Aramco crudes. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is automatically renewed annually unless either Petron or Saudi Aramco decides to terminate the contract upon at least 60 days’ written notice prior to its expiration date.

In addition, Petron also purchases a significant portion of the crude oil for its Philippine operations from Kuwait Petroleum Corporation (“**KPC**”). Petron has a contract with KPC to purchase various 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.

The supply of crude oil by Saudi Aramco and KPC is subject to a variety of factors beyond Petron’s control, including the stability of and political developments in Saudi Arabia, Kuwait, and the rest of the Middle East, government regulations with respect to the oil and energy industry in those regions, weather conditions and overall economic conditions, in the Middle East. In addition, the company purchases a significant portion of the crude oil supply requirements for its refinery in Port Dickson, Malaysia (the “**Port Dickson Refinery**”) from ExxonMobil Exploration and Production Malaysia, Inc. (“**EMEPMI**”) pursuant to a long-term supply contract. A material disruption in the operations of Saudi Aramco, of KPC or of EMEPMI, or a decision by any of Saudi Aramco, KPC or EMEPMI to terminate their respective contracts with the company, could negatively impact its crude oil supply. If the supply of crude oil from Saudi Aramco, KPC or EMEPMI were disrupted, Petron would be required to meet any consequent supply shortfall through other suppliers or spot market purchases.

If Petron is unable to obtain an adequate supply of crude oil or is only able to obtain such supply at less favorable prices, its margins and results of operations would be materially and adversely affected.

Intense competition and cyclicity in global and regional refining capacities

Petron faces intense competition in the sale of petroleum and other related products in the markets in which it operates. Petron competes with a number of multinational, national, regional, and local competitors in the refined petroleum products business for market share of petroleum products sales. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price as adjusted to account for differences in product specifications and transportation and distribution costs. Participants in the reseller and LPG sectors in the Philippines continue to rely on aggressive pricing and discounting in order to expand their market share. The Malaysian operations of Petron are subject to government price controls, as a result of which competition in those market sectors that are subject to government quotas is based primarily on the allocation of the applicable quotas by the Malaysian government.

The competitiveness of Petron will depend on its ability to manage costs, increase and maintain efficiency at its refineries, effectively hedge against fluctuations in crude oil prices, maximize utilization of its assets and operations, and comply with and obtain additional quotas from the Malaysian government. If the company is unable to compete effectively with its competitors, its financial condition and results of operations, as well as its business prospects could be materially and adversely affected.

In addition, the Philippine oil industry is affected by ongoing smuggling and illegal trading of petroleum products. These illegal activities have resulted in decreases in sales volume and sales price for legitimate oil market participants in the Philippines. Petron’s ability to compete effectively will depend to a degree on the proper enforcement of Philippine regulations by the Philippine government, which is beyond its control.

Furthermore, the global and regional refining industry has historically experienced periods of tight supply, resulting in increased prices and margins, as well as periods of substantial capacity additions, resulting in oversupply and reduced prices and margins. Any downturn in prices or margins resulting from existing or future excess industry capacity could have a material adverse impact on the business, financial condition and results of operations of Petron.

Disruption in operations or casualty loss at the refineries

Petron's operation of its refineries and implementation of its expansion plans could be adversely affected by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, fires, explosions, release of toxic fumes, engineering and environmental problems, natural disasters and other unforeseen circumstances and problems. For example, in November 2008, the main electrical facilities in the utilities area of the Limay Refinery were damaged by a fire, which necessitated repairs and resulted in higher maintenance and repair costs for 2009. In April 2019, while the Limay Refinery was undergoing a major maintenance, an earthquake occurred which extended the planned shutdown. Operations resumed on August 8, 2019.

These types of disruptions could result in product run-outs, facility shutdowns, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and/or unplanned inventory build-up, all of which could have a material adverse effect on the business, results of operations, and financial condition of Petron. There can be no assurance that operational disruptions will not occur in the future or that insurance will adequately cover the entire scope or extent of the losses or other financial impact on the Company.

Effect of Malaysian government policies and regulations relating to the marketing of fuel products

As in many countries, the fuel business in Malaysia is regulated by the government. The Malaysian government regulates the pricing structure through the automatic pricing mechanism ("APM"), pursuant to which it 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. The Malaysian government may subsidize fuel prices so that increases in international crude oil prices are not borne fully by Malaysian consumers. Effective December 1, 2014, the Malaysian government implemented a managed float system under which the Malaysian government fixes the government-mandated retail prices of RON 95 petroleum and diesel on a monthly basis based on the Mean of Platts Singapore ("MOPS") for the previous month. If government-mandated prices are lower than the total built-up cost of Petron, it receives subsidies from the Malaysian government. Conversely, if government-mandated prices are higher than the Petron's total built-up cost, it pays duties to the Malaysian government. A substantial portion of the revenue of Petron has been derived from sales of refined petroleum products in Malaysia that are subject to price controls.

In addition, the sale of diesel in Malaysia is subject to a quota system that applies to oil companies and eligible users and customers to ensure that subsidized diesel sold at service stations (meant strictly for road transport vehicles) is not sold illegally to industrial or commercial customers at unregulated prices. Diesel sales at service stations that exceed the volumes permitted under the company's or its customers' quotas are not eligible for government subsidies. Accordingly, in instances when the government-mandated prices are lower than the total built-up costs of Petron, the company endeavours to limit diesel sales to volumes covered by the quotas. There can be no assurance that the Malaysian government will increase quotas, grant applications or not decrease Petron's quotas or those of any of its customers in the future. A substantial portion of the Petron's revenue is derived from sales of diesel in Malaysia that are subject to the quota system. Accordingly, if the Malaysian government decreases or does not increase its quotas or those of any of its selected transportation sector customers, the financial condition and results of operations of Petron may be materially and adversely affected.

Compliance with safety, health, environmental and zoning laws and regulations

The operations of the fuel and oil business are subject to a number of national and local laws and regulations in the countries in which it operates, including safety, health, environmental and zoning laws and regulations. These laws and regulations impose controls on air and water discharges, the storage, handling, discharge and disposal of waste, the location of storage facilities, and other aspects of the business of the company. Failure to comply with relevant laws and regulations may result in financial penalties or administrative or legal proceedings against Petron, including the revocation or suspension of the licenses or operation of its facilities.

Petron has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, it has made, and expects to continue to make, capital expenditures on an ongoing basis to comply with safety, health, environmental, and zoning laws and regulations. For example, Euro IV-standard fuels became mandatory in the Philippines in 2016. In Malaysia, the government is considering implementation of Euro 4M and Euro 5M fuels in phases: Euro 4M for RON 97 by September 1, 2015, Euro 4M for RON 95 by October 1, 2018, Euro 5M (sulfur specification only) for diesel by September 1, 2020, and Euro 5M for RON 95 and RON 97 by January 1, 2025. Petron has made and is making capital expenditures to ensure that its refineries comply with Euro IV standards, Euro 4M and Euro 5M standards, as applicable, as these standards are mandated by the

Philippine and Malaysian governments, respectively. If Petron fails to complete its planned refinery upgrades or enhancements on time, it may have to import additional products in the spot market to blend with its own production to ensure compliance with the relevant standards, which could have a material adverse effect on the financial condition and results of operations of Petron. There can be no assurance that Petron will be in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held responsible in any future litigation or proceedings relating to safety, health, environmental and zoning matters, the costs of which could be material.

In addition, safety, health, environmental, and zoning laws and regulations in the Philippines and Malaysia have become increasingly stringent. There can be no assurance that the adoption of new safety, health, environmental, and zoning laws and regulations, new interpretations of existing laws, increased governmental enforcement of safety, health, environmental and zoning laws or other developments in the future will not result in the Petron being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade or relocate its facilities. If the measures implemented by Petron to comply with applicable laws, regulations, and standards are not deemed sufficient by governmental authorities, compliance costs may significantly exceed current estimates, and expose it to potential liabilities, including administrative penalties. If Petron fails to meet safety, health and environmental requirements, it may be subject to administrative, civil, and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against Petron and damage to its reputation, as well as orders that could limit or affect its operations. There is no assurance that Petron will not become involved in future litigation or other proceedings relating to safety, health, and environmental matters. Litigation or other proceedings are inherently unpredictable and may be time-consuming and disruptive to the business and operations, regardless of the merits of the claims. There is no assurance that Petron will not be held responsible in any such future litigation or other proceedings, the costs of which could be material. Environmental compliance and remediation costs at sites on which the Petron's facilities are located or other locations and related litigation and other proceedings could materially and adversely affect the financial condition and results of operations of Petron.

Failure to respond quickly and effectively to product substitution or government-mandated product formulations

Any potential increase in oil prices and environmental concerns could make it more attractive for the customers to switch to alternative fuels such as natural gas, ethanol and palm oil methyl ester fuel blends. If alternative fuels become more affordable and available than petroleum products, customers may shift from petroleum to these alternative fuels not offered by Petron, resulting in lower sales volumes. In recent years, the Philippine and Malaysian governments have enacted regulations mandating the inclusion of a specified percentage of alternative fuels in gasoline and diesel fuels sold or distributed, and these types of requirements may be increased in the future. If Petron does not respond quickly and effectively to product substitutions or government-mandated product formulations in the future, its business and prospects may be adversely affected.

Significant capital expenditures, financing, and expansion of marketing and logistical support

Petron's business is capital intensive. Specifically, the processing and refining of crude oil and the purchase, construction, and maintenance of machinery and equipment require substantial capital expenditures. Petron's ability to maintain and increase its sales, net income, and cash flows may be affected by the timely and successful completion of its planned capital expenditure projects. Petron's current business strategies involve, among others, (i) continued investment in the Limay Refinery to support the increased utilization from RMP-2 and improve refinery operations; (ii) continued expansion of its retail service station, LPG, and lubes network in the Philippines; (iii) expansion and upgrade of its logistics capacity; and (iv) expansion of Malaysia operations with new service station additions and facilities improvement in Port Dickson Refinery to enable it to produce Euro 5M-standard fuels. If Petron fails to complete its planned capital expenditure projects on time or within budget or at all, or to operate its facilities at their designed capacity, it may be unable to achieve the targeted growth in sales and profits, and its business, results of operations, and financial condition could be adversely affected. Furthermore, there can be no assurance that following the completion of the RMP-2, the Limay Refinery will run at the expected capacity or achieve the expected production profile, or that there will be sufficient demand and logistical support for the Petron's increased production. Any of the foregoing factors could adversely affect the Petron's business, financial condition, and results of operations.

Petron's ability to complete its planned capital expenditure projects and meet its debt servicing obligations will depend in part on its ability to generate sufficient cash flows from its operations and obtain adequate additional

financing. There can be no assurance that the Petron will be able to generate sufficient cash flows from its operations or obtain adequate financing for its planned capital expenditure projects or to meet its debt servicing obligations, on acceptable terms or at all. Failure by the Petron to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial condition, and results of operations.

Changes in applicable taxes, duties and tariffs

Petron's operations are subject to various taxes, duties, and tariffs. The tax and duty structure of the oil industry in the Philippines has undergone some key changes. For example, excise taxes for petroleum products were increased to ₱9.00 per litre for regular gasoline and unleaded premium gasoline, ₱4.00 per litre of aviation turbojet fuel and aviation gas, ₱4.00 per litre for kerosene, ₱4.50 per litre for diesel, and ₱2.00 per kilogram of LPG, effective as of January 1, 2019. These excise taxes are subject to increase effective January 1, 2020, to ₱10.00 per litre for regular gasoline and unleaded premium gasoline, ₱4.00 per litre for aviation turbojet fuel and aviation gas, ₱5.00 per litre for kerosene, ₱6.00 per litre for diesel, and ₱3.00 per kilogram for LPG. There can be no assurance that any future tax changes in the Philippines or Malaysia would not have a material and adverse effect on the business, financial condition and results of operations of Petron.

RISKS RELATING TO THE ENERGY BUSINESS

Increased competition in the Philippine power industry

The Government has sought to implement measures designed to enhance the competitive landscape of the power market, particularly for the unregulated sectors of the industry. These measures include the privatization of National Power Corporation ("NPC") owned and controlled power generation assets, the establishment of the Wholesale Electricity Spot Market ("WESM"), the start of the Retail Competition and Open Access ("RCOA"), implementation of mandatory competitive selection process ("CSP") for distribution utilities, and the implementation of the green energy option, which allows contestable customers to directly contract with a renewable energy supplier. Competitors may be more successful than SMC Global Power in acquiring existing power generation facilities or in obtaining financing for and the construction of new power generation facilities, or in successfully bidding at CSPs conducted by distribution utilities. The type of fuel that competitors use for their generation facilities may also allow them to produce electricity at a lower cost and to sell electricity at a lower price. In addition, other sources for the provision of ancillary services may arise, including technological developments or establishment of new market regimes, which may increase competition and reduce prevailing prices for these services. Moreover, a decline in oil and gas prices, which reduces the cost of producing electricity from fossil fuels, could make energy storage solutions integrated with renewable energy sources less competitive against other solutions including conventional generation. SMC Global Power may therefore be unable to meet the competitive challenges it will face.

As a result of increased competition, SMC Global Power could also come under pressure to review or renegotiate the terms of existing offtake agreements with customers, which may lead to a downward adjustment of tariffs, and could adversely affect the business, financial performance, and results of operations of SMC Global Power. To the extent that distribution utilities or industrial offtakers agree to purchase from other generation companies instead of purchasing from SMC Global Power, the ability of SMC Global Power to increase its sales and sell additional electricity to distribution utilities or industrial offtakers through its generation facilities would be adversely affected.

Suspension of issuance and renewal of Retail Electricity Supplier ("RES") licenses

In June 2015, the DOE through its Department Circular ("DC") 2015-06-0010 enjoined the ERC to immediately issue the supporting guidelines including the revised rules for issuance of RES licenses. In compliance with the DC, the ERC issued the following resolutions to govern the issuance of new RES licenses and renewal of existing RES licenses and the registration of retail customers:

- Resolution No. 5, Series of 2016, entitled "A Resolution Adopting the 2016 Rules Governing the Issuances of the Licenses to Retail Electricity Suppliers and Prescribing the Requirements and Conditions Therefore" (the "**RES License Guidelines**");
- Resolution No. 10, Series of 2016, entitled "Adopting the Revised Rules for Contestability";

- Resolution No. 11, Series of 2016, entitled “Imposing Restrictions on the Operations of Distribution Utilities and Retail Electricity Suppliers in the Competitive Retail Electricity Market”; and
- Resolution No. 28, Series of 2016, entitled “Revised Timeframe for Mandatory Contestability”

However, in February 2017, the Philippine Supreme Court, acting on a petition filed by certain entities, issued a temporary restraining order on the implementation of the foregoing ERC resolutions. As of the date hereof, the temporary restraining order has not been lifted. In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in RCOA.

While certain subsidiaries of SMC Global Power have valid and existing RES licenses expiring in 2021, the ability of SMC Global Power to directly contract with contestable customers may be limited if prior to the expiry of such RES licenses (a) the temporary restraining order on the RES License Guidelines is not lifted, or (b) an alternative regulatory framework governing the retail sale of electricity is not put in place. Such limitation on the ability of SMC Global Power to directly contract with contestable customers could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Disruptions and fluctuations in fuel supply

The operations of the Sual Power Plant, Ilijan Power Plant, Masinloc Power Plant, Limay Greenfield Power Plant and Davao Greenfield Power Plant depend on the availability of fuel, in particular coal and natural gas. SMC Global Power, through its subsidiaries, is responsible, at the cost of the latter, for supplying the fuel requirement of the Sual Power Plant, Masinloc Power Plant, Limay Greenfield Power Plant, and Davao Greenfield Power Plant. SMC Global Power, through its subsidiaries, has entered into fuel supply agreements for its power plants and, subject to regulatory approval, is able to pass on the fuel cost to its customers (particularly for distribution utilities and electric cooperatives). In the case of certain power supply agreements (“PSAs”) covering an aggregate capacity of 1,290 MW starting 2020 and entered into by SMC Global Power, through its subsidiaries, with Manila Electric Company (“Meralco”) as a result of the latter’s CSP conducted last September 2019, there are fixed price escalation mechanisms rather than tariff adjustment based on current fuel prices. Consequently, SMC Global Power may no longer pass-through the impact of fuel price fluctuations and may have positive benefits or negative exposures should fuel prices increase or decrease, respectively.

There is no assurance that there will not be any interruption or disruption in, or change in terms of, the fuel supplies to these power plants, or that there will be sufficient fuel in the open market at competitive prices or sufficient transportation capacity available to ensure that these power plants receive sufficient fuel supplies required for their operations on a timely basis or at all. There is also no assurance that SMC Global Power, through its subsidiaries, will be able to purchase all of its required fuel supplies from its regular suppliers that produce fuel of acceptable and known quality. Consequently, SMC Global Power could experience difficulties ensuring a consistent quality of fuel, which could negatively affect the stability and performance of these power plants.

For example, the Ilijan Power Plant sources natural gas for its operations from the Malampaya gas facility in Palawan (“**Malampaya**”). According to the DOE, Malampaya’s natural gas output is estimated to decline substantially by 2022 as the Malampaya gas supply is depleted. SMC Global Power is currently exploring alternative sources of fuel, such as floating storage regassification units containing liquefied natural gas (“**LNG**”) or a full-size LNG terminal, together with the other stakeholders of Malampaya. Alternatively, the Ilijan Power Plant may also be reconfigured to be a diesel or an LNG-type facility in the future. Reduced supply of high-grade coal may also cause disruptions in SMC Global Power’s fuel supply. SMC Global Power has invested in circulating fluidized bed (“**CFB**”) or supercritical power plants (for the Limay Greenfield Power Plant, Davao Greenfield Power Plant, and Unit 3 of the Masinloc Power Plant) that can use low-grade coal and has retrofitted its existing pulverized coal (“**PC**”) power plants (Masinloc Units 1 and 2) to use low-grade coal, which is also less expensive and relatively more abundant compared to high-grade coal (i.e. coal of 6,000 kcal upwards). There can be no assurance that SMC Global Power will be able to obtain the quality of coal in such quantities that it requires for its operations.

Such factors, which may include events which are beyond the control of SMC Global Power, could affect the normal operation of these power plants or incur significant costs to source replacement power or to reconfigure its plants, which could have material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Reliance on Independent Power Producers (“IPPs”) for the operation and maintenance of the Independent Power Producer Administrator (“IPPA”) Power Plants

Power generation involves the use of highly complex machinery and processes and the success of SMC Global Power depends on the effective maintenance of equipment for its power generation assets. IPPs associated with the respective IPPA Power Plants are responsible for the operation and maintenance of their respective IPPA Power Plants.

Although the energy conversion agreement (“ECA”) for Sual, the Ilijan ECA and the San Roque ECA contain bonus and penalty provisions, and SMC Global Power monitors the IPPs’ adherence to the minimum operating protocols specified in the IPPA and ECAs, there is still a risk that the IPPs will fail to satisfactorily perform their respective operations and maintenance obligations. Any failure on the part of such IPPs to properly operate and/or adequately maintain their respective power plants could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

In addition, if SMC Global Power, through its subsidiaries, fails to generate or deliver electricity beyond contractually agreed periods due to the failure of the IPPs to operate and maintain the power facilities, the counterparties of SMC Global Power in its power supply contracts (“PSCs”) may have a right to terminate those contracts for outages beyond applicable outage allowances in the PSCs, and replacement contracts may not be entered into on comparable terms or at all. Any of the foregoing could have a material adverse effect on the financial and operating performance of SMC Global Power.

Market limitations under the EPIRA

Based on the total installed generating capacities reported in ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 20% market share of the National Grid, 26% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of September 30, 2019. The EPIRA limits the market share of a participant to 30% per grid and 25% of the National Grid by installed capacity. While SMC Global Power is currently within its market share cap even taking into account the greenfield power plants under construction, it may not receive permission to increase its capacity and market share further if this would result in exceeding the permitted capacity or market share prescribed by the EPIRA. Such inability to expand and grow the power business could materially and adversely affect the business prospects of SMC Global Power.

Development of greenfield power projects and expansion projects

The development of greenfield power projects and expansion projects of existing power plants involves substantial risks that could give rise to delays, cost overruns or unsatisfactory construction or development in the projects. Such risks include the inability to secure adequate financing, inability to negotiate acceptable offtake agreements, and unforeseen engineering and environmental problems, among others. Any such delays, cost overruns, unsatisfactory construction or development could have a material adverse effect on the business, financial condition, results of operations, and future growth prospects of SMC Global Power.

Project risks could emanate from various sources such as poor project planning, execution and contractor/subcontractor issues. If not addressed in a timely manner, these issues may negatively impact the project which would ultimately affect SMC Global Power’s financial condition and results of operations, such as revenue loss resulting from delay in commercial operations.

Further, any delay in the receipt of the relevant permits will also delay the completion of a project. Any of these project risks could have a material adverse effect on the business, financial condition, results of operations, and future growth prospects of SMC Global Power.

Adverse effect of WESM price fluctuations

From the time the WESM for Luzon began operating in June 2006, market prices for electric power have fluctuated substantially. Unlike many other commodities, electric power can only be stored on a very limited basis and generally must be produced concurrently with its use. As a result, power prices are subject to significant volatility from supply and demand imbalances. Long-term and short-term power prices may also fluctuate substantially due to other factors outside of the control of SMC Global Power, including:

- increases and decreases in generation capacity in the markets, including the addition of new supplies of power from existing competitors or new market entrants as a result of the development of new generation power plants or expansion of existing power plants or additional transmission capacity;
- changes in power transmission or fuel transportation capacity constraints or inefficiencies;
- electric supply disruptions, including power plant outages and transmission disruptions;
- changes in the demand for power or in patterns of power usage, including the potential development of demand-side management tools and practices;
- the authority of the ERC to review and, if warranted under applicable circumstances, adjust the prices on the WESM;
- climate, weather conditions, natural disasters, wars, embargoes, terrorist attacks, and other catastrophic events;
- availability of competitively priced alternative power sources;
- development of new fuels and new technologies for the production of power; and
- changes in the power market and environmental regulations and legislation.

These factors could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Non-renewal of or non-compliance with offtake agreements

SMC Global Power, through its subsidiaries, has offtake agreements with various distribution utilities, electric cooperatives, and large industrial and commercial users. In respect of the IPPA Power Plants, some offtake agreements will expire before the termination of the applicable IPPA Agreement, although they may be renewed by mutual agreement of the parties. The IPPA Agreements provide that the amounts of payment obligations of SMC Global Power will increase over time. While SMC Global Power intends to renew the offtake agreements upon expiration to provide stable and predictable revenue streams, there is no assurance that SMC Global Power will be able to renew or enter into new offtake agreements for similar volumes or at similar prices, or that SMC Global Power will be able to enter into new offtake agreements. If SMC Global Power is unable to enter into new offtake agreements, SMC Global Power will be further exposed to fluctuations in electricity prices in the WESM, which could materially and adversely affect the profitability of SMC Global Power.

In particular, sales to Meralco under the relevant PSA in relation to the Ilijan Power Plant, Sual Power Plant, and Masinloc Power Plant comprised approximately 48% of SMC Global Power's total revenue for the nine months ended September 30, 2019. The Ilijan Power Plant and Sual Power Plant are currently providing Meralco with power pursuant to the recent CSPs conducted by Meralco, following the expiration in December 2019 of previous PSAs with Meralco. In September 2019, Meralco conducted a CSP for its power supply, in accordance with the requirements under DOE Circular No. DC2018-02-0003 (the "**DOE CSP Policy**"). The Ilijan Power Plant was awarded two offtake contracts to supply an aggregate of 960 MW. The first contract is for the supply of 670 MW for baseload power requirements for a period of 10 years from December 26, 2019 until December 25, 2029, and the second contract is for the supply of 290 MW mid-merit power requirements for a period of five years from December 26, 2019 until December 25, 2024. In addition, the Sual Power Plant was also awarded a contract to supply 330 MW for baseload power requirements for a period of 10 years from December 26, 2019 until December 25, 2029. The three contracts have been executed between Meralco and the relevant IPPAs, subject to ERC approval.

The PSA between Masinloc Power Partners Co. Ltd. ("**MPPCL**") and Meralco, originally expiring in December 2019 was agreed to be extended up to 2022, subject to ERC approval. However, in consideration of the Supreme Court decision on CSP which clarified the regulatory policies on PSAs, MPPCL has opted instead to negotiate with Meralco for an extension of the PSA for one year, or until December 2020, as provided for in the contract.

The PSA of Meralco (RES) with each of the Masinloc Power Plant and Sual Power Plant will expire in 2024, and can be extended for up to 48 billing periods, upon mutual agreement of the parties.

When the current offtake agreements with Meralco expire or are otherwise renegotiated, they may be renewed for lower electricity volumes than in the past or on different terms, including under different pricing terms. In addition, there can be no assurance that Meralco and other offtakers will be able to meet their future payment obligations under their agreements with SMC Global Power. For SMC Global Power's greenfield power plants, there is no assurance that it will be awarded contracts pursuant to any CSP conducted by Meralco or other distribution utilities or electric cooperatives, or will successfully negotiate with various contestable customers or RES.

The business, cash flows, earnings, results of operations, and financial condition of SMC Global Power could be materially and adversely affected if Meralco does not renew its bilateral offtake agreements with subsidiaries of SMC Global Power under favorable terms or at all or if Meralco and other offtakers are unable to meet their payment obligations under existing agreements, and SMC Global Power is unable to find new customers to replace Meralco and other offtakers.

Operating capacities of its power portfolio

The administration of the output of the power generation plants involves significant risks, including:

- breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes, leading to unplanned outages and operational issues;
- flaws in the equipment design or in power plant construction;
- issues with the quality or interruptions in the supply of key inputs, including fuel or water;
- material changes in legal, regulatory or licensing requirements;
- operator error;
- performance below expected levels of output or efficiency;
- industrial actions affecting power generation assets owned or managed by the subsidiaries of SMC Global Power or its contractual counterparties;
- pollution or environmental contamination affecting the operation of power generation assets;
- planned and unplanned power outages due to maintenance, expansion and refurbishment;
- inability to obtain or the cancellation of required regulatory, permits and approvals;
- opposition from local communities and special interest groups; and
- force majeure and catastrophic events including fires, explosions, earthquakes, volcanic eruptions, floods, and terrorist acts that could cause forced outages, suspension of operations, loss of life, severe damage, and plant destruction.

There is no assurance that any event similar or dissimilar to those listed above will not occur or will not significantly increase costs or decrease or eliminate sales derived by SMC Global Power from its power generation assets. In addition, if the subsidiaries of SMC Global Power fail to generate or deliver electricity beyond the contractually agreed outage periods, its counterparts in its PSCs may have a right to terminate those contracts, and replacement contracts may not have been entered into on comparable terms. Any of the foregoing could have a material adverse effect on the financial and operating performance of SMC Global Power.

Operating and other risks leading to network failures, equipment breakdowns, planned or unplanned outages.

Power generation is vulnerable to human error in operation, equipment failure, catastrophic events, natural disasters, sabotage, terrorist attacks or other events which can cause service interruptions, network failures,

breakdowns or unplanned outages. There is no assurance that accidents will not occur with SMC Global Power's power plants or that the preventative measures will be fully effective in all cases, particularly in relation to external events that are not within its control. Moreover, any loss from such events may not be recoverable under the SMC Global Power's insurance policies. SMC Global Power's income and cash flows will be adversely affected by any disruption of operations of its plants due to any of the foregoing risks. Any unplanned plant shutdowns for an extended period of time will have a material adverse effect on SMC Global Power's ability to sell power and SMC Global Power's results of operations could suffer. For example, in 2017 the Sual Power Plant Unit 2 experienced an outage for 158 days due to transformer failure. In the event of a service disruption, SMC Global Power would typically seek to purchase replacement power, which may be at a significantly greater cost than power generated by it or than it is able to recover. SMC Global Power is also entitled to reduction in the IPPA payments to PSALM for fixed and generation fees of the plant that will compensate it for any loss in margins from prolonged outages. Any of these factors may be beyond SMC Global Power's control, and their occurrences could have a material adverse effect on the Company's business, financial condition or results of operations.

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 San Miguel Energy Corporation ("SMEC"), Strategic Power Devt. Corp. ("SPDC") and South Premiere Power Corp. ("SPPC"), however, are not beneficiaries of any of these insurance policies. These IPPAs 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 power plants of SMC Global Power, SMC Consolidated Power Corporation ("SCPC"), San Miguel Consolidated Power Corporation ("SMCPC") and MPPCL have secured necessary insurance for their respective power plants, which cover industrial all risks, business interruption, marine cargo insurance, sabotage and terrorism, physical material loss or damage caused by natural disasters, breakdowns or other events that could affect the facilities and processes used by its businesses. The existing business interruption insurance policies of these entities however do not cover any declines in production or adverse publicity that SCPC, SMCPC, or MPPCL may suffer as well as any significant resource that SCPC, SMCPC, or MPPCL 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 their businesses, financial condition and results of operations.

Any unexpected losses caused by such events against which these subsidiaries are not fully insured could have a material adverse effect on their businesses, financial condition and results of operations.

No direct contractual and operational relationship

SMC Global Power is dependent on the operators of the IPPA Power Plants to generate power from the IPPA Power Plants, and for the IPPs to comply with their contractual obligations to NPC under their IPP Agreements.

SMC Global Power does not have a direct contractual relationship with the IPPs and cannot directly enforce the IPP Agreements against the IPPs. Failure by an IPP to comply with its obligations under its IPP Agreement may significantly reduce or eliminate power generation volumes or increase costs, thereby decreasing or eliminating revenues that the IPPA subsidiaries of SMC Global Power can derive from selling the power generated by the IPPA Power Plants. Any claims for damages for breach, or other entitlement, benefit or relief under the IPPA Agreement arising from the breach, by the IPP, of its IPP Agreement obligations must be claimed by SMC Global Power against PSALM through specified claim mechanisms. The IPPA Agreements do not permit set-off of claims, and the IPPA subsidiaries of SMC Global Power are only entitled to payment of their claim after PSALM has received payment from the IPP of its corresponding claim. Accordingly, the IPPA subsidiaries of SMC Global Power bear the risks associated with the lack of direct recourse against the IPPs, delays in the enforcement of their claims and other risks related to pursuing claims or legal proceedings against a state-owned entity such as PSALM. Any of these factors could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Variations in hydrological conditions and irrigation requirements

Hydroelectric generation is dependent on the amount and location of rainfall and river flows, which vary widely from quarter to quarter and from year to year. NPC owns and operates the dam and the dam-related facilities of the San Roque Power Plant and has obtained a water permit allowing it to use the water flow from the Agno River to generate power from the San Roque Power Plant with an allowable volume dictated by downstream irrigation requirements set by the National Irrigation Administration (“NIA”).

The facilities of AHEPP are located within the Angat Watershed Reservation, which is managed by and is under the jurisdiction of NPC. NPC was issued a water permit dated November 28, 1979 by then National Water Resources Council pursuant to which NPC has authority to extract water from the Angat River for power generation purposes.

The levels of hydroelectric production can vary from period to period depending on the water levels in the reservoir and downstream irrigation and water supply requirements. In years of less favourable hydrological conditions, such as periods of drought or when the El Niño weather phenomenon occurs, the reservoir has low water levels, which reduces the amount of power that the San Roque Power Plant and the AHEPP are able to generate. This could reduce the revenues from the sale of power from the San Roque Power Plant and the AHEPP, which could have a material adverse effect on SMC Global Power’s business, financial condition and results of operations. Conversely, if too much rainfall occurs at any one time, such as during a typhoon, water may flow too quickly and at volumes in excess of the water intake capacity of the San Roque Power Plant and AHEPP, which may cause release of water using the spillway.

Challenges in successfully implementing its growth strategy

Implementing the growth strategy of SMC Global Power involves: (i) substantial investments in new power generation facilities and expansion of existing power generation facilities; (ii) acquisitions of existing power generation capacity; (iii) entering into alliances with strategic partners; (iv) entering into new and developing technologies and services, such as energy storage solutions, particularly BESS and ancillary services, such as frequency regulating reserves; and (v) targeting new markets, such as the renewable energy market. The success in implementing the strategy of SMC Global Power will depend on, among other things, its ability to identify and assess investment and acquisition opportunities as well as potential partners, its ability to successfully finance, close and integrate investments, acquisitions and relevant technologies for the production of power, its ability to manage construction of planned greenfield and expansion power projects within technical, cost and timing specifications, its ability to establish BESS projects and integrate these with the grid and support renewable energy sources, its ability to secure offtake agreements through CSP, its ability to control costs and maintain sufficient operational, financial and internal controls, the strength of the Philippine economy (including overall growth and income levels), the growth of the relevant target markets, and the overall levels of business activity in the Philippines.

SMC Global Power is also contemplating several additional potential investments and acquisitions, but has not entered into any definitive commitment or agreement for any such contemplated investment or acquisition. If general economic and regulatory conditions or market and competitive conditions change, or if operations do not generate sufficient funds or other unexpected events occur, SMC Global Power may decide to delay, modify or forego some of its planned or contemplated projects or alter aspects of its growth strategy, and its future growth prospects could be materially and adversely affected. For example, SMC Global Power may consider alternative technologies for planned power projects that will improve efficiencies and lower emissions.

The growth strategy of SMC Global Power will also place significant demands on its management, financial and other resources. In particular, continued expansion will increase the challenges for financial and technical management, recruitment, training and retention of sufficient skilled technical and management personnel and developing and improving its internal administrative infrastructure. In addition, expansion into new markets will necessitate recruitment and development of expertise in new technologies, including BESS technologies. Any inability to meet these challenges could disrupt the business of SMC Global Power, reduce its profitability and adversely affect its results of operations and financial condition.

Dependence on the existence of transmission infrastructure

The transmission infrastructure in the Philippines continues to experience constraints on the amount of electricity that can be delivered from power plants to customers, as well as limited interconnectivity between the Luzon-Visayas grid and the lack of any interconnectivity between the Visayas-Mindanao grid.

SMC Global Power and its subsidiaries are in constant consultation and communication with NGCP and other relevant Government institutions to address the transmission infrastructure requirements of SMC Global Power and its subsidiaries. The DOE is mandated by law to prepare a Transmission Development Plan to be implemented by NGCP which aims to address projected infrastructure limitations and interconnectivity of sub-grids.

If these transmission constraints continue, the ability of SMC Global Power to supply electricity from the IPPA Power Plants of its subsidiaries and its operating and planned greenfield power projects, as well as the ability of SMC Global Power to increase its geographical reach, will be adversely affected. This could have a material adverse effect on the business and revenue growth of SMC Global Power from the sale of power.

Certain tax exemptions and tax incentives

As of September 30, 2019, certain subsidiaries of SMC Global Power, namely, SCPC for the Limay Greenfield Power Plant, SMCPC for the Davao Greenfield Power Plant and MPPCL for the Masinloc Power Plant, Masinloc BESS and SMCGP Philippines Energy Storage Co. Ltd for the Kabankalan BESS were registered with the Board of Investments (“BOI”) as new operators with pioneer status and non-pioneer status for its greenfield projects. BOI-registered entities are granted certain tax exemptions and tax incentives, deductions from taxable income subject to certain capital requirements and duty-free importation of capital equipment, spare parts, and accessories.

For the plants currently availing of these incentives, if these tax exemptions or tax incentives expire, are revoked, or are repealed, the income from these sources will be subject to the corporate income tax rate, which is currently 30.0% of net taxable income as of September 30, 2019. As a result, the tax expense of SMC Global Power would increase and its profitability would decrease. The expiration, non-renewal, revocation or repeal of these tax exemptions and tax incentives, and any associated impact on SMC Global Power, could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

ERC Regulation of electricity rates of distribution utilities

The imposition of more stringent regulations and similar measures by the ERC could have a material adverse effect on the business, financial conditions and results of operations of SMC Global Power.

Sales to distribution utilities accounts for majority of the consolidated sales volume of SMC Global Power for the nine months ended September 30, 2019. While rates charged by SMC Global Power through its subsidiaries under their offtake agreements, including those with distribution utilities, are not regulated by the ERC, the rates that distribution utility customers charge to their customers are subject to review and approval by the ERC. Accordingly, the ability of distribution utility customers to pay the subsidiaries of SMC Global Power largely depends on their ability to pass on their power costs to their customers. There is also no assurance that the current laws, regulations, and issuances affecting the industry, particularly the EPIRA and the issuances of the ERC, will not change or be amended in the future.

There is no assurance that the ERC will permit the distribution utility customers of the subsidiaries of SMC Global Power to pass on or increase their rates or that subsequent reviews by the ERC will not result in the cancellation of any such increases or require such distribution utility customers to refund payments previously received from their customers. In addition, there is no assurance that any rate increases approved by the ERC will not be overturned by Philippine courts on appeal. For example, SMC Global Power and other generation companies are parties to a petition filed in the Supreme Court by special interest groups against Meralco in relation to the increase in generation rates for the billing months of November and December 2013. In particular, the ERC issued an order dated March 3, 2014, which voided the WESM prices for the November and December 2013 billing months, and imposed prices to be recalculated by the PEMC. However, the Court of Appeals, in its decision dated November 7, 2017, declared the ERC order dated March 3, 2014 null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013. Upon finality, a claim for refund may be made with the PEMC.

More recently, the Supreme Court issued its ruling in May 2019 in respect of the following ERC resolutions:

- Resolution No. 13, Series of 2015, entitled “A Resolution Directing All Distribution Utilities to Conduct a Competitive Selection Process in the Procurement of their Supply to the Captive Market” (“**CSP Guidelines**”)
- Resolution No. 1, Series of 2016, entitled “A Resolution Clarifying the Effectivity of ERC Resolution No. 13, Series of 2015” (“**ERC Clarificatory Resolution**”)

The CSP Guidelines and the ERC Clarificatory Resolution were issued by the ERC to implement the CSP, pursuant to the DOE's Department Circular No. DC2015-06-0008 mandating all distribution utilities to undergo CSP in securing power supply agreements.

In its decision, the Supreme Court, acting on a petition filed by certain entities, declared as void the first paragraph of Section 4 of the CSP Guidelines and the ERC Clarificatory Resolution. See *“Business — Legal Proceedings — Petition to Nullify ERC Resolution No. 1, Series of 2016.”* Consequently, all PSAs filed with the ERC on or after June 30, 2015 were directed to comply with the CSP in accordance with prevailing rules and regulations. The power purchase cost resulting from the CSP (the **“CSP Power Purchase Cost”**) would be the generation cost which the relevant distribution utility may pass on to its customers commencing on June 30, 2015. In a resolution dated July 23, 2019, the Supreme Court denied with finality all motions for reconsideration filed by various parties. In consideration of the foregoing, the PSA between Meralco and MPGC, and the PSA between Meralco and CLPPC, were voluntarily terminated by mutual agreement of the relevant parties. SMC Global Power intends to participate in the rebid for the supply of major greenfield power supply requirements of Meralco, estimated to be 3,695 MW, and for any other brownfield or additional greenfield power supply requirements in the near future.

Further, as a result of the decision, the ERC released orders to the joint applicants of various PSA applications (the **“Joint PSA Applications”**) filed during the affected period requiring them to comply with the CSP requirements under the DOE CSP Policy and to submit the necessary DOE certifications attesting their compliance to the said circular (the **“2019 ERC Orders”**). The lack of the necessary DOE certifications could result in the dismissal of the relevant Joint PSA Applications.

In October 2019, SMC Global Power, together with certain distribution utilities and electric cooperatives, filed motions for reconsideration of the 2019 ERC Orders claiming that the DOE CSP Policy should not apply to such Joint PSA Applications primarily on the ground that these were entered into before the implementation of the DOE CSP Policy in 2018. As of the date of this Prospectus, these motions for reconsideration are pending before the ERC. The ERC or the DOE may still require the relevant distribution utilities and/or the relevant generation companies of the Joint PSA Applications to refund the difference between the generation cost actually passed on to customers and the applicable CSP Power Purchase Cost that could be passed on to customers, accruing from June 30, 2015 until the effectivity of the relevant CSP Power Purchase Cost under applicable regulations.

The ERC in the exercise of its regulatory powers may also impose fines, penalties, or sanctions on SMC Global Power in appropriate cases. Any such fines, penalties, sanctions or restriction on the ability of distribution utilities and/or generation companies to pass on such costs or any intervention in such rates could have a material adverse effect on the business, financial conditions and results of operations of SMC Global Power.

Trading in WESM

While the subsidiaries of SMC Global Power only sell a small amount of power through the WESM, volatile market conditions on the WESM may nevertheless pose risks to SMC Global Power regardless of whether there is a shortage or a surplus of energy available. When the WESM experiences a shortage, there is little risk to suppliers in terms of their value-position being destroyed. However, such a suppliers' market exposes these suppliers to the risk that regulatory agencies may intervene (directly or indirectly) to dictate prices and dispatch of power plants. Consumer outrage, triggered by high prices, could precipitate attempts to suspend the WESM and return to subsidized rates regimes. Regardless of whether such a suspension ultimately comes to pass, market anticipation of such an occurrence could lead to value-destructive market distortions. On the other hand, a surplus market tends to cause spot market prices to reflect the marginal cost of producing power. One of the main features of the WESM is a merit-order dispatch scheme wherein the cheapest sources of power, such as power produced from geothermal and hydroelectric energy, are dispatched first, before the more expensive power providers. While a supplier can mitigate its exposure to surplus risks by contracting the bulk of its capacity to offtakers to protect against low spot prices, as the subsidiaries of SMC Global Power have done, this also caps a supplier's ability to take advantage of price spikes caused by temporary market shortages.

Currently, the ERC has implemented a reduced primary bid cap of ₱32,000 per MWh. In addition, a permanent secondary price cap limits spot prices to ₱6,245 per MWh for as long as cumulative spot prices breach a certain threshold. Prices are automatically capped at ₱6,245 per MWh for hours where the average price for the last 120-hours exceeds ₱9,000 per MWh.

The occurrence of such events could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

RISKS RELATING TO THE INFRASTRUCTURE BUSINESS

Completion of infrastructure projects

SMC may not be able to fully realize the benefits of pursuing its diversification strategy through its infrastructure business as the completion of infrastructure projects is subject to various risks, uncertainties and limitations including:

- the need to procure materials, equipment and services at reasonable costs and in a timely manner;
- reliance on the performance of third-party providers and consultants which have an impact on the overall operating performance of the Infrastructure business;
- the possible need to raise additional financing to fund infrastructure projects, which SMHC may be unable to obtain on satisfactory commercial terms or at all;
- deficiencies or delays in the design, engineering, construction, installation, inspection, commissioning, management or operation of projects where applicable;
- penalties if concession requirements are not satisfied;
- the timely delivery by the Government of any rights of way for its projects;
- its ability to complete projects according to budgeted costs and schedules;
- market risks;
- non-implementation of toll or fare adjustments provided under its concession;
- regulatory risks; and
- delays or denials of required approvals, including required concessional and environmental approvals.

Occurrence of the aforementioned events could result in delays, cost overruns, unsatisfactory construction or development or the total or partial loss of the interest of SMHC in the relevant project and have a material adverse effect on the business, financial condition, results of operation and future growth prospects of SMHC.

Enforceability of concession agreements

The continuity of operations of the infrastructure business is highly dependent on the validity and enforceability of the applicable concession agreements which contain all the obligations and responsibility of the concessionaire and grantor over the relevant concession period.

There is no assurance that the Government will not push for the renegotiation of the terms of other concession agreements or similar agreements which it deems to be onerous, disadvantageous or inequitable. Any such compulsory renegotiation of signed agreements may create uncertainty or instability in the business environment in the Philippines which, in turn, could have a material impact of the Company's business, financial position, and results of operations.

Inability to secure tariff increases

The commercial success of the infrastructure business depends in part on its ability to implement tariff increases. While tariff increases are permitted contractually pursuant to pricing formulas set forth in the applicable concession agreements, these may be subject to the approval of relevant government and regulatory agencies. Any constraint on the ability to increase tariffs could have a material adverse effect on business, financial condition and results of operations of the infrastructure business.

South Luzon Tollway Corporation ("SLTC") has filed three petitions for periodic toll rate adjustment with the TRB, the first of which was filed on July 20, 2012 and subsequently amended on October 24, 2012 and November

28, 2012. The application submitted in 2012 was due for implementation beginning January 1, 2013 but has yet to be acted upon by the TRB.

The second petition for periodic toll rate adjustment was filed and received by the TRB on September 30, 2014. However, a Motion for Leave to Amend the Petition was filed by SLTC on November 19, 2014 for the purpose of clarifying and further supporting the basis for the computation of the adjusted toll rate. To date, SLTC has not yet submitted a revised petition for periodic toll rate adjustment to the TRB.

The third and latest petition for toll rate adjustment was filed with and received by the TRB on September 28, 2018.

SLTC continues to engage in comprehensive discussions and good working relationship with the TRB to obtain a proper resolution of the pending toll rate adjustments. In addition, the administration under President Duterte has given focus and aims to increase infrastructure spending to 5% of GDP has provided great optimism to the infrastructure sector. This is a positive indication that long delayed Public Private Partnership (“PPP”) Projects will be implemented, including the approvals of pending Toll Rate adjustments.

Star Infrastructure Development Corporation (“SIDC”) also submitted a letter dated October 28, 2014 requesting the TRB to approve the implementation of the toll rate increase for the additional works for Stage 2 Phase 2. SIDC has already provided all the required certificates and requirements needed by TRB for the approval of implementation of adjusted toll rate. On November 2017, the TRB implemented 50% of the approved increase in toll rate of ₱1.361/km.

Decrease in utilization

The commercial success of the infrastructure business depends in part on the ability to maintain or increase utilization of its infrastructure facilities. External events may decrease the number of vehicles, airplanes or passengers that utilize the infrastructure facilities such as rising oil prices which may result in fewer passenger vehicle journeys and increase in cost of airfares. Any decrease in utilization or any factor that would decrease patronage could have a material adverse effect on the financial condition and results of operations of the infrastructure business.

The infrastructure business continually adopts efficiency improvement programs (such as implementation of the Radio Frequency ID system for its toll road systems) and regular improvements and maintenance of the facilities that would improve utilization while providing convenience to motorists.

Obtaining new concessions or projects

SMHC’s plans in relation to the infrastructure business contemplate the continued acquisition of new concessions and projects, successful participation in bids for projects as well as exploring opportunities in other sectors. SMHC’s ability to expand its business and increase operating profits is dependent on many external factors and events that are outside its control, including changes in governmental laws and policies.

RISKS RELATING TO THE PHILIPPINES

Concentration of operations and assets in the Philippines

Historically, the financial condition and results of operations of SMC have been influenced to a significant degree by the general state of the Philippine economy and the overall levels of business activity in the Philippines, and the Company expects that this will continue to be the case in the future. The Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso, and the imposition of exchange controls. The Company cannot assure prospective investors that one or more of these factors will not negatively impact the purchasing power of the Philippine consumers. Demand for many of the products of SMC is tied closely to domestic consumer purchasing power and disposable income levels. In addition, as the businesses expand their product and brand portfolios in higher-priced Premium market segments in their respective industries, their businesses and prospects will be increasingly affected by any deterioration in consumer purchasing power. Any decrease in consumer purchasing power and disposable income levels could have a material adverse effect on the business, operations, and financial condition of SMC.

In January 2018, inflation rose to an over three-year high of 3.4% and rose steadily to 5.2% by June 2018 with the BSP projecting inflation to be at 4.6% on average in 2018. The Monetary Board assessed that the balance of

risks to the inflation outlook continues to lean toward the upside, with price pressures emanating from possible adjustments in transport fares, utility rates, and wages. The upward adjustment in the BSP's inflation forecasts indicate that inflation pressures could become more broad-based in the near term, the Monetary Board raised interest rates by 25 basis points to 3.5%, effective June 21, 2018 and the BSP expects inflation to return within the target range in 2019. On August 9, 2018, the Monetary Board decided to raise the interest rate on the BSP's overnight reverse repurchase facility by 50 basis points to 4%, effective August 10, 2018, to 4.5%, effective September 28, 2018, and to 4.75% on November 16, 2018. The interest rates on the overnight lending and deposit facilities were also raised accordingly. On November 14, 2019, the Monetary Board decided to maintain the interest rate on the BSP's overnight reverse repurchase facility at 4.0%. Accordingly, the interest rates on the overnight deposit and lending facilities remain unchanged.

Effective May 10, 2019, the Monetary Board decided to reduce the interest rate on the BSP's overnight borrowing to 4.5%, and on August 8, 2019, further to 4.25%. The interest rates on the overnight lending and deposit facilities were reduced accordingly. As price pressures continue to ease further with baseline forecasts of the BSP indicating that inflation was likely to settle within the lower half of the target band of 3.0% +/- 1% for 2019 to 2021, the Monetary Board decided to further reduce the interest rate on the BSP's overnight reverse repurchase facility by 25 basis points to 4.0%, effective September 27, 2019. The interest rates on the overnight lending and deposit facilities were reduced accordingly.

Factors that may adversely affect the Philippine economy include: decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally; scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally; exchange rate fluctuations and foreign exchange controls; rising inflation or increases in interest rates; levels of employment, consumer confidence and income; changes in the Government's fiscal and regulatory policies; Government budget deficits; adverse trends in the current accounts and balance of payments of the Philippine economy; public health epidemics or outbreaks of diseases, such as re-emergence of Middle East Respiratory Syndrome-Corona virus (MERS-CoV), Severe Acute Respiratory Syndrome (SARS), avian influenza (commonly known as bird flu) or H1N1, and the recent novel Coronavirus (2019-nCoV), or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia; natural disasters, including but not limited to tsunamis, typhoons, volcanic eruptions, earthquakes, fires, floods and similar events; political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and other regulatory, social, political or economic developments in or affecting the Philippines.

The Philippines' economic growth rate in 2018 was 6.2%, which was slower than the 6.7% growth rate registered in 2017. For the first half of 2019, GDP growth was at 5.5%, compared to 6.2% in the first half of 2018. Moreover, uncertainty surrounding the global economic outlook could cause economic conditions in the Philippines to deteriorate and there can be no assurance that current or future Philippine governmental policies will continue to be conducive to sustaining economic growth. There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Any future deterioration in economic conditions in the Philippines could materially and adversely affect the Company's financial position and results of operations, including the Company's ability to grow its energy portfolio, and its ability to implement the Company's business strategy. Changes in the conditions of the Philippine economy could materially and adversely affect the Company's business, financial condition or results of operations.

SMC is one of the largest and most diversified conglomerates in the Philippines by revenue and total assets, with sales equivalent to approximately 5.9% of Philippine GDP in 2018. Nonetheless, any downturn in the Philippine economy may have a negative impact on consumer sentiment and general business conditions in the Philippines, which may materially reduce the revenues, profitability and cash flows of the Company. Moreover, there is no assurance that current or future government policies would continue to be conducive to sustaining economic growth.

Political instability or acts of terrorism in the Philippines

The Philippines has, from time to time, experienced political and military instability, including acts of political violence. In the last decade, there has been political instability in the Philippines, including extra-judicial killings, alleged electoral fraud, impeachment proceedings against two (2) former presidents, two chief justices of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. In addition, a number of officials of the Philippine government are currently under investigation or have been indicted on corruption charges stemming from allegations of misuse of public funds, extortion,

bribery, or usurpation of authority. There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy.

An unstable political environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the business, operations, and financial condition of SMC.

No assurance can be given that the future political or social environment in the Philippines will be stable or that current and future governments will adopt economic policies conducive for sustaining economic growth. Political or social instability in the Philippines could negatively affect the general economic conditions and business environment in the Philippines, which could have a material adverse effect on the business, operations, and financial position of SMC.

Acts of terrorism, clashes with separatist groups and violent crimes

The Philippines has also been subject to a number of terrorist attacks and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in May 2017, the city of Marawi in Lanao del Sur, Mindanao, was assaulted by the Maute Group, terrorists which were inspired by pledged allegiance to the Islamic State of Iraq and Syria (ISIS). Due to the clash between the Government forces and the terrorists and the risk of the armed conflict spilling over to other parts of Mindanao, martial law was declared in the entire island of Mindanao, Philippines. In October 2017, the city was declared liberated from the terrorists. Despite this, the Philippine Congress extended the imposition of martial law in Mindanao until the end of 2019, citing persistent threats of terrorism and rebellion and to ensure the total eradication of ISIS-inspired terrorists in the country. The martial law in Mindanao was lifted on January 1, 2020, however certain areas in Mindanao remain under a state of emergency and law enforcement groups are in heightened security as a measure against potential terror threats. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy. These armed conflict and terror attacks could lead to further injuries or deaths by civilians and members of the military, which could destabilize parts of the country and adversely affect the country's economy.

Territorial disputes

Competing and overlapping territorial claims by the Philippines, China and several Southeast Asian nations (such as Vietnam, Brunei and Malaysia) over certain islands and features in the West Philippine Sea (South China Sea) have for decades been a source of tension and conflicts. China claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its military presence in the sea which has raised tensions in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at the Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea (UNCLOS). In July 2016, the tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the "nine-dash line" claim of China is invalid. The Philippine government, under the Duterte administration, has taken action to de-escalate tensions concerning the territorial dispute with China.

There is no guarantee that the territorial dispute between the Philippines and other countries, including China, would end or that any existing tension will not escalate further, as China has taken steps to exercise control over the disputed territory. In such event, the Philippine economy may be disrupted and its business and financial standing may be adversely affected.

Any deterioration in the Philippine economy as a result of these or other factors, including a significant depreciation of the Philippine peso or increase in interest rate, may adversely affect consumer sentiment and lead to a reduction in consumer spending generally. This, in turn, could materially and adversely affect SMC's financial condition and results of operations, and its ability to implement its business strategy and expansion plans.

Natural catastrophes

SMC's business and operations could be severely disrupted by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters, public epidemics, outbreak of diseases, and other unforeseen circumstances and problems. The Philippines has experienced a number of major natural catastrophes over the past years, including typhoons, volcanic eruptions such as the Taal Volcano eruption in January 2020, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. Natural catastrophes may materially disrupt and adversely affect the business, operations, and financial condition of SMC. There is no assurance that the insurance coverage SMC maintains for these risks will adequately compensate it for all damages and economic losses resulting from natural catastrophes.

Downgrade of Philippine credit rating

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as SMC. Historically the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. As of December 31, 2019, the Philippines' long-term foreign-currency denominated debt was rated Baa2 by Moody's, BBB+ S&P Global Ratings, and BBB by Fitch. However, no assurance can be given that Fitch, Moody's, S&P Global Ratings or any other international credit rating agency, will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Company. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including SMC, to raise additional financing, and will increase borrowing and other costs.

Corporate governance, disclosure and financial reporting standards

There may be less publicly available information about Philippine public companies, including SMC, than is regularly made available by public companies in other countries. In addition, although we comply with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. The Philippine SEC considers as best practice for public companies such as SMC, to have at least three independent directors, or such number as to constitute one-third of the board whichever is higher. While SMC has adopted the recommended best practices of the Philippine SEC and is in compliance with Philippine laws, rules and regulations, a greater number of independent directors may be required in other jurisdictions.

Foreign exchange controls

Generally, the Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. However, the Monetary Board of the BSP, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, has the statutory authority to: (i) suspend temporarily or restrict sales of foreign exchange; (ii) require licensing of foreign exchange transactions; or (iii) require the delivery of foreign exchange to the BSP or its designee banks for the issuance and guarantee of foreign currency-denominated borrowings. The Philippine government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency obligations.

SMC purchases certain critical key inputs from abroad and requires foreign currency to make these purchases. There is no assurance that the Philippine government will not impose economic restrictions or regulatory controls that may restrict free access to foreign currency. Any such restrictions could severely curtail the ability of SMC to pay for certain key inputs or to meet its foreign currency payment obligations, which could materially and adversely affect its financial condition and results of operations.

RISKS RELATING TO AN INVESTMENT IN THE COMMERCIAL PAPERS

The CPs may not be a suitable investment for all investors.

Each potential investor in the CPs must determine the suitability of investing in the CPs in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the CPs, the merits and risks of investing in the CPs and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the CPs and the impact the CPs will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the CPs, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the CPs and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The CPs are complex financial instruments and investors may purchase such instruments as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the CPs unless it has the expertise (either alone or with a financial adviser) to evaluate how the CPs will perform under changing conditions, the resulting effects on the value of the CPs and the impact this investment will have on the potential investor's overall investment portfolio.

The CPs may have limited liquidity.

The CPs will constitute a new issue of securities for which there is no existing market. Even if the CPs are listed on the PDEX, trading in securities such as the CPs may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets and the overall market for debt securities among other factors, which may affect liquidity.

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the CPs. If an active trading market for any CPs does not develop or is not maintained, the market price and liquidity of such CPs may be adversely affected. If such a market were to develop, the CPs could trade at prices that may be higher or lower than the price at which the CPs are issued depending on many factors, including:

- prevailing interest rates;
- the Issuer's results of operations and financial condition;
- political and economic developments in and affecting the Philippines;
- the market conditions for similar securities.

Although the CPs are intended to be listed on PDEX as soon as reasonably practicable, there can be no assurance that an active trading market for the CPs will develop and, if such a market were to develop the Joint Issue Managers are under no obligation to maintain such a market. The Issuer does not intend to apply for listing of the CPs on any securities exchange other than the PDEX. Lack of a liquid, active trading market for the CPs may adversely affect the price of the CPs or may otherwise impede a holder's ability to dispose of the CPs.

The Company has no control over this risk as active trading of the CPs is highly dependent on the Investors.

The Issuer may be unable to redeem the CPs.

At maturity, the Issuer will be required to redeem all of the CPs. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the CPs in time, or on acceptable terms, or at all. The ability to redeem the CPs in such event may also be limited by the terms of other debt instruments. The failure by the Issuer to repay, repurchase or redeem tendered CPs would constitute an event of default under the CPs, which may also constitute a default under the terms of other indebtedness of the Issuer.

The Issuer has a very strong business franchise in the Philippines. It has a strong recurring cash flow and maintains a low debt-equity ratio and a high level of liquidity in its balance sheet. The Issuer believes that it has sufficient resources which will allow it to service the principal and interest of the CPs.

Holders of the CPs may not be able to reinvest at a similar return on investment.

Prior to the relevant maturity dates of the CPs, the Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), any series of the outstanding CPs on the relevant Optional Redemption Dates (see “*Description of the Commercial Papers*” in this Prospectus). In the event that the Company exercises this early redemption option, all CPs will be redeemed and the Company would pay the amounts to which Investors would be entitled. Following such redemption and payment, there can be no assurance that investors in the redeemed CPs will be able to re-invest such amounts in securities that would offer a comparative or better yield or terms, at such time.

The Investor may face possible gain or loss if the CPs are sold at the secondary market.

As with all fixed income securities, the CPs’ market values move (either up or down) depending on the change in interest rates. The CPs when sold in the secondary market are worth more if interest rates decrease since the CPs have a higher interest rate relative to the market. Likewise, if the prevailing interest rate increases, the CPs are worth less when sold in the secondary market. Therefore, holders may either make a gain or incur a loss when they decide to sell the CPs.

The CPs may not be able to retain its credit rating.

There is no assurance that the rating of the CPs will be retained throughout the life of the CPs. In addition, the ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the CPs. The 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 organization.

The priority of debt evidenced by a public instrument

Under Philippine law, in the event of liquidation of a company, unsecured debt of a company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt of that company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. A portion of the Issuer’s financial indebtedness is covered by agreements which are embodied in public instruments. However, these agreements contain a waiver by each of the respective lenders of the benefit of preference or priority accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines. The waivers are subject to the condition that all present and future creditors of the Issuer are *pari passu* and no creditor shall be conferred a superior right on the basis that its credit appears in a public instrument.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth the unaudited consolidated short-term and long-term debt and capitalization of SMC as of September 30, 2019. 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, 2019	Adjustments	As adjusted for maximum Offer Size of ₱20.00 billion (Upon issuance of Bonds)
Current Liabilities⁽¹⁾			
Loans payable.....	₱183,581	20,000	₱203,581
Accounts payable and accrued expenses...	138,089		138,089
Lease liabilities - current portion.....	24,319		24,319
Income and other taxes payable.....	20,445		20,445
Dividends payable.....	3,858		3,858
Current maturities of long-term debt - net of debt issue costs.....	37,743		37,743
Total Current Liabilities	408,035	20,000	428,035
Noncurrent Liabilities			
Long term debt - net of current maturities and debt issue costs.....	610,306		610,306
Deferred tax liabilities.....	24,743		24,743
Lease liabilities - net of current portion.....	122,246		122,246
Other noncurrent liabilities.....	22,425		22,425
Total Noncurrent Liabilities	779,720		779,720
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common.....	16,443		16,443
Capital stock - preferred.....	10,187		10,187
Additional paid-in capital.....	177,938		177,938
Equity reserves.....	19,361		19,361
Retained Earnings			
Appropriated.....	50,314		50,314
Unappropriated.....	181,785	(221) ⁽²⁾	181,564
Treasury Stock.....	(116,283)		(116,283)
	339,745	(221)	339,524
Non-controlling interests.....	237,660		237,660
Total Equity	577,405	(221)	577,184
Total Capitalization⁽³⁾	₱1,765,160	₱19,779	₱1,784,939

Notes:

(1) Adjusted amount as of September 30, 2019 includes proceeds of the ₱20 billion Offer, assuming full exercise of the Oversubscription Option.

(2) Adjusted amount as of September 30, 2019 includes fees, commissions and expenses of the ₱20 billion Offer, assuming full exercise of the Oversubscription Option.

(3) Total capitalization is the sum of debt and equity.

On November 5, 2019, SMC Global Power issued U.S.\$500 million senior perpetual capital securities and on November 7, 2019 redeemed the U.S.\$300 million undated subordinated capital securities issued in May 2014. On January 21, 2020, SMC Global Power issued U.S.\$600 million senior perpetual capital securities.

Except as described above, there has been no material change in the capitalization of the Company since September 30, 2019.

USE OF PROCEEDS

SMC expects to raise ₱15,000,000,000.00 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 ₱14,826,124,375.00, estimated as follows:

Particulars	Total (₱)
Estimated proceeds from the Base Offer.....	15,000,000,000.00
Less: Estimated fees, commissions and expenses	
<i>Gross Underwriting Fees</i>	30,000,000.00
<i>Documentary Stamp Taxes to be paid by the Company.....</i>	112,500,000.00
<i>SEC Registration Fee</i>	14,750,000.00
<i>SEC Legal Research and Publication Fee.....</i>	155,625.00
<i>SEC Publication Fee.....</i>	100,000.00
<i>PDEX Listing Application Fee</i>	450,000.00
<i>Listing and Maintenance Fee.....</i>	150,000.00
<i>Legal and other professional fees.....</i>	5,000,000.00
<i>Rating Fee.....</i>	2,700,000.00
<i>Printing Cost.....</i>	7,500,000.00
<i>Trustee Fees.....</i>	120,000.00
<i>Paying Agency and Registry Fees.....</i>	100,000.00
<i>Other expenses.....</i>	350,000.00
Total estimated fees, commissions and expenses	173,875,625.00
Estimated net proceeds.....	₱ 14,826,124,375.00

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 ₱19,778,624,375.00, after deducting the following fees, commissions and expenses:

Particulars	Total (₱)
Estimated proceeds from the Oversubscription.....	5,000,000,000.00
Less: Estimated fees, commissions and expenses	
<i>Gross Underwriting Fees</i>	10,000,000.00
<i>Documentary Stamp Taxes to be paid by the Company.....</i>	37,500,000.00
Total estimated fees, commissions and expenses	47,500,000.00
Estimated net proceeds.....	₱ 4,952,500,000.00

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 ₱100,000.00 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

The entire proceeds for this Offer will be used to partially fund the redemption of the Series 1 Preferred Shares of SMC to be redeemed on [●] at a redemption price of ₱75 per share. 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.

Pending the above use of proceeds, the Company shall invest the net proceeds from the Offer 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 CPs, no amount of the proceeds will be utilized to pay any outstanding financial obligations to the Joint Arrangers, 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 that 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.

DETERMINATION OF THE PURCHASE PRICE

The Commercial Papers shall be issued at a discount to face value.

PLAN OF DISTRIBUTION

The Offer CPs shall be the first tranche to be issued under the ₱60,000,000,000.00 Commercial Papers Program of SMC. The Company shall issue the Offer CPs to institutional and retail investors in the Philippines through a public offering to be conducted through the Joint Arrangers, Joint Lead Underwriters and Bookrunners. The Offer does not include an international offering. The Joint Arrangers, Joint Lead Underwriters and Bookrunners, in consultation with the Issuer, may increase the Base Offer size of ₱15,000,000,000.00 by an additional ₱5,000,000,000.00 under the Oversubscription Option.

A total of ₱15,000,000,000.00 Commercial Papers, or in the event the Oversubscription Option is fully exercised, ₱20,000,000,000.00 Commercial Papers will be taken down from the shelf. The remaining Commercial Papers in the shelf in the aggregate principal amount of ₱40,000,000,000.00 will be issued in tranches within the RS Effectivity Period. However, in the event the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, such portion of the Offer CPs under the Oversubscription Option which have not been taken up or exercised in the first tranche shall remain under shelf registration and form part of the remaining Commercial Papers in the shelf available for issuance within the RS Effectivity Period.

Joint Arrangers, Joint Lead Underwriters and Bookrunners

BDO Capital & Investment Corporation, BPI Capital Corporation, China Bank Capital Corporation, and SB Capital Investment Corporation have agreed to distribute and sell the Offer CPs at the Purchase Price, pursuant to an Underwriting Agreement with SMC dated [●] (the “**Underwriting Agreement**”). Subject to the fulfillment of the conditions provided in the Underwriting Agreement, the Joint Arrangers, Joint Lead Underwriters and Bookrunners have committed to underwrite the following amounts on a firm basis:

Joint Arrangers, Joint Lead Underwriters and Bookrunners	Underwriting Commitment
BDO Capital & Investment Corporation	₱[●]
BPI Capital Corporation	₱[●]
China Bank Capital Corporation	₱[●]
SB Capital Investment Corporation	₱[●]
Total	₱15,000,000,000.00

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

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

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

For the purpose of complying with their respective commitments under the Underwriting Agreement, each Joint Arranger, 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 Arrangers, 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 CPs; provided, that the Joint Arrangers, 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 Arrangers, Joint Lead Underwriters and Bookrunners with the co-lead managers, co-managers, and Selling Agents.

The Joint Arrangers, Joint Lead Underwriters and Bookrunners are duly licensed by the SEC to engage in the underwriting or distribution of the Offer CPs. The Joint Arrangers, 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, 2018, it had ₱3.01 billion and ₱2.95 billion in assets and capital, respectively. It has an authorized capital stock of ₱1.10 billion, of which approximately ₱1.0 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 September 30, 2019, its total assets amounted to ₱4.20 billion and its capital base amounted to ₱3.96 billion.] It has an authorized capital stock of ₱1.0 billion, of which approximately ₱506.4 million represents its paid-up capital.

China Bank Capital is the wholly-owned investment banking subsidiary of the China Banking Corporation. It was registered and licensed as an investment house on November 27, 2015 as a result of the spin-off of China Bank's Investment Banking Group. China Bank Capital offers a wide array of advisory and capital-raising services to corporate clients. For capital raising, China Bank Capital is involved in arranging, managing or underwriting debt or equity transactions. Its expertise in debt transactions range from loan syndications, bilateral loans and project financing to retail bonds, corporate notes, commercial paper issuances and asset securitizations. For equity transactions, these include, among others, initial public offerings, follow-on offerings, private placements, and issuances of convertible or other equity-linked instruments. It also provides financial advisory services to its clients, which cover various assignments such as deal structuring, valuation exercises, and the execution of mergers, acquisitions, divestitures, joint ventures, recapitalizations, and other corporate transactions.

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.

BDO Capital, BPI Capital, China Bank Capital, and SB Capital are the Joint Arrangers, Joint Lead Underwriters and Bookrunners of the Offer.

SALE AND DISTRIBUTION

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

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

The obligations of each of the Joint Arrangers, 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 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 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 [●] and end at 5:00 p.m., Manila time, on [●], or such other date as may be mutually agreed by the Company and the Joint Arrangers, 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 CPs during the relevant Offer Periods by submitting to the Underwriters properly completed Applications to Purchase, together with two signature cards, and the full payment of the Purchase Price of the Offer CPs 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 CPs 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) two (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 Arrangers, Joint Lead Underwriters and Joint Bookrunners, 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, 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) two 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 Arrangers, Joint Lead Underwriters and Bookrunners, 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) a current and valid BIR-certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR and addressed to the relevant applicant or Investor, confirming its exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto;
- (ii) with respect to tax treaty relief, a duly accomplished Certificate of Residence for Tax Treaty Relief (CORTT) Form or the duly prescribed certificate of residency, in lieu of the tax treaty relief application, as required under the BIR Revenue Memorandum Order (RMO) No. 08-2017, and a duly notarized, consularized or apostilled, if executed outside the Philippines, Special Power of Attorney executed by the Investor in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Investor is not doing business in the Philippines to support the applicability of a tax treaty relief;
- (iii) a duly notarized undertaking executed by (1) the corporate secretary or any authorized representative of such applicant or Investor, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases, or the Investor holds, the Offer CPs for its account, or (2) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Offer CPs 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 of any suspension or revocation of the tax exemption certificate, certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Master RPAA, 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; and
- (iv) 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 withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Investor’s legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Investor is not doing business in the Philippines; 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 Investor on the interest payments to such Investor; 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, subject to the submission by the Investor claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar.

The Purchase Price for each Offer CP 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 Arranger, Joint Lead Underwriter and Bookrunner or Selling Agent (if any). All payments must be made or delivered to the Joint Arranger, 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 Arranger, 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 Joint Arranger, Joint Lead Underwriter and Bookrunner. Acceptance by the Joint Arranger, 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 CPs 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 CPS

If the Offer CPS are insufficient to satisfy all Applications to Purchase, the available Offer CPS 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 Arrangers Joint Lead Underwriters and Bookrunners' exercise of the right of rejection on behalf of the Issuer.

ACCEPTANCE OF APPLICATIONS

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

Rejection of Applications

The Joint Arrangers, 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 Arrangers, 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 CPS 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 CPS are not sufficient to cover such oversubscription, in which case the number of Offer CPS covered by the applications shall be reduced *pro rata*.

In the event an Application to Purchase is rejected or the amount of Offer CPS applied for is scaled down for a particular Applicant, the relevant Joint Arranger, 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 CPS 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 Arranger, 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 Arranger, 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 the Offer CPS, which shall be operated solely and exclusively by the said Paying Agent in accordance with the Master RPAA, provided that beneficial

ownership of the Payment Account shall always remain with the Investors. The Payment Account shall be used exclusively for the payment of the principal and other payments due on the Offer CPs on the relevant Payment Date.

The Paying Agent shall maintain the Payment Account while the Offer CPs are outstanding, and until six (6) months past the relevant Maturity Date or date of early redemption, as applicable. Upon closure of the Payment Account, 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 Investors with unclaimed interest and principal payments and such other payments that due on the relevant series of the Offer CPs.

UNCLAIMED PAYMENTS

Any payment of the principal or any accrued interest on the Offer CPs which remain unclaimed after the same shall have become due and payable, shall be held in trust by the Paying Agent for the Investors at the latter's risk and shall be dealt with in accordance with the relevant provisions of the Master RPAA.

PURCHASE AND CANCELLATION

The Issuer may purchase the Offer CPs 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 Investors. Offer CPs so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Offer CPs 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 CPs in the PDEX.

For a more detailed discussion, please refer to the section “*Description of the Commercial Papers – Secondary Trading of the Offer CPs*”.

REGISTRY OF INVESTORS

The Offer CPs shall be issued in scripless form. A Master Certificate of Indebtedness representing Offer CPs sold in the Offer shall be issued in the name of the Trustee for the benefit of the Investors.

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

For a more detailed discussion, please refer to the section “*Description of the Commercial Papers – Transfer of the Commercial Papers*”.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

The summary historical consolidated statement of financial position data as of December 31, 2016, December 31, 2017 and December 31, 2018, and summary historical consolidated statement of income and cash flow data for the years ended December 31, 2016, December 31, 2017 and December 31, 2018 set forth below, have been derived from, and should be read in conjunction with, the audited consolidated financial statements of SMC, including the notes thereto, included elsewhere in this Prospectus. The summary historical consolidated statement of financial position data as of September 30, 2019 and summary historical consolidated statement of income and cash flow data for the nine months ended September 30, 2018 and September 30, 2019, respectively set forth below, have been derived from, and should be read in conjunction with, the unaudited interim condensed consolidated financial statements of SMC, including the notes thereto, included elsewhere in this Prospectus.

The consolidated financial statements of SMC as of and for the years ended December 31, 2016, 2017 and 2018 were audited by R.G. Manabat & Co. The condensed consolidated interim financial statements of SMC as of September 30, 2019 and for the nine months ended September 30, 2018 and 2019 were reviewed by R.G. Manabat & Co.

Unless otherwise stated, SMC has presented its consolidated financial results under PFRS.

Potential investors should read the following data together with the more detailed information contained in “Management’s Discussion and Analysis of Results of Operations” and the consolidated financial statements and related notes included elsewhere in this Prospectus. The following data is qualified in its entirety by reference to all of that information.

CONSOLIDATED STATEMENT OF INCOME DATA

	For the years ended December 31,			For the nine months ended September 30,	
	2016	2017	2018	2018	2019
	(Audited)			(Unaudited)	
	P	P	P	P	P
Sales.....	685,314	826,086	1,024,943	761,173	758,634
Cost of sales.....	514,021	644,221	825,748	603,660	606,584
Gross Profit.....	171,293	181,865	199,195	157,513	152,050
Selling and Administrative expenses	(71,639)	(70,823)	(82,110)	(59,469)	(63,304)
Interest expense and other financing charges.....	(34,803)	(35,714)	(45,496)	(31,942)	(41,884)
Interest income.....	3,693	4,525	7,192	4,913	8,152
Gain on sale of investments and property and equipment.....	154	879	252	303	—
Equity in net earnings (losses) of associates and joint ventures.....	203	297	(289)	(11)	(14)
Other income (charges) – net.....	(11,426)	154	(5,628)	(12,601)	3,965
Income before income tax.....	57,475	81,183	73,116	58,706	58,965
Income tax expense.....	(17,053)	(26,369)	(24,468)	(16,803)	(19,270)
Income from continuing operations .	40,422	54,814	48,648	41,903	39,695
Income after income tax from discontinued operations.....	11,818	—	—	—	—
Net income	52,240	54,814	48,648	41,903	39,695
Attributable to:					
Equity holders of SMC	29,289	28,225	23,077	19,859	20,243
Non-controlling interest	22,951	26,589	25,571	22,044	19,452
	<u>52,240</u>	<u>54,814</u>	<u>48,648</u>	<u>41,903</u>	<u>39,695</u>
Earnings per common share attributable to equity holders of the SMC (Basic)	<u>4.49</u>	<u>8.78</u>	<u>6.61</u>	<u>6.03</u>	<u>6.19</u>
Earnings per common share attributable to equity holders of the SMC (Diluted)	<u>4.49</u>	<u>8.77</u>	<u>6.61</u>	<u>6.03</u>	<u>6.19</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

	As of December 31,			As of September 30,
	2016	2017	2018	2019
		(Audited)	(in millions)	(Unaudited)
	₱	₱	₱	₱
ASSETS				
Current Assets				
Cash and cash equivalents	203,153	206,073	243,150	285,817
Trade and other receivables — net	114,525	116,040	129,893	133,219
Inventories	83,241	102,575	125,139	122,258
Current portion of biological assets — net	3,122	3,422	4,245	4,126
Prepaid expenses and other current assets	75,202	78,228	92,043	78,665
	479,243	506,338	594,470	624,085
Assets held for sale	184	—	—	—
Total Current Assets	479,427	506,338	594,470	624,085
Noncurrent Assets				
Investments and advances — net	32,512	35,537	50,519	52,170
Available in equity and debt instruments	42,068	42,069	42,126	42,075
Property, plant and equipment — net	504,711	523,586	594,372	449,052
Rights-of-use assets — net	—	—	—	173,838
Investment property — net	7,295	7,162	31,829	51,577
Biological assets — net of current portion	2,263	2,695	2,844	3,147
Goodwill — net	58,113	60,124	130,852	130,271
Other intangible assets — net	125,165	134,438	146,608	142,273
Deferred tax assets	20,267	18,412	19,249	19,515
Other noncurrent assets — net	35,003	49,282	63,773	77,157
Total Noncurrent Assets	827,397	873,305	1,082,172	1,141,075
Total assets	1,306,824	1,379,643	1,676,642	1,765,160
LIABILITIES AND EQUITY				
Current Liabilities				
Loans payable	189,277	149,863	184,024	183,581
Accounts payable and accrued expenses	121,602	136,993	149,764	138,089
Finance lease liabilities — current portion	16,392	16,889	19,699	24,319
Income and other taxes payable	16,967	16,653	19,901	20,445
Dividends payable	3,992	4,429	4,042	3,858
Current maturities of long-term debt — net of debt issue costs	31,378	36,944	55,697	37,743
Total Current Liabilities	379,608	361,771	433,127	408,035
Noncurrent Liabilities				
Long-term debt — net of current maturities and debt issue costs	297,222	362,548	561,918	610,306
Deferred tax liabilities	17,229	20,674	22,899	24,743
Finance lease liabilities — net of current portion	153,848	138,008	122,367	122,246
Other noncurrent liabilities — net of current portion	22,136	25,580	24,384	22,425
Total Noncurrent Liabilities	490,435	546,810	731,568	779,720
Total Liabilities	870,043	908,581	1,164,695	1,187,755

	As of December 31,			As of September 30,
	2016	2017	2018	2019
		(Audited)	(in millions)	(Unaudited)
	₱	₱	₱	₱
Equity				
Equity Attributable to Equity Holders of SMC				
Capital stock – common	16,425	16,435	16,443	16,443
Capital stock – preferred	10,187	10,187	10,187	10,187
Additional paid-in capital	177,641	177,750	177,938	177,938
Equity reserves	(7,700)	(4,799)	21,513	19,361
Retained earnings:				
Appropriated	56,906	66,890	72,820	50,314
Unappropriated	135,984	143,335	148,345	181,785
Treasury stock	(109,501)	(109,501)	(109,501)	(116,283)
Total Equity Attributable to Equity Holders of SMC	279,942	300,297	337,745	339,745
Non-controlling interest	156,839	170,765	174,202	237,660
Total Equity	436,781	471,062	511,947	577,405
	<u>1,306,824</u>	<u>1,379,643</u>	<u>1,676,642</u>	<u>1,765,160</u>

CONSOLIDATED STATEMENT OF CASH FLOWS DATA

	For the years ended December 31,			For the nine months ended September 30,	
	2016	2017	2018	2018	2019
		(Audited)	(in millions)	(Unaudited)	
	₱	₱	₱	₱	₱
Net cash flows provided by operating activities	79,193	79,228	58,224	39,617	58,362
Net cash flows used in investing activities	(23,257)	(53,624)	(194,765)	(159,431)	(66,926)
Net cash flows provided by (used in) financing activities	(34,147)	(22,386)	174,015	119,134	52,132
Effect of exchange rate changes on cash and cash equivalents	606	(298)	(397)	1,529	(901)
Net increase in cash and cash equivalents	22,395	2,920	37,077	849	42,667
Cash and cash equivalents at beginning of period	180,758	203,153	206,073	206,073	243,150
Cash and cash equivalents at end of period	<u>203,153</u>	<u>206,073</u>	<u>243,150</u>	<u>206,922</u>	<u>285,817</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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, 2019 (with comparative figures as of December 31, 2018 and for the period ended September 30, 2018). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2019, 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 (PFRS) have been omitted.

I. 2019 SIGNIFICANT TRANSACTIONS

INVESTMENT

- Deconsolidation of Manila North Harbour Port, Inc. (MNHPI)

On March 14 and April 26, 2019, respectively, the Philippine Competition Commission (PCC) and the Philippine Ports Authority approved the transfer of equivalent to 15.17% shareholdings in MNHPI to International Container Terminal Services, Inc. (ICTSI). With the approval of the additional ownership in MNHPI, the total equity interest of ICTSI increased from 34.83% to 50%, while San Miguel Holdings Corp.'s (SMHC) shares remain at 43.33%.

As a result, MNHPI ceased to be a subsidiary of SMHC. The Group derecognized the assets (including goodwill) and liabilities of MNHPI, and the carrying amount of non-controlling interest as of April 26, 2019, and recognized the investment at fair market value amounting to P2,600 million. As a result, the Group recognized a gain amounting to P727 million, included as part of "Other income (charges) - net" account, in the consolidated statements of income.

LONG-TERM DEBT

- Masinloc Power Partners Co. Ltd. (MPPCL)

On January 11, 2019, MPPCL availed of US\$35 million loan from the Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 300MW (Unit 3) coal-fired power plant within the existing facilities of MPPCL. The loan is divided into a fixed interest tranche of 5.5959% per annum and a floating interest tranche based on a six-month LIBOR plus margin, with maturities up to December 2030.

- Citra Central Expressway Corp. (CCEC)

On March 27, 2019, CCEC availed of P1,000 million loan from the P31,000 million Omnibus Loan and Security Agreement with various local banks dated December 15, 2014 for the project cost of the North Luzon Expressway - South Luzon Expressway Link (Skyway Stage 3).

- Petron Corporation (Petron)

In May and July 2019, Petron availed of US\$536 million and US\$264 million loans, respectively, from its US\$800 million term loan facility to refinance Dollar-denominated and Peso-denominated bilateral short-term loans, to be used to partially prepay its existing US\$1,000 million term loan facility and for general corporate purposes. The loan is subject to floating interest rate. Repayment of principal will be made in seven (7) equal semi-annual amortizations beginning May 15, 2021. The maturity date of the loan is on May 15, 2024.

- **SMC**

On June 24, 2019, the Parent Company availed of a P16,000 million fixed-rate seven-year term loan for general corporate purposes.

- **San Miguel Consolidated Power Corporation (SMCPC)**

On July 31, 2019, SMCPC availed of the remaining P978 million from a P21,300 million loans, 12-year Omnibus Loan and Security Agreement with a syndicate of local banks dated August 9, 2018. The loan is subject to a fixed interest rate of 6.5077% and payable in quarterly installments up to August 2030. Proceeds of the loan were mainly used to finance the remaining payables from the construction works for the Davao Greenfield Power Plant.

- **San Miguel Yamamura Australasia Pty. Ltd.**

On July 31, 2019, San Miguel Yamamura Australasia Pty. Ltd. entered into a syndicated facility agreement amounting to AUD100 million, of which AUD80 million has been drawn. The loan is amortized over five (5) years and is subject to interest based on Bank Bill Swap Rate or BBSY rate plus 1.5% to 1.9% margin. Proceeds of the loan were used to refinance maturing short-term obligations and general corporate purposes.

FIXED-RATE PESO-DENOMINATED BONDS

- **Shelf-Registration of P60,000 Million Worth of Fixed-Rate Peso-Denominated Bonds by SMC Global Power Holdings Corp. (SMC Global) and Issuance of P30,000 Million Bonds**

On March 29, 2019, the Philippine Securities and Exchange Commission approved the shelf registration of up to P60,000 million worth of fixed-rate Peso-denominated bonds of SMC Global.

On April 24, 2019, SMC Global issued and listed in the Philippine Dealing & Exchange Corp. the first tranche of the fixed-rate Peso-denominated bonds amounting to P30,000 million.

The bonds are comprised of the three-year Series H Bonds due 2022, five-year Series I Bonds due 2024 and seven-year Series J Bonds due 2026.

The Series H, I and J Bonds have fixed interest rates per annum equivalent to 6.8350%, 7.1783% and 7.6000%, respectively.

The net proceeds were used by SMC Global for payment of maturing long-term debt and short-term loan and in investments in power-related assets, and payment of transaction-related fees, costs and expenses.

- **Redemption of Fixed-Rate Peso-Denominated Bonds by San Miguel Brewery Inc. (SMB)**

On April 2 and 3, 2019, SMB redeemed its Series E and C fixed-rate Peso-denominated bonds amounting to P10,000 million and P2,810 million, respectively. The Series E and C bonds formed part of the P20,000 million and P38,800 million fixed-rate bonds issued in 2012 and 2009, respectively.

SENIOR PERPETUAL CAPITAL SECURITIES (SPCS)

- **Issuance of US\$800 Million SPCS by SMC Global**

On April 25, 2019, SMC Global issued US\$500 million SPCS (the “**Original Securities**”) at an issue price of 100%, with an initial rate of distribution of 6.5% per annum. The SPCS was listed in the Singapore Stock Exchange on April 26, 2019. The net proceeds of the Original Securities will be used and applied by SMC Global for the redemption of US\$300 million Undated Subordinated Capital Securities in November 2019, and for general corporate purposes, including capital expenditures and investments in power-related assets.

On July 3, 2019, SMC Global issued an additional US\$300 million SPCS (the “**Additional Securities**”) at an issue price of 102.052% plus an amount corresponding to accrued distributions from (and including) April 25 to (and excluding) July 3, 2019. The Additional Securities were consolidated into and form a single series with the Original Securities issued in April 2019, bringing its total securities to US\$800 million (the “**Securities**”). The Additional Securities are identical in all respects with the Original Securities, other than with respect to the date of issuance and issue price. The Additional Securities was also listed in the Singapore Stock Exchange on July 4, 2019. The net proceeds of the Additional Securities will be used by SMC Global for general corporate purposes, investments in power-related assets and repayment of indebtedness.

As of September 30, 2019, the net proceeds of the Securities are still part of the cash and cash equivalents balance.

PREFERRED SHARES

- Issuance of 20,000,000 Series 3 Perpetual Preferred Shares by Petron

On June 25, 2019, Petron issued and listed on the Philippine Stock Exchange 13,403,000 Series 3A and 6,597,000 Series 3B Perpetual Preferred Shares for a total amount of P20,000 million.

Dividends are 6.8713% and 7.1383% per annum for Series 3A and Series 3B, respectively.

The net proceeds were used for the repayment of maturing short-term loans and general corporate purposes. The remaining balance which is allocated for the redemption of the Series 2A Preferred Shares in November 2019, is still in the cash and cash equivalents balance of Petron as of September 30, 2019.

- Redemption of Series “2” Preferred Shares - Subseries B (SMC2B Preferred Shares) by the Parent Company

On September 23, 2019, the Parent Company redeemed 90,428,200 SMC2B Preferred Shares at a redemption price of P75.00 per share. The Parent Company paid P6,782 million to the holders of SMC2B Preferred Shares. The Parent Company initially obtained a short-term bridge financing loan to redeem the SMC2B Preferred Shares.

The bridge financing loan was paid using the proceeds of the P10,000 million worth of fixed rate Peso-denominated bonds issued by the Parent Company on October 4, 2019.

PAYMENT OF OTHER MATURING OBLIGATIONS

During the nine-month period ended September 30, 2019, the Group paid P17,224 million of maturing obligations funded by cash generated from operations.

The Infrastructure business, Petron and Energy business paid a total of P8,619 million, P4,858 million and P2,807 million, respectively, of their maturing long-term debt.

While, the Packaging business paid a total amount of P940 million of their maturing long-term debt.

II. FINANCIAL PERFORMANCE

2019 vs. 2018

The Group’s consolidated sales revenue for the nine months ended September 30, 2019 amounted to P758,634 million, at par versus 2018. Higher volumes from the Energy business and San Miguel Food and Beverage continue to drive revenue growth, but this was moderated by the decline in sales performance of Petron.

Cost of sales amounted to P606,584 million, slightly higher than 2018 at P603,660 million. The increase primarily resulted from the: (a) volume growth of San Miguel Food and Beverage and higher prices of major raw materials of the Food business, and (b) higher power purchase costs of Sual and San Roque Power Plants and Albay Power

and Energy Corporation, full nine months operations of Masinloc Power Plant, Malita Power Plant Unit 2 and Limay Power Plant Unit 3, and higher energy fees of Ilijan and Sual Power Plants. This was reduced by the decrease in average crude prices and lower sales volume of Petron.

Selling and administrative expenses increased by 6% at P63,304 million compared to last year. The increase was mainly due to higher distribution costs, advertising and promotions, and depreciation and amortization expenses of SMB, full nine months operations of Masinloc Power Plant, Malita Power Plant Unit 2 and Limay Power Plant Unit 3, and higher personnel expenses of the Energy business, and higher logistics costs and personnel expenses of the Food business.

The Group's consolidated operating income amounted to P88,746 million, 9% lower than last year, as Petron continued to be weighed down by the effect of volatile world crude oil prices, weak refining margins and lower volumes. The Food business under San Miguel Food and Beverage also continues to be affected by rising raw material costs in most of its business segments. The decline, however, was moderated by SMB, Ginebra San Miguel Inc. (GSMI) and the Energy business' strong results during the period.

The higher interest expense and other financing charges was mainly due to the higher level of long-term debt and generally higher interest rate in 2019 compared to 2018.

The higher interest income was primarily due to the higher interest rate and average balance of cash and money market placements.

The increase in equity in net losses mainly represents higher share in the net losses of the Group's joint ventures, net of the share in MNHPI's income for the period May to September 2019.

The gain on sale of investments and property and equipment in 2018 pertains mainly to the sale by San Miguel Properties, Inc. (SMPI) of its investment in Legacy Homes, Inc.

Other income - net in 2019 versus other charges - net in 2018 was primarily due to the appreciation of the Philippine Peso by P0.75 in September 2019 compared to the depreciation of the Philippine Peso by P4.09 in September 2018, resulting to a foreign exchange gain of P2,472 million in 2019 compared to a foreign exchange loss of P15,326 million in 2018.

The higher income tax expense was primarily due to the: (a) higher provision for deferred income tax expense recognized by the Energy business on the temporary difference of monthly fixed payments to Power Sector Assets and Liabilities Management Corporation (PSALM) over the finance lease-related expenses and the temporary differences on foreign exchange translation and capitalized borrowing costs, (b) recognition by the Parent Company of deferred income tax expense for the unrealized foreign exchange gain in 2019 compared to deferred income tax benefit for the unrealized foreign exchange loss in 2018, and (c) higher taxable income of SMB, MPPCL and South Premiere Power Corp. (SPPC). This was partially offset by lower provision for income tax recognized by Petron, the Food business and San Miguel Energy Corporation (SMEC) due to the decline in taxable income.

Consolidated net income amounted to P39,695 million, 5% lower than last year.

Share of non-controlling interests (NCI) decreased in 2019 mainly due to the lower net income of Petron, partly offset by the increase in share of NCI on San Miguel Food and Beverage's higher net income.

The following are the highlights of the performance of the individual business segments:

1. FOOD AND BEVERAGE

San Miguel Food and Beverage, Inc.'s (SMFB) consolidated revenue for the nine-month period in 2019 reached P226,365 million, 10% higher than P206,620 million reported in the same period in 2018, mainly driven by Beer and Spirits' strong volumes. Consolidated operating income, however, ended slightly lower at P33,585 million on account of the decline in the Food business' performance.

Net income stood at P22,922 million, which is flat versus the same period last year.

a. Beer and Non-Alcoholic Beverages (NAB) Segment

SMB kept its growth trend during the nine-month period, with consolidated volumes reaching 222.0 million cases, 8% higher than the previous year.

Domestic operations volumes grew 9% from last year which continue to benefit from the ongoing campaigns and consumer and trade programs that further strengthened the equity and brand awareness for the portfolio of beer products, in particular, Red Horse and San Miguel Pale Pilsen, maintaining its position as the top selling brands for SMB.

SMB's international operations, meanwhile, continue to deliver favorable revenue and operating income growth on the back of improved performances of Exports, Vietnam and Thailand.

With strong volumes and better selling prices, SMB's consolidated revenues and operating income reached P103,883 million and P28,200 million, up 11% and 9%, respectively.

Net income grew to P19,835 million, 12% higher from last year.

b. Spirits Segment

GSMI's September year-to-date volumes remained strong posting a 15% growth from last year. GSMI's key brands continue to benefit from the thematic campaigns "Pilipino Ako, Ginebra Ako" of Ginebra San Miguel, "Lakas sa Magandang Bukas" of Vino Kulafu and "I Choose Mojito" of GSM Blue, as well as, the 2019 Jersey collection promo, wider sales distribution and numerous on-ground activations. Revenues reached P21,430 million, 20% higher than last year.

Backed by strong volumes, higher revenues and lower costs, operating income hit P2,209 million, 66% higher than last year's level.

Net income hit P1,325 million, 68% higher from the previous year.

c. Food Segment

The Food business' consolidated revenues for the nine-month period amounted to P101,054 million, 6% higher than last year with all its businesses posting revenue growth driven by better selling prices.

Protein business revenues grew 5%, driven by improvements in poultry prices, backed by higher chicken sales from its stable-priced channels and the shift of consumer preferences to chicken from pork due to the African Swine Fever disease outbreak that hit Luzon and Metro Manila. During the third quarter, poultry prices have shown signs of recovery which were higher compared to the previous year. Year-to-date average prices, however, is still lower compared to last year's level.

Animal Nutrition & Health business revenues was relatively flat as commercial volumes declined on account of lower sales of broiler and layer feeds brought about by delayed loading of chicks by commercial raisers.

Prepared and Packaged Food business provided double-digit revenue growth of 13% brought by the strong performance of core products - Tender Juicy, Purefoods Nuggets, Magnolia Milk, Buttercup Margarine and Cheezee, which was supported with aggressive marketing campaigns.

Flour revenues sustained its good performance, which grew 8%, on account of higher volumes and better selling prices.

The Food segment's operating income for the first nine months, however, ended significantly lower than last year at P3,209 million mainly due to lower poultry prices at the start of the year and higher raw material costs of most of its businesses.

Net income for the Food business ended lower at P1,783 million.

2. PACKAGING

Packaging business' sales revenues amounted to P26,360 million during the nine-month period. Metal, plastics and Malaysian operations continued to lead growth for the group.

With efforts on improving efficiencies and better management of fixed costs, operating income amounted to P2,493 million, 2% higher than 2018.

3. ENERGY

SMC Global posted consolidated off-take volume of 21,581 gigawatt hours (gwh), 22% higher than the same period last year. This was the result of higher bilateral sales volume and improved operations from Sual, Ilijan and San Roque power plants alongside the additional power generated from the Limay and Malita power plants as well as the full nine-month operation of Masinloc power plant. This pushed consolidated revenues to reach P105,142 million, up 18% from P89,111 million last year.

Consequently, consolidated operating income increased by 16% to P29,974 million, while consolidated net income ended at P11,385 million, more than double compared to last year's level.

4. FUEL AND OIL

Petron's consolidated revenues of P381,656 million for the first nine months of 2019 was down by 9% versus 2018, which was mainly due to lower sales volume from its Philippine operations which declined by 7% as a result of its Bataan Refinery's emergency shutdown last April. This was partially cushioned by Malaysia's volume increase of 2%. Global oil prices also remained volatile and lower compared to last year because of ongoing trade wars.

Consolidated operating income and net income settled at P13,871 million and P3,623 million, down by 38% and 70% from 2018, respectively.

5. INFRASTRUCTURE

The Infrastructure business posted a combined 6% volume growth for the nine-month period brought about by consistent increase in traffic volumes of all the operating toll roads. This drove consolidated revenues to reach P17,792 million, while operating income amounted to P8,965 million.

2018 vs. 2017

The Group's consolidated sales revenue for the nine months ended September 30, 2018 amounted to P761,173 million, 28% higher than 2017 mainly driven by higher volumes of San Miguel Food and Beverage and favorable selling prices of Petron. Most businesses increased their revenues with Energy, Petron, and the core beverage and food businesses posting double-digit growth.

Cost of sales increased by 31% to P603,660 million mainly due to the: (a) increase in crude prices and effect of excise tax of Petron, (b) higher sales volume of SMB and the Food business, (c) higher excise tax of the domestic operations of SMB, (d) operations of MPPCL and the power plants in Bataan and Davao, (e) increase in cost of major raw materials of the Food business, particularly Feeds under Animal Nutrition and Health business and dairy and processed meats under Prepared and Packaged Food business, (f) as well as the impact of Philippine Peso depreciation, and (g) depreciation of power plants of SMC Consolidated Power Corporation's (SCPC) Units 1 and 2 and SMCP's Unit 1 which started commercial operations in 2017.

Selling and administrative expenses increased mainly due to higher personnel expenses, freight, trucking and handling costs, distribution costs, contracted services costs and advertising and promotions of SMB, expenses of MPPCL, rent expense, higher terminalling fees and Liquefied Petroleum Gas cylinder purchases, repairs and maintenance and advertising expenses of Petron.

Consolidated operating income ended higher by 18% to P98,044 million, resulting from higher revenues.

The increase in interest expense and other financing charges was mainly due to the: (a) higher level of loans payable and long-term debt in 2018 compared to 2017 from the issuance by SMC of the P50,000 million (Series A, B, C, D, E, F and G) bonds in 2017 and 2018, availment of US\$400 million and US\$400 million long-term debt in 2017 and March 2018, respectively, and US\$300 million corporate notes in June 2018; (b) loan availment by SMC Global of US\$1,200 million in 2018 and issuance of P15,000 million bonds in August 2018 to finance the acquisition of Masinloc Group, and issuance by SMC Global of P20,000 million bonds in December 2017.

The higher interest income was primarily due to higher average balance of cash and money market placements of the domestic and international operations of SMB, San Miguel Equity Investments Inc. and SMHC.

The decrease in equity in net earnings (losses) of associates and joint ventures primarily represents the share of SMC Global on the net loss of Angat Hydropower Corporation.

The gain on sale of investments and property and equipment in 2018 pertains to the sale by SMPI of its investment in Legacy Homes, Inc., while the gain in 2017 pertains to the sale of service stations by Petron Malaysia to the government. Certain service stations of Petron Malaysia were closed since the lot they are occupying will be used for government projects.

The increase in other charges was primarily due to the higher foreign exchange loss on the translation of the foreign currency denominated long-term debt and finance lease liabilities with the Philippine Peso depreciating by P4.09 from P49.93 in December 2017 to P54.02 in September 2018.

Consolidated net income of P41,903 million was 1% higher than 2017.

Consolidated recurring net income, excluding the effect of foreign exchange translation amounted to P52,405 million, 20% higher than 2017.

Share of NCI on the Group's net income increased in 2018 mainly due to the higher net income of SMB, partially offset by the decrease in the NCI of the Food business with the increase in ownership of SMC in SMFB from 85.37% to 95.87% as a result of the Share Swap transaction.

The following are the highlights of the performance of the individual business segments:

1. FOOD AND BEVERAGE

SMFB sustained its strong growth momentum for the nine-month period in 2018 registering consolidated revenues of P206,620 million, 15% higher than P180,436 million in 2017. This was mainly driven by volume and revenue growth across Beer, Spirits and Food segments. Similarly, operating income of P34,025 million grew 17% from same period in 2017.

a. Beer and NAB Segment

SMB revenues amounted to P93,362 million, 16% higher from same period in 2017, mainly driven by robust volumes, 9% higher than 2017. Consumption across the country remained strong with Red Horse and San Miguel Pale Pilsen maintaining their position as SMB's top selling brands. SMB's domestic performance was propelled by consistent and engaging consumption-generating initiatives and defense programs which further strengthened the equity of the SMB brands.

SMB's international operations posted higher revenues from same period in 2017 resulting from better sales mix and improved volumes, with Indonesia and exports operations accounting for bulk of the increase.

SMB's consolidated operating income rose to P25,912 million, 21% higher than 2017.

b. Spirits Segment

GSMI continued its growth momentum posting a 13% volume growth compared to 2017. The flagship brand Ginebra San Miguel continued to drive growth momentum, backed by its nationwide "Ginebra Ako" campaign and consumer promotions. Vino Kulafu - GSMI's Chinese wine also continued to post

strong growth. This translated to revenues of P17,915 million, 17% higher versus the same period in 2017.

Operating income reached P1,328 million, 52% higher than 2017 due to strong volumes and lower operating costs.

c. Food Segment

Food segment posted consolidated revenues of P95,345 million, 13% higher than 2017 on account of the strong performance of Animal Nutrition and Health, Protein and Prepared and Packaged Food businesses. Most of the food businesses registered double-digit revenue growth resulting from increased sales volume and better selling prices.

Income from operations of P6,779 million, however ended at par compared to 2017 resulting from double-digit increases in some raw material costs, higher selling and administrative expenses, additional operating expenses from its ongoing expansion projects as well as the impact of continuing Philippine Peso depreciation.

Revenues from the Animal Nutrition and Health business registered revenues of 14%, driven by higher volumes across all feed types and price adjustments initiated to temper the impact of rising raw material prices. The Protein segment saw revenue growth of 12% benefiting from higher chicken volumes and favorable selling prices.

Revenues of the Flour business increased by 7% to P7,144 million boosted by higher flour volumes and improved selling prices.

The Prepared and Packaged Food business sustained its 15% revenue growth owing to improved volumes in major sales channels and price increases implemented to cushion the impact of rising costs of major raw materials.

2. PACKAGING

The Packaging business contributed sales revenues of P27,143 million, 21% higher from 2017. Increase was mainly due to the solid performance of the glass, plastics, and Australian operations which continue to drive growth.

Coupled with stringent fixed cost management and better productivity, operating income, likewise posted double digit growth reaching P2,434 million, 13% higher than 2017.

3. ENERGY

SMC Global for the nine-month period posted consolidated off-take volume of 17,670 gwh, 38% higher than 2017 mainly due to the additional generation from the Limay & Malita (with a total of 5 units at 150MW each, running in 2018 versus 3 units in 2017) and Masinloc power plants (2 units with a combined capacity of 659 MW starting March 20, 2018) as well as better contributions from the Sual and San Roque power plants compared to 2017. With higher off-take volumes and average realization price, consolidated revenues grew by 43% to P89,111 million from P62,117 million in 2017.

Operating income reached P25,753 million, 31% higher.

4. FUEL AND OIL

Petron's consolidated net income increased by 3% in the first nine months of 2018 despite the industry-wide decline in fuel demand due to high pump prices. The modest growth was mainly driven by sustained volumes growth in the Philippine market, robust performance of its Malaysian operations, and contributions from its petrochemical business. Consolidated volumes reached 81.4 million barrels, nearly 1.2 million higher than in 2017. This was mainly supported by Petron Malaysia which continued to gain ground fueled by a 10% increase in retail sales and Philippine volumes which slightly increased by 1%, net of international trading, despite high local pump prices.

Consolidated revenues from the Philippines and Malaysia grew 34% to P419,861 million from 2017's P313,505 million, reflecting higher international oil prices and increase in volumes. Bellwether Dubai crude recorded a 25% increase from December 2017 to average US\$77.25 per barrel in September 2018. Consolidated operating income slightly went up by 1% to P22,252 million from same period in 2017.

Petron's Bataan Refinery continued to run at 95% capacity which supported local sales and produced high-value petrochemicals. The number of Petron stations in the Philippines and Malaysia also continue to grow in number.

5. INFRASTRUCTURE

The Infrastructure business posted consolidated revenues and operating income of P18,129 million and P8,905 million which both grew 10% from same period in 2017 as traffic volume at all operating tollroads continue to grow.

III. FINANCIAL POSITION

2019 vs. 2018

Consolidated total assets as of September 30, 2019 amounted to about P1,765,160 million, P88,518 million higher than December 31, 2018. The increase was primarily due to the increase in cash and cash equivalents from issuance of SPCS by SMC Global in April and July 2019, issuance of preferred shares by Petron in June 2019, and the recognition of right-of-use (ROU) assets with the adoption of PFRS 16, *Leases*, effective January 1, 2019.

The decrease in prepaid expenses and other current assets was primarily due to the: (a) decrease in Petron's input tax and goods and services tax, and utilization of tax credit certificates, and (b) decrease in CCEC's net restricted cash balance to finance the Toll Collection System project. The decrease was partly offset by Petron's higher Product Replenishment claims and higher input tax for the on-going Skyway Stage 3 and Metro Rail Transit 7 (MRT 7) projects.

The decrease in property, plant and equipment by P145,320 million, the balance of the ROU assets amounting to P173,838 million and the increase in investment property by P19,748 million were primarily the result of the adoption of PFRS 16.

The increase in biological assets - net of current portion was caused by the increase in production cost, mainly due to higher feed costs.

The increase in other noncurrent assets was mainly due to the: (a) advances of Mariveles Power Generation Corporation to suppliers and contractors for the construction of the Mariveles Power Plant, (b) capitalized costs on the construction of MRT 7 and Section 3A-2 (Binalonan to Pozzorubio) of the Tarlac-Pangasinan-La Union Expressway (TPLEX) projects, and (c) purchase of new containers by SMB.

The decrease in accounts payable and accrued expenses was mainly due to the settlement in 2019 of outstanding liabilities as of December 2018 to various suppliers and contractors by Petron and the Infrastructure business and the deconsolidation of MNHPI.

The increase in lease liabilities - current portion pertains to the recognition of current lease liabilities for ROU assets as a result of the adoption of PFRS 16 and the reclassification from noncurrent to current of the lease liabilities under Independent Power Producer Administration agreements due up to September 30, 2020 by the Energy business.

The decrease in dividends payable primarily represents the dividends paid by Citra Metro Manila Tollways Corporation (CMMTC) to its minority shareholders.

The increase in long-term debt (current and noncurrent) was due to the: (a) issuance of P30,000 million fixed-rate Peso-denominated bonds by SMC Global, (b) availing of the US\$800 million long-term loan facility by Petron, and (c) issuance of P16,000 million long-term corporate notes by the Parent Company. The increase was partially offset by the: (a) redemption of Series C and E bonds of SMB, (b) settlement of maturing obligations by Petron,

the Energy business, SMC and the Infrastructure business, and (c) foreign currency adjustment on the US Dollar-denominated loans.

The increase in deferred tax liabilities was mainly attributable to the temporary differences arising from interest and foreign exchange translation of US Dollar-denominated finance lease liabilities of SPPC, SMEC and Strategic Power Devt. Corp. (SPDC), reduced by the decrease in deferred tax liability of Petron due to NOLCO for 2019.

The decrease in other noncurrent liabilities was mainly due to the deconsolidation of MNHPI.

The decrease in reserves pertains to the currency translation adjustments for the period resulting from the appreciation of Philippine Peso against the US Dollar.

The decrease in appropriated retained earnings was attributable to the reversals of appropriation made by the: (a) Energy business for the portion of paid fixed monthly payments to PSALM by SPPC, SMEC and SPDC, and (b) SMB for the Sta. Rosa Plant Packaging Line 2 and Polo Brewery Line 3 Projects and for the payment of Series C and E bonds.

The increase in unappropriated retained earnings was primarily due to the reversal of appropriations and net income for the period, net of cash dividends.

The increase in treasury stock represents the redemption by SMC Parent of its 90,428,200 SMC2B Preferred Shares on September 23, 2019.

The increase in NCI primarily pertains to the issuance of SPCS by SMC Global and issuance of preferred shares by Petron.

2018 vs. 2017

Consolidated total assets as of September 30, 2018 amounted to about P1,635,477 million, P255,834 million higher than December 31, 2017. The increase was primarily due to the increase in inventories, the consolidation of the Masinloc Power assets and the recognition of goodwill on the consolidation.

The increase in trade and other receivables was mainly attributable to the: (a) increase in trade customer balances of Petron due to higher prices and excise taxes on fuel and increase in Petron Malaysia's government subsidy receivable, and (b) higher bilateral and spot sales of SMC Global and acquired trade and other receivables through MPPCL. These were offset by the decrease in receivable balances of the Food business mainly due to collection of trade receivables from 2017 peak season sales.

Inventories increased by P36,553 million due to the higher prices of crude oil and finished products including excise taxes of Petron, consolidation of the materials and supplies of MPPCL, inventory build-up of the Food business in preparation for December peak season sales and lesser production days, and higher inventory levels of SMB in preparation for higher product demand towards the fourth quarter of 2018.

The increase in biological assets was primarily due to Poultry's expansion of farm capacities to support increasing supply requirement and higher growing cost due to increase in importation cost of parent stock.

The increase in prepaid expenses and other current assets was primarily due to the: (a) net increase in restricted cash from additional loan drawdown of SMHC, (b) consolidation and increase in MPPCL's prepaid expenses, (c) higher prepaid taxes of Petron, SMC Global, SMHC and SMC Asia Car Distributors Corp., and (d) reclassification of restricted cash from noncurrent to current by SCPC. The increase was partially offset by the reclassification of advances to contractors of Universal LRT Corporation (BVI) Limited (ULCBVI) from current to non-current.

The increase in investments and advances-net represents mainly the additional investment of San Miguel Holdings Limited.

The increase of P79,215 million in property, plant and equipment was primarily due to the consolidation of the power plant and properties of Masinloc Power and costs of the on-going construction of Masinloc Power Plant Unit 3; and costs of the expansion projects of Petron and the Food business.

The increase in investment property represents mainly the acquisition by SMPI of properties located in Bataan, Aklan and Makati City.

The increase in goodwill mainly represents the goodwill recognized as a result of the consolidation of Masinloc Group.

The increase in other intangible assets was mainly due to costs of the various infrastructure projects of SMHC, net of amortization during the period.

Deferred tax assets increased mainly due to the effect of recognition of higher unrealized foreign exchange loss on the revaluation of foreign currency denominated long-term debt and loans payable as a result of the depreciation of the Philippine Peso against the US Dollar in September 2018 compared to December 2017.

Other noncurrent assets increased by P9,633 million mainly due to the reclassification of advances to contractors of ULCBVI from current to noncurrent assets, capitalized expenditures on the construction of the MRT 7 Project and purchase of containers by SMB.

Loans payable increased by P29,494 million mainly due to net availment of working capital loans by Petron Group, net availment of Peso loans for general corporate purposes by the Food business, and consolidation of the loans payable of Masinloc entities, offset by net payments of SMC Global and GSML.

The increase in accounts payable and accrued expenses was mainly due to higher prices of crude and petroleum products of Petron, consolidation of the balances of Masinloc entities, and increase in inventory purchases of the Beverage business, net of payments made by SCPC of its outstanding payables.

The increase in the current portion of finance lease liabilities mainly represents the reclassification from noncurrent portion to current portion of finance lease liabilities of SPPC, SMEC, and SPDC which are payable up to September 30, 2019 and the consolidation of the finance lease liability of MPPCL.

The increase in income and other taxes payable was mainly due to higher value-added tax payable of SMC Global for services rendered during the period.

Dividends payable decreased primarily due to the dividend payments made by CMMTC.

The higher amount of long-term debt by P198,258 million resulted from the: (a) availments made by SMC Global of US\$1,200 million loan, SMC's availment of US\$400 million loan and US\$300 million corporate notes, to finance the acquisition of Masinloc Power and for investment and general corporate purposes, (b) loan availments for capital expenditures of SMCPC and CCEC, (c) consolidation of the long-term debt of MPPCL, (d) SMC's issuance of Series E, F and G bonds, issuance of P10,000 million fixed-rate corporate notes and availment of US\$120 million term loan; and (e) foreign exchange adjustment on the US Dollar denominated loans, net of payments for the period.

The decrease in noncurrent finance lease liabilities was mainly due to payments by SMEC, SPDC, and SPPC of monthly fixed fees to PSALM and reclassifications to current portion of finance lease liabilities of SPPC, SMEC and SPDC which are payable up to September 30, 2019, net of foreign exchange loss and interest expense recognized on the finance lease.

Equity reserves decreased primarily due to the depreciation of the Philippine Peso against the US Dollar.

The increase in unappropriated retained earnings primarily represents the net income for the period, net of cash dividends and distributions and net appropriations for the period.

Equity

The increase (decrease) in equity is due to:

<i>(In millions)</i>	September 30	
	2019	2018
Net addition (reduction) to non-controlling interests and others	P57,814	(P14,595)
Net income during the period	39,695	41,903
Cash dividends and distributions	(21,898)	(23,572)
Redemption of SMC2B Preferred Shares	(6,782)	-
Other comprehensive income (loss)	(2,016)	3,670
Adjustments due to PFRS 16	(1,355)	-
Issuance of common shares	-	54
	P65,458	P7,460

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	September 30	
	2019	2018
Net cash flows provided by operating activities	P58,362	P39,617
Net cash flows used in investing activities	(66,926)	(159,431)
Net cash flows provided by financing activities	52,132	119,134

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.

Net cash flows used in investing activities included the following:

<i>(In millions)</i>	September 30	
	2019	2018
Additions to property, plant and equipment	(P44,103)	(P31,346)
Increase in other noncurrent assets and others	(31,154)	(18,457)
Additions to investments and advances	(945)	(18,398)
Cash and cash equivalents of a deconsolidated subsidiary	(621)	-
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(9)	(98,106)
Interest received	7,920	4,719
Dividends received	1,336	1,102
Proceeds from sale of investments and property and equipment	650	1,055

Net cash flows provided by financing activities included the following:

<i>(In millions)</i>	September 30	
	2019	2018
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	P41,050	P24,881
Proceeds from long-term debt - net	32,749	150,598
Net proceeds from issuance of preferred shares of a subsidiary	19,848	-
Proceeds from short-term loans - net	3,532	26,514
Payment of cash dividends and distributions	(22,084)	(23,970)
Payment of lease liabilities	(15,879)	(19,192)
Redemption of SMC2B Preferred Shares	(6,782)	-
Redemption of undated subordinated capital securities of a subsidiary	-	(39,769)

The effect of exchange rate changes on cash and cash equivalents amounted to (P901 million) and P1,529 million for the periods ended September 30, 2019 and 2018, respectively.

V. OTHER MATTERS

- Consent Solicitation

On November 5, 2019, the Parent Company announced a consent solicitation to secure the approval of the holders of the US\$800 million, 4.875% Notes Due 2023 (the “Notes”) to the proposed amendments to certain terms and conditions of the Notes and in the Trust Deed of the Notes in order to align the covenant and provisions of the Notes with the relevant covenants and provisions on the issued P10 billion retail bond and to the contracted US\$1.75 billion dollar-denominated syndicated term loan facility by the Parent Company on October 4, 2019 and September 27, 2019, respectively.

The Notes are listed and traded on the Singapore Exchange Securities Trading Limited (SGX) and the results of the consent solicitation will be announced on the SGX.

- Acquisition of Holcim Philippines, Inc.

On May 10, 2019, the Parent Company, through First Stronghold Cement Industries, Inc., a subsidiary of San Miguel Equity Investments, Inc., signed a definitive agreement to acquire a controlling interest in Holcim Philippines, Inc. from entities controlled by LafargeHolcim. The acquisition is subject to the approval of the PCC.

VI. 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 2019	December 2018
<u>Liquidity:</u>		
Current Ratio	1.53	1.37
<u>Solvency:</u>		
Debt to Equity Ratio	2.06	2.28
Asset to Equity Ratio	3.06	3.28
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	6.93%	7.23%
Interest Rate Coverage Ratio	2.41	2.61

	Period Ended September 30	
	2019	2018
<u>Operating Efficiency:</u>		
Volume Growth	3%	8%
Revenue Growth	0%	28%
Operating Margin	12%	13%

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	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
KPI	Formula
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.

BUSINESS

OVERVIEW

San Miguel Corporation, together with its subsidiaries, (“SMC” or the “Company”) is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales equivalent to approximately 5.9% of the Philippine GDP in 2018 based on data from the SMC Consolidated Revenues in 2018 divided by Philippine’s total revenue sourced from Philippine Statistics Authority.

Originally founded in 1890 as a single brewery in the Philippines, SMC today owns market-leading businesses and has investments in various sectors, including beverages, food, packaging, energy, fuel and oil, infrastructure, property, car distributorship and banking services. 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 nation. The common shares of SMC were listed on the Manila Stock Exchange (now The Philippine Stock Exchange, Inc., the “PSE”) on November 5, 1948 and as of December 27, 2019, SMC had a market capitalization of ₱390,959 million, with a common share price of ₱164.00.

SMC, through its subsidiaries and affiliates, has become a market leader in its businesses in the Philippines with an extensive portfolio of products that include beer, spirits, 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, SMC contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers.

Since adopting its business diversification program in 2007, SMC has channelled its resources into what it believes are attractive growth sectors, which are aligned with the development and growth of the Philippine economy. SMC believes that continuing this strategy and pursuing growth plans within each business 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. The consolidated sales, gross profit and EBITDA of SMC for the year ended December 31, 2018 were ₱1,024,943 million, ₱199,195 million and ₱157,887 million, and for the nine months ended September 30, 2019 were ₱758,634 million, ₱152,050 million and ₱123,000 million, respectively.

SMC’s five key business groups, most of which are market leaders in their respective industries, include the following (1) food and beverage; (2) packaging; (3) fuel and oil; (4) energy; and (5) infrastructure. In addition, SMC has investments in other businesses such as property development and leasing, car distributorship and banking services. Each of these key business groups and the primary entities through which such businesses are conducted are summarized below.

Food and Beverage

On June 29, 2018, SMC completed the consolidation of its beer and non-alcoholic (“NAB”) businesses, spirits and food businesses through its subsidiary, San Miguel Food and Beverage, Inc. (“SMFB”, formerly San Miguel Pure Foods Company, Inc., and such consolidation, the “SMFB Consolidation”).

SMFB is a leading food and beverage company in the Philippines. The brands under which SMFB produces, markets and sells its products are among the most recognizable and top-of-mind brands in the industry and hold market-leading positions in their respective categories. Key brands in the SMFB portfolio include *San Miguel Pale Pilsen*, *San Mig Light*, and *Red Horse* for beer, *Ginebra San Miguel* for gin, *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* and *Purefoods Tender Juicy*, for refrigerated prepared and processed meats and canned meats, *Star* and *Dari Crème* for margarine and *B-Meg* for animal feeds.

SMFB has three primary operating divisions—(i) beer and NAB, (ii) spirits, and (iii) food. SMFB operates its beverage business through San Miguel Brewery Inc. and its subsidiaries (“SMB” or the “Beer and NAB Division”) and Ginebra San Miguel Inc. and its subsidiaries (“GSMI” or the “Spirits Division”). The food business (the “Food Division”) is managed through a number of other subsidiaries, including San Miguel Foods, Inc. (“San Miguel Foods”), Magnolia, Inc., and The Purefoods-Hormel Company, Inc. (“Purefoods-Hormel”). SMFB serves the Philippine archipelago through an extensive distribution and dealer network and exports its products to almost 60 markets worldwide.

SMFB is listed on the PSE under stock code “FB” and as of December 27, 2019, had a market capitalization of ₱502,284 million, with a common share price of ₱85.00. As of September 30, 2019, SMC’s ownership interest in SMFB was 88.76%.

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”) and its subsidiaries, San Miguel Yamamura Packaging International Limited (“SMYPIL”) and its subsidiaries, San Miguel Yamamura Asia Corporation (“SMYAC”), SMC Yamamura Fuso Molds Corporation (“SYFMC”), Can Asia, Inc. (“CAI”), Mindanao Corrugated Fireboard, Inc. (“Mincorr”) and Wine Brothers Philippines Corporation, collectively the “**Packaging Group**.” The Packaging Group has one of the largest packaging operations in the Philippines producing glass containers, metal crowns and caps, plastic crates, pallets and other plastic packaging, aluminum cans, paper cartons, flexibles packaging and other packaging products and services such as beverage toll filling for PET bottles and aluminum cans. As of September 30, 2019, the Packaging Group had 35 packaging facilities located in the Philippines and in China, Vietnam, Malaysia, Australia and New Zealand. As of September 30, 2019, SMC’s ownership interest in SMYPC was 65%.

Fuel and Oil

SMC operates its fuel and oil business through Petron Corporation (“**Petron**”), which is the largest integrated oil refining and marketing company in the Philippines and is a strong third player in the Malaysian market. Petron has a combined refining capacity of 268,000 barrels per day and refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, Petron operates a refinery in Bataan (the “**Limay Refinery**”), the largest and one of the most modernized, which the Company believes supplies approximately 30% of the country’s total fuel requirements. The Limay Refinery has a crude oil distillation capacity of 180,000 barrels per day, processing 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 common shares of Petron are listed on the PSE under stock code “PCOR”. The market capitalization of PCOR was ₱36,188 million, with a common share price of ₱3.86 as of December 27, 2019. As of September 30, 2019, SMC’s direct and indirect ownership in Petron was 68.25%.

Energy

SMC Global Power Holdings Corp. (“**SMC Global Power**”), together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,347 MW of combined capacity as of September 30, 2019. Following the expected commencement of commercial operations of Masinloc Power Plant Unit 3 (currently undergoing commissioning and expected to commence commercial operations in first quarter of 2020, upon receipt of its certificate of compliance from the Energy Regulatory Commission (the “**ERC**”)), SMC Global Power’s combined capacity will increase to 4,682 MW. SMC Global Power benefits from a diversified power portfolio, including natural gas, coal, renewable energy such as hydroelectric power and more recently, battery energy storage systems (“**BESS**”). Based on the total installed generating capacities reported in the ERC Resolution No. 05, Series of 2019 dated June 2019 (“**ERC Resolution on Grid Market Share Limitation**”), SMC Global Power believes that its combined installed capacity comprises approximately 20% of the National Grid, 26% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of September 30, 2019. As of September 30, 2019, SMC’s ownership interest in SMC Global Power was 100%.

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. Currently operating toll roads include the South Luzon Expressway (“**SLEX**”), Skyway Stages 1 and 2, the Southern Luzon Arterial Road tollway (“**STAR**”), the Tarlac-Pangasinan-La Union Expressway (“**TPLEX**”) and the Ninoy Aquino International Airport Expressway (“**NAIAx**”). Ongoing projects include Skyway Stages 3 and 4, the extension of SLEX – Toll Road 4 (“**SLEX-TR4**”) and the Mass Rail Transit Line 7 (“**MRT-7**”). SMHC also operates and is currently expanding the Boracay Airport and has investments in Manila North Harbour Port, Inc. (“**MNHPI**”) and Luzon Clean Water Development Corporation (“**LCWDC**”) for the Bulacan Bulk Water Supply Project. As

of September 30, 2019, SMC's ownership interest in SMHC was 100%.

Others

Other investments of SMC include real property (development and leasing), through San Miguel Properties, Inc. ("SMPI"), car distributorship through SMC Asia Car Distributors Corp., and banking and bank services through Bank of Commerce ("BOC").

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

	2016		2017		2018		As of and for the Nine Months Ended September 30, 2019	
	Sales	%	Sales	%	Sales	%	Sales	%
	(in ₱ millions)		(in ₱ millions)		(in ₱ millions)		(in ₱ millions)	
Food and Beverage	227,279	33.1	251,589	30.5	286,378	27.9	226,365	29.8
Packaging.....	27,386	4.0	32,099	3.9	37,325	3.6	26,360	3.5
Fuel and Oil	343,840	50.2	434,624	52.6	557,386	54.4	381,656	50.3
Energy.....	77,972	11.4	82,791	10.0	120,103	11.7	105,142	13.9
Infrastructure	19,866	2.9	22,497	2.7	24,530	2.4	17,792	2.3
Others.....	23,261	3.4	36,989	4.5	38,568	3.8	30,507	4.0
Eliminations.....	(34,290)	(5.0)	(34,503)	(4.2)	(39,347)	(3.8)	(29,188)	(3.8)
Total	685,314	100.0	826,086	100.0	1,024,943	100.0	758,634	100.0

RECENT DEVELOPMENTS

On May 10, 2019, the Company announced the acquisition by First Stronghold Cement Industries Inc., ("FSCII"), a wholly-owned subsidiary of San Miguel Equity Investments Inc., which in turn is a wholly-owned subsidiary of the Company, of a controlling interest in Holcim Philippines, Inc. ("HPI", and such acquisition, the "HPI Acquisition"), a publicly listed company engaged in the manufacture, sale and distribution of cement and cementitious products and aggregates and the provision of technical support on various construction-related quality control, optimization, solutions development, and skills upgrade. As of the date of this Prospectus, the HPI Acquisition is pending the review of the Philippine Competition Commission ("PCC"). Upon approval of the HPI Acquisition by the PCC, FSCII is required to conduct a tender offer of the shares of HPI held by its minority shareholders pursuant to the Securities Regulation Code.

On September 12, 2019, the Board of Directors of SMC approved the purchase of 5% of San Miguel Yamamura Asia Corporation; the merger of San Miguel Yamamura Asia Corporation with San Miguel Yamamura Packaging Corporation ("SMYPC"), where SMYPC will be the surviving entity. With the merger, all the packaging business of SMC together with its joint venture partner, NYG will be consolidated in SMYPC. On October 23, 2019, SMC completed the acquisition of 5% of SMYPC.

On September 18, 2019, San Miguel Aerocity Inc. ("SMAI") signed a concession agreement with the DOTr for the construction, operation and maintenance of a new international airport located in Bulakan, Bulacan with a maximum capacity of up to 100 million passengers per annum. The construction period for the proposed New Manila International Airport ("NMIA") project is five to seven years.

On October 4, 2019, SMC issued and listed an additional ₱10,000,000,000.00 fixed rate bonds under its ₱60,000,000,000.00 shelf registration with 5.5500% p.a due 2024. The net proceeds of the bonds may be used either to fund the redemption of the outstanding Series 2-B Preferred Shares of the Company, which redemption may be initially funded through a bridge loan, or refinancing or redenomination of existing loan obligations of the Company.

On November 5, 2019, SMC announced a consent solicitation to secure the approval of the holders of the U.S.\$800 million, 4.875% Notes Due 2023 (the "2023 Notes") to the proposed amendments to certain terms and conditions of the 2023 Notes and in the trust deed of the 2023 Notes in order to align certain covenants and provisions of the 2023 Notes with the relevant covenants and provisions of SMC's ₱10 billion retail bond and U.S.\$1.75 billion

dollar-denominated syndicated term loan facility issued on October 4, 2019 and September 27, 2019, respectively. On November 28, 2019, the holders of the 2023 Notes consented to the amendments and the supplemental trust deed in respect of the 2023 Notes was entered into on November 29, 2019.

On November 5, 2019, SMC Global Power issued U.S.\$500 million senior perpetual capital securities and on November 7, 2019 redeemed the U.S.\$300 million undated subordinated capital securities issued in May 2014. On January 21, 2020, SMC Global Power issued U.S.\$600 million senior perpetual capital securities.

On November 12, 2019, SMC also announced a consent solicitation to obtain the approval of the holders of the following Philippine Peso-denominated debt securities to the proposed amendments to certain terms and conditions in the respective trust agreements of the following debt securities: 4.8243% Series A Bonds due 2022, 5.2840% Series B Bonds due 2024, 5.7613% Series C Bonds due 2027; 5.1923% Series D Bonds due 2022; 6.2500% Series E Bonds due 2023, 6.625% Series F Bonds due 2025, 7.1250% Series G Bonds due 2028; and 5.2500% Fixed Rate Notes due 2020 (collectively, the “**Philippine Debt Securities**”). The proposed amendments are to align the respective covenants and provisions of the Philippine Debt Securities with the relevant covenants and provisions of SMC’s ₱10 billion retail bond and U.S.\$1.75 billion dollar-denominated syndicated term loan facility issued on October 4, 2019 and September 27, 2019, respectively. The Philippine Debt Securities are listed and traded on the PDEX. On December 18, 2019, SMC obtained the consents required in connection with the Philippine Debt Securities consent solicitations held from November 22, 2019 to December 18, 2019.

On November 14, 2019, SMFB filed a registration statement to the Philippine SEC for its inaugural Philippine Peso denominated retail bonds of ₱15 billion and as of the date of this Prospectus, SMFB targets to issue in the first quarter of 2020.

On February 5, 2020, the Company has established a U.S.\$3,000,000,000 Medium Term Note Programme (“**MTN Programme**”) with DBS Bank Ltd. and Standard Chartered Bank as arrangers and Australia and New Zealand Banking Group Limited, Credit Suisse (Singapore) Limited, DBS Bank Ltd., Mizuho Securities Asia Limited, Standard Chartered Bank and UBS AG Singapore Branch as dealer. Under this MTN Programme, the Company may issue notes or perpetual securities in bearer or registered form and denominated in any currency agreed between the Company and the relevant dealer.

STRENGTHS AND STRATEGIES

Strengths

SMC believes that its principal strengths include the following:

Robust and diversified platform with broad exposure to the growth of the Philippine economy

The Philippines is one of the fastest growing economies in the Southeast Asia. From 2009 to 2018, the nominal GDP in the Philippines grew from approximately ₱8,017 billion to ₱17,405 billion, according to Economist Intelligence Unit, representing a compound annual growth rate (“**CAGR**”) of 9.0%. The Philippines has one of the youngest populations in Southeast Asia with a median age of 24 years, and urbanization is expected to remain consistent at around 44% until 2022 according to GlobalData.

SMC is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales equivalent to approximately 5.9% of the Philippine GDP in 2018. SMC is broadly exposed to the Philippine economy through its market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure, and property and investments in car distributorship and banking services. 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 respective markets.

Food and Beverage: SMFB holds market-leading positions across food and beverage categories with large addressable markets and attractive growth prospects. Following its consolidation, SMFB is now a unique platform that offers an extensive complementary product portfolio across beer and NAB, spirits and food with 32 brands in

six categories, serving the full spectrum of a growing domestic population. In 2018, the Beer business had a market share by volume of 94.2%, according to GlobalData. As of September 30, 2019, the Spirits business, had leading market share in the gin category by volume of 97.3%, according to The Nielsen Company (Copyright © 2018, The Nielsen Company). As of the same period, the Food Division, is a market leader in several categories: 62.7% for hotdogs, 22.3% for corned meats, 22.2% for cheese and 22.5% for feeds, according to The Nielsen Company (Copyright © 2018, The Nielsen Company). Likewise, based on figures at the end of 2018, the Food Division had market shares of 33.7% for refrigerated butter, 92.6% for refrigerated margarine, and 97% for non-refrigerated margarine.

SMFB is an integral part of the Filipino lifestyle for more than a century and is present in its consumers' lives at every meal and occasion, guided by the company slogan of "Celebrating Life." SMFB believes that its products are part of the daily lives of its consumers, providing sustenance and enjoyment to families through trusted food brands and celebrating friendships and camaraderie with a world-class portfolio of beer and NAB and spirit products. The product portfolio of SMFB is suitable for any occasion throughout the year, whether it be for everyday consumption or for the most significant life events, and continuously evolves to cater to consumer tastes and preferences.

Packaging: The Packaging Group has one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, 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 Beverages Philippines, Inc., Nestle Philippines, Inc. and Pepsi Cola Products Philippines, Inc.

As of September 30, 2019, the Packaging Group has 14 packaging facilities in the Philippines and 21 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: Petron is a leading integrated oil refining and marketing company in the Philippines, with an overall market share of 27.1% of the Philippine oil market as of June 30, 2019, in terms of sales volume based on Petron estimates using its internal assumptions and calculations and industry data from the DOE. 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. As of September 30, 2019, Petron had more than 2,400 retail service stations, an increase of approximately 86% from about 1,288 service stations in 2008, which Petron believes to be greater than any other market participant in the Philippines. As of September 30, 2019, Petron's retail service stations represent approximately 25% of the country's total service station count. In Malaysia, Petron ranked third in the retail market with 21.3% market share as of September 30, 2019, 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, together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,347 MW of combined capacity as of September 30, 2019. SMC Global Power benefits from a diversified power portfolio, including natural gas, coal, renewable energy such as hydroelectric power and more recently, BESS. Based on the total installed generating capacities reported the ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 20% of the National Grid, 26% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of September 30, 2019.

Infrastructure: SMHC has become one of the major infrastructure companies in the country, with concessions in toll roads, airport, mass rail transit, and bulk water. SMHC has rights to approximately 55.45% of the total road length of awarded toll road projects.

Operating businesses provide sustainable stream of income and cash flows

SMC's food and beverage and packaging businesses have historically provided the Company with a sustainable stream of income and have demonstrated resilience during the global financial crisis and provided SMC with a strong financial base from which to pursue its diversification strategy. For the year ended December 31, 2018, the food and beverage and packaging businesses provided 32% of consolidated sales and 40% of total EBITDA of SMC. For the nine months ended September 30, 2019, the food and beverage and packaging businesses provided 33% of total SMC sales and 38% of total SMC EBITDA. SMC's fuel and oil, power and infrastructure businesses have contributed to further growth and increased the Company's sustainable income and cash flows, providing 68% and 67% of total SMC sales and 60% and 62% of total SMC EBITDA, for the year ended December 31, 2018 and the nine months ended September 30, 2019, respectively.

For the period ended September 30, 2019, SMC generated ₱123,000 million of EBITDA and ₱20,243 million of net income attributable to SMC as the parent company ("**SMC Parent Company**") with ₱44,103 million of capital expenditure. In 2018, SMC generated ₱157,887 million of EBITDA and ₱23,077 million of net income attributable to SMC Parent Company with ₱47,323 million of capital expenditure. In 2017, it generated ₱147,342 million of EBITDA and ₱28,225 million of net income attributable to SMC Parent Company with ₱38,693 million of capital expenditure. In 2016, it generated ₱130,875 million of EBITDA and ₱29,289 million of net income attributable to SMC Parent Company with ₱40,649 million of capital expenditure.

Well-positioned for significant future growth

SMC is well-positioned for significant future growth. The food and beverage and packaging businesses continue to provide stable cash flow, while its fuel and oil, energy and infrastructure businesses have grown significantly and have enabled SMC to expand its ability to generate higher returns.

Food and Beverage: SMFB is well-positioned to benefit from the growing demand for food and beverage products as driven by the country's sustained economic growth, expanding urbanization, favourable demographic patterns, and rapidly changing consumer tastes and preferences. In addition, the international beer business is experiencing increased sales and 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. Additionally, the Food Division 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. The food and beverage business continue 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.

Packaging: The Packaging Group 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. Increasing 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 Group 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 favourable 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 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 that the downstream oil market in the Philippines is still underserved and has strong potential for growth. To capture this growth and further strengthen its market position, Petron plans to: (i) increase its retail outlets for fuels and LPG to improve market penetration and arrest the growth of other industry players; (ii) introduce new products with differentiated and superior qualities; (iii) expand its lubes distribution network by putting up more sales channels such as new lubes outlets, sales centres and car care centres, and penetrating non-traditional outlets such as auto parts and repair shops; (iv) continue 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) intensify its dealer and sales personnel training to further improve customer service experience. These initiatives will support Petron's 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 650 retail service stations. Petron plans to strategically increase its presence in developing areas to make its products and services accessible to more Malaysians. Petron believes it has a 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.

Energy: Demand for electricity in the Philippines is expected to continue to grow. According to the Power Development Plan 2016-2040 published by the DOE, to meet the projected electricity demand including reserve requirements by 2040, the power system capacity addition that the Philippines will need is 43,765 MW, which is broken down as follows: 25,265 MW for baseload, 14,500 MW for mid-merit and 4,000 MW for peaking. In its Power Demand and Supply Outlook 2018-2040 report as of October 2018, the DOE increased its forecasts and projected that additional 62,248 MW in installed capacity will be necessary, which is broken down as follows: 10,955 MW for baseload, 10,035 MW for peaking, 34,798 MW for variable, and 6,460 MW for flexible technologies. Moreover, based on SMC Global Power's estimates, despite the continuing build-up of installed capacity, net reliable capacity remains insufficient to meet peak demand. This considers the entry of variable capacities, composed primarily of intermittent renewable energies such as solar and wind, as well as the introduction of flexible technologies, such as BESS, which compensate for the intermittency of the variable capacities. For the period 2018 to 2022, there is approximately 6,000 MW of private sector-initiated power projects that are either committed or indicative, according to the DOE. Construction of new power plants on average takes a minimum of three years. In addition, the depletion of the supply of natural gas from the Malampaya gas facility in Palawan ("**Malampaya**"), supplying 25% to 30% of net reliable capacity, may result in a reduction of energy generated by natural gas power plants beginning 2022. 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 expected power supply shortage. To meet this need, SMC Global Power has a defined roadmap to increase capacity by developing greenfield power plants and pursuing opportunities to invest in renewable energy projects, particularly in hydroelectric power and solar power projects and complementary technologies such as BESS.

Infrastructure: SMHC believes there are significant opportunities in building or acquiring infrastructure assets in a growing economy that has historically under-invested in infrastructure. Since assuming the Philippine presidency in 2016, President Rodrigo R. Duterte and his administration have implemented the "Build, Build, Build Program", which aims to increase infrastructure spending and build new railways, roads, airports and other key infrastructure at an expected cost of over ₱8 trillion spread over six years. Over the past ten years, SMHC has built the TPLEX, SLEX, Skyway Stages 1 and 2, STAR and NAIAX. It also operates and is currently expanding the Boracay Airport and is currently progressing the development of the following projects: Manila North Harbor, Skyway Stages 3 and 4, SLEX-TR4, and MRT-7. SMHC believes that its operating licenses will provide strong and stable long-term income streams.

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 there are opportunities within its food and beverage and packaging businesses to promote growth in its energy, infrastructure, and fuel and oil businesses, by using the relevant areas to conduct the Company's activities. Initiatives would include building of service stations and retail outlets along toll roads which also serves as an opportunity for its products from various businesses. Currently, SMC is pursuing several initiatives that will create possible savings and help promote its different brands. For example, the Company will establish a unified rewards program for customers of various San Miguel products and services that Petron Service Stations, *Monterey Meat Shops*, *Treats* and Bank of Commerce can offer in a retail level/end-consumer level. SMC will also maximize the use of its RFIDs that tollroads use as payment, by expanding its access to the different Petron Service Stations and SMFB outlets.
- **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 food and beverage products of

SMC. SMC's infrastructure business also contributes to the efficient delivery system of its products to consumers by providing better road access.

- **Economies of scale:** SMC believes the size and scale of its distribution network operations provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC 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. SMC's integration strategies range from supplying the fuel and oil and power requirements to providing a total packaging solution of its various businesses.

Cohesive and experienced management team

SMC has a highly experienced and loyal senior management team that has been with their respective businesses for an average of over 20 years. The management team has a deep knowledge and understanding of the Philippine operating environment and has been able to effectively manage the group of SMC companies through periods of crisis and instability in the Philippines. The management team has successfully directed the diversification strategy of SMC into energy and infrastructure and other businesses. SMC has expanded its expertise in managing its various businesses by retaining key management personnel from acquired companies in order to maintain their expertise and leverage their industry experience.

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.

Prudently 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 or project proposals to position itself for the economic growth and industrial development of the Philippines. For example, the Company has announced on May 10, 2019 its plans to acquire HPI, a publicly listed company engaged in the manufacture, sale and distribution of cement and cementitious products and aggregates. As of the date of this Prospectus, the HPI Acquisition is pending the review of the PCC. On September 18, 2019, SMAI signed the concession agreement with DOTr to construct and operate the NMIA that is envisioned to be an aerotropolis, fill the gap and set the standard for a modern, world-class international airport that will address today's and future capacity requirements for air travel in 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 continues to pursue plans to further integrate its production and distribution facilities for its food and beverage, packaging, energy, fuel and oil, and infrastructure 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 building additional service and micro-filling stations and food and beverage facilities, constructing new power plants and infrastructure projects and the continued expansion of its various businesses. 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 that it believes have the potential to gain leading positions in their respective markets.

Strengthen sustainable business strategies in all its operations

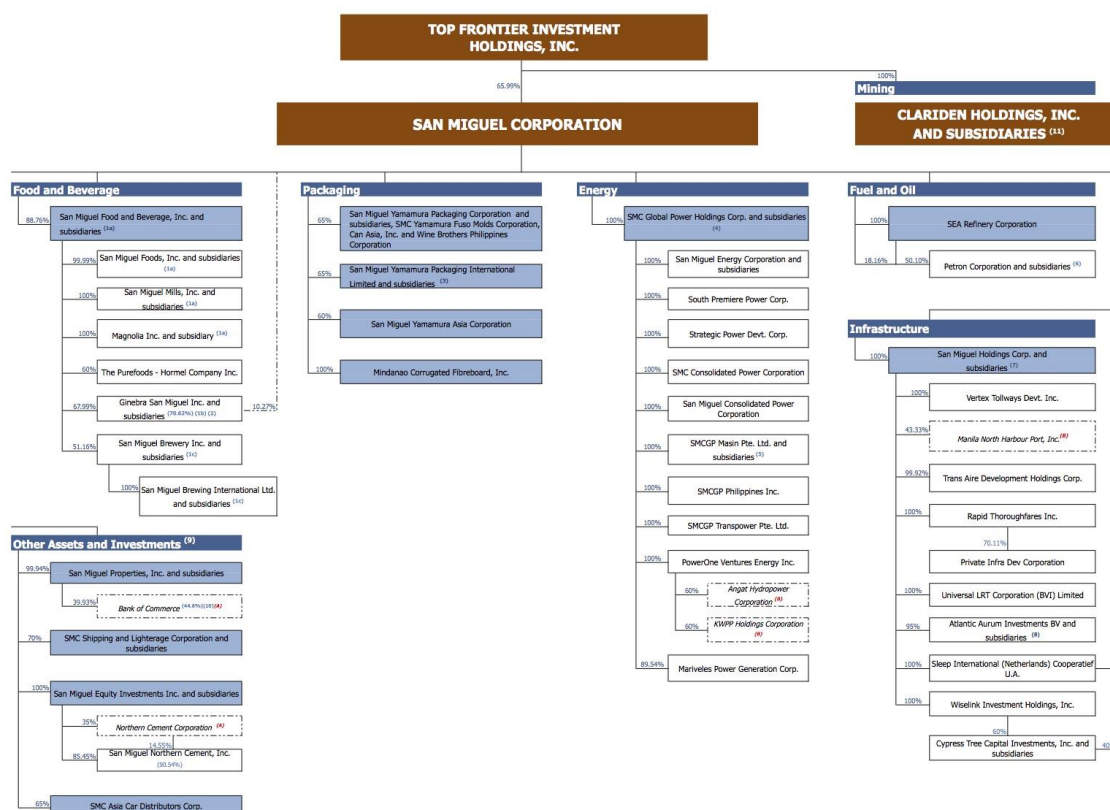
SMC believes that sustainability is a key factor to its success and has pioneered in and developed a culture of sustainability throughout the organization. It has implemented numerous initiatives in various aspects of its operations, including the returnable glass bottle (“RGB”) system for its beer business, the discontinuation of its plastic bottle water business and the use of recyclable products in its Packaging business, among others. Within the organization, the Company promotes the conservation of water and aims to cut utility and domestic use of water by 50% by 2025 (the “Water for All” initiative) and actively participates and sponsors environmental conservation activities, such as the “747 Program” with the goal of planting seven million trees over seven years through a combination of reforestation initiatives, protected forest reserves, biochar production and mangrove rehabilitation.

Adopt world-leading practices and joint development of businesses

SMC continues to develop strategic partnerships with global industry leaders. SMC’s current partners include Kirin for beer, Hormel Netherlands B.V. for processed meats, K-Water for power and NYG, Fuso and Can-Pack for packaging products. These partnerships provide access to the latest technologies and expertise in these technologies, marketing and expansion opportunities and sharing of best practices, thereby enhancing its status as a world-class organization.

SMC CORPORATE STRUCTURE

The table below presents a summary of the corporate organization of SMC as of September 30, 2019.



(1) San Miguel Food and Beverage Inc. (formerly San Miguel Pure Foods Company Inc.) subsidiaries also include (a) San Miguel Super Coffeemix Co., Inc., PT San Miguel Foods Indonesia (formerly PT San Miguel Pure Foods Indonesia) and San Miguel Foods International, Limited (formerly San Miguel Pure Foods International, Limited) and subsidiary, San Miguel Foods Investment (BVI) Limited (formerly San Miguel Pure Foods Investment (BVI) Limited) and subsidiary, San Miguel Pure Foods (VN) Co., Ltd., formerly San Miguel Hormel (VN) Co., Ltd.; (b) Ginebra San Miguel Inc. subsidiaries including 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.; and (c) San Miguel Brewery Inc. subsidiaries including Iconic Beverages, Inc. and Brewery Properties Inc. and subsidiary and San Miguel Brewing International Ltd. and subsidiaries including, San Miguel Brewery Hong Kong Limited and subsidiaries, PT. Delta Djakarta Tbk. and subsidiary, San Miguel (Baoding) Brewery Company Limited, San Miguel Brewery Vietnam Limited, San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited.

- (2) San Miguel Food and Beverage Inc. owns 67.99% of issued and outstanding common and preferred shares of Ginebra San Miguel Inc. San Miguel Corporation owns the total issued and outstanding preferred shares of Ginebra San Miguel Inc. equivalent to direct ownership of 10.27%. The holders of preferred shares are entitled to vote in the same manner as the holders of common shares. Effectively, San Miguel Corporation owns 70.62% of total issued and outstanding common and preferred shares of Ginebra San Miguel Inc.
- (3) San Miguel Yamamura Packaging International Limited subsidiaries include San Miguel Yamamura Phu Tho Packaging Company Limited, Zhaoqing San Miguel Yamamura Glass Company Limited, Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging and Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd. and subsidiary, Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty Ltd and subsidiaries including SMYC Pty Ltd (formerly Cospak Pty Ltd) and subsidiary, SMYV Pty Ltd, SMYB Pty Ltd, SMYP Pty Ltd, Cospak Limited, SMYBB Pty Ltd, SMYJ Pty Ltd, Wine Brothers Australasia Pty Ltd and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary.
- (4) SMC Global Power Holdings Corp. subsidiaries also include San Miguel Electric Corp., SMC PowerGen Inc. and subsidiary, SMC Power Generation Corp., Albay Power and Energy Corp., Limay Premiere Power Corp. and Prime Electric Generation Corporation.
- (5) SMCGP Masin Pte. Ltd. subsidiaries include Strategic Holdings B.V., SMCGP Masinloc Partners Company Limited, SMCGP Philippines Energy Storage Co. Ltd., SMCGP Masinloc Power Company Limited, Transpower Holdings B.V., and Masinloc Power Partners Co. Ltd. and subsidiary, Alpha Water and Realty Services, Corp.
- (6) Petron Corporation subsidiaries include Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation Ltd., Petrofuel Logistics, Inc. (formerly, 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 Bhd. (collectively Petron Malaysia), Petron Finance (Labuan) Limited and Petrochemical Asia (HK) Limited and subsidiaries.
- (7) San Miguel Holdings Corp. subsidiaries include Optimal Infrastructure Development, Inc., ULCOM Company Inc., Terramino Holdings, Inc. and subsidiary, Alloy Manila Toll Expressways Inc., SMC Infraventures, Inc. and subsidiary, Citra Intercity Tollways Inc., SMC Mass Rail Transit 7 Inc. and Luzon Clean Water Development Corporation.
- (8) Atlantic Aurum Investments B.V. subsidiaries include Atlantic Aurum Investments Philippines Corporation and subsidiaries including Stage 3 Connector Tollways Holding Corporation and subsidiary, Citra Central Expressway Corp., and Citra Metro Manila Tollways Corporation and subsidiary, Skyway O&M Corp., MTD Manila Expressways Inc. and subsidiaries, Alloy Manila Toll Expressways Inc., Manila Toll Expressway Systems Inc. and South Luzon Tollway Corporation.
- (9) Other Assets and Investments also include SMC Stock Transfer Service Corporation, ArchEn Technologies Inc., SMITS, Inc. and subsidiaries, Anchor Insurance Brokerage Corporation, Davana Heights Development Corporation and subsidiaries and SMC Equivest Corporation.
- (10) SMC Equivest Corporation also owns 4.69% ownership in Bank of Commerce.
- (11) 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).

EMPLOYEES

As of September 30, 2019, SMC had a total of approximately 39,312 regular employees. Substantially all of the employees are based in the Philippines and other areas in the Asia-Pacific region. As of September 30, 2019, the approximate number of employees in each of the businesses is set forth below:

Number of Employees

Business	No.
Food and Beverage	11,208
Packaging	4,195
Fuel and Oil	3,156
Energy	1,329
Infrastructure	5,148
Other Operations and Investments	14,240
Total	39,312

As of September 30, 2019, approximately 16% 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 35 labor unions represent the employees of the subsidiaries of SMC. In the past decade, SMC has not experienced any strikes or work stoppages. The group of SMC companies considers its relationship with its employees to be harmonious.

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.

LEGAL PROCEEDINGS

The Company and its subsidiaries are party to legal proceedings from time to time, including those set out below. The outcome of these proceedings cannot be presently determined or predicted with certainty.

SMFB Proceeding before the Philippine SEC

On September 10, 2018, the Philippine SEC served SMC, SMFB and GSMI with summons in respect of a petition (the “**SEC Petition**”) filed by Josefina Multi-Ventures Corporation (the “**Petitioner**”). The SEC Petition questions the validity of the share swap transaction between SMFB and SMC and the approval of the increase in the authorized capital stock of SMFB or, asks the Philippines SEC to compel SMFB to conduct a mandatory tender offer to the remaining shareholders of GSMI.

The SEC Petition was initiated upon the allegation that the share swap transaction between SMC and SMFB, wherein SMC transferred its common shares in GSMI in exchange for new common shares of SMFB (the “**GSMI Share Swap**”), required the conduct of a mandatory tender offer under the rules of the SRC. Specifically, the Petition questions the GSMI Share Swap and the corresponding increase in SMFB’s authorized capital stock for failing to comply with the SRC’s implementing rules and regulations. In the alternative, the Petitioner requests the SEC to direct SMFB to conduct a mandatory tender offer for GSMI’s minority shareholders to swap their shares for SMFB shares under the terms of the GSMI Share Swap.

The Company believes that there is no basis for the SEC Petition. Significantly, prior to the execution of the Deed of Exchange and the filing of the application for Philippine SEC approval of the capital increase of SMFB, SMC and SMFB obtained a written confirmation from the SEC dated March 19, 2018 stating that the SEC *En Banc* in its meeting on March 13, 2018 confirmed that the GSMI Share Swap was not subject to the mandatory tender offer rules of the SRC and the SRC’s implementing rules and regulations.

On September 25, 2018, SMC, SMFB and GSMI filed their respective answers to the SEC Petition with the SEC.

On February 19, 2019, the special hearing panel of the Philippine SEC dismissed the SEC Petition for lack of merit. The motion for reconsideration filed by the Petitioner was denied by the special hearing panel on June 10, 2019. An appeal memorandum was filed by the Petitioner with the Philippine SEC *En Banc* on July 4, 2019. SMC, SMFB and GSMI were directed to file their comments on the appeal. The case remains pending with the Philippine SEC.

Ilijan IPPA Agreement Dispute

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain its position that it has fully paid all of its obligations to

PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court (“**RTC**”) of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour TRO be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the performance bond of SPPC. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the performance bond of SPPC. The TRO was extended for until September 28, 2015.

On September 28, 2015, the RTC issued an Order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending. On October 19, 2015, the RTC also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco. In an order dated June 27, 2016, the RTC denied PSALM’s: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the Ilijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the Order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to this June order of the RTC, PSALM filed a petition for certiorari with the Court of Appeals seeking to annul the order dated June 27, 2016. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction “against public respondent RTC and its assailed Orders”. The Court of Appeals, however, denied the petition filed by PSALM in its decision dated December 19, 2017 (“**CA Decision**”). In the CA Decision, the Court of Appeals upheld the lower court’s issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the Ilijan IPPA agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. In a Resolution dated July 12, 2018 (“**CA Resolution**”), the Court of Appeals denied PSALM’s Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction dated September 4, 2018 before the Supreme Court praying for the reversal and nullification of the CA Decision and the CA Resolution. Said petition was denied by the Supreme Court in its resolution dated March 4, 2019 due to lack of payment of the required fees and for PSALM’s failure to sufficiently show that the Court of Appeals committed any reversible error in the challenged decision and resolution as to warrant the exercise of this Court’s discretionary appellate jurisdiction.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an Order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City, SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

On September 24, 2018, the RTC issued an order denying PSALM’s Motion to Hear Affirmative Defense and granted SPPC’s Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said order. On December 14, 2018, SPPC filed its opposition to the Motion for Reconsideration. In an order dated April 29, 2019, the RTC denied the Motion for Reconsideration filed by PSALM on the basis that it found no strong and compelling reason to modify, much less reverse, its order dated September 24, 2018 which denied the Motion to Hear Affirmative Defenses filed by PSALM.

On July 23, 2019, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the Court of Appeals, seeking the reversal of the September 24, 2018 and April 29, 2019 orders of the RTC. On August 23, 2019, the Court of Appeals dismissed the Petition for Certiorari filed by PSALM.

Meanwhile, the proceedings before the RTC continues and by virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant without restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon the expiry of the IPPA Agreement in 2022.

For further details on pending legal proceedings of the Company and some of its subsidiaries, please refer to note 43 of the audited financial statements of the Company for the period ended December 31, 2018. Other than those mentioned above, there are no material pending legal proceedings to which SMC or any of its subsidiaries is a party or to which any of their material assets are subject.

COMPLIANCE WITH ENVIRONMENTAL LAWS

SMC 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 SMC to comply with environmental laws are not significant or material relative to the total costs and revenues of the Company.

ENVIRONMENTAL SOCIAL GOVERNANCE AND SUSTAINABILITY INITIATIVES

SMC is working to advance both sustainability and profitability hand-in-hand. The Company believes that in a world beset by climate change and issues of inequality and social cohesion, it is the conscionable thing to do.

The shared challenges that the nation faces require require concerted action from corporations such as SMC. A significant part of the Company's sustainability process revolves around tackling society's pressing problems and how SMC's businesses might play a part in addressing and solving them. At the same time, SMC recognizes that sustainability initiatives can improve business performance and enhance shareholder value.

The United Nations Sustainable Development Goals ("UNSDGs") provide an important guide and roadmap to the Company's sustainability journey and its vision of nation building.

SMC has aligned its own sustainability approach to the UNSDGs. In order to refocus the UNSDGs on what the Company believes is at the heart of what matters most matters to the Company and its stakeholders, UNSDGs have been re-organized into three main principles, which have always been part of the Company's identity: (1) to do business and create growth in a responsible manner, adhering to good governance and setting the standard for best practices; (2) to be a good neighbour to the Company's communities, stakeholders, customers and to the larger nation; and (3) to take steps to act as stewards for future generations.

As one of the Philippines' largest corporations, SMC recognizes that it has the responsibility to make a positive difference in ensuring that future generations have the same, if not better, opportunities than the present generation. In this regard, the Company made two major decisions to reduce its environmental impact in 2017.

The first was to cut by 50% utility and domestic water use across the entire San Miguel Group by 2025. In the two years since, SMC has managed to save approximately 8.8 billion litres of water, representing a 25.3% reduction in its overall use. The SMC Group believes that it is well ahead of its goal to reduce consumption by 20% in 2020, and is confident that its targets will be achieved.

The second decision was to discontinue its plastic bottled water business, effectively removing some 32 million plastic bottles a year, which would have ended up in landfills or bodies of water, had the Company decided to continue the business.

For SMC then, the key to sustainability and addressing climate change is looking after its own water resources and reducing its carbon footprint. Both are relevant to its business operations and have the potential to drive competitive advantage and innovation for the Company. In addition to these initiatives, SMC actively participates and sponsors environmental conservation activities, such as the "747 Program" with the goal of planting seven million trees over seven years through a combination of reforestation initiatives, protected forest reserves, biochar production and mangrove rehabilitation.

In terms of supply chains, SMC has been partnering with farmers and backyard livestock operators to transfer technology and help raise rural incomes. The Company's work in this area continues to evolve, and the Food Division has deployed supplier engagement teams to provide training and further develop skills around building sustainable and resilient supply chains.

Like many other companies, SMC's previous efforts in corporate social responsibility have included promoting employee volunteerism, providing donations in kind, and providing grants to, or partnering with charitable organizations. Today, the Company's social development and corporate giving arm, the San Miguel Foundation, functions as an ideas incubator for the kind of social innovation SMC can adopt to tackle problems like income disparity, hunger, and poverty.

SMC invests in its communities not only because it makes good business sense, but also because the Company believes that the private sector needs to do its part in solving the most pressing economic, social, and environmental challenges.

SMC's "Better World Communities" will be vehicles for community engagement, providing the social scaffolding to enhance the civic life of ordinary Filipinos.

FOOD AND BEVERAGE BUSINESS

On June 29, 2018, SMC completed the SMFB Consolidation. The brands under which SMFB produces, markets and sells its products are among the most recognizable and top-of-mind brands in the industry and hold market-leading positions in their respective categories. Key brands in the SMFB portfolio include *San Miguel Pale Pilsen*, *San Mig Light* and *Red Horse* for beer, *Ginebra San Miguel* for gin, *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* and *Purefoods Tender Juicy*, for refrigerated prepared and processed meats and canned meats, *Star* and *Dari Crème* for margarine and *B-Meg* for animal feeds.

SMFB has three primary operating divisions — (i) Beer and NAB Division, (ii) Spirits Division, and (iii) Food Division. The Beer and NAB Division and the Spirits Division comprise the beverage business, which are operated through subsidiaries SMB and GSMI, respectively. The Food Division is managed through a number of other subsidiaries, including San Miguel Foods, Magnolia, Inc., and Purefoods-Hormel.

For each of the years ended December 31, 2016, 2017 and 2018, the food and beverage businesses had sales of ₱227,279 million, ₱251,589 million and ₱286,378 million; gross profit of ₱75,171 million, ₱83,129 million and ₱92,142 million; and net income of ₱24,002 million, ₱28,226 million and ₱30,533 million, respectively.

For the nine-month period ended September 30, 2018, SMFB had sales of ₱206,620 million, gross profit of ₱67,014 million and net income of ₱22,929 million compared to sales of ₱226,365 million, gross profit of ₱70,327 million, and net income of ₱22,922 million for the nine-month period ended September 30, 2019.

The following table sets forth the contribution of the three divisions to total sales for the periods indicated:

	For the years ended December 31,						For the nine-month period ended September 30,					
	2016		2017		2018		2018		2019			
	P	%	P	%	P		%	P	%	P		%
Sales ⁽¹⁾	(in millions, except for percentages)											
Beverage Business												
Beer and NAB Division.....	P97,156	42.7	P113,250	45.0	P129,245		45.1	P93,361	45.2	P103,883		45.9
Spirits Division	18,560	8.2	20,891	8.3	24,835		8.7	17,915	8.7	21,430		9.5
Food Division...	111,563	49.1	117,448	46.7	132,298		46.2	95,344	46.1	101,052		44.6
Total	P227,279	100.0	P251,589	100.0	P286,378		100.0	P206,620	100.0	P226,365		100.0

Notes:

(1) Represents the external sales of each division and excludes inter-division sales.

Selected operating data for the SMFB is provided below for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2016	2017	2018	2018	2019
	(in millions, except percentages)				
	₱	₱	₱	₱	₱
Sales.....	227,279	251,589	286,378	206,620	226,365
Gross profit.....	75,171	83,129	92,142	67,014	70,327
Gross profit margin ⁽¹⁾	33.1%	33%	32.2%	32.4%	31.1%
EBITDA ⁽²⁾	44,795	49,937	54,725	39,949	41,338
EBITDA margin ⁽³⁾	19.7%	19.8%	19.1%	19.3%	18.3%
Net income before tax.....	34,099	39,861	43,361	32,488	32,348
Net income before tax margin ⁽⁴⁾	15%	15.8%	15.1%	15.7%	14.3%

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.

Strengths and Strategies

Strengths

One of the largest consumer companies in the Philippines with a rich heritage of 130 years

SMFB is one of the largest consumer companies by revenue and net income among the publicly listed peers in the Philippines with consolidated sales of ₱286,378 million and ₱226,365 million and consolidated net income of ₱30,533 million and ₱22,922 million for the year ended December 31, 2018 and September 30, 2019, respectively. The Beer Division was founded as *La Fabrica de Cerveza de San Miguel* in 1890, a single brewery with a single product and over the years, the San Miguel brand has transformed into a household name that is interwoven with the economic and cultural fabric of the Philippines, supporting Philippine development and economic progress. SMFB's 130 years of heritage has allowed SMFB to develop a deep and unparalleled understanding of its consumers, an extensive and efficient nationwide distribution network and deeply entrenched brands that provide it with significant competitive advantage. SMFB believes that it has continuously demonstrated its ability to adapt throughout its history by leveraging extensive operational know-how, market experience and consumer insight to remain at the forefront of new trends and innovations, thereby allowing it to successfully enter new categories and capture incremental market share over the years.

Powerful portfolio of iconic and trusted brands that resonate deeply with SMFB's local consumers

SMFB's key brands have a rich history and long track record, catering to consumers for over a century. For example, *Ginebra San Miguel* was launched in 1834, *San Miguel* beer was established in 1890, *Magnolia* in 1925, B-Meg in 1953 and *Purefoods* in 1956. SMFB's strength is demonstrated by leading brand rankings in several segments and product categories. SMFB produces the top beer brands in the country with a market share by volume of 94.2% in 2018, according to GlobalData. Despite the entry of local beer competition in 1981 and the introduction of locally-brewed versions of foreign brands, craft beers and imported beers, SMFB believes that its brands are top-of-mind and continue to maintain their leading positions across market segments. *Super Dry* is the market leader in the premium segment. *Red Horse*, *San Miguel Pale Pilsen* and *San Mig Light* are the leading

brands in the mainstream segment, and *Gold Eagle* leads in the economy segment, according to Global Data as of 2017. According to The Nielsen Company (Copyright © 2018, The Nielsen Company), the Spirits Division's core spirits brands, *Ginebra San Miguel* and *Vino Kulafu* are also market leaders in the gin and Chinese wine categories at 97.3% and 63.7% volume share, respectively, as of September 30, 2019. Similarly, *Purefoods* (branded processed meats), *Magnolia* (fresh chicken), *Monterey* (fresh meats), *Star* (butter and spreadable fats), and *B-Meg* (feeds) are market leaders in value terms for their respective categories.

The Beer Division's beer brands have significant international brand equity with a global presence in approximately 60 countries and is one of the leading brands in the market or segment in the countries where it operates. For example, *San Mig Light* is a leading premium beer brand in Thailand, *Anker Bir* is a leading beer brand in Indonesia, and *Blue Star* is a leading beer brand in North China. The food products of the Food Division also have a growing international presence in North America, South East Asia, Australia and the Middle East.

SMFB believes that its well-recognized brands locally and abroad, ability to customize products to cater to specific needs, and the sale of a number of products through clean and convenient branded distribution outlets enable SMFB to command favourable pricing. The diversity of its product offering reduces dependence on any single product segment and makes SMFB more resilient to changes in competitive dynamics or raw material price fluctuations that may impact one product segment more than another.

Leading market positions in the most attractive consumer categories

The businesses of SMFB hold market-leading positions across the food and beverage categories with large addressable markets and attractive growth prospects. Through the SMFB Consolidation, SMFB is now a unique platform offering an extensive complementary product portfolio across beer and NAB, spirits and food with 32 brands in six categories and serving the full spectrum of the growing domestic population. In 2018, the Beer business had a market share by volume of 94.2% according to GlobalData. As of September 30, 2019, the Spirits business, had leading market share in the gin category by volume of 97.3%, according to The Nielsen Company (Copyright © 2018, The Nielsen Company). As of the same period, the Food Division, is a market leader in several categories: 62.7% for hotdogs, 22.3% for corned meats, 22.2% for cheese and 22.5% for feeds, according to The Nielsen Company (Copyright © 2018, The Nielsen Company). Likewise, based on figures at the end of 2018, the Food Division had market shares of 33.7% for refrigerated butter, 92.6% for refrigerated margarine, and 97% for non-refrigerated margarine.

SMFB is intimately involved in consumers' lives at every meal and occasion, guided by the company slogan of "Celebrating Life." SMFB believes that its products are part of the daily lives of its consumers, providing sustenance and enjoyment to families through trusted food brands and celebrating friendships and camaraderie with its world-class portfolio of beer and NAB and spirit products. The product portfolio of SMFB is suitable for any occasion throughout the year, whether it be for everyday consumption or the most significant life events, and continuously evolves to cater to consumer tastes and preferences. Based on a survey conducted by KantarWorldpanel, during June 2015 to June 2018, the products of SMFB were present in 92% of Filipino homes.

According to the same source, SMFB is the largest beer producer in the Philippines with a 94.2% market share and have consistently held over 90% market share by volume since 1999. SMB is also the 13th largest beer producer globally by volume and one of the top four Asian beer players in 2017 by revenue. The significant competitive advantage of SMFB is demonstrated by consumers' strong preferences for San Miguel products over competition. As a highly resilient category with a stable and loyal customer base, the Philippine beer industry is valued at U.S.\$2,983 million and is expected to grow at a CAGR of 9% from 2017 to 2022, according to GlobalData.

Market leadership in spirits is demonstrated by GSMI's strong market share in the gin category and a growing demand for its Chinese wine product. GSMI produces *Ginebra San Miguel*, which is the world's number one selling gin by volume according to GlobalData as of 2017. SMFB believes that its core spirits brands in gin and Chinese wine are gaining popularity domestically and taking market share from other spirits in the Philippines. According to GlobalData, the gin and Chinese wine categories are among the fastest growing segments with 7.6% and 9.9% total volume CAGR from 2017 to 2022, respectively, poised to outpace the growth of the spirits industry. The spirits market in the Philippines is valued at U.S.\$2,043 million and is expected to grow at a CAGR of 4.8% from 2017 to 2022, according to GlobalData.

Strategically located production facilities providing strong competitive advantages

SMFB believes that its production facilities are strategically located throughout the Philippines, providing wide coverage of the population while optimizing distribution costs.

With six beer production facilities strategically located across the Philippines and in close proximity to consumer markets, SMFB is able to serve all regions and transport beer products to market within five to seven days of production, thus ensuring product availability and freshness. Spirits, on the other hand, are produced from fine alcohol obtained from a centralized distillery in Negros Occidental, which is the Philippines' largest molasses producing region, and bottled at five domestic facilities located across the country. SMFB also operates a nationwide manufacturing network for food products with 40 feedmills, 57 processing plants, and close to 1,500 breeding and growing farms located across Luzon, Visayas and Mindanao. As a result of such food production facilities' proximity to markets and efficient cold chain, SMFB is able to ensure optimal shelf life and reduce perishability of fresh products. SMFB believes that its facilities are among the most efficient in the country given the use of modern technology. Such production facilities are equipped with automated machines which can manufacture and package products in a variety of formats, while maintaining low production costs. Most of the poultry farms are equipped with tunnel ventilation to produce healthier, higher quality and more cost-efficient meats.

Additionally, the facilities are compliant with the strict international requirements of International Organization for Standardization (“**ISO**”), Good Manufacturing Practices (“**GMP**”) and Hazard Analysis of Critical Control Points (“**HACCP**”) certifications. The Food Division strictly complies with relevant regulations which mandate recall of food products which may pose a major food safety issue. These stringent safety and quality standards are reflected in the historical track record of SMFB where it has had no major food and beverage safety incident in the last five years.

Extensive distribution network across the Philippines covering diverse channels

The Philippine archipelago consists of 7,641 islands divided into three main regions of Luzon (including Greater Manila), Visayas and Mindanao that have distinct macro and industry dynamics. This creates a unique market and competitive landscape that allows us to significantly benefit from the scale of its extensive nationwide distribution network.

As the leading player in the Philippines, SMFB products occupy prime shelf spaces in groceries, convenience stores, and *mom* and *pop* stores across the country.

SMFB believes that it has the largest and most extensive distribution network in the Philippines. The Beer and NAB Division operates over 50 sales offices, having partnerships with approximately 500 dealers with its products present in over 400,000 outlets. The Spirits Division operates 15 sales offices situated strategically across the Philippines and coordinates with a network of 91 dealer sites covering approximately 141,000 outlets. The food products of the Food Division are offered through approximately 130,000 points of sale, having partnerships with over 600 dealers/distributors.

To service its distribution network, SMFB has established dedicated teams and customized products to target different distribution channels. SMFB believes that its multi-channel distribution platform has allowed it to maximize customer reach and has been one of the key factors to its success in building and developing market-leading positions. SMFB supplies products to *mom* and *pop* stores, wet markets and other traditional retail outlets; modern trade outlets, including supermarkets, hypermarkets, convenience stores and grocery stores; on-premise channels such as hotels, restaurants, cafes and bars; exclusive retail outlets; and franchised stores. In particular, SMFB has a key accounts group within each division, which focuses on maximizing distribution across all channels.

SMFB has been able to reach a wide number of consumers through its extensive distribution network. For the Beer and NAB Division, the strong dealership network ensures the availability of products throughout the Philippines. Dealers are provided systems and trainings related to dealer operations. Discounts are given to dealers on a fixed base instead of percentage of sales which ensure that the dealers maintain profit margins while creating a competitive advantage for SMFB offerings as the preferred products. The Returnable Glass Bottle (“**RGB**”) system allows distributors to interact on a regular basis with customers upon collection and return of the RGBs, further fortifying the consumer relationship. A strong aspect of SMFB's distribution network is the perennial presence in *mom* and *pop* stores. These *mom* and *pop* stores are difficult for competitors to penetrate as they have

limited capital and shelf space, and only carry brands that are fast-moving. SMFB distribution networks also organize dealers by assigned geographic areas ensuring the widest coverage of its products. For the Food Division specifically, efficiency is enhanced by having fewer but larger exclusive dealers for the Prepared and Packaged Food segment.

SMFB has also pioneered the development of innovative formats to sell its food products, which has the benefit of growing the market by driving consumer preferences. The Food Division introduced *Monterey Meatshops*, *Magnolia Chicken Stations*, *Treats* and *Kambal Pandesal* outlets as well as other distribution outlets to distribute the Food Division's products and established Great Food Solutions to manage sales to key foodservice customers, such as hotels, restaurants, bakeshops, fast-food and pizza chains.

Powerful consumer insights drive growth, innovation, and new product development

SMFB's ability to successfully introduce new products by leveraging its extensive knowledge of consumer preferences, demographic and market trends, as well as broad distribution channels, have allowed it to attain market leadership positions. Through its comprehensive reach and investment in market research and collaboration and feedback from strong relationships with customers, dealers and distributors, SMFB is able to gain meaningful consumer insights, allowing it to anticipate changes in consumer demand and preferences.

SMFB constantly engages in extensive research for updates on market trends and changes in consumer tastes and identifies market gaps towards developing an optimum yet manageable new product pipeline. This promotes effective resource management and optimizes new product development ("NPD").

SMFB continuously creates market opportunities and pioneer new product variants to excite the market and address its ever-changing needs and preferences.

Cost efficiency initiatives and unique elements of business model driving strong profitability

SMFB engages in a variety of initiatives to minimize raw material and other input costs. For example, the Beer and NAB Division employs the returnable glass bottle ("RGB") system which, with over 90% retrieval in the past five years, provides a significant competitive advantage by allowing us to manage costs. The Spirits Division manages cost by purchasing raw materials such as sugarcane molasses and alcohol from a variety of third-party suppliers pursuant to supply contracts in the domestic and foreign open market. SMFB has engaged in successful initiatives such as aggressively promoting bottles recycling for the Spirits Division, with approximately 68% of glass bottles retrieved by and purchased from bottle suppliers for the year ended December 31, 2018 and 67% for the nine-month period ended September 30, 2019. The climate-controlled facilities used by the Food Division have improved yields and created conducive environment for healthy animal growth. The Food Division continuously explores alternative raw materials from grains and by-products used in the Animal Nutrition and Health segment as well as alternative protein sources and flavours for the Prepared and Packaged Food segment.

Furthermore, SMFB's efficient and modern production facilities drive efficiency. Its best-in-class technologies and processes applied to facilities across the Beer and NAB, Spirits and Food Divisions also help reduce wastage and maximize production yields. Most production facilities are fully automated, thereby ensuring consistent quality of products with minimal spoilage. The brewing production processes are regularly reviewed to optimize output and generate cost savings. Additionally, each of the Beer and NAB, Spirits and Food Divisions have their own R&D teams which regularly monitor and conduct tests to ensure that production processes are up-to-date with the relevant industry standards and that high-quality products will be sold at the least cost.

SMFB believes that its vertically integrated facilities enable it to better manage raw material costs and extract margins along the entire food chain while ensuring superior food safety, traceability, and supply chain reliability and integrity. The Food Division's unique "farm-to-plate" business model allows it to derive synergies and extract margins along the entire food production and distribution process as it drives economies of scale from combined raw material sourcing, integrated production functions and shared sales, distribution, marketing and support functions. It also enhances operational flexibility to quickly adapt and augment products to respond to market demand. Finally, cost efficiencies are also realized in unique aspects of the distribution chain. The Golden Bay Grain Terminal, which it owns and which serves both feeds and flour operations, has facilitated the shipment of products through larger vessels thus minimizing intermediate handling and leakage, and resulting in lower freight and handling costs.

Strategies

The principal long-term goal of SMFB is to further strengthen and solidify its position as the leading food and beverage company in the Philippines, and consistently expand its business to meet rapidly growing consumer demand. SMFB aims to achieve this goal by implementing the following strategies:

Continued execution of regionally tailored strategies, leveraging on its unique understanding of consumers

SMFB continues to leverage its extensive knowledge of consumers in executing regionally tailored strategies. The Philippine archipelago has three main regions of Luzon (including Greater Manila), Visayas and Mindanao, each with distinct macro and industry dynamics. SMFB believes that its market-leading positions enable it to leverage differentiated consumer insights specific to each region and execute tailored strategies, thus enhancing nationwide presence. SMFB is well-positioned to benefit from the growing demand for food and beverage products as driven by sustained economic growth, expanding urbanization, favourable demographic patterns, and rapidly changing consumer tastes and preferences.

SMFB will continue to respond and address emerging market trends and changes in consumer preferences in key cities and fast-growing areas to answer the market's demand for authentic experiences, "premiumization" and indulgence, convenience and value, among others.

Maintain market leadership positions in core categories while growing the total addressable market through marketing initiatives and new product development

SMFB plans to invest in tailored brand building and marketing campaigns as well as pursue targeted NPD strategies in each product category. Through this, SMFB expects to further reinforce its leadership positions and grow the total addressable market.

SMFB continues to pursue innovative consumer promotions and relevant, consistent and fresh campaigns, on-ground activations as well as occasion-creation programs to strengthen demand for each of its brands and to guard against competition.

SMFB utilizes multiple marketing media such as print, television, digital and radio advertisements, billboards, consumer and trade activations such as promotions targeting specific consumer segments or trade channels, sponsorship in major "*fiestas*" or local festivals and food fairs, and basketball team sponsorships. For example, the Beer and NAB Division holds nationwide and local trademark, signature events such as *San Miguel Oktoberfest*, *Red Horse Pambansang Muziklaban*, *San Mig Light Party All Night*, *Sarap Mag Babad (Taste of Summer)* summer program and the National Beer Drinking contest which SMFB believes have all been successful in reinforcing brand awareness in key customer segments.

SMFB actively taps digital platforms to promote awareness, trial and consumption of its brands and engage customers through various social media platforms including Facebook, Instagram, YouTube, Twitter and Viber. Specific campaigns and relevant activations of brands are promoted online through online contests and *mom* and *pop* store promotions. SMFB likewise lead conversations on social progressiveness through *San Mig Light* digital campaigns. SMFB also closely monitors its digital programs to determine their effectiveness through evaluating various metrics.

SMFB places strong focus on new product rollouts that cater to changing consumer preferences and specific industry trends. Utilizing extensive proprietary consumer data, SMFB identifies market opportunities in existing and adjacent categories and continuously evaluates the need to introduce new products and packaging innovations to capitalize on emerging market trends such as convenience, growth of new consumer segments, and health mindfulness. For example, SMFB expects to increase the contribution of the increasingly popular "ready-to-eat" and "heat and serve" products to total food sales.

Continue to broaden its distribution footprint and enhance penetration across channels throughout the Philippines

SMFB intends to sustain its strong growth momentum by broadening outlet coverage through promotions and increased market penetration across all channels. SMFB's sales force, together with dealers and distributors, plan to put greater focus on serving diverse channels as the number of outlets grows across the Philippines.

SMFB plans to improve sales and distribution capabilities and increase nationwide penetration through product offerings tailored for each channel and implementing innovative growth strategies. SMFB aims to ensure and increase its presence in growing modern trade channels, such as supermarkets and convenience stores in urban areas, by expanding its key accounts group, while simultaneously focusing on increasing visibility in selected on-premise outlets.

SMFB continues to develop or tap emerging channels, increase market penetration and capture growth through digital platforms across Beer and NAB, Spirits and Food Divisions. To support distribution programs, SMFB will continue to further improve its logistics capabilities and infrastructure through warehouse expansions, additional sales offices, and truck and logistics centre enhancement initiatives.

Capacity expansions to support growing consumer demand

Capacity expansion in key regional markets is a critical element of the growth strategy of SMFB to support increasing market demand nationwide, particularly in the provinces. In Luzon, SMFB is expanding production capacities in the beer and food businesses to keep pace with the growing market, as well as launching new product categories to address consumers' growing demand and preference for convenience. It is also converting its existing beer production facility located in Sta. Rosa, Laguna to a full brewery facility to serve growing requirements in South Luzon.

The Food Division has built four new feed mills. Two facilities are in Luzon, in Bataan and San Ildefonso, and both started commercial operations in 2019. Two other feed mills in Davao and Misamis Oriental are both undergoing commissioning. The Food Division has expanded its poultry breeder farm in Bataan and is constructing new poultry processing plants in Quezon and Davao. An additional flour milling facility is being commissioned in Mabini, Batangas and is expected to be operational by early 2020. In April 2018, the Food Division started production in its new hotdog plant located in General Trias, Cavite. This is a new state-of-the-art facility located next to existing processed meats plant and aptly supported by cold and dry storage facilities.

In Visayas and Mindanao, SMFB plans to boost production capabilities as economic development in these regions accelerates demand for food and beverage products. A new beer production facility in Tagoloan, Misamis Oriental was completed in the fourth quarter of 2019 and, to date, is awaiting the necessary permits to start commercial operations. The facility is expected to serve Northern Mindanao and adjacent areas which, to date, is awaiting the necessary permits to start commercial operations. There are also plans to construct a new grain terminal in Northern Mindanao to improve the shipping access of both raw materials for food manufacturing facilities and finished goods such as flour. SMFB is likewise in various stages of constructing a new poultry and fresh meat processing plant and three new feedmills in the Visayas-Mindanao region.

SMFB is expanding capacity through company-owned manufacturing facilities across all its businesses to better meet the growing demand and to maximize efficiencies through manufacturing technologies and innovation.

As of September 30, 2019, SMFB believes that the Spirits Division has sufficient capacity to meet growing demand.

Continued enhancement of profitability through cost saving initiatives

Through efficiency and process innovations, productivity enhancements, cost management measures and continuous product portfolio reviews, SMFB is able to rationalize unprofitable products and enhance price stability of its revenue streams. The Beer and NAB Division will continue to broaden its base of suppliers and materials through second supplier program, multi-continent sourcing, evaluation of alternative materials, and undertaking process optimization initiatives. In the Spirits Division, growth in profit margins can come from better operational efficiencies, improvement in second-hand bottle retrieval, higher alcohol yield and strategic sourcing of alternative raw material to complement or replace sugarcane molasses, which is the main input in gin production. The Food Division will continue to conduct initiatives that allow the use of alternative, lower-cost raw materials such as the use of cassava as a substitute for corn, a key ingredient in the production of animal feeds. The Food Division also utilizes climate-controlled housing system for hogs and broilers which improves cost efficiency by increasing production cycles per farm per year, improving feeds consumed to weight ratio and deriving better harvest recovery. These, together with selective breeding innovations have resulted in larger chicken size thereby further enhancing cost efficiency. Part of the cost improvement program is reducing freight and handling costs by strengthening logistics capabilities and infrastructure and optimizing the use of grains terminals, silos and

warehouses. Through continued cost-efficiency initiatives, SMFB believes that it will be able to sustain high profitability margins across divisions.

Leverage existing platform and brand equity in international markets for further growth

SMFB's products are exported to approximately 60 countries and territories across the globe. SMFB operates nine international production facilities across China, Hong Kong, Thailand, Vietnam and Indonesia. SMFB plans to leverage this international network to export products across divisions to access fast-growing markets in Asia and the rest of the world. As one of the largest integrated food and beverage platforms in the Philippines, SMFB believes that it is well-positioned to expand internationally and build global brand equity to achieve incremental growth, while carefully planning and implementing such international expansion strategies.

The Beer and NAB Division's strategy is to further strengthen performance in countries where it has operations supported by key growth areas such as Indonesia and Thailand. In Thailand, the Beer and NAB Division plans to capitalize on potential growth in new cities, expand in modern trade, increase the availability of draft products and introduce new products. In Indonesia and Vietnam, the Beer and NAB Division plans to benefit from the recovery in the wholesaler channel, expand the modern trade channel distribution and improve its product portfolio. The Beer and NAB Division expects beer exports to grow further in Asia, the Middle East, the U.S., Australia and new markets in Europe and Africa.

Exploit synergies across its combined and diversified consumer platform

Through the consolidation of the Beer and NAB, Spirits and Food Divisions, SMFB intends to establish a powerful consumer platform with the potential to capture both cost and revenue synergies.

Cost synergies

SMFB believes that the consolidation of its food and beverage businesses will result in greater economies of scale and scope while allowing for increased opportunities to share resources and take advantage of established relationships across the Beer and NAB, Spirits and Food Divisions. Sourcing synergies from centralized planning and procurement across business units will reduce purchasing costs. In addition, SMFB plans to capitalize on extensive and long-standing supplier relationships under each of the divisions to strengthen cooperation and coordination among the divisions. By utilizing strategically located production and distribution centres across the entire footprint, SMFB will have the scope to reduce overall costs and better optimize logistics across the food and beverage businesses. SMFB can likewise explore the integration and coordination of market research, management and marketing initiatives, and other support systems to reduce corporate overhead costs. As an integrated platform, SMFB will constantly strive to improve management and production efficiency, while implementing international best practices.

Revenue synergies

With the combined food and beverage business having access to approximately 700,000 outlets as of September 2019, covering all channels throughout the Philippines, there is increased scope for further coordination across the various product lines. Leveraging its extensive distribution network, SMFB expects that new products will quickly reach the market while improving trade efficiencies and customer loyalty through enhanced trade and promotion activities for the existing product portfolio. The various divisions may likewise benefit from enhanced market data sharing where SMFB can consolidate market and consumer insights for each of the businesses to identify consumer trends and preferences. This would ideally minimize execution risk in the introduction and penetration of regional specific products and initiatives. Utilizing market insight data, SMFB can also identify cross-selling opportunities among the Beer and NAB, Spirits, and Food Divisions.

Beverage Business

The beverage business consists of brewing, distilling, selling, marketing and distributing beer, NAB and spirits. The beverage business is conducted through SMFB's majority-owned subsidiaries, SMB and its subsidiaries, which comprise the Beer and NAB Division, and GSMI and its subsidiaries, which comprise the Spirits Division. As of September 30, 2019, SMFB holds 51.16% and 67.99% of the outstanding common capital stock of SMB and GSML, respectively.

SMB is the largest producer of beer in the Philippines and is the largest contributor to the beverage business, accounting for 83.9% and 82.9% of total beverage business sales for the year ended December 31, 2018 and the nine-month period ended September 30, 2019, respectively. GSMI is a leading spirits producer in the Philippines and largest gin producer globally by volume for the year 2018, according to GlobalData, accounting for 16.1% and 17.1% of total beverage business sales for the year ended December 31, 2018 and the nine-month period ended September 30, 2019, respectively.

The beverage business had combined sales of ₱115,716 million ₱134,141 million, and ₱154,080 million for the years ended December 31, 2016, 2017 and 2018. For the nine-month period ended September 30, 2018 and 2019, the beverage business had total sales of ₱111,276 million and ₱125,313 million, respectively.

Beer and NAB Division

The Beer and NAB Division is the largest producer of beer in terms of both sales and volume in the Philippines, offering a wide array of beer products across various segments and markets, with a total domestic market share of approximately 94.2% in 2018, according to GlobalData. According to the same source, beer brands include the top four beer brands in the Philippines, namely *San Miguel Pale Pilsen*, *Red Horse*, *San Mig Light* and *Gold Eagle*. The Beer and NAB Division also produces non-alcoholic beverages such as ready-to-drink tea, ready-to-drink juice and carbonates. Its flagship brand, *San Miguel Pale Pilsen*, has a history of over 130 years and was first produced by *La Fabrica de Cerveza de San Miguel*, which started as a single brewery producing a single product in 1890 and has evolved through the years to become the diversified conglomerate that is SMC.

In 2009, Kirin acquired a 48.39% shareholding in SMB, of which 43.249% was acquired from SMC and the remaining 5.141% by virtue of a mandatory tender offer and purchase from public shareholders. SMC retained majority ownership of SMB with shareholding of 51.16%. In connection with Kirin's investment in SMB, Kirin and SMC entered into a shareholders' agreement providing for, among others, corporate governance and approvals, cooperation in the conduct of the business, restrictions on the transfer of SMB shares and other customary arrangements. SMFB adhered to the shareholders' agreement with Kirin and agreed to be bound by the same terms and conditions as a party to the said shareholders' agreement. As of the date of this Prospectus, SMFB owns 51.2% and Kirin owns 48.5% of SMB.

In 2015, SMB acquired the NAB business from GSMI, which acquisition includes property, plant and equipment, finished goods inventories, and other inventories comprising containers on hand, packaging materials, goods-in-process and raw materials used in the NAB business. The acquisition is in line with the multi-beverage strategy of SMB that seeks to expand its product portfolio in the non-alcoholic beverage market, among others. This transfer will also benefit from SMB's RGB system, strong distribution network and competitive positioning.

The Beer and NAB Division operates six production facilities that are strategically located across the Philippines with an aggregate production capacity of 18.8 million HL/year. International operations are conducted through SMB's wholly-owned subsidiary, San Miguel Brewing International Limited ("**SMBIL**"), which in turn has production facilities located in six sites outside the Philippines (two in China, and one production facility each in Hong Kong, Indonesia, Thailand and Vietnam) with an aggregate production capacity of 7.9 million HL/year. In total, the Beer and NAB Division's beer production capacity is 26.7 million HL/year. In addition to producing the core San Miguel beer brands marketed internationally, the international operations also produce local brands such as Blue Star, Anker and Dragon, which are local brands in various jurisdictions. Beer products are exported to almost 60 countries and territories across the globe. International operations accounted for 9.5% and 9.7% of the total sales of the Beer and NAB Division for the year ended December 31, 2018 and the nine-month period ended September 30, 2019, respectively.

For the years ended December 31, 2016, 2017 and 2018, sales of the Beer and NAB Division were ₱97,156 million, ₱113,250 million, and ₱129,245 million, respectively, and net income was ₱17,665 million, ₱20,718 million, and ₱23,843 million, respectively.

For the nine-month period ended September 30, 2018, the Beer and NAB Division had sales of ₱93,361 million and net income of ₱17,768 million compared to sales of ₱103,883 million and net income of ₱19,841 million for the nine-month period ended September 30, 2019.

Production Facilities and Raw Materials

Production Facilities — Domestic Operations

The Beer and NAB Division maintains a network of production facilities rather than one central consolidated brewing and production facility. Currently, the Beer and NAB Division owns and operates six production facilities in the Philippines located in each of the three main island groups of Luzon, Visayas and Mindanao, namely: (1) the Polo facility located in the National Capital Region and established in 1947; (2) the Sta. Rosa facility located in Laguna Province and established in 2011; (3) the San Fernando facility located in Pampanga Province and established in 1981; (4) the Mandaue facility located in Cebu Province and established in 1968; (5) the Bacolod facility located in Negros Province and established in 1990; and (6) the Davao facility located in Davao Province and established in 1995. The domestic production facilities have a total production capacity of 18.8 million HL/year as of September 30, 2019. The Sta. Rosa facility completed an additional packaging line in the fourth quarter of 2018, while its brewing facility is aimed for completion by the first quarter of 2020. Similarly, a new brewery in Tagoloan, Misamis Oriental that was completed in the fourth quarter of 2019 is expected to commence commercial operations in early 2020, pending regulatory approvals. While production at each production facility is typically targeted to serve the surrounding geographical area, the Beer and NAB Division can shift production from one production facility to another if operational issues or demand changes require it.

The Beer and NAB Division employs brewing equipment and technology sourced from leading manufacturers in Germany, the U.S., Japan and Italy. These include modern beer fermentation and maturation tanks, filtering systems, pasteurizers with energy saving systems and camera-type electronic bottle inspectors, among others. Each of the production facilities is equipped with automated machines and equipment capable of manufacturing products in a variety of packages to meet market preferences, including bottles, cans and kegs.

All the production facilities are compliant with certain ISO requirements such as the ISO 9001:2015 and ISO 14001:2015, as assessed by its pool of technical assessors and are also certified by the Food Development Center, an office under the Philippine National Food Authority, as compliant to food safety requirements of current GMP–HACCP.

Production Facilities — International Operations

The Beer and NAB Division owns and operates six production facilities outside of the Philippines – two in China and one each in Hong Kong, Indonesia, Thailand and Vietnam, with an aggregate production capacity of 7.9 million HL/year, as of September 30, 2019.

The two facilities in China are located in Baoding City, Hebei Province and Longjiang Town, Shunde District in Guangdong Province and were established in 1994 and 1996, respectively. The Hong Kong facility is located in Yuen Long, Hong Kong and was established in 1996. The Indonesian facility is located in Bekasi Timur, Indonesia and was established in 1993. The Vietnamese facility is located in Khanh Hoa Province, Vietnam and was established in 1995. The Thailand facility is located in Pathum Thani, Thailand and was established in 2004.

Raw Materials

The main raw materials for brewing beer include malted barley, hops, water and yeast. Adjuncts 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, flavours, colorants and vitamins. All of these commodities have experienced, and may experience, price fluctuations. The Beer and NAB Division sources its key raw materials for its beer using a set of standardized procurement procedures. Beer production requires malted barley and hops, which are sourced generally from North America, Australia, Europe and China; and adjuncts such as corn and sugar, which are sourced domestically, and imported tapioca. For non-alcoholic beverages, SMB primarily sources its ingredients from Singapore, China and Europe.

Terms with key raw material suppliers provide for a supply period of approximately one year to five years with a pre-determined fixed and formula-based price for the duration of the supply relationship. In addition, depending on considerations such as price trends and the quality of raw materials, spot purchases are made in the open market. To ensure the quality of its products, the Beer and NAB Division closely monitors the quality of its raw materials.

Packaging materials are sourced primarily from the Packaging Group. Packaging costs are a significant factor in the manufacture of beer and the Beer and NAB Division sells most of its beer products in RGBs of varying sizes and shapes, as well as aluminum cans and kegs. For the year ended December 31, 2018 and the nine-month period ended September 30, 2019, over 90% of the RGBs used for beer were retrieved, which the Beer and NAB Division believes is the most important and popular packaging for beer in the Philippines. SMB's efficient RGB system decreases its exposure to rising packaging costs driven by increases in fuel and therefore helps in management of cost. The durable nature of the RGBs and plastic crates results in an average usage of approximately 40 to 60 cycles over a span of approximately five to 10 years. Retail outlets selling SMB's products collect deposits on these bottles when customers buy the beer. For bottles returned, the corresponding deposit is refunded to the customer. New glass bottles and plastic crates are also purchased to support increasing sales and to replace broken and scuffed bottles.

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

Deep wells provide the water supply needed for production in domestic production facilities, except for water used at the Polo Brewery, which is supplied by water utility service providers in the Philippines. For international operations, water is sourced through deep wells, water utility service providers or government-owned water facilities.

Sales and Distribution

Domestic Market

The Beer and NAB Division markets, sells and distributes its products principally in the Philippines and maintains an extensive distribution system, which encompasses the six strategically located production facilities across the country, a broad network of sales offices and warehouses supported by dealerships and third-party service providers.

The strategic locations of the production facilities reduce overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country, and help ensure that the products are freshly delivered to customers at an optimal cost. Products are delivered from any one of the six production facilities by contract haulers and, in certain circumstances, by a fleet of boats, to retailers and consumers generally within five to seven days from production, ensuring quality and sufficient stocks wherever and whenever *San Miguel* beer products are needed. As of September 30, 2019, products of the Beer and NAB Division are distributed and sold at over 400,000 outlets, including off-premise outlets such as supermarkets, grocery stores, *mom* and *pop* stores and convenience stores accounting for 92% of total outlets and on-premise outlets such as bars, restaurants and hotels accounting for 8% of total outlets through over 50 sales offices and approximately 500 dealers throughout the Philippines.

For distribution efficiency, the Beer and NAB Division works closely with dealers and provides assistance such as systems and trainings related to dealer operations. The Beer and NAB Division enters into distribution agreements with its dealers that specify the territory in which each dealer is permitted to sell products, 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 the Beer and NAB Division and implemented in tandem with dealers to ensure high quality of services. The extensive dealer network and efficient distribution system and also support the high return rate of the Beer and NAB's RGB system. See “—*Production Facilities and Raw Materials—Raw Materials.*”

The Beer and NAB Division has also formed a key accounts group to handle accounts management and business development of modern trade accounts such as supermarkets and convenience stores, and to increase visibility in selected on-premise outlets. As of September 30, 2019, the Beer and NAB Division, together with its dealers and account specialists, had a sales force of approximately 1,800 in the Philippines. The Beer and NAB Division continues to implement programs to strengthen its sales capabilities and systems.

SMB also operates a delivery service in Metro Manila and selected cities through its “632-BEER” (8632-2337) hotline delivery program that allows customers to place orders by calling, text messaging or ordering online (www.smbdelivers.com). The delivery service taps into emerging segments such as consumers located at home or in other private spaces that prefer to directly place orders for beer.

International Market

International operations are conducted in Hong Kong, Indonesia, Thailand, China and Vietnam through SMBIL, a subsidiary of SMB. Subsidiaries of SMBIL include San Miguel Brewery Hong Kong Limited, which is listed on The Stock Exchange of Hong Kong Limited under stock code 236 and PT Delta Jakarta Tbk, which is listed on the Indonesia Stock Exchange under DLTA.JK.

There are two production facilities in China and one production facility located in each of Indonesia, Vietnam, Thailand and Hong Kong, with an aggregate capacity of approximately 7.9 million HL/year. Third party service providers transport the products produced from these production facilities to customers, consisting of dealers, wholesalers, retail chains, or outlets, depending on the market. A total sales force of approximately 460 employees are maintained in these five countries with 12 sales regions in China, six in Indonesia and Thailand and four in Vietnam. In Thailand, all local sales are done through San Miguel Marketing (Thailand) Limited, a subsidiary of SMBIL.

In addition, SMBIL exports beer products to approximately 60 countries and territories globally in North America, South America, Europe, Africa, the Middle East, Australia and the rest of Asia. Exports are sold under various beer brands as well as under private labels. International operations accounted for 9.5% and 9.7% of the Beer and NAB Division’s total sales for the year ended December 31, 2018 and the nine-month period ended September 30, 2019, respectively.

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

Research and Development

The Beer and NAB Division 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 NPD is ensured through the research and development of beer and NAB products. R&D activities are conducted in a technical center and pilot plant located in one of its 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 NAB product evaluation and new raw material accreditation. Specialized equipment includes gas chromatography, high performance liquid chromatography, atomic absorption spectroscopy, protein analyser, 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, the Beer and NAB Division 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 include those highly advanced classes necessary to qualify the most senior of its technical personnel known as brewmasters. Each of the more than 40 brewmasters has extensive advanced coursework from both in-house and international institutions and over 10 years of on-the-job-training experience with SMB.

The Beer and NAB Division continues to pursue innovation to support growth and market leadership. New products and variants are explored and attuned to the evolving consumer profile and preferences. For example, in 2010, the NPD team formulated the first flavoured beer in the market which is the San Miguel Flavored Beer in apple and lemon flavours to appeal to younger drinkers. San Miguel Flavored Beer has been posting strong growth since its launch.

For the years ended December 31, 2016, 2017, and 2018 the Beer and NAB Division spent ₱81 million, ₱115 million, and ₱123 million on R&D activities, representing 0.08%, 0.10%, and 0.09% of sales for the same periods, respectively.

Marketing

The Beer and NAB Division actively pursues marketing initiatives to promote new products, as well as to maintain and enhance brand awareness of existing products. These initiatives include media advertisements featuring well-known Philippine celebrities, sponsorship of special events, the conduct of various consumer and trade promotions and merchandising activities. Various channels such as television, radio, print and digital platforms are tapped to reach targeted segments. The Beer and NAB Division also utilizes outdoor billboards and posters in off-premise retail outlets, restaurants, bars and other on-premise outlets.

The Beer and NAB Division holds nationwide trademark, signature events and sponsors numerous other events. *San Miguel Beer Oktoberfest* has been the brand's flagship event for over three decades. This beer festival takes place at numerous locations across the Philippines, offers beer and features popular bands, celebrities, games and raffle promos. 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 Philippines. SMB also holds *San Miguel Pale Pilsen's* nationwide *Sarap Mag Babad* or *Taste of Summer* 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 *Pambansang Muziklaban*, the first and biggest amateur rock band competition in the Philippines. For *San Mig Light*, SMB conducts electronic dance music-related initiatives such as *Party All Night* and *DJ Spin-Off* events. Aimed at younger drinkers, *San Miguel Flavored Beer* has a school fair event known as *SMFBU Fun Fair ng Barkada* or *Fun Fair with Friends*. Finally, digital placements and targeted visibility program are conducted in upscale outlets to promote specialty brands such as *San Miguel Premium All-Malt*, *San Miguel Super Dry* and *Cerveza Negra*.

Competition

In the Philippine beer market, the major competitor for beer products is AB Heineken Philippines, Inc. ("ABHP"), a joint venture formed in 2016 between domestic brewer Asia Brewery Inc. and Heineken International B.V. ABHP offers a portfolio of local beers, 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 and Brew Kettle in the mainstream segment. It is also the exclusive distributor of Asahi Super Dry in the country. Following the joint venture in 2016, ABHP started marketing and selling imported Heineken beer and Tiger beer in the country, competing with SMB's premium and mainstream brands, respectively.

ABHP also offers Tanduy Ice, which is a line of alcopop beverages positioned similar to beer. Competition from imported beers and local craft beers is minimal. These products comprise a small portion of the market and are primarily found in upscale hotels, bars, restaurants and supermarkets in Metro Manila and other key cities.

The Beer and NAB Division's beer products also compete with other alcoholic beverages, primarily brandy, gin, rum and alcopops which are close substitutes to beer. In the beer industry—and more generally the alcoholic beverage industry—competitive factors usually include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. SMFB believes that the market leadership, size and scale of operations, and extensive distribution network in the Philippines provide the Beer and NAB Division with significant competitive advantages in the Philippines.

In the non-alcoholic beverage market, competition is from established players and brands in ready-to-drink juice and ready-to-drink tea. For example, Zest-O, Tropicana Twister and C2 compete with *Magnolia Fruit Drink*, while Lipton and Nature's Spring Iced Tea compete with *Magnolia Healthtea*.

In its main international markets, the Beer and NAB Division's beer products contend with both foreign and local beer brands, such as Blue Girl (Hong Kong), Carlsberg (Hong Kong, Thailand and Vietnam), Heineken (Hong Kong, South China, Thailand, Vietnam and Indonesia), Tsingtao (Hong Kong and China), Yanjing (China), Tiger (Thailand, Vietnam and Indonesia), Guinness (Hong Kong and Indonesia), Bintang (Indonesia), Budweiser (Hong Kong and China) Snow (China), Singha and Asahi (Thailand), and Saigon Beer (Vietnam).

Taxation

In the Philippines, excise tax represents a significant component of beer production costs. The Philippine Tax Code provides for the excise taxes on alcohol products, including fermented liquor, such as beer, and the Bureau of Internal Revenue (“**BIR**”) requires establishments subject to such taxes to obtain a permit to manufacture such products to enforce the collection and payment thereof.

Under the Philippine Tax Code, excise tax on fermented liquor is determined per litre of volume capacity in relation to the net retail price (excluding the excise tax and value added tax thereon) and is payable by the producer. The tax rate varies depending on the type of alcoholic beverage being produced, with more expensive products being subject to higher rates. Excise tax accounts for a significant portion of SMB’s production costs.

Effective January 1, 2017, Republic Act No. 10351 imposed a unitary tax rate of ₱23.50 per litre on all fermented liquors, except those affected by the “no downward classification clause”, which was a change from the two-tier tax structure imposed in 2013. Several of SMB’s products were affected by the “no downward reclassification” clause in the law and were thus subjected to higher excise tax rates. The unified tax rate in 2017 of ₱23.50 for all fermented liquor products will be increased by 4% annually until reviewed and amended by an act of Congress.

On January 22, 2020, President Duterte signed Republic Act No. 11467, which amended certain provisions of the Philippine Tax Code and sets additional excise tax on alcoholic beverages. Effective January 1, 2020, the new excise tax rates for fermented liquor is ₱35.00 per litre. The excise tax then increases to ₱37.00 per litre in 2021, ₱39.00 per litre in 2022, ₱41.00 per litre in 2023, and ₱43.00 per litre in 2024. Effective January 1, 2025, the excise tax rate shall will be increased by 6% every year thereafter.

For distilled spirits, an additional *ad valorem* tax of 22% of the net retail price (excluding excise tax and VAT) shall be assessed and collected. In addition to the *ad valorem* tax, a specific tax at the following rates shall be collected: ₱42.00 per proof litre effective January 1, 2020, ₱47.00 per proof litre in 2021, ₱52.00 per proof litre in 2022, ₱59.00 per proof litre in 2023, and ₱66.00 per proof litre in 2024. The specific tax will be increased by 6% every year thereafter, effective January 1, 2025, through revenue regulations to be issued by the Secretary of Finance.

The sale of beer and non-alcoholic beverages in the Philippines is also subject to value-added tax and withholding tax, when applicable.

The Beer and NAB Division’s beer products are also subject to excise tax in the markets in which the international subsidiaries operate.

Intellectual Property

Brands, trademarks, patents and other related intellectual property rights used by the Beer and NAB Division in respect of its beer and malt-based beverage products (including *Cali*) are either registered or pending registration in the name of Iconic Beverages, Inc. (“**IBI**”) in the Philippines. The brands, trademarks and patents used by the Beer and NAB Division in respect of its non-alcoholic beverage products (other than *Cali*) are licensed from SMC. Most of the brands, trademarks and other intellectual property rights used in its international operations are registered or pending registration in the name of SMBIL, with certain local brands in the name of SMBIL’s subsidiaries in Hong Kong and Thailand. IBI and SMBIL are wholly-owned subsidiaries of SMB.

Quality Control, Health, Safety and Environmental Matters

The domestic operations of the Beer and NAB Division are subject to various regulations concerning health, safety and protection of the environment.

The FDA, an agency under the DOH, administers and enforces the law, and issues rules and circulars on safety and good quality supply of food, drug and cosmetic to consumers, as well as regulates the production, sale, and traffic of the same to protect the health of the people. The DOH also prescribes the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers which provide for the minimum operating standards, procedures and requirements in respect of the operations and facilities of establishments engaged in the manufacture, packing, repacking or holding of food products. The Consumer Act of the Philippines seeks to protect consumers against hazards to health and safety and against deceptive, unfair and unconscionable sales acts and practices; and provide information and education to facilitate

sound choice and the proper exercise of rights by the consumer, including means of redress in cases of violations of such rights. For alcoholic beverages, the alcohol content in terms of percentage volume or proof units shall be indicated on the label of alcoholic beverages.

The Beer and NAB Division is also subject to extensive environmental laws and regulations implemented by the DENR, including the Philippine Environmental Impact Statement System, which is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical; or (ii) is situated in an environmentally critical area. An entity that undertakes any environmentally critical project or operates in any environmentally critical area is required to submit an Environmental Impact Statement and secure an Environmental Compliance Certificate (“ECC”). This ECC requirement applies to all production facilities. Other environmental laws and regulations applicable to domestic operations of the Beer and NAB Division include the Philippine Clean Water Act of 2004, the Philippine Clean Air Act, the Water Code, the Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 and the Biological Solid Management Act of 2000. See “*Regulatory and Environmental Matters—Environmental Matters.*”

International operations are also regulated by various applicable laws in their respective markets including the regulations on food labelling in China and Hong Kong and environmental regulations, among others.

Spirits Division

Through GSMI, the Spirits Division is a leading spirits producer in the Philippines and the largest gin producer internationally by volume, according to GlobalData as of 2017. According to The Nielsen Company (Copyright © 2018, The Nielsen Company), the core spirits brands, Ginebra San Miguel and Vino Kulafu are also market leaders in the gin and Chinese wine categories at 97.3% and 63.7% volume share, respectively, as of September 30, 2019. Further, GSMI produces some of the most recognizable spirits in the Philippine market, including gin, Chinese wine, brandy, vodka, rum and others and enjoys 33.0% over-all industry market share as of the same period, according to The Nielsen Company (Copyright © 2018, The Nielsen Company). GSMI’s calculation is based in part on data reported by The Nielsen Company (Copyright © 2018, The Nielsen Company) through its Retail Index Service for the Wines & Spirits Category for the periods covering October 2018 to September 2019, for the total Philippines market.

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 honour of the pioneering gin brand. For the year ended December 31, 2018 and the nine-month period ended September 30, 2019, GSMI’s flagship brand, Ginebra San Miguel, contributed 88.8% and 87.4%, respectively, to GSMI’s total sales.

The Spirits Division operates one distillery and five bottling plants in the Philippines with a combined annual distillation capacity of 80 million litres and bottling capacity of 63.3 million cases. Each case generally contains either 24 units of 350mL each or 12 units of 700mL each. The distillery of Distileria Bago, Inc. (“DBI”), which is a wholly-owned subsidiary of GSMI, is strategically located in Negros Occidental Province, the largest molasses producing region in the Philippines. Its distribution network has nationwide coverage reaching approximately 141,000 outlets across the archipelago through 91 dealer sites and 15 sales offices as of September 30, 2019.

GSMI is a public company listed on the PSE under the stock symbol “GSMI”. The market capitalization of GSMI was ₱10,880 million, with a common share price of ₱38.00 as of December 31, 2019.

For the years ended December 31, 2016, 2017, and 2018, GSMI’s sales were ₱18,560 million, ₱20,891 million, and ₱24,835 million, respectively, and for the years ended December 31, 2016, 2017, and 2018, the net income was ₱361 million and ₱602 million, and ₱1,053 million, respectively.

For the nine-month period ended September 30, 2018, sales was ₱17,915 million and net income was ₱789 million compared to sales of ₱21,430 million and net income was ₱1,325 million for the nine-month period ended September 30, 2019.

Products and Brands

The Spirits Division is one of the major players in the liquor market, given its diverse portfolio of products with core brands such as *Ginebra San Miguel* and *Vino Kulafu*, which continue to lead in the gin and Chinese wine categories, respectively, according to GlobalData as of 2017.

The Spirits Division believes that consumer preferences in the Philippine spirits market vary significantly by geographical region—consumers in Northern Philippines tend to prefer gin and brandy, while consumers in Southern Philippines tend to prefer rum and Chinese wine. In recent years, brandy has gained popularity in both the Northern and Southern parts of the Philippines. The Spirits Division capitalizes on the strength of its flagship brand *Ginebra San Miguel* and its wide range of products in expanding its business, particularly in the Southern part of the Philippines.

Spirits products are also exported primarily to markets with a high concentration of Filipino communities such as the United Arab Emirates, Taiwan, Vietnam, Hong Kong and the U.S. and certain brands are produced for export only, including *Tondeña Gold Rum*, *Tondeña Manila Rum*, *Gran Matador Solera*, *Gran Reserva Brandy*, *Gran Matador Gold* and *Añejo Dark Rum* 5 years. In addition, distilled spirits are sold and distributed in Thailand through GSMI's joint venture with Thai Life Group of Companies via Thai Ginebra Trading Company Limited.

Over the years, the Spirits Division has received numerous international awards for product quality and excellence. Since 2005, a total of 57 gold, silver and bronze medals have been received for various distilled spirits products. The latest awards in 2017 included gold medals from Monde Selection for *GSM Blue*, *Ginebra San Miguel Premium Gin* and *Ginebra San Miguel*, and silver medals for *GSM Blue Flavors Mojito*, *Vino Kulafu* and *Primera Light Brandy*.

Production Facilities and Raw Materials

Production Facilities

The Spirits Division operates one distillery and five bottling plants. The distillery is strategically located in Negros Occidental Province, the largest molasses producing region in the Philippines, and has a distillation capacity of 80.0 million litres per annum while the bottling plants are located across the archipelago with a total annual bottling capacity of 63.3 million cases.

The five bottling plants are located in Luzon and Visayas, namely: (1) the Cauayan plant located in Isabela Province and established in 2010; (2) the Sta. Barbara plant located in Pangasinan Province and established in 1992; (3) the Ligao plant located in Albay Province and established in 2010; (4) the Cabuyao plant located in Laguna Province and established in 1996; and (5) the Mandaue plant located in Cebu Province and established in 1964.

For the year ended December 31, 2016, 2017 and 2018, the Spirits Division incurred capital expenditures in the amounts of ₱382 million, ₱217 million, and ₱274 million, respectively.

The production facilities located in Sta. Barbara, Pangasinan; Cabuyao, Laguna; Mandaue City, Cebu; and Bago City, Negros Occidental are compliant with the requirements of ISO 9001:2015. As of the date of this Prospectus, the facilities located in Cauayan, Isabela and Ligao City, Albay are in the process of being certified.

Thai San Miguel Liquor Co. Ltd. (“TSML”), a joint venture of GSMI and Thai Life Group of Companies, has a production facility located in Kanchanaburi, Thailand with a 75 KLPD distillery column and a bottling line that has an annual production capacity of 22 million liters and six million cases, respectively.

Raw Materials

Alcohol is the main raw material used for spirits, which is made by converting sugarcane molasses to alcohol at the DBI distillery. To mitigate the impact of the increasing price *vis-à-vis* the foreseen decreasing availability of sugarcane molasses for use in the production of spirits, since it is also used as the main material in the Philippine government's clean fuel program, the Spirits Division, among others, directly purchases crude and GSMI-spec alcohol from a variety of third-party suppliers pursuant to supply contracts in the domestic and foreign open markets. DBI also has a separate facility which can use cassava starch milk as an alternative raw material in the production of alcohol.

Products are packaged in glass bottles, the majority of which are sourced from the Packaging Group. In addition to using new glass bottles, the Spirits Division maintains a network of washed second-hand bottle suppliers in the Philippines. The suppliers retrieve, sort and wash *Ginebra San Miguel* glass bottles, which are bought back by GSMI to be recycled and reused. For the year ended December 31, 2018 and the nine-month period ended September 30, 2019, approximately 68% and 67% of glass bottles used were second-hand bottles retrieved by and purchased from these bottle suppliers, respectively. A stringent quality control system is maintained to monitor procedures and address safety concerns in the use of recycled bottles. The Spirits Division believes that bottling costs for any particular product could be sustained over time with the continuous use of second-hand bottles. Thus, the Spirits Division has actively implemented programs to expand its network of second-hand bottle suppliers in the past three years.

Sales and Distribution

The Spirits Division primarily markets, sells and distributes its products in the Philippines to consumers through territorial distributorship made up of a network of 91 dealer sites and 15 sales offices strategically situated across the country as of September 30, 2019. The Spirits Division's sales team and key accounts group directly serves off-premise outlets such as *mom* and *pop* stores, supermarkets, grocery stores, and convenience stores, as well as on-premise outlets such as bars, restaurants and hotels. As of the same period, approximately 141,000 retail outlets are covered and served by the dealers, including general trade outlets accounting for 89% of total outlets and modern trade outlets, accounting for 11% of total outlets.

At the centre of the product distribution and movement is the Spirits Division's logistics group. It spearheads the planning, coordination and delivery of finished goods from the different plants to various sales offices, warehouses, dealers, wholesalers and select retailers.

Direct shipments to dealer sites are made through third-party haulers while company-owned routing trucks deliver to directly served outlets. To expand distribution coverage and supplement the Spirits Division's own logistical assets, it also engages third-party service providers to handle warehouse management and product delivery to various destination points. The turn-around time for the delivery of the products from the bottling plants to the dealer is four to seven days for in-land deliveries and nine to 14 days for offshore deliveries.

While the Spirits Division has already established a good number of dealer sites throughout the country, one key distribution strategy is to continuously develop and acquire new dealers in areas with high volume potential, especially in the geographically segmented Southern Philippines. This strategy is anchored on the deployment of direct selling operations teams, who will focus on exploring and nurturing underserved areas until these become commercially feasible for an existing or new dealer to take-over. Initiatives have also been implemented, such as systems improvement, trainings, incentive programs, merchandising, posterizing and multiple localized below-the-line activities to sustain and ensure continuous growth in volume.

Research and Development

The Spirits Division continuously develops new products as it seeks to expand its existing product lines and maintains a well-equipped laboratory that provides capabilities to develop innovative product formulations as well as a dedicated technical group focused on NPD. In addition to the popular Mojito that is a variant of *GSM Blue Flavors*, which was launched in 2012, new variants Margarita and Gin Pomelo as well as new product *Añejo Gold Medium Rum* were developed and launched in 2017.

The *Añejo Gold Medium Rum* was introduced to address the market gap between strong and light spirits products and is geared towards the young adult market. This was specifically formulated to be 67.5% proof for moderate strength and is made from alcohol that has been aged in oak barrels for 12 years blended with high quality ingredients.

The R&D team also develops product formulations for certain toll manufacturing customers, such as the Don Papa Rum and all of its limited-edition variants. These are sold predominantly in Europe, North America, Australia, New Zealand and select Asian countries.

For the years ended December 31, 2016, 2017 and 2018, the Spirits Division spent ₱36 million, ₱42 million, and ₱52 million on R&D activities, representing 0.19%, 0.20%, and 0.21% of sales for the same periods, respectively.

Marketing

The Spirits Division is focused on growing its core gin products. Recent thematic campaigns such as the slogan “*Ginebra Ako*” aid in reinforcing the flagship brand *Ginebra San Miguel* as a leading gin brand in the market. Targeted product launches allow GSMI 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 launch of several *GSM Blue Flavor* variants.

As the leading 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. There is also the widely anticipated GSMI calendar featuring a popular celebrity and “*Ginumanfest*”, a concert series, that is hosted by GSMI to coincide with major provincial *fiestas* and in select barangays across the country.

The Spirits Division has a very popular professional basketball team, the *Barangay Ginebra San Miguel*, whose players are regularly used in its advertising campaigns. This nurtures a preference for the GSMI brands and products because of a strong affinity to the *Barangay Ginebra San Miguel* basketball team as basketball continues to be a well-loved and one of the most watched sport in the Philippines. Product advertisements are commonly streamed through television, radio, print and billboards. The Spirits Division has also explored new marketing channels, utilizing digital advertising, and sponsoring special events and consumer and trade promotions, to create a new generation of gin consumers.

Competition

In the Philippine spirits market, competition among the major players revolves around brand equity through above and below the line advertising activities, price leadership, NPD, raw material security, production efficiency and distribution. GSMI’s major competitor for spirits products are Emperador Distillers, Inc. and Tanduay Distillers Inc. The former is largely known for its Emperador Light Brandy which is popular among the young working class in Greater Manila and most urban cities. Tanduay Distillers, Inc.’s Tanduay Rhum Dark Five Years is a staple hard liquor drink in the Visayas and Mindanao region. *Ginebra San Miguel* is the preferred brand in northern and southern Luzon as of 2017 according to Global Data. As the Chinese wine segment has also seen an increase in consumption in recent years, the Spirits Division’s *Vino Kulafu* has emerged as the top choice in this category as of 2017 according to GlobalData. Patronage mostly comes from various islands in the Visayas and parts of Mindanao.

Intellectual Property

The Spirits Division registers its trademarks, industrial design and copyright used or intended to be used in its products and business with, among others, to the Intellectual Property Office of the Philippines and equivalent authorities outside the Philippines. The Spirits Division also ensures that such registrations are maintained and promptly renewed, subject to relevant laws, rules and regulations.

All of Spirits Division’s trademarks for its products sold in the Philippines and in the relevant foreign markets are either registered or have pending registration applications in its name or in the name of SMC. The Spirits Division’s use of the SMC trademarks is duly authorized by SMC. The Spirits Division has also applied for registration or registered in its name, among others, the trademarks *Vino Kulafu* and *Primera Light*, label designs of *GSM Blue Flavors* and label designs and bottles for *Ginebra San Miguel*, while the trademarks *GSM Blue*, , *Antonov Vodka*, and *Don Enrique Mixkila* are registered in the name of SMC. The Spirits Division also has an industrial design registration for its bottle *Ginebra San Miguel* (round/“*bilog*”) and has existing copyright certificates of registration over certain pictorial illustrations and radio materials which were used for advertising *Vino Kulafu*.

Trademarks used by the Spirits Division are likewise registered in various countries including Thailand, the U.S., China, Canada, Hong Kong, India, Italy, Kuwait, New Zealand and Taiwan.

Quality Control, Health, Safety and Environmental Matters

The Spirits Division is compliant with applicable statutes and regulations on health, safety and environment and possesses the required permit and licenses to operate its production facilities.

Health and safety programs of the Spirits Division focus on creating a suitable working environment to ensure that its processes result in quality products and services. This suitable working environment is a combination of favourable human and physical factors such as social (e.g., calm, non-discriminatory and non-confrontational), psychological (e.g., stress-reducing, burn-out protection, emotionally protective), and physical (safe, ergonomic, temperature, heat, humidity, light, hygiene, noise and space) factors.

The Spirits Division, in compliance with the DOLE requirement, has established a safety committee headed by a safety officer for each of the Spirits Division production facilities, which is tasked to conduct job hazard analyses and near miss/incident/accident investigation, and regular site inspections. For each of the Spirits Division production facilities, there is also a crisis committee tasked to immediately attend to civil disturbances and natural calamities and fire brigades for fire safety concerns.

All employees undergo annual physical and medical examinations. There are assigned nurses in every production shift, as well as medical doctors where needed. The Spirits Division production facilities also have their pool of first aid providers.

The Spirits Division's manufacturing group also conducts safety audits of the Spirits Division production facilities and recognition and awards are given to outstanding safe plants during the Spirits Division's annual Supply Chain Conference.

As for environmental management, the Spirits Division production facilities have waste water treatment facilities, air pollution abatement devices with CCTV monitors on smoke stacks, material recovery facilities for recycling packaging materials, and control system for hazardous wastes. The Spirits Division has commenced efforts to implement Environmental Management System based on ISO 14001:2015 standard and its production facilities also have self-monitoring activities for their respective environmental programs, which are reported to the DENR on a quarterly basis.

Food Division

The Food Division holds market-leading positions in many key food product categories in the Philippines and offers a broad range of high-quality food products and services to household, institutional and foodservice customers. The Food Division 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* and *Purefoods Tender Juicy* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee, *La Pacita* for biscuits, and *B-Meg* for animal feeds.

The breadth of the Food Division ranges from branded value-added refrigerated meats and canned meats, butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids and biscuits, flour mixes and coffee and coffee-related products (“**Prepared and Packaged Food**”) to integrated feeds (“**Animal Nutrition and Health**”) to poultry and fresh meats (“**Protein**”) as well as flour milling, grain terminal handling, foodservice, franchising and international operations (“**Others**”).

For the years ended December 31, 2016, 2017, and 2018, sales for the Food Division amounts ₱111,563 million, ₱117,448 million, and ₱132,298 million, respectively. For the nine-month period ended September 30, 2018 and 2019, sales for the Food Division amounts to ₱95,344 million and ₱101,052 million, respectively.

For the years ended December 31, 2016, 2017, and 2018, operating results for the Food Division amounts to ₱8,931 million, ₱9,926 million, and ₱8,826 million respectively. For the nine-month period ended September 30, 2018 and 2019, operating results for the Food Division amounts to ₱6,779 million and ₱3,209 million, respectively.

Food Division Segments and Products

Prepared and Packaged Food

The Prepared and Packaged Food segment includes refrigerated meats, canned meats, dairy, ice cream, spreads and oils, biscuits and coffee.

The major operating subsidiaries for the Prepared and Packaged Food segment are Purefoods-Hormel, Magnolia, Inc. and San Miguel Super Coffeemix Co., Inc. (“**SMSCCI**”). Purefoods-Hormel produces and markets value-added refrigerated processed meats and canned meat products. Value-added refrigerated meats include hotdogs, nuggets, bacon, hams, and other ready-to-heat meal products, which are sold under the brand names *Purefoods*, *Purefoods Tender Juicy*, *Star*, *Higante*, *Purefoods Beefies*, *Vida* and *Purefoods Nuggets*. Canned meats, such as corned beef, luncheon meats, sausages, sauces, meat spreads and ready-to-eat viands, are sold under the *Purefoods*, *Star* and *Ulam King* brands.

The dairy, spreads and biscuits business, primarily operated through Magnolia, Inc., manufactures and markets a variety of bread spreads, milk, ice cream, jelly-based snacks, salad aids, biscuits, flour mixes and cooking oils. Bread spreads include butter, refrigerated and non-refrigerated margarine and cheese sold primarily under the *Magnolia*, *Dari Crème*, *Star* and *Cheeze* brands. Dairy products include ready-to-drink milk, ice cream and all-purpose cream under the *Magnolia* brand; jelly-based snacks are under the *JellyYace* brand, biscuits under the *La Pacita* brand, while flour mixes, salad aids like mayonnaise and dressings, are under the *Magnolia* brand. Cooking oil products are sold under the *Magnolia Nutri-Oil* brand.

Animal Nutrition and Health

The Animal Nutrition and Health segment produces integrated feeds and veterinary medicines. The operating subsidiary for the Animal Nutrition and Health segment is San Miguel Foods.

Commercial feed products include hog feeds, layer feeds, broiler feeds, gamefowl feeds, aquatic feeds, branded feed concentrates and specialty and customized feeds. These feeds are sold and marketed under various brands such as *B-Meg*, *B-Meg Premium*, *Integra*, *Expert*, *Dynamix*, *Essential*, *Pureblend*, *Bonanza* and *Jumbo*.

Protein

The Protein segment is in the business of poultry and fresh meats. San Miguel Foods is also the operating subsidiary for the Protein segment.

The poultry business operates a vertically-integrated production process that spans from breeding broilers to producing and marketing chicken products, primarily for retail. Its broad range of chicken products is sold under the *Magnolia Fresh Chicken* brand, which includes fresh-chilled or frozen whole and cut-up products. A wide variety of fresh and easy-to-cook products are sold through the *Magnolia Chicken Stations*. The fresh meats business breeds, grows, and processes hogs, and trades beef and pork products. Its operations include slaughtering live hogs and processing beef and pork carcasses into primal and sub-primal meat cuts. These specialty cuts and marinated products are sold in neighbourhood meat shops under the well-recognized *Monterey* brand name.

Others

Flour milling, premixes and baking ingredients, foodservice and franchising together with international operations, are categorized under Others. The bulk of this segment is accounted for by the flour milling business and grain terminal operation.

The flour milling business operates under San Miguel Mills, Inc. (“**San Miguel Mills**”). The international operations of the Food Division are located in Indonesia and Vietnam and conducted through PT San Miguel Pure Foods Indonesia (formerly PT Pure Foods Suba Indah) (“**PTSMPFI**”) and San Miguel Pure Foods (Vn) Co., Ltd. (“**SMPFVN**”) in Vietnam, a wholly-owned subsidiary of San Miguel Pure Foods International, Limited. Both PTSMPFI and SMPFVN are in the business of production and marketing of processed meats.

The foodservice business of the Food Division is handled by Great Food Solutions, a group under San Miguel Foods. Great Food Solutions, which services institutional accounts such as hotels, restaurants, bakeshops, fast food and pizza chains, markets, and distributes foodservice formats of the value-added meats, fresh meats, poultry, dairy, oil, flour and coffee businesses.

Production Facilities and Raw Materials

The Food Division uses both company-owned and third-party owned facilities for production purposes. As of September 30, 2019, facilities include 37 feedmills, 57 processing plants, and close to 1,500 breeding and growing farms located across Luzon, Visayas, and Mindanao, as of September 30, 2019.

The Food Division is not dependent on one or a limited number of suppliers for its essential raw materials and supplies, except in respect of the coffee business as coffee mixes are provided solely by Super Coffeemix Manufacturing Ltd. (Thailand) Company (“**SCML Thailand**”). The division believes that its operations will not be disrupted if any supplier refuses or cannot meet its delivery commitment.

For the years ended December 31, 2016, 2017 and 2018, the Food Division incurred capital expenditures in the amounts of ₱6,467 million, ₱10,890 million and ₱8,496 million, respectively.

Prepared and Packaged Food

Production Facilities

The production facilities for the Prepared and Packaged Food segment are located in Luzon. Three production facilities are located in Cavite, two of which are for meat processing operations for the manufacture of hotdogs, nuggets, hams, bacon, sausages, meat toppings, and sauces. The third facility manufactures bread spread products 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 and biscuits are manufactured at company-owned facilities located in Sta. Rosa, Laguna and Antipolo City, respectively. Flour mixes under the *Magnolia* brand, on the other hand, are manufactured at company-owned facilities in Mabini, Batangas.

Milk, all-purpose cream, jelly-based snacks and cooking oil products are manufactured in third party-owned plants under tolling arrangements, all of which meet quality standards. Other toll-manufacturing agreements with Halal-accredited facilities are also maintained 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.

Raw Materials

The primary raw materials used for refrigerated and canned meats are chicken, beef and pork primal cuts, most of which are sourced through the Business Procurement Group (the “**BPG**”) of the Food Division, which strives to secure prices lower than prevailing market or published rates. The BPG maintains a pool of accredited suppliers for local and imported raw materials, which are regularly audited by a quality assurance team.

All of the procurement, manufacturing and pre-packing of raw materials for coffee products are handled by SMSCCI’s partner in Singapore and Thailand. Coffee mixes are imported through SCML Thailand while re-packing, marketing, selling and distribution are done in the Philippines.

Animal Nutrition and Health

Production Facilities

For the Animal Nutrition and Health segment, compound feeds are manufactured at 14 company-owned feedmills, seven of which are located in Luzon, three in Visayas and four in Mindanao, plus 23 third party-owned and operated feed plants located throughout the Philippines. Most of these plants are capable of producing pelleted and crumble format feeds and two plants have extrusion capabilities to produce aquatic floating feeds. The feeds business also maintains tolling arrangements for eight rendering facilities that convert animal by-products used as raw materials into some feed types.

The Animal Health and Nutrition segment is building five new feedmills with an estimated capacity of approximately 1,500 thousand metric tons for the period 2018 to 2020, one of which will be equipped with capability to produce aquatic floating feeds. These will increase the Food Division’s capacity for higher margin products and will help supply the Visayas-Mindanao region.

Raw Materials

The largest single cost component for 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. Corn is purchased locally from corn traders and occasionally from suppliers in the U.S., South America and Southeast Asia.

Prices of raw materials are subject to significant volatility due to extreme weather conditions, size of harvests, transportation and storage costs, governmental agricultural policies, currency exchange rate fluctuations and other

factors. See “*Risk Factors—Shortage of raw materials.*” To minimize the adverse effects of unexpected price increases, the Food Division enters into hedging transactions and maintains strategic buying programs.

Protein

Production Facilities

For the Protein segment’s poultry business, company-owned facilities include two poultry processing plants located in Cebu and Davao, two poultry hatcheries located in Laguna and Bukidnon, and one poultry breeder farm located in Bataan. All of these company-owned facilities are operated by third parties.

The poultry business primarily utilizes third party-owned facilities operated under tolling arrangements. As of September 30, 2019, all of the poultry growing output and 97% of processing output were from tolled facilities. Approximately 95% of these poultry growing facilities employ climate-controlled systems, which improve biosecurity and provide more comfortable and stable temperatures in growing facilities, thus, increasing efficiency and reducing mortalities. Supporting its vertically controlled poultry operations are two company-owned processing plants, 31 processing plants operated under tolling arrangements and an extensive network of third-party cold storage warehouses and distribution facilities throughout the Philippines.

For the Protein segment’s fresh meats business, company-owned facilities include two hog farms located in Bulacan and Bukidnon and a hog slaughterhouse in Cavite, which are all operated by third parties. The Protein segment maintains a vertically integrated operations, allowing the business to have control and oversight of the entire value chain from the selection of genetic stocks to growing and processing of hogs, to selling, mainly through the *Monterey Meatshop* network.

Hog raising operations use a two-site system which separates breeding from nursery and growing into isolated facilities to minimize the risk and spread of disease. As of September 30, 2019, more than 90% of the business’ hog growing capacities are third party-owned and operated under tolling arrangements. Approximately 60% of these employ climate-controlled as well as elevated housing systems, which provide more comfortable and stable temperatures in growing facilities, thus increasing efficiencies and reducing mortalities.

The Protein segment is building two poultry facilities capable of processing approximately 65 million heads for the period 2019 to 2021. Two new fresh meat processing plants are planned to be located in Luzon.

Raw Materials

Breeder flocks (grandparents of birds) are raised to maturity in grandparent growing and laying farms where fertile eggs are produced. The poultry business imports its breeder stocks primarily from Aviagen and Cobb Vantress Inc., both of which are agri-business firms based in the U.S. Fertile eggs are hatched at the grandparent hatchery and produce day-old parent stock (parents of birds). Parent stocks are then sent to breeder houses, and the eggs produced are sent to the hatcheries. Once eggs are hatched, the day-old chicks are sent to the broiler farms where they are cared for and raised by contract growers according to the Food Division’s standards until the chicks reach marketable weight. Fully-grown chickens are transported to processing plants, where they are processed into finished products, which are then sent to distribution centres and sold to customers.

For the year ended December 31, 2018 and the nine-month period September 30, 2019, the fresh meats business sourced more than 90% of its live hogs from contract growing farms.

Others

Production Facilities

The flour milling business owns two flour mills, located in Mabini and Tabangao in Batangas, and two flour blending facilities in Mabini, Batangas which produces customized flour products. The flour business also operates a premix plant, which produces different premix products for both the retail and the institutional markets.

Production capabilities are supported by its Flour Technology Center located in Pasig City, Metro Manila, which develops customized flour blends and new flour-based products.

San Miguel Mills owns the Golden Bay Grain Terminal located in Batangas Province, which can accommodate Panamax-sized vessels and has an estimated discharge rate of at least 10,000 metric tons per day. The terminal

has provided the flour milling business an 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. The terminal is adjacent to the flour mill located in Mabini, Batangas and also services the grain handling requirements of the Animal Nutrition and Health segment. The Golden Bay Grain Terminal also services external customers such as commercial grains traders.

An additional flour milling facility is being commissioned in Mabini, Batangas which is expected to be operational by early 2020. The Food Division is also commissioning a new ready-to-eat production facility that should be ready for commercial runs by the first quarter of 2020.

Raw Materials

Historically, approximately 70% of the wheat requirements of the flour milling business are sourced from the U.S. with the remainder sourced from various countries. World wheat prices are monitored daily by BPG to determine long-term and short-term buying strategies to control costs. For the nine-month period ended September 30, 2019, 80% of raw materials, particularly wheat, were imported from the U.S. and Canada.

Sales and Distribution

The Food Division sells its products through three channels, namely, general trade, modern trade and institutional accounts. General trade channels include traditional trade markets in the Philippines, such as small grocery stores, wholesalers and dealers and bakeries, wet markets and *mom and pop* stores. Modern trade channels include hypermarkets, supermarkets and convenience stores. Institutional accounts include quick service restaurants and hotels, bakeshop chains, food manufacturers, large commercial farms, and exports. Products are exported to Asia, North America and Europe mainly to supply Filipino communities abroad.

Prepared and Packaged Food

San Miguel Integrated Sales handles the sale and distribution of products under the Prepared and Packaged Food segment through modern trade channels (e.g., major supermarket chains, hypermarkets, groceries, convenience stores), general trade channels (e.g., market traders and *mom and pop* stores), wet market traders and retail outlets. The Prepared and Packaged Food segment's products are distributed by Great Food Solutions to institutional and foodservice operators, such as hotels, restaurants, fast food chains, food kiosks and carts.

Domestic distribution is handled by the outbound logistics group, which manages planning, technical logistics services, warehousing and transportation, while the international business handles exports to serve Filipino communities in Asia, North America, the Middle East, and Europe.

Animal Nutrition and Health

The Animal Nutrition and Health segment produces for both the Food Division's internal requirements and for the commercial feeds market. As of December 31, 2018, 49% of the production volume was used for the Food Division's internal requirements, while the remaining 51% was sold to the commercial feeds market. As of nine-month period ended September 30, 2019, volumes accounted for 54% and 46%, respectively, of the feeds production volumes. Feeds supplied to the Protein segment are not included in the revenue or volume sold of the Animal Nutrition and Health segment.

Approximately 86% of products are sold through authorized distributors within a defined territory, while 14% is sold directly to hog, poultry and aquatic farm operators. For the sale of commercial feeds products, there are 18 sales offices across the Philippines with dedicated sales teams supported by technical experts focused on growing existing markets and developing new ones.

Protein

The Food Division sells its Protein segment products through a variety of channels. Modern trade channels, which includes *Magnolia Chicken Stations* for poultry, *Monterey Meatshops* for fresh meats, supermarkets, convenience stores and membership shopping club outlets. General trade channels include wet markets, commissaries, wholesalers, distributors, and buyers of live birds and hogs. Institutional accounts include exports, quick-service restaurants and hotels. In addition, the Protein segment supplies a portion of the requirements of the Prepared and Packaged Food segment.

Protein products are distributed to two market segments through the above-mentioned channels in order to maximize market penetration throughout the Philippines:

- commodity segment (such as wet markets and live chicken and hog buyers), and
- stable-priced segment (such as *Magnolia Chicken Stations* in supermarkets, *Monterey Meatshops*, and foodservice and export clients).

The *Magnolia Chicken Station* was a concept developed by the poultry business to bring the wet market to the supermarket. These stations offer more choices of cuts and better customer service in a clean and hygienic environment. As of September 30, 2019, there are approximately 1,300 *Magnolia Chicken Stations* nationwide, 22% of which are franchisee-owned. The remainder of these outlets are located in supermarkets and are handled by third party operators through a modified consignment arrangement.

The Food Division pioneered in the branding of fresh meats by launching the Monty's supermarket meat shop in 1990, which eventually became a network of neighbourhood meat shops under the Monterey brand. This strategy was successful in differentiating its high-quality meat products from those of competitors. Pork, beef and marinated meats products are sold in hygienic and air-conditioned *Monterey Meatshops* which are manned by well-trained staff.

As of September 30, 2019, there were more than 650 *Monterey Meatshops* throughout the Philippines, 60% of which were franchised, with the remainder being third party-operated.

To increase sales volumes and improve profitability, the Protein segment provides marketing support to franchisees and actively seeks entrepreneurs to become franchisees.

Majority of the Protein segment's products are distributed directly from productions facilities to supermarkets and foodservice operators. The distribution infrastructure includes a network of cold storage facilities located throughout the Philippines and a large fleet of third-party contracted vehicles.

Others

The flour milling business of the Food Division focuses on offering the widest array of differentiated flour products in the Philippine market. The flour application specialists, in support of the sales team, determine the specific flour product requirements of its customers as well as conduct field baking tests of the products to demonstrate their application. For customized products, the R&D team and the sales team work side by side with the customers to develop formulations specific to their requirements. The Food Division manages a nationwide distribution network that distributes flour and other bakery ingredients to major bakeries and other flour users.

Great Food Solutions, SMFB's foodservice business, distributes and markets foodservice formats for value-added meats, fresh meats, poultry, dairy, oil, flour and coffee. Great Food Solutions receives a development fee from other Food Division subsidiaries 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.

Research and Development

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, the Food Division's R&D teams engage in continuous activities to identify cost and production process improvements. 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 flavours in processed meats.

The Food Division owns several R&D facilities that analyse 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.

Each R&D team also engages in the development, reformulation and testing of new products and believes that each team's 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, the team

regularly conducts consumer surveys and works closely with the Corporate Innovations Group that spearheads a company-wide innovation program to introduce breakthrough products and services.

Aside from product innovations, the R&D teams of the Food Division also look into efficiency improvement for operations through the use of new technology such as climate-controlled housing system for hogs and broilers as a measure of increasing production cycles per farm per year, improving feed consumed to weight ratio and getting better harvest recovery. The “Big Bird” initiative is the selective breeding innovation that optimizes the growth potential of the breed, resulting in lower cost to produce.

Marketing

The Food Division’s marketing efforts are focused on reaching more consumers and promoting increased consumption of its products through brand-building activities in all forms of media, from television and print ads to digital marketing as well as promotional events and sponsorships. The Food Division develops marketing programs that emphasize quality, freshness and convenience of its products. For example, the flagship hotdog brand, *Purefoods Tender Juicy* uses the “experts” campaign where “Kids Can Tell” the difference between *Purefoods Tender Juicy* and other hotdog brands. For the blue line of canned meats, the key campaign is “*Pure Sarap Purefoods*” (or Purely Delicious) which instills the notion that great meals start with pure intentions. The slogan for *Magnolia Chicken* is “*Pambansang Manok*” (or roughly translated to as “*National Chicken*”) with the theme that if you want the best, then *Magnolia Chicken* is the Nation’s Choice. *Magnolia Chicken* is packed with Omega 3, raised in stress-free environments, free from hormones and steroids and free from antibiotic residues. The Food Division taps television and cable commercials, digital presence in both Facebook and YouTube among others, out of home promotions such as billboards, taxi ads and culinary events.

Competition

Prepared and Packaged Food

The Food Division is a market leader in the Prepared and Packaged Food category (excluding coffee).

In recent years, the Prepared and Packaged Food segment has faced increased competition mainly from other local players, which are employing aggressive pricing and promotion schemes. Competitors and competing brands in the branded processed meats category include Foodsphere, Inc. (CDO), Virginia Foods, Inc. (Virginia), and Century Pacific Food Inc. (Swift and Argentina). To maintain its leadership position, the Food Division adheres to its very strict quality standards, drives innovation in its portfolio and enhances consumer experience through strategic alliances with institutions such as theme parks, events venues and schools.

According to The Nielsen Company (Copyright © 2018, The Nielsen Company), as of September 30, 2019, the Food Division has 62.5% market share for hotdogs, 23.4% for corned meats, and 9.2% for luncheon meats.

According to The Nielsen Company (Copyright © 2018, The Nielsen Company), as of the year ended December 31, 2018, the Food Division has a market share of 33.7% for refrigerated butter, 92.6% for refrigerated margarine and 97% for non-refrigerated margarine, competing with Fonterra Cooperative Group Limited and Elle & Vire International (for butter) and CIIF Oil Mills Group (for margarine).

In the cheese category, as of the year ended December 31, 2018, the *Magnolia* brand has a 22.3% market share, competing with Mondelez International, Inc. (Eden, Cheez Whiz, and Kraft), according to The Nielsen Company (Copyright © 2018, The Nielsen Company).

According to The Nielsen Company, as of September 30, 2019, the Food Division has 62.5% market share for hotdogs, 23.4% for corned meats, and 9.2% for luncheon meats. (Copyright © 2018, The Nielsen Company)

Animal Nutrition and Health

According to The Nielsen Company (Copyright © 2018, The Nielsen Company), the Food Division is the largest producer of commercial feeds in the Philippines, with a market share of 22.5% of the commercial feeds market by value as of September 30, 2019. Competitors under the Animal Nutrition and Health segment include major domestic producers such as United Animal Health (JBS United), Aboitiz Equity Ventures (Pilmico), and La Filipina Uy Gongco Corporation (PFMC), as well as numerous regional and local feedmills. There are also foreign feeds manufacturers, such as Charoen Pokphand Foods of Thailand and New Hope Group of China, which have established operations in the Philippines.

Protein

Major competitors under the Protein segment include Bounty Fresh Foods Inc., Bounty Agro Ventures, Inc., Gama Foods Corp. and Charoen Pokphand Group. There are also occasional imports from the U.S., Canada and Brazil.

The Philippine fresh meats industry remains highly fragmented consisting mostly of backyard hog raisers. 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.

Others

Major competitors of the flour milling business include General Mills, Inc. and RFM Corporation. Most of its competitors only produce a limited number of flour types such as hard flour for bread products and soft flour for biscuits. The milling business differentiates itself by focusing on the production of more specialized, higher quality and higher priced flours.

Local players face competition from imported flour that primarily originates from Turkey, Malaysia and Indonesia. Imported flour has increased its presence through low-cost flour offerings. In order to aggressively compete head-on, the milling business launched “fighting brands” such as *Red Dragon Nova* and *Red Dragon Vega* that match the quality and price of imported flour while maintaining a healthy margin.

Intellectual Property

Brands, trademarks, patents and other related intellectual property rights relating to the Food Division’s principal products in the Philippines and in foreign markets, including processed meats, dairy, coffee, foodservice and franchising, as well as stable-priced commodity products that have undergone additional processing, such as marinated meats and products sold through *Monterey Meatshops* and *Magnolia Chicken Stations* and other branded distribution outlets, are either registered or pending registration in the name of SMFB or its subsidiaries.

The Food Division owns various brand names, related trademarks and other intellectual property rights to prepare, package, advertise, distribute and sell its products in the Philippines. These include among others, trademarks such as *Magnolia*, *Star*, *Dari Crème*, *Purefoods*, *Purefoods Tender Juicy*, *San Mig Coffee*, *La Pacita*, *B-Meg* and *Monterey*. Registrations for the trademarks and other intellectual property rights that it uses or intends to use upon expiry of their respective terms are regularly renewed. Maintenance and protection of these brands and related intellectual property rights are important to ensuring distinctive corporate and market identities.

The Food Division is responsible for defending against any infringements on its brands or other proprietary rights. It monitors products in the market that may mislead consumers as to the origin of such products and attempt to ride on the goodwill of the Food Division’s brands and other proprietary rights. It retains independent external counsels to alert it of any such attempts and enjoins third parties from the use of colorable imitations of its brands and/or marked similarities in general appearance of packaging of products, which may constitute trademark infringement and/or unfair competition. To monitor the publication for opposition of new trademark applications that may be confusingly similar to the Food Division’s registered marks, it regularly coordinates with independent counsels and subscribes to an online trademark watch service.

Quality Control, Health, Safety and Environmental Matters

The Food Division conforms to statutory and regulatory requirements in relation to quality assurance and food safety. GMP is observed across all food businesses, based on international hygiene standards, to ensure high quality and safe food products.

The Food Division 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 odour emissions and the management and disposal of hazardous materials.

Quality and food safety standards are applied uniformly across all production facilities, whether company-owned or contracted, through training provided to third-party operators before they commence operations. Food Division representatives oversee toll plant operations on a regular basis, providing technical support and working closely with the management of third-party operators. Moreover, Food Division quality assurance personnel conduct periodic operational audits of all production facilities. The Food Division has defined quality assurance and food

safety policies and guidelines which are cascaded to the tolling partners to serve as their technical references for the food safety programs managed and implemented across company owned and tolled facilities. To ensure compliance with Food Quality and Food Safety Management systems, trained quality and food safety auditors conduct assessments based on a defined frequency set by the regulatory and quality systems certifying body.

Risk of contamination of products is minimized through strict sanitation procedures and constant monitoring and response. In compliance with the HACCP standards, the Food Division has identified specific stages of processing where preventative measures are undertaken, such as equipment sterilization, hygiene, temperature control and regular equipment testing. The Food Division adheres to a set of systems including proper product storage and handling practices and uses of appropriate facilities and equipment to ensure quality and freshness of products from receipt of raw materials to dispatch of finished goods.

The Food Division is committed to the highest level of food safety standards. Its Quality Assurance and Food Safety Management System Guidelines is anchored on HACCP, GMP, ISO: 22000, ISO: 9001 and FSSC: 22000 with the objective of complying with the Food Safety Act of the Philippines (Republic Act No. 10611) and the requirements of its customers.

As of the date of this Prospectus, the Food Division believes that it is in material compliance with all applicable health, safety and environmental laws.

Customers

SMFB has a broad market base that includes supermarkets, hypermarkets, grocery stores, cooperative stores, sari-sari stores, convenience stores, warehouse clubs, mini-marts, market stalls, wet market vendors/dealers and commissaries, wholesalers/distributors, commercial farms, animal raisers, buyers of live birds and institutional accounts (i.e., bars, restaurants, hotels, beer gardens, fast food outlets, burger and pizza chains, bakeshops/bakeries, kiosks, snack/biscuit manufacturers, noodle manufacturers, membership clubs, school/office canteens and franchise holders). SMFB sells its products principally in the Philippines and Asia through the businesses' respective sales force, and through strategically located partners/distributors/dealers.

SMFB taken as a whole is not dependent on a single customer or a few customers the loss of any or more of which would have a material adverse effect on operations. This allows flexibility in managing the SMFB's sales activities.

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 Group is comprised of SMYPC, and SMYPIL and their respective subsidiaries, both are joint venture companies between SMC and NYG, one of the largest glass and plastic packaging corporations in Japan; SMYAC, the largest glass manufacturer in the Philippines and also a joint venture company of SMC and NYG, SYFMC, the only manufacturer of glass and plastics molds in the country, CAI, a pioneer in the production of two-piece aluminum cans, Mincorr, a paper corrugated carton manufacturer and Wine Brothers Philippines Corp., involved in the sale and distribution of wine products.

The Packaging Group has one of the largest packaging operations in the Philippines with diversified businesses producing glass, molds, metal and plastic closures, aluminum cans, plastic bottles, pallets and crates, flexibles, paper, and other packaging products. The Packaging Group also provides services such as beverage filling in PET bottles and cans, pallet leasing and logistics services. The Packaging Group 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, U.S., and Australasia, as well as to major multinational corporations across the Philippines, including Coca Cola Beverages Philippines, Inc., Nestle Philippines and Pepsi Cola Products Philippines, Inc.

The Packaging Group holds 19 international packaging companies, particularly, located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, woven bags and radiant/thermal liners), Australia (trading, wine closures and bottle caps and wine filling services and distribution) 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.

SMYPC owns all of the domestic plants of the Packaging Group, except the corrugated carton plant, Mincorr, which is 100% owned by SMC and SMYAC, a joint venture between SMC and NYG. Both Mincorr and SMYAC are being managed by SMYPC. The subsidiaries of SMYPIL are the Packaging Group's international facilities.

For each of the years ended December 31, 2016, 2017 and 2018, the Packaging Group had sales of ₱27,386 million, ₱32,099 million and ₱37,325 million; gross profit of ₱7,912 million, ₱8,896 million and ₱9,776 million; and net income of ₱1,824 million, ₱2,039 million and ₱2,045 million, respectively.

For the nine-month period ended September 30, 2018, the Packaging Group had sales of ₱27,143 million, net income of ₱1,472 million and gross profit of ₱7,076 million compared to sales of ₱26,360 million, net income of ₱789 million and gross profit of ₱7,442 million for the nine-month period ended September 30, 2019.

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

	For the years ended December 31,			For the nine months ended September 30,	
	2016	2017	2018	2018	2019
	(in millions, except percentages)				
	₱	₱	₱	₱	₱
Sales.....	27,386	32,099	37,325	27,143	26,360
Gross profit.....	7,912	8,896	9,776	7,076	7,442
Gross profit margin ⁽¹⁾	29%	28%	26%	26%	28%
EBITDA ⁽²⁾	4,633	4,897	5,609	3,879	4,175
EBITDA margin ⁽³⁾	17%	15%	15%	14%	16%
Net income before tax.....	2,428	2,701	3,107	1,760	1,203
Net income before tax margin ⁽⁴⁾	9%	8%	8%	6%	5%

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.

Strengths & Strategies

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.

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 beverages accounts for the largest share among the glass packaging format. Most of these are available in traditional *mom* and *pop* 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.

State-of-the-art manufacturing facilities

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

In the past five years, PET bottles for beverages recorded growth 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.

Compliance with 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).

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 can filling facility to provide tolling services to the current non-alcoholic beverage customers. 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 innovates 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, logistics services and wine closures (cork). In 2015, SMYPIL through its Australian subsidiary, SMYV Pty Ltd, completed the acquisition of the assets and business of Vinocor Worldwide Direct Pty. Ltd. ("Vinocor"). Vinocor is a market leader in the supply of corks and closures for wine bottles in Australia, with facilities and operations based in Adelaide, South Australia. In 2018, SMYA diversified its product portfolio through the acquisition of JMP Holding Pty Ltd, a supplier of retail and online packaging, cargo protection and materials handling.

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.

Packaging Solutions

Glass

The glass business is the Packaging Group's largest business segment. It has three glass manufacturing facilities, and one glass and plastics mold plant in the Philippines serving the requirements of the beverage, food, pharmaceutical, chemical, personal care and health care industries. The Packaging Group believes that SMYAC is the country's most technologically advanced glass manufacturing facility and the largest glass manufacturing facility in the Philippines.

Metal

The metal business is the second largest business in the Packaging Group. It manufactures metal caps, crowns, resealable caps, and two-piece aluminum beverage cans for a range of industries that include beer, spirits, soft drinks, condiments and food. The Packaging Group's CAI is the pioneering two-piece aluminum can plant in the Philippines for the beverage market. SMYPC formed CAI, a joint venture with Can-Pack S.A., for the modernization of the two-piece aluminum can manufacturing business. Utilizing the know-how and technologies of Can-Pack Group on can manufacturing, CAI is now capable to produce aluminum cans and ends in three categories - regular (standard), sleek, and slim cans. With its aim to introduce various aluminum can-packaging formats to the growing market in the Philippines and the Asia Pacific region, the business has expanded its product line to offer 180 ml aluminum cans in 2018. To-date, CAI is capable of producing six can sizes.

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. Through the Rightpak plant and Malaysian plants, the Packaging Group manufactures flexible packaging for the food, beverage, personal care, chemical and healthcare industries. It also provides composite materials for a varied range of industries including construction, semiconductor and electronics.

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 non-alcoholic beverages.

Paper

The paper business produces corrugated cartons and partition boxes. Through Mincorr, a wholly-owned subsidiary of SMC based in Davao, the Packaging Group supplies the carton packaging needs of a broad range of manufacturing and agricultural industries.

Plastics

The plastics business produces plastic crates and pallets, plastic poultry flooring, food trays, plastic consumer and industrial containers, and plastic pails and tubs to domestic and international markets serving companies in industries such as beer and beverages, chicken and agriculture.

Production Facilities

The Packaging Group owns and operates three glass plants, one glass and plastics mold plant, four metal packaging plants, two plastics packaging plants, two PET packaging and filling plants, one composite plant, and one paper plant. The plants are strategically located throughout the Philippines. It also owns and operates 21 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, wine filling facilities, retail/online packaging, cargo protection and materials handling) and New Zealand (trading and plastics).

Competition

The Packaging Group believes that it remains to be the leading packaging player in the Philippines. It continues to enjoy majority share of market in the glass, aluminum cans, metal closures, and the plastics segments mainly brought about by the strong performance of the beverage industry.

The influx of imports in flexibles, aluminum cans and glass from China is viewed as competition to the Packaging Group and the Packaging Group believes that providing total packaging solutions coupled with excellent customer service has been a core strength over its competition. Furthermore, SMYPC has been improving and upgrading its manufacturing facilities as well as offer innovative packaging designs to adapt to the market trends.

Health, Safety and Environmental Matters

The Packaging Group complies with the relevant global standards on Environmental, Occupational Health and Safety in all its facilities. It also maintains its presence to relevant organizations to keep abreast with the current manufacturing standards and ensure statutory and regulatory compliance.

FUEL AND OIL BUSINESS

SMC operates its fuel and oil business through Petron Corporation. As of September 30, 2019, SMC directly and indirectly owned 68.26% of Petron. Petron is the largest oil refining and marketing company in the Philippines and is a leading player in the Malaysian market. Petron has a combined refining capacity of 268,000 barrels per day and is engaged in refining crude oil and marketing and distributing refined petroleum products in the Philippines and Malaysia.

In the Philippines, Petron operates the Limay Refinery in Bataan, which supplies approximately 30% of the country's total fuel requirements and has a production capacity of 180,000 barrels per day. Based on estimates using its internal assumptions and calculations and industry data from the DOE for the year 2018, Petron believes that its overall market share in the Philippine oil market in terms of sales volume, was approximately 27.1% as of June 30, 2019. This estimate excludes direct imports of jet fuel by airlines, direct imports of naphtha as feedstock for petrochemical plants, direct imports of condensate as fuel for natural gas power plants, and lubes and greases.

The Limay Refinery 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 phase 2 of the Refinery Master Plan ("**RMP-2**"), a \$2 billion project for the Limay Refinery, enabled Petron to produce diesel, gasoline, jet fuel, kerosene and LPG (collectively, "**White Products**"), which have higher margins. The completion of RMP-2 also increased Petron's production of petrochemicals and made Petron the first oil company in the Philippines capable of producing Euro IV-standard fuels.

From the Limay 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 12 terminals in Luzon, eight in the Visayas and eight in Mindanao, as well as two airport installations in Luzon and two 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.

Through its network of more than 2,400 retail service stations in the Philippines as of September 30, 2019, representing approximately 25% of the country's total service station count, Petron sells gasoline, diesel, and kerosene to motorists and to the public transport sector. Approximately 30% of service stations are company-

owned-dealer-operated service stations (“**CODOs**”) and 70% are dealer-owned-dealer-operated service stations (“**DODOs**”).

As of September 30, 2019, Petron’s LPG distribution network includes more than 1,100 branch stores as well as 39 car care centres, 11 lube centres, and 10 motorcycle centres. Petron also sells its LPG brands “*Gasul*” and “*Fiesta Gas*” to households and other consumers through its extensive dealership network.

Petron entered the Malaysian market in March 2012 through the purchase of ExxonMobil’s downstream oil business in Malaysia. As of September 30, 2019, Petron ranked third in the Malaysian retail market with a 21.3% market share based on 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 also covers the industrial segment in Malaysia, selling diesel and gasoline to unbranded mini-stations and power plants, as well as to manufacturing, plantation, transportation and construction sectors. Petron owns and operates the Port Dickson Refinery in Malaysia, 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 low-sulfur waxy residue (“**LSWR**”). As of September 30, 2019, Petron had 10 product terminals, a network of approximately 680 retail service stations and about 290 convenience stores in Malaysia under the *Treats* brand. Petron also participates in the aviation segment with a 20% ownership of a multi-product pipeline to Kuala Lumpur International Airport. The joint venture through which Petron owns its interest in the multi-product pipeline also owns a fuel terminal, the Klang Valley Distribution Terminal.

Petron’s products are primarily sold to customers in the Philippines and Malaysia. Petron also exports various petroleum products and petrochemical feedstock, including LSWR, naphtha, mixed xylene, benzene, toluene and propylene, to other customers in the Asia-Pacific region. Petron’s revenues from these export sales amounted to ₱51.5 billion, or 9% of total sales, in 2018.

In 2016, 2017 and 2018, Petron’s sales were ₱343,840 million, ₱434,624 million and ₱557,386 million, respectively, and net income was ₱10,822 million, ₱14,087 million and ₱7,069 million, respectively. For the nine months ended in September, 30, 2018, Petron’s sales and net income were ₱419,861 million and ₱12,057 million, compared to sales and net income of ₱381,656 million and ₱3,623 million for the nine months ended September 30, 2019, respectively.

Petron’s common shares are listed for trading on the PSE under the symbol “PCOR”, while its Series 2 preferred shares are listed and traded on the same exchange under the symbols “PRF2A” and “PRF2B.” As of December 27, 2019, PCOR had a market capitalization of ₱36,188 million with a common share price of ₱3.86.

In Malaysia, Petron’s common shares for its subsidiary Petron Malaysia Refining & Marketing Bhd. are listed for trading on the Bursa Malaysia under the symbol “PETRONM.”

Selected financial data for the business of Petron are set forth in the table below for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2016	2017	2018	2018	2019
	(in millions, except percentages)				
	₱	₱	₱	₱	₱
Sales.....	343,840	434,624	557,386	419,861	381,656
Gross profit.....	37,715	42,655	34,562	33,923	24,984
Gross profit margin ⁽¹⁾	11.0%	9.8%	6.2%	8.1%	6.5%
EBITDA ⁽²⁾	32,189	38,343	31,803	30,999	23,868
EBITDA margin ⁽³⁾	9.36%	8.82%	5.71%	7.4%	6.3%
Net income before tax.....	14,378	18,842	10,455	15,850	4,718
Net income before tax margin ⁽⁴⁾	4.2%	4.3%	1.9%	3.8%	1.2%

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.

Petron's revenues from foreign sales amounted to ₱243,644 million or 44% of total revenues for the year ended December 31, 2018. ₱156,543 million or 41% of total for the period ended September 30, 2019.

Strengths and Strategies

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 27.1% of the Philippine oil market as of June 30, 2019 in terms of sales volume, based on estimates using its internal assumptions and calculations and industry data from the DOE, Petron believes it is the leader in the Philippine oil industry, ahead of the other two 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.

Petron believes that it 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 32 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 maintaining 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, 2019, Petron had more than 2,400 retail service stations, an increase of approximately 86% from about 1,288 service stations in 2008, which Petron believes to be greater than any other market participant in the Philippines. As of September 30, 2019, Petron's retail service stations represent approximately 25% of the country's total service station count. Petron intends to grow this number to utilize the increased production from RMP-2.

Petron believes it is the leader in the LPG segment with more than 1,100 branch stores as of September 30, 2019. Petron's industrial sales cover approximately 900 direct industrial accounts as of September 30, 2019.

Established position in the Malaysian downstream oil sector

Petron has 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.

As of September 30, 2019, Petron ranked third in the Malaysian retail market with 21.3% market share based on 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 also covers the industrial segment in Malaysia, selling diesel and gasoline to unbranded mini-stations and power plants, as well as to manufacturing, plantation, transportation and construction sectors. 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, 2019, Petron had 10 product terminals, a network of approximately 680 retail service stations, and about 290 *Treats* convenience stores in Malaysia. Petron also participates in the aviation segment with a 20% ownership of a multi-product pipeline to Kuala Lumpur International Airport. The joint venture through which Petron owns its interest in the multi-product pipeline also owns a fuel terminal, the Klang Valley Distribution Terminal.

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 \$2 billion project completed in the fourth quarter of 2014, enables the Limay 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 Petron the first oil company in the Philippines capable of producing Euro IV and Euro VI-standard fuels, the global standard for clean air fuels. The upgraded production capability has improved refinery utilization rate to about 95% and increased White Products to Black Products ratio to approximately 100% for the year ended December 31, 2018, 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 favourable industry dynamics

Petron operates as an integrated oil refining and marketing company in the Philippines and Malaysia, both of which Petron believes have favourable 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, the Philippine and Malaysian economies are expected to experience stable real GDP growth at annual rates of 6.74% and 4.76%, respectively, from years 2019-2022. This favourable 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 travellers 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. As of September 30, 2019, Petron has more than 2,400 retail service stations in the Philippines representing approximately 25% of the country's total service station count. As of September 30, 2019, Petron's LPG distribution network includes more than 1,100 branch stores as well as 39 car care centres, 11 lube centres, and 10 motorcycle centres.

In Malaysia, Petron rebranded all ExxonMobil Esso-branded service stations to the Petron brand and refurbished the stations. As of September 30, 2019, about 290 of Petron's network of approximately 680 service stations in Malaysia have *Treats* 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, 2019, the extent of Petron's programs includes approximately 206,000 active fleet cards in the Philippines and approximately 93,200 in Malaysia, approximately 6.4 million issued value cards in the Philippines, and approximately 10.4 million Petron Miles Privilege cards in Malaysia.

Experienced management team and employees and strong principal shareholder in SMC

Petron has an experienced team of managers with substantial relevant experience in refining operations and development of service stations. In addition, Petron has a team of employees skilled in managing the various aspects of its business, including a highly experienced management team at the Limay 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 in Petron is approximately eight years for the Philippines and 10 years for Malaysia.

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

Petron's principal strategies are set out below:

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 Limay 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 Limay 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 in 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 strong potential for growth. To capture this growth and further strengthen its market position, Petron 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 lubes 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 Petron’s 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 680 retail service stations. Petron plans to strategically increase its presence in developing areas 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 by promoting enhanced loyalty programs in both countries.

Continue investments to improve 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 Limay 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 in 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 Petrochemical Asia (HK) Ltd. (“**PAHL**”), which owned Philippine Polypropylene Inc. (“**PPI**”), through a wholly-owned subsidiary Robisons International Holdings Limited (“**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 140MW cogeneration power plant located in the Limay Refinery, which supplies the power and steam requirements of the Limay Refinery. The acquisition is expected to lower steam and power costs.

On March 1, 2019, Petron completed the acquisition of a Palm Oil Methyl Ester (“**PME**”) production plant in Lumut, Perak, with an annual capacity of 60,000 MT. The PME plant contributed to savings in the cost of PME.

Production Facilities

The Philippines

In the Philippines, Petron owns a petroleum refinery complex located in Limay, Bataan. The Limay Refinery has a crude oil distillation capacity of 180,000 barrels per day. It has its own piers and offshore berthing facilities, one of which can accommodate very large crude oil carriers (“**VLCCs**”).

The Limay Refinery is capable of producing a range of petroleum products such as LPG, naphtha, gasoline, kerosene, jet fuel, and diesel. In 2000, the Limay 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 Limay Refinery has a propylene recovery unit, which has a demonstrated capacity of 148,000 tons per year of polymer-grade propylene and a benzene-toluene extraction unit, 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 Limay 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 Limay 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. In December 2016, Petron acquired the cogeneration powerplant from SMC Powergen, Inc., which consists of four turbo generators and four fuel fired boilers. This ensures the sufficient and reliable supply of steam, power and other utilities necessary for the continuous and stable operation of the Limay Refinery.

Petron completed a fuel additives blending plant in the Subic Bay Freeport Zone in July 2008 with a capacity of 12,000 metric tonnes per year, which serves the fuel additive requirements of Innospec, Limited ("**Innospec**")'s customers in the Asia-Pacific region. Petron is Innospec's exclusive blender in the Asia-Pacific region.

Production Facilities - 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.

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 Hengyuan Refining Company Berhad (formerly known as Shell Refining Company (Federation of Malaya) Berhad) through an unincorporated joint venture. Under the joint venture, Petron shares all SBM operating and capital costs and also pays a levy of one-third of the overhead and administrative charges incurred in connection with the operation of the SBM.

Refining Process and Quality Improvement Initiatives

The Limay Refinery

The Limay Refinery has implemented various programs and initiatives to achieve key performance indices on reliability, efficiency and safety. These programs include the Reliability Availability Maintenance ("**RAM**") program and the Profitability Improvement Program ("**PIP**"), which were developed and implemented in coordination with KBC Market Services, an independent consulting group. The RAM program resulted in improved operational availability and lower maintenance cost through higher plant reliability and a longer turnaround cycle of four to five years from the previous two years. The PIP likewise significantly improved White Products recovery, particularly diesel and LPG.

The Limay Refinery achieved its Integrated Management System ("**IMS**") certification issued by TÜV-SÜD-PSB, an internationally recognized certification and inspection body, in 2009. The IMS is an integration of three management systems: (1) Quality ISO 9001:2008; (2) Environment ISO 14001:2004; and (3) Health and Safety OHSAS 18001:2007. The benefits of an IMS for the Limay Refinery include: standardized and more systematized quality, environmental, health and safety work procedures, instructions and practices; improved quality, productivity, environment, health and safety performance through continual improvement and compliance with legal requirements; customer satisfaction; hazard and injury free working environment; and environmentally friendly operations. In 2018, Limay Refinery successfully passed its recertification and surveillance audit, making the refinery IMS-certified for 10 consecutive years.

The Port Dickson Refinery

The Port Dickson Refinery utilizes Quality Management Systems (“**QMS**”) in support of its operations. Embedded within the QMS are the Safety, Health and Environmental Management System (“**SMS**”), Control Management System (“**CMS**”), and Product Quality Management System (“**PQMS**”). In addition, the Port Dickson Refinery also practices the Loss Prevention System (“**LPS**”), the Reliability Management System (“**RMS**”) and plant optimization initiatives for improved plant efficiency.

The Port Dickson Refinery adopted the QMS in 2016 to align all existing processes under one management system. SMS provides a structured approach to the management of risk related to safety, security, health and the environment (“**SSHE**”) and to comply with local SSHE regulations and laws. CMS provides a process for ensuring Corporate Policies and In-Line Controls are implemented and effectively sustained over time. PQMS provides a work process to ensure high-quality products delivered to customers. Adopting QMS was also part of the initiative to obtain ISO 9001:2015 certification. The Port Dickson Refinery was awarded with the certification on December 16, 2016.

In 2018, Port Dickson Refinery had received the Grand Award, the highest accolade by Malaysian Society for Occupational Safety and Health (“**MSOSH**”) and the Prime Minister’s Hibiscus Award for “Exceptional Achievement in Environmental Performance 2017/2018”.

To increase plant reliability, the Port Dickson Refinery adopted the RMS, which utilizes a risk-based equipment strategy and aims to improve mechanical efficiency through routine work planning, scheduling and execution.

The Port Dickson Refinery continuously seeks improvement in the areas of process optimization, and energy conservation through the use of advanced process computer control and an integrated plant information system.

Raw Materials

Philippine Operations

The main raw material used in the Limay Refinery’s production process is crude oil. Petron acquires crude oil for the Limay 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 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, 2019, neither Petron nor Saudi Aramco had terminated the contract.

Petron also has a term contract with Kuwait Petroleum Corporation (“**KPC**”) 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, 2019, neither Petron nor KPC had terminated the contract. Several other crude oils are purchased on a spot basis from various suppliers.

The Limay 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 Limay Refinery had been processing predominantly prior to RMP-2 commissioning, to provide additional value to Petron. The completion of the RMP-2 has given the Limay Refinery greater flexibility to use heavier, more sour alternative crude.

Petron entered into a contract for the 2019 term supply of group I and II base oils (SN500, SN150 and BS150 J500[500N] and J150[150N]) with Shell International Eastern Trading Co. and GS Caltex in December 2018. The term contract is renewable annually, subject to Petron’s option, and pricing is calculated using a formula based on an international standard price benchmark for base oils. Group I and II base oils are Petron’s main feedstocks for the production of automotive, industrial and marine lubricants.

Petron also imports aviation gas, asphalt, and some gasoline blending components. These imports are necessary as Petron 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 Limay 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. Petron has a long-term supply contract for Tapis crude oil and Terangganu condensate with Exxon Mobil Exploration and Production Malaysia Inc. (“**EMEPMI**”), supplemented by other short-term supply contracts and spot crude purchases. Currently, Petron purchases about 65% of crude and condensate volume from EMEPMI, while the balance is sourced from other term and spot 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 local as well as regional sweet crude oil.

A portion of Petron’s Palm Oil Methyl Ester (“**POME**”) requirements for its bio-diesel mix are sourced from the POME plant acquired by Malaysia Refining and Marketing Bhd (“**PMRMB**”) last March 1, 2019. The POME plant is located in Lumut, Perak and has an annual capacity of 60,000 metric tonnes. Petron buys the balance of its PME requirements from Malaysian government-approved local suppliers. PME is the bio-component of the biodiesel mix sold to domestic customers in Malaysia as a replacement for diesel. Petron produces a biodiesel mix initially comprising 5% PME and 95% diesel. Subsequently, the Malaysian Biofuel Industry Act of 2007 changed the mix to 7% PME 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. In November 2018, the Malaysian government further announced implementation of Euro 2 B10 for transportation and retail sectors effective February 1, 2019 and Euro 2 B7 for industrial sectors effective July 1, 2019.

Petron also imports LPG, diesel, gasoline, jet fuel and some gasoline blending components into Malaysia since the refinery production is not enough to meet the demand. These imports are purchased through term purchase contracts and in the spot market. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline, jet fuel 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 Limay 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 Limay Refinery’s electricity and steam requirements are sourced from the Limay Refinery’s existing turbo and steam generators as well as from its cogeneration power plant. The cogeneration power plant was acquired by Petron in December 2016 from 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

The Philippines

In the Philippines, Petron is the leading integrated oil refining and marketing company. Petron had an overall market share of 27.1% of the Philippine oil market as of June 30, 2019 in terms of sales volume based on estimates using its internal assumptions and calculations and industry data from the DOE.

Retail Service Stations

Petron had more than 2,400 retail service stations in the Philippines as of September 30, 2019, representing approximately 25% of the country's total service station count, according to Petron's estimates. Most of these stations are located in Luzon, where demand is heaviest.

Petron employs two types of service station operating structures in the Philippines, namely: CODO and 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 Petron's specifications, lease the service station equipment from Petron, and operate the DODOs. As of September 30, 2019, 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. In July 2019, San Miguel Foods completed rebranding of all its *San Mig Food Ave* stores to *Treats* outlets.

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, 2019, Petron had installed POS terminals in more than 1,400 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 approximately 900 direct industrial account customers as of September 30, 2019.

LPG

Petron is the leading market participant in the Philippine LPG market in terms of market share. Petron has set up approximately 1,100 branch stores through its Gasul and Fiesta Gas LPG dealers as of September 30, 2019. Petron commissioned eight mini-refilling plants in the Philippines as of September 30, 2019 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 39 Car Care Centres, 11 Lube Centres and 10 Motorcycle Centres throughout the Philippines as of September 30, 2019. 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 is able to 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 and services and provides 24-hour free towing and roadside assistance to cardholders. As of September 30, 2019, there were approximately 206,000 active fleet cards in the Philippines and approximately 93,200 in Malaysia. 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 fourth 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, 2019, Petron has issued approximately 6.4 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 about 680 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, 2019, approximately 62% of Petron's retail service stations in Malaysia were CODOs and approximately 38% were DODOs. About 290 of the service station sites have *Treats* 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. It was followed by Fuel Happy 2.0 which was launched in 2018. Petron will launch Fuel Happy 3.0 in the second quarter of 2020.

In January 2016, Petron pioneered the country's first 100 Research Octane Number ("RON") fuel with the roll out of the new Blaze 100 to eight pilot sites in Klang Valley. As of September 30, 2019, Blaze 100 is available in about 90 stations, mainly located in most states in Peninsular Malaysia.

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 of RON95 gasoline and diesel to unbranded mini stations represented approximately 64% of such sales in Malaysia by volume for 2018. 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 formulated prices. The pricing of these sales is determined through a formula that is linked to international industry benchmarks. Prices of diesel to the manufacturing, mining, 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 limited to a volume granted by the Ministry, sales in excess of 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 distributors appointed by Petron, which subsequently sell Petron's products to industrial customers. As of September 30, 2019, Petron had about 215

active distributors. The fuel business in Malaysia is regulated by the Malaysian government, and Petron is affected by Malaysian government policies and regulations relating to the marketing of fuel products.

In Malaysia's aviation sector, Petron is one of the three major jet fuel suppliers at KLIA and KLIA 2 pursuant to a throughput agreement with the Kuala Lumpur Aviation Fuelling System, the operator of the KLIA's storage and hydrant facility.

LPG

Petron markets LPG in 12-kg, 14-kg, 14-kg forklift gas and 50-kg cylinders for domestic use through redistribution centres, stockists and dealers. LPG redistribution centres 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 centres and stockists for onward sale to domestic consumers. Prices of 12-kg and 14-kg cylinders are regulated under the APM. On April 5, 2018, Petron launched Petron Gasul LPG sales at service stations. It was the first-time customers could purchase their LPG cooking gas at service stations.

Petron also sells bulk LPG to industrial users through appointed dealers and to resellers. Prices of 14-kg forklift gas, 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, 2019, approximately 10.4 million Petron Miles Privilege Cards had been issued in Malaysia.

Distribution

The Philippines

Petron's main storage facility in the Philippines was formerly located in Pandacan, Manila. The reclassification by local authorities of the area occupied by the Pandacan terminal prohibited the continued operation of Petron's facility in Pandacan as a petroleum storage facility and necessitated relocation to other alternative sites in Luzon. Petron ceased its petroleum product storage operations in Pandacan in January 2015.

To serve its domestic markets, Petron maintains 32 terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 12 terminals in Luzon, 8 in the Visayas and 8 in Mindanao, as well as two airport installations in Luzon, and two in Mindanao. Terminals have marine receiving facilities, multiple product storage tanks for liquid fuels and LPG, drummed products storage, and warehouses for packaged products, such as lubricants and greases. From the Limay Refinery, refined products are distributed to the various terminals and direct large consumer accounts using a fleet of contracted barges and tankers, and to service stations and industrial accounts through a fleet of contracted tank trucks. The barges and tankers are chartered on term or spot contracts from third party ship owners. From the storage terminals, bulk products are hauled by tank trucks owned by third parties to service stations and industrial accounts. Under the terms of the applicable contracts, the third-party owners of the contracted barges and tankers and tank trucks that are used to haul Petron's products are liable for losses and environmental issues that may arise while the products are being transported.

In its Philippine LPG business, Petron has a nationwide network of retail dealerships and outlets. Some service stations carry Petron's LPG products and accessories. Petron has stand-alone LPG operations in its terminals in Pasig City, Legaspi City and San Fernando in Pampanga.

Lubricants and greases in various packages are transported by container vans to bulk plants and terminals outside Metro Manila. Package trucks owned by third parties are utilized to deliver these lubricants and greases to various customers in Metro Manila and Luzon. Sales counters throughout the Philippines are appointed to sell these products. Petron has a tolling agreement with Innospec for the blending of fuel additive products in its fuel additive blending plant in the Subic Bay Freeport Zone in the Philippines.

Petron has airport installations at the Ninoy Aquino International Airport and three other airports located in major urban centres in the Philippines. These installations provide storage of aviation fuels as well as refuelling services for various aircraft. In addition, Petron has presence in the airports of Puerto Princesa and Clark in Luzon, Mactan, Bohol, Kalibo, Caticlan and Iloilo City in the Visayas, as well as in Zamboanga City in Mindanao via mobile into plane refuelling equipment.

Malaysia

Production from the Port Dickson Refinery is distributed to service stations through tank trucks that lift products via the Port Dickson Terminal's tank truck loading facilities. These loading facilities are connected to the storage tanks inside refinery. Refinery production is also sent to Klang Valley Distribution Terminal ("**KVDT**") through a pipeline. Tank trucks lift products from KVDT for delivery to Petron stations. The other terminals source product through imports from Singapore. Products are lifted from the terminals via tank trucks and delivered to service stations.

Jet fuel is transported from the Port Dickson Refinery to KLIA through a multi-product pipeline (the "**MPP**"), which is partly owned by Petron through its 20% ownership interest in an unincorporated joint venture with Petronas Dagangan Berhad ("**PDB**") and Shell Malaysia Trading Sdn Bhd ("**Shell Malaysia**"), each of which has a 40% ownership interest. The MPP is a fungible products pipeline for transporting gasoline, diesel and jet fuel and is operated by PS Pipeline Sdn Bhd, a 50-50 joint venture between PDB and Shell Malaysia. Aside from transfer through the MPP, jet fuel is also transported by truck from KLIA to Subang Airport.

The joint venture through which Petron owns its interest in the MPP also owns a fuel terminal, the Klang Valley Distribution Terminal, where inventory is commingled. Petron has historically only used the MPP to transport jet fuel to KLIA and not for transporting gasoline or diesel to the Klang Valley Distribution Terminal. In 2015, Petron completed a project linking the Port Dickson Refinery to the MPP in order to improve Petron's logistics and reduce the cost of delivery to service stations in the Klang Valley area, a major market. Petron commenced the transport of gasoline and diesel through the MPP to the Klang Valley Distribution Terminal in the second quarter of 2015.

LPG is bottled at the Port Dickson and Westport terminals. Most redistribution centres and stockists collect bottled LPG directly from the Port Dickson and Westport terminals. Petron has an LPG storage and bottling facility at West Port (part of Port Klang, the principal port facility serving the Klang Valley), which is a 50-50 joint venture between Petron and Boustead Petroleum Marketing Sdn Bhd. Both terminals also load for Bulk LPG customers. Petron has contracted new third-party bottling facilities to expand the reach of its Gasul cylinders. Among these are Siraga in Perak and Sikap Mawar in Penang.

Competition

The Philippines

The Philippine downstream oil industry is dominated by three major oil companies: Petron, Shell and Chevron, which, based on estimates of Petron based on its internal assumptions and calculations and industry data from the DOE for the year 2018, together constituted 57.5% 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 on the basis of 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 more than 2,400 retail service stations as of September 30, 2019, representing approximately 25% of the country's total service station count of about 9,300, reaching more customers throughout the Philippines. The small market participants continued to grow, with station count increasing from 695 in 2001 to more than 2,500 stations as of December 31, 2018. Participants in the reseller and LPG sectors continue to resort to aggressive pricing and discounting in order to expand their market share. The number of major LPG importers in the Philippines increased from three, prior to deregulation, to about seven, with new entrants having more flexible and bigger import receiving capacities. In the industrial sector, the major market participants continue to invest heavily in order to increase their market share and tap new markets. In the lubricants sector, intense competition among approximately 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 believes it is the leader in the Philippine downstream oil industry, with an overall market share of 27.1% of the Philippine oil market as of June 30 2019. The other two major oil companies have a combined market share of about 27.5%, in terms of sales volume based on estimates using Petron's 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 estimates using its internal assumptions and calculations and industry data from the DOE in the year ended 2018. Petron's retail sales volumes for the years ended 2016, 2017 and 2018 were approximately 58,000 barrels per day, 63,000 barrels per day, 59,000 barrels per day, respectively. Petron's non-retail sales volumes (including industrial, LPG, and export and supply sales) for the years ended 2016, 2017 and 2018 were approximately 126,000 barrels per day, 117,000 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, Petron's Malaysian operations compete with four other main participants in the market, namely: subsidiaries of Petronas, Shell, Caltex and BHPetrol. Of these competitors, Petronas also has refinery operations in Malaysia. Market players compete in terms of product quality, customer service, operational efficiency and extent of distribution networks. Pricing of gasoline and diesel at retail service stations is not a competitive factor since the Malaysian government regulates the pricing these products through the APM.

Despite being the newest participant in the market, Petron continued to grow its retail market share currently at 21.3%, with approximately 680 service stations in Malaysia as of September 30, 2019. 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. Petron 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 in order to expand market share. The aviation market is also very competitive, as the three 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 2016, 2017 and 2018 were approximately 68,000 barrels per day, 73,000 barrels per day, 80,000 barrels per day, respectively.

The lubricants and specialties market is dominated by the traditional global brands as well as established local participants. Petron leverages on its growing 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 products and production processes. Petron's R&D Department engages in various technical research and testing activities to develop and enhance the performance of the products and optimize production processes. In addition to research and product development, it also engages in quality control and technical training. The development, reformulation and testing of new products are continuing business activities of Petron.

R&D 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 product's performance, quality level and cost-effectiveness. R&D also continuously seeks ways on developing more eco-friendly petroleum products. Petron remains fully compliant with all government laws and regulations such as the Clean Air Act and the Biofuels Act.

In addition to these regulations, Petron also secures stringent certifications and approvals from global industry certifying institutes and original equipment manufacturers to be more competitive both in local and international markets. 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 2016, approximately ₱76 million in 2017, and approximately ₱86 million in 2018, which are equivalent to about 0.02% of total revenues in 2016, 2017, and 2018. The annual increase of expenses relating to research and development is approximately 13% to 15% in the past 3 years.

As of December 31, 2018, R&D has 33 regular employees. Its testing facilities are ISO/IEC17025 certified – a testament to its ability to perform tests and analyses in accordance with global standards. R&D also has long-standing partnerships with leading global technology providers in fuels, lubricants and grease products. 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.

SMC Global Power, together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,347 MW of combined capacity as of September 30, 2019. Following the expected commencement of commercial operations of Masinloc Power Plant Unit 3 (currently undergoing commissioning and expected to commence commercial operations in first quarter of 2020, upon receipt of its certificate of compliance from the Energy Regulatory Commission (the "**ERC**")), SMC Global Power's combined

capacity will increase to 4,682 MW. SMC Global Power benefits from a diversified power portfolio, including natural gas, coal, renewable energy such as hydroelectric power and more recently, battery energy storage systems (“**BESS**”). Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 20% of the National Grid, 26% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of September 30, 2019.

SMC entered the power industry in 2009 following the acquisition of rights to administer the output produced by Independent Power Producers (“**IPPs**”) in privatization auctions conducted by the Government through Power Sector Assets and Liabilities Management Corporation (“**PSALM**”). The following companies under the SMC group became the IPPA of the following plants: (1) San Miguel Energy Corporation (“**SMEC**”) became the Independent Power Producer Administrator (“**IPPA**”) for the Sual Power Plant, a coal-fired thermal power plant located in Sual, Pangasinan, in November 2009; (2) Strategic Power Development Corporation (“**SPDC**”) became the IPPA for the San Roque Power Plant, a hydroelectric power plant located in San Manuel, Pangasinan in January 2010; and (3) South Premiere Power Corporation (“**SPPC**”) became the IPPA for the Ilijan Power Plant, a natural gas-fired combined cycle power plant located in Ilijan, Batangas in June 2010 (the Ilijan Power Plant, Sual Power Plant and San Roque Power Plant are collectively referred to as the “**IPPA Power Plants**”).

An IPPA under the relevant IPPA agreement has the right to sell electricity generated by the power plants owned and operated by the relevant IPPs without having to bear any of the large upfront capital expenditures for power plant construction or maintenance. As an IPPA, each of SMEC, SPDC and SPPC also has the ability to manage both market and price risks by entering into bilateral contracts with offtakers while capturing potential upside from the sale of excess capacity through the wholesale electricity spot market (the “**WESM**”).

In September 2010, SMC consolidated its power generation business through the transfer of its equity interests in SMEC, SPDC and SPPC to SMC Global Power. SMC Global Power also became a wholly-owned subsidiary of SMC. Since then, SMC Global Power has controlled the 2,545 MW combined contracted capacity of the IPPA Power Plants through the IPPA agreements executed by SMEC, SPDC and SPPC, respectively.

Building on its experience as an IPPA since SMC’s transfer of interests in SMEC, SPDC and SPPC, SMC Global Power embarked on the development of its own greenfield power projects. In 2013, SMC Global Power initiated two greenfield power projects, namely, the construction of the 2 x 150 MW Davao Greenfield Power Plant which is owned by San Miguel Consolidated Power Corporation (“**SMCPC**”), its wholly-owned subsidiary, and the 4 x 150 MW Limay Greenfield Power Plant which is owned by SMC Consolidated Power Corporation (“**SCPC**”), another wholly-owned subsidiary. Units 1, 2, 3 and 4 of the Limay Greenfield Power Plant commenced commercial operations in May 2017, September 2017, March 2018 and July 2019, respectively. Units 1 and 2 of the Davao Greenfield Power Plant commenced commercial operations in July 2017 and February 2018, respectively.

SMC Global Power also pursued strategic acquisitions to increase its energy portfolio. 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 (the “**AHEPP**”). More recently, on March 20, 2018, SMC Global Power acquired 51% and 49% of the equity interests in SMCGP Masin Pte. Ltd. (“**SMCGP Masin**”, formerly Masin AES Pte. Ltd.) from AES Phil Investment Pte. Ltd. (“**AES Phil**”) and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, Masinloc Power Partners Co. Ltd. (“**MPPCL**”) and SMCGP Philippines Energy Storage Co. Ltd. (“**SMCGP Philippines Energy**”, formerly AES Philippine Energy Storage Co. Ltd.). On September 19, 2018, Prime Electric Generation Corporation (“**PEGC**”), a wholly-owned subsidiary of SMC Global Power, and Oceantech Power Generation Corporation (“**OPGC**”) purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin. MPPCL owns, operates and maintains the 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) coal-fired power plant and 335 MW (Unit 3) expansion project nearing completion (together, comprising the “**Masinloc Power Plant**”), and the 10 MWh battery energy storage system project (the “**Masinloc BESS**”), all located in Masinloc, Zambales, while SMCGP Philippines Energy has commenced pre-construction of a 20 MWh battery energy storage system facility in Kabankalan, Negros Occidental (the “**Kabankalan BESS**”).

As part of the purchase relating to the Masinloc power assets, SMC Global Power also acquired SMCGP Transpower Pte. Ltd. (“**SMCGP Transpower**”) and SMCGP Philippines, Inc. (“**SPHI**”). SMCGP Transpower was a subsidiary of The AES Corporation, which provides corporate support services to MPPCL through its Philippine regional operating headquarters, while SPHI is a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

In July 2018, PEGC acquired the entire equity interest of ALCO Steam Energy Corporation in Alpha Water Realty & Services Corporation (“**Alpha Water**”), representing 60% of the outstanding capital stock of Alpha Water. As a result, SMC Global Power now effectively owns 100% of Alpha Water through its subsidiaries, PEGC and MPPCL. Alpha Water is the owner of the land on which the current site of the Masinloc Power Plant in Zambales Province is located.

In September 2018, PEGC and OPGC, another wholly-owned subsidiary of SMC Global Power, purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin.

SMC Global Power, through its subsidiaries SMEC, SPDC, SPPC, AHC, SCPC, SMCPC, SMELC and MPPCL, sells power 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 consolidated sales of SMC Global Power are through long-term take-or-pay offtake contracts most of which have provisions for passing on fuel costs, foreign exchange differentials and certain other fixed costs.

The following table sets forth selected data in respect of SMC Global Power’s power generation assets and interests as of the date of this Prospectus.

	IPPA Plants			JV Plant	IPP Plant	Greenfield Plants	
	Sual	Ilijan	San Roque	Angat	Masinloc and Masinloc BESS	Davao	Limay
Type	Coal	Natural Gas	Hydro	Hydro	Coal and Battery	Coal	Coal
Commercial Operations Date.....	1999	2002	2003	1967 (112 MW); 1968 (100 MW); 1978 (6 MW)	1998 (660 MW); 2018 (14 MW); 2018 (10 MWh); 2020E (335 MW)	2017 (150 MW); 2018 (150 MW)	2017 (300 MW); 2018 (150 MW); 2019 (150 MW)
Year of Acquisition	2009	2010	2010	2014	2018	—	—
Total Installed Capacity (MW) ⁽¹⁾	1,000	1,200	345	218	1,019	300	600
Technology	Pulverized Coal	Combined Cycle	Storage Hydropower	Storage Hydropower	Pulverized Coal ⁽⁶⁾ and Battery Energy Storage System	Circulating Fluidized Bed	Circulating Fluidized Bed
Emission Levels ⁽²⁾							
NOx (ppm)	221.5	—	—	—	99.3	70.2	90.0
SOx (ppm)	375.9	—	—	—	107.7	63.6	76.0
PM (Mg/Nm ³)	17.2	—	—	—	50.5	5.1	5.4
Operator	TeaM Sual Corp.	KEILCO	SRPC	AHC	Mantech	Safetech	Mantech
Offtakers ⁽³⁾	Meralco, ECs, DUs, DCCs, Third-Party RES, WESM	Meralco, WESM	Intercompany ⁽⁴⁾ WESM	WESM	Meralco, DUs, CCs, WESM	ECs, DUs, Industrial customers	DCCs, ECs, DUs, CCs
IPPA Expiry / Asset Transfer Date ⁽⁵⁾	2024	2022	2028	N/A	N/A	N/A	N/A

Notes:

- (1) Includes expected capacity following the expected commencement of commercial operations of Unit 3, Masinloc Power Plant. The 335 MW expected capacity of Unit 3, Masinloc Power Plant together with the 150 MW installed capacity comprising Unit 4, Limay Greenfield Power Plant (which commenced commercial operations in July 2019), are included in the calculation of SMC Global Power’s combined installed capacity as of September 30, 2019.
- (2) See “—Safety, Health and Environmental Regulation” for information on DENR emission standards. Emission levels for the Masinloc Power Plant excludes the Masinloc BESS and emissions from the commissioning and testing of Masinloc Unit 3.
- (3) DUs: Distribution Utilities; ECs: Electric Cooperatives; CCs: Contestable Customers; DCCs: Directly Connected Customers.
- (4) Within the SMC Global Power group.
- (5) Under the respective 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 April 2028, respectively. See “—IPPA Framework.”

- (6) *The Unit 3, Masinloc Power Plant utilizes supercritical boiler technology. Units 1 and 2 of the Masinloc Power Plant utilize pulverized technology.*

SMC Global Power is also engaged in distribution and retail electricity services. In 2013, SMC Global Power entered into a concession agreement for the operation and maintenance of Albay Electric Cooperative, Inc. (“ALECO”), which is the franchise holder for the distribution of electricity in the province of Albay in Luzon. SMC Global Power has also expanded its sale of power to a broader range of customers, including retail customers. The three retail electricity supplier (“RES”) licenses issued to SMC Global Power, through San Miguel Electric Corporation (“SMELC”), SCPC and MPPCL, allowed it to enter into contracts with contestable customers and expand its customer base.

In addition, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, owns coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao. While SMC Global Power does not intend to develop these sites imminently, depending on prevailing global coal prices and the related logistical costs, it may consider eventually tapping these sites to serve as a significant additional source of coal fuel for its planned and existing greenfield coal-fired power plants.

For the years ended December 31, 2016, 2017 and 2018 and the nine months ended September 30, 2018 and 2019, SMC Global Power sold 15,758 GWh, 15,707 GWh, 20,273 GWh, 15,112 GWh and 20,014 GWh of power pursuant to bilateral offtake agreements and 1,588 GWh, 1,520 GWh, 3,590 GWh, 2,559 GWh and 1,567 GWh of power through the WESM, respectively. For the years ended December 31, 2016, 2017 and 2018 and the nine months ended September 30, 2018 and 2019, SMC Global Power purchased 767 GWh, 684 GWh, 1,144 GWh, 889 GWh and 1,197 GWh of power from the WESM, respectively.

For the year ended December 31, 2017 and 2018, the total consolidated revenue, net income and EBITDA of SMC Global Power were ₱82,790.6 million, ₱8,216.9 million and ₱7,654.4 million and ₱120,102.8 million, ₱8,300.1 million and ₱10,716.9 million, respectively. For the nine months ended September 30, 2019, the total consolidated revenue, net income and EBITDA of SMC Global Power was ₱105,142.0 million, ₱11,384.8 million and ₱8,910.6 million, respectively. As of September 30, 2019, SMC Global Power had total consolidated assets of ₱545,433.1 million.

- 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:

	For the years ended December 31,			For the nine months ended September 30,	
	2016	2017	2018	2018	2019
	(in millions, except percentages)				
	₱	₱	₱	₱	₱
Sales	77,972	82,791	120,103	89,111	105,142
Gross profit	32,809	28,965	39,285	30,377	35,518
Gross profit margin ⁽¹⁾	42%	35%	33%	34%	34%
EBITDA ⁽²⁾	10,475	7,654	10,717	8,580	8,911
EBITDA margin ⁽³⁾	13.4%	9.2%	8.9%	9.6%	8.5%
Net income before tax	7,516	14,396	12,202	5,996	17,028
Net income before tax margin ⁽⁴⁾	9.6%	17.4%	10.2%	6.7%	16.2%

Notes:

(1) Calculated as gross profit divided by revenues.

(2) EBITDA is calculated as (a) net income (excluding items between any or all of SMC Global Power 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 investments and aggregated fixed payments made to PSALM.

(3) *Calculated as EBITDA divided by revenues.*

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

Expansion Projects

SMC Global Power commenced commercial operations of Unit 4 of the Limay Greenfield Power Plant (150 MW) on July 26, 2019 while Unit 3 of the Masinloc Power Plant (335 MW) is undergoing commissioning and is expected to commence commercial operations in the first quarter of 2020, upon receipt of its certificate of compliance from the ERC. The expansion of Unit 3 of the Masinloc Power Plant is fully funded and once completed will increase the capacity of the Masinloc Power Plant by approximately 50%. Unit 3 of the Masinloc Power Plant is capable of supplying 100% of its load and is expected to contribute to SMC Global Power's financials for the year 2020.

SMC Global Power owns 89.54% of the equity interests in MPGC, which intends to develop, construct, finance, own, operate and maintain a coal-fired power plant and associated facilities using high efficiency low emission technologies ("**HELE Technologies**") with planned installed capacity of 600 MW in Mariveles, Bataan, expected to commence commercial operations in 2022 to 2023 (the "**Mariveles Greenfield Power Plant**"). SMC Global Power, through its wholly-owned subsidiaries, including Central Luzon Premiere Power Corp. ("**CLPPC**"), plans to pursue further expansion of its power portfolio through the development and construction of a new power plant using HELE Technologies located in Pagbilao, Quezon with planned installed capacity of 600 MW with target completion date in 2024 to 2025 (the "**Pagbilao Greenfield Power Plant**"). SMC Global Power also intends to further expand the Masinloc Power Plant by constructing an additional unit (Unit 4) having a planned installed capacity of 335 MW and with target completion date in 2024. SMC Global Power continues to participate in CSPs for PSAs with distribution utilities, and negotiate for RSCs with contestable customers for these expansion plans.

SMC Global Power plans to expand its portfolio of BESS projects to about 1,000 MWh, 680 MWh of which is planned to be operational in 2020 and the remaining 320 MWh expected to be substantially completed in 2021. As part of these expansion plans, SMC Global Power has commenced construction of the Kabankalan BESS (20 MWh), which is in advanced stages at 78% completion as of December 2019 and expected to be completed by the first quarter of 2020. The battery modules of the Kabankalan BESS have been delivered to the site, and installation is ongoing. Other ongoing work relating to the Kabankalan BESS include: fencing of the site, construction of the blast wall, excavation of drainage and cable installation (together, at about 62% completion as of January 2019) and interconnection works to the NGCP substation.

Strengths and Strategies

Strengths

Industry leader with a strong growth platform

SMC Global Power, together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,347 MW of combined capacity as of September 30, 2019. Following the expected commencement of commercial operations of Masinloc Power Plant Unit 3 (currently undergoing commissioning and expected to commence commercial operations in the first quarter of 2020, upon receipt of its certificate of compliance from the ERC), SMC Global Power's combined capacity will increase to 4,682 MW. SMC Global Power controls the capacities of among the largest baseload plants in the Philippines, including the Sual Power Plant (the largest coal-fired power plant in the Philippines in terms of installed capacity) and the Ilijan Power Plant (the largest natural gas power plant in the Philippines in terms of installed capacity). 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, SMCPC and MPPCL, the owners of the Limay Greenfield Power Plant, the Davao Greenfield Power Plant and the Masinloc Power Plant and Masinloc BESS, respectively. Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 20% of the National Grid, 26% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of September 30, 2019.

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 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 bilateral 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.

SMC Global Power's experience in acting as IPPA and its history of power plant ownership and operation has enabled it to gain significant expertise in the Philippine power generation industry. With this experience, SMC Global Power embarked on its own greenfield power projects and pursued strategic acquisitions. It believes that 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, including NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework, cost competitive baseload plants and renewable energy power plants.

To capitalize on changes in the Philippine regulatory structure, SMC Global Power, through SMELC, SCPC and MPPCL, holds RES licenses from the ERC, allowing the entry into offtake agreements with contestable customers. SMC Global Power, through SMEC and its subsidiaries, also maintains coal concession assets which, depending on prevailing global coal prices and the related logistical costs, may be tapped to serve as a back-up fuel source for its greenfield coal-fired power plants.

SMC Global Power is expected to expand its market leadership with its ongoing and future expansion that is anchored on cost competitive baseload plants. In addition, SMC Global Power is actively pursuing battery energy storage technology investments and initiatives in the Philippines that will help regulate the transmission grid over the Philippine archipelago, which is inherently prone to voltage and frequency instability.

Well-positioned to capture future demand growth

Demand for electricity in the Philippines is expected to continue to grow. According to the Power Development Plan 2016-2040 published by the DOE, to meet the projected electricity demand including reserve requirements by 2040, the power system capacity addition that the Philippines will need is 43,765 MW, which is broken down as follows: 25,265 MW for baseload, 14,500 MW for mid-merit and 4,000 MW for peaking. In its Power Demand and Supply Outlook 2018-2040 report as of October 2018, the DOE increased its forecasts and projected that additional 62,248 MW in installed capacity will be necessary, which is broken down as follows: 10,955 MW for baseload, 10,035 MW for peaking, 34,798 MW for variable, and 6,460 MW for flexible technologies. Moreover, based on SMC Global Power's estimates, despite the continuing build-up of installed capacity, net reliable capacity remains insufficient to meet peak demand. This considers the entry of variable capacities, composed primarily of intermittent renewable energies such as solar and wind, as well as the introduction of flexible technologies, such as BESS, which compensate for the intermittency of the variable capacities.

For the period 2018 to 2022, there is approximately 6,000 MW of private sector-initiated power projects that are either committed or indicative, according to the DOE. Construction of new power plants on average takes a minimum of three years. In addition, the depletion of the supply of natural gas from Malampaya, supplying 25% to 30% of net reliable capacity, may result in a reduction of energy generated by natural gas power plants beginning 2022. 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 expected power supply shortage. The latter is exacerbated by an existing base of aging power plants, which will be over 20 years old by 2022 (currently representing 60% of net reliable capacity) and are thus prone to unscheduled shutdowns as well as a large base of seasonal power supply, such as hydropower plants in Mindanao. To meet this need, SMC Global Power has a defined roadmap to increase capacity by developing greenfield power plants and pursuing opportunities to invest in renewable energy projects, particularly in hydroelectric power and solar power projects and complementary technologies such as BESS.

SMC Global Power's expansion projects include the recently completed Unit 4 (150 MW) of the Limay Greenfield Power Plant and Unit 3 of the Masinloc Power Plant (335 MW), which is undergoing commissioning and is

currently capable of supplying 100% of its load. Unit 3 is expected to commence commercial operations in the first quarter of 2020, upon receipt of its certificate of compliance from the ERC. In addition, SMC Global Power has commenced construction of the Kabankalan BESS (20 MWh) with one of the leading battery EPC contractors worldwide. SMC Global Power also owns 89.54% of the equity interests in MPGC, which plans to develop, construct, finance, own, operate and maintain a 600 MW coal-fired power plant and associated facilities using HELE Technologies in Mariveles, Bataan. SMC Global Power plans to expand its power portfolio through the development and construction of a new power plant located in Pagbilao, Quezon and further expansion of the Masinloc Power Plant (Unit 4) by 335 MW.

SMC Global Power believes that the increase in demand for electricity will also lead to growth in the ancillary reserve requirements of the country, which creates significant opportunities for BESS projects. SMC Global Power believes that it is well-positioned to capture growth in the reserve market through the expertise it has gained from operating the Masinloc BESS, the first of its kind in the Philippines. The Masinloc BESS provides more efficient ancillary services compared to other technologies, particularly for frequency regulating reserves, because of its instantaneous response time and ability to charge and discharge power. SMC Global Power plans to utilize advanced lithium-ion battery technologies such as nickel-cobalt-manganese (NCM) based lithium-ion batteries which generally have longer useful lives (estimated at 8,200 cycles), high voltage capabilities, large storage capacity and improved roundtrip efficiencies.

Finally, 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 increase in electricity demand.

Stable and predictable cash flows

SMC Global Power, through its subsidiaries, sells power through offtake agreements directly to customers, including Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. A substantial portion of the combined installed capacity of SMC Global Power is covered by bilateral contracts that cover the term of the IPPA Agreements, where applicable. Revenue from bilateral contracts with offtakers contributed 95%, 95%, 91%, 91% and 94% of total revenue for the years ended December 31, 2016, 2017 and 2018 and the nine months ended September 30, 2018 and 2019, respectively. For the nine months ended September 30, 2019, approximately 50% and 43% of SMC Global Power's consolidated sales volumes were to (i) Meralco and (ii) other distribution utilities, electric cooperatives, directly connected customers and contestable customers, respectively. Based on the publicly available disclosures of Meralco, the largest distribution utility in the Philippines, SMC Global Power believes that it is Meralco's largest power supplier as of September 30, 2019, supplying approximately 29% of Meralco's power purchases. In addition, SMC Global Power is a dominant player in the RES markets where it operates, based on data obtained from the ERC as of September 30, 2019.

More recently, on September 13, 2019, Meralco issued the notices of award to SMEC and SPPC for PSAs for 330 MW and 670 MW, respectively, to supply its baseload power requirements from December 26, 2019 until December 25, 2029. In addition, on September 16, 2019, Meralco issued another notice of award to SPPC for the supply of 290 MW of mid-merit power requirements from December 26, 2019 until December 25, 2024. The three contracts have been executed between Meralco and the relevant IPPAs, subject to ERC approval.

These contracts were awarded following the Supreme Court's decision on May 3, 2019 ruling that all PSAs of distribution utilities and electric cooperatives should undergo CSP. This effectively invalidated certain PSAs of Meralco for its greenfield demand totaling almost 3,600 MW. As a result, the DOE moved to immediately implement the CSP requirement and Meralco proceeded to bid out several power supply requirements requiring brownfield and greenfield power sources totaling 1,700 MW and 1,200 MW, respectively. While SMC Global Power was awarded an aggregate of 1,290 MW of the 1,700 MW brownfield requirements that were successfully bid out, the CSP for the 1,200 MW greenfield requirement was declared a failure of bidding. Meralco is expected to bid out again the 1,200 MW in the coming months after finalizing its discussions with the DOE on the terms of reference thereof. In addition, Meralco is expected to also bid out the remaining 2,500 MW greenfield requirement within 2020. SMC Global Power believes this is an opportunity to contract its ongoing and planned expansion projects with Meralco and plans to participate in the bidding of the greenfield requirements.

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.

Majority of 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, intercompany, replacement power contracts.

Flexible and diversified power portfolio

SMC Global Power has a portfolio that includes some of the newest and largest power plants in the Philippines. The baseload and peaking plants with diversified fuel sources of SMC Global Power allow it to manage costs and offer more competitive baseload power rates. In addition, SMC Global Power also has capacity from its BESS facilities, which can provide more efficient ancillary services, and has synergistic effects with renewable technologies, among other applications. In particular, BESS technologies can strengthen the stability of a grid, while improving power quality.

As of September 30, 2019, the power portfolio of SMC Global Power consists of (i) the IPPA Power Plants administered by SMC Global Power, through its subsidiaries, as the IPPA (comprising the Sual Power Plant with SMEC as IPPA representing 23% of SMC Global Power's capacity, the San Roque Power Plant with SPDC as IPPA representing 8% of SMC Global Power's capacity and the Ilijan Power Plant with SPPC as IPPA representing 27% of SMC Global Power's capacity), (ii) the AHEPP, through AHC, which represents 5% of the capacity of SMC Global Power, and (iii) the power plants owned by SMC Global Power, particularly the Limay Greenfield Power Plant of SCPC, which represents 14% of the capacity of SMC Global Power, the Davao Greenfield Power Plant, which represents 7% of the capacity of SMC Global Power, and the Masinloc Power Plant (with the Masinloc BESS), which represents another 16% of the capacity of SMC Global Power.

Power generated by the Sual Power Plant, Ilijan Power Plant, Limay Greenfield Power Plant, Davao Greenfield Power Plant and Masinloc Power Plant, is primarily used as baseload supply and sold to customers pursuant to bilateral 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. The entire capacity of the 10 MWh Masinloc BESS is contracted to the NGCP and provides regulating reserve ancillary services to the Luzon Grid under an ancillary services procurement agreement ("**ASPA**").

As of September 30, 2019, SMC Global Power's coal-fired plants accounted for approximately 59% of its capacity. This is guided by the existing energy policy of the Government to provide relatively inexpensive and reliable power to residential and commercial customers without the need for subsidies or escalating tariffs. Feed-in-tariffs for renewable energy projects have been phased out by the Government, which makes it more challenging to embark on large-scale renewable energy projects.

SMC Global Power believes that the size and diversity of the fuel supply of its power portfolio reduces its exposure and that of 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 fuels 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 also has strong working relationships with world-class EPC providers, such as Formosa Heavy Industries for its greenfield power plants, and battery EPC providers such as Fluence Energy, Inc. ("**Fluence**," a joint venture between Siemens and AES) for the Masinloc BESS and Kabankalan BESS and ABB, Inc. ("**ABB**") and Wartsila Finland Oy ("**Wartsila**") for BESS projects in the pipeline.

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.

A member of the SMC group of companies

SMC is the principal shareholder of SMC Global Power. 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 management 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 and potentially provide a large captive energy demand base for SMC Global Power.

Experienced and highly competent management team

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, the National Transmission Corporation (“**TransCo**”), NGCP, PEMC and ERC, as well as 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 an average of 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.

Strong commitment to stringent environmental policies and pollution controls

SMC Global Power closely supervises, controls and process improvements in the power plants it owns and operates to ensure that regulated emissions are within and below applicable environmental compliance standards. For example, SMC Global Power uses CFB technology in its Limay Greenfield Power Plant and Davao Greenfield Power Plant. CFB technology is a technology employed to transform coal into a fuel source that is relatively low in pollutant emissions. These low emissions are made possible by processes that are not used in non-CFB coal-fired power plants, such as burning coal at low temperature and pressure, chemically washing minerals and impurities from the coal, gasification, treating the flue gases with steam to remove sulfur dioxide, carbon capture and storage technologies to capture the carbon dioxide from the flue gas and dewatering lower rank coals (brown coals) to improve the calorific value, thereby improving the efficiency of the conversion into electricity. In addition, CFB plants have other elements that reduce emissions, such as fine coal grinders, limestone injections, and electrostatic precipitators to capture dust particles that escape the boiler.

In 2018, SMC Global Power won the following Asian Power Awards: Environmental Upgrade of the Year (Limay Greenfield Power Plant), Power Utility of the Year - Philippines (Davao Greenfield Power Plant) and Innovative Power Technology of the Year Philippines (Masinloc Power Plant). The Asian Power Awards recognize ground-breaking projects and trailblazing initiatives in the power sector in Asia. In 2019, the Davao Greenfield Power Plant was once again awarded by Asian Power Awards as the Power Utility of the Year - Philippines and Environmental Upgrade of the Year - Philippines for its carbon sink and bio indicator project. In the same year, the Masinloc Power Plant also garnered two awards, namely the Power Plant Upgrade of the Year – Philippines for its Ship Unloader Upgrade, and the Information Technology of the Year – Philippines for its SAP S4 and ARIBA Migration and Implementation project.

Moreover, SMC Global Power has dedicated teams who monitor environmental compliance with international standards. For example, the Sual Power Plant has an Environmental and Management System Certificate (ISO 14001), Occupational Standard on Health Safety Certificate (ISO 18001) and Quality Management System Certificate (ISO 9001). The same ISO certifications were received by the Davao Greenfield Power Plant and Limay Greenfield Power Plant in 2017 and 2018, respectively, while the Masinloc Power Plant and Masinloc BESS received an Environmental and Management System Certificate (ISO 14001) and Occupational Standard on Health Safety Certificate (ISO 18001) in 2014, and the Asset Management System (ISO 55001) in 2018. The Davao Greenfield Power Plant was the first power plant in the Philippines to receive an Energy Management System Certificate (ISO 50001) in December 2018 and was recommended for certification for Asset Management System (ISO 55001) in September 2019.

Strategies

Optimize the installed capacity of its power portfolio and strategically contract capacity to enhance margins

SMC Global Power (a) proactively manages its sales 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) engaging in power trading through the WESM, and (b) optimizes the operations of its power plant portfolio through maximizing plant utilization, improving individual account and plant margins and minimizing the impact of supply interruptions. This approach provides SMC Global Power with the certainty and predictability of sales from its contracted capacity while being able to realize trading opportunities from the WESM to enhance its margins. The objective of SMC Global Power is to supply power based on the least cost, and to sell available excess power through the WESM at favourable 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 its 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 Power Plant 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 plans to utilize capacity from its planned BESS for ancillary services to the grid, particularly frequency regulating reserves, through long-term ASPAs, which have terms of up to 10 years. SMC Global Power may also contract, as applicable, for other applications such as renewables integration, power quality improvement and arbitrage.

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 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 regard to replacement power and pricing competitiveness.

To be a leading player in the ancillary reserve market and renewable energy initiatives through strategic establishment of battery energy storage systems across the Philippines

SMC Global Power believes that it has a strong competitive advantage on BESS as ancillary services provider and plans to leverage on its experience operating the Masinloc BESS, the first of its kind in the Philippines, and become a leading BESS player in the Philippines by expanding its portfolio of BESS projects to about 1,000 MWh, 680 MWh of which is planned to be operational in 2020 and the remaining 320 MWh expected to be substantially completed in 2021. In addition, of the planned 1,000 MWh, 520 MWh is expected to be located in Luzon, 280 MWh in Visayas and 200 MWh in Mindanao. Furthermore, SMC Global Power has entered into agreements for the ownership or lease of 28 sites which are in advanced stages of development and for which the NGCP has issued system impact studies. As part of its plan to expand its portfolio of BESS projects, SMC Global Power has entered into agreements with EPC contractors Fluence, ABB and Wartsila. Notably, Fluence and ABB have agreed to provide their services exclusively to SMC Global Power in the Philippines, while Wartsila has agreed to exclusively act as EPC contractor in selected sites in the Philippines.

The Masinloc BESS currently provides intra-hour instantaneous frequency regulating reserves to the grid, which helps maintain the grid frequency, or the balance between supply and demand in the electricity networks. Compared to other technologies, BESS provide frequency regulation reserves by charging and discharging from and to the grid, effectively doubling its ability to regulate grid frequencies.

SMC Global Power believes that the increasing entry of renewable energy sources, which by their nature are susceptible to inconsistent and sometimes unreliable output, coupled with the sustained growth of electricity demand over the medium to long term, the market for reserve power and ancillary services will grow significantly. BESS can complement renewable technologies, such as solar and wind, by compensating for sudden drops in generation of these plants due to natural phenomena, or by storing energy from these renewable sources for use during those periods where energy demand from the grid is highest. As such, BESS can support and complement the entry of renewable energy projects.

In addition to supporting the entry of renewable energy, SMC Global Power plans to develop a variety of battery applications in partnership with leading battery developers in the world. These include the provision of power quality improvement, peak-shaving, energy aggregation, network upgrade deferral, black start, micro-grid application, and other ancillary services, such as reactive power support and contingency reserves.

Continue to grow its power portfolio through the development of greenfield power projects and acquisition of power generation capacity in line with regulatory and infrastructure developments

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. As of the date of this Prospectus, SMC Global Power believes that coal remains the most reliable and cost-efficient fuel source for greenfield power projects and is using and will continue to use clean coal technology for its planned and existing greenfield power plants.

In addition to its strategy to grow its power portfolio, SMC Global Power is focused on further investments in battery technology to add to the existing 10 MWh Masinloc BESS and the construction of the 20 MWh Kabankalan BESS is in advanced stages at 78% completion as of December 2019. SMC Global Power also actively seeks to identify and pursue renewable energy investments such as hydroelectric power and solar power projects, subject to the outcome of viability and feasibility analyses. This is in line with SMC Global Power's objective to operate in an environmentally-responsible manner, while taking into consideration energy security and affordability to its consumers.

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 Grid and Visayas Grid, 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 areas with the closest 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. See “— Overview — Expansion Projects.” SMC Global Power plans to carry out the expansion of its power portfolio in phases across Luzon, Visayas and Mindanao. SMC Global Power is confident from its experience in building the Limay and Davao Greenfield Power Plants that it will be able to build new cost competitive plants.

Vertically integrate complementary businesses in order to diversify its energy portfolio

SMC Global Power continues to expand into businesses along the power sector value chain that complement its current power generation business. SMC Global Power has obtained RES licenses, through SMELC, SCPC and MPPCL, to expand its customer base and diversify its sales. With the open access and retail competition fully implemented, the RES licenses allow SMC Global Power 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.

Furthermore, depending on the prevailing global coal prices and the related logistical costs, SMC Global Power could initiate coal exploration, development and production rights over approximately 17,000 hectares of land in Mindanao held through SMEC and its subsidiaries. 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 the 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.

Continue to pursue and develop measures to reduce gas emissions and operate power plants within and below applicable environmental compliance standards

SMC Global Power intends to continuously supervise, control and improve processes in the power plants it owns and operates to ensure that regulated emissions from operations are within and below applicable environmental compliance standards. Moreover, SMC Global Power has dedicated technical teams to monitor environmental compliance with international standards. See “— Safety, Health and Environmental Regulation.”

Leverage operational synergies with SMC group of companies

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 the other subsidiaries and affiliates of SMC for the sale and supply of power. 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.

SMC Global Power Portfolio

Sual Power Plant

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. In 2007, TeaM Energy, a joint venture between Marubeni Corporation and Tokyo Electric Power Corporation, acquired the Sual Power Plant.

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 capacity of the Sual Power Plant in accordance with the provisions of the Sual IPPA Agreement.

Sual IPPA

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. TeaM (Philippines) Energy Corporation, an affiliate of TeaM Energy, is allowed to sell the remaining balance of 200 MW. Accordingly, for purposes of this Prospectus, the contracted capacity of the Sual Power Plant is 1,000 MW.

SMEC must supply and deliver, at its own cost, the fuel that is necessary for the power plant to generate the power that SMEC requires TeaM Energy to produce. TeaM Energy is responsible for supplying fuel at its own cost to the Sual Power Plant to produce power in excess of the dispatch instructions of SMEC.

SMEC pays PSALM a monthly fee that consists of a fixed payment and a variable energy fee.

Power Offtakers

The capacity of Unit 1 of the Sual Power Plant is fully contracted to (i) Meralco (DU) under a long-term offtake agreement expiring in 2019, and (ii) Meralco (RES) under a long-term offtake agreement expiring in 2024, subject to extension upon mutual agreement by the parties. Meanwhile, the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives, directly connected customers and third-party RES under existing PSCs. In September 2019, Meralco conducted a competitive selection process for its power supply, in accordance with the DOE CSP Policy. The Sual Power Plant was awarded a contract to supply 330 MW for a period of 10 years.

For energy-based contracts entered into by SMEC directly with offtakers on a bilateral basis, pricing is based on a reasonable return over the cost structure of SMEC.

For capacity-based contracts, pricing is based on a fixed and variable payment. The fixed payment represents the monthly fixed payments to PSALM and fixed operating and maintenance expenses. The variable payment represents the energy fee, fuel and variable operating and maintenance expense.

Fuel Supply

SMEC has an existing coal supply agreement with PT Kaltim Prima Coal (“**PT KPC**”), which will ensure a steady supply of coal for SMEC. For 2018, PT KPC supplied 11 panamax shipments increased to 12 panamax shipments per year from 2019 to 2021. 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 PT KPC. For the nine months ended September 30, 2019, PT KPC supplied 13 panamax shipments to SMEC. SMEC also has other coal supply contracts with other suppliers.

Operations and Maintenance

The Sual Power Plant is operated by TeaM Energy, the successor-in-interest of CEPA Pangasinan Electric Limited. 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.

Ilijan Power Plant

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 KEILCO pursuant to a 20-year ECA with NPC (“**Ilijan ECA**”) under a BOT scheme that expires on June 4, 2022. The Ilijan Power Plant consists of two blocks with a rated capacity of 600 MW each.

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 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 the Ilijan IPPA Agreement.

Ilijan IPPA

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 Prospectus, 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.

SPPC must pay fixed monthly payments comprising both a U.S. dollar and Peso component. In addition, SPPC must pay monthly generation payments comprising a “must pay” amount for electricity sold up to a given volume (the “**Must Pay Volume**”) and a variable amount for electricity sold in excess of the Must Pay Volume.

Power Offtakers

The entire capacity of the Ilijan Power Plant is contracted to Meralco under a long-term power supply agreement which expired in December 2019. In September 2019, Meralco conducted a competitive selection process for its power supply, in accordance with the DOE CSP Policy. The Ilijan Power Plant was awarded two offtake contracts to supply an aggregate of 960 MW, of which 670 MW is contracted for 10 years while the remaining 290 MW is contracted for five years.

In the years ended December 31, 2016, 2017 and 2018, and the nine months ended September 30, 2018 and 2019, 93%, 92%, 86%, 86% and 88%, respectively, of the volume of power sold from the Ilijan Power Plant were derived from sales made under offtake agreements. In the years ended December 31, 2016, 2017 and 2018 and the nine months ended September 30, 2018 and 2019, 7%, 8%, 14%, 14% and 12% of the volume of power sold from the Ilijan Power Plant, respectively, were derived from sales made through the WESM.

Fuel Supply

Under the Ilijan IPPA Agreement, NPC is responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant. Pursuant to a fuel supply and management agreement among Shell Exploration B.V., Occidental Philippines, Inc., and NPC, 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-inch 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, governing the output of 1,200 MW guaranteed contracted capacity, baseload 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.

San Roque Power Plant

The 345 MW San Roque 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 (the “**Consortium**”) 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 three power generation units of 115 MW each. The San Roque Power Plant provides an annual energy generation of 1,065 GWh from the 345 MW hydroelectric power plant, irrigates approximately 34,450 hectares of agricultural land, stores water that would otherwise flood the Pangasinan plains, and improves 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 the 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

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**”).

While the contracted capacity of SPDC is 345 MW, it may generate up to 435 MW depending on the water level and inflow to the San Roque reservoir. Accordingly, for purposes of this Prospectus, the contracted capacity of the San Roque Power Plant is referred to as 345 MW.

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 NGCP to wheel power from the delivery point.

The San Roque PPA requires NPC to take-or-pay for a minimum amount of power from the San Roque Power Plant. The minimum amount required increases from 85 MW through April 2007, 95 MW from May 2007 through April 2013, 110 MW from May 2013 through April 2017 and 115 MW from May 2017 through April 2028. Under the San Roque IPPA Agreement, SPDC is contractually obligated to purchase the minimum amount of power that NPC is obligated to take-or-pay for under the San Roque PPA.

SPDC pays PSALM a monthly fee that consists of a fixed payment and a variable energy fee. The fixed payment consists of agreed amounts (in U.S. dollars and Pesos) for the applicable month as set out in the San Roque IPPA Agreement. The specific amount of the fixed monthly payments under the San Roque IPPA Agreement increases over the life of the agreement, and the amounts and timing of such increases are specified in a schedule to the agreement. In any month that the San Roque Power Plant is unable to produce power for at least three non-delivering days, these fixed amounts are reduced in proportion to the number of non-delivering days in that month. A non-delivering day means a 24-hour period during which the San Roque Power Plant is unable to produce power for reasons specified in the San Roque IPPA Agreement, including unplanned outages arising from causes not attributable to SPDC. No reduction in the fixed payment is made if the San Roque Power Plant is unable to produce power due to planned outages.

The energy fee is computed based on the actual energy delivered by the San Roque Power Plant at a fixed price of ₱1.30 per KWh. The actual energy delivered and dispatched by the San Roque Power Plant at any given time is dependent on the water levels in the reservoir and downstream irrigation requirements at that time.

Fuel Supply and Water Rights

The generated output energy of the San Roque Power Plant is limited by the “Irrigation Diversion Requirements” set by the NIA of the Philippines. Water allocation is usually dictated by a 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 cover 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 NWRB.

Operations and Maintenance

SRPC, the successor-in-interest of the Consortium, 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.

Angat Hydroelectric Power Plant

The AHEPP is an operating hydroelectric power plant located at the Angat reservoir in San Lorenzo, Norzagaray, Bulacan, approximately 58 km northeast of Metro Manila. The AHEPP was privatized through an asset purchase agreement between PSALM and K-Water. K-Water assigned its rights in favour of AHC, a joint venture between K-Water and PVEI.

The project has a total electricity generating capacity of 218 MW, comprised of four main units of 50 MW capacity each and three 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-Chalmers and Ebara and all the other units were manufactured by Toshiba Corporation of Japan. All units are run by the Francis-type turbines, which are the most commonly used model in hydroelectric power generation. In August 2018, AHC completed the rehabilitation of the Angat Dam and Dykes in accordance with the Operations and Maintenance Agreement with PSALM and NPC.

Fuel Supply and 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 area of 2,300 hectares and viable storage volume of 850 million cubic meters. The water discharged by the project is used for the following two purposes: (i) water discharged through Auxiliary Units and through the spillway that flows to the Ipo reservoir is used to supply 97% of the residential drinking water of Metro Manila; and (ii) water discharged through Main Units that flows downstream to the Bustos reservoir is utilized for irrigation purposes.

Water rights surrounding the AHEPP are co-owned and governed by the following entities, with its respective purposes, 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 (through a lease contract with 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 operated as peaking units. The strategy for the Main Units is to allocate daily water release during peak hours. Auxiliary Units are operated as baseload units, as the water requirement from MWSS is continuous throughout the day, thus eliminating any discrete optionality to choose the hour of allocation. AHC periodically enters into short-term power supply contracts for the capacity of its auxiliary units and continues to explore options to contract this capacity.

Operations and Maintenance

AHC undertakes the operation and maintenance of AHEPP. The operations and maintenance team consist of the 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 each of K-Water and PVEI to ensure that the appropriate level of technical and management support will be provided to support the operation and maintenance requirements of AHC.

Limay Greenfield Power Plant

The Limay Greenfield Power Plant owned by SMC Global Power through its subsidiary, SCPC, is a 4 x 150 MW CFB coal-fired power plant located in Limay, Bataan, which commenced construction in October 2013. Units 1, 2, 3 and 4 of the Limay Greenfield Power Plant achieved commercial operations in May 2017, September 2017, March 2018 and July 2019, respectively.

Mantech Power Dynamics Services Inc., a 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 are fully contracted to various distribution utilities, electric cooperatives, directly connected and contestable customers, including facilities of SMC subsidiaries, 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, directly connected customers and contestable customers. For the nine months ended September 30, 2019, 99% of revenues were from bilateral contracts while the remaining 1% was attributable to

revenue from WESM. SCPC was granted a RES license on August 24, 2016, which is valid until August 24, 2021. The RES license gave SCPC the ability to directly contract with contestable customers.

Fuel Supply

SCPC has executed two long-term coal supply agreements with Bayan Resources TBK (“**Bayan**”) and PT KPC, with terms of until 2022 and five years from effectivity date, respectively. As base quantity, Bayan is required to supply five panamax shipments per year during the term of the contract, with an optional additional quantity of three shipments per year. PT KPC will supply four panamax shipments per year, with an option on the part of SCPC to add four more shipments per year upon prior notice. SCPC has also executed another long-term supply agreement with Bayan, with terms of until January 31, 2029. As base quantity, Bayan is required to supply five panamax shipments per year during the term of the contract.

Davao Greenfield Power Plant

The Davao Greenfield Power Plant owned by SMC Global Power through its subsidiary, SMCPG, is a 2 x 150 MW CFB coal-fired power plant located in Malita, Davao Occidental, which commenced construction in September 2013. Units 1 and 2 of the Davao Greenfield Power Plant achieved commercial operations in July 2017 and February 2018, respectively.

Safetech Power Services Corp., a 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 are 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. Approximately 98% of the customers of the Davao Greenfield Power Plant are distribution utilities and electric cooperatives.

Fuel Supply

SMCPG executed a long-term coal supply agreement with Bayan, with terms of until January 31, 2029. As base quantity, Bayan is required to supply five panamax shipments per year during the term of the contract. 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. SMCPG also has executed spot coal supply contracts with other suppliers.

Masinloc Power Plant and Masinloc BESS

The Masinloc Power Plant comprises 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) and 1 x 335 MW (Unit 3) coal-fired power plant located in Masinloc, Zambales, and is owned and operated by MPPCL. Units 1 and 2 of the Masinloc Power Plant commenced commercial operations in June 1998 and December 1998, respectively, and were originally developed and owned by NPC. Unit 3, which is a brownfield/expansion project within the Masinloc Power Plant, was scheduled to begin in April 2019. In spite of various delays incurred by the EPC contractor, Unit 3 is undergoing commissioning and is currently capable of supplying 100% of its load. It is expected to commence commercial operations in first quarter of 2020, upon receipt of its certificate of compliance from the ERC.

The Masinloc BESS (10 MWh) is a pioneer grid-scale BESS in the Philippines and Southeast Asia and the largest BESS in the Philippines. The EPC Contractor for the Masinloc BESS is Fluence, which has installed 1,125 MW in BESS capacity in 95 projects across 20 countries and is a leading vendor for utility-scale energy storage systems, according to Navigant Research.

The Masinloc Power Plant and Masinloc BESS were acquired by SMC Global Power on March 20, 2018, SMC Global Power completed the acquisition of 51% and 49% equity interests in SMCGP Masin from AES Phil and Gen Plus B.V., respectively.

Power Offtakers

Units 1, 2, and 3 of the Masinloc Power Plant are substantially contracted through medium to long-term bilateral contracts with Meralco, electric cooperatives and contestable customers. For the nine months ended September 30, 2019, 94% of revenues were from bilateral contracts while the remaining 6% was attributable to revenue from WESM. The RES license of MPPCL was renewed on June 27, 2016 and is valid until August 1, 2021. The Masinloc BESS provides regulating reserve ancillary services to the Luzon Grid under an ASPA with NGCP.

Fuel Supply

MPPCL has coal supply contracts with reputable international companies with durations ranging from six months to three years. All supplies are governed by a five-year master agreement, which terms apply for all contracts to be entered into between MPPCL and a coal supplier.

Distribution and Retail Services

Albay Power and Energy Corp.

On October 29, 2013, after an 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. Under the concession agreement, there is no transfer of the franchise to operate the distribution system and the ownership of the distribution assets remains with ALECO. At the end of the concession period, the distribution system will be turned over back to ALECO. Under the concession agreement, SMC Global Power would pay a concession fee consisting of quarterly payments for the operating expenses of residual ALECO, and 50% of the net cash flow if the net cash flow is positive within five years or earlier. SMC Global Power also paid for the severance pay of ALECO employees dismissed as a result of the concession agreement. SMC Global Power established APEC as its wholly-owned subsidiary, and in January 2014, SMC Global Power assigned all of its rights and obligations under the concession agreement to APEC, a wholly-owned subsidiary. 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 three RES licenses issued to SMC Global Power, through SMELC, SCPC and MPPCL, have a term of five years each and are valid until August 20, 2021, August 24, 2021 and August 1, 2021, respectively. The RES licenses allow the relevant subsidiary of SMC Global Power to enter into RSCs with contestable customers and expand its customer base. As of September 30, 2019, SMELC, SCPC and MPPCL supply an equivalent of 742 MW to various facilities of SMC subsidiaries and other contestable customers. SMC Global Power believes that it is one of the major players in the contestable market, supplying over 170 contestable customers as of September 30, 2019 based on data obtained from the ERC.

Coal Investments

Pursuant to its strategy of integrating viable complementary businesses to its power generation business, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao. Depending on prevailing coal prices and the related logistical costs, SMC Global Power could develop these assets to provide a significant additional source of coal fuel for its power plants, but such assets remain in the preparatory stage of its mining activities, as of September 30, 2019. SMC Global Power continues to evaluate the viability of these assets.

Each of the COCs has a term of 10 years from the conversion date of the COC for development and production. The initial 10-year term of each COC may be extended for another 10-year period, and thereafter for a series of three-year periods not to exceed 12 years, in each case subject to agreement between the parties. Sultan Energy is in the process obtaining an extension from the DOE while Bonanza Energy have filed a request for a 10-year term extension.

Sales Strategy and Customers

SMC Global Power seeks to sell substantially all of the power generated by its portfolio of power plants to offtakers whether in the form of distribution utilities, electric cooperatives or contestable customers. For the nine months ended September 30, 2019, approximately 50% and 43% of consolidated sales volumes were to (i) Meralco and (ii) other distribution utilities, electric cooperatives, directly connected customers and contestable customers, respectively. Based on publicly available disclosures of Meralco, SMC Global Power believes that it is Meralco's largest power supplier as of September 2019, supplying approximately 32% of Meralco's power purchases. Meralco is the largest distribution utility in the Philippines.

Currently, the entire capacity of the Ilijan Power Plant and Unit 1 of the Sual Power Plant are contracted under long-term offtake agreements with Meralco and its affiliates, while the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives, and industrial customers under existing offtake agreements. These agreements typically include take-or-pay provisions whereby a customer is required to pay for a minimum contracted amount of power, regardless of whether or not the customer takes delivery of the entire amount, with the result that revenue from these offtake agreements is relatively stable for the duration of the agreements. If the generation output available to the subsidiaries of SMC Global Power from these plants exceeds the amount deliverable under their offtake agreements, such subsidiaries of SMC Global Power offer the excess power for sale through the WESM at the market clearing price. SMC Global Power believes that offtake agreements with distribution utilities and electric cooperatives, while subject to approval of the ERC, are relatively better in pricing compared to retail supply contracts with contestable customers. Units 1, 2 and 3 of the Masinloc Power Plant are substantially contracted through medium to long-term bilateral contracts with Meralco, electric cooperatives and industrial customers.

The power generation capacity of the San Roque Power Plant and the AHEPP at any given time depends on the water levels in the reservoir and downstream irrigation requirements. As such, these plants sell majority of their generated capacity to the WESM at the prevailing spot prices. The San Roque Power Plant and the Main Units of the AHEPP are operated as peaking units. Available water is used to generate power during peak hours when prices are higher.

The Auxiliary Units of AHEPP are operated as baseload units, as the water requirement from MWSS is continuous throughout the day, thus eliminating any discretion to choose the hour of allocation. AHC is exploring options to contract the capacity of its Auxiliary Units.

SMC Global Power plans to contract a substantial portion of the capacity of BESS projects to provide ancillary services to the grid. It can also take advantage of arbitrage opportunities in the WESM, particularly during peak hours when prices may be more than double. BESS projects may also be contracted with other entities such as electric cooperatives or power plants.

In the years ended December 31, 2016, 2017 and 2018 and in the nine months ended September 30, 2018 and 2019, approximately 91%, 91%, 85%, 86% and 93% respectively, of consolidated volume of power sold by SMC Global Power are to customers pursuant to bilateral offtake agreements. Sales to Meralco accounted for approximately 60%, 56%, 44%, 45% and 50% of the total consolidated sales volume of SMC Global Power for the years ended December 31, 2016, 2017 and 2018 and for the nine months ended September 30, 2018 and 2019. Sales through the WESM accounted for approximately 9%, 9%, 15%, 14% and 7% of SMC Global Power's total consolidated sales volume for the years ended December 31, 2016, 2017 and 2018 and for the nine months ended September 30, 2018 and 2019, respectively.

Competition

SMC Global Power is one of the largest power companies in the Philippines. Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 20% of the National Grid, 26% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of September 30, 2019. Its main competitors are First Gen Corporation and the Aboitiz Group, which holds interests in Aboitiz Power Corporation and Hedcor, Inc., among others.

With the government committed to privatizing the majority of NPC-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. 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.

Customers

SMC Global Power sells power, through power supply agreements, either directly to customers (distribution utilities, electric cooperatives and industrial customers) or through the WESM.

	For the year ended December 31,					
	2016		2017		2018	
Customers	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)
Meralco.....	10,402	39,566	9,664	43,404	10,518	54,474
WESM.....	1,588	4,154	1,520	4,468	3,590	10,860
Total Major Customers	11,990	43,720	11,184	47,872	14,108	65,334
Others ⁽¹⁾	5,356	34,252	6,043	34,919	9,756	54,769
Total Sales ...	17,346	77,972	17,227	82,791	23,864	120,103

Note:

- (1) Includes Non-Meralco DUs, ECs, Directly Connected Customers, Contestable Customers, Sales to Distribution Customers, and sales to related parties.

Customers	For the nine months ended September 30,			
	2018		2019	
	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)
Meralco	8,027	41,649	10,736	50,246
WESM.....	2,559	7,791	1,567	6,111
Total Major Customers	10,585	49,440	12,303	56,357
Others ⁽¹⁾	7,085	39,672	9,278	48,785
Total Sales	17,670	89,112	21,581	105,142

Note:

- (1) Includes Non-Meralco DUs, ECs, Directly Connected Customers, Contestable Customers, Sales to Distribution Customers, and sales to related parties.

Safety, Health and Environmental Regulation

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 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. The same ISO certifications were received by Davao Greenfield Power Plant and Limay Greenfield Power Plant in 2017 and 2018, respectively, while the Masinloc Power Plant and the Masinloc BESS received an Environmental and Management System Certificate (ISO 14001) and Occupational Standard on Health Safety Certificate in 2014.

For each of its Greenfield power plants, SMC Global Power will comply with all applicable safety, health and environmental laws and regulations, including securing the necessary ECC in accordance with Philippine law.

SMC Global Power's coal-fired power plants have maintained levels of emission lower than the standards set by the DENR. The following table sets forth the level of nitrogen oxide ("NO_x"), sulfur dioxide ("SO₂") and particulate matter ("PM") emissions of the power plants owned and operated by SMC Global Power, as well as the applicable emission control standards, for the six months ended September 30, 2019:

Power Plant	NO _x		SO _x		PM	
	Emission	DENR	Emission	DENR	Emission	DENR
	level	Standard	level	Standard	level	Standard
	(ppm)		(ppm)		(Mg/Nm ³)	
Sual Power Plant*	221.5	732.0	375.9	524.0	17.2	200.0
Masinloc Power Plant	99.3	732.0	107.7	524.0	50.5	200.0
Limay Greenfield Power Plant	90.0	487.0	76.0	245.0	5.4	150.0
Davao Greenfield Power Plant	70.2	487.0	63.6	245.0	5.1	150.0

* Operated under IPPA Agreement

For its BESS sites, SMC Global Power is committed to ensuring the safety of its employees and the community and has designed measures such as a fire protection system, with a fire wall, automatic fire shutters, and sprinkler system, and a double wall system composed of the blast wall and fire wall, to add additional layers of safety.

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 clean-up, 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.

Environmental Social Governance and Sustainability Initiatives

SMC Global Power, through the SMCGP Philippines Power Foundation Inc. (the "SMC Global Power Foundation"), has undertaken various projects and programs which is in line with the United Nations Sustainable Development Goals. The SMC Global Power Foundation is focused on four thrusts: health, education, economic empowerment and environmental stewardship. One of its major initiatives is the "747 Program" with the goal of planting seven million trees over seven years through a combination of reforestation initiatives, protected forest reserves, biochar production and mangrove rehabilitation. In addition, the SMC Global Power Foundation also has a strong focus on education with flagship initiatives such as scholarship programs prioritizing indigenous persons and youth from local communities where it operates. SMC Global Power also has an economic empowerment program called "Local Economy Acceleration and Progress (LEAP)" that create job opportunities

and fosters community-driven entrepreneurship, among others. Lastly, there are several health programs that look after the well-being of the relevant communities.

In addition, SMC Global Power is in the process of completing its first sustainability report using the Global Reporting Initiative as a framework, which it aims to publish by the first quarter of 2020. This demonstrates its commitment and awareness of the importance of sustainability and social responsibility to its stakeholders.

Insurance

Pursuant to the IPPA arrangements of SMC Global Power, the IPPs associated with the power plants for which SMC Global Power is the IPPA 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. SMC Global Power is not a beneficiary of any of these insurance agreements. SMC Global Power employs risk management for purposes of analysing the risks faced by its business in the determining the appropriate insurance policies.

SMC Global Power does not have business interruption insurance for its IPPA Power Plants and believes that there is no business interruption insurance available for the IPPA business model under which SMC Global Power is currently operating. SMC Global Power has procured all the necessary policies to cover all insurable risks for the ownership and operation of the Limay Greenfield Power Plant, Davao Greenfield Power Plant and Masinloc Power Plant.

Intellectual Property

SMC Global Power owns exclusive rights to its corporate name. Management believes that the business of SMC Global Power as a whole is not materially dependent on any trademark or on any other intellectual property.

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	35 years
Boracay Airport.....	99.80% ⁽²⁾	₱13,782	25 years
MRT-7	100.00% ⁽³⁾	₱77,616	25 years
SLEX Toll Road (TR) 1, 2, & 3	76.00% ⁽⁴⁾	Completed	25 years
SLEX TR4 ..	76.00% ⁽⁴⁾	₱16,690 ⁽⁴⁾	25 years
Skyway Stage 1 & 2	83.45% ⁽⁵⁾	Completed	25 years
Skyway Stage 3	85.50% ⁽⁶⁾	₱ 55,241	30 years
Skyway Stage 4	77.93% ⁽⁷⁾	₱ 52,704	30 years
NAIAx	100.00%	Completed	30 years
Star Tollway	100.00% ⁽⁸⁾	Completed	30 years
Manila North Harbor.....	43.33% ⁽⁹⁾	₱ 22,000	30 years
Bulacan Bulk Water Supply Stage 1 & 2 .	90.00% ⁽¹⁰⁾	₱ 7,747	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 90% S3HC to CCEC.
- (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.

For each of the years ended December 31, 2016, 2017 and 2018, the infrastructure business had revenues of ₱19,866 million, ₱22,497 million and ₱24,530 million; gross profit of ₱13,139 million, ₱13,700 million and ₱14,893 million, and net income of ₱4,054 million, ₱4,208 million, ₱6,162 million, respectively.

For the nine-month period ended September 30, 2018, the infrastructure business had revenues of ₱18,129 million gross profit of ₱11,222 million and net income of ₱4,722 million compared to sales of ₱17,792 million, gross profit of ₱11,164 million and net income of ₱5,095 million for the nine-month period ended September 30, 2019. Selected financial highlights for the infrastructure business are provided below for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2016	2017	2018	2018	2019
	(in millions, except percentages)				
	₱	₱	₱	₱	₱
Sales	19,866	22,497	24,530	18,129	17,792
Gross profit	13,139	13,700	14,893	11,222	11,164
Gross profit margin ⁽¹⁾	66%	61%	61%	62%	62%
EBITDA ⁽²⁾	14,026	15,857	17,423	12,962	13,106
EBITDA margin ⁽³⁾	71%	70%	71%	71%	74%
Net income before tax	5,656	6,401	8,899	6,961	7,116
Net income before tax margin ⁽⁴⁾	28%	28%	36%	38%	40%

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.

Strengths and Strategies

Strengths

Project portfolio vital to the growth of the Philippine economy

SMHC has ownership interests in various companies that 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. For example, 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. The SLEX is a key gateway through which business and commerce is transported and conducted throughout this region. SMHC is also currently progressing the development of the following projects:

Boracay Airport, Manila North Harbor, Skyway Stages 3 and 4, SLEX TR4, Bulacan Bulk Water Supply and MRT-7, which are projected to further support the growth in the areas they will serve.

SMHC believes that it has benefited from the economic growth of the Philippines as evidenced in the increasing traffic volume as set forth in the table below for the periods indicated.

	For the years ended December 31,		For the nine months ended September 30,	
	2016	2017	2018	2019
Annual Average Daily Traffic (“AADT”)⁽¹⁾				
SLEX TR 1, 2 & 3	314,279	337,164	355,516	368,119
Skyway Stages 1 & 2	251,594	256,469	251,361	258,321
STAR	48,080	51,490	57,472	61,805
TPLEX ⁽²⁾	16,740	18,836	22,272	23,604
NAIAx	10,939	64,288	97,561	110,127

Notes:

(1) AADT refers to the average number of vehicles per day counted per exit in a toll road. Data is sourced through the Accounts Management System of each of the toll roads and are monitored by the Toll Monitoring Department of SMHC.

(2) Partial operations - Sections 1, 2 and 3A. These reflects AADT for partial operations of Section 1 in 2016, Sections 1 and 2 in 2017 and Sections 1, 2 and 3A for 2018 and the nine months ended September 30, 2019. There is one remaining section (with two exits – Sison and Rosario) still under construction.

Highly experienced technical team

The infrastructure business is composed of a highly experienced and qualified technical team, with 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 Matière S.A.S.

Strong principal shareholder

With SMC being 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 for the implementation and completion of its projects. SMC has continuously provided the necessary financial support to the capital-intensive infrastructure business.

Under the stewardship of SMC, the infrastructure business has become one of the major players in the industry in a relatively short period of time. On August 14, 2019, SMC, through SMAI, was awarded the NMIA project with no Swiss Challenger. The Concession Agreement for the project was signed on September 18, 2019. 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.

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 are expected to support and contribute to the continued growth of the Philippine economy. Thus, SMHC believes its long-term concessions and obtaining new long-term concessions from Government’s infrastructure projects in the pipeline will provide strong and stable cash flows.

Potential to extract synergies across businesses

SMC's push for infrastructure development supports other businesses of SMC. These capital-intensive infrastructure projects propel businesses like cement, oil and energy especially during the construction stage. Completed or operating infrastructure projects on the other hand create an ecosystem for other businesses to operate more efficiently and enhance its strong distribution network.

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.

Synergies with the other businesses of SMC will also contribute to the growth of SMHC as partnerships with these companies can create additional income for SMHC thru the use of service facilities and advertising space rentals.

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 nine operational toll road facilities in the country recognized by the TRB, which are the TPLEX, Skyway Stages 1 and 2, NAIAX, SLEX, STAR, Subic-Clark-Tarlac Expressway ("SCTEX"), North Luzon Expressway ("NLEX"), Manila-Cavite Expressway ("CAVITEX") and Muntinlupa Cavite Expressway ("MCX"). Out of these nine operating toll facilities in the country, five 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 believes that it has rights to approximately 55.45% of the total road length of awarded toll road projects in the country, as set out below.

TOLL ROAD PROJECT	Length (km)	Status
SMC		
TPLEX	89.21	Section 1, 2 & 3A Operational. Section 3 On going
Skyway (Stage 1 and 2)	29.59	Operational
South Luzon Expressway (SLEX TR1-TR3)	36.13	Operational
Southern Tagalog Arterial Road (STAR)	41.90	Operational
NAIAX	5.40	Operational
Skyway Stage 3 (NLEX-SLEX Link SMC)	17.38	Ongoing construction
Skyway Stage 4/SEMME/ C6 Expressway (Phase 1&2)	56.74	For Implementation upon delivery of ROW
SLEX TR4	56.86	For Implementation upon delivery of ROW
TOTAL	333.21	55.45%
SMC.....		
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
Muntinlupa Cavite Expressway (MCX)	4.00	Operational
NLEX-SLEX Connector Road	8.00	Awarded by DPWH

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	267.69	44.55%
OTHERS.....		
GRAND	600.90	100%
TOTAL.....		

Tarlac-Pangasinan-La Union Expressway (“TPLEX”)

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 89.21 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 ₱29,627 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 in July 2016. Section 3A until Pozzorubio was completed in December 2018. The remainder of the expressway from Pozzorubio to Rosario is projected to be completed in the first quarter of 2020. For the year ended December 31, 2018, the AADT of TPLEX was around 22,272 vehicles. As of September 30, 2019, the AADT increased by about 15.98% to 23,604 vehicles.

Currently, construction from Talugtog to Pozorrubio is already completed, while the last leg from Pozorrubio to Rosario is progressing well. Acquisition of the right of way for Bued viaduct is ongoing.

South Luzon Expressway (SLEX)

SLTC is the concessionaire of the SLEX which currently spans 36.1 km from Alabang, Muntinlupa to Sto. Tomas, Batangas. SLEX is composed of four 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 four 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 six to eight lanes. TR2 involved the widening of the SLEX segment between Filinvest exit and Sta. Rosa, Laguna from four to eight lanes and segment between Sta. Rosa, Laguna to Calamba, Laguna from four to six lanes. TR3 involved the construction of a four-lane roadway from Calamba, Laguna to Sto. Tomas Batangas. The construction of this section connected Metro Manila, SLEX, and STAR. For the year ended December 31, 2018, the AADT of SLEX was around 355,516 vehicles. As of September 30, 2019, SLEX registered a 3.55% growth in vehicular traffic, which is approximately 368,119 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 the TRB first quarter, 2019. The SLEX TR4 groundbreaking ceremony was held last March 26, 2019. Updated parcellary plans for Section A (Sto. Tomas Batangas to Makban Laguna) were submitted to the TRB last August 30, 2019. Construction is ongoing within the Escudero Properties in Tiaong, TR4, a 56.86-km, four-lane road that will start from Sto. Tomas, Batangas to Lucena City, in Quezon, is expected to start operation by the fourth quarter of 2022. This will shorten the travel time to about an hour from the current four hours. It is divided into five sections: Sto. Tomas to Makban in Laguna; Makban to San Pablo City; San Pablo to Tiaong, Quezon; Tiaong to Candelaria, Quezon; Candelaria to Lucena City. It will include seven interchanges in Sto. Tomas, Makban, San Pablo City, Tiaong, Candelaria, Sariaya and Lucena City. The whole project is estimated to cost around ₱20,300 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 2018, the full year AADT of Skyway Stages 1 and 2 is at 251,361 vehicles. As of September 30, 2019, the AADT for Skyway Stage 1 and 2 increased to 258,321 vehicles, representing a 2.77% increase compared to the AADT in 2018.

On June 29, 2019, the construction of the Skyway-Alabang South Extension Project began. This project aims to decongest the existing Skyway System and SLEX by widening the existing lanes approaching Sucat exit, and providing an elevated viaduct running from Susana Heights, connecting it to the existing Alabang Viaduct. This is foreseen to lessen the at-grade traffic through the diversion of motorists from at-grade to elevated. The ₱10 billion project is scheduled to be completed by December 2020.

As of September 30, 2019, AAIPC, a 95% owned subsidiary of SMC, has an ownership interest of 87.84% in CMMTC.

Skyway Stage 3

Skyway Stage 3 is a 17.38 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 ₱76,014 million. Partial operations are expected to begin by the second quarter of 2020.

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 30, 2019, S3HC, a 100% owned subsidiary of SMC, has an ownership interest of 90% in CCEC.

Skyway Stage 4

Skyway Stage 4 is a 56.74 km roadway from South Metro Manila Skyway to San Jose Del Monte, Bulacan and another spur to Luzon Avenue. 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 ₱49,880 million. Target completion date is 2023.

On February 17, 2014, Citra Intercity Tollways, Inc. (“**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 30, 2019, 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 two 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 had a full year AADT of 57,472 vehicles in 2018.

As of September 30, 2019, the AADT in STAR Tollway is 61,805 vehicles, representing a 7.54% increase compared to 2018 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 two-year construction period) for the NAIAx project.

The ₱26,540 million NAIAx was the third 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 in September 2016 and Phase 2B was completed and became fully operational in December 2016 with toll collections starting in January 31, 2017. Ramps 1 and 17 opened in June 2017 with toll collections starting in July 2017.

The AADT as of September 30, 2019 is at 110,127 vehicles.

Airport Concession

Boracay Airport

In April 2010, SMHC acquired a 93% stake in Caticlan International Airport Development Corp. (subsequently renamed TADHC), while the remaining 7% interest was held by Akean Resorts Corporation, a non-affiliated entity. TADHC holds a 25-year concession for the Boracay Airport, granted by the Republic of the Philippines, through the DOTC (now, DOTr), under a contract, add, operate and transfer scheme under the BOT law. As of September 30, 2019, SMHC owns 99.80% 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 2.0 million tourists by end of 2017. With the closure in 2018, tourists dropped to about 550,000 according to the Department of Tourism. For the nine months ended September 30, 2019, approximately 683,260 tourists passed through Boracay Airport according to data from the Airport Operations and Control Center of Boracay Airport.

The planned expansion of the airport is expected to be completed in 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. As of September 30, 2019, construction along Quezon Memorial Circle to Quirino Highway is on-going with civil works and equipment and mechanical systems at almost 98% and 78% completion, respectively.

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.

On December 17, 2015, LCWDC 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.

SMC through SMHC owns 90% of LCWDC, which will serve as the concessionaire for a period of 30 years (inclusive of the two-year construction period). Phase 1 of this project was completed end of 2018 and Phase 2 of this project was completed in April 2019. The project started supplying potable water to Bulacan municipalities last January 2019.

Ports Concession

Manila North Harbor

MNHPI is the terminal operator of Manila North Harbor, a port facility situated at Tondo, City of Manila. The port 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.

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 SMHC as of September 30, 2019 is 43.33%.

Competition

SMC is one of the major players in the infrastructure sector holding investments in companies with long term concession agreements with the Philippine government. It is currently managing and operating various infrastructure projects, namely: (1) TPLEX, (2) Skyway Stages 1 to 4, (3) NAIA Expressway, (4) SLEX TR1 to TR4, (5) STAR, (6) MRT7, (7) Boracay Airport and (8) Manila North Harbor.

The infrastructure sector is a key investment area in the Philippines that is seen to provide a big potential to facilitate the development of other sectors. This has been a priority of the current Philippine government which has also attracted other big conglomerates in the Philippines to enter this sector.

Other major players in this sector include Metro Pacific Investment Corporation operating the following: (1) the North Luzon Expressway (NLEX), (2) SCTEX, (3) CAVITEX, (4) the Cavite – Laguna (CALA) Expressway, (5) LRT1 Extension and O&M in partnership with Ayala Corporation and (6) Maynilad; and Ayala Corporation, which was awarded the concession for the Daang – Hari Expressway, a 4-kilometer toll road in Cavite in 2011.

OTHERS

Properties Business

Established in 1990 as the corporate real estate arm of SMC, SMPI aims 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.

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. In Silang Cavite, SMPI's development, Wedge Woods, offers prime lots on a rolling terrain.

In Metro Manila, 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 in Metro Manila, 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.

In addition, SMPI operates Makati Diamond Residences, a luxury serviced apartment across Greenbelt 5 in Legaspi Village, Makati City.

Banking

SMC, through SMPI, made a series of acquisitions of BOC shares in 2007 and 2008 representing 39.93% ownership interest and additional acquisition of BOC shares in December 2018, through SMC Equivest Corporation, representing 4.69% ownership interest. BOC is a commercial bank licensed to engage in banking operations in the Philippines.

DESCRIPTION OF PROPERTY

The general asset description and locations of the various plants and farms owned and leased by the SMC Group are included as Appendix “C” of this Prospectus.

The properties included in Appendix “C” of this Prospectus that are owned by the SMC Group are free of liens and encumbrances.

The properties in Appendix “C” of this Prospectus are in good condition, ordinary wear and tear excepted.

The SMC Group is continuously evaluating available properties for sale which cost or details cannot be determined at this time.

REGULATION

GENERAL BUSINESS REGULATORY FRAMEWORK

Revised Corporation Code

Republic Act No. 11232, also known as the Revised Corporation Code, was signed into law on February 20, 2019 and took effect on February 23, 2019. Among the salient features of the Revised Corporation Code are:

- Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Philippine SEC that it elects to retain its specific corporate term under its current Articles of Incorporation.
- A corporation vested with public interest must submit to its shareholders and to the Philippine SEC an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.
- Banks, quasi-banks, pawnshops, non-stock savings and loan associations (NSSLA), and corporations engaged in money service business, preneed trust and insurance companies, and other financial required, must have at least 20% independent directors in the Board, in accordance with the Securities and Regulation Code. The Philippines is party to the United Nations Convention on Recognition and Enforcement of Foreign Arbitral Awards, though it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, a judgment or final order of a foreign court is, through the institution of an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment. This requirement also applies to other corporations engaged in businesses imbued with public interest, as may be determined by the Philippine SEC.
- The Code allows the creation of a “One Person Corporation”. However, it expressly prohibits banks and quasi-banks, preneed, trust, insurance, public and publicly-listed companies, among others, from being incorporated as such. This restriction also applies with respect to incorporations as Close Corporation.
- Material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.
- The right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.
- As to the filing of the by-laws and any amendments made to the by-laws of any bank, banking institution, building and loan association, trust company, insurance company, public utility, and other corporations governed by special laws, the Code requires that a prior certificate of the appropriate government agency to the effect that such bylaws or amendments are in accordance with law, must be submitted.
- A favourable recommendation by the appropriate government agency is likewise required for banks or banking institutions, building and loan associations, trust companies, insurance companies, public utilities, and other corporations governed by special laws, before the Philippine SEC approves any merger or consolidation; or any voluntary dissolution.
- In case of transfer of shares of listed companies, the Philippine SEC may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Philippine SEC.

The Revised Corporation Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

The Philippine Competition Act

Republic Act No. 10667, otherwise known as the Philippine Competition Act, was signed into law on July 21, 2015 and took effect on August 8, 2015. This Act aims to codify anti-trust laws in the Philippines and it provides the competition framework in the country. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry, and all commercial economic activities.

To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission (“PCC”), an independent quasi-judicial agency to be composed of five commissioners. Among the PCC’s powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, the PCC must apply for a warrant with the relevant court.

The Philippine Competition Act prohibits anti-competitive agreements between or among competitors, and mergers and acquisitions which have the object or effect of substantially preventing, restricting, or lessening competition. It also prohibits practices which involve abuse of dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

The Philippine Competition Act also introduces the pre-notification regime for mergers and acquisitions, which requires covered transactions to be notified to the PCC for its approval.

On June 3, 2016, the PCC issued the implementing rules and regulations of the Philippine Competition Act (“IRR”). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱1.0 billion; (Size of Party) and (b) the value of the transaction exceeds ₱1.0 billion, as determined in the IRR (Size of Transaction); while Parties to a joint venture transaction shall also be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1.0 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1.0 billion.

The PCC also has released its “Guidelines on the Computation of Merger Notification Thresholds”, providing the method for calculation of the aggregate value of assets and gross revenues from sales for the purposes of determining whether a proposed merger or acquisition is notifiable to the PCC.

On March 1, 2018, the PCC issued Memorandum Circular No. 18-001, which adjusted the thresholds for the compulsory notification of mergers and acquisitions from ₱1 billion for both the Size of Person and Size of Transaction tests to ₱5 billion for the Size of Person and ₱2 billion for the Size of Transaction as defined in the Implementing Rules and Regulations. In addition, parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2 billion; or (b) the gross revenues generated in the Philippines by the assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2 billion.

The same memorandum circular also provided that unless otherwise modified or repealed by the Commission, the thresholds set out in Rule 4, Section 3 of the Implementing Rules and Regulations, as amended, shall be automatically adjusted commencing on March 1, 2019 and on March 1st of every succeeding year, using as index the Philippine Statistics Authority’s official estimate of the nominal Gross Domestic Product (“GDP”) growth of the previous calendar year rounded up to the nearest hundred millions. The annual nominal GDP from 2017 to 2018 grew by 10.23%.

Based on the nominal GDP growth, the PCC issued Advisory 2019-001, notifying the public of the adjustment of the thresholds:

Adjusted Thresholds to be Implemented		
Test	Old Threshold (2018)	New Threshold (effective March 1, 2019)
Size of Person Test	₱5 billion	₱5.6 billion
Size of Transaction Test	₱2 billion	₱2.2 billion

This means that the value of the assets or revenues of the Ultimate Parent Entity (“UPE”) of at least one of the parties must exceed ₱5.6 billion instead of ₱5 billion. The UPE is the entity that, directly or indirectly, controls a party to the transaction, and is not controlled by any other entity. In addition, the value of the assets or revenues of the acquired entity must exceed ₱2.2 billion instead of ₱2 billion. Both thresholds must be breached in order for the compulsory notification requirement to apply. As to joint venture transactions, notification is mandatory if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion; or (b) the gross revenues generated in the Philippines by the assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion. The new thresholds will not apply to (a) transactions already pending review with the PCC, (b) notifiable transactions consummated before March 1, 2019, and (c) transactions already decided by the PCC.

Violations of the Philippine Competition Act and its IRR carry administrative and criminal penalties. A transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of 1 to 5% of the value of the transaction. Criminal penalties for entities that enter into these defined anti-competitive agreements include: (i) a fine of not less than ₱50.0 million but not more than ₱250.0 million; and (ii) imprisonment for two to seven years for directors and management personnel who knowingly and wilfully participate in such criminal offenses. Administrative fines of ₱100.0 million to ₱250.0 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On September 15, 2017, the PCC published the 2017 Rules of Procedure (“**Rules**”) which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On September 10, 2019, the Supreme Court of the Philippines approved the Rules on Administrative Search and Inspection under the Philippine Competition Act. The rules govern the application, issuance, and enforcement of inspection orders for administrative investigations of alleged violations of the Philippine Competition Act. Inspection orders will allow the PCC and its deputized agents to enter, search and inspect business premises, offices, land and vehicles to examine, copy, photograph, record or print information in order to prevent their removal, concealment, tampering with or destruction.

Foreign Investments Act of 1991

Republic Act No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991 (“**FIA**”), liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Eleventh Regular Foreign Investment Negative List (the “**Negative List**”). This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. Nationalized activities include, among others, land ownership, telecommunications, mining and the operation of public utilities.

In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens. While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against

foreigners owning buildings and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40%. A corporation with more than 40% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years.

In addition, under the Philippine Constitution, only citizens of the Philippines or corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens may engage in activities relating to the exploration, development and utilization of natural resources, which covers the utilization of natural resources for the operation of renewable energy power plants.

For the purpose of complying with nationality laws, the term Philippine National is defined under the FIA as any of the following:

- a citizen of the Philippines;
- a domestic partnership or association wholly-owned by citizens of the Philippines;
- a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- a corporation organized abroad and registered to do business in the Philippines under the Revised Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly-owned by Filipinos; or
- a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

In SEC Memorandum Circular No. 08 dated May 20, 2013, or the Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly Nationalized Activities, it is provided that for purposes of determining compliance with the nationality requirement, the required percentage of Filipino ownership shall be applied both to (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors. A petition for certiorari questioning the constitutionality of SEC Memorandum Circular No. 8 dated May 20, 2013 was filed in June 2013. In *Jose M. Roy III v. Chairperson Teresita Herbosa* (G.R. No. 207246) dated April 18, 2017, the Supreme Court affirmed the validity of SEC Memorandum Circular No. 08 dated May 20, 2013.

In the 2014 case of *Narra Nickel Mining and Development Corporation, et.al vs. Redmont Consolidated Mines Corp* (G.R. No. 195580) and its corresponding motions for reconsideration (the “**Narra Nickel Case**”), the Supreme Court affirmed that the Grandfather Rule, wherein shares owned by corporate shareholders are attributed either as Filipino or foreign equity by determining the nationality not only of such corporate shareholders, but also such corporate shareholders’ own shareholders, until the nationality of shareholder individuals is taken into consideration, is to be used jointly and cumulatively with the Control Test, which merely takes into account the nationality of the listed shareholders of the corporation. Such joint and cumulative application shall be observed as follows: (i) if the corporation’s Filipino equity falls below 60%, such corporation is deemed foreign-owned, applying the Control Test; (ii) if the corporation passes the Control Test, the corporation will be considered a Filipino corporation only if there is no doubt as to the beneficial ownership and control of the corporation; and (iii) if the corporation passes the Control Test but there is doubt as to the beneficial ownership and control of the corporation, the Grandfather Rule must be applied.

Data Privacy Act of 2012

The Data Privacy Act of 2012 is a comprehensive and strict privacy legislation aimed to protect the fundamental human right to privacy of data subjects by: (a) protecting the privacy of individuals while ensuring free flow of information; (b) regulating the collection, recording, organization, storage, updating or modification, retrieval, consultation, use, consolidation, blocking, erasure or destruction of personal data; and (c) ensuring that the Philippines complies with international standards set for data protection through National Privacy Commission (“**Privacy Commission**”).

Intended to protect the privacy of individuals, it mandates companies to inform the individuals about how their personal information are collected and processed. It also ensures that all personal information must be (a) collected and processed with lawful basis, which includes consent, and only for reasons that are specified, legitimate, and reasonable; (b) handled properly, ensuring its accuracy and retention only for as long as reasonably needed; and (c) discarded properly to avoid access by unauthorized third parties.

Its Implementing Rules and Regulations (“IRR”) took effect on September 9, 2016, mandating all Philippines companies to comply with the following: (a) appointment of a Data Protection Officer; (b) conduct of a privacy impact assessment; (c) adoption of a privacy management program and privacy policy; (d) implement privacy and data protection measures; and (e) establish a breach reporting procedure. In addition, companies with at least 250 employees or access to sensitive personal information of at least 1,000 individuals are required to register their data processing systems with the Privacy Commission. The IRR, furthermore provides the only instances when data sharing is allowed, to wit: (a) data sharing is authorized by law, provided that there are adequate safeguards for data privacy and security, and processing adheres to principles of transparency, legitimate purpose and proportionality; (b) in the private sector, data sharing for commercial purposes is allowed upon (i) consent of data subject, and (ii) when covered by a data sharing agreement; (c) data collected from parties other than the data subject for purpose of research shall be allowed when the personal data is publicly available; and (d) data sharing among government agencies for purposes of public function or provision of a public service shall be covered by a data sharing agreement.

Registration under the BOI

Under the Executive Order No. 226, otherwise known as the Omnibus Investments Code, as amended, a BOI-registered enterprise enjoy certain incentives, both financial and non-financial, provided such enterprise invests in preferred areas of investment enumerated in the Investment Priorities Plan annually prepared by the Government. However, prior to registration with the BOI, the enterprise must first satisfy the minimum equity required to finance the project applied equivalent to 25% of the estimated project cost, or as may be prescribed by the BOI. Such incentives include: (i) income tax holiday, (ii) exemption from taxes and duties on imported spare parts; (iii) exemption from wharfage dues and export tax, duty, impost and fees; (iv) reduction of the rates of duty on capital equipment, spare parts and accessories; (v) tax exemption on breeding stocks and genetic materials; (vi) tax credits; (vii) additional deductions from taxable income; (viii) employment of foreign nationals; (ix) simplification of customs procedure; and (x) unrestricted use of consigned equipment.

On April 12, 2019, Republic Act No. 11285, otherwise known as the Energy Efficiency and Conservation Act, was enacted. Under the said law, upon certification by the DOE, energy efficiency projects shall be included in the annual investment priorities plan of the BOI and shall be entitled to the incentives provided under Executive Order No. 226, as amended, and any other applicable laws for 10 years from the effectivity of the Act. Said energy efficiency projects shall also be exempt from the requirements provided under Article 32(1) of Executive Order No. 226. Energy efficiency projects refer to projects designed to reduce energy consumption and costs by any improvement, repair, alteration, or betterment of any building or facility, or any equipment, fixture, or furnishing to be added to or used in any building, facility, or vehicle including the manufacturing and provision of services related thereto: provided, that such projects shall be cost-effective and shall lead to lower energy or utility costs during operation and maintenance.

Local Government Code

Republic Act No. 7160, otherwise known as the Local Government Code of 1991 (“LGC”) establishes the system and powers of provincial, city, municipal, and barangay governments in the country. The LGC general welfare clause states that every local government unit (“LGU”) shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

The power to tax and police power is exercised by the LGU through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, impose real property taxes, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Labour and Employment

The Department of Labor and Employment (“DOLE”) is the Philippine government agency mandated to formulate policies, implement programs and services, and serves as the policy-coordinating arm of the Executive Branch in the field of labour and employment. The DOLE has exclusive authority in the administration and enforcement of labour and employment laws such as the Labor Code of the Philippines and the Occupational Safety and Health Standards (which sets out, among others, the guidelines applicable to different establishments

intended for the protection of every workingman against the dangers of injury, sickness or death through safe and healthful working conditions), as amended, and such other laws as specifically assigned to it or to the Secretary of the DOLE.

Social Security System, PhilHealth and the Pag-IBIG Fund

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under Republic Act No. 11199, the Social Security Act of 2018 to ensure coverage of employees following procedures set out by the law and the Social Security System (“SSS”). Under the said law, an employer must deduct from its employees their monthly contributions in an amount corresponding to his salary, wage, compensation or earnings during the month in accordance with the monthly salary credits, the schedule and the rate of contributions as may be determined and fixed by the Social Security Commission, pay its share of contribution and remit these to the SSS within a period set by law and/ or SSS regulations. This enables the employees or their dependents to claim their pension, death benefits, permanent disability benefits, funeral benefits, sickness benefits and maternity-leave benefits.

The failure of the employer to comply with any of its obligations may lead to sanctions, including the imposition of a fine of not less than ₱5,000.00 nor more than ₱20,000.00, or imprisonment for not less than six years and one day nor more than 12 years, or both, at the discretion of the court. The erring employer will also be liable to the SSS for damages equivalent to the benefits to which the employee would have been entitled had his name been reported on time to the SSS and for the corresponding contributions and penalties thereon.

Employers are likewise required to ensure enrolment of its employees in a National Health Insurance Program (“NHIP”) administered by the Philippine Health Insurance Corporation, a government corporation attached to the Department of Health tasked with ensuring sustainable, affordable and progressive social health insurance pursuant to the provisions of Republic Act No. 10606, the National Health Insurance Act of 2013.

On February 20, 2019, Republic Act No. 11223, the Universal Health Care Act, was enacted, which amended certain provisions of the National Health Insurance Act of 2013. Under the said law, all Filipino citizens are now automatically enrolled into the National Health Program. However, membership is classified into two types, direct contributors and indirect contributors. Direct contributors refer to those who have the capacity to pay premiums, are gainfully employed and are bound by an employer-employee relationship, or are self-earning, professional practitioners, migrant workers, including their qualified dependents, and lifetime members. On the other hand, indirect contributors refer to all others not included as direct contributors, as well as their qualified dependents, whose premium shall be subsidized by the national government including those who are subsidized as a result of special laws. Every member is also granted immediate eligibility for health benefit package under the program. An employer who fails or refuses to register its employees, regardless of their employment status, or to deduct contributions from its employees’ compensation or remit the same to our Corporation shall be punished with a fine of not less than ₱5,000.00 multiplied by the total number of employees of the firm.

Under Republic Act No. 9679, the Home Development Mutual Fund Law of 2009, all employees who are covered by the SSS must also be registered with and covered by the Home Development Mutual Fund, more commonly referred to as the Pag-IBIG Fund. It is a national savings program as well as a fund to provide for affordable shelter financing to Filipino workers. Coverage under the HDMF is compulsory for all SSS members and their employers. Under the law, an employer must deduct and withhold 2% of the employee’s monthly compensation, up to a maximum of ₱5,000.00, and likewise make a counterpart contribution of 2% of the employee’s monthly compensation, and remit the contributions to the HDMF. Refusal of an employer to comply, without any lawful cause or with fraudulent intent, particularly with respect to registration of employees as well as collection and remittance of contributions, is punishable by a fine of not less but not more than twice the amount involved, or imprisonment of not more than six years, or both such fine and imprisonment. When the offender is a corporation, the penalty will be imposed upon the members of the governing board and the president or general manager, without prejudice to the prosecution of related offenses under the Revised Penal Code and other laws, revocation and denial of operating rights and privileges in the Philippines and deportation when the offender is a foreigner.

The Labor Code

The Philippine Labor Code provides that, in the absence of a retirement plan provided by their employers, private-sector employees who have reached 60 years of age or more, but not beyond 65 years of age, the compulsory retirement age for private-sector employees without a retirement plan, and who have rendered at least five years of service in an establishment, may retire and receive a minimum retirement pay equivalent to one-half month’s

salary for every year of service, with a fraction of at least six months being considered as one whole year. For the purpose of computing the retirement pay, “one-half month’s salary” shall include all of the following: fifteen days’ salary based on the latest salary rate; in addition, one-twelfth of the thirteenth month pay and the cash equivalent of five days of service incentive leave pay. Other benefits may be included in the computation of the retirement pay upon agreement of the employer and the employee or if provided in a collective bargaining agreement.

Other Labour-Related Laws and Regulations

Contracting and Subcontracting

The Labor Code recognizes subcontracting arrangements, whereby a principal puts out or farms out with a contractor the performance or completion of a specific job, work or service within a definite or predetermined period, regardless of whether such job, work or service is to be performed or completed within or outside the premises of the principal. Such arrangements involve a “trilateral relationship” among: (i) the principal who decides to farm out a job, work or service to a contractor; (ii) the contractor who has the capacity to independently undertake the performance of the job, work, or service; and (iii) the contractual workers engaged by the contractor to accomplish the job, work, or service.

On March 16, 2017, the DOLE issued DOLE Department Order No. 174-17 or Rules Implementing Articles 106 to 109 of the Labor Code, as Amended (“**D.O. No 174-17**”), under the principle that non-permissible forms of contracting and subcontracting arrangements undermine the constitutional and statutory right to security of tenure of workers. D.O. No 174-17 empowered the Secretary of Labor and Employment to regulate contracting and subcontracting arrangement by absolutely prohibiting labour-only contracting, and restricting job contracting allowed under the provisions of the Labor Code. Labor-only contracting refers to arrangement where the contractor or subcontractor merely recruits, supplies or places workers to perform a job or work for a principal, and the contractor or subcontractor does not have substantial capital, or the contractor or subcontractor does not exercise the right to control over the performance of the work of the employee. D.O. No. 174-17 expressly requires the registration of contractors with the Regional Office of the DOLE where it principally operates, without which, a presumption that the contractor is engaged in labour-only contracting arises.

The Department Order provides that in the event that there is a finding that the contractor or subcontractor is engaged in labour-only contracting and other illicit forms of employment arrangements, the principal shall be deemed the direct employer of the contractor’s or subcontractor’s employees. Further, in the event of violation of any provision of the Labor Code, including the failure to pay wages, there exists a solidary liability on the part of the principal and the contractor for purposes of enforcing the provisions of the Labor Code and other social legislations, to the extent of the work performed under the employment contract.

DOLE Mandated Work-Related Programs

Under the Comprehensive Dangerous Drugs Act, a national drug abuse prevention program implemented by the DOLE must be adopted by private companies with 10 or more employees. For this purpose, employers must adopt and establish company policies and programs against drug use in the workplace in close consultation and coordination with the DOLE, labour and employer organizations, human resource development managers and other such private sector organizations. DOLE Department Order No. 053-03 sets out the guidelines for the implementation of Drug-Free Workplace policies and programs for the private sector.

The employer or the head of the work-related, educational or training environment or institution, also has the duty to prevent or deter the commission of acts of sexual harassment and to provide the procedures for the resolution, settlement or prosecution of such cases. Under the Anti-Sexual Harassment Act, the employer will be solidarily liable for damages arising from the acts of sexual harassment committed in the workplace if the employer is informed of such acts by the offended party and no immediate action is taken. Notwithstanding, the victim of sexual harassment is not precluded from instituting a separate and independent action for damages and other affirmative relief. Any person who violates the provisions of this law shall, upon conviction, be penalized by imprisonment of not less than one month nor more than six months, or a fine of not less than ₱10,000 nor more than ₱20,000, or both such fine and imprisonment, at the discretion of the court. Any action arising from the violation of the provisions of this law shall prescribe in three years.

Moreover, Department Order No. 102-10 requires all private workplaces to have a policy on HIV and AIDS and to implement a workplace program in accordance with the Philippines AIDS Prevention and Control Act. The

workplace policies aim to manage sensitive issues, such as confidentiality of medical information and continuation of employment for HIV-positive staff, and to avoid the discrimination of any employee due to HIV/AIDS. Any HIV/AIDS-related information of workers should be kept strictly confidential and kept only on medical files, whereby access to it are strictly limited to medical personnel.

All private workplaces are also required to establish policies and programs on solo parenting, Hepatitis B, and tuberculosis prevention and control.

REGULATIONS RELATING TO THE FOOD AND BEVERAGE BUSINESS

The Food Safety Act

In 2013, Republic Act No. 10611 (Food Safety Act of 2013) (the “**Food Safety Act**”) was enacted into law to strengthen the food safety regulatory system in the country. The food safety regulatory system encompasses all the regulations, food safety standards, inspection, testing, data collection, monitoring and other activities carried out by the Department of Agriculture (“**DA**”) and the Department of Health (“**DOH**”), their pertinent bureaus, and the local government units. The National Dairy Authority, National Meat Inspection Service (“**NMIS**”), and Bureau of Fisheries and Aquatic Resources (“**BFAR**”) under the DA are the government agencies responsible for the development and enforcement of food safety standards and regulations in the primary production and post-harvest stages for milk, meats, and fish, respectively, while the Food and Drug Administration (“**FDA**”) under the DOH is responsible for the safety of processed and pre-packaged foods. The Food Safety Act created the Food Safety Regulation Coordinating Board to monitor and coordinate the performance and implementation of the mandates of the government agencies under the law.

The law aims to: (a) protect the public from food-borne and water-borne illnesses and unsanitary, unwholesome, misbranded or adulterated foods, (b) enhance industry and consumer confidence in the food regulatory system, and (c) achieve economic growth and development by promoting fair trade practices and sound regulatory foundation for domestic and international trade.

To protect consumer interest, the Food Safety Act seeks to prevent the adulteration, misbranding, fraudulent practices and practices which mislead the consumer, and prevent misrepresentation in the labelling and false advertising in the presentation of food. The DA and DOH are mandated to set food safety standards, which are the requirements that food or food processors have to comply with to safeguard human health.

The law likewise mandates the use of Science-based risk analysis in food safety regulation and prescribes the adoption of precautionary measures when the available relevant information for use in risk assessment is insufficient to show a certain type of food or food product does not pose a risk to consumer health.

In addition, food imported, produced, processed and distributed for domestic and export markets should comply with the following requirements: (a) food to be imported into the country must come from countries with an equivalent food safety regulatory system; (b) imported foods shall undergo cargo inspection and clearance procedures by the DA and DOH at the first port of entry to determine compliance with national regulations; and (c) exported food shall at all times comply with national regulations and regulations of the importing country.

The Food Safety Act imposes the following responsibilities on Food Business Operators (“**FBO**”): (a) FBO shall be knowledgeable of the specific requirements of food law with respect to their activities in the food supply chain and the procedures adopted by relevant government agencies, and adopt, apply and be well informed of codes and principles for good practices; (b) in the event a FBO considers or has reason to believe that food which it produced, processed, distributed or imported is not safe or not in compliance with food safety requirements, it shall immediately initiate procedures to recall the product and inform the regulator; (c) FBO shall allow inspection of their businesses and collaborate with the regulatory authorities to avoid risks posed by the food product/s which they have supplied; and (d) where the unsafe or noncompliant food product may have reached the consumer, it shall effectively and accurately inform the consumers of the reason for the withdrawal, and if necessary, recall the same from the market.

For the enforcement of the Food Safety Act, the food safety regulatory agencies are authorized to perform regular inspection of food business operators taking into consideration the compliance with mandatory safety standards; implementation of the Hazard Analysis at Critical Control Points (“**HACCP**”) or the science-based system that identifies, evaluates, and controls hazards for food safety at critical points; good manufacturing practices; and other requirements of regulations. It is prohibited to refuse access to pertinent records or entry of inspection

officers of the food safety regulatory agencies. It is likewise prohibited, among others, to produce, handle, or manufacture for sale, offer for sale, distribute in commerce, or import any food or food product, which is banned or is not in conformity with applicable quality or safety standard. The commission of any of the prohibited acts under the Food Safety Act can result in imprisonment and/or a fine.

The implementing rules and regulations of the Food Safety Act requires all food businesses, including large and medium scale food businesses engaged in the manufacture of processed and pre-packaged food, to have a Food Safety Compliance Officer (“FSCO”) who has passed a prescribed training course for FSCO recognized by the DA and/or the DOH.

FBOs producing processed and pre-packaged food should develop a Risk Management Plan as basis for the issuance of appropriate authorizations by the DOH. If an FBO considers or has reason to believe that a food which it produced, processed, distributed or imported is not safe or not in compliance with food safety requirements, it should immediately initiate procedures to withdraw the food in question from the market and inform the regulatory authority in accordance with the approved product recall program.

FBOs should also report any incident where its product has caused or contributed to the death, serious illness or serious injury to a consumer or any person. The product should be withdrawn from the market, in accordance with the FBO’s respective product recall program, and disposed according to the procedures prescribed by the DA and/or the DOH.

The FDA may order a recall if: (a) a distributed product presents a risk of illness or injury or gross consumer deception, (b) the manufacturer or distributor has not initiated a recall, and (c) an agency action is necessary or advisable to protect the public health and welfare. The manufacturer or distributor will be notified of the decision to order a product recall. The notification will specify the violation, the health hazard classification, the recommended recall strategy to be undertaken, and any other instructions appropriate to the conduct of the recall. Within 24 hours after the FDA issues an order for product recall, the FDA will issue a Public Health Alert to alert consumers on serious health hazards or other situations deemed to be in the public interest.

A product recall may also be initiated by a manufacturer or distributor of a violative product (*i.e.*, the product presents a risk of injury or does not conform to registered specifications). The manufacturer or distributor should provide the FDA the following information: (a) identity of the product involved, (b) the reason for the removal or correction and the date and circumstances under which the product deficiency or possible deficiency was discovered, (c) evaluation of the risk associated with the deficiency or possible deficiency, (d) total amount of such products produced and/or the time span of the production, (e) total amount of such products estimated to be in distribution channels, (f) distribution information, including the number of distribution outlets and where necessary, the names and addresses of the distribution channels, (g) copy of the recall communication or proposed communication, (h) proposed strategy for conducting the recall, and (i) name and phone number of the official who should be contacted concerning the recall.

Products which have been subject of a recall must immediately be removed from the market and must not be allowed for distribution and sale. Upon completion of the recall procedure, the concerned company must notify the FDA of the final disposition of the product. If the product is to be destroyed, the destruction should be witnessed by an FDA representative. If the product has been reprocessed to comply with registered specifications, distribution and sale of the reprocessed product will only be allowed following a written recommendation from the FDA to do so.

The FDA may seize the products or seek other court action if a firm refuses to conduct an FDA-ordered recall or where the FDA has reason to believe that a recall would not be effective, a recall is ineffective, or discovers that a violation is continuing.

The DOH, through the FDA, is responsible for the assurance of safety of processed and pre-packaged food products, whether locally produced or imported, including meat products. Renewal of the registration of processed meat and licenses of establishments manufacturing, importing or exporting, selling, offering for sale, transferring, or distributing processed meat should be in accordance with the existing FDA guidelines on renewal of authorizations.

The Food, Drugs and Devices, and Cosmetics Act

The Foods, Drugs and Devices, and Cosmetics Act, as amended by the FDA Act of 2009 (the “**FDDC Act**”), establishes standards and quality measures in relation to the manufacturing and branding of food products to ensure the safe supply thereof to and within the Philippines. The FDA is the governmental agency under the DOH tasked to implement and enforce the FDDC Act. The FDA requires both a license to manufacture food products, as well as individual certificates of registration for each product to be manufactured or sold in the Philippines.

The FDDC Act prohibits, among others, (i) the manufacture, importation, exportation, sale, offering for sale, distribution or transfer, non-consumer use, promotion, advertisement or sponsorship food products which are adulterated or misbranded or which, although requiring registration pursuant to the FDDC Act, are not registered with the FDA; and (ii) the manufacture, importation, exportation, transfer or distribution of any food product by any person or entity without a license to operate from the FDA. Any person found in violation of any of the provisions of the FDDC Act shall be subject to administrative penalties or imprisonment or both. Furthermore, the FDA has the authority to seize such food products found in violation of the FDDC Act as well as ban, recall and withdraw any food product found to be grossly deceptive, unsafe, or injurious to the consuming public.

FDA Rules and Regulations

Consistent with the mandate to adopt and establish mechanisms and initiatives that are aimed to protect and promote the right to health of every Filipino, the FDA issued the Rules and Regulations on the Licensing of Food Establishments and Registration of Processed Food, which require all food establishments to obtain a License to Operate (“**LTO**”) from the FDA before they can validly engage in the manufacture, importation, exportation, sale, offer for sale, distribution, and transfer of food products in the Philippine market. An initial LTO is valid for a period of two years, while a renewed license is valid for five years.

An LTO can be automatically renewed when (a) the application for renewal is filed before the expiration date of the license, (b) the prescribed renewal fee is paid upon filing of the application, and (c) a sworn statement indicating no change or variation in the establishment is attached to the application. An application for renewal of an LTO received after its date of expiration will be subject to a surcharge or penalty.

Further, the LTO subject of an application for renewal will be considered valid and subsisting until a decision or resolution by the FDA is rendered on the application for renewal as long as the application is filed within 120 days from LTO’s original expiry. The automatic renewal of an LTO should not preclude the FDA from suspending, revoking or cancelling the same in case the owner violates any of the terms and conditions of the license or other relevant laws and implementing rules and regulations. The assignment or transfer of a valid and unexpired LTO, or pending application for renewal without any change or variation whatsoever in the establishment requires a mere amendment of the LTO or the application, as the case may be.

The manufacture, importation, exportation, sale, offering for sale, distribution, transfer, non-consumer use, promotion, advertising, or sponsorship of any health product without the proper authorization from the FDA is prohibited and punishable, by imprisonment and fine.

In addition to an LTO, the FDA also requires a Certificate of Product Registration (“**CPR**”) for processed food products before said products are distributed, supplied, sold or offered for sale or use in the market. A CPR covering a particular health product constitutes prima facie evidence of the registrant’s marketing authority for said health product in connection with the activities permitted pursuant to the registrant’s LTO.

For processed food products, the validity of an initial CPR is two years to five years, while a renewed CPR is valid for five years; provided that upon renewal, its holder conforms with the pertinent standards and requirements including labelling regulations.

A CPR may be automatically renewed provided that: (a) the registrant has a current and valid LTO, (b) the product is covered by a current and valid CPR, and (c) there are no deficiencies that need to be corrected before the renewal of the CPR can be granted. The application for renewal must be filed at least 90 days before the expiration of the CPR, although an application for renewal may still be filed within 60 days after the expiration date of the CPR, subject only to the payment of a surcharge.

An expired CPR that has not been renewed within the 60-day grace period cannot be the subject of a renewal application and will be considered an initial application for the registration of the product.

The operation of a food business without the proper authorization from the FDA is prohibited and punishable with a fine. The closure of the establishment may also be imposed as a penalty upon a finding of a commission of a prohibited act.

The Consumer Act

Republic Act No. 7394 or the Consumer Act of the Philippines (the “**Consumer Act**”) is principally enforced by the DTI and seeks to: (i) protect consumers against hazards to health and safety, (ii) protect consumers against deceptive, unfair and unconscionable sales acts and practices; (iii) provide information and education to facilitate sound choice and the proper exercise of rights by the consumer; (iv) provide adequate rights and means of redress; and (v) involve consumer representatives in the formulation of social and economic policies.

This law imposes rules to regulate such matters as (i) consumer product quality and safety; (ii) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer’s health and safety; (iii) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (iv) practices relative to the use of weights and measures; (v) consumer product and service warranties; (vi) compulsory labelling and fair packaging; (vii) liabilities for defective products and services; (viii) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (ix) consumer credit transactions.

The Consumer Act establishes quality and safety standards with respect to the composition, contents, packaging, labelling and advertisement of food products and prohibits the manufacture for sale, offer for sale, distribution, or importation of food products which are not in conformity with applicable consumer product quality or safety standards. Like the FDDC Act, the Consumer Act also prohibits the manufacture, importation, exportation, sale, offering for sale, distribution or transfer of food products which are adulterated or mislabelled. In connection therewith, the Consumer Act provides for minimum labelling and packaging requirements for food products to enable consumers to obtain accurate information as to the nature, quality, and quantity of the contents of food products available to the general public.

Under the Consumer Act, the following are the minimum labeling requirements for consumer products sold in the Philippines: (a) the correct and registered trade name or brand name; (b) the duly registered trademark; (c) the duly registered business name; (d) the address of the manufacturer, importer, repacker of the consumer product in the Philippines; (e) the general make or active ingredients; (f) the net quantity of contents, in terms of weight, measure or numerical count rounded off to at least the nearest tenths in the metric system; (g) the country of manufacture, if imported; and (h) if a consumer product is manufactured, refilled or repacked under license from a principal, the label shall so state the fact. Additional labeling requirements imposed by the Consumer Act for food products include: (a) expiry or expiration date, where applicable; (b) whether the consumer product is semi-processed, fully processed, ready-to-cook, ready-to-eat, prepared food or just plain mixture; (c) nutritive value, if any; and (d) whether the ingredients used are natural or synthetic, as the case may be.

Manufacturers, distributors, importers or re-packers of consumer products are required to indicate in their labels or packaging a parallel translation in the English or Filipino language of the nature, quality, quantity and other relevant prescribed information or instructions of such consumer products in a manner that cannot be easily removed, detached or erased. In addition to the information required to be displayed in the principal and secondary panels, DTI Administrative Order No. 01-08 mandates that all consumer products sold in the Philippines, whether manufactured locally or imported shall indicate and specify the (a) country of manufacture; (b) required information of consumption duration safety; (c) warranty of the manufacturer; (d) weight content prior to packaging; (e) consumer complaint desk address; and (f) all other information necessary for giving effect to a consumer’s right to information.

For alcoholic beverages, the alcohol content in terms of percentage volume or proof units shall be indicated on the label of alcoholic beverages.

The DTI is tasked with implementing the Consumer Act with respect to labels and packaging of consumer products other than food products, and regulates product labeling, proper and correct description of goods, product labels with foreign characters/languages, data/information on product contents and origins and other similar matters. With respect to the packaging and repackaging of food products, such activities are regulated by the DOH and the FDA. Establishments engaged in these activities are required to comply with, among others, the current

guidelines promulgated by the DOH on good manufacturing practice in manufacturing, packing, repacking, or holding food.

In addition, the Consumer Act prohibits the false, deceptive or misleading advertisements and sales promotions and deceptive sales acts and practices in connection with food products. An advertisement shall be false, deceptive or misleading if it is not in conformity with the provisions of the Consumer Act or if it is misleading in any material respect. In determining whether any advertisement is false, deceptive or misleading, there shall be taken into account, among other things, not only representations made or any combination thereof, but also the extent to which the advertisement fails to reveal material facts in the light of such representations, or materials with respect to consequences which may result from the use or application of consumer products or services to which the advertisement relates under the conditions prescribed in said advertisement, or under such conditions as are customary or usual.

Any person found in violation of the provisions of the Consumer Act shall be subject to administrative penalties and/or imprisonment of not less than one year but not more than five years, or a fine of not less than ₱5,000.00 but not more than ₱10,000.00 or both, at the discretion of the court. Should the offense be committed by a juridical person, the chairman of the board of directors, the president, general manager, or the partners and/or the persons directly responsible therefore shall be penalized. Under the Consumer Act, The DOH also has the authority to order the recall, ban, or seizure from public sale or distribution of food products found to be injurious, unsafe or dangerous to the general public.

The Livestock and Poultry Feeds Act

The Livestock and Poultry Feeds Act and its implementing rules and regulations (the “**Livestock and Poultry Feeds Act**”), regulates and controls the manufacture, importation, labelling, advertising and sale of livestock and poultry feeds. The Bureau of Animal Industry (the “**BAI**”) is the governmental office under the DA tasked to implement and enforce the Livestock and Poultry Feeds Act.

Under the Livestock and Poultry Feeds Act, any entity desiring to engage in the manufacture, importation, exportation, sale, trading or distribution of feeds or other feed products must first register with the BAI. There must be a separate registration for each type and location of feed establishment. Furthermore, the Livestock and Poultry Feeds Act provides that no feeds or feed products may be manufactured, imported, exported, traded, advertised, distributed, sold, or offered for sale, or held in possession for sale in the Philippines unless the same has been registered with the BAI. There must also be a separate registration for each type, kind, and form of feed or feed product. Feeds and feed products produced through toll manufacturing shall be registered with the company that owns the same. All commercial feeds must comply with the nutrient standards prescribed by the DA. Registration of feed and feed products and feed establishments is required to be renewed on a yearly basis. The Livestock and Poultry Feeds Act also provides branding, labelling and advertising requirements for feeds and feed products and the establishment of in-house quality control laboratories by manufacturers and traders of feed and feed products. Any person found in violation of the provisions of the Livestock and Poultry Feeds Act shall be subject to administrative penalties or imprisonment or both.

Our feedmills, whether Company-owned and tolled, are all registered with the BAI and we pay monthly inspection fees based on the number of metric tons of feeds produced. We also seek approval from the BAI for brand names and register every new product prior to market launch. To obtain the brand name approval and product registration, we submit a notarized Application for Feed Product Registration, Certificate of Analysis and three copies of feed tags to be inserted in the packaging of the new product. Based on this information, the BAI makes a determination as to whether the new product is within its specifications.

The Meat Inspection Code

The Meat Inspection Code of the Philippines (the “**Meat Inspection Code**”) establishes quality and safety standards for the slaughter of food animals and the processing, inspection, labelling, packaging, branding and importation of meat (including, but not limited to, pork, beef, and chicken meat) and meat products. The NMIS, a specialized regulatory service attached to the DA, serves as the national controlling authority on all matters pertaining to meat and meat product inspection and meat hygiene to ensure meat safety and quality from farm to table. It has the power to accredit meat establishments and exporters, importers, brokers, traders and handlers of meat and meat products. On the other hand, the different local government units, in accordance with existing laws, policies, rules and regulations and quality and safety standards of the DA, have the authority to regulate the

construction, management and operation of slaughterhouses, meat inspection, and meat transport and post-abattoir control within their respective jurisdictions, and to collect fees and charges in connection therewith.

The Meat Inspection Code covers all meat establishments (including, but not limited to, slaughterhouses, poultry dressing plants, meat processing plants and meat shops) where food animals are slaughtered, prepared, processed, handled, packed, stored, or sold. It requires the inspection of food animals before it shall be allowed for slaughter in licensed private slaughterhouses in which meat or meat products thereof are to be sold. A post-mortem examination is also required for carcasses and parts thereof of all food animals prepared as articles of commerce which are capable of use as human food. Only meat or meat products from meat establishments that have passed inspection and have been so marked may be sold or offered for sale to the public.

Said Code also requires all meat establishments to (i) comply with the Animal Welfare Act of 1998 for the adequate protection of food animals awaiting slaughter and all pollution control and environmental laws and regulations relating to the disposal of carcasses and parts thereof; and (ii) adopt Good Manufacturing Practices and Sanitation Standard Operating Procedures programs for the production, storage and distribution of its meat products. Any person found in violation of the provisions of the Meat Inspection Code shall be subject to administrative penalties or imprisonment or both. Furthermore, any carcasses, parts of carcasses or products of carcasses found to have been prepared, handled, packed, stored, transported or offered for sale as human food not in accordance with the provisions thereof shall be confiscated and disposed of at the expense of the person found to be in violation thereof.

The DA requires all operators and/or owners of postharvest meat establishments to subject their facilities for evaluation for the issuance of an LTO by the NMIS.

Our poultry processing plants and livestock slaughter plants, both Company-owned and tolled, are all accredited by NMIS. Since our plants have all been issued an LTO, CPR, and/or Export Commodity Clearance Certificate by the FDA, products from those plants qualify for distribution to any location throughout the Philippines or for export. Plant accreditations are renewed annually following inspection by NMIS for compliance with the Good Manufacturing Practices, Sanitation Standard Operating Procedures and Hazard Analysis and Critical Control Points. NMIS inspectors are also stationed at each of our poultry processing plants and livestock slaughter plants on a daily basis and issue certifications for each batch of products that is shipped from any of those plants.

The Price Act

Republic Act No. 7581 or the Price Act provides for price controls for basic necessities and prime commodities in certain situations, pursuant to the policy of the government to ensure the availability of basic necessities and prime commodities at reasonable prices at all times without denying legitimate business a fair return on investment. Basic necessities include rice, corn, bread, fish, dried and canned fish and other marine products, fresh vegetables, pork, beef, poultry, milk, coffee and cooking oil, salt, laundry soap, detergents, firewood, charcoal, candles and drugs classified as essential by the DOH. Prime commodities include fresh fruits, flour, dried, processed and canned pork, beef and poultry meat, dairy products not falling under basic necessities, noodles, onions, garlic, vinegar, patis, soy sauce, toilet soap, fertilizer, pesticides, herbicides, poultry, swine and cattle feeds, paper, school supplies, electrical supplies, batteries, among others.

Under the Price Act, the prices of basic commodities may be automatically frozen at their prevailing prices or placed under automatic price control whenever:

1. That area is proclaimed or declared as a disaster area or under a state of calamity;
2. That area is declared under emergency;
3. The privilege of the writ of habeas corpus is suspended in that area;
4. That area is placed under martial law;
5. That area is in a state of rebellion or war.

The President of the Philippines may likewise impose a price ceiling on basic necessities and prime commodities in cases of calamities, emergencies, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of sixty days.

The Department of Agriculture (“DA”), DTI, DENR and DOH are the implementing agencies responsible for the enforcement of the Price Act. The implementing government agencies of the Price Act are given the authority

thereunder to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of concerned trade, industry and consumer sectors.

The Price Act considers it unlawful for any person habitually engaged in the production, manufacture, importation, storage, transport, distribution, sale or other methods of disposition of goods to engage in illegal price manipulation of any basic necessity or prime commodity through:

1. Cartels, defined as any combination of or agreement between two or more persons engaged in the production, manufacture, processing, storage, supply, distribution, marketing, sale or disposition of any basic necessity or prime commodity designed to artificially and unreasonably increase or manipulate its price;
2. Hoarding, defined as the undue accumulation by a person or combination of persons of any basic commodity beyond his or their normal inventory levels or the unreasonable limitation or refusal to dispose of, sell or distribute the stocks of any basic necessity or prime commodity to the general public or the unjustified taking out of any basic necessity or prime commodity from the channels of reproduction, trade, commerce and industry; or
3. Profiteering, defined as the sale or offering for sale of any basic necessity or prime commodity at a price grossly in excess of its true worth.

Any person found in violation of the provisions of the Price Act shall be subject to administrative penalties or imprisonment or both.

The Philippine Food Fortification Act

The Philippine Food Fortification Act of 2000 (the “**PFF Act**”) provides for the mandatory fortification of wheat flour, cooking oil and other staple foods and the voluntary fortification of processed food products. The fortification of food products is required to be undertaken by the manufacturers, importers and processors thereof. The FDA is the government agency responsible for the implementation of the PFF Act with the assistance of the different local government units which are tasked under the said law to monitor foods mandated to be fortified which are available in public markets, retail stores and foodservice establishments and to check if the labels of fortified products contain nutrition facts stating the nutrient added and its quantity. Any person in violation of the PFF Act shall be subject to administrative penalties. Furthermore, the FDA may refuse or cancel the registration or order the recall of food products in violation of said law.

All Magnolia-branded products are compliant with the PFF Act. For example, we use iodized salt in Magnolia products to comply with Republic Act No. 8172 (An Act for Salt Iodization Nationwide).

For wheat flour, the addition of Vitamin A and Iron are mandated under standards set by the DOH. Our flour business has been compliant with the requirements of the PFF Act since 2004.

Government Regulations on the Manufacture and Wholesale of Alcoholic Beverages

Beverages are included in the definition of “food” and are within the coverage of the Food Safety Act. An LTO and other requirements specified in the Food Safety Act and its implementing rules and regulations are likewise necessary for establishments engaged in the manufacturing, importation, exportation, sale, offer for sale, distribution, transfer, use, testing, promotion, advertisement, and/or sponsorship of alcoholic beverages. Alcoholic beverages have been classified by the FDA as low risk food products in based on the Codex Alimentarius General Standard for Food Additives and the UN Food and Agriculture Organization Risk Categories. Food establishments classified as high risk are prioritized for inspection by the FDA.

REGULATION RELATING TO THE PACKAGING BUSINESS

Safety and Quality Regulations under the Consumer Act

The DTI is tasked to implement the Consumer Act with respect to labels and packaging of consumer products other than food products, and regulates product labeling, proper and correct description of goods, product labels with foreign characters/languages, data/information on product contents and origins and other similar matters.

Manufacturers, distributors, importers or repackers of consumer products are required to indicate in their labels or packaging, a parallel translation in the English or Filipino language of the nature, quality and quantity and other

relevant prescribed information or instructions of such consumer products in a manner that cannot be easily removed, detached or erased. In addition to the information required to be displayed in the principal and secondary panels, DTI Administrative Order No. 01-08 mandates that all consumer products sold in the Philippines, whether manufactured locally or imported shall indicate and specify the (i) country of manufacture; (ii) required information of consumption duration safety; (iii) warranty of the manufacturer; (iv) weight content prior to packaging; (v) consumer complaint desk address; and (vi) all other information necessary for giving effect to a consumer's right to information.

The packaging of consumer products must not cause the purchaser to be deceived as to the contents, size, quantity, measurement or fill of the product. For consumer products which are packaged in such a way that the contents cannot be seen or inspected upon purchase, samples or labeling describing the product inside the package, in words, in pictorial or graphical representation or by similar means, shall be provided for the inspection of the purchaser. Such sample or description should accurately represent the product in the package.

With respect to the packaging and repackaging of food products, such activities are regulated by the DOH and the FDA as discussed above. Establishments engaged in these activities are required to comply with, among others, the current guidelines on good manufacturing practice in manufacturing, packing, repacking, or holding food promulgated by the DOH.

REGULATION RELATING TO THE FUEL AND OIL BUSINESS

Oil Deregulation Act

The Oil Deregulation Act provides the regulatory framework for the downstream oil industry of the country.

Under the Oil Deregulation Act, any person or entity may import or purchase any quantity of crude oil and petroleum products from foreign or domestic sources, lease or own and operate refineries and other downstream oil facilities, and market such crude oil and petroleum products either in a generic name or in its own trade name, or use the same for its own requirement, provided that, among others such person or entity complies with certain requirements such as giving of prior notice to the DOE for monitoring purposes. The same law declared as policy of the state the liberalization and deregulation of the downstream oil industry in order to ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally clean and high-quality petroleum products.

To ensure the attainment of these objectives, the DOE, in consultation with relevant government agencies, promulgated the Implementing Rules and Regulations of the Oil Deregulation Act on March 11, 1998 through Department Circular No. 98-03-004. The rules require any person or entity engaged in any activity in the downstream oil industry to comply with the notice, reportorial, quality, health, safety and environmental requirements set forth therein.

The DOE is the leading Philippine government agency overseeing the oil sector. With the enactment of the Oil Deregulation Act, the regulatory functions of the DOE were significantly reduced. Deregulating the downstream oil industry effectively removed the rate-setting function of the then Energy Regulatory Board, leaving price-setting to market forces. The current function of the DOE is solely to monitor prices and violations under the law, which includes prohibited acts such as cartelization and predatory pricing.

Other functions of the DOE under the Oil Deregulation Act include the following:

- monitoring and publishing the daily international crude oil prices, following the movements of domestic oil prices, monitoring the quality of petroleum and stopping the operation of businesses involved in the sale of petroleum products which do not comply with national standards of quality;
- monitoring the refining and manufacturing processes of local petroleum products to ensure clean and safe technologies are applied;
- maintaining a periodic schedule of present and future total industry inventory of petroleum products to determine the level of supply;
- immediately acting upon any report from any person of an unreasonable rise in prices of petroleum products; and
- in times of national emergency, when the public interest so requires, during the emergency and under reasonable terms, temporarily taking over or directing the operations of any person or entity engaged in the industry.

Promotion of Retail Competition

In November 2017, the DOE promulgated Department Circular No. DC 2017-11-011, or the Revised Rules and Regulations Governing the Business of Retailing Liquid Petroleum Products, (the “**Revised Retail Rules**”). The Revised Retail Rules apply to all persons engaged or intending to engage in the business of retailing liquid fuels such as gasoline, diesel, and kerosene.

A person intending to engage in the business of retailing liquid petroleum products must notify the Oil Industry Management Bureau (“**OIMB**”) of its intention to engage in such activity and, upon compliance with the requirements under the Revised Retail Rules, secure a certificate of compliance (“**Certificate of Compliance**”) from the OIMB. The certificate shall be valid for a period of five years. The owner or operator of a retail outlet shall be deemed to be engaged in illegal trading of liquid petroleum products if such owner or operator operates a retail outlet without a Certificate of Compliance. Storage and dispensing of liquid fuels that are for own-use operation shall not be covered by the Revised Retail Rules only upon issuance of a Certificate of Non-Coverage by the DOE.

The Revised Retail Rules likewise imposes: (i) mandatory standards and requirements for new retail outlets and minimum facility requirements for existing retail outlets; (ii) rules and procedures relating to fuel storage, handling, transfer and/or dispensing of liquid fuels; (iii) requirements of other types of retail outlets; (iv) the conduct of inspection and monitoring by the OIMB; (v) rules and procedures relating to liquid fuels quantity and quality; and (vi) fines and/or sanctions against prohibited acts.

Liquid petroleum products dispensed at retail outlets must comply with the Philippine National Standards. Prohibited acts include illegal trading, adulteration, underdelivering, refusal/ obstruction of inspection and sampling, hoarding, and continuing to operate after an order or notice of cessation of operation has been issued by the DOE. The refusal of inspection shall constitute prima facie evidence of the commission of prohibited acts under the Revised Retail Rules.

LPG Laws and Regulations

B.P. 33

B.P. 33, as amended by PD 1865, provides for certain prohibited acts inimical to public interest and national security involving petroleum and/or petroleum products. These prohibited acts include, among others, (i) illegal trading in petroleum and/or petroleum products, and (ii) underdelivery or underfilling beyond authorized limits in the sale of petroleum products or possession of underfilled LPG cylinder for the purpose of sale, distribution, transportation, exchange or barter. For this purpose, the existence of the facts hereunder gives rise to the following presumptions:

- a. That cylinders containing less than the required quantity of LPG which are not properly identified, tagged and set apart and removed or taken out from the display area and made accessible to the public by marketers, dealers, sub-dealers or retail outlets are presumed to be for sale;
- b. In the case of a dispensing pump in a petroleum products retail outlet selling such products to the public, the absence of an out-of-order sign, or padlocks, attached or affixed to the pump to prevent delivery of petroleum products therefrom shall constitute a presumption of the actual use of the pump in the sale or delivery of such petroleum products; and
- c. When the seal, whether official or of the oil company, affixed to the dispensing pump, tank truck or LPG cylinder, is broken or is absent or removed, it shall give rise to the presumption that the dispensing pump is underdelivering, or that the LPG cylinder is underfilled, or that the tank truck contains adulterated finished petroleum products or is underfilled.

The use of such pumps, cylinders or containers referred to in sub-paragraph (a), (b), and (c) above, to deliver products for sale or distribution shall constitute prima facie evidence of intent of the hauler, marketer, refiller, dealer or retailer outlet operator to defraud.

Under the said law, "illegal trading in petroleum and/or petroleum products" is understood to mean, among others, (1) the sale or distribution of petroleum products without license or authority from the OIMB, (2) non-issuance of receipts by licensed oil companies, marketers, distributors, dealers, subdealers and other retail outlets, to final

consumers; provided: that such receipts, in the case of gas cylinders, shall indicate therein the brand name, tare weight, gross weight, and price thereof, (3) refilling of LPG cylinders without authority from the Oil Industry Management Bureau, or refilling of another cylinders of a company or firm without written authorization of such Company or Firm, and (4) marking or using in such cylinders a tare weight other than the actual or true tare weight thereof.

“Underfilling” or “underdelivery” refers to a sale, transfer, delivery or filling of petroleum products of a quantity that is actually beyond authorized limits than the quantity indicated or registered on the metering device of container. This refers, among others, to the quantity of petroleum retail outlets or to LPG in cylinder or to lube oils in packages.

R.A. 9514 - IRR

The Implementing Rules and Regulations of Republic Act No. 9514 or the Fire Code of 2008 also outlines requirements for storage and handling of LPG by outside bulk LPG stores and filling stations and the transportation of LPG which require among others, that during the unloading or transfer of LPG, the tank truck shall be located or parked clear of a public thoroughfare, unless the failure to transfer would create a hazard or it is impossible due to topography.

LPG Industry Rules

In January 2014, the DOE issued Department Circular 2014-01-0001, or the Rules and Regulations Governing the Liquefied Petroleum Gas Industry (the “**LPG Industry Rules**”). The LPG Industry Rules apply to all persons engaged or intending to engage in the business of importing, refining, refilling, marketing, distributing, handling, storing, retailing, selling and/or trading of LPG.

A Standards Compliance Certificate (“**SCC**”) from the OIMB is required before engaging in any LPG Industry Activity. The SCC is valid for a maximum of three (3) calendar years from date of issue and may be renewed. LPG Industry participants must also submit certain reports to the OIMB.

The LPG Industry Rules also imposes (i) minimum standards and requirements for refilling and transportation of LPG; (ii) qualifications and responsibilities for LPG Industry participants such as bulk suppliers, refillers, marketers, dealers, and retail outlets.

Brand owners whose permanent mark appears on the LPG cylinder are presumed under the rules as the owner thereof, irrespective of their custody, and shall ensure that its cylinders comply with all required quality and safety standards. The owner of the cylinders is also required to secure product liability insurance for any liability that may result from an unsafe condition of LPG cylinders.

Rules Pertinent to Auto-LPG Motor Vehicles

On February 13, 2007, the DOE issued DOE Circular No. DC 2007-02-0002 entitled “Providing for the Rules and Regulations Governing the Business of Supplying, Hauling, Storage, Handling, Marketing and Distribution of Liquefied Petroleum Gas for Automotive Use” (the “**Auto-LPG Rules**”). The Auto-LPG Rules govern the business of supplying, hauling, storage, handling, marketing and distribution of LPG for automotive use.

Under the rules, an Auto-LPG Industry Participant is required to secure from the DOE through the OIMB, an SCC before it can operate. The Auto-LPG also mandates all participants to observe a code of practice consisting of operational guidelines and procedures to ensure the safe operation in the auto LPG business. Illegal trading, adulteration and hoarding are likewise prohibited. Under the Auto-LPG Rules, the following shall constitute prima facie evidence of hoarding: (i) the refusal of Auto-LPG Dispensing Stations to sell LPG products for automotive use shortly before a price increase or in times of tight supply, and in both instances if the buyer or consumer has the ability to pay in cash for the product; (ii) the undue accumulation of Auto-LPG Dispensing Stations of LPG products for automotive use in times of tight supply or shortly before a price increase. For purposes of this Auto LPG Rules, “undue accumulation” shall mean the keeping or stocking of quantities of LPG products for automotive use beyond the inventory levels as required to be maintained by the Auto-LPG Dispensing Stations, for a period of thirty (30) days immediately preceding the period of tight supply or price increase.

The Land Transportation Office (“**LTO**”) also issued Memorandum Circular No. RIB-2007-891 or the “Implementing Rules and Regulations in the Inspection and Registration of Auto-LPG Motor Vehicles”. The

Circular requires the device for the use of LPG as fuel by any motor vehicle to be installed only by the conversion/installing shop duly certified by the Bureau of Product and Standards (“BPS”) of the DTI under its Philippine Standards Certification Mark (“PS Mark”) scheme. The converted vehicle shall be subjected to an annual maintenance and inspection by the BPS certified conversion/installing shop. The BPS certified conversion/installing shop shall issue a corresponding Certificate of Inspection and Maintenance Compliance (“CIMC”).

Oil Pollution Compensation Act of 2007

Republic Act No. 9483, otherwise known as the Oil Pollution Compensation Act of 2007, imposes strict liability on the owner of the ship for any pollution damage caused within the Philippine territory. Pollution damage is the damage caused outside the ship by contamination due to the discharge of oil from the ship, as well as, the cost of preventive measures to protect it from further damage.

The law also provides that any person who has received more than 150,000 tons of “contributing oil” (as explained below) in a calendar year in all ports or terminal installations in the Philippines through carriage by sea shall pay contributions to the International Oil Pollution Compensation Fund in accordance with the provisions of the 1992 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage. For this purpose, “oil” includes any persistent hydrocarbon mineral oil such as crude oil, fuel oil, heavy diesel oil and lubricating oil, whether carried on board a ship as cargo or in bunkers of such a ship.

A person shall be deemed to have received “contributing oil,” for purposes of determining required contributions, if he received such oil from another country or from another port or terminal installation within the Philippines, notwithstanding that this oil had already been previously received by him. Where the quantity of contributing oil received by any person in the Philippines in a calendar year, when aggregated with the quantity of contributing oil received in the Philippines in that year by such person’s subsidiaries or affiliates, exceeds 150,000 tons, such person, including its subsidiaries and affiliates, shall pay contributions in respect of the actual quantity received by each, notwithstanding that the actual quantity received by each did not exceed 150,000 tons. Persons who received contributing oil are required to report the quantity of such oil received to the DOE. Contributing oil means crude oil and fuel oil as defined under Republic Act No. 9483.

Republic Act No. 9483 provides for the establishment of a fund to be constituted from, among others, an impost amounting to ten centavos per liter levied on owners and operators and tankers and barges hauling oil and/or petroleum products in Philippine waterways and coast wise shipping routes. This new fund, named the Oil Pollution Management Fund, will be in addition to the requirement under the 1992 Civil Liability Convention and 1992 Fund Convention and will be administered by the Maritime Industry Authority (“MARINA”).

In April 2016, the Department of Transportation and Communications (now the DOTr) promulgated the implementing rules and regulations of Republic Act No. 9483. Under the rules, oil companies are required to submit (a) reports on the amount of contributing oil received and (b) sales and delivery reports of persistent oil.

Other Regulatory Requirements

Petroleum products are subject to Philippine National Standards specifications. The DTI, through the Bureau of Products Standards, ensures that all products comply with the specifications of the Philippine National Standards.

Philippine government regulations also require the following: fire safety inspection certificates; certificates of conformance of facilities to national or accepted international standards on health, safety and environment; product liability insurance certificates or product certificate of quality; and the ECC issued by the DENR for service stations and for environmentally-critical projects. Reports to the DOE are required for the following activities/projects relating to petroleum products: (a) refining, processing, including recycling and blending; (b) storing/transshipment; (c) distribution/ operation of petroleum carriers; (d) gasoline stations; (e) LPG refilling plant; (f) bunkering from freeports and special economic zones; and (g) importations of petroleum products and additives. In addition, importations of restricted goods require clearances from the proper Philippine government authorities.

Other Relevant Tax-related Regulations

Taxes and duties applicable to the oil industry have had periodic and unpredictable changes over the last several years. The import duty on crude oil was increased on January 1, 2005 from 3.0% to 5.0% but was later reduced to 3.0% effective as of November 1, 2005.

Under Executive Order No. 527 dated May 12, 2006, upon certification by the DOE that the trigger price levels provided therein have been reached, the 3.0% import duty on crude oil shall be adjusted to 2.0%, 1.0% or 0%. Subsequently, Executive Order No. 850, which took effect on January 1, 2010, modified the rates of duty on certain imported articles in order to implement the Philippines' commitment to eliminate tariffs on certain products under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area. Under the ASEAN Trade in Goods Agreement, crude oil and refined petroleum products imported from ASEAN Member States are levied zero rates. To address the tariff distortion between ASEAN and non-ASEAN Member States brought about by the implementation of the zero duty under Executive Order No. 850 and to provide a level playing field for local refiners to compete with importers, the President of the Philippines issued Executive Order No. 890, which also imposed zero duty effective as of July 4, 2010 for imported crude oil and refined petroleum products, except certain types of aviation gas, from Non-ASEAN Member States.

Republic Act No. 9337, also known as the "Expanded VAT Law", imposed a VAT of 10.0% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was increased to 12.0% effective February 1, 2006. The Expanded VAT Law also limited the input VAT tax credit to only 70.0% of the output VAT. Subsequently, however, Republic Act No. 9361, which was approved on November 21, 2006, removed the 70.0% ceiling on the credit of input VAT to output VAT. As of November 1, 2005, the implementation date of the Expanded VAT Law, excise taxes on diesel, bunker fuel and kerosene were lifted and excise taxes for regular gasoline were lowered to ₱4.35 per liter of volume capacity. In February 2012, the BIR issued Revenue Regulation No. 2-2012 stating that VAT and excise taxes due on all petroleum and petroleum products that are imported and/or brought from abroad to the Philippines, including from the freeport and economic zones shall be paid by the importer to the Bureau of Customs.

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, among others, increasing excise tax rates of petroleum products. Excise tax rates on gasoline products were increased from ₱4.35 per liter to ₱7.00 per liter effective January 1, 2018, ₱9.00 per liter on January 1, 2019 and ₱10.00 per liter in January 1, 2020. Diesel and bunker fuel products which were previously not subject to excise taxes were imposed excise taxes at ₱2.50 per liter effective January 1, 2018 and increased further to ₱4.50 per liter on January 1, 2019 and ₱6.00 per liter on January 1, 2020.

Also, in compliance with the TRAIN, the Philippine government intends to implement a Philippine Fuel Marking Program in 2019 to mark imported and refined petroleum products such as gasoline, diesel and kerosene to ensure that all downstream fuels are tax and duty paid. Under the latest advisory of the Department of Finance, the Fuel Marking fee will be paid by the government to the Fuel Marking Service Provider for the first year of implementation. For the second to fifth year of implementation, said fee shall be borne by petroleum companies on top of duties and taxes to be collected by the Bureau of Customs or the BIR.

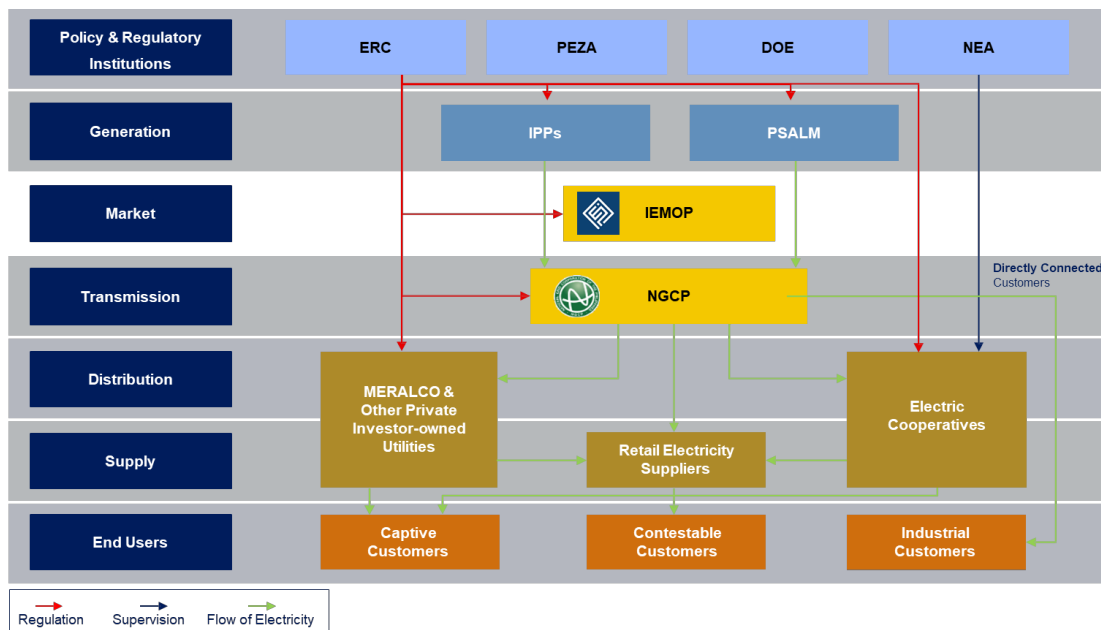
Republic Act No. 9136, or the EPIRA, provides for parity tax treatment among imported oil and indigenous fuels. Prior to the enactment of this law, indigenous fuels were imposed with higher taxes due to royalties to the Philippine government.

REGULATION RELATING TO THE ENERGY BUSINESS

Organization and Operation of the Power Industry

Republic Act No. 9136 or the EPIRA established a framework for the organization, operation and restructuring of the electric power industry, with the industry divided into four sectors: generation, transmission, distribution and supply. The following diagram shows the current structure of the electric power industry under the EPIRA.

Industry structure under the EPIRA:



Through the EPIRA, the Government instituted major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

- to ensure and accelerate the total electrification of the country;
- to ensure the quality, reliability, security and affordability of the supply of electric power;
- to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
- to enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors;
- to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
- to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
- to assure socially and environmentally compatible energy sources and infrastructure;
- to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
- to provide for an orderly and transparent privatization of the assets and liabilities of NPC;
- to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
- to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the DOE, in consultation with the relevant Government agencies, electric power industry participants, non-Government organizations and electricity consumers, promulgated the IRR of the EPIRA on February 27, 2002 (subsequently amended in 2007).

The IRR governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular Governmental authorities involved in implementing the structural reforms in the industry, including, but not limited to, the DOE, NPC, NEA, ERC and PSALM.

Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (i) the generation sector; (ii) the transmission sector; (iii) the distribution sector; and (iv) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission sector will be a regulated common electricity carrier business and the distribution sector will be a regulated common carrier business requiring a national franchise, thus both the transmission and distribution sectors will be regulated as public utilities. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

The Generation Sector

Under the EPIRA, power generation per se is not a public utility operation. Thus, generation companies are not required to secure congressional franchises, and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, generation companies must obtain a certificate of compliance from the ERC, as well as health, safety and environmental clearances from appropriate Government agencies under existing laws. Furthermore, PPAs and PSAs between generation companies and distribution utilities are subject to the review and approval of the ERC. Generation companies are also subject to the rules and regulations of the ERC on abuse of market power and anticompetitive behavior. In particular, the ERC has the authority to impose price controls, issue injunctions, require divestment of excess profits and impose fines and penalties for violation of the EPIRA and the IRR policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for bilateral contracts with various RESs, electric cooperatives and private distribution utilities, or through spot sale transactions in the WESM. With the implementation of RCOA in Luzon and Visayas, generation companies are already able to sell electricity to eligible end-users. “Open Access” is defined under the IRR as the system of allowing any qualified person the use of electric power transmission and distribution systems; while “Retail Competition” is defined as the provision of electricity to a contestable market (which, under prevailing regulations, refer to electricity end-users with monthly average peak demand of at least 500 KW) by persons licensed by the ERC to engage in the business of supplying electricity end-users through Open Access.

Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. With the commencement of the RCOA, generation rates, except those intended for such end-users who may not choose their supplier of electricity (the “**Captive Market**”), ceased to be regulated.

The generation sector converts fuel and other forms of energy into electricity. It consists of the following: (i) NPC-owned-and-operated generation facilities; (ii) NPC-owned plants, which consist of plants operated by IPPs, as well as IPP-owned-and-operated plants, all of which supply electricity to NPC; and (iii) IPP-owned-and-operated plants that supply electricity to customers other than NPC.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to RESs through either bilateral contracts or the WESM as described below. With the implementation of RCOA on December 26, 2013, as supplemented by DOE Department Circular No. DC2015-06-0010, generation companies may likewise sell electricity to eligible end-users with an average monthly peak demand of 750 KW and certified by the ERC to be contestable customers. In 2016, the ERC issued the implementing rules governing the issuance and renewal of licenses to RESs and the rules governing contestability of qualified end-users (collectively, the “**ERC RES Rules**”). However, in February 2017, the Philippine Supreme Court, acting on the petition filed by certain entities, issued a temporary restraining order enjoining the DOE and the ERC from implementing the rules and regulations implementing the RCOA, including the ERC RES Rules.

As of the date of this Prospectus, the temporary restraining order has not been lifted. In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in RCOA.

Subsequently, the DOE issued DC 2019-07-11 (Amending Various Issuances on the Implementation of the RCOA), which provides that contestable customers may voluntarily register as a trading participant in the WESM and that it shall source its electricity supply requirements from ERC-licensed/authorized suppliers.

The generation sector must observe the Market Share Limitations set in the EPIRA which states that no generation company or related group is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas or Mindanao Grids and/or 25% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the effectivity of the said Act. References to total installed generating capacity of SMC Global Power Holdings Corp. based on ERC Resolution No. 05, Series of 2019 dated June 2019 have been adjusted to include 150 MW generating capacity from the commencement of commercial operations of Limay Greenfield Power Plant Unit 4 in July 2019.

Historically, the generation sector has been dominated by NPC. To introduce and foster competition in the sector, and, more importantly, to lessen the debt of NPC, the EPIRA mandates the total privatization of the generation assets and IPP contracts of NPC, which exclude the assets devoted to missionary electrification through the small power utilities group of NPC. NPC is directed to transfer ownership of all the assets for privatization to a separate entity, PSALM, which is specially tasked to manage the privatization. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by NPC.

Based on latest available data from PSALM, PSALM has privatized 23 operating/generating power facilities and four decommissioned power facilities, with a total gross capacity of 4,601.43 MW. Moreover, additional seven power plants with total gross capacity of over 3,600 MW were privatized through IPPA contracts. Major generation assets sold include the 748 MW Tiwi-Makban geothermal power plant, the 600 MW Batangas (Calaca) coal-fired thermal power plant, the 600 MW Masinloc coal fired power plant, the 620 MW Limay combined cycle power plant, 360 MW Magat hydroelectric power plant, and the 305 MW Palinpinon-Tongonan geothermal power plant. Among the capacities privatized through IPPA Agreements include the 92.52 MW Mindanao I and II (Mt. Apo 1 and 2) geothermal power plants, 1,000 MW Sual coal-fired power plant, the 700 MW Pagbilao coal-fired power plant, the 345 MW of the San Roque Power Plant, the 70 MW Bakun hydroelectric power plant, the 200 MW Unified Leyte Geothermal Power Plant, and the 1,200 MW Ilijan combined-cycle gas-fired power plant. In 2018, PSALM also commenced the privatization of the 650 MW Malaya thermal power plant in Rizal and the 210 MW Mindanao coal-fired plant in Misamis Oriental.

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP contracts that have not been disposed of by PSALM.

Generation companies which are not publicly listed are required to offer and sell to the public a portion of not less than 15% of their common shares of stock. Under prevailing regulations, any offer of common shares of stock for sale to the public through any of the following modes shall be deemed as public offering:

- listing in the PSE;
- a public offering undertaken in accordance with the Securities Regulation Code and its implementing rules and regulations; and
- listing in any accredited stock exchange or direct offer of a portion of registered enterprises' capital stock to the public and/or their employees, when deemed feasible and desirable by the BOI.

The Transmission Sector

Pursuant to the EPIRA, NPC has transferred its transmission and sub-transmission assets to TransCo, which was created pursuant to the EPIRA to assume, among other functions, the electrical transmission function of the NPC. The principal function of TransCo is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code ("**Grid Code**"). TransCo is also mandated to provide open and non-discriminatory access to its transmission system to all electricity users.

The transmission of electricity through the transmission grid is subject to transmission wheeling charges. As the transmission of electric power is a regulated common carrier business, TransCo's transmission wheeling charges are subject to regulation and approval by the ERC.

The EPIRA also requires the privatization of TransCo through an outright sale of, or the grant of, a concession over the transmission assets while the sub-transmission assets of TransCo are to be offered for sale to qualified distribution utilities. In December 2007, NGCP, comprising a consortium of Monte Oro Grid Resources, Calaca High Power Corporation and State Grid Corporation of China, won the concession contract to operate, maintain and expand the TransCo assets with a bid of U.S.\$3.95 billion. On January 15, 2009, NGCP was officially granted the authority to operate the sole transmission system of the country pursuant to a legislative franchise granted by the Philippine Congress under Republic Act No. 9511.

The Grid Code establishes the basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the Philippine Grid, or the high-voltage backbone transmission system and its related facilities. The Grid Code identifies and provides for the responsibilities and obligations of three key independent functional groups, namely: (a) the grid owner, or TransCo; (b) the system operator, or NGCP as the current concessionaire of TransCo; and (c) the market operator, or the PEMC. These functional groups, as well as all users of the grid, including generation companies and distribution utilities, must comply with the provisions of the Grid Code as promulgated and enforced by the ERC.

In order to ensure the safe, reliable and efficient operation of the Philippine Grid, the Grid Code provides for, among others, the following regulations:

- the establishment of a grid management committee, which is tasked with the monitoring of the day-to-day operations of the grid;
- performance standards for the transmission of electricity through the grid, as well as the operation and maintenance thereof, which standards shall apply to TransCo, NGCP, distribution utilities and suppliers of electricity; and
- technical and financial standards and criteria applicable to users of the grid, including generation companies and distribution utilities connected or seeking to connect thereto; and other matters relating to the planning, management, operation and maintenance of the grid.

The Distribution Sector

The distribution of electric power to end-users may be undertaken by private distribution utilities, cooperatives, local Government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from the Philippine congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a certificate of public convenience and necessity from the ERC to operate as public utilities. Based on the latest available data from the DOE, there are 26 private distribution utilities and 124 electric cooperatives in the Philippines.

They are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code (“**Distribution Code**”) (which provides the rules and regulations for the operation and maintenance of distribution systems), the Distribution Services and Open Access Rules and the performance standards set out in the IRR of the EPIRA.

The distribution sector is regulated by the ERC, with distribution wheeling charges, as well as connection fees from its consumers, subject to ERC approval. The retail rate imposed by distribution utilities for the supply of electricity to its captive consumers is also subject to ERC approval. In addition, as a result of the policy of the Government in promoting free competition and Open Access, distribution utilities are now required to provide universal and non-discriminatory access to their systems within their respective franchise areas following commencement of the RCOA.

The Distribution Code establishes the basic rules and procedures that govern the operation, maintenance, development, connection and use of the electric distribution systems in the Philippines. The Distribution Code defines the technical aspects of the working relationship between the distributors and all the users of the distribution system, including distribution utilities, embedded generators and large customers. All such electric power industry participants in distribution system operations are required to comply with the provisions of the Distribution Code as promulgated and enforced by the ERC.

To ensure the safe, reliable and efficient operation of distribution systems in the Philippines, the Distribution Code provides for, among others, the following regulations:

- technical, design and operational criteria and procedures to be complied with by any user who is connected or seeking connection to a distribution system;
- performance and safety standards for the operation of distribution systems applicable to distributors and suppliers; and
- other matters relating to the planning, development, management, operation and maintenance of distribution systems.

The Supply Sector

The supply of electricity refers to the sale of electricity directly to end-users. The supply function used to be undertaken largely by franchised distribution utilities. However, with the commencement of the RCOA, the supply function has become competitive. The retail supply business is not considered a public utility operation and suppliers are not required to obtain franchises. However, the supply of electricity to a market of end-users who have a choice on their supplier of electricity is considered a business affected with public interest. As such, the EPIRA requires all RESs to obtain a license from the ERC and they are subject to the rules and regulations of the ERC on the abuse of market power and other anti-competitive or discriminatory behavior.

A RES may only sell up to 50% of its total capacity to all of its end-user affiliates.

With the RCOA already implemented, a RES license will allow a generation company to enter into retail electricity supply agreements with contestable customers. This will encourage competition at the retail level and it is planned that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

The following table summarizes the power supply and demand highlights in the Philippines for 2018 based on data from the DOE:

Grid	Installed capacity (MW)	Dependable capacity (MW)	Available capacity (MW)	Peak demand (MW)
Luzon	16,549	14,973	11,444	10,876
Visayas	3,450	3,000	2,411	2,053
Mindanao	3,815	3,269	2,373	1,853
Philippines	23,815	21,241	16,601	14,782

Role of the ERC

The ERC is the independent, quasi-judicial regulatory body created under the EPIRA that replaced the Energy Regulatory Board. The ERC plays a significant role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

- to determine, fix and approve, after conducting public hearings, transmission and distribution wheeling charges and retail rates and to fix and regulate the rates and charges to be imposed by distribution utilities on their captive end-users, as well as the universal charge to be imposed on all electricity end-users, including self-generating entities;
- to grant, revoke, review or modify the certificates of compliance required of generation companies and the licenses required of suppliers of electricity in the contestable market;
- to enforce the Grid Code and Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;

- to enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator and other WESM participants to ensure a greater supply and rational pricing of electricity;
- to ensure that the electric power industry participants and NPC functionally and structurally unbundled their respective business activities and rates and to determine the levels of cross-subsidies in the existing and retail rates until the same is removed in accordance with the different sectors;
- to set a lifeline rate for marginalized end-users;
- to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
- to determine the electricity end-users comprising the contestable and Captive Markets;
- to fix user fees to be charged by TransCo/NGCP for ancillary services to all electric power industry participants or self-generating entities connected to the grid;
- to monitor and adopt measures to discourage or penalize abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant;
- to review and approve the terms and conditions of service of TransCo/NGCP and any distribution utility or any changes therein;
- to perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry; and
- to have original and exclusive jurisdiction over all cases that involve the contesting of rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy industry relating to the foregoing powers, functions and responsibilities except cases which involve abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant.

Role of the DOE

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- ensuring the reliability, quality and security of the supply of electric power;
- exercise of supervision and control over all Government activities pertaining to energy projects;
- encouragement of private investment in the power industry and promotion of the development of indigenous and renewable energy sources for power generation;
- facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;
- promotion of a system of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- education of the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
- establishment of the WESM in cooperation with electric power industry participants, and formulating rules governing its operations.

Role of the Joint Congressional Power Commission

The Joint Congressional Power Commission created pursuant to the EPIRA consists of 14 members selected from the members of the Philippine senate and house of representatives. Its responsibilities and functions include, among others, the following:

- monitoring and ensuring the proper implementation of the EPIRA;
- endorsement of the initial privatization plan of PSALM for approval by the President of the Philippines;
- ensuring transparency in the public bidding procedures adopted for the privatization of the generation and transmission assets of NPC;
- evaluation of the adherence of industry participants to the objectives and timelines under the EPIRA; and
- determination of inherent weaknesses in the EPIRA and recommend necessary remedial legislation or executive measures.

Competitive Market Devices

WESM

The EPIRA mandates the establishment of the WESM, which is a pre-condition for the implementation of the RCOA, within one year from its effectivity. The WESM provides a venue whereby generators may sell power, and at the same time, suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two.

The rules and regulations of WESM set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each time (hourly) trading period. These rules also provide for a mechanism for setting electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On November 18, 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM and was tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules. Its primary purpose is to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale purchase of electricity and ancillary services in the Philippines in accordance with relevant laws, rules and regulations.

The WESM commercial operations in the Luzon Grid started on June 26, 2006. The Visayas Grid was integrated into the WESM on December 26, 2010.

As of June 2017, there were 260 wholesale membership participants and 946 retail membership entities registered at the WESM based on its 2017 Annual Report.

The PEMC and the Independent Electricity Market Operator of the Philippines Inc. (“**IEMOP**”) have executed an operating agreement to formalize the transfer of all functions, assets and liabilities associated with market operations from the PEMC to the IEMOP effective September 26, 2018. With the signing of the operating agreement, the IEMOP is poised to take over the market operations of the WESM, a function that is currently performed by the PEMC. Republic Act No. 9136 requires the PEMC to divest itself of this function in favor of a separate entity that is independent of the market participants. To comply with the requirement, on February 6, 2018, the market participants and the DOE Secretary approved the transition plan calling for the formation of an independent market operator and the transfer of the market operation functions to it. The IEMOP is a non-stock, non-profit corporation led by a board of directors, all of whom are independents and do not have any interest or connection to the WESM participants, that was incorporated and organized to implement the plan. Beginning on September 26, 2018, the IEMOP has been running the electricity market and, among other things, managing the registration of market participants, receiving generation offers, announcing market prices, dispatching schedules

of the generation plants and handling billing, settlement and collections. Under the policy and regulatory oversight of the DOE and the ERC, the PEMC has remained as the governing body for the WESM to monitor compliance by the market participants with the market rules.

WESM in Mindanao

In anticipation of the increase of supply condition in Mindanao, the DOE, through DOE Circular DC2017-05-0009, has declared the launch of the WESM. Similar to the operations in Luzon and Visayas, WESM's primary function is to be the venue for efficient scheduling, dispatch, and settlement of energy withdrawal and injections in the Mindanao Grid.

The PEMC has already initiated some preparatory activities in the upcoming WESM in Mindanao. During the first quarter of 2017, PEMC have conducted a series of public consultations. The WESM Trial Operation Program has started last June 26, 2017 where its objective is to familiarize all Mindanao participants in the implementation of the WESM. Commercial operations of WESM in Mindanao will commence upon compliance with certain criteria set out in DOE Circular DC2017-05-0009.

RCOA

The EPIRA likewise provides for a system of Open Access on transmission and distribution wires, whereby TransCo/NGCP and distribution utilities may not refuse the use of their wires by qualified persons, subject to the payment of distribution wheeling charges. The full commercial operation of RCOA in Luzon and Visayas commenced on June 26, 2013 with a total of 275 registered participants. Conditions for the commencement of such Open Access system are as follows:

- establishment of the WESM;
- approval of unbundled transmission and distribution wheeling charges;
- initial implementation of the cross-subsidy removal scheme;
- privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPPAs.

On June 6, 2011, pursuant to Resolution No. 10, Series of 2011, the ERC declared December 26, 2011 as the "Open Access Date" to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas. Accordingly, all electricity-end users with an average monthly peak demand of one MW for the 12 months preceding the Open Access Date, as certified by the ERC to be contestable customers, shall have the right to choose their own electricity suppliers.

To ensure smooth transition from the existing structure to RCOA, the ERC promulgated Resolution No. 16, Series of 2012, providing for a transition period from December 26, 2012 until June 25, 2013. However, the ERC effectively extended the transition period when it issued Resolution No. 11, Series of 2013, which allowed contestable customers to stay with their current distribution utility until December 25, 2013, or until such time that they were able to find a RES provided that it promptly informs the distribution utility of such fact. On June 19, 2015, the Department of Energy promulgated Department Circular No. DC2015-06-0010, which mandated contestable customers to secure their RSCs by June 25, 2016, including contestable customers with an average demand of 750 KW to 999 KW for the 12-month period preceding June 25, 2016.

With the implementation of the RCOA, the contestable markets (i.e., under prevailing regulations, electricity end-users with monthly average peak demand of at least 500 KW) may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. Likewise, certain end-users will be allowed to directly source power through the WESM or by entering into contracts with generation companies. This will encourage competition at the retail level and it is anticipated that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

With the implementation of the RCOA, certain contracts entered into by utilities and suppliers may potentially be stranded. Stranded contract cost refers to the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Under the EPIRA, recovery of stranded contract cost may be allowed provided that such contracts were approved by the Energy Regulatory Board (now the ERC) as of December 31, 2000.

As of the date of this Prospectus, the temporary restraining order has not been lifted. In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in the RCOA.

Subsequently, the DOE issued DC 2019-07-11 (Amending Various Issuances on the Implementation of the RCOA), which provides that contestable customers may voluntarily register as a trading participant in the WESM and that it shall source its electricity supply requirements from ERC-licensed/authorized suppliers.

Unbundling of Rates and Removal of Cross Subsidies

The EPIRA mandates that distribution wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one year if it determines that there will be a material adverse effect upon the public interest or an immediate, irreparable and adverse financial effect on a distribution utility.

These arrangements are now in place, in satisfaction of the conditions for the RCOA.

The EPIRA likewise provides for a socialized pricing mechanism called a lifeline rate to be set by the ERC for marginalized or low-income captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users are exempt from the cross-subsidy removal for a period of ten years, unless extended by law.

Implementation of the Performance-Based Regulation (“PBR”)

The ERC issued the Rules for Setting Distribution Wheeling Rates that apply to privately owned distribution utilities entering PBR, which set out the manner in which the new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR is intended to replace the return-on-rate-base regulation that has historically determined the distribution charges paid by the distribution companies’ customers. Under the PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period will be set by reference to projected revenues determined through a set regulatory asset base, the efficiency of the distribution utility and the latter’s capital, all of which are reviewed and approved by the ERC and used by the ERC to determine the efficiency factor of a distribution utility. For each year during the regulatory period, the distribution charge of a distribution utility is adjusted upwards or downwards taking into consideration the efficiency factor of the utility set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

Competitive Selection Process

Under prevailing regulations, DUs and ECs are mandated to undertake a CSP in the procurement of PSAs to ensure the security and certainty of electricity prices of electric power in the long-term.

On February 1, 2018, the DOE issued the DOE CSP Policy, which sets forth the department’s policy on the conduct of CSP in the procurement by DUs and ECs. Under the DOE CSP Policy, all PSAs are required to be procured through the CSP, except in the following instances: (i) generation project owned by the DU funded by grants or donations; (ii) negotiated procurement of emergency power supply with a cooperation period not exceeding one year; (iii) provision of power supply by any mandated government owned and controlled corporations for off-grid areas prior to, and until the entry of new power providers in the area; and (iv) provision of power supply by PSALM through bilateral contracts. In the event the CSP fails twice, and there is no outstanding dispute on the conducted CSP, the DU or EC may use direct negotiation for purposes of procuring the relevant PSA. While the DOE CSP Policy effectively revoked the authority of the ERC to issue supplemental

guidelines and procedures relating to implement the CSP, the DOE directed the ERC to: (i) establish and impose existing fines and/or penalties for non-compliance with the DOE CSP Policy, (ii) review compliance with the requirements of CSP, (iii) develop a template PSA to be used with electric power industry participants, and (iv) develop rules and procedures to address disputes arising from the conduct of the CSP.

Reduction of Taxes and Royalties on Indigenous Energy Resources

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the IRR, then President Arroyo issued Executive Order No. 100 to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

Framework for Energy Storage System in the Electric Power Industry

DOE Department Circular No. DC2019-08-0012 dated August 1, 2019 sets forth the framework for energy storage systems in the electric power industry in the Philippines (the “**ESS Framework**”). An energy storage system (“**ESS**”) refers to a facility acting as a load and a generator, which is designed to receive, store and convert such energy to electricity. ESS technologies include BESS, compressed air energy storage, flywheel energy storage, pumped-storage hydropower, and other emerging technologies that may be identified, qualified and approved by the DOE as ESS.

Under the ESS Framework, the following electric power industry participants may own and operate ESS: (i) generation companies, either as a stand-alone generating facility or an integrated ESS in its existing generating facilities; (ii) directly connected customers, for the purpose of managing their energy demands; (iii) end-users, for the purpose of managing their energy demands; (iv) qualified third parties, in conjunction with renewable energy-based generating facilities or as part of hybrid power systems to provide continuous electric service to households in the form of either a micro-grid or a distributed energy resource. Transmission network provider, small grid owner, system operator and system operator-small grid are prohibited from owning and operating an ESS. Further, the Transmission network provider is required to consider BESS as an alternative solution in addressing transmission issues such as line congestion and to consider ESS applications to defer network upgrades. In addition, the system operator is directed to optimize the addition of BESS into its ancillary services pool and prioritize environmentally friendly sources of energy.

Under the ESS Framework, ESS proponents shall apply and register their ESS for one or more of the following purposes:

- provision of ancillary services;
- provision of energy through bilateral supply contract or trading in the WESM;
- manage the penetration of renewable energy;
- auxiliary load management for generation companies;
- transmission/distribution facility upgrades deferment;
- transmission congestion relief;
- end-user demand management;
- distribution utility demand management; and
- distribution utility power quality management.

An ESS that provides frequency regulation, as part of the ancillary services, must be at least 20MW for the Luzon Grid and at least 5MW for the Visayas and Mindanao Grids.

All ESS proponents are required to secure (i) a COC as a generation company from the ERC pursuant to existing guidelines on licensing of generation facilities; (ii) an environmental compliance certificate or any other equivalent document from the DENR; and (iii) other requirements by relevant government agencies pursuant to their existing guidelines. Distribution utilities that intend to enter into a PSA with ESS proponents for the supply of electricity to its captive customers shall observe (a) market share and bilateral contract limitations under Section 45 of the EPIRA; and (b) the DOE CSP Policy.

All ESS facilities shall comply with the rules and regulations on safety, health, environmental standards and proper disposal enforced by appropriate government agencies. In addition, ESS facilities connected to the transmission system as well as ESS connected to the distribution system with capacity equal to or above the following regional thresholds:

- 10MW for Luzon Grid;
- 5MW for Visayas Grid; and
- 5MW for Mindanao Grid

are mandated to register in the WESM and shall be classified under the generation company category, in accordance with the WESM rules and market manuals. All ESS integrated in generation facilities of generation companies are required have a separate registration in the WESM and shall comply with the requirements on separate metering and monitoring facilities, among others.

Government Approval Process

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a national franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a certificate of compliance from the ERC to operate facilities used in the generation of electricity. A certificate of compliance is valid for a period of five years from the date of issuance.

In addition to the certificate of compliance requirement, a generation company must comply with government-prescribed technical, financial capability, health, safety and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued guidelines setting the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service capability ratio (which measures the ability of the power generation company to service its debts) of 1.5x throughout the period covered by its certificate of compliance. For certificate of compliance applications and renewals, the guidelines require the submission to the ERC of, among other things, a schedule of liabilities, and a five-year financial plan. For the duration of the certificate of compliance, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be grounds for the imposition of fines and penalties.

With the introduction of RCOA, the rates charged by a generation company are no longer regulated by the ERC, except rates for Captive Markets (as determined by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local Government authorities, relating to, among others, site acquisition, construction and operation, including environmental-related licenses and permits.

Ancillary Services

Under the EPIRA, NGCP has the obligation to ensure and maintain the reliability, adequacy, security, stability and integrity of the grid in accordance with the performance standards for its operations and maintenance, as set forth in the Grid Code, and to adequately serve generation companies, distribution utilities and suppliers requiring transmission service and/or ancillary services through the transmission system.

In the performance of its functions as the grid system operator, NGCP requires ancillary services to ensure the power quality and stability of the grid. Ancillary services, as defined in Section 4(b) of the EPIRA, are services necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the transmission system in accordance with the good utility practice and the Grid Code. These are support services to provide frequency control and include Primary Reserve, Secondary Reserve, and Tertiary Reserve.

In order to maintain the security and integrity of the grid, the system operator shall operate the grid in such a manner as to provide adequate frequency control to achieve operations within frequency limits at all times. Achieving effective frequency control requires the following ancillary services which are differentiated depending on their response time and sustainability.

- Primary Reserve Ancillary Service (PRAS). This reserve shall cover sudden outage or failure of synchronized generating unit or transmission line links or the power import from a single circuit interconnection, whichever is larger. The capacity of the PRAS provider should not be used in the regular energy supply but can be set to respond on small variations to system frequency to support the Secondary Reserves.
- Secondary Reserve Ancillary Service (SRAS). The system operator thru AGC shall use the Secondary Reserve to restore the system frequency from the quasi-steady state value as established by the Primary Response and Reserve of generating units back to the nominal frequency of 60 Hz during contingent event. Small variations to system frequency to support the balance through Governor Control Mode (GCM) may be initiated. Where the AGC function of the system operator is not fully operational, dispatcher may instruct the generator to transfer to GCM as well. SRAS should be controlled by the system operator thru Automatic Generation Control (AGC) with various AGC modes and frequency deadband settings in order to regulate the system frequency and the speed governing system shall be capable of accepting raise and lower signals or set point signals from the Control Center of the system operator.
- Tertiary Reserve Ancillary Service (TRAS). The capacity of the qualified generating units offered for this Ancillary Service should not be part of the regular energy supply and can either be synchronized to respond within 15 minutes or off-line provided that it can fully provide the required reserve within 30 minutes from the receipt of dispatch instruction. The Tertiary Reserve provider should be able sustain its contributed capacity for at least 60 minutes. If and only if, the Primary and Secondary Reserves have been exhausted, the system operator shall make use of the Tertiary Reserve to return/maintain the system frequency to 60Hz in cases of: tripping of a generating unit or a transmission line which creates generation-load unbalance, unplanned loss of the power import, disconnection of a large load or load blocks, system frequency increases above 60.1 Hz or reduces below 59.9 Hz and it is not possible to return it to nominal values with appropriate use of the Primary and Secondary Reserves. TRAS should be capable of operating thru AGC or manual mode and shall be monitored and controlled by the system operator.

To implement and regulate the procurement of ancillary services, the ERC approved the Ancillary Services Procurement Plan (ASPP) and the Ancillary Services — Cost Recovery Mechanism (“AS-CRM”) on March 9, 2006 and October 3, 2007, respectively. Under the AS-CRM, NGCP secures Ancillary Services through the ASPA with qualified generation companies. For ancillary services arranged via the ASPA, the OATS Rules, the ASPP and the AS-CRM will be applied.

All ancillary services contracted by NGCP from qualified generators will be recovered through rates and charges from the generation customers, embedded generation customers and load customers, where applicable, subject to approval of the ERC.

ASPs require the substantial completion of the project prior to contracting with the NGCP and are subject to ERC approval. These are generally for a term of five years, extendible for another five years with relatively standard rates, particularly for regulating reserves.

REGULATION RELATING TO THE INFRASTRUCTURE BUSINESS

The Company has investments in companies which hold long term concessions on infrastructure projects awarded by the government. The rights and obligations of the Company, including regulatory requirements in connection with these projects are primarily governed by the respective concession agreements for each project.

Civil Aviation Authority Act of 2008

The Civil Aviation Authority of the Philippines (“CAAP”) is an independent regulatory body attached to the DOTr. The CAAP regulates the air transportation system in the Philippines, which includes the power to provide prescribe and revise safety standards for the operation of air navigation facilities located in the Philippines. Pursuant to its functions, it issued on May 27, 2011 the Philippine Civil Aviation Regulations (Board Resolution No. 2011-025). The standards include General Policies and Air Operator Certification and Administration.

Toll Regulatory Board

The TRB was created under P.D. No. 1112 for the regulation of toll facilities and operates as an attached agency of the DOTC. Pursuant to Executive Order No. 133 s. 2013, in relation to PD No. 1112, the TRB is authorized and empowered to enter into contracts or TOA in behalf of the ROP with qualified persons or entities, for the construction, operation and maintenance of toll facilities such as but not limited to national highways, roads, bridges, and public thoroughfares. The TOA is subject to the approval of the President of the Philippines and has a fixed term not exceeding 50 years.

The TRB is also the issuing authority of the Toll Operation Certificates (“TOC”). The TOC is the authority granted to qualified persons, to develop, improve, upgrade, expand, rehabilitate, reconstruct, modernize and/or construct/build and operate and maintain a toll facility. The TOC has a fixed term not exceeding 50 years and may be amended, modified or revoked by the TRB whenever the public interest so requires subject to the payment of just compensation, if any is due.

The privilege to operate toll facilities in the Philippines is limited by nationality restrictions. The Constitution provides that a franchise, certificate, or any other form of authorization for the operation of a public utility can only be granted to Filipino citizens or corporations or associations organized under Philippine laws at least 60.0% of whose capital is owned by Filipinos.

Among the operation and maintenance facilities of toll facilities which may form part of a TOC or a TOA, include (a) For operation: (i) toll collection system, (ii) traffic control system, (iii) tollroad patrol and vehicle control with communications system, (iv) facilities for assistance of disabled vehicles and in case of emergencies, (v) information service and message sign boards, (vi) vehicle regulation facilities, (vii) telephone and lighting facilities, and, (viii) emergency operations; and (b) For maintenance (i) patrolling and inspection facility, (ii) road cleaning and obstruction control, (iii) electricity and water supply, (iv) repavement facilities, steel bridge painting, bridge strengthening, interchange improvement, parking area improvement, slope protection, pavement painting and the like, (v) disaster prevention and reaction facilities, and (vi) environmental enhancement and protection.

Aside from the power to grant an administrative franchise, the TRB is also vested with the power to issue, modify and promulgate toll rates, and upon notice and hearing, to approve or disapprove petitions for the increase thereof. The procedures for approval of initial, adjusted or periodic toll rates as well as approval of provisional toll rates are governed by the 2013 Revised Rules of Procedure of the TRB.

ENVIRONMENTAL MATTERS

The operations of the businesses of the Company are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

Philippine Environmental Impact Statement System

The Philippine Environmental Impact Statement System (the “EISS Law”) established under Presidential Decree No. 1586, which is implemented by the DENR, is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical or (ii) is situated in an environmentally critical area. The DENR, through its regional offices or through the Environmental Management Bureau (“EMB”), determines

whether a project is environmentally critical or located in an environmentally critical area and possesses all applications for an ECC.

The law requires an entity that will undertake any such declared environmentally critical project or operate in any such declared environmentally critical area to submit an Environmental Impact Statement (“EIS”) which is a comprehensive study of the significant impacts of a project on the environment. The EIS serves as an application for the issuance of an ECC, if the proposed project is environmentally critical or situated in an environmentally critical area; or for the issuance of a Certificate of Non-Coverage, if otherwise. An ECC is a Government certification that, among others, (i) the proposed project or undertaking will not cause significant negative environmental impact; (ii) the proponent has complied with all the requirements of the EISS Law in connection with the project; and (iii) the proponent is committed to implement its approved Environmental Management Plan (“EMP”) in the EIS. The EMP details the prevention, mitigation, compensation, contingency and monitoring measures to enhance positive impacts and minimize negative impacts and risks of a proposed project or undertaking.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents also required to establish an Environmental Monitoring Fund (“EMF”) when an ECC is eventually issued. The EMF is to support the activities of the team monitoring the project proponent’s compliance with ECC conditions, EMP and applicable laws, rules and regulations.

Power plant operations are considered environmentally critical projects for which an EIS and an ECC are mandatory.

The Clean Water Act

The Clean Water Act (Republic Act No. 9275) and its implementing rules and regulations provide for water quality standards and regulations for the prevention, control, and abatement of pollution of the water resources of the country. The Clean Water Act requires owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes the owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time. The DENR, together with other Government agencies and the different local Government units, is tasked to implement the Clean Water Act and to identify existing sources of water pollutants, as well as strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law.

The Clean Air Act

Pursuant to the Clean Air Act of 1999 (Republic Act No. 8749) and its implementing rules and regulations, enterprises that operate or utilize air pollution sources are required to obtain a Permit to Operate from the DENR with respect to the construction or the use of air pollutants. The issuance of the said permit seeks to ensure that regulations of the DENR with respect to air quality standards and the prevention of air pollution are achieved and complied with by such enterprises.

Other Environmental Laws

Other regulatory environmental laws and regulations applicable to the businesses of the Company include the following:

- The Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 (Republic Act No. 6969), which regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines, or the keeping in storage of hazardous wastes which include by-products, process residue, contaminated plant or equipment or other substances from manufacturing operations. The said law is implemented by the DENR.

- The Ecological Solid Waste Management Act of 2000 (Republic Act No. 9003), which provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than prescribed centres and facilities. The National Solid Waste Management Commission, together with other Government agencies and the different local Government units, are responsible for the implementation and enforcement of the said law.
- The Code on Sanitation of the Philippines (the “**Sanitation Code**”) (Presidential Decree No. 856), which provides for sanitary and structural requirements in connection with the operation of certain establishments such as industrial establishments. Under the Sanitation Code, which is implemented by the Philippine Department of Health, no person, firm, corporation, or entity shall operate any industrial establishment without first obtaining a sanitary permit.

MANAGEMENT

The overall management and supervision of SMC is undertaken by the board of directors (the “**Board**”). The executive officers and management team cooperate with the Board by preparing appropriate information and documents concerning SMC’s business operations, financial condition and results of operations for its review.

BOARD OF DIRECTORS

Currently, the Board consists of the following members, three of whom are independent directors. The table below sets forth certain information regarding the members of the Board as of September 30, 2019.

Name	Age	Citizenship	Position
Eduardo M. Cojuangco, Jr.	84	Filipino	Chairman
Ramon S. Ang	65	Filipino	Vice Chairman
Estelito P. Mendoza	89	Filipino	Director
Leo S. Alvez	76	Filipino	Director
Aurora T. Calderon	65	Filipino	Director
Joselito D. Campos, Jr.	68	Filipino	Director
Menardo R. Jimenez	86	Filipino	Director
Alexander J. Poblador	66	Filipino	Director
Thomas A. Tan	65	Filipino	Director
Iñigo U. Zobel	62	Filipino	Director
Jose De Venecia, Jr.	82	Filipino	Director
Ramon F. Villavicencio	78	Filipino	Director
Reynaldo G. David	77	Filipino	Independent Director
Reynato S. Puno	79	Filipino	Independent Director
Margarito B. Teves	76	Filipino	Independent Director

The members of the Board of Directors were elected during the Annual Stockholders’ Meeting of the Company on June 11, 2019.

Eduardo M. Cojuangco, Jr. is the Chairman of the Board and Chief Executive Officer of the Company, a position he has held since July 7, 1998. He is also the Chairman of the Executive Committee of the Company. He also holds the following positions in other publicly listed companies: Chairman of the Board and Chief Executive Officer of Ginebra San Miguel Inc.; and Chairman of the Board of San Miguel Food and Beverage, Inc. and Petron Corporation. He is also the Chairman of the Board of ECJ & Sons Agricultural Enterprises, Inc. and the Eduardo Cojuangco, Jr. Foundation, Inc., and a Director of Caiñaman Farms, Inc. He attended the University of the Philippines – Los Baños College of Agriculture and California Polytechnic College in San Luis, Obispo, U.S.A.

Ramon S. Ang is the Vice Chairman since January 28, 1999, President and Chief Operating Officer since March 6, 2002 of the Company. He is also a Member of the Executive Committee of the Company. He also holds, among others, the following positions in other publicly listed companies: President and Chief Executive Officer of Top Frontier Investment Holdings, Inc. and Petron Corporation; President of Ginebra San Miguel, Inc.; Chairman of the Board of Directors of San Miguel Brewery Hong Kong Limited (listed in the Hong Kong Stock Exchange), Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia) and Eagle Cement Corporation; and Vice Chairman of the Board, President and Chief Executive Officer of San Miguel Food and Beverage, Inc. He is also the Chairman of the Board of San Miguel Brewery Inc.; Chairman of the Board and Chief Executive Officer, and President and Chief Operating Officer of SMC Global Power Holdings Corp.; Chairman of the Board and President of San Miguel Holdings Corp., San Miguel Equity Investments Inc., San Miguel Properties, Inc., and San Miguel Aerocity Inc.; Chairman of the Board and Chief Executive Officer of SMC Asia Car Distributors Corp.; Chairman of the Board of San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Philippine Diamond

Hotel & Resort, Inc. and SEA Refinery Corporation; President of San Miguel Northern Cement, Inc. and President and Chief Executive Officer of Northern Cement Corporation. He is also the sole director and shareholder of Master Year Limited and the Chairman of the Board of Privado Holdings, Corp. He formerly held the following positions: Chairman of the Board of Liberty Telecoms Holdings, Inc. and Cyber Bay Corporation, President and Chief Operating Officer of PAL Holdings, Inc. and Philippine Airlines, Inc.; Director of Air Philippines Corporation; and Vice Chairman of the Board and Director of Manila Electric Company. Mr. Ang has held directorships in various domestic and international subsidiaries of the Company in the last five years. He has a Bachelor of Science degree in Mechanical Engineering from Far Eastern University.

Estelito P. Mendoza was first elected as a Director of the Company on October 30, 1991 and served until April 21, 1993. He was re-elected as Director of the Company on April 21, 1998 up to the present. He is a Member of the Executive Committee and the Audit and Risk Oversight Committee of the Company. He is also a Director of Petron Corporation and Philippine National Bank. He was formerly a director of the Manila Electric Company and Philippine Airlines Inc. Atty. Mendoza, a former Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Governor of the Province of Pampanga, heads the E.P. Mendoza Law Office, and was also formerly Chairman of the Board of Dutch Boy Philippines, Inc. and Alcorn Petroleum and Minerals Corporation, and Director of East-West Bank. He graduated from the University of the Philippines College of Law cum laude. He also holds a Master of Laws degree from Harvard Law School.

Leo S. Alvez has been a Director of the Company since February 27, 2002 and a Member of the Audit and Risk Oversight Committee of the Company. He is also a Director of Ginebra San Miguel, Inc., Chairman of its Nominations and Hearing Committee and Member of its Executive Compensation Committee and Audit Committee; and a former Director of San Miguel Pure Foods Company, Inc., both of which are publicly listed companies. Ret. Major General Alvez is a former Security Consultant to the Prosecution Panel of the Senate Impeachment Trial of President Joseph Estrada (2000-2001), Vice Commander of the Philippine Army (1998), and Division Commander of the 7th Infantry Division (1996-1998). He is a graduate of the Philippine Military Academy and has a Masters in Business Administration degree from the University of the Philippines.

Aurora T. Calderon has been a director of the Company since June 10, 2014. She is also the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of SMC since January 20, 2011. She is a member of the Corporate Governance Committee of the Company. She holds the following positions in other publicly listed companies, namely: Director and Treasurer of Top Frontier Investment Holdings, Inc.; and Director of San Miguel Food and Beverage, Inc., Ginebra San Miguel, Inc., Petron Corporation and Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia). She is also a member of the Board of Directors of SMC Global Power Holdings Corp., Petron Marketing Corporation, Petron Freeport Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corporation, Thai San Miguel Liquor Company Limited, San Miguel Equity Investments Inc., SMC Asia Car Distributors Corp., San Miguel Yamamura Packaging Corp., and San Miguel Aerocity Inc. She was formerly a Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, Air Philippines Corporation, and Manila Electric Company. A certified public accountant, Ms. Calderon graduated magna cum laude from the University of the East with a degree in BS Business Administration, major in Accountancy. In addition, Ms. Calderon holds directorships in various SMC domestic and international subsidiaries.

Joselito D. Campos, Jr. has been a Director since May 31, 2010. He is a member of the Related Party Transactions Committee of the Company. He is the Managing Director and Chief Executive Officer of Del Monte Pacific Ltd., President and Chief Executive Officer of Del Monte Philippines, Inc. He is also the Chairman of the Board and Chief Executive Officer of the NutriAsia Group of Companies, Chairman of the Board of Fort Bonifacio Development Corp. and Vice Chairman of the Board of Ayala Greenfield Development Corp. He is also a Director of FieldFresh Foods (P) Ltd. He was the former Chairman of the Board and Chief Executive Officer of United Laboratories, Inc. and its regional subsidiaries and affiliates. He is also the Honorary Consul in the Philippines for the Republic of Seychelles. He is Chairman of the Metropolitan Museum of Manila and a Trustee of the Asia Society in the Philippines, the Philippines-China Business Council, the Philippine Center for Entrepreneurship and a member of the WWF (World Wildlife Fund) for Nature - Philippines. He graduated with a degree in BS Commerce, Major in International Business from the University of Santa Clara, California and a Masters in Business Administration degree from Cornell University, New York.

Menardo R. Jimenez has been a Director of the Company since February 27, 2002 and a Member of the Executive Committee and Corporate Governance Committee of the Company. He is also a Director of San Miguel Food and Beverage, Inc., a publicly listed company, and Magnolia, Inc. His other positions include: Chairman of Majent

Management and Development Corporation; Chairman of Coffee Bean and Tea Leaf Holdings, Inc., and Meedson Properties Corporation, among others. He is a graduate of Far Eastern University with a degree of Bachelor of Science in Commerce and is a certified public accountant.

Alexander J. Poblador has been a Director of the Company since September 1, 2009 and a Member of the Related Party Transactions Committee of the Company. He is the Founding Partner and Chairman of the Executive Committee of Poblador Bautista & Reyes Law Office. Atty. Poblador is a practicing lawyer, specializing in the fields of commercial litigation, international arbitration, real estate finance and project development, bankruptcy and corporate reorganization. He is a graduate of the University of the Philippines with a degree in Bachelor of Laws cum laude, class valedictorian, and Bachelor of Arts in Political Science cum laude. He also holds a Master of Laws degree from the University of Michigan, at Ann Arbor, School of Law (De Witt Fellow).

Thomas A. Tan was elected as a Director of the Company on June 14, 2012. He is the President and General Manager of SMC Shipping and Lighterage Corporation and its subsidiaries, and President of Saturn Cement Corporation and Sakamoto International Packaging Corp. He obtained a degree in Bachelor of Science, Major in Physics in 1974 from the Ateneo de Manila University and a Masters in Business Management degree from the Asian Institute of Management in 1976. He is likewise a Director of other affiliates of the Company.

Iñigo U. Zobel has been a Director of the Company since October 2009 and was an Independent Director of the Company from May 5, 1999 until October 2009. He is a Member of the Executive Committee of the Company. He holds the position of Chairman of the Board of Top Frontier Investment Holdings, Inc., a publicly listed company. He is also the Chairman of the Board and President of Zygnnet Prime Holdings Inc.; Chairman of the Board of IZ Investment Holdings, Inc. and E. Zobel, Inc.; Director of E. Zobel Foundation, Inc. Calatagan Golf Club, Inc., Calatagan Bay Realty, Inc., Hacienda Bigaa, Inc., MERMAC, Inc., among others. He was formerly Chairman (2015-2016), Vice Chairman (since 2016) and President (since 2015) of Manila North Harbour Port, Inc., a Director of PAL Holdings, Inc. and Philippine Airlines, Inc., and President and Chief Operating Officer of Air Philippines Corporation. He was formerly an Independent Director of San Miguel Brewery Inc., San Miguel Pure Foods Company, Inc., San Miguel Properties, Inc., and Ginebra San Miguel, Inc. He attended Santa Barbara College, California, U.S.A.

Jose De Venecia, Jr. is a Director of the Company since March 16, 2017. He was former Speaker of the House of Representatives (from 1992 to 1998, and from 2001 to 2008). Before joining politics, he was an international entrepreneur, engaged in the business of port operations in Saudi Arabia, agriculture in Africa, mass housing in Iraq and oil exploration in the United Arab Emirates. He has a Bachelor of Arts degree in Journalism from the Ateneo de Manila University. He completed his secondary education at De La Salle College, Manila.

Ramon F. Villavicencio is a Director of the Company since March 15, 2018. Prior to his election as director of the Company, he owns the ICVI Financial Consultancy Services, has ownership interests in JoyToAll Amusement Corporation and is a consultant of Petro Finance Services, Inc. He graduated from De La Salle College with a degree in Bachelor of Science in Commerce and a Masters in Business Administration.

Reynaldo G. David has served as an Independent Director of the Company since June 14, 2016. He is the Chairman of the Related Party Transactions Committee and a Member of the Audit and Risk Oversight Committee and Corporate Governance Committee of the Company. He is also an Independent Director of Petron Corporation, a publicly listed company, and Tiger Resort, Leisure & Entertainment, Inc. He has previously held among others, the following positions: President and Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. A certified public accountant since 1964, he graduated from the De La Salle University with a combined Bachelor of Arts and Bachelor of Science in Commerce degrees in 1963 and attended the Advanced Management Program of the University of Hawaii (1974). He was conferred with the title Doctor of Laws, honoris causa, by the Palawan State University in 2005 and the title Doctor of Humanities, honoris causa, by the West Visayas State University in 2009.

Reynato S. Puno was elected to the Board as an Independent Director of the Company on January 20, 2011 and is the Chairman of the Corporate Governance Committee and a Member of the Audit and Risk Oversight Committee of the Company. He is also an independent director of San Miguel Brewery Hong Kong Ltd. (a company publicly listed in the Hong Kong Stock Exchange) and Union Bank of the Philippines, Inc., and a member of the Board of Commissioners of PT Delta Djakarta Tbk (a company listed in the Indonesia Stock Exchange). He is also the Chairman of the Environmental Heroes Foundation and World Vision; Vice Chairman of the Board of the GMA Kapuso Foundation; and Director of The New Standard newspaper. He was the Chief

Justice of the Supreme Court from December 6, 2006 until his retirement on May 17, 2010. He joined the Supreme Court as an Associate Justice on June 1993 and was previously Associate Justice of the Court of Appeals (1980, 1986 to 1993), Appellate Justice of the Intermediate Appellate Court (1983), Assistant Solicitor General (1974-1982) and City Judge of Quezon City (1972-1974). He also served as Deputy Minister of Justice from 1984-1986. He completed his Bachelor of Laws from the University of the Philippines in 1962, and has a Master of Laws degree from the University of California in Berkeley (1968) and a Master in Comparative Law degree from the Southern Methodist University, Dallas, Texas (1967).

Margarito B. Teves was elected as an Independent Director of the Company on June 14, 2012 and is the Chairman of the Audit and Risk Oversight Committee and a Member of the Corporate Governance Committee and Related Party Transactions Committee of the Company. He is also an Independent Director of Petron Corporation, a publicly listed company, Atlantic Aurum Investments Philippine Corporation, AB Capital Investment Corp., Alphaland Corporation, Alphaland Balesin Island Club, Inc., The City Club at Alphaland Makati Place, Inc., and Atok-Big Wedge Corporation. He is also the Managing Director of The Wallace Business Forum and Chairman of the Board of Think Tank Inc. He was Secretary of the Department of Finance of the Philippine government from 2005 to 2010, and was previously President and Chief Executive Officer of the Land Bank of the Philippines from 2000 to 2005, among others. He holds a Master of Arts in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

SENIOR MANAGEMENT

The table below sets forth the key executive and corporate officers of the Company as of September 30, 2019.

Name	Age	Citizenship	Position
Eduardo M. Cojuangco, Jr.	84	Filipino	Chief Executive Officer
Ramon S. Ang	65	Filipino	President and Chief Operating Officer
Ferdinand K. Constantino	67	Filipino	Chief Finance Officer and Treasurer
Virgilio S. Jacinto	62	Filipino	Senior Vice President, General Counsel, Corporate Secretary and Compliance Officer
Aurora T. Calderon	65	Filipino	Senior Vice President and Senior Executive Assistant to the Office of the President and Chief Operating Officer
Joseph N. Pineda	56	Filipino	Senior Vice President and Deputy Chief Finance Officer
Sergio G. Edeza	62	Filipino	Senior Vice President and Head of Treasury
Lorenzo G. Formoso III	58	Filipino	Senior Vice President and Head of SMC Infrastructure Business

Ferdinand K. Constantino was a Director of the Company from May 31, 2010 to February 28, 2018. He is the Chief Finance Officer and Treasurer of the Company. He also holds, among others, the following positions in other publicly-listed companies, as follows: Director of Top Frontier Investment Holdings, Inc. and Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia). He is also the Director and Vice Chairman of the Board of SMC Global Power Holdings Corp., President of Anchor Insurance Brokerage Corporation; Director of San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, San Miguel Pure Foods International Ltd., Citra Metro Manila Tollways Corporation, San Miguel Aerocity Inc. and Northern Cement Corporation; Director and Chief Finance Officer of San Miguel Northern Cement, Inc.; and Chairman of the San Miguel Foundation, Inc. He was formerly a Director of PAL Holdings, Inc., and Philippine Airlines, Inc. Mr. Constantino previously served San Miguel Corporation as Chief Finance Officer of the San Miguel Beer Division (1999-2005) and as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009); Director of San Miguel Properties, Inc. (2001-2009); and Chief Finance Officer of Manila Electric Company (2009). He has held directorships in various domestic and international subsidiaries of the Company during the last five years. He holds a degree in AB

Economics from the University of the Philippines and completed academic requirements for an MA Economics degree.

Virgilio S. Jacinto is the Corporate Secretary, Senior Vice-President and General Counsel and Compliance Officer of SMC (since October 2010). He is also the Corporate Secretary and Compliance Officer of Top Frontier Investment Holdings, Inc. and Corporate Secretary of Ginebra San Miguel, Inc. and other subsidiaries and affiliates of SMC. He is a Director of Petron Corporation. He was formerly the Vice President and First Deputy General Counsel from 2006 to 2010 and appointed as SMC General Counsel in 2010. He was Director and Corporate Secretary of United Coconut Planters Bank, Partner at Villareal Law Offices and Associate at SyCip, Salazar, Feliciano & Hernandez Law Office. Atty. Jacinto is an Associate Professor at the University of the Philippines, College of Law. He obtained his law degree from the University of the Philippines cum laude where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard Law School. He holds various directorships in various local and offshore subsidiaries of SMC.

Joseph N. Pineda is the Senior Vice President and Deputy Chief Finance Officer of SMC. He was formerly Vice President prior to his promotion on July 27, 2010 and has been the Deputy Chief Finance Officer since December 2005. He was previously Special Projects Head of SMC since January 2005. He is a director of Philippine Dealing System Holdings, Corp. Mr. Pineda has a degree of Bachelor of Arts in Economics from San Beda College and obtained units towards a Masters in Business Administration degree from De La Salle University. In addition, Mr. Pineda holds directorships in various SMC domestic and international subsidiaries.

Sergio G. Edeza is the Senior Vice President and Head of Treasury of SMC. Prior to joining SMC, Mr. Edeza was a Director of Merchant's Bank (2008), President (2007) and Director (2008) of Money Market Association of the Philippines, Executive Vice President and Treasurer of Rizal Commercial Banking Corporation, Treasury Consultant of YGC Corporate Services, and President and CEO of PhilEXIM Guarantee Corporation. He was also Treasurer of the Republic of the Philippines from February 16, 2001 to February 16, 2004. Mr. Edeza is a Certified Public Accountant and a Career Service Professional. He obtained his Bachelor of Science in Commerce degree and Master of Business Administration degree from the De La Salle University, and was accepted at the John F. Kennedy School of Government at Harvard University. Mr. Edeza holds directorships in various SMC subsidiaries.

Lorenzo G. Formoso III is the Senior Vice President and Head of the Infrastructure Business. Atty. Formoso holds various directorships in various local and offshore subsidiaries of SMC. Previously, he was a consultant of the Company for Infrastructure and Transportation from July 2009 to August 2010. He was previously Assistant Secretary of the Department of Transportation and Communication of the Philippine Government from September 2006 to June 2009 and Deputy Commissioner of the Commission on Information and Communications Technology. He obtained his Juris Doctor degree from University of California, Davis School of Law and a degree in Bachelor of Arts in Philosophy from the University of the Philippines. Atty. Formoso is a director in various SMC subsidiaries.

Committees of the Board of Directors

Our Board of Directors appoint directors to the five Board committees set forth below. Each member of the respective committees named below holds office as of the date of this Prospectus and will serve until his successor is elected and qualified. The four committees are: (i) the Executive Committee; (ii) the Audit and Risk Oversight Committee; (iii) the Related Party Transactions Committee; and (v) the Corporate Governance Committee. The attendance of a majority of its members will constitute a quorum for the committee to transact business. The committee will act only on the affirmative vote of at least a majority of the members present at a meeting at which there is a quorum.

Executive Committee

The Executive Committee is tasked to help and assist the officers in the management and direction of the affairs of the Company. It acts within the powers and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company, with the exception of the power to appoint any entity as general managers or management or technical consultants, to guarantee obligations of other corporations in which the Company has lawful interest, to appoint trustees who, for the benefit of the Company, may receive and retain such properties of the Company or entities in which it has interests, and to perform such acts as may be necessary to transfer ownership of such properties to trustees of the Company, and such other powers as may be specifically limited by the Board or by law.

The Executive Committee is currently composed of four directors that include the Chairman of the Board and the President. The Chairman of the Executive Committee is Mr. Eduardo M. Cojuangco, Jr. The members of the committee are Messrs. Ramon S. Ang, Estelito P. Mendoza, Menardo R. Jimenez, and Iñigo U. Zobel.

Audit and Risk Oversight Committee

The Audit and Risk Oversight Committee is responsible for assisting the Board in the performance of its oversight responsibility on financial reports and financial reporting process, internal control system, audit process and plans, directly interfacing with internal and external auditors, and in monitoring and facilitating compliance with both the internal financial management manual and pertinent accounting standards, including regulatory requirements, elevating to international standards the accounting and auditing processes, practices and methodologies of the Company. The committee performs financial oversight management functions, specifically in the areas of credit management, markets liquidity, operational, legal and other risks, as well as crisis management. The Audit and Risk Oversight committee has primary responsibility for recommending the appointment and removal of the Company's external auditor. Presently, the Company's external auditor is R.G. Manabat & Co.

The Audit and Risk Oversight Committee is composed of five members, a majority of whom are non-executive and independent directors. All committee members have relevant background, knowledge, skills or experience in the areas of accounting, auditing and finance. The members of the committee are Mr. Reynaldo G. David (Independent), Mr. Reynato S. Puno (Independent), Mr. Leo S. Alvez and Mr. Estelito P. Mendoza. The chairperson of the Audit Committee is Mr. Margarito B. Teves (Independent).

Related Party Transactions Committee

The Related Party Transactions Committee is tasked to review all material related party transactions ("RPTs") of the Company to make certain that these are entered into, as a matter of policy, on an arms-length basis and at market rates. It shall evaluate existing relations between and among businesses and counterparties to ensure the identification of all related parties, including changes in relationships of counterparties, and that RPTs are monitored. The committee is responsible for ensuring that appropriate disclosures are made relating to the Company's RPT exposures and policies on conflict of interest. It shall also oversee the periodic review of RPT policies and procedures.

The Related Party Transactions Committee is composed of five members. The members of the committee are Mr. Margarito B. Teves (Independent), Mr. Joselito D. Campos, Jr., Mr. Alexander J. Poblador, Reynato S. Puno (Independent). The chairperson of the Related Party Transactions Committee is Mr. Reynaldo G. David (Independent).

Corporate Governance Committee

The Corporate Governance Committee is tasked to ensure the Company's compliance and proper observance of corporate governance principles and practices. It oversees the implementation of the Company's corporate governance framework and the performance evaluation of the Board and its committees, as well as top management, to ensure that management's performance is at par with the standards set by the Board. The committee advises the Board on the establishment of a formal and transparent procedure for developing policy on remuneration of directors and senior management that is aligned with the long term interests of the Company, ensuring that compensation is consistent with the Company's culture and strategy, as well as the business environment in which it operates. It likewise reviews and oversees the implementation of policies relating to business interest disclosures and conflict of interest, appointments and promotions of officers, and succession planning. Further, the committee determines the nomination and election process for the Company's Board of Directors, and screens and shortlists candidates to the Board in accordance with the qualifications and disqualifications for directors defined in the Company's by-laws, Manual on Corporate Governance, applicable laws and regulations.

The Corporate Governance Committee is composed of five directors of the Company, three of whom are Independent Directors. The Corporate Governance Committee chairperson is Mr. Reynato S. Puno (Independent). The members of the committee are Messrs. Margarito B. Teves (Independent), Mr. Reynaldo G. David (Independent), Menardo R. Jimenez, and Ms. Aurora T. Calderon.

Corporate Governance

We recognize that good governance helps the business to deliver strategy, generate and sustain shareholder value and safeguard shareholders' rights and interests. Our Board of Directors, management and employees adhere to the highest standards of corporate governance as a vital component of sound business management.

Our Board of Directors, led by Chairman Eduardo M. Cojuangco, Jr., believe in conducting the business affairs of the Company in a fair and transparent manner and in maintaining the highest ethical standards in all the Company's business dealings.

Manual on Corporate Governance

The first Manual on Corporate Governance of the Company was approved by the Board of Directors in June 27, 2002. In May 10, 2017, the Board of Directors approved a new Manual on Corporate Governance (the "Manual") to align with the Code of Corporate Governance for Publicly-Listed Companies issued by the SEC under SEC Memorandum Circular No. 19, series of 2016. The Manual is available for examination in the Company's corporate website at <https://www.sanmiguel.com.ph/disclosures/l/manual-of-corporate-governance>.

Our monitoring of the implementation of the evaluation system to measure and determine the level of compliance of the Board of Directors and top-level management with the Manual is vested by the Board of Directors in the Compliance Officer.

Compliance and Monitoring System

To ensure adherence to corporate governance principles and best practices, the Board of Directors has appointed a Compliance Officer for the Company, Atty. Virgilio S. Jacinto. The Compliance Officer is responsible for monitoring compliance by the Company with the provisions and requirements of the Manual, as may be amended from time to time, applicable laws and the rules and regulations of the relevant regulatory agencies. The Compliance Officer holds the position of Senior Vice President and has direct reporting responsibilities to the Chairman of the Board.

In the regular board meeting held on August 10, 2017, the Board approved the adoption by the Corporate Governance Committee, and Related Party Transactions Committee of their respective Charters, as reviewed and endorsed by each Committee. The approval of the adoption by the Audit and Risk Oversight Committee of its Charter was approved by the Board on August 13, 2012 upon the endorsement of the Audit Committee. The Charters of the Audit and Risk Oversight Committee, Corporate Governance Committee, Related Party Transactions Committee and each outline the purpose, membership and qualifications, structure and operations, duties and responsibilities, reporting process and performance evaluation of the said Board Committees, and the procedures which shall guide the conduct of its functions, to ensure adherence by the Company to the best practices of good corporate governance. The full texts of said Charters may be viewed at the Company's corporate website at <https://www.sanmiguel.com.ph/page/companys-policies>.

The Company submits Integrated Annual Corporate Governance Reports (I-ACGR) in accordance with SEC Memorandum Circular No. 15, series of 2017. Such I-ACGRs are posted in the Company's corporate website at <https://www.sanmiguel.com.ph/disclosures/l/annual-corporate-governance-report-acgr> for the guidance of the investing public.

The Company encourages its directors and officers to attend continuous professional education programs.

The Company organizes an annual seminar or program on Corporate Governance for directors and key officers, in accordance with SEC regulations.

Pursuant to our commitment to good governance and business practice, we continue to review and strengthen our policies and procedures, giving due consideration to developments in the area of corporate governance, which we determine to be in the best interests of the Company and our stockholders.

Executive Compensation Table

Compensation

The aggregate compensation paid or incurred during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer and four (4) senior executive officers of the Company are as follows:

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
Total Compensation of the Chief Executive Officers and Senior Executive Officers ¹	2020 (estimated)	P225.7 Million	P186.4 Million	P26.4 Million	P438.5 Million
	2019	P222.6 Million	P141.1 Million	P48.6 Million	P412.3 Million
	2018	P208.7 Million	P213.3 Million	P46.1 Million	P468.1 Million
All other officers and directors as a group unnamed	2020 (estimated)	P259.0 Million	P92.0 Million	P63.5 Million	P414.5 Million
	2019	P258.5 Million	P92.6 Million	P63.2 Million	P414.3 Million
	2018	P233.9 Million	P115.6 Million	P59.1 Million	P408.6 Million
TOTAL	2020 (estimated)	P484.7 Million	P278.4 Million	P89.9 Million	P853.0 Million
	2019	P481.1 Million	P233.7 Million	P111.8 Million	P826.6 Million
	2018	P442.6 Million	P328.9 Million	P105.2 Million	P876.7 Million

Section 10 of the Amended By-laws of the Company provides that the Board of Directors shall receive as compensation no more than 2% of the profits obtained during the year after deducting therefrom general expenses, remuneration to officers and employees, depreciation on buildings, machineries, transportation units, furniture and other properties. Such compensation shall be apportioned among the directors in such manner as the Board deems proper. The Company provides each director with reasonable per diem of P50,000 and P20,000 for each Board and Committee meeting attended, respectively. In 2019, the members of the Board of Directors and officers of the Company were paid an aggregate amount of P876.7 million.

The Long-Term Incentive Plan for Stock Options (“LTIP”) of the Company grants stock options to eligible senior and key management officers of the Company as determined by the Committee administering the said Plan. Its purpose is to further and promote the interests of the Company and its shareholders by enabling the Company to attract, retain and motivate senior and key management officers, and to align the interests of such officers and the Company's shareholders.

On March 1, 2007, the Company approved the grant of options to 822 executives consisting of 18.31 million shares. On June 25, 2009 and 26, 2008, the Company approved the grant of options to 755 executives consisting of 5.777 million shares and to 742 executives consisting of 7.46 million shares, respectively.

As of September 30, 2019, there are no more outstanding options under the LTIP held by the Chief Executive Officer and Senior Executive Officers of the Company, and officers and middle managers as a group.

¹ The Chief Executive Officer and Senior Executive Officers of the Company for 2020, 2019, and 2018 are as follows: Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Aurora T. Calderon, and Virgilio S. Jacinto.

The following are the outstanding, exercised and cancelled options as of relevant year:

	2017	2018	2019
Outstanding (at beginning of year)	4,028,305	1,782,790	0
Exercised	2,057,465	1,630,873	0
Cancelled (Expired)	188,050	151,917	0
Outstanding (at end of year)	1,782,790	0	0

There were no employment contracts between the Company and a named executive officer. There were neither compensatory plans nor arrangements with respect to a named executive officer

Involvement in Certain Legal Proceedings of Directors and Executive Officers

None of the directors, executive officers or control persons of the Company have been the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, which has not been reversed, suspended or vacated, for the past five years up to the date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

Significant Employees

The Company has no employee who is not an executive officer but who is expected to make a significant contribution to the business.

Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the Company's directors or executive officers.

OWNERSHIP AND CAPITALIZATION

Share Capital

As of December 31, 2019, the Company had the following outstanding capital stock:

Title of Each Class	Number of Shares of Common and Preferred Stock Outstanding as of December 31, 2019	
Common Shares	<u>2,383,896,588</u>	
SUB-TOTAL (Common Shares)		2,383,896,588
Series 1 Preferred Shares	279,406,667	
Series “2-A” Preferred Shares	0	
Series “2-B” Preferred Shares	0	
Series “2-C” Preferred Shares	255,559,400	
Series “2-D” Preferred Shares	89,333,400	
Series “2-E” Preferred Shares	134,000,100	
Series “2-F” Preferred Shares	223,333,500	
Series “2-G” Preferred Shares	66,666,600	
Series “2-H” Preferred Shares	164,000,000	
Series “2-I” Preferred Shares	<u>169,333,400</u>	
SUB-TOTAL (Preferred Shares)		<u>1,381,633,067</u>
TOTAL Outstanding Shares		3,765,529,655

List of Top 20 Stockholders

The top 20 common and preferred stockholders of the Company as of December 31, 2019 are as follows:

	Stockholder Name	Common	Preferred S1	Preferred S2	Total Shares	% to Total Outstanding Capital Stock
1.	Top Frontier Investment Holdings, Inc.	1,573,100,340	0	0	1,573,100,340	41.78%
2.	PCD Nominee Corporation (Filipino)	169,850,342	0	763,952,027	933,802,369	24.80%
3.	Privado Holdings, Corp.	368,140,516	0	0	368,140,516	9.78%
4.	PCD Nominee Corporation	36,077,757	0	222,463,733	258,541,490	6.87%
5.	Metroplex Holdings Corporation	0	106,174,534	1,578,000	107,752,534	2.86%
6.	Lucena Holdings Corporation	0	89,410,133	1,332,000	90,742,133	2.41%
7.	Gingog Holdings Corporation	1,830,082	83,822,000	1,590,000	87,242,082	2.32%
8.	PCD Nominee Corporation (Non-Filipino)	48,727,454	0	8,037,100	56,764,554	1.51%
9.	PCGG in Trust for the Comprehensive Agrarian Reform Program	27,636,339	0	0	27,636,339	0.73%
10.	San Miguel Brewery Inc. Retirement Plan	0	0	18,153,700	18,153,700	0.48%
11.	G & E Shareholdings Inc.	0	0	15,000,000	15,000,000	0.40%
12.	Petron Corporation Employees' Retirement Plan	12,237,100	0	0	12,237,100	0.32%
13.	Millennium Energy, Inc.	10,807,380	0	0	10,807,380	0.29%

14.	San Miguel Corporation Retirement Plan FIP	0	0	9,346,900	9,346,900	0.25%
15.	Social Security System	0	0	7,328,500	7,328,500	0.19%
16.	Eduardo M. Cojuangco, Jr.	3,828,702	0	0	3,828,702	0.10%
17.	Pryce Corporation	0	0	3,541,760	3,541,760	0.09%
18.	Sysmart Corporation	3,457,000	0	0	3,457,000	0.09%
19.	San Miguel Corporation Retirement Plan - STP	0	0	3,166,500	3,166,500	0.08%
20.	Pryce Gases, Inc.	0	0	2,832,070	2,832,070	0.08%
	TOTAL	2,255,693,012	279,406,667	1,058,322,290	3,593,421,969	95.43%

Security Ownership of Directors and Officers

The owners of more than 5% of the Company's voting² securities (both common and preferred shares) as of December 31, 2019 are 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 to Total Outstanding Capital Stock
Common	Top Frontier Investment Holdings, Inc. ³ 5th Floor, ENZO Bldg., No. 339 Sen. Gil Puyat, Makati City	Iñigo U. 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 26.03% ⁴ of the outstanding common stock of Top Frontier Investment Holdings, Inc., respectively.	Filipino	1,573,100,340	41.78%
Common	PCD Nominee Corporation (Filipino) Makati City	Various individuals/entities	Filipino	169,850,342	24.80%
Series "2" Preferred Shares	PCD Nominee Corporation (Filipino) Makati City	Various individuals/entities	Filipino	763,952,027	
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 Holdings, Corp.	Filipino	373,623,796 ⁵	9.92%

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, 2019, Top Frontier Investment Holdings, Inc. has voting rights to a total of 1,573,100,340 shares of the Company which represent about 65.99% of the outstanding common capital stock of the Company.

⁴ As of December 31, 2019, through Privado Holdings, Corp. and Master Year Limited, both stockholders of record of Top Frontier Investment Holdings, Inc.

⁵ Inclusive of 368,140,516 common shares held in the name of Privado Holdings, Corp. and 5,483,280 common shares which are lodged with the PDTC.

Common	PCD Nominee Corporation Makati City	Various individuals/ entities	Filipino	36,077,757	6.87%
Series “2” Preferred Shares	PCD Nominee Corporation Makati City	Various individuals/ entities	Filipino	222,463,733	

The following are the number of shares comprising the Company’s capital stock (all of which are voting shares) owned of record by the Chief Executive Officer, the directors, and key officers of the Company, as of December 31, 2019:

Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares and Percent to Total Outstanding Capital Stock
	Common	Preferred		
Eduardo M. Cojuangco, Jr.	3,828,702 (D)		Filipino	3,828,702 (0.10%)
Ramon S. Ang	1,345,429 (D) 368,140,516 (I) ⁶ 5,483,280 (I) ⁷		Filipino	374,969,225 (9.96%)
Leo S. Alvez	10,000 (D) 9,326 (I)		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%)
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 C. de Venecia	5,000 (D)		Filipino	5,000 (0.00%)
Thomas A. Tan	5,000 (D)	400,000 (D)	Filipino	5,000 (0.00%)
Margarito B. Teves	5,000 (D)		Filipino	5,000 (0.00%)
Ramon F. Villavicencio	35,000(D) 9,000 (I)			44,000 (0.00%)
Iñigo U. Zobel	16,171 (D) 943,230,964 (I) ⁸		Filipino	943,247,135 (25.05%)
Ferdinand K. Constantino	477,692 (D)	200,000 (D)	Filipino	677,692 (0.02%)
Virgilio S. Jacinto	180,830 (D)		Filipino	180,830 (0.00%)
Joseph N. Pineda	62,715 (I)		Filipino	62,715 (0.00%)
Sergio G. Edeza	62 (D)		Filipino	62 (0.00%)
Lorenzo G. Formoso III	20,000(D)		Filipino	20,000 (0.00%)

The aggregate number of shares owned of record by the Chief Executive Officer, Chief Operating Officer, key officers and directors (as a group) of the Company as of December 31, 2019 is 6,293,648 or approximately 0.1671% of the outstanding capital stock of the Company.

Voting Trust of Holders of 5% and 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 of 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 100% shareholdings in Privado Holdings, Corp. which has shares which are lodged with the PDTC.

⁸ Through his 59.96% shareholdings in the common stock of Top Frontier Investment Holdings, Inc.

MARKET PRICE OF AND DIVIDENDS ON THE EQUITY OF SMC AND RELATED SHAREHOLDERS 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 2017 to 2019 and for the first 3 quarters of 2019 are as follows.

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

2018

	Common		Series “1”		Series “2-B”		Series “2-C”		Series “2-D”	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	152.00	111.60	-	-	77.50	75.00	81.50	75.00	77.00	74.50
2nd	145.40	134.00	-	-	78.00	75.20	79.95	77.00	76.90	74.90
3rd	180.10	134.00	-	-	91.00	75.00	80.90	77.50	76.00	72.00
4th	175.40	139.00	-	-	76.45	75.00	78.10	75.75	75.40	70.00

2019

	Common		Series “1”		Series “2-B”		Series “2-C”		Series “2-D”	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	180.00	144.80	-	-	75.90	74.00	77.40	75.00	74.45	71.40
2nd	195.90	171.90	-	-	75.95	73.15	78.00	75.20	73.85	71.05
3rd	183.70	170.10	-	-	-	-	79.00	76.00	76.45	72.50
4th	174.00	150.00	-	-	-	-	78.95	75.05	76.00	74.70

	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	75.00	71.30	76.80	72.00	74.90	71.20	74.50	71.00	75.00	71.05
2nd	74.25	71.50	75.00	73.00	74.50	72.50	74.00	70.00	74.95	40.80
3rd	76.50	73.00	78.00	73.75	77.00	73.25	79.95	70.50	77.00	72.95
4th	77.00	74.00	77.75	75.35	78.00	75.05	76.95	74.00	77.00	75.00

Dividends and Dividend Policy

Cash dividends declared by the Board of Directors of SMC and paid to common shareholders amounted to ₱1.40 per share in 2019.

Cash dividends declared by the Board of Directors of SMC and paid to Series “1” preferred shareholders amounted to ₱4.22625 per share in 2019.

Cash dividends declared by the Board of Directors of SMC and paid 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 2019.

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 2017.

Common Shares

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
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			
2018.....	Cash	0.35	March 15	April 6	May 4
	Cash	0.35	June 14	July 2	July 25
	Cash	0.35	September 13	October 5	October 30
	Cash	0.35	December 6	January 2, 2019	January 24, 2019
Total:		1.40			
2019	Cash	0.35	March 14	April 5	May 3
	Cash	0.35	December 6	January 2, 2019	January 24, 2019
	Cash	0.35	June 11	July 5	July 30
	Cash	0.35	September 12	October 11	October 31
Total:		1.40			

Preferred Shares - Series 1

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2017.....	Cash	1.0565625	January 12	March 21	April 5
	Cash	1.0565625	May 10	June 21	July 6
	Cash	1.0565625	August 9	September 21	October 6
	Cash	1.0565625	November 10	December 21	January 5, 2018
Total:		4.22625			
2018.....	Cash	1.0565625	January 25	March 8	April 5
	Cash	1.0565625	May 10	June 21	July 6
	Cash	1.0565625	August 8	September 21	October 5
	Cash	1.0565625	November 13	December 21	January 11, 2019
Total:		4.22625			
2019.....	Cash	1.0565625	January 24	March 22	April 5
	Cash	1.0565625	May 9	June 21	July 5
	Cash	1.0565625	August 8	September 20	October 4

Total:	-	3.1696875	-	-	-
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Preferred Shares - Series 2B

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
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			
2018	Cash	1.4296875	January 25	March 8	April 5
	Cash	1.4296875	May 10	June 21	July 6
	Cash	1.4296875	August 9	September 21	October 6
	Cash	1.4296875	November 13	December 21	January 11, 2019
Total:		5.71875			
2019	Cash	1.4296875	January 24	March 22	April 5
	Cash	1.4296875	May 9	June 21	July 5
	Cash	1.4296875	August 8	September 20	October 4
Total:		4.2890625			

Preferred Shares - Series 2C

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
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			-
2018	Cash	1.50	January 25	March 8	April 5
	Cash	1.50	May 10	June 21	July 6
	Cash	1.50	August 9	September 21	October 5
	Cash	1.50	November 13	December 21	January 11, 2019
Total:		6.00			
2019	Cash	1.50	January 24	March 22	April 5
	Cash	1.50	May 9	June 21	July 5
	Cash	1.50	August 8	September 20	October 4
Total:		4.50			

Preferred Shares - Series 2D

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
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			
2018	Cash	1.11433125	January 25	March 8	April 5
	Cash	1.11433125	May 10	June 21	July 6
	Cash	1.11433125	August 9	September 21	October 5
	Cash	1.11433125	November 13	December 21	January 11, 2019
Total:	-	4.457325	-	-	-
2019	Cash	1.11433125	January 24	March 22	April 5
	Cash	1.11433125	May 9	June 21	July 5
	Cash	1.11433125	August 8	September 20	October 4
Total:	-	3.3429938	-	-	-

Preferred Shares - Series 2E

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
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	-	-	-
2018	Cash	1.18603125	January 25	March 8	April 5
	Cash	1.18603125	May 10	June 21	July 6
	Cash	1.18603125	August 9	September 21	October 5
	Cash	1.18603125	November 13	December 21	January 11, 2019
Total:	-	4.744125	-	-	-
2019	Cash	1.18603125	January 24	March 22	April 5
	Cash	1.18603125	May 9	June 21	July 5
	Cash	1.18603125	August 8	September 20	October 4
Total:	-	3.5580938	-	-	-

Preferred Shares - Series 2F

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
-	-	-	-	-	-
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	-	-	-
2018	Cash	1.27635	January 25	March 8	April 5
	Cash	1.27635	May 10	June 21	July 6
	Cash	1.27635	August 9	September 21	October 5
	Cash	1.27635	November 13	December 21	January 11, 2019

Total:	-	5.1054	-	-	-
2019	Cash	1.27635	January 24	March 22	April 5
	Cash	1.27635	May 9	June 21	July 5
	Cash	1.27635	August 8	September 20	October 4
Total:	-	3.8290500	-	-	-

Preferred Shares - Series 2G

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
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	-	-	-
2018	Cash	1.23361875	January 25	March 8	April 5
	Cash	1.23361875	May 10	June 21	July 6
	Cash	1.23361875	August 9	September 21	October 5
	Cash	1.23361875	November 13	December 21	January 11, 2019
Total:	-	4.934475	-	-	-
2019	Cash	1.23361875	January 24	March 22	April 5
	Cash	1.23361875	May 9	June 21	July 5
	Cash	1.23361875	August 8	September 20	October 4
Total:	-	3.7008563	-	-	-

Preferred Shares - Series 2H

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
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	-	-	-
2018	Cash	1.1854125	January 25	March 8	April 5
	Cash	1.1854125	May 10	June 21	July 6
	Cash	1.1854125	August 9	September 21	October 5
	Cash	1.1854125	November 13	December 21	January 11, 2019
Total:	-	4.74165	-	-	-
2019	Cash	1.1854125	January 24	March 22	April 5
	Cash	1.1854125	May 9	June 21	July 5
	Cash	1.1854125	August 8	September 20	October 4
Total:	-	3.5562375	-	-	-

Preferred Shares - Series 2I

Year	Type	Per Share Amount (P)	Date Declared	Record Date	Payment Date
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	-	-	-
2018	Cash	1.18790625	January 25	March 8	April 5
	Cash	1.18790625	May 10	June 21	July 6
	Cash	1.18790625	August 9	September 21	October 5
	Cash	1.18790625	November 13	December 21	January 11, 2019
Total:	-	4.751625	-	-	-
2019	Cash	1.18790625	January 24	March 22	April 5
	Cash	1.18790625	May 9	June 21	July 5
	Cash	1.18790625	August 8	September 20	October 4
Total:	-	3.5637188	-	-	-

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

On February 5, 2020, the Company established a U.S.\$3,000,000,000 Medium Term Note Programme (“**MTN Programme**”), under which the Company may issue notes or perpetual securities in bearer or registered form and denominated in any currency agreed between the Company and the relevant dealer. The securities to be issued under the MTN Programme will be offered offshore, and will be applied for listing on the Singapore Exchange Securities Trading Limited.

Aside from the foregoing, there are no securities sold by SMC within the past three (3) years which were not registered under the SRC.

Other securities issued by SMC within the same period are common shares under the Long-Term Incentive Plan for Stock Options and employee stock purchase plan pursuant to Section 10.2 of the SRC.

RELATED PARTY TRANSACTIONS

SMC, certain subsidiaries and their shareholders and associates and joint ventures, in the ordinary course of business, have entered into transactions with affiliates and other related parties, principally consisting of advances and sale and purchase of services and/or products.

Transactions with related parties are entered into on an arm's length basis. See note 33 to SMC's audited consolidated financial statements as of and for the years ended December 31, 2018 and note 8 of the unaudited interim condensed consolidated financial statements as of and for the nine months ended September 30, 2019 for more detailed information.

Receivables from related parties totalled ₱19,196 million as of December 31, 2018 and ₱18,821 million as of September 30, 2019.

PHILIPPINE TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Commercial Papers. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Commercial Papers and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Commercial Papers 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 Commercial Papers in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus.

The tax treatment applicable to a holder of the Commercial Papers 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 Commercial Papers.

PROSPECTIVE PURCHASERS OF THE COMMERCIAL PAPERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE COMMERCIAL PAPERS, 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 of 1997, as amended.

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 Commercial Papers 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 Commercial Papers 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 Commercial Papers is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Commercial Papers 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 Investors 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

An investor who is exempt from or is not subject to final withholding tax on interest income, or is entitled to be taxed at a preferential rate may claim such exemption or avail itself of such preferential rate by submitting the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance;

- (i) a current and valid BIR-certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR addressed to the relevant applicant or Investor, confirming its exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto;
- (ii) with respect to tax treaty relief, a duly accomplished Certificate of Residence for Tax Treaty Relief (CORTT) Form or the prescribed certificate of residency, in lieu of the tax treaty relief application, as required under the BIR Revenue Memorandum Order (RMO) No. 08-2017, and/or a duly notarized and consularized, if executed outside of the Philippines, Special Power of Attorney executed by the Commercial Paper Holder in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Commercial Paper Holder is not doing business in the Philippines to support the applicability of a tax treaty relief;
- (iii) a duly notarized undertaking executed by (1) the corporate secretary or any authorized representative of such applicant or Investor, who has personal knowledge of the exemption based on his official functions, if the applicant purchases, or the Investor holds, the Commercial Papers for its account, or (2) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Commercial Papers 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 of any suspension or revocation of the tax exemption certificate, certificate, ruling or opinion issued by the BIR, executed using the prescribed form, 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; and
- (iv) 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 withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Investor's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Investor is not doing business in the Philippines; *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 Investor on the interest payments to such Investor; *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, subject to the submission by the Investor claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status.

The foregoing requirements shall be submitted, (i) in respect of an initial issuance of Commercial Papers, to the underwriters or selling agents who shall then forward the same with the application to purchase to the Registrar; or (ii) in respect of a transfer from an Investor to a purchaser, to the Registrar upon submission of the Investor Registration Form in accordance with the procedures of the Registrar.

VALUE-ADDED TAX

Gross receipts arising from the sale of the Commercial Papers in the Philippines by banks and non-bank financial intermediaries performing quasi-banking functions are generally exempt from value-added tax (VAT). Section 109 (V) of the National Internal Revenue Code, as amended by the TRAIN Law, exempts services rendered in the Philippines by banks, non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries from the coverage of the VAT. However, gross receipts arising from the sale of Commercial Papers in the Philippines by dealers in securities shall be subject to a 12% value-added tax. "Dealers in securities" means a merchant of stock or securities, whether an individual partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers, that is, one who as a merchant buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom. The term "gross receipt" means gross selling price less acquisition cost of the Commercial Papers 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 Commercial Papers 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 Commercial Papers, 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 COMMERCIAL PAPERS

Income Tax

Any gain realized from the sale, exchange or retirement of Commercial Papers will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income which, after being reduced by the applicable deductions, is subject to ordinary income tax rates (at graduated rates from 0%-35% for individuals and 30% regular corporate income tax or 2% minimum corporate income tax, as the case may be, for domestic and resident foreign corporations). On the other hand, gains realized by non-residents from the sale or transfer of Commercial Papers are subject to final withholding tax at the rate of 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines. Gains derived by non-resident foreign corporations on the sale or other disposition of the Commercial Papers shall form part of their gross income which is subject to a 30% final withholding tax unless such foreign corporation is entitled to preferential tax treatment pursuant to a tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

If the Commercial Papers are considered as capital assets and are sold by a seller, who is an individual and who is not a dealer in securities, who has held the Commercial Papers 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. On the other hand, if the Commercial Papers were held by an individual for a period of twelve (12) months or less, 100% of the gain will be included in the computation of the taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of Commercial Papers, 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 Commercial Papers, 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 Commercial Papers, 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 Commercial Papers shall be subject to an estate tax which is levied on the net estate of the deceased at a uniform rate of 6%. An Investor shall be subject to donor's tax at a uniform rate of 6% based on the value of the total gift on the transfer of the Commercial Papers by gift in excess of PHP250,000.00 made during a calendar year, regardless of the relation of the donor to the donee.

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 Commercial Papers, shall not be collected (a) 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 (b) 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 Commercial Papers 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 Commercial Papers exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the commercial papers, trading the commercial papers in a secondary market or through an exchange. However, if the transfer constitutes a renewal of the commercial papers, documentary stamp tax is payable anew.

EXTERNAL AUDIT FEES AND SERVICES

The Parent Company paid the external auditor Audit Fees amounting to ₱9 million in 2019, ₱32 million in 2018 and ₱11 million in 2017. 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.

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 SyCip Salazar Hernandez & Gatmaitan (“**SyCipLaw**”) for the Company and Picazo Buyco Tan Fider & Santos (“**Picazo Law**”) for the Underwriters. SyCipLaw and Picazo Law have no direct interest in the Company.

SyCipLaw and Picazo Law may from time to time be engaged to advise in the transactions of the Company and perform legal services on the basis that SyCip Law and Picazo 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, 2016, 2017, and 2018 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 Prospectus.

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.

INDEX TO FINANCIAL STATEMENTS

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**Unaudited Interim Condensed Consolidated Financial Statements of the Company as of and for
the nine months ended September 30, 2019 and 2018**

**Audited Consolidated Financial Statements of the Company as of and for the years ended
December 31, 2018, 2017 and 2016**

ISSUER

San Miguel Corporation
40 San Miguel Avenue
Mandaluyong City Manila 1550
Philippines

SOLE ISSUE MANAGER

Philippine Commercial Capital Inc.
6/F PCCI Corporate Centre
118 L.P. Leviste St. Salcedo Village
Makati City, Philippines

LEGAL ADVISERS

To the Issuer

*To the Joint Arrangers, Joint Lead Underwriters
and Bookrunners*

Picazo Buyco Tan Fider & Santos Offices
18/F Liberty Center
104 H.V. dela Costa Street, Salcedo Village
Makati City, Philippines

SyCip Salazar Hernandez & Gatmaitan
SyCip Law Center
105 Paseo de Roxas, Legaspi Village
Makati City, Philippines

INDEPENDENT AUDITOR

R.G. Manabat & Co., formerly Manabat Sanagustin & Co, a member firm of KPMG
9th Floor, The KPMG Center
6787 Ayala Avenue

JOINT ARRANGERS, JOINT LEAD UNDERWRITERS AND BOOKRUNNERS

**BDO Capital &
Investment
Corporation**
20th Floor, South Tower
BDO Corporate Centre
7899 Makati Avenue
Makati City Philippines

**BPI Capital
Corporation**
11th Floor, Ayala North
Exchange Building,
6796 Ayala Avenue
corner Salcedo Street,
Makati City, Philippines

**China Bank Capital
Corporation**
28th Floor, BDO
Equitable Tower
8751 Paseo de Roxas
Makati City Philippines

**SB Capital Investment
Corporation**
18/F Security Bank
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