SAN MIGUEL CORPORATION

September 23, 2014

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

Attention: **Ms. Janet A. Encarnacion**
Head - Disclosure Department

Gentlemen:

We reply with respect to the news article entitled "SMC lost money on PAL investment" posted in Inquirer.net on September 23, 2014. The article reported in part that:

> "San Miguel Corp. did not make a profit on its investment in Philippine Airlines (PAL) despite having turned around the moribund flag carrier during the two years when the diversified conglomerate was running the firm.
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> In fact, SMC president Ramon S. Ang said yesterday that the conglomerate—the country's largest business group in terms of asset value—did not even break even on its PAL venture owing to its failure to recover its cost of funds.
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> 'SMC lost money in this deal,' he said, breaking his silence for the first time since the airline was reacquired by tycoon Lucio Tan—its former controlling shareholder —two weeks ago.
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> Ang said he was willing to forego a long drawnout negotiation process with Tan because it was in danger of turning hostile, with frustration on both sides running high after a year of flip-flopping decisions by PAL's former owner.
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> All told, the SMC group invested $1.36 billion in PAL—an amount Ang recovered, minus the interest that he should have charged for it over two years.
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> 'If we fought over it, it would destroy the value of PAL,' he said, adding that adopting a hardline negotiating stance would result in a 'lose-lose' situation for both sides and eventually erode the value of both tycoons' holdings. 'So I agreed to sell.'
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> . . . ."

By way of response to the Exchange, we advise that the statements of Mr. Ramon S. Ang, President and Chief Operating Officer of the Company, relating to the return of the investment of the Company in Philippine Airlines, Inc. (PAL), the reasons for the agreement of the Company to sell its equity stake in PAL to the Dr. Lucio C. Tan Group, and the accomplishments achieved and the efforts implemented under the direction of Mr. Ang to restore the financial condition of PAL to profitability, respectively, as reported in the aforementioned article, are accurate.

Very truly yours,

FERDINAND K. CONSTANTINO
Corporate Information Officer