



SAN MIGUEL CORPORATION

July 28, 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-Lucio Tan showdown over PAL looms" posted in Inquirer.net on July 28, 2014. The article reported in part that:

"The alliance between the San Miguel conglomerate and Lucio Tan group in Philippine Airlines is at risk of breaking up, with one group likely to buy out the other and consolidate control of the country's flag carrier soon.

For several months now, the Lucio Tan group has been pooling funds to buy back a 49-percent stake in PAL and reclaim management control from San Miguel Corp., which came in as a strategic partner in 2012 to support the carrier's modernization and refueling program.

Industry sources privy to the discussions said SMC president Ramon S. Ang, for his part, had agreed to sell back the conglomerate's interest in PAL 'at cost' as early as last year.

But if Tan's group could not raise the money to buy back this stake, SMC would be the one to buy out the Tan family's remaining 51-percent stake instead. It will be a 'buy-me-out-or-I-buy-you-out' situation, leaving only one group at the helm of PAL, the sources said.

'It will happen very soon,' said one source familiar with the discussions.

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Based on an estimate by people familiar with the business, Tan's group would need to raise \$1 billion to wrest control of PAL from SMC. This would include the cost of buying back the shares of SMC plus the advances made for the acquisition of many new aircraft under an ambitious refueling program initiated by Ang.

While Ang had long been aware of an attempt by the group to reclaim PAL, sources from the SMC group said his attitude was that of a 'wait-and-see' stance on whether the Tan group could in deed raise \$1 billion to do so.

They said that Ang, in the meantime, was likewise bracing for the possibility that SMC would be the one to buy out Tan's stake in the flag carrier. It was earlier reported that SMC was set to buy out Tan's remaining stake in PAL.

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By way of response to the Exchange, we advise that the Company and the Dr. Lucio Tan Group are in discussions with respect to their equity stakes in PAL Holdings, Inc, Philippine Airlines, Inc. and Air Philippines Corporation, respectively. An appropriate disclosure shall be made in the event a definite agreement is concluded by the parties.

Very truly yours,



FERDINAND K. CONSTANTINO
Corporate Information Officer