



SAN MIGUEL CORPORATION

September 13, 2016

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

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

Gentlemen:

We refer to the news article entitled "A frequency's worth" under the Biz Buzz column posted in Inquirer.net on September 12, 2016. The article reported in part that:

"HAVING recently been on the receiving end of what it believes is artificially induced pressure from "external forces" regarding the sale of its telecommunications assets, San Miguel Corp. is pushing back.

Biz Buzz learned that the conglomerate would write stock market and corporate regulators to stress why subsidiaries were granted "co-use" access to the precious 700 megahertz frequency of its Liberty Telecom unit. It will also illustrate why this frequency—that didn't look like it was worth much on its financial books—suddenly became a P70-billion asset once it was bought by rivals Globe Telecom and PLDT.

At the core of San Miguel's message are these two points: that 1) Liberty only allowed sister firms to co-use the asset approved by telecommunications regulators, and never transferred its ownership, and 2) that its true monetary value was actualized only once Globe and PLDT bought it.

San Miguel's point? The low tender offer price that the buyers have set for minority shareholders is their fault, not ours."

By way of response to the Exchange and clarification to the above-quoted opinion column, we enclose herewith for your information and consideration, the Letter-Response of the Company dated September 8, 2016, addressed to the Securities and Exchange Commission, relating to the: (i) contemplated unified roll-out plan of the Company through Vega Telecom, Inc. ("Vega") to be undertaken by its subsidiary, Bell Telecommunications Philippines, Inc. ("BellTel") for the common use of BellTel, Tori Spectrum Telecom Inc. ("Tori"), Express Telecoms Co. Inc. (now CobaltPoint Telecom, Inc.) and Hi-Frequency Telecommunications, Inc., and (ii) the valuation of the frequency allocated to Tori.

Further, we wish to clarify that, as disclosed by the Company to the Exchange on June 1, 2016, the consideration for the sale of the Company's telecommunications business to Globe Telecoms, Inc. ("Globe") and Philippine Long Distance Telephone Company ("PLDT") consisted of (i) Php52,080,764,982 for the value of the shares of Vega and outstanding advances by the Company, and (ii) the assumption of existing liability of Vega and its subsidiaries amounting to Php17,021,535,948.00. The parties to the transaction did not allocate a specific value to the assets and proprietary rights of Vega, inclusive of all proprietary and economic rights over all its subsidiaries, including BellTel, Eastern Telecommunications Philippines, Inc. and Liberty Telecoms Holdings, Inc. ("LTHI").

Finally, the Company is not privy to the manner and basis of Globe and PLDT in determining the value of the shares of LTHI for the purpose of their tender offer to the holders of the common shares of LTHI.

Very truly yours,



FERDINAND K. CONSTANTINO
Corporate Information Officer



SAN MIGUEL CORPORATION

08 September 2016

SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills
Mandaluyong City

Attention: **MR. VICENTE GRACIANO P. FELIZMENIO, JR.**
Director, Markets and Securities Regulation Department

Re: **Securities and Exchange Commission Letter dated 31 August 2016**
with Subject: "Transfer of Tori Spectrum's Frequencies to BellTel"

Gentlemen:

LIBERTY TELECOMS HOLDINGS, INC. (LIB) referred to the undersigned the subject letter of the Securities and Exchange Commission (SEC). We submit as follows:

A. Brief Background

Tori Spectrum Telecom Inc. (Tori) is a wholly-owned subsidiary of LIB that is licensed to provide wireless broadband data communication services in the Philippines. In the course of rolling out its broadband data network and building its subscriber base, Tori incurred losses from its operations resulting in a deficit and capital deficiency of both Tori and LIB.

- i. Prior to 2015, Tori had an existing broadband network utilizing WIMAX technology and running on the 2555-2595 MHz frequency assigned to Tori. Tori likewise had a frequency assignment on 723-738/778-793 MHz but had no existing network running on the latter frequency assignment.
- ii. A network rollout on 723-738/778-793 MHz would have cost Tori an estimated USD1.1Billion, for the reason that a rollout on the said frequency would involve building an entirely new network utilizing Long-Term Evolution (LTE) technology, which is entirely incompatible with Tori's existing WIMAX network. Likewise prior to 2015, Tori had a total capital deficiency of Php1.166Billion. Therefore, Tori was in no financial position, without additional equity contribution from its shareholders, to roll out an LTE network on its 723-738/778-793 MHz frequency assignment.

Set against this background, Tori embarked on developing a viable business plan that would optimize its resources without losing a hold over its frequency assets as shall be further discussed below.

B. Circumstances surrounding the transfer

1. In early 2015, Tori and its affiliates, Bell Telecommunications Philippines, Inc. (BellTel), Express Telecoms Co., Inc. (Extelcom), and Hi-Frequency Telecommunications, Inc. (Hi-Frequency) (hereinafter, collectively the “TelCos”), worked on an arrangement for future operations to optimize the use of their individual resources collectively at minimum cost to ensure more affordable telecommunications services to their customers. Such arrangement would have involved the undertaking by BellTel to perform the required rollout and to build a unified cellular mobile telephone and broadband wireless access network for the common use of the TelCos (the “Unified Rollout Plan”). Under the Unified Rollout Plan, BellTel would shoulder all the capital and operating expenditures for the network that would utilize a combined cellular mobile (2G) and fixed, nomadic and/or mobile broadband (4G) technology, but all TelCos would have access to, and utilize said network, through planned resellership agreements with BellTel. More importantly, BellTel’s rollout would also serve as compliance by the other TelCos of their obligations under their respective licenses and frequency assignments from the National Telecommunications Commission (NTC).
2. The Unified Rollout Plan would have enabled the most efficient usage of the spectrum that would not have otherwise been available to each of the TelCos had they rolled out individual and separate networks. The savings that would have been generated from reduced capital expenditure and operating expenses was expected to enable the TelCos to provide more affordable telecommunications services to their customers.
3. With respect to Tori, the Unified Rollout Plan was opportune because, and as already earlier discussed, neither Tori nor its parent company, LIB, had sufficient capital to purchase broadband wireless equipment utilizing its 723-738/778-793 MHz spectrum assignment (700 MHz Assignment) and undertake a nationwide rollout. As a result of its continued inability to use its 700 MHz assignment, Tori did not derive any value from it. The Unified Rollout Plan would have enabled Tori to offer services without the burden of expending massive amounts of money for capital and operating expenditures.
4. To ensure that there would be no legal/regulatory impediment to the implementation of the Unified Rollout Plan, the parties sought the NTC’s prior approval for it. BellTel likewise applied for the corresponding permits to purchase telecommunications equipment. On 17 March 2015, the NTC approved the TelCos’ request in connection with the Unified Rollout Plan. Subsequently, on 23 March 2015, the NTC issued to BellTel the relevant frequency assignment sheets and the pertinent permits to purchase telecommunications equipment covered by the Unified Rollout Plan.
5. The TelCos—all owned and controlled by Vega Telecom, Inc. (Vega)—were then still in preliminary discussions of the final terms and conditions of their planned resellership arrangements for the use of the unified network when San Miguel Corporation (SMC) sold all of its equity interest in Vega to PLDT, Inc. (PLDT) and to Globe Telecom, Inc. (Globe).

C. Value of the assigned spectrum

In the Philippines, frequencies are not owned by the telecommunications companies to whom they are assigned; Philippine telecommunications companies merely acquire the privilege of

using said frequencies¹, subject to twin conditions of (a) actual utilization of the frequencies in a telecommunications company's network and (b) payment of Spectrum User Fees (SUF). As a consequence of the aforesaid rule, frequencies are not considered "assets" of a telecommunications company (in the same manner as, for instance, real and personal properties and other tangible assets). Value is not intrinsically ascribed to frequencies *per se*; it is only when a telecommunications company manages to construct physical assets (*i.e.*, the telecommunications network utilizing the said frequencies), acquire subscribers, and generate cash flow and revenues from subscription fees that frequencies have an indirect bearing on the recognition of the telecommunications network as assets in the books of a telecommunications company. A telecommunications company cannot recognize in its books the value of a frequency assignment *per se* (*i.e.*, without a corresponding network running on said frequency assignment) for the simple reason that said frequency assignment would have been ripe for recall by the State on the grounds of non-use, non-payment of SUF or both, thereby rendering illusory and all-but-fleeting the said recognition of value.

Since Tori had no existing network on 723-738/778-793 MHz, the frequency is not reflected in its books and audited financial statements as an asset and, thus, no value is recognized in the books of Tori in relation to the said frequency. Similarly, no value is recognized in the books of Tori in relation to the 2555-2595 MHz frequency *per se* but, since Tori has rolled out a WIMAX network utilizing the said frequency, the said network is recognized as an asset in the books of Tori.

D. Consideration received by Tori Spectrum and resulting agreements and contracts arising from the transfer

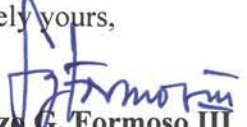
The consideration would have been Tori's right to have access to the unified network (through a resellership agreement with BellTel) to be spent for and undertaken by BellTel, not to mention that BellTel will pay for the SUF of the other TelCos. Tori and BellTel were still in preliminary discussions of the final terms and conditions of their planned resellership agreement when SMC sold all of its equity interest in Vega to PLDT and Globe.

E. Compliance with NTC Rules

The NTC approved the overall plan and arrangement in connection with the Unified Rollout Plan through its letter-approval dated 17 March 2015.

We likewise enclose herewith a copy of the letter-response dated, 08 September 2016 addressed to the Philippine Stock Exchange which to a certain extent addresses the points raised in the letter of the SEC.

Sincerely yours,


Lorenzo G. Formoso III
SVP, Head of Infrastructure Business
San Miguel Corporation

¹ Cf.: Section 4[c] RA 7925 and TELEBAP vs. COMELEC [G.R. No. 132922; April 21, 1998]



SAN MIGUEL CORPORATION

08 September 2016

PHILIPPINE STOCK EXCHANGE, INC.

Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

ATTENTION: MS. MARSHA M. RESURRECCION
Head, Issuer Regulation Division

RE: PSE Letter dated 31 August 2016
"Reassignment/Transfer/Sale of frequencies to
Bell Telecommunication Philippines, Inc."

Gentlemen:

Reference is made to the above-captioned subject letter which was endorsed by LIBERTY TELECOMS HOLDINGS, INC. (LIB) to the undersigned.

By way of response to the Exchange, we wish to clarify that the plan for the establishment and utilization of a common telecommunications network among Tori Spectrum Telecom Inc. ("Tori") and its affiliates, Bell Telecommunications Philippines, Inc. (BellTel), Express Telecoms Co., Inc. (Extelcom), and Hi-Frequency Telecommunications, Inc. (Hi-Frequency) falls within the purview of Art. VII, Sec. 4.1.1. of the PSE Consolidated Listing and Disclosure Rules which provides that the obligation to disclose material information shall not apply to any activity or development that is considered soft information. "Soft information" is information that is indefinite in nature. It includes "plans and objectives for future operations" and "incomplete proposals or preliminary negotiations" such as Tori's above-stated plan with its affiliates. Hence, any disclosure on the above-stated plan would have been considered premature. Moreover, such premature disclosure of the plan would have made LIB vulnerable to unwarranted attacks from competitors and would have prevented the implementation thereof.

The following facts and circumstances support the nature of the information as exempt from disclosure:

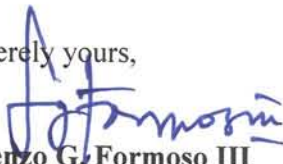
1. In early 2015, Tori, BellTel, Extelcom and Hi-Frequency worked on an arrangement for future operations to optimize the use of their individual resources collectively at minimum cost to ensure more affordable telecommunications services to customers. Such arrangement would have involved the undertaking by BellTel to perform the required rollout and build a unified cellular mobile telephone and broadband wireless access network for the common use of all four companies (the "Unified Rollout Plan"). Under the Unified Rollout Plan, BellTel would shoulder all the capital and operating expenditures for the network that would utilize a combined cellular mobile

(2G) and fixed, nomadic and/or mobile broadband (4G) technology, but all four companies would have access to, and utilize said network, through planned resellership agreements with BellTel.

2. To ensure that there would be no legal/regulatory impediment to the implementation of the Unified Rollout Plan, the parties sought the NTC's prior approval therefor. BellTel likewise applied for the corresponding permits to purchase telecommunications equipment. On 17 March 2015, through a letter-approval, the NTC approved the parties' request in connection with the Unified Rollout Plan. Subsequently, on 23 March 2015, the NTC issued to BellTel the relevant frequency assignment sheets and the pertinent permits to purchase telecommunications equipment covered by the Unified Rollout Plan.
3. Tori, BellTel, Hi-Frequency and Extelcom were then still in preliminary discussions of the final terms and conditions of the planned resellership arrangements and the unified network that would be built at rollout completion by BellTel. However, the Unified Rollout Plan was not completed when San Miguel Corporation (SMC) sold all of its equity interest in Vega Telecom, Inc. (Vega), to PLDT, Inc. and Globe Telecom, Inc.

In summary, while owned by SMC, Tori and its affiliates under the common control of Vega were developing a plan for future operations, which would have involved the establishment and utilization of a combined cellular mobile (2G) and fixed, nomadic and/or mobile broadband (4G) services upon the full implementation of the Unified Rollout Plan, as approved by the NTC in its letter dated 17 March 2015. However, this Plan remained but a plan where the definitive agreements necessary to implement the Unified Rollout Plan were never finalized, approved and signed. It is considered "soft information" and its untimely disclosure then would not only have been premature, but would have stymied its development and implementation. More importantly, such untimely disclosure would have created undue market speculation.

Sincerely yours,



Lorenzo G. Formoso III
SVP, Head of Infrastructure Business
San Miguel Corporation