



SAN MIGUEL CORPORATION

May 30, 2016

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 sells telco assets to PLDT, Globe" posted in the Inquirer.net on May 30, 2016. The article reported in part that:

"INDUSTRY giants Philippine Long Distance Telephone Co. (PLDT) and Globe Telecom will jointly buy out the telecommunications assets of conglomerate San Miguel Corp. in a deal expected to cement their duopolistic hold on the local market amid the growing clamor for better Internet services.

The surprise development comes as SMC, a diversified conglomerate that planned to launch a rival service this year to compete in the industry's hottest segment—mobile high-speed internet—was made to face hurdles on almost all fronts in its bid to become a viable third telco player.

Inquirer sources with knowledge of the deal said that PLDT, Globe and SMC have agreed in principle to what was expected to be a transaction worth a little more than \$1 billion. An agreement is scheduled to be signed between the transacting parties this morning.

It is expected to be the biggest deal of its kind since PLDT restored the telco duopoly in 2011, when it acquired the Gokongwei family's Digital Telecommunications Philippines Inc. (Digitel), which operates Sun Cellular. Digitel was the first to launch industry-changing unlimited texting and calling plans that affected the bottomline of Globe and Smart.

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Negotiations between buyers Globe and PLDT and the seller SMC began shortly after the latter's foreign telecommunications partner Telstra Corp. Ltd. of Australia backed out of a proposed partnership amid fierce opposition from local rivals as well as skeptics in Australia. Without a foreign partner, SMC would be hard pressed to raise the debt component of the estimated \$2-billion investment necessary for a startup telecommunications venture. This was due to the fact that

banks that were part of the lending syndicate required the conglomerate to have a foreign technical partner as a precondition for the loan.

SMC's telco investments were made years ago and are mainly held under unlisted Vega Telecom Inc., its annual report showed. Vega is the holding company for publicly traded Liberty Telecoms Holdings Inc., which holds most of the 700MHz along with High Frequency Telecommunications Inc., as well as Bell Telecommunication Philippines Inc. and Eastern Telecommunications Philippines Inc.

SMC's prized assets include its high-band frequencies necessary to address capacity and its coveted 700 Megahertz spectrum, a type of low-band frequency noted for its ability to cover wide spaces and penetrate walls at lower costs. It also owns physical assets like cell sites, which PLDT and Globe said remained difficult to build because of bureaucratic red tape.

SMC owns almost all of the 700 MHz spectrum (694 MHz to 790 MHz), previously assigned for analog television broadcasting before it was shifted for telecommunications use as TV migrated to digital. SMC would have used this to carpet the country with a "better and cheaper" mobile Internet service.

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By way of response to the Exchange, we advise that the Executive Committee of the Company has approved the sale and disposition of the investment portfolio of the Company in the telecommunications business. An appropriate disclosure shall be made in the event a definitive agreement is executed and concluded for such sale and disposition.

Very truly yours,



FERDINAND K. CONSTANTINO
Corporate Information Officer