SAN MIGUEL CORPORATION

Shelf Registration in the Philippines of
up to 975,571,800 Series “2” Preferred Shares
to be offered within a period of three (3) years
at an Offer Price of ₱75.00 per Preferred Share

to be listed and traded on the Main Board
of The Philippine Stock Exchange, Inc.

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 March 9, 2016

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

This Prospectus relates to the shelf registration and continuous offer by way of sale in the Philippines (the "Offer") of up to 975,571,800 cumulative, non-voting, non-participating, non-convertible Peso-denominated Series "2" Preferred Shares (the "Offer Shares") of San Miguel Corporation ("SMC", the "Company", the "Parent Company" or the "Issuer"), a corporation duly organized and existing under Philippine law, subject to the registration requirements of the Securities and Exchange Commission of the Philippines (the "SEC"). The Offer Shares will be sold at a subscription price of ₱75.00 per share (the "Offer Price"), or for a total offer size of up to Seventy-Three Billion One Hundred Sixty-Seven Million Eight Hundred Eighty-Five Thousand Pesos (₱73,167,885,000.00).

The Offer Shares shall be issued in tranches within a period of three (3) years (the "Shelf Period"), at an offer price of ₱75.00 per share. The Offer Shares will be issued from the (a) treasury shares of the Company and (b) unissued Series "2" Preferred Shares of the Company. The specific terms of the Offer Shares with respect to each issue tranche thereof shall be determined by the Company taking into account prevailing market conditions and shall be provided at the time of the relevant offering.

The Offer Shares are being offered for subscription solely in the Philippines.

On January 15, 2016, the Board of Directors of the Company (the "Board of Directors") authorized the sale and offer of up to Eighty Billion Pesos (₱80,000,000,000.00) of Series "2" Preferred Shares, at an offer price of ₱75.00 per share, or 1,066,000,000 Series "2" Preferred Shares, under a shelf registration to be issued within a period of three (3) years from the date of effectivity of the Registration Statement, under such terms and conditions as the management of SMC may deem advantageous to it (the "Enabling Resolutions"). On June 9, 2015, the stockholders of SMC approved the issuance of Series "2" Preferred Shares and delegated to the Board of Directors the authority to determine the terms and conditions of the issuance of the Offer Shares through the approval of the relevant enabling resolutions.

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 and capital requirements of SMC; its ability to receive dividends and other distributions and payments from its subsidiaries; foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations (both at the parent and subsidiary levels) and other factors the Board of Directors may deem relevant. While there is no assurance that SMC will declare dividends on the Offer Shares in the future, SMC has consistently paid quarterly cash dividends to both its common and preferred shareholders, details of which are found on page 154.

The date of declaration of cash dividends on the Offer Shares will be subject to the discretion of the Board of Directors to the extent permitted by law. The declaration and payment of dividends (except stock dividends) do not require any further approval from the shareholders of SMC.

As and if cash dividends are declared by the Board of Directors, and in accordance with the Enabling Resolutions, cash dividends on the Offer Shares shall be set out in the Offer Supplement, as defined in this Prospectus, in all cases calculated for each share by reference to the Offer Price thereof in respect of each Dividend Period (each, the "Dividend Rate" for the relevant subseries). Subject to limitations on the payment of cash dividends as described in the section on the "Terms of the Offer", dividends on the Offer Shares will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a "Dividend Payment Date"), which date shall be any day within the period commencing on (and including) the last date of a Dividend Period and 15 calendar days from the end of the relevant Dividend Period. A "Dividend Period" shall be the period commencing on the relevant Issue Date, as defined in the section on "Terms of the Offer", and having a duration of three (3) months, and thereafter, each of the successive periods of three (3) months commencing on the last day of the immediately preceding Dividend Period up to, but excluding the first day of, the immediately succeeding Dividend Period; provided that the first Dividend Period of the Offer Shares shall be the period commencing on the relevant Issue Date and ending on the last day of the then current dividend period for the outstanding

Preferred Shares. If a Dividend Payment Date occurs after the end of a Dividend Period, there shall be no adjustment as to the amount of dividends to be paid.

The dividends on the Offer Shares will be calculated on a 30/360-day basis.

If the Dividend Payment Date is not a Banking Day, dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of dividends to be paid.

For the purpose of the first dividend payment of the Offer Shares, the same will be paid on such date as to synchronize with the payment of dividends for the outstanding Preferred Shares.

The Board of Directors will not declare and pay cash dividends on any Dividend Payment Date where (a) payment of the cash dividend would cause SMC to breach any of its financial covenants or (b) the profits available to SMC to distribute as cash dividends are not sufficient to enable SMC to pay in full both the cash dividends on the Series "2" Preferred Shares and the dividends on all other classes of the shares of SMC that are scheduled to be paid on or before the same date as the cash dividends on the Series "2" Preferred Shares and that have an equal right to dividends as the Series "2" Preferred Shares.

Upon listing of the Offer Shares on The Philippine Stock Exchange, Inc. ("PSE"), SMC may purchase the Offer Shares which are then currently tradeable at any time in the open market or by public tender or by private contract at any price through the PSE without any obligation to purchase or redeem the other outstanding preferred shares of the Company.

The use of proceeds for each tranche of the Offer will be set out in the relevant Offer Supplement.

No dealer, salesman or any other 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 that may be engaged by the Company for each tranche of the Offer (the "Underwriters").

The distribution of this Prospectus and the offer and sale of the Offer Shares 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.

Unless otherwise stated, the information contained in this Prospectus has been supplied by the Company. 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.

Unless otherwise indicated, all information in the Prospectus is as of the date hereof. 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. 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, 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 the 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, the Underwriters or their respective affiliates or legal advisers that any recipient of this Prospectus should purchase the Offer Shares. Each person contemplating an investment in the Offer Shares 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 Offer Shares. A person contemplating an investment in the Offer Shares 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 Offer Shares 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 Offer Shares, see the section on "Risks Factors" starting on page 39.

The Company owns land as identified in the section on Description of Property on page 150. 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 corporation shall be considered as a 100.0% Filipino-owned corporation.

The listing of the Offer Shares is subject to the approval of the Board of Directors of the PSE. An application to list the Offer Shares has been filed with the PSE, but has not yet been approved by the Board of Directors of the PSE. If approved by the PSE, such approval for listing is permissive only and does not constitute a recommendation or endorsement of the Offer Shares by the PSE. The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of the Prospectus.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED THEREIN IS TRUE AND CURRENT.

SAN MIGUEL CORPORATION

By:

RAMON S. ANG
President and Chief Operating Officer

SUBSCRIBED AND SWORN to before me this MAR 0 9 2016 in Mandaluyong City, affiant exhibiting to me his Passport No. EC3542718 expiring on February 26, 2020 as competent evidence of identity.

Doc No. 48
Page No. 11
Book No. III
Series of 2016.

PAULA KATHERINA A. GAN
Commission No. 0308-15
Notary Public for Mandaluyong City
Until Dec. 31, 2016
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 2599895; 01/04/16; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15; Q.C.

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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.

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, telecommunications, 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 and the Underwriters 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.

This Prospectus includes forward-looking statements, including statements regarding the expectations and projections of the Issuer for future operating performance and business prospects. 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 accurately reflect in all material respects 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.

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
AGNP	A. G. N. Philippines, Inc.
AHC	Angat Hydropower Corporation
AHEPP	Angat Hydroelectric Power Plant
ALECO	Albay Electric Cooperative
APEC	Albay Power and Energy Corp.
ASEAN	The Association of Southeast Asian Nations, consisting of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam
BellTel	Bell Telecommunication Philippines, Inc.
BIR	Bureau of Internal Revenue of the Philippines
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
CCEC	Citra Central Expressway Corp.
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
Corporation Code	Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines, as amended
CTCII	Cypress Tree Capital Investments, Inc.
DA	Department of Agriculture of the Philippines
Daguma	Daguma Agro Minerals, Inc.
DENR	Department of Environment and Natural Resources of the Philippines
Distribution Code	The Philippine Distribution Code
DOE	Department of Energy of the Philippines
DOH	Department of Health of the Philippines, including the FDA
DOTC	Department of Transportation and Communications 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
Grid Code………………………………………….	The Philippine Grid Code
Ginebra…………………………………………….	Ginebra San Miguel Inc., including as the context requires, its subsidiaries
GWh………………………………………………..	Giga-watt hours
IMF………………………………………………….	International Monetary Fund
IPP………………………………………………….	Independent Power Producer
IPPA……………………………………………….	Independent Power Producer Administrator
ISO………………………………………………….	International Organization for Standardization
K-Water…………………………………………….	Korea Water Resources Corporation
Kirin………………………………………………..	Kirin Holdings Company, Limited
LGU…………………………………………………	Local government unit
Liberty Telecom……………………………………	Liberty Telecoms Holdings, Inc.
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.
MNHPI……………………………………………..	Manila North Harbour Port, Inc.
MARINA…………………………………………….	Maritime Industry Authority of the Philippines
Meat Inspection Code…………………………….	The Meat Inspection Code of the Philippines
Meralco…………………………………………….	Manila Electric Company
Metrix……………………………………………….	Metrix Research Sdn. Bhd.
Mincorr…………………………………………….	Mindanao Corrugated Fibreboard, Inc
MRT-7………………………………………………	Metro 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.
Oil Deregulation Act………………………………	The Philippine Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998
Offer Supplement…………………………………..	The document which sets out the terms and conditions for each tranche of the Offer Shares
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.
Padma……………………………………………..	Padma Fund L.P.
PDTC………………………………………………	The Philippine Depository & Trust Corporation
PEMC………………………………………………	Philippine Electricity Market Corporation
Penderyn…………………………………………..	Penderyn Pte Ltd.
Peso or P…………………………………………..	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
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……………………………………………	The Price Act
Privado……………………………………………..	Privado Holdings Corp.
PSALM……………………………………………..	Power Sector Assets and Liabilities Management Corporation
PSC…………………………………………………	Power supply contract
PSE…………………………………………………	The Philippine Stock Exchange, Inc.
PVEI………………………………………………..	PowerOne Ventures Energy Inc.
Rapid………………………………………………	Rapid Thoroughfares, Inc.
RCOA………………………………………………	Retail Competition and Open Access
RMP-2………………………………………………	Petron Bataan Refinery Master Plan Phase -2 Upgrade
S3HC………………………………………………	Stage 3 Connector Tollways Holdings Corp.
San Miguel Pure Foods …………………………..	San Miguel Pure Foods Company, Inc., including as the context requires, its subsidiaries
Saudi Aramco……………………………………..	Saudi Arabian Oil Company
SCCP………………………………………………	The Securities Clearing Corporation of the Philippines
SEC…………………………………………………	Securities and Exchange Commission of the Philippines
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.
SMESI………………………………………………	San Miguel Equity Securities, Inc.
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
SMYPC……………………………………………	San Miguel Yamamura Packaging Corporation, including as the context requires, its subsidiaries
SMYPIL……………………………………………	San Miguel Yamamura Packaging Internation Limited
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
Sultan Energy…………………………………….	Sultan Energy Philippines Corp.
TADHC……………………………………………..	Trans Aire Development Holdings Corp.
Tax Code…………………………………………..	The Philippine National Internal Revenue Code of 1997, as amended
Top Frontier………………………………………..	Top Frontier Investment Holdings, Inc.
TPLEX………………………………………………	Tarlac–Pangasinan–La Union Expressway
TransCo……………………………………………	National Transmission Corporation
TRB…………………………………………………	Toll Regulatory Board of the Philippines
Underwriters………………………………………..	Underwriters that may be engaged by the Company for each tranche of the Offer
Universal LRT……………………………………..	Universal LRT Corporation (BVI) Limited
VAT…………………………………………………	Value added tax
Vega…………………………………………………	Vega Telecom Inc.
Vertex………………………………………………..	Vertex Tollways Devt. Inc.
WESM………………………………………………	Philippine Wholesale Electricity Spot Market

Executive Summary

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and audited financial statements, including notes thereto, found in the appendices of this Prospectus.

Prospective investors should read this entire Prospectus fully and carefully, including the section on "Risk Factors". In case of any inconsistency between this summary and the more detailed information in this Prospectus, then the more detailed portions, as the case may be, shall at all times prevail.

Brief Background on the Company

San Miguel Corporation ("SMC", the "Company", the "Parent Company", or the "Issuer"), together with its subsidiaries (collectively with the Company referred to as the "SMC Group"), is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales of about 6.2% of the Philippine gross domestic product in 2014.

Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a market-leading beverage, food and packaging business with a globally recognized beer brand, into a diversified conglomerate with market-leading businesses and investments in the fuel and oil, energy, infrastructure, telecommunications and banking industries. SMC owns a portfolio of companies that is tightly interwoven into the economic fabric of its home market, benefiting from and contributing to the development and economic progress of the Philippines. The common shares of SMC were listed on November 5, 1948 at the Manila Stock Exchange, now The Philippine Stock Exchange, Inc.

In 2007, in light of the opportunities presented by the global financial crisis, the ongoing program of asset and industry privatization of the Philippine government, the strong cash position of SMC enhanced by recent divestments and the strong cash flow generated by its established businesses, SMC adopted an aggressive business diversification program. The program channeled the resources of SMC into what it believes were attractive growth sectors, aligned with the development and growth of the Philippine economy. SMC believes this strategy will achieve a more diverse mix of sales and operating income, and better position for SMC to access capital, present different growth opportunities and mitigate the impact of downturns and business cycles.

Since January 2008 up to the third quarter of 2015, SMC has either directly or through its subsidiaries, made a series of acquisitions in the fuel and oil, energy, infrastructure, telecommunications and banking industries. A summary of these transactions is set forth below:

- acquired 68.26% equity interest in Petron Corporation ("Petron")
- acquired the rights, pursuant to Independent Power Producer Administrator ("IPPA") agreements with Power Sector Assets and Liabilities Management Corporation ("PSALM") to administer three (3) power plants in Sual and San Roque in Pangasinan and Ilijan in Batangas
- made the following infrastructure acquisitions:
  - initial 35.0% equity interest in Private Infra Dev Corporation ("PIDC"), which is now at 70.11%
  - initial 93.4% equity interest in Trans Aire Development Holdings Corp. ("TADHC", formerly known as Caticlan International Airport Development Corporation), which is now at 99.80% of the total outstanding common shares of TADHC
  - 51.0% equity interest In Universal LRT Corporation (BVI) Limited ("Universal LRT")
  - initial 46.53% equity interest In Atlantic Aurum Investments BV ("AAIBV"), which is now at 95.0%
- made the following telecommunications acquisitions:
  - initial 41.48% equity interest in Liberty Telecommunications Holdings, Inc. ("Liberty Telecom"), which is now at 97.46% of the total issued and outstanding shares of Liberty Telecom

- 100.0% equity interest in Bell Telecommunication Philippines, Inc. (“BellTel”), a 100.0% equity interest in A.G.N. Philippines, Inc. (“AGNP”), which holds 40.0% interest in Eastern Telecommunications Philippines, Inc. (“Eastern Telecom”) and 37.7% equity interest in Eastern Telecom through its wholly-owned subsidiary, San Miguel Equity Securities, Inc. (“SMESI”), bringing its total indirect equity interest in Eastern Telecom to 77.7%

- acquired 100.0% equity interest in each of the three (3) concession holders of coal deposits in the Southern Mindanao region – namely, Daguma Agro Minerals, Inc. (“Daguma”), Bonanza Energy Resources, Inc. (“Bonanza Energy”) and Sultan Energy Phils. Corp. (“Sultan Energy”)

- acquired initially 30.0% in Bank of Commerce (“BOC”), which is now at 39.93%

SMC, through its subsidiaries and affiliates, has become a Philippine market leader in its businesses with 20,488 regular employees and more than 100 production facilities in the Asia-Pacific region as of September 30, 2015. The extensive portfolio of SMC products includes beer, liquor, 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, the SMC Group contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers.

Through the partnerships it has forged with major international companies, the SMC Group has gained access to the latest technologies and expertise, thereby enhancing its status as a world-class organization.

SMC has strategic partnerships with international companies, among them are Kirin Holdings Company, Limited (“Kirin”) for beer, Hormel Foods International Corporation (“Hormel”) for processed meats, Nihon Yamamura Glass Company, Ltd. (“NYG”) for packaging products, Padma Fund L.P. (“Padma”) for toll roads and Super Coffee Corporation Pte Ltd for coffee.

Major developments in the SMC Group are discussed in Management’s Discussion and Analysis of Financial Position and Performance, found on page 174.

Core Businesses

Beverages

San Miguel Brewery Inc. (“SMB”) is primarily engaged in the manufacture and sale of fermented and malt-based beverages, particularly beer of all kinds and classes. SMB has six (6) production facilities in the Philippines strategically located in Luzon, Visayas and Mindanao and operates one (1) brewery each in Hong Kong, Indonesia, Vietnam, Thailand, and two (2) breweries in China. In addition, SMB has recently acquired the non-alcoholic beverage business. The SMC Group also produces hard liquor through its majority-owned subsidiary, Ginebra San Miguel, Inc. (“Ginebra”). Ginebra is one of the largest gin producers in the world by volume with some of the most recognizable brands in the Philippine liquor market. It operates one (1) distillery, five (5) liquor bottling plants and one (1) cassava starch milk plant, and has engaged two (2) toll bottlers strategically located throughout the Philippines and one (1) bottling and distillery plant in Thailand.

Food

The food operations of SMC holds numerous market-leading positions in the Philippine food industry, offering a wide range of high-quality food products and services to household, institutional and foodservice customers. The food business is conducted through San Miguel Pure Foods Company, Inc. (“San Miguel Pure Foods”). In addition to its Philippine operations, the food business also has a presence in Indonesia and Vietnam.

San Miguel Pure Foods 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* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Super Coffee* for coffee, *La Pacita* for biscuits *and B-Meg* for animal feeds.

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"), San Miguel Yamamura Packaging International Limited ("SMYPIL"), San Miguel Yamamura Asia Corporation ("SMYAC"), SMC Yamamura Fuso Molds Inc. ("SYMFC"), Can Asia, Inc. ("CAI") and Mindanao Corrugated Fibreboard, Inc ("Mincorr"), collectively referred to as the Packaging Group.

The Packaging Group has one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, PET (Polyethylene Terephthalate) 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, South Africa, Australia and the Middle East, as well as to major multinational corporations in the Philippines, including Coca-Cola Femsa Philippines, Inc., Nestle Philippines and Pepsi Cola Products Philippines, Inc.

The Packaging Group has 13 international packaging facilities located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, woven bags and a packaging research center) and Australia (glass, trading, wine closures and bottle caps) 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.

Properties

San Miguel Properties Inc. ("SMPI") was created in 1990 initially as the corporate real estate arm of SMC. It is the primary property subsidiary of the SMC Group, currently 99.68% owned by SMC. SMPI is presently engaged in commercial property development, sale and lease of real properties, management of strategic real estate ventures and corporate real estate services.

New Businesses

Fuel and Oil

SMC operates its fuel and oil business through Petron, which is involved in refining crude oil and marketing and distribution of refined petroleum products mainly in the Philippines and Malaysia. Petron is the number one integrated oil refining and marketing company in the Philippines, with a market share of 35.4% as of December 2014, according to the Department of Energy of the Philippines ("DOE"). Petron participates in the reseller (service station), industrial, lube and liquified petroleum gas ("LPG") sectors. In addition, Petron is also engaged in non-fuels business by earning income from billboards and locators, which are largely situated within the premises of the service stations.

In Malaysia, Petron holds a 17.1% share of the retail market as of September 30, 2015, based on Petron estimates and information from Fahrenheit Research (M) Sdn. Bhd ("Fahrenheit Research"), the market research consultant appointed by Malaysian retail market participants to compile industry data.

Petron owns and manages the most extensive oil distribution infrastructure with 30 depots, terminals and airport installations and approximately 2,200 retail service stations in the Philippines and ten (10) product terminals and more than 560 retail service stations in Malaysia. Petron also exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

Petron owns and operates a petroleum refining complex, with a capacity of 180,000 barrels per day located in Limay, Bataan Philippines. The refinery has its own piers and two (2) offshore berthing facilities. In 2010, Petron upgraded its refinery by undertaking the Petron Bataan Refinery Master Plan Phase-2 Upgrade ("RMP-2") which was completed in 2014. RMP-2 upgraded the Petron Bataan Refinery to a full conversion refining complex, where all its fuel oil production is converted to higher value products – gasoline, diesel, jet fuel and petrochemicals, making it comparable to highly complex refineries worldwide. The completion of RMP-2 made Petron the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standards for fuels. Petron also has a refinery in Malaysia with a capacity of 88,000 barrels per day.

Energy

The energy business, which is conducted through SMC Global Power Holdings Corp. ("SMC Global Power"), is one of the leaders in the Philippine power generation industry in terms of installed capacity. SMC Global Power administers three (3) power plants, located in Sual, Pangasinan (coal), Ilijan, Batangas (natural gas) and San Roque, Pangasinan (hydroelectric), with a combined capacity of 2,545 MW, pursuant to the IPPA agreements with PSALM and National Power Corporation of the Philippines ("NPC").

SMC Global Power began acting as an IPPA of the Sual power plant in November 2009, the San Roque power plant in January 2010 and the Ilijan power plant in June 2010. SMC Global Power sells power through off take agreements either directly to customers, including Manila Electric Company and other distribution utilities, electric cooperatives and industrial customers, or through the Philippine Wholesale Electricity Spot Market ("WESM").

In September 2013, SMC Powergen Inc. ("SPI"), a subsidiary of SMC Global Power, acquired the 2 x 35 MW co-generation solid fuel fired plant of Petron located in Limay, Bataan. The plant added 140 MW to the total capacity of SMC Global Power. During the same period, SMC Global Power was awarded the winning concessionaire for the rehabilitation, operations and maintenance of Albay Electric Cooperative ("ALECO"), located in Albay, Bicol. A new subsidiary, Albay Power and Energy Corp. ("APEC") was created for this purpose.

In 2013, San Miguel Consolidated Power Corporation broke ground on the new coal-fired power plant in Malita, Davao and SMC Consolidated Power Corporation on another coal-fired power plant in Limay, Bataan, both of which will have an initial capacity of 300 MW each. These power plants are expected to be commercially available by 2016.

In 2014, PowerOne Ventures Energy Inc. ("PVEI"), a subsidiary of SMC Global Power, and Korea Water Resources Corporation ("K-Water") entered into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant ("AHEPP") awarded by PSALM to K-Water. This brought total installed capacity of SMC Global Power to 2,903 MW.

As of September 30, 2015, SMC Global Power is one of the largest power companies in the Philippines, which holds a 22.2% market share of the total installed power generation capacity for the Luzon power grid and a 16.5% market share of the national grid according to the Energy Regulatory Commission of the Philippines ("ERC").

SMC Global Power, through San Miguel Energy Corporation ("SMEC"), likewise owns three (3) coal mining companies which are concession holders of coal deposits in Southern Mindanao.

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. Current operating tollroads include the Tarlac-Pangasinan-La Union Toll Expressway ("TPLEX"), South Luzon Expressway ("SLEX"), Skyway Stage 1 and 2 and the Southern Tagalog Arterial Road ("STAR") tollways and ongoing tollroad projects are the NAIA Expressway ("NAIAx") and the Skyway Stage 3. It also operates and is currently expanding Boracay Airport. In addition, it has the concession right to construct, operate and maintain the Mass Rail Transit Line 7 ("MRT-7").

TPLEX

SMHC, through its subsidiary, Rapid Thoroughfares, Inc. ("Rapid"), owns a 70.11% equity interest in PIDC. PIDC is a company which holds a 35-year Build-Transfer-Operate ("BTO") concession rights to construct, operate and maintain an 88.85 km toll expressway from La Paz, Tarlac, through Pangasinan, to Rosario, La Union.

Boracay Airport

SMC, through the 99.80% interest of SMHC in TADHC, is undertaking the expansion of Boracay Airport under a 25-year Build-Rehabilitate-Operate-Transfer ("BROT") concession granted by the Republic of the Philippines ("ROP"), through the Department of Transportation and Communications of the Philippines ("DOTC").

STAR Tollway

SMHC, through Cypress Tree Capital Investments, Inc. ("CTCII") has an effective 100.0% interest in Star Infrastructure Development Corporation ("SIDC"). SIDC holds the 30-year BTO concession rights of the STAR Project consisting of: Stage 1 - operation and maintenance of the 22.16 km toll road from Sto. Tomas to Lipa City; and Stage 2 - financing, design, construction, operation and maintenance of the 19.74 km toll road from Lipa City to Batangas City.

NAIAx

On May 31, 2013, SMHC incorporated Vertex Tollways Devt. Inc. ("Vertex"), a company that holds the 30-year BTO concession rights for the construction and operation of the NAIA Expressway ("NAIAx") – a four (4) lane elevated expressway with end-to-end distance of 5.4 km that will provide access to NAIA Terminals 1, 2 and 3. NAIAx will connect to the Skyway system, the Manila-Cavite Toll Expressway ("CAVITEX") and the Entertainment City of the Philippine Amusement and Gaming Corporation ("PAGCOR").

SLEX / Skyway Stage 1 and 2

On March 5, 2015, SMHC increased its shareholdings in AAIBV to 95.0% stake in AAIBV. AAIBV has the following shareholdings:

- 80.0% stake in South Luzon Tollway Corporation ("SLTC"), through MTD Manila Expressways, Inc. ("MTDME"), a wholly-owned subsidiary of AAIBV. SLTC holds a 30-year concession rights to operate the 36.1 km South Luzon Expressway ("SLEX"), one of the three (3) major expressways that link Metro Manila to Southern Luzon;

- 87.84% beneficial ownership in Citra Metro Manila Tollways Corporation ("CMMTC"), through Atlantic Aurum Investments Philippines Corporation ("AAIPC"), a wholly-owned subsidiary of AAIBV. CMMTC holds a 30-year concession to construct, operate and maintain the 29.59 km Skyway Stage 1 and 2 Project.

Skyway Stage 3

On February 28, 2014, SMHC through AAIBV incorporated Stage 3 Connector Tollways Holdings Corp. ("S3HC"), which holds an 80.0% ownership interest in Citra Central Expressway Corp. ("CCEC"). CCEC holds a 30-year concession to construct, operate, and maintain the Skyway Stage 3, an elevated roadway with the entire length of approximately 14.82 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. This is envisioned to inter-connect the southern and northern areas of Metro Manila to help decongest traffic in Metro Manila and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

MRT-7

In October 2010, SMC, through SMHC, acquired a 51.0% stake in Universal LRT, which holds the 25-year Build-Gradual Transfer-Operate-Maintain ("BGTOM") concession for MRT-7. MRT-7 is a planned expansion of the metro rail system in Manila which mainly involves the construction of 22 km mass rail transit system with 14 stations that will start from San Jose del Monte City and end at the integrated LRT-1 / MRT-3 / MRT-7 station at North EDSA and a 22 km six (6) lane asphalt highway that will connect the North Luzon Expressway to the intermodal transport terminal in San Jose del Monte City, Bulacan and a 22-km road component from San Jose del Monte City, Bulacan to the Bocaue exit of the NLEX.

Telecom

SMC has made investments in the telecommunications sector in the Philippines through acquisitions of stakes in Liberty Telecom, BellTel and Eastern Telecom.

Liberty Telecom

In 2010, SMC through its subsidiary, Vega Telecom Inc. ("Vega"), owns a 41.48% stake in Liberty Telecom, a telecommunications carrier listed in The Philippine Stock Exchange, Inc., offering data communications and data connectivity services. Vega increased its ownership from 41.48% to 45.05% in April 2014,to 45.58% in December 2014 and 97.46% of the total issued and outstanding shares of Liberty Telecom effective September 2, 2015.

BellTel

Also, in 2010, Vega subscribed to the shares of stock equivalent to 100.0% of Two Cassandra-CCI Conglomerates, Inc., Power Smart Capital Limited, and Perchpoint Holdings, Corp. that collectively owns 100.0% of BellTel. In December 2014, Vega made a direct additional investment to BellTel by subscribing to its unissued shares.

BellTel, which began commercial operations in 2002, offers an integrated package of services, including local and long distance telephony, high speed data connectivity and Internet. It has various licenses that include local exchange carrier, international gateway facility, inter-exchange carrier, very small aperture terminal, internet service provider, and wireless local loop telephone systems in various cities and municipalities in the National Capital Region of the Philippines ("NCR"). It is authorized to provide the full range of services throughout the Philippines. In 2014, BellTel acquired 100.0% of Dominer Pointe, Inc. and Somete Logistics & Dev't. Corp. from various individuals. Both tower companies are engaged in the business of conceptualization, construction, installation, establishment, operation, leasing, sale and maintenance, and rendering of specialty technical services for tower infrastructures to be utilized by telecommunication companies.

Eastern Telecom

In 2010, SMC, through Vega, acquired 100.0% of the outstanding and issued shares of stock of AGNP, the beneficial owner of approximately 40.0% of Eastern Telecom, inclusive of the existing businesses, investments and telecommunications service facilities of Eastern Telecom. On October 20, 2011, the Parent Company through its wholly-owned subsidiary, SMESI, acquired an additional 37.7% of the outstanding and issued shares of stock of Eastern Telecom bringing its total indirect equity interest in Eastern Telecom to 77.7%.

Established more than 130 years ago, Eastern Telecom offers a full range of telecommunication services, including internet, data, voice and certain value added services. Eastern Telecom is a provider of voice, data and internet services to the business process outsourcing market.

Competitive Strengths

SMC believes that its principal strengths include the following:

Diversified platform with broad exposure to the Philippine economy

The Philippines has become one of the fastest growing economies in Asia, with consecutive annual positive gross domestic product growth since 1999. According to the Association of South East Asian Nations ("ASEAN") briefing, the Philippines announced a gross domestic product growth of 6.1% in 2014, the second (2nd) highest in the Asia-Pacific region. According to the International Monetary Fund ("IMF"), the Philippines is expected to experience gross domestic product growth at the rate of 6.0% and 6.2% for 2016 and 2017, respectively. In addition, the Philippine population is young, comparably literate and growing, which provides the Philippine economy with favorable demographics for further growth.

As one of the largest conglomerates in the Philippines by revenues and total assets, with sales of about 6.2% of the Philippine gross domestic product in 2014, the SMC Group is broadly exposed to the Philippine economy through its diverse range of businesses spanning the beverage, food, packaging, fuel and oil, energy, infrastructure, telecommunication, property, and banking industries. 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 domestic markets.

Beverages: The domestic beer business of SMC has consistently dominated the Philippine beer market, with a market share of 90.0% by volume in 2012, according to Canadean data, with no significant changes thereafter. SMB has held this position since 1999. SMC also produces some of the most recognizable brands in the Philippine liquor market. It also has a growing non-alcoholic beverage business which produces non-carbonated ready to drink teas, fruit juices and water.

Food: San Miguel Pure Foods is a leading Philippine food company with market-leading positions in key food categories and offers a broad range of high-quality food products and services to household, institutional and foodservice customers. Based on data from certain Philippine government agencies and its own internal assumptions and calculations, San Miguel Pure Foods believes it has market shares of 38.0% for poultry, 40.0% for fresh meats (based on sow population of large commercial farms), and 43.0% for animal feeds, in each case as of December 2014 and 16.0% for flour as of September 30, 2015. According to Kantar Worldpanel, San Miguel Pure Foods has a market share of 58.0% for hotdogs sold in Philippine supermarkets, 84.0% in the chicken nugget product category, and market shares of 42.0% for butter, 97.0% for refrigerated margarine, in each case based on value as of September 2015. According to Nielsen, San Miguel Pure Foods has a 97.0% market share for non-refrigerated margarine and 20.0% market share for cheese as of August 2015. San Miguel Pure Foods has continuously enhanced brand recognition and trust with consumers by consistently maintaining high product quality, as well as through active and targeted advertising and promotional campaigns.

Packaging: The packaging business is one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, PET and other packaging products. The packaging business is the major source of packaging requirements of the other businesses of SMC. It also supplies its products to major multinational corporations in the Philippines and customers across the Asia-Pacific region, the United States, Africa, Australia and the Middle East.

Fuel and oil: Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, Petron is the number one integrated oil refining and marketing company, with an overall market share of 35.4% of the Philippine oil market in terms of sales volume based on industry data from the DOE as of December 2014. Petron also has a 17.1% share of the Malaysian retail market as of September 30, 2015, according to Petron and Farenheit Research estimates.

Energy: SMC Global Power is one of the largest IPPAs in the Philippines, holding a 22.2% market share of the total installed capacity of the Luzon power grid and a 16.5% market share of the national grid as of September 30, 2015, according to the ERC. SMC Global Power administers three (3) power plants, located in Sual, Pangasinan (coal-fired), Ilijan, Batangas (natural gas) and San Roque, Pangasinan (hydroelectric) and owns the power plant in Limay, Bataan (coal co-generation). In addition, SMC also owns 60.0% interest in the AHEPP. This brings total combined capacity of SMC Global Power to 2,903 MW. The energy trading team of SMC comprises of pioneers in WESM trading.

Infrastructure: SMHC has become one of the major infrastructure companies in the country, with concessions in toll roads, airport and mass rail transit. SMHC has rights to about 52.7% of the total road length of awarded toll road projects. This includes operating toll roads such as TPLEX, SLEX, Skyway Stages 1 and 2 and STAR tollways while ongoing projects include NAIAx and Skyway Stage 3. SMHC also operates the Boracay Airport which is currently doing improvement and expansion activities that will take advantage of the growing number of tourists in the area. In addition, SMHC holds the concession to construct, operate and maintain the MRT-7 project, a 22-km rapid mass rail transit system, which spans from North EDSA to San Jose del Monte City, Bulacan, and a 22-km road component from San Jose del Monte City, Bulacan to the Bocaue exit of the NLEX.

Experienced management team

SMC has an extensive pool of experienced managers who have been with SMC for more than 20 years. The management team has a deep knowledge and understanding of the Philippine operating environment and has been able to effectively manage SMC through periods of crisis and instability in the Philippines. In addition, the management team has successfully directed the diversification strategy of SMC, including retaining key management personnel from acquired companies in order to maintain their expertise and leverage their industry experience.

Operating businesses provide sustainable stream of income and cash flows

The beverage, food and packaging businesses provide SMC with a sustainable stream of income. These businesses demonstrated resilience during the global financial crisis and provided SMC with a strong financial base from which to pursue its recent diversification strategy. In 2014, the core businesses of beverage, food and packaging businesses provided 28.3% of total SMC sales and 43.9% of total SMC EBITDA. For the period ending September 30, 2015, core businesses provided 32.2% of total SMC sales and 37.6% of total SMC EBITDA.

For the period ending September 30, 2015, SMC generated ₱77,466 million of EBITDA and ₱6,167 million of net income attributable to the Parent Company with ₱43,983 million of capital expenditure. In 2014, SMC generated ₱88,096 million of EBITDA and ₱14,692 million of net income attributable to the Parent Company with ₱38,951 million of capital expenditure. In 2013, it generated ₱77,283 million of EBITDA and ₱38,053 million of net income attributable to the Parent Company with ₱65,865 million of capital expenditure. In 2012, it generated ₱76,626 million of EBITDA and ₱26,806 million of net income attributable to the Parent Company with ₱52,917 million of capital expenditure.

Well-positioned for significant future growth

SMC is well-positioned for significant future growth. The established businesses of SMC in beverage, food and packaging continue to provide stable cash flow, while its new businesses have enabled the Company to expand its ability to generate higher returns.

Beverage: The beverage business is well-positioned to benefit from the increasing affluence and population growth in the Philippines, which the Company believes present significant opportunities in the premium beer market. In addition, the international beer business of SMC is experiencing increased sales through growing brand recognition in selected overseas markets such as Indonesia, Thailand, Singapore, Hong Kong, the Middle East, US and Asia-Pacific region. SMC is expanding its liquor business throughout the Philippines and internationally. SMC plans to create rapid deployment task forces, particularly in the southern Philippines, where market penetration is low and where there is no existing dealership system. With the transfer of the non-alcoholic beverage business from Ginebra to SMB, SMC believes that the strong distribution infrastructure of SMB will be able to increase margins and improve profitability of the beverage business as a whole. The beverage business continues 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.

Food: The food business aims to become the least-cost producer through its vertically-integrated meats business model, which allows it to secure stable raw material supply and develop cheaper alternative raw materials. San Miguel Pure Foods is also streamlining its operations to improve the profitability of its established business segments, such as poultry, feeds, meats and flour, maximize synergies across operations, and improve margins by shifting to stable-priced and value-added products.

Packaging: The packaging business 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. The rising 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 business 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, both of which it believes have favorable 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 automatic pricing mechanism that provides stable returns to fuel retailers.

Petron owns refineries, in both the Philippines and Malaysia, capable of producing finished petroleum products. Petron believes it has the 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. Petron also increased its production of higher margin products with the completion of RMP-2. The RMP-2 is the second phase of a refinery expansion project, which includes further enhancements to its operational efficiencies, increase in conversion capability and reduce production of lower-value products. In addition to RMP-2 and the expansion of the service station network, Petron is operating the new coal Co-generation power plant to supply the power requirements of the Limay Refinery that replaced some of the existing turbo and steam generators. The new coal Co-generation power plant is utilizing more efficient technology and generating power at lower costs.

Energy: SMC Global Power is expanding its power generating capacity over the next five (5) years and believes its energy business will benefit from growing demand for electricity in the Philippines, which is forecasted to exceed the growth rates of the Philippine gross domestic product, and the shortage in electricity supply, with the industry constrained by aging power generation assets and minimal additional capacities. Also, if spot electricity rates move higher as a result of increased demand, the margins of SMC Global Power are expected to increase.

Infrastructure: SMHC believes there are significant opportunities in building or acquiring infrastructure assets in a growing economy that has historically under-invested in infrastructure. In addition, concession agreements for the various projects will provide strong and stable long-term income streams, as well as serve as a barrier to entry to new players to the business.

Telecom: SMC believes its investments in the telecommunications industry provide the Company with an opportunity to participate in a high growth industry as the Philippine population becomes more affluent and spends more on higher margin services. In particular, SMC is currently refining its telecommunications business strategy, where it plans to take advantage of opportunities in digitization of businesses, the emergence of mobile platforms for businesses and the provision of services to consumers. Moreover, the three (3) telecom companies of SMC have a wide bandwidth of spectrum that would enable SMC to be competitive in both current (2G/3G/4G) and future technologies.

Synergies across businesses

SMC expects significant opportunities to develop and increase synergies across many of its businesses, including:

Ancillary business opportunities: SMC believes it has opportunities within its existing businesses to secure growth in its new businesses by using the relevant areas to conduct business and activities. Potential initiatives of this type include installing SMC Group advertisements, building service stations, retail outlets, rest stops and kiosks along toll roads.

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 beverage and food products of SMC.

Economies of scale: SMC believes the size and scale of its distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC should 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, such as supplying the fuel and oil and power requirements of its businesses internally.

Business 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.

Continue to 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 to position itself for the economic growth and industrial development of 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 is pursuing plans to integrate its production and distribution facilities for its established and newly acquired 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 constructing new power plants and expanding its power generation portfolio, building additional service and micro-filling stations and expanding distribution networks for its beverage and food products. 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 it believes have the potential to gain leading positions in their respective markets.

Adopt world-leading practices and joint development of businesses

SMC continues to develop strategic partnerships with global industry leaders, such as Kirin for beer, Hormel for processed meats and NYG for packaging products. These partnerships provide marketing and expansion opportunities.

Risks of Investing

Prospective investors should also consider the following risks of investing in the Offer Shares:

1. Macroeconomic risks, including the current and immediate political and economic factors in the Philippines and the experience of the country with natural catastrophes, as a principal risk for investing in general;

2. Risks relating to SMC, its subsidiaries and their business and operations; and

3. The nature of the Offer Shares as perpetual securities, the absence of a liquid secondary market and volatility of the Offer Shares and other risks relating to the Offer Shares.

(For a more detailed discussion, see “Risk Factors” on page 39)

Use of Proceeds

The Offer Price shall be at ₱75.00. Out of the gross proceeds, SMC shall deduct fees, commissions, and expenses, for each tranche of the Offer. The use of proceeds for each tranche of the Offer will be set out in the relevant Offer Supplement.

Offer Supplement

For each tranche of the Offer, the Company shall distribute a supplement (the “Offer Supplement”) which shall be disclosed to the public through the filing with the SEC and the PSE and made available for download from the website of SMC specifically, in http://www.sanmiguel.com.ph.

The Offer Supplement shall contain the following information:

(a) timetable, offer size of the specific offering, the applicable dividend rate and the mode of settlement of the offering;
(b) capital structure of the Company after the offering;
(c) any changes to the risk factors and tax consequences of the offering;

(d) description of the specific distribution and underwriting arrangements; and
(e) amount and use of proceeds.

Plan of Distribution

SMC plans to issue the Offer Shares to institutional and retail investors through a public offering to be conducted through the Underwriters (for a more detailed discussion, see the relevant Offer Supplement).

Expected Timetable

The indicative timetable of the Offer is expected to be as follows:

Particulars	Dates
Filing of the Initial Registration Statement with the SEC…………………………………………………….	February 10, 2016
Filing of the PSE Listing Application………………….	February 11, 2016
PSE Listing Approval…………………………………….	February 24, 2016
Receipt of SEC Pre-Effective Approval………………	March 8, 2016
Shelf Registration…………………………………….....	March 10, 2016 to March 9, 2019

The dates indicated above are subject to market and other conditions and may be changed by the agreement of SMC and Underwriters, subject to the approval by the SEC and PSE.

After the Registration Statement of the Company for the Offer Shares becomes effective, the Company will secure a permit to sell from the SEC for each tranche of the Offer.

Summary of Financial Information

Prospective purchasers of the Offer Shares should read the summary financial data below together with the financial statements, including the notes thereto, included in this Prospectus and "Management's Discussion and Analysis of Results of Operations and Financial Condition". The summary financial data for the three (3) years ended December 31, 2014, 2013 and 2012 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 three (3) years ended December 31, 2014, 2013 and 2012 are found on Appendix "B" of this Prospectus and the nine (9) months ended September 30, 2015 and 2014 are found on Appendix "A" of this Prospectus.

The summary financial and operating information of SMC presented below as of and for the years ended December 31, 2014, 2013 and 2012 were derived from the consolidated financial statements of SMC, audited by R.G. Manabat & Co. (formerly Manabat Sanagustin & Co.) and prepared in compliance with the Philippine Financial Reporting Standards ("PFRS"). The financial and operating information of SMC presented below as of and for the nine months ended September 30, 2015 and 2014 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,	
	2012	**2013**	**2014**	**2014**	**2015**
		(Audited)		**(Unaudited)**	
	(in millions except per share figures or where otherwise indicated)				
Consolidated Statements of Income Data					
Sales..	₱ 699,916	₱ 748,241	₱782,434	₱593,470	₱504,520
Cost of sales..	595,581	631,856	669,641	506,617	402,176
Gross profit	104,335	116,385	112,793	86,853	102,344
Selling and administrative expenses..........................	(52,600)	(60,971)	(57,018)	(39,644)	(44,213)
Interest expense and other financing charges	(29,800)	(30,970)	(29,710)	(21,925)	(24,111)
Interest income	4,253	3,539	4,012	2,844	3,286
Equity in net earnings (losses) of associates and joint ventures……………………………………...	2,638	(967)	1,255	1,009	(486)
Gain on sale of investments and property and equipment..	4,549	41,192	777	218	75
Other income (charges) – Net....................................	12,689	(13,780)	6,307	7	(7,837)
Income before income tax..	46,064	54,428	38,416	29,362	29,058
Income tax expense..	8,406	3,700	10,284	6,211	10,113
Net income..	₱37,658	₱50,728	₱ 28,132	₱23,151	₱18,945
Attributable to:					
Equity holders of the Parent Company	₱ 26,806	₱ 38,053	₱14,692	₱13,170	₱6,167
Non-controlling interests	10,852	12,675	13,440	9,981	12,778
	₱37,658	₱ 50,728	₱ 28,132	₱ 23,151	₱18,945
Earnings per common share attributable to equity holders of the Parent Company basic.......................	₱ 8.72	₱13.43	₱ 3.61	₱3.61	₱0.46
Earnings per common share attributable to equity holders of the Parent Company diluted	₱ 8.67	₱₱ 13.36	₱₱ 3.59	₱3.59	₱0.46

	As of the years ended December 31,			As of the nine months ended September 30,
	(Audited)			(Unaudited)
	(in millions except per share figures or where otherwise indicated)			
	2012	2013	2014	2015
Consolidated Statements of Financial Position Data				
Assets				
Total current assets	₱ 372,891	₱ 489,006	₱ 539,235	₱456,223
Total non-current assets	670,079	681,081	677,815	780,791
Total assets	₱ 1,042,970	₱ 1,170,087	₱ 1,217,050	₱1,237,014
Liabilities and Equity				
Current liabilities				
Total current liabilities	₱ 268,710	₱ 335,546	₱ 354,411	₱329,508
Total non-current liabilities	425,323	468,764	473,158	526,252
Equity				
Equity attributable to equity holders of the Parent Company	252,249	237,707	240,462	236,147
Non-controlling interests	96,688	128,070	149,019	145,107
Total equity	348,937	365,777	389,481	381,254
Total liabilities and equity	₱ 1,042,970	₱ 1,170,087	₱ 1,217,050	₱1,237,014

	For the years ended December 31,			For the nine months ended September 30,	
	2012	2013	2014	2014	2015
	(Audited)			(Unaudited)	
	(in millions except per share figures or where otherwise indicated)				
Cash Flow Data					
Net cash provided by (used in):					
Operating activities	₱ 15,763	₱49,739	₱ 29,417	₱19,493	₱35,386
Investing activities	(56,262)	(27,219)	27,520	38,794	(31,254)
Financing activities	37,843	42,563	9,904	(13,479)	(70,117)
Effect of exchange rates changes in cash and cash equivalents	(701)	1,023	152	1,280	2,027
Net increase/(decrease) in cash and cash equivalents	(3,357)	66,106	66,993	46,088	(63,958)
Cash and cash equivalents at beginning of year	128,864	125,507	191,613	191,613	258,606
Cash and cash equivalents at end of period	₱125,507	₱ 191,613	₱ 258,606	₱ 237,701	₱194,648

Capitalization

The unaudited consolidated short-term and long-term debt and capitalization of SMC as of the relevant period shall be set out in the Offer Supplement for each tranche of the Offer.

Terms of the Offer

The following does not purport to be a complete listing of all the rights, obligations and privileges attaching to or arising from the Offer Shares. Some rights, obligations or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective shareholders are enjoined to perform their own independent investigation and analysis of SMC and the Offer Shares. Each prospective shareholder must rely on its own appraisal of SMC and the Offer Shares and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to invest in the Offer Shares and 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 shareholder's independent evaluation and analysis.

Issuer……………………………..	San Miguel Corporation ("SMC", the "Company")
Offer Size…………………………	₱73,167,885,000.00
Instrument………………………..	Series "2" cumulative, non-voting, non-participating, non-convertible Peso-denominated Preferred Shares (the "Series "2" Preferred Shares"). The Offer Shares may be issued in one or more Subseries.
The Offer…………………………	SMC may offer from time to time, within a period of three (3) years, up to 975,571,800 Series "2" Preferred Shares in one (1) or more tranches in such amounts and with such terms as may be determined by SMC in light of prevailing market and other conditions at the time of sale. For each tranche of the Offer, the Company shall distribute an Offer Supplement which shall be disclosed to the public through the filing with the SEC and the PSE and made available for download from the website of SMC specifically, in http://www.sanmiguel.com.ph. The Offer Supplement will contain the following information: (a) timetable, offer size of the specific offering, the applicable dividend rate and the mode of settlement of the Offer; (b) capital structure of the Company after the Offer; (c) any changes to the risk factors and tax consequences of the offering; (d) description of the specific distribution and underwriting arrangements; and (e) amount and use of proceeds.
Registration and Listing………..	The Offer Shares will be registered with the Securities and Exchange Commission ("SEC") under a shelf registration and listed on The Philippine Stock Exchange, Inc. ("PSE"), subject to compliance with SEC regulations and PSE listing rules.
Issue Date………………………..	The issue date as set out in the relevant Offer Supplement.
Listing Date……………………….	The listing date as set out in the relevant Offer Supplement.
Use of Proceeds………………….	The use of proceeds for each tranche of the Offer will be set out in the relevant Offer Supplement.
Par Value………………………….	The Series "2" Preferred Shares have a par value of ₱5.00 per share.

Offer Price………………………..	The Offer Shares shall be offered at a price of ₱75.00 per share.
Dividend Rate ……………………	The dividend rate for each tranche of the Offer shall be set out in the relevant Offer Supplement.
Dividend Rate Step-Up …………	Unless the Offer Shares are redeemed by SMC on the applicable Optional Redemption Dates (as defined below under "Optional Redemption and Purchase"), the Dividend Rate shall be adjusted in accordance with the terms as set out in the Offer Supplement.
Conditions on Payment of Cash Dividends …………………………	The declaration of cash dividends will be subject to the discretion of the Board of Directors to the extent permitted by law. The Board of Directors will not declare and pay cash dividends on any Dividend Payment Date where: (a) payment of the cash dividend would cause SMC to breach any of its financial covenants; or (b) the profits available to SMC to distribute as cash dividends are not sufficient to enable SMC to pay in full both the cash dividends on the Offer Shares and the dividends on all other classes of the shares of SMC that are scheduled to be paid on or before the same date as the cash dividends on the Offer Shares and that have an equal right to dividends as the Offer Shares. If the profits available to distribute as dividends are, in the opinion of the Board of Directors, not sufficient to enable SMC to pay in full on the same date both cash dividends on the Offer Shares and the dividends on other shares that have an equal right to dividends as the Offer Shares, SMC is required (i) to pay in full, or to set aside an amount equal to, all dividends scheduled to be paid on or before that Dividend Payment Date on any shares with a right to dividends ranking in priority to that of the Offer Shares; and (ii) to pay cash dividends on the Offer Shares and any other shares ranking equally with the Offer Shares as to participation in profits pro rata to the amount of the cash dividends scheduled to be paid to them. The amount scheduled to be paid will include the amount of any dividend payable on that date and any arrears on past cumulative dividends on any shares ranking equal in the right to dividends with the Offer Shares. Any such cash dividends deferred or not declared in accordance with the above provisions shall constitute "Arrears of Dividends" which shall accrue cash dividends at the prevailing Dividend Rate. The profits available for distribution are, in general and with some adjustments, equal to the accumulated realized profits of SMC less accumulated realized loss. Cash dividends on the Offer Shares will be cumulative. If for any reason the Board of Directors of SMC does not declare a cash dividend on the Offer Shares for a Dividend Period, SMC will not pay a cash dividend on the Dividend Payment Date for that Dividend Period. However, on any future Dividend Payment Date on which cash dividends are declared, holders of the Offer Shares will receive the accrued and unpaid cash dividends due them on such Dividend Payment Date as well as all Arrears of Dividends to the holders of the Offer Shares prior to such Dividend Payment Date. Holders of the Offer Shares shall not be entitled to participate in

any other or further dividends, cash, property or stock beyond the dividends specifically payable on the Offer Shares.

SMC will covenant that, in the event:

(a) any cash dividends due with respect to any Series "1" and Series "2" Preferred Shares then outstanding for any period are not declared and paid in full when due;

(b) where there remains outstanding Arrears of Dividends; or

(c) any other amounts payable under the terms and conditions of the Offer Shares described in the Prospectus are not paid in full when due for any reason,

then it will not declare or pay any dividends or other distributions in respect of, or repurchase or redeem, securities ranking pari passu with, or junior to, the Offer Shares (or contribute any moneys to a sinking fund for the redemption of any securities ranking pari passu with, or junior to, the Offer Shares) until any and all Arrears of Dividends and accrued but unpaid cash dividends have been paid to the holders of the Offer Shares.

Optional Redemption and Purchase…………………………. As and if approved by the Board of Directors, SMC may redeem the Offer Shares on such dates as set out in the Offer Supplement, or on the last day of any Dividend Period thereafter (each an "Optional Redemption Date") in whole or in part, at a redemption price equal to the relevant Offer Price of the Offer Shares plus any accrued and unpaid cash dividends due them on such Dividend Payment Date as well as all Arrears of Dividends outstanding (the "Redemption Price"):

If at any time, SMC redeems more than one (1) Subseries, which, under the terms and conditions by which they were offered, may already be subject to early redemption, SMC has the option to redeem, without preference or priority, in whole or in part, any or all of the Subseries; provided that in case of partial redemption of a Subseries, such redemption shall apply pro rata among the holders thereof.

SMC may also redeem the Offer Shares, in whole or in part, at any time prior to any Optional Redemption Date if an Accounting Event or Tax Event (each as defined below) has occurred and is continuing, in each case at the Redemption Price.

No Sinking Fund………………………… SMC has not established, and currently has no plans to establish, a sinking fund for the redemption of the Offer Shares.

Accounting Event……………….............. An accounting event ("Accounting Event") shall occur if an opinion of any recognized person authorized to perform auditing services in the Republic of the Philippines has stated that there is more than an insubstantial risk that the funds raised through the issuance of the Offer Shares may no longer be recorded as "equity" pursuant to the PFRS, or such other accounting standards which succeed PFRS, as adopted by the Republic of the Philippines, applied by SMC for drawing up its consolidated financial statements for the relevant financial year and such event cannot be avoided by SMC taking reasonable measures available to it.

Tax Event………………………………… A tax event ("Tax Event") shall occur if dividend payments become subject to higher withholding tax or any new tax (including a higher rate of an existing tax) as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to SMC.

Purchase of the Offer Shares………….. Upon listing on the PSE, SMC may purchase the Offer Shares, then tradeable at that time at any time in the open market or by public tender or by private contract at any price through the PSE without any obligation to purchase or redeem the other Offer Shares.

Taxation…………………………............. Subject to the proviso set forth below, all payments in respect of the Offer Shares are to be made free and clear of any deductions or withholding for or on account of any future taxes or duties imposed by or on behalf of Republic of the Philippines, including but not limited to, stamp, issue, registration, documentary, value added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, SMC will pay additional amounts so that holders of the Offer Shares will receive the full amount of the relevant payment which otherwise would have been due and payable; provided, however, that SMC shall not be liable for, and the foregoing payment undertaking of SMC shall not apply to: (a) the applicable final withholding tax applicable on dividends declared on the Offer Shares prescribed under the Tax Code (as may be amended from time to time), (b) any expanded value added tax which may be payable by any holder of the Offer Shares on any amount to be received from SMC under the Offer and (c) any withholding tax on any amount payable to any holder of the Offer Shares or any entity which is a U.S. Person under the Foreign Account Tax Compliance Act of the United Stated (FATCA) or is otherwise a non-resident foreign corporation.

Documentary stamp tax for the re-issuance of the Offer Shares and the documentation, if any, shall be for the account of SMC.

The applicable taxes to any subsequent sale of the Offer Shares by any holder of the Offer Shares shall be for the account of the said holder.

Liquidation Rights ………………………. In the event of a return of capital in respect of the liquidation, dissolution or winding up of the affairs of SMC but not on a redemption or purchase by SMC of any of its share capital, the holders of the Offer Shares at the time outstanding will be entitled to receive, in Pesos out of the assets of SMC available for distribution to shareholders, together with the holders of any other of the shares of SMC ranking, as regards repayment of capital, pari passu with the Offer Shares and before any distribution of assets is made to holders of any class of the shares of SMC ranking after the Offer Shares as regards repayment of capital, liquidating distributions in an amount equal to the Redemption Price as of (and including) the date of commencement of the winding up of SMC or the date of any such other return of capital, as the case may be. If, upon any return of capital in the winding up of SMC, the amount payable with respect to the Offer Shares and any other shares of SMC ranking as to any such distribution pari passu with the Offer Shares are not paid in full, the holders of the Offer Shares and of such other shares will share proportionately in any such distribution of the assets of SMC in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Offer Shares will have no right or claim to any of the remaining assets of SMC and will not be entitled to any further participation or return of capital in a winding up.

Form, Title and Registration of the Preferred Shares…………………………

The Offer Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as Offer Registrar, and lodged with the Philippine Depository and Trust Corporation ("PDTC") as depository agent on Listing Date through PSE trading participants nominated by the applicants. For this purpose, applicants shall indicate in the proper space provided for in the Application to Purchase (as defined below) the name of a PSE trading participant under whose name their Offer Shares will be registered. After Listing Date, shareholders may request the registrar, through their nominated PSE trading participant, to (a) open a scripless registry account and have their holdings of the Offer Shares registered under their name ("name-on-registry account"), or (b) issue stock certificates evidencing their investment in the Offer Shares. Any expense that will be incurred in relation to such registration or issuance shall be for the account of the requesting shareholder.

Legal title to the Offer Shares will be shown in an electronic register of shareholders (the "Registry of Shareholders") which shall be maintained by the registrar. The registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Offer Shares that is effected in the Registry of Shareholders (at the cost of the requesting shareholder). The registrar shall send (at the cost of SMC) at least once every year a statement of account to all shareholders named in the Registry of Shareholders, except certificated shareholders and depository participants, confirming the number of shares held by each shareholder on record in the Registry of Shareholders. Such statement of account shall serve as evidence of ownership of the relevant shareholder as of the given date thereof. Any request by shareholders for certifications, reports or other documents from the

	registrar, except as provided herein, shall be for the account of the requesting shareholder. For scripless shares, the maintenance and custody fee payable to the PDTC shall be for the account of the shareholder.
Selling and Transfer Restrictions………………………………..	After listing, the subsequent transfers of interests in the Offer Shares shall be subject to normal selling restrictions for listed securities as may prevail in the Philippines from time to time.
Governing Law……………………………	The Offer Shares will be issued pursuant to the laws of the Republic of the Philippines.
Other Terms of the Offer	
Offer Period……………………………….	The offer period for each tranche of the Offer and the respective deadlines to submit the Application to Purchase shall be as set out in the relevant Offer Supplement.
Minimum Subscription to the Offer Shares…………………………………….	Each Application shall be for a minimum of 500 Offer Shares, and thereafter, in multiples of 100 Offer Shares. No Application for multiples of any other number of Offer Shares will be considered.
Eligible Investors…………………………	The Offer Shares may be owned or subscribed to by any person, partnership, association or corporation regardless of nationality, subject to limits under Philippine law. However, under certain circumstances, SMC may reject an Application or reduce the number of the Offer Shares applied for subscription. Subscription to the Offer Shares may be restricted in certain jurisdictions. Foreign investors interested in subscribing or purchasing the Offer Shares should 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. Foreign investors, both corporate and individual, warrant that their purchase of the Offer Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase and hold the Offer Shares.
Procedure for Application……………….	Applications to Purchase the Offer Shares may be obtained from any of the Underwriters or selling agents. The Application to Purchase may also be obtained from the website of the Company at www.sanmiguel.com.ph. All Applications shall be evidenced by the Application to Purchase, duly executed in each case by an authorized signatory of the applicant and accompanied by two (2) completed signature cards, the corresponding payment for the Offer Shares covered by the Application and all other required documents inluding documents required for registry with the registrar and depository agent. The duly executed Application to Purchase and required documents should be submitted to the Underwriters or selling agents within the deadline as set out in the relevant Offer Supplement. If the applicant is a corporation, partnership, or trust account, the Application must be accompanied by the following documents: (a) a certified true copy of the applicant's latest articles of

incorporation and by-laws and other constitutive documents, each as amended to date, duly certified by the corporate secretary;

(b) applicant's SEC certificate of registration, duly certified by the corporate secretary; and

(c) a duly notarized corporate secretary's certificate setting forth the resolution of the applicant's board of directors or equivalent body authorizing (i) the purchase of the Offer Shares indicated in the application and (ii) the designated signatories for the purpose, including their respective specimen signatures.

Individual applicants must also submit a photocopy of any one (1) of the following identification cards ("ID"): passport/driver's license, company ID, Social Security System/Government Service and Insurance System ID and/or Senior Citizen's ID or such other ID and documents as may be required by or acceptable to the selling bank.

An applicant who is exempt from or is not subject to withholding tax or who claims reduced tax treaty rates must indicate such exemption or entitlement in the Application to Purchase and also submit additional documents as may be required by the Issuer, including but not limited to, the documents described in page 62 and 191 of the Prospectus.

Payment for the Offer Shares………… The Offer Price of the Offer Shares must be paid in full upon submission of the Application to Purchase.

Payment shall be in the form of either:

(a) a Metro Manila clearing cashier's/manager's or corporate check or personal check drawn against a bank account with a BSP-authorized agent bank located in Metro Manila and dated as of the date of submission of the Application to Purchase covering the entire number of the Offer Shares covered by the same Application. Checks should be made payable to "SMC Preferred Shares Offer"; or

(b) for applicants submitting their Application to Purchase to any of the Underwriters or selling agents:

(i) through the Real Time Gross Settlement facility of the BSP to the Underwriter or selling agent to whom such Application was submitted, or

(ii) via direct debit from their deposit account maintained with the Underwriter or selling agent.

Acceptance/Rejection of Applications…………………………….. The actual number of the Offer Shares that an applicant will be allowed to subscribe to is subject to the confirmation of the Underwriters. SMC reserves the right to accept or reject, in whole or in part, or to reduce any application due to any grounds specified in the relevant underwriting agreement to be entered into by SMC with the Underwriters. Applications which were unpaid or where payments were insufficient and those that do not comply with the terms of the Offer shall be rejected. Moreover,

	any payment received pursuant to the Application does not constitute as approval or acceptance by SMC of the Application. An Application, when accepted, shall constitute an agreement between the applicant and SMC for the subscription to the Offer Shares at the time, in the manner and subject to terms and conditions set forth in the Application to Purchase and those described in the Prospectus for the Offer and the relevant Offer Supplement. Notwithstanding the acceptance of any Application by SMC, the actual subscription by the applicant for the Offer Shares will become effective only on the relevant issue date.
Refunds of Application Payments………………………………...	In the event that the number of the Offer Shares to be allotted to an applicant, as confirmed by an Underwriter or Selling Agent, is less than the number covered by its Application, or if an Application is wholly or partially rejected by SMC, then SMC shall refund, without interest, within five (5) Banking Days from the end of the relevant offer period, all, or a portion of the payment corresponding to the number of the Offer Shares wholly or partially rejected. All refunds shall be made through the Underwriter or Selling Agent with whom the applicant has filed the Application at the risk of the applicant.
Timetable…………………………………	The timetable of each tranche of the Offer shall be as set out in the relevant Offer Supplement.
Underwriters ……………………………	The underwriters that may be engaged by the Company for each tranche of the Offer and as set out in the relevant Offer Supplement.
Depository Agent ……………………….	Philippine Depository and Trust Corporation
Receiving Agent, Registrar, and Paying Agent ………………..........................	SMC Stock Transfer Service Corporation
Counsel to SMC…………………...........	Picazo Buyco Tan Fider & Santos
Counsel to the Underwriters …………..	SyCip Salazar Hernandez & Gatmaitan
Selling Agents......................................	The selling agents for each tranche of the Offer as set out in the relevant Offer Supplement.

Description of the Offer Shares

Set forth below is information relating to the Offer Shares. This description is only a summary and is qualified by reference to Philippine law and the Amended Articles of Incorporation and Amended By-laws of SMC, as may be amended from time to time.

Share Capital

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in the articles of incorporation and the by-laws of the corporation.

SMC has an authorized capital stock of ₱30,000,000,000.00, divided into 3,790,000,000 common shares, 300,000,000 Series “1” Preferred Shares, and 1,910,000,000 Series “2” Preferred Shares all with par value of ₱5.00. Below is a table illustrating the shares of the Company as of December 31, 2015:

Share Class	Issued	Outstanding	Treasury
Common Shares………....	3,283,277,515	2,378,524,978	904,752,537
Series “1”……………......	279,406,667	279,406,667	20,593,333
Series “2”…………………	-	-	223,893,353
Series “2-A”……………......	721,012,400	-	721,012,400
Series “2-B”……………......	90,428,200	90,428,200	-
Series “2-C”…………….....	255,559,400	255,559,400	-
Series “2-D”…………….....	89,333,400	89,333,400	-
Series “2-E”…………….....	134,000,100	134,000,100	-
Series “2-F”…………….....	223,333,500	223,333,500	-
TOTAL	**5,076,240,182**	**3,450,586,245**	**1,870,251,623**

The Issuance of the Offer Shares

On June 9, 2015, the stockholders of SMC approved the issuance of Series “2” Preferred Shares and delegated to the Board of Directors the authority to determine the terms and conditions of the issuance of the Offer Shares through the approval of the relevant enabling resolutions.

On January 15, 2016, the Board of Directors authorized the sale and offer of up to Eighty Billion Pesos (₱80,000,000,000.00) of Series “2” Preferred Shares, at an offer price of ₱75.00 per share, or 1,066,000,000 Series “2” Preferred Shares, under a shelf registration to be issued within a period of three (3) years, under such terms and conditions as the management of SMC may deem advantageous to it.

The Offer Shares will be issued from 944,905,753 Series “2” Preferred Shares currently in the treasury of the Company while the remaining 30,666,047 Series “2” Preferred Shares will be new issuances from the unissued capital stock of the Company.

The Company has filed an application for the listing of the Offer Shares on the PSE. Once the Offer Shares are listed on the PSE, SMC may purchase the Offer Shares, then tradeable at that time, at any time in the open market or by public tender or by private contract at any price through the PSE.

Shelf Registration and Features of the Offer Shares

In accordance with the Amended Articles of Incorporation of the Company and as approved by the Board of Directors of the Company through the Enabling Resolutions, the Offer Shares are Philippine Peso-denominated, cumulative, non-voting, non-participating and non-convertible, each with different features on dividend rate, redemption and adjustment of dividend rate. The number of Offer Shares to be allocated to each subseries shall be determined by the Board of Directors of the Company. SMC can issue the Offer Shares only upon full payment by the subscribers of the subscription price for the said shares which shall be ₱75.00 per share.

The Offer Shares shall be filed under a shelf registration to be issued in tranches within a period of three (3) years. The specific terms of the Offer Shares with respect to each tranche of the Offer shall be determined by the Company taking into account prevailing market conditions at the time of sale and shall be set out in the relevant Offer Supplement. After the Registration Statement of the Company for the Offer Shares becomes effective, the Company will secure a permit to sell from the SEC for each tranche of the Offer.

The Offer Shares have a par value of ₱5.00 per share and with the following general features (for the specific terms of the Offer Shares please refer to the "Terms of the Offer" and the Offer Supplement of the relevant issue tranche):

(a) **Dividends** – The Board of Directors shall have the sole discretion to declare dividends on the Offer Shares, provided that SMC has unrestricted retained earnings, and provided that the rate of dividend or formula for determining the same rate shall be indicated in the relevant enabling resolutions.

Dividends, if and when declared by the Board of Directors, will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a "Dividend Payment Date") with reference to the Offer Price, which date shall be any day within the period commencing on (and including) the last day of a Dividend Period and 15 calendar days from the end of the relevant Dividend Period. A "Dividend Period" shall refer to the period commencing on the relevant issue date and having a duration of three (3) months, and thereafter, each of the successive periods of three (3) months commencing on the last day of the immediately preceding Dividend Period up to, but excluding the first day of the immediately succeeding Dividend Period; provided that, the first Dividend Period of the Offer Shares shall be the period commencing on the relevant issue date and ending on the last day of the then current dividend period for the outstanding Series "2" Preferred Shares.

The holders of the Offer Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payment shall have been made on the shares as aforementioned, nor shall they be entitled to any other kind of dividend payment whether cash, property, or stock, other than corresponding to the dividend rate determined by the Board of Directors.

The dividend rights on the Offer Shares, please see "Terms of the Offer" on page 26.

(b) **Conversion** - The Series "2" Preferred Shares may be convertible into common shares, as determined by the Board of Directors, on terms and conditions (including conversion period, conversion ratio and price) to be determined and fixed by the Board of Directors in the relevant enabling resolutions.

The Offer Shares are not convertible.

(c) **Redemption** – SMC has the option, but not the obligation, to redeem all or part of the Offer Shares at a price and at such time that the Board of Directors shall determine. The Offer Shares, when redeemed, shall not be considered retired and may be re-issued by SMC at a price to be determined by the Board of Directors.

As and if declared by the Board of Directors, SMC may redeem the Offer Shares on the redemption price determined therefor. The terms of any redemption will be set out in the relevant Offer Supplement.

If at any time, SMC is allowed to redeem more than one Subseries of the Series "2" Preferred Shares, and provided that such Subseries is already redeemable in accordance with the terms and conditions of their issuance, SMC has the option to redeem, without preference or priority, in whole or in part, any or all of the Subseries of the Series "2" Preferred Shares.

SMC has not established, and currently has no plans to establish, a sinking fund for the redemption of the Offer Shares.

For a more detailed discussion, please see "Terms of the Offer" on page 26.

(d) **Liquidation** – In the event of a return of capital in respect of liquidation, dissolution, bankruptcy or winding up of the affairs of SMC but not on a redemption or purchase by SMC of any of its share capital, the holders of the Offer Shares at the time outstanding will be entitled to receive, in Pesos, out of the assets of SMC available for distribution to shareholders, together with the holders of any other shares of SMC ranking, as regards repayment of capital, *pari passu* with the Offer Shares and before any distribution of assets is made to holders of any class of shares ranking after the Offer Shares as regards repayment of capital, liquidating distributions in an amount equal to the Redemption Price of (and including) the date of commencement of the winding up of SMC or the date of any such other return of capital, as the case may be. If, upon any return of capital in the winding up of SMC, the amount payable with respect to the Series "1" and Series “2” Preferred Shares, inclusive of the Offer Shares are not paid in full, the holders of such shares will share proportionately in any such distribution of the assets of SMC in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Offer Shares will have no right or claim to any of the remaining assets of SMC and will not be entitled to any further participation or return of capital in a winding up.

(e) **Voting Rights** – Holders of the Series “2” Preferred Shares shall not be entitled to vote except in cases expressly provided by law. Thus, the holders of the Offered Shares are not eligible, for example, to vote for or elect the Board of Directors of SMC. Holders of the Series “2” Preferred Shares, including the Offer Shares, however, may vote on matters which the Corporation Code considers significant corporate acts that may be implemented only with the approval of shareholders, including those holding shares denominated as non-voting in the articles of incorporation. The following acts require the approval of the shareholders representing at least two-thirds of the issued and outstanding capital stock of SMC in a meeting duly called for the purpose:

- Amendment of the Amended Articles of Incorporation (including any increase or decrease of capital stock);
- Delegation to the Board of Directors of the power to amend or repeal the Amended By-laws or to adopt a new by-laws;
- Sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the assets of SMC;
- Incurring, creating or increasing bonded indebtedness;
- Increase or decrease of capital stock;
- Merger or consolidation of SMC with another corporation or corporations;
- Investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which SMC was organized;
- Ratification of contracts of a director or an officer with SMC;
- Extension or shortening of the corporate term of SMC;
- Declaration and issuance of stock dividends; and
- Dissolution of SMC.

However, for the amendment of the Amended By-laws of SMC, the approval of the shareholders representing at least a majority of the issued and outstanding capital stock of SMC in a meeting duly called for the purpose is required.

(f) **Pre-emptive Rights** – Holders of the Series “2” Preferred Shares including the Offer Shares, shall have no pre-emptive right to any issue or disposition of any share of any class of SMC.

Other Rights and Incidents Relating to the Preferred Shares

The other rights and incidents relating to the Offer Shares, which may also apply to other classes of shares of SMC, are as follows:

Derivative Suit

Philippine law recognizes the right of a shareholder to institute, under certain circumstances, proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights, as for example, where the directors themselves are the malefactors.

Appraisal Rights

The Corporation Code grants a shareholder a right of appraisal in certain circumstances where he has dissented and voted against a proposed corporate action, including:

- an amendment of the articles of incorporation which has the effect of adversely affecting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or shortening the term of corporate existence;
- the sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all of the assets of the corporation;
- the extension of corporate term;

- the investment of corporate funds in another corporation or business for any purpose other than the primary purpose for which the corporation was organized; and
- a merger or consolidation.

In these circumstances, the dissenting shareholder may require the corporation to purchase his shares at a fair value which, in default of agreement, is determined by three (3) disinterested persons, one of whom shall be named by the shareholder, one (1) by the corporation, and the third by the two (2) thus chosen. The SEC will, in the event of a dispute, determine any question about whether a dissenting shareholder is entitled to this right of appraisal. The dissenting shareholder will be paid if the corporate action in question is implemented and the corporation has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting shareholders.

Shareholders' Meetings

At the annual meeting or at any special meeting of shareholders of the Company, the latter may be asked to approve actions requiring shareholder approval under Philippine law.

Quorum

The Corporation Code provides that, except in instances where the assent of shareholders representing two-thirds of the outstanding capital stock is required to approve a corporate act (usually involving the significant corporate acts where even non-voting shares may vote, as identified above) or where the by-laws provide otherwise, a quorum for a meeting of shareholders will exist if shareholders representing a majority of the capital stock are present in person or by proxy.

Voting

Holders of the Offer Shares shall not be entitled to vote except in cases expressly provided by law. At any such shareholders' meeting where holders of the Offer Shares are allowed to vote, each holder of the Offer Shares shall be entitled to vote in person, or by proxy, all shares held by him which have voting power, upon any matter duly raised in such meeting.

The By-laws of SMC provide that proxies shall be in writing and signed and in accordance with the existing laws, rules and regulations of the SEC. Duly accomplished proxies must be submitted to the office of the Corporate Secretary not later than ten trading days prior to the date of the shareholders' meeting.

Fixing Record Dates

The Board of Directors has the authority to fix in advance the record date for shareholders entitled: (a) to notice of, to vote at, or to have their votes voted at, any shareholders' meeting; (b) to receive payment of dividends or other distributions or allotment of any rights; or (c) for any lawful action or for making any other proper determination of shareholders' rights. The Board of Directors may, by resolution, direct the stock transfer books of the Company be closed for a period not exceeding 20 days preceding the date of any meeting of shareholders. The record date shall in no case be more than 60 days or less than 35 days preceding such meeting of shareholders.

Accounting and Auditing Requirements/Rights of Inspection

Philippine stock corporations are required to file copies of their annual financial statements with the SEC. Corporations whose shares are listed on the PSE are also required to file quarterly and annual reports with the SEC and the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation which include a statement of financial position as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board of Directors is required to present to shareholders at every annual meeting a financial report of the operations of the corporation for the preceding year. This report is required to include audited financial statements.

Changes in Control

There is no provision in the Amended Articles of Incorporation and Amended By-laws of SMC which would delay, deter or prevent a change in control of SMC. There are no existing arrangements to which SMC is a party or which are otherwise known to SMC that may result in a change in control of SMC.

Risk Factors

General Risk Warning

An investment in the Offer Shares involves a number of risks. The price of securities 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. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of the Offer Shares. The occurrence of any of the following events, or other events not currently anticipated, could have a material adverse effect on the business, financial condition, results of operations and cause the market price of the Offer Shares to decline. All or part of an investment in the Offer Shares could be lost. Investors deal in a range of investments each of which may carry a different level of risk.

Prudence Required

The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study on the trading of these securities before commencing any trading activity. Investors may request publicly-available information on the Offer Shares and SMC from the SEC and PSE.

Professional Advice

An investor 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 high risk securities.

Risk Factors

This Prospectus contains forward-looking statements that involve risks and uncertainties. SMC adopts what it considers conservative financial and operational controls and policies to manage its business risks. The actual results may differ significantly from the results discussed in the forward-looking statements. See section "Forward-Looking Statements" of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of SMC, in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.

Investors should carefully consider all the information contained in this Prospectus including the risk factors described below, before deciding to invest in the Offer Shares. The business, financial condition and results of operations of the Company could be materially and adversely affected by any of these risk factors.

Risks Relating to SMC and the SMC Group

Diversification of businesses and acquisition of new businesses

The traditional core businesses of SMC comprise primarily of beverage, food and packaging products. SMC has embarked on a diversification strategy and has expanded into a number of new businesses, including fuel and oil, energy, infrastructure, telecom and other businesses outside of its traditional core businesses. SMC has implemented this strategy through a series of acquisitions and investments and intends to continue to pursue its diversification strategy. SMC intends to make 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 the substantial financial investments required to implement this strategy, diversion of time and resources of management to focus on implementing the strategy 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.

SMC, through its merger and acquisitions team, undertakes prudent review and due diligence, and evaluates the viability of any acquisition or investment. In addition, the Company is guided by metrics when assessing possible investments, which include, but not limited to, financial returns and possible synergies across the Group, with an overall objective of maximizing returns for its shareholders.

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 66.14% and 15.71% of the common shares of SMC, respectively, and collectively control approximately 81.85% of the voting rights of the common shares as of September 30, 2015. 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. There can be no assurance that Top Frontier and Privado will influence SMC to pursue actions that are in the best interests of the shareholders.

The Company continues to have comprehensive discussions and good relationship with its shareholders working towards a common goal of expanding the business, increasing profitability and maximizing shareholder value.

Possible disagreements among joint venture partners of SMC

Some of the subsidiaries and associates of SMC are conducted through joint ventures with other partners, including Kirin for beer, Hormel Foods Corporation for processed meats, NYG for a number of packaging products, and Padma for toll roads. Cooperation among the joint venture partners on business decisions is crucial to the sound operation and financial success of these joint venture companies.

There is no assurance that these relationships will be sustained or issues will not develop and occurrence of such could have a material adverse effect on the financial condition and results of operations of SMC.

SMC continues to engage and generally has good working relationships with its business partners to ensure sound operation and financial success of these joint ventures.

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 Créme*, *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, invalidate or circumvent 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 of the SMC Group are licensed and there is no assurance that the relevant licensors will offer 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 results of operations of the SMC Group.

SMC closely monitors products released in the market that may mislead consumers as to the origin of such products and attempt to ride on the goodwill of its brands and other proprietary rights. The Company has also retained independent external counsels to alert the Company of any such attempts and to enjoin third parties from the use of colorable imitations of its brands and/or marked similarities in general appearance or packaging of products, which may constitute trademark infringement and unfair competition.

Loss of Key Personnel

Any loss of key personnel, inability to replace such personnel and 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. Contiued 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, or join a competitor or establish a competing business, 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 business, financial condition and results of operations of the SMC Group.

SMC Group strives to strengthen the competencies of its employees, specifically those in the succession pipeline of key personnel. The subsidiaries of SMC have established employee training programs such as the Brewing School for SMB that trains brewmasters, the San Miguel Pure Foods University and the Leadership Enrichment and Development Program of Petron, management training programs in partnership with Harvard Business Publishing and John Clements Consultants that prepare their employees to take on higher responsibilities. SMC also pursues strategic hiring for identified critical positions.

Labor disruptions

As of September 30, 2015, approximately 20.0% of the employees of the SMC Group were parties to various collective bargaining agreements and there are 32 labor unions within the businesses of the SMC Group. While the SMC Group has not experienced any strikes, work stoppages or other labor disruptions since 2003, 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.

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.

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 in the Philippines and in other countries where it conducts its businesses.

The SMC Group is also subject to various taxes, duties and tariffs. In the case of Petron, import duties for crude oil and petroleum products were increased on January 1, 2005 from 3.0% to 5.0% and then decreased to 3.0% effective as of November 1, 2005. These duties were subsequently reduced to 0% with effect from July 4, 2010 (except for certain types of aviation gas). The Philippine government imposed an additional 12.0% value added tax (“VAT”) on the sale or importation of petroleum products in 2006. Therefore, there is no assurance that taxes applicable to the SMC Group will not be increased again in the future.

The beer and liquor businesses became subject to higher excise taxes starting in 2013. Starting January 1, 2013, the excise tax rates applicable to SMB products were ₱15.00 per liter (for products in Tier 1 which have net retail price per liter of ₱50.60 or less) and ₱20.00 per liter (for products in Tier 2 with net retail price per liter of more than ₱50.60). In January 2014 and 2015, Tier 1 products increased to ₱17.00 per liter and ₱19.00 per liter, respectively, while Tier 2 products increased to ₱21.00 per liter and ₱22.00 per liter, respectively. As of January 1, 2013, the ad valorem excise tax rate applicable to Ginebra products was 15.0% of the net retail price per proof plus a specific tax of ₱20.00 per proof liter. In January 2015, the ad valorem excise tax rate applicable was increased from 15.0% to 20.0% of the net retail price per proof plus a specific tax of ₱20.00 per proof liter. SMB and Ginebra may be unable to fully pass on to customers any increase in excise taxes, which may adversely affect their business, financial condition and results of operations.

SMC Global Power is subject to extensive regulation in the Philippines, including the Electric Power Industry Reform Act of 2001 (“EPIRA”). As of December 31, 2014, several bills relevant to the power industry have been filed with both houses of the Congress of the Philippines. Some of the proposed bills, if enacted, would impose additional costs on SMC Global Power, including the requirement to directly remit proceeds of financial benefits set aside for host communities to local government units and the redefinition of the term "host communities" to include all areas that protect and maintain the watersheds that supply a particular dam or hydroelectric power generation facility. Several bills proposing amendments to the EPIRA have also been filed, some of which would include changes to the ability of power generators and distributors to pass on costs or allowable system losses to end-users. 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 its sales and profitability.

For the toll road business, the Toll Regulatory Board of the Philippines ("TRB") has yet to approve any toll rate increase for all toll road concessionaires since 2012. Specifically, in the case of SLTC, two (2) petitions for periodic toll rate adjustments were filed but these have yet to be acted upon by TRB.

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.

While the SMC Group believes that it has, at all relevant times, materially complied with all applicable laws, rules and regulations, there is no assurance that changes in laws, rules or regulations or the interpretation thereof of relevant government agencies, will not result in the SMC Group having to incur substantial additional costs or capital expenditures to upgrade or supplement its existing facilities or being subject to an increased rate of taxation or fines and penalties.

The SMC Group is in constant consultation with relevant government agencies and other approving bodies to ensure that all requirements, permits and approvals are anticipated and obtained in a timely manner. Further, the SMC Group maintains a strong compliance culture and has processes in place in order to manage adherence to laws and regulations. In the event that the SMC Group becomes involved in future litigation or other proceedings or be held responsible in any future litigation and proceedings, the Company endeavours to amicably settle the legal proceedings and in the event of any adverse ruling or decision, diligently exhaust all legal remedies available to it.

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 more stringent 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 current 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.

The strong compliance culture of the SMC Group and the processes in place to manage adherence with laws and regulations mitigate this risk. For further information, see section on Regulatory Framework on page 195 and Compliance to Environmental Laws on page 75.

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 beverage business also depends heavily on the supply of water. Although the beer business uses its own deep wells for water at several breweries, it is still reliant on a third party source for the Polo brewery.

The food business may also face disruptions in the supply of major raw materials. In 2012, there was insufficient local supply of cassava due to adverse weather conditions in the Philippines in the latter part of 2011, which prompted some farmers to switch to planting corn rather than cassava for the next cycle. As a result, San Miguel Pure Foods had to purchase and use a bigger quantity of more expensive raw materials, such as corn.

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

Petron 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. SMEC entered into a coal supply contract with PT Trubaindo Coal Mining (“Banpu”) and Kaltim Prima Coal (“KPC”). The terms of the formal contract with KPC are currently under negotiation. If Banpu and KPC fail to perform their obligations under the coal supply contract with SMEC, the disruption of coal supply may materially affect the operations of SMEC.

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. In Mindanao (located in the southern part of the Philippines), a significant portion of the population is Muslim who require that all of the poultry processing plants of San Miguel Pure Foods in that region are halal-certified. Legislation has been proposed to require additional halal certification for feedmills that supply poultry farms from which halal products are sourced. If this proposed legislation is enacted and implemented, certain raw materials may have to be eliminated from the poultry feeds of the SMC Group used in this region. This could increase the cost of poultry feeds and the cost of poultry production in the region, which could materially reduce net income and profitability.

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.

For more information on the strategies of the Company to reduce risks relating to the availability of raw materials, see “Business Strategies” on page 73.

Changes in consumer preferences and purchasing power

The ability of the SMC Group to successfully develop and launch new products and maintain demand for existing products depends on the acceptance of such products by consumers and their purchasing power and disposable income levels, which may be adversely affected by unfavorable economic developments in the Philippines. A significant decrease in disposable income levels or consumer purchasing power in the target markets of the food and beverage businesses could materially and adversely affect the financial position and financial performance of the SMC Group. Consumer preferences may shift for a variety of reasons, including changes in culinary, demographic and social trends or leisure activity patterns. Concerns about health effects due to negative publicity regarding alcohol consumption, negative dietary effects or other factors may also affect consumer purchasing patterns for the beverage and food products. If the marketing strategies of the SMC Group are not successful or do not respond timely or effectively to changes in consumer preferences, the business and prospects of the SMC Group could be materially and adversely affected.

Sales of beer are highly influenced by the purchasing power and disposable income levels of consumers. In periods of economic uncertainty or downturns, consumers may purchase fewer alcoholic beverages which could affect the financial performance of the beverage business of SMC. Likewise, demand for many of the food products of San Miguel Pure Foods is tied closely to the purchasing power of consumers.

For more information on the efforts of the Company to address these risks please refer to the discussion on "The Company - Business Strategies" on page 73 and "The Company - Competitive Strengths - Strong Commitment to Product Innovation" on page 91.

Ability of subsidiaries and associates to distribute dividends

SMC is a holding company that conducts all of its operations through its subsidiaries and associates. 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 and associates of SMC to pay dividends is subject to the performance and cash flow requirements of such subsidiaries and associated companies and to applicable law and may be subject to restrictions contained in loans and/or debt instruments of such subsidiaries and may also be subject to the deduction of taxes.

Any restriction or prohibition on the ability of some or all of the subsidiaries or associates 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.

SMC maintains a policy wherein subsidiaries declare a maximum level of dividends to the Parent Company, taking into consideration the funding requirements of the subsidiaries for its operations and expansion programs.

Foreign exchange risk

A significant portion of the sales of the SMC Group (73.3%) is denominated in Philippine Peso in 2014, 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, 2015, the percentage of outstanding debt of the SMC Group denominated in foreign currencies was 47.6%.

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 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.

In addition, 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. 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.

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.

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 (including single borrower limits) to a single borrower or related group of borrowers; (ii) the compliance of SMC Group with existing debt 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. There is no assurance that the SMC Group will be able to arrange financing on acceptable terms. 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.

The Company believes that it can withstand such events with the system of financial prudence and corporate governance that provides the foundation for its risk management initiatives. The Company can also rely on its strengths to navigate and have continual access to financing. For further discussions on these strengths, please refer to “Strengths of SMC” on page 70.

Uninsured losses

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 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.

While the Company has not experienced any major downturn in its operations brought about by unexpected losses caused by natural disasters or other events that could affect the facilities of SMC Group, the Company believes that it can withstand such events with its business strategies in place. The Company also has a system of financial prudence and corporate governance that provides the foundation for its risk management initiatives. For further discussions on the business strategies of the Company, please refer to page 73.

Outsourcing risk

The SMC Group outsources most of its 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, its ability to bring products to the market and its reputation could suffer, which could have a material adverse effect on the businesses and financial performance of SMC, as well as its prospects. 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.

The SMC Group continuously monitors the efficiency and manufacturing capabilities of the production facilties of its various contractors.

Disruption of operations

The facilities and operations of the SMC Group could be severely disrupted by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters and other unforeseen circumstances and problems. In the case of San Miguel Pure Foods, its Marikina plant ceased operations after it was severely damaged by typhoon “Ondoy”, which affected Metro Manila in September 2009. As a result of this closure, and the consequent transfer of production capacities to a Cavite plant and other third party contracted plants, San Miguel Pure Foods was unable to meet volume demand during the relevant period, and its sales were adversely affected during the fourth quarter of 2009. These disruptions could result in product run-outs, facility shutdown, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and unplanned inventory build-up, all of which could have a material adverse effect on the business, financial condition and results of operations of SMC.

The SMC Group undertakes necessary precautions to minimize impact of any significant operational problems in its subsidiaries through effective maintenance practices.

Risks Relating to the Beverage Business

Price sensitive market

Substantial majority of beer and liquor drinkers in the Philippines belong to the lower socio-economic classes, where discretionary income is limited. Accordingly, the alcoholic beverage market in the Philippines is highly price elastic. If the beverage business raises the prices of its products, sales volumes will likely decline or slow down. In the case of the beer business, on April 1, 2008, SMB raised the selling prices of its beer products by an average of 7.0%, primarily in response to sharp increases in the prices of raw materials in 2007 and 2008. Despite the cost pressures and price increases, however, the sales volume of SMB still grew by 4.0% in 2008, albeit at a slower rate than its hefty volume growth in 2007. Recently, subsequent price increases were implemented in view of higher business costs and the annual increase in excise taxes beginning January 1, 2013. This slowed down sales performance in 2013 albeit volume recovery was noted in 2014. Price elasticity of demand for its products may limit the ability of the beverage business to pass on increases in excise taxes, raw material costs or other expenses, which may negatively affect its financial results and financial performance.

The beverage business implements campaigns and consumer and trade programs designed to strengthen brand equity, which have been successful in increasing consumption.

Increases in excise tax

Beer and liquor are subject to excise tax, and increases in excise taxes or VAT, may: (i) reduce sales volume if passed on to the consumers by way of upward price adjustments, (ii) reduce profit margins if prices remain unchanged, or (iii) have both such effects if additional taxes are not fully passed on to the consumers. On January 1, 2013, the Philippine government implemented a new excise tax structure. Additional non-scheduled increases in excise tax or VAT rates are also possible.

The beverage business has put in place an effective price management program to manage effects of taxes on both its sales volume performance and profit margins.

Competition in the beverage industry

The Philippine alcoholic beverage industry is highly competitive. The beverage business faces competition from other domestic producers, which sell their own brand and foreign brands it produces under license, and from foreign brewers and distillers. In the alcoholic beverage industry, competitive factors generally include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. The beverage business also competes with other discretionary items, including other food and beverage products, as well as other goods and services.

The consolidation of competitors, the entry of a new and larger competitor into the Philippine market, or unanticipated actions or irrational behavior by existing competitors, could lead to downward pressure on prices or a decline in market share. Any such event could materially and adversely affect the financial position and financial performance of the beverage business.

The beverage business conducts trademark nationwide and local events such as *San Miguel Oktoberfest, Red Horse Muziklaban, Sarap Mag Babad* summer program and *National Beer Drinking Contest* for SMB and *Ginumanfest* for Ginebra. It has a dominant presence in major fiestas and festivals, thereby increasing brand exposure to the consumers. The beverage business also has an established distribution system, which serves as a strong barrier to entry for new competitors as it requires high capital investment.

Production difficulties

Although the beverage business continuously seeks to enhance the efficiency and manufacturing capabilities of its production facilities, it may experience production difficulties that may result in shortages and delays in deliveries, which is common in the manufacturing industry. There can be no assurance that the beverage business will not experience production difficulties in the future and SMC cannot assure prospective investors that it will be able to increase the efficiency and manufacturing capabilities of its production facilities in line with any increased customer demand in the future. Furthermore, the beverage business cannot assure prospective investors that it will be able to meet increasing demand for its products without having to incur significant additional capital expenditures in the future.

The beverage business undertakes necessary precautions to minimize risk of any significant operational problems in its facilities through regular and scheduled facility maintenance activities. Moreover, the current production capability of the beverage business is seen to be adequate to address the possible increase in consumer demand.

Risks Relating to the Food Business

Outbreak of diseases

The fresh meats and poultry businesses of San Miguel Pure Foods are subject to the risk of losses caused by outbreaks of diseases in any of the hog, cattle or poultry farms it owns or contracted. The livestock industry in the Philippines, including those of San Miguel Pure Foods had experienced outbreaks of disease in the past such as Porcine Epidemic Diarrhea, Porcine Reproductive and Respiratory Syndrome and Actinobacillus Pleuropneumonia which negatively affected farm efficiencies.

In addition, any outbreak of a contagious disease in the Philippines, including bird flu or H1N1 influenza (or swine flu), could have a material adverse effect on the business, financial condition and results of operations of San Miguel Pure Foods. In particular, any outbreak of a contagious disease could adversely affect the ability to adequately staff its operations and the distribution networks for its products, as well as the general level of economic activity in the Philippines. There is no assurance that any future outbreak of a contagious disease will not have a material adverse effect on the results of operations, sales and profitability of San Miguel Pure Foods.

There is also no assurance that policies and controls of San Miguel Pure Foods 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 its livestock production in the Philippines or elsewhere will not occur. Any occurrence of such events could have a material adverse effect on the business, financial condition and results of operations of San Miguel Pure Foods.

San Miguel Pure Foods has adopted strict bio-security measures in its facilities to prevent the outbreak or recurrence of diseases, including the separation of its hog breeding from growing operations, bird proofing to prevent the entry of other birds into its poultry farms and implementation of strict visitor screening and sanitation procedures for entry into its poultry and hog facilities.

Product liability claims

The success of San Miguel Pure Foods largely depends upon the perception of the consumers on the reliability and quality of its products. Any event or development that detracts from the perceived reliability or quality of its products could materially reduce demand. Contamination of 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. In particular, San Miguel Pure Foods has minimal control over handling procedures once its products have been dispatched for distribution and therefore, may be vulnerable to problems. An inadvertent distribution of contaminated products may also constitute a violation of law and lead to increased risk of exposure to product liability claims, product recalls, increased scrutiny and penalties, including injunctive relief and plant closings by regulatory authorities, and adverse publicity, which could exacerbate the associated negative consumer reaction. While no material product liability claim has been filed against San Miguel Pure Foods, any such product liability claim, whether or not successful, could damage the reputation of San Miguel Pure Foods and its products, and materially reduce sales and profitability.

For more information on the strategy of San Miguel Pure Foods to reduce risks relating to product liability claims, see discussion on "Quality Control, Health, Safety and Environmental Matters" on page 104.

Competition in the food industry

The Philippine food industry is highly competitive. While San Miguel Pure Foods believes that it has the largest market share across several of its product categories, there is no assurance that it will be able to sustain or increase its current market share. In the food industry, competitive factors include price, product quality, brand awareness, distribution coverage, customer service and the ability to respond effectively to changes in consumer tastes and preferences. Consolidation, entry of new and larger competitors or irrational actions by competitors, such as unreasonable pricing of products at below-market prices or unconventional promotional activities, could exert downward pressure on prices or cause market share to decline. Any failure by San Miguel Pure Foods to successfully compete with its competitors or sustain market share could have a material adverse effect on its business, financial condition, results of operations and prospects.

San Miguel Pure Foods continues to actively invest in market research. For more information on the efforts to address these risks please refer to the discussion on "Business Strategies" on page 73.

Importation of lower-priced products

San Miguel Pure Foods may face increased competition from less expensive imported products when import duties on those products are decreased or eliminated. In particular, the Philippines is a signatory to several free trade agreements, such as the ASEAN Free Trade Agreement, the ASEAN-Australia-New Zealand Free Trade Area Agreement and the Japan-Philippines Economic Partnership Agreement, which may lead to increasingly lower-priced imported products entering the Philippine market. As of January 1, 2010, import duties on certain value-added products, such as instant coffee, were reduced from 5.0% to zero for imports from other ASEAN countries. San Miguel Pure Foods has already experienced the effects of increased competition as a result of the elimination of these import duties.

According to news reports and statements by Philippine livestock industry trade associations, some pork imports have been incorrectly declared for customs purposes, a practice that San Miguel Pure Foods believes escalated in the first half of 2012, with imported pork cuts such as shoulder and bellies misrepresented as offals, resulting in a tariff rate of 5.0% instead of either 30.0% or 40.0%. San Miguel Pure Foods believes these tariff avoidances lead to higher imports of frozen pork, which cause market oversupply, resulting in lower selling prices. Moreover, imports of pork products from China are currently banned under phytosanitary restrictions due to the outbreak of Foot and Mouth Disease. If this ban were to be lifted in the future, San Miguel Pure Foods would face competition from lower-priced Chinese imports.

Based on news articles, some imported flour is being sold at a lower price per bag versus the locally milled wheat flour. The Philippine Association of Flour Millers Inc. ("PAFMIL") sought an investigation as it believes that the prices of some of the imported flour in the Philippines are lower than the retail prices in their country of origin. After further review, the Tariff Commission imposed a five-year anti-dumping duty of up to 16.19% on some imported wheat flour. There are indications that imported flour will continue to increase its presence in the Philippine market.

San Miguel Pure Foods employs least cost production including improving the production efficiencies, use of alternative raw materials and optimizing the grain terminal output as well as develops new offerings that can compete against the imported products as measures to address such competition. If San Miguel Pure Foods 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. For more information, please see discussion on "Food Business - Business Strategies - Improve profitability through cost leadership" on page 92.

Risks Relating to the Packaging Business

Handling of products

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.

The Packaging Group is committed to providing products and services that secure the satisfaction of its customers. It adheres to various management systems, including food safety and quality, to prevent or minimize the contamination of packaging products during manufacturing, distribution or retail process.

Competition and challenges in product development and production processes

One of the success factors of the Packaging Group depends on 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 or will be accepted by existing customers or attract new customers, which could have a material adverse effect on the business, financial condition and results of operations.

The Packaging Group continues to develop and implement product innovations and improve its production technology, processes and efficiencies in order to compete in the packaging industry.

Risks Relating to the Fuel and Oil Business

Volatility in crude oil price

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 its feedstock crude oil, which accounts for a large portion of total cost of goods sold. As of September 30, 2015, crude oil accounted for approximately 59.0% of the total cost of goods sold of Petron.

Many factors influence the price of crude oil, including 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. Historically, international crude oil prices have been volatile, and they are likely to continue to be volatile in the future. For the year 2014, prices of reference Dubai crude reached as high as US$108 per barrel in June, which dropped to US$60 per barrel in December. It further declined in January 2015, reaching as low as US$46 per barrel, averaging at US$52 per barrel as of September 30, 2015, almost 50.0% lower than the same period last year.

Petron holds approximately two (2) months worth of crude oil and finished petroleum products inventory in the Philippines and two (2) weeks for Malaysia. Accordingly, since Petron accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices could adversely affect Petron, as it may require Petron to sell its refined petroleum products produced with higher-priced crude oil at lower prices. Petron may not be able to pass crude oil price fluctuations to its consumers in a timely manner due to social and competitive concerns. Any inability to pass on fluctuations in the price of crude oil may have a material adverse effect on the business, financial condition and results of operations of Petron. In addition, even if Petron were able to pass on price increases to its customers, demand for its products may decrease as a result of such price increases.

Furthermore, a sharp rise in crude oil prices would increase requirements of Petron for short-term financing of its working capital and may result in higher financing costs. Any difficulty in securing short-term financing for working capital, or unfavorable pricing terms, may have a material adverse effect on the business, financial condition and results of operations of Petron.

Petron has proactive risk management programs and hedging activities to minimize exposure to inventory losses risk. The benefits of the RMP-2 will likewise provide more cushion for Petron to better absorb crude price volatility. For further discussion on the benefits of the RMP-2, please refer to page 109.

Dependence on supplier

Petron purchases a significant portion of crude oil for its Philippine operations from Saudi Arabian Oil Company ("Saudi Aramco"), the state-owned national oil company of Saudi Arabia. In 2014 and September 2015, Petron purchased approximately 84.0% and 64.0%, respectively, of the total crude oil supply requirements of the Limay Refinery from Saudi Aramco. Petron has a term contract with Saudi Aramco since 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 at least 60 days' written notice prior to its expiration date. The operation of RMP-2 increased the total crude oil supply requirements of the Limay Refinery. Petron may be required to purchase more Saudi Aramco crudes to meet such increased demand. The supply of imported crude oil by Saudi Aramco is subject to a variety of factors beyond the control of Petron, including political developments in and the stability of Saudi Arabia 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, Petron purchases a significant portion of the crude oil supply requirements for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia, Inc. ("EMEPMI").

A disruption in the operations of Saudi Aramco or of EMEPMI, or a decision by either Saudi Aramco or EMEPMI to amend or terminate their respective contracts with Petron, could negatively impact its crude oil supply. If the supply of crude oil from Saudi Aramco or EMEPMI were disrupted, Petron would be required to meet any consequent supply shortfall through other suppliers or spot market purchases. Depending on market conditions at the time of the disruption, such purchases from other suppliers could be at higher prices than the purchases of Petron from Saudi Aramco or EMEPMI, which would adversely affect its business, financial performance and results of operations.

The Limay Refinery and the Port Dickson Refinery are capable of processing other crude oils. The crude oil optimization strategy includes the utilization of other crude oils at both refineries. In addition, with RMP-2, the Limay Refinery has the flexibility to use heavier, more sour alternative crudes.

Intensive capital requirements

Petron is a capital intensive business. Specifically, the processing and refining of crude oil and the purchase, construction and maintenance of machinery and equipment require substantial capital expenditures. Its ability to maintain and increase its sales, net income and cash flows depends upon the timely and successful completion of its planned capital expenditure projects. The current business strategies involve various upgrades and enhancements to its refineries, primarily the Limay Refinery pursuant to the RMP-2, the continued expansion of its service station network in the Philippines and in Malaysia, and the expansion and upgrade of its logistics capacity. If Petron fails to complete its planned capital expenditure projects on time or within budget, 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, financial condition and results of operations could be adversely affected.

In addition, Petron has incurred a substantial amount of indebtedness to finance its capital expenditure projects, a significant portion of which is due in five (5) years or less. Its 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 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. Failure by Petron to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial performance and results of operations.

Major projects being implemented by Petron are based upon carefully laid out plans, execution of which is managed by competent technical employees to ensure timely completion. The benefits of the RMP-2 and service station expansion will ensure that targeted growth in sales profits will be achieved and meet debt servicing obligations.

Product substitution

As a result of high oil prices and environmental concerns, the use of alternative fuels such as natural gas, ethanol and coco-methyl-ester fuel blends have become more attractive to the customers of Petron in recent years. 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 each enacted regulations mandating the inclusion of a specified percentage of alternative fuels in gasoline fuels sold or distributed by every oil company, 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.

Petron is compliant with government regulations on fuel blends. It has a research and development team in place that is currently studying and evaluating the different ways that Petron can create different fuel products to adapt to the changing industry regulations, as well as market preferences.

Risks Relating to the Energy Business

Increased competition

The Philippine government has sought to implement measures designed to establish a competitive power market. These measures include the privatization of NPC-owned-and-controlled power generation assets, the establishment of the WESM and the start of the Retail Competition and Open Access (“RCOA”).

The move towards a more competitive environment could result in the emergence of new competitors. These competitors may have greater financial resources and more extensive experience than SMC Global Power, giving them the ability to respond to operational, technological, financial and other challenges more quickly. 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. The type of fuel that competitors use for their generation facilities may also allow production of electricity at a lower cost and to sell electricity at a lower price.

SMC Global Power could also come under pressure to review or renegotiate the terms of offtake agreements with customers, which may lead to downward tariff adjustments or non-renewal of contracts. All of these events may adversely affect the business, financial condition and results of operations of SMC Global Power.

SMC Global Power has a highly experienced management team which is composed of experts having an extensive knowledge of the Philippine power industry. Coupled with the strong shareholder support from SMC, this will enable SMC Global Power to sustain its position as one of the major players in the industry. Moreover, SMC Global Power also continues to engage and has good working relationship with its offtakers which ensures sound operation and financial stability.

Disruptions in fuel supply

The operations of the Sual Power Plant, Limay Co-generation Power Plant, and the Ilijan Power Plant depend on the availability of fuel, in particular coal and natural gas. SMC Global Power is responsible for supplying the fuel requirement of these power plants.

There is no assurance that there will be no interruption or disruption in, or change in terms of, the fuel supplies, or that there will be sufficient fuel in the open market or transportation capacity available to ensure that sufficient fuel supplies are received on a timely basis. There is also no assurance that SMC Global Power will be able to purchase all of its fuel requirements from its regular suppliers that produce fuel of acceptable and known quality. Consequently, SMC Global Power could experience difficulties in ensuring a consistent quality of fuel, which could negatively affect the stability and performance of these power plants. Such factors, which may include events beyond the control of SMC Global Power, could affect the normal operation of these power plants and have material adverse effect on the business, financial condition and results of operations.

SMC Global Power has fuel supply agreements with recognized international coal suppliers, such as Banpu and KPC, for its power plants. This provides assurance of fuel supply which serves as a foundation for its existing operations and an excellent base for its future expansions.

Reliance on Independent Power Producers

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 the IPPA power plants.

Although the energy conversion agreements ("ECAs") with the IPPs or power purchase agreements ("PPAs") with NPC in respect of the IPPA power plants include bonus and penalty provisions, these do not eliminate the risk of failure on the part of the IPPs 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 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, and replacement contracts may not be 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.

SMC Global Power leverages on the strengths and track record of its world-class Independent Power Producer ("IPP") partners in operating its existing power portfolio by monitoring their adherence to international best practices.

Market limitations under the EPIRA

As of September 30, 2015, SMC Global Power had a 22.2% market share of the Luzon grid and a 16.5% market share of the national grid in terms of installed capacity based on industry data from the ERC. The EPIRA limits the market share of a participant to 30.0% per grid and 25.0% of the national grid by installed capacity. SMC Global Power may not receive permission to increase its capacity and market share if this would result in exceeding the permitted capacity or market share. An inability to expand and grow the power business could materially and adversely affect the business and prospects of SMC Global Power.

SMC Global Power seeks to capitalize on regulatory and infrastructure developments by scheduling the construction of greenfield power projects to coincide with the growth of the Philippine power industry. Pursuant to the EPIRA limits, SMC Global Power may still expand by as much as 1,493 MW nationwide, but limited to the following capacities per grid: 1,014 MW in Luzon, 709 MW in Visayas and 649 MW in Mindanao. At current levels, even with the addition of greenfield power projects in the pipeline, SMC Global Power is still within the market share cap.

Development of greenfield power projects

The development of greenfield power projects involves substantial risks that could give rise to delays, cost overruns, unsatisfactory construction or development or the total or partial loss of the interest of SMC Global Power in the project. 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 or the total or partial loss of the interests in its projects could have a material adverse effect on the business, financial condition, results of operation and future growth prospects of SMC Global Power.

SMC Global Power continuously undertakes prudent review and due diligence in the construction of its greenfield power projects. Backed by strong shareholder support from SMC, sustainable stream of cashflows and experienced management team, SMC Global Power believes that it can withstand such events to see through the completion of such projects.

Risks Relating to the Infrastructure Business

Enforceability of Concession Agreements

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.

In particular, Vertex was granted by the Department of Public Works and Highways of the Philippines ("DPWH") the exclusive privilege, right, and obligation to construct, design and finance the NAIAx over a 30-year concession period. Non-performance of the said obligations may result to either termination, in whole or in part, of the concession agreement. Such termination may adversely affect the business, financial condition and results of operations of the infrastructure business.

The infrastructure business has been compliant with and continues to perform its obligation under the applicable concession agreements which include (but not limited to) constructing, designing, and financing its various infrastructure projects.

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.

SLTC has filed two (2) petitions for toll rate adjustments with the TRB, the first (1^{st}) was filed on July 20, 2012, which was subsequently amended on October 24, 2012, and the second (2^{nd}) petition filed on 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 infrastructure business continues to engage in comprehensive discussions and has good working relationships with the relevant government and regulatory agencies to obtain proper resolutions to the pending tariff increases.

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.

Completion of infrastructure projects

The completion of infrastructure projects involves risks that may be caused by delays, cost overruns, unsatisfactory construction or development or the total or partial loss of the interest of SMHC in the project. Such risks include the inability to secure adequate financing, delay in obtaining right-of-way, disagreements with project contractors and government agencies and unforeseen engineering problems. Occurrence of the aforementioned events could have a material adverse effect on the business, financial condition, results of operation and future growth prospects of SMHC.

SMHC continuously undertakes prudent review and due diligence in the construction of its projects. SMHC also has well-equipped technical people who monitor daily construction activities and the overall progress of the projects. Backed by strong shareholder support from SMC, sustainable stream of cashflows, experienced management team and good relationship with the government agencies and contractors, SMHC believes that it can withstand such events to see through the completion of such projects.

Risks Relating to the Telecom Business

Rapid changes in technology

The telecommunications industry has been characterized by rapid technological changes. The future success of the telecom business will depend, in part, on its ability to anticipate or adapt to such changes and to offer services that meet customer demands on a competitive and timely basis.

The telecom business has an adaptive IT (information technology) and network infrastructure that have the flexibility to provide short time-to-market implementation of products and promotions as well as immediate upgrades when necessary. The telecom business is likewise implementing a scalable next generation network.

Competition in the Philippine telecommunications industry

The telecommunications industry in the Philippines is currently dominated by two (2) major players: Philippine Long Distance Telephone Company and Globe Telecommunications, Inc. The telecom business expects competition to intensify further as the market forays into new growth categories such as data and content. Though SIM (Subscriber Identity Module) penetration has already surpassed the 100.0% mark, the industry is still poised to grow due to services becoming more affordable and with the entry of the category into machine-to-machine services. As a new industry player, the telecom business will encounter stiff opposition from incumbents who will most likely use their size and influence to deter any subscriber acquisition efforts.

The telecom business plans to capitalize on unmet customer needs neglected by existing industry players with the objective of providing overall superior subscriber experience, enabling them to enjoy affordable and innovative product offerings.

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 addition, the global financial, credit and currency markets have experienced, since the second half of 2007, and may continue to experience, significant dislocations and liquidity disruptions. There is significant uncertainty as to the potential for a continued downturn in the United States and Europe, as well as the global economy, which could cause economic conditions in the Philippines to deteriorate. In 2014, the SMC Group sales of about 6.2% of the gross domestic product of the Philippines and is in the position to benefit and contribute from the continued growth of the Philippine economy. 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. In the last few years, there has been political instability in the Philippines, including impeachment proceedings against two (2) former presidents, the chief justice 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 on corruption charges stemming from allegations of misuse of public funds. 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.

The Philippine presidential, legislative and local elections are scheduled to be held on May 09, 2016. The 2016 elections will lead to the election of the 16th President as well as the Vice-President of the Philippines. The legislators elected in the 2016 elections will join the senators elected in the 2013 elections and will comprise the 17th Congress of the Philippines. There is no assurance that the elections will be peaceful and free of allegations of fraud and voter disenfranchisement.

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.

The Philippines has also been subject to a number of terrorist attacks since 2000, 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 September 2013, a faction of the Moro National Liberation Front allegedly lead by Nur Misuari, a former governor of the Autonomous Region of Muslim Mindanao, staged an armed uprising in Zamboanga City. The incident resulted in, among others, hostage situations and renewed tension between the Philippine Armed Forces and the Moro National Liberation Front in the southern part of the country. In an operation to capture wanted international terrorist Zulkifli Bin Hir alias Marwan on January 25, 2015, 44 police commandos were killed in a 12-hour fire fight with two (2) Muslim rebel groups: Moro Islamic Liberation Front and Bangsamoro Islamic Freedom Fighters in the Southern Philippines. An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy.

Natural catastrophes

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. 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. There is no assurance that Moody's, S&P or other international credit rating agencies will not downgrade the credit rating of the Philippines in the future. 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.

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 Bangko Sentral ng Pilipinas ("BSP") has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, 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.

Management of risks related to the Philippines

SMC has been able to survive major economic and political crises brought about by domestic and international developments through the implementation of its core strategies, including least cost formulations, efficiencies improvement, market leadership, innovation and regional diversification. Constant monitoring of market allows the Company to detect risk exposures and react to the external environment appropriately. Although there is no assurance that the Company will be able to fully overcome the adverse effects of any or all crisis, it has in place a system of financial prudence and corporate governance that provides the foundation for its risk management initiatives.

Risks Related to the Offer Shares

The Offer Shares may not be a suitable investment for all investors

Each potential investor in the Offer Shares must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Offer Shares, the merits and risks of investing in the Offer Shares and the information contained in this Prospectus;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Offer Shares and the impact the Offer Shares will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Offer Shares, including where the currency for principal or dividend payments is different from the currency of the potential investor;

- understand thoroughly the terms of the Offer Shares and be familiar with the behavior of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

Redemption at the option of the Issuer

The Offer Shares are perpetual and have no fixed final maturity date. Holders have no right to require the Company to redeem the Offer Shares at any time and they can only be disposed of by sale in the secondary market. Holders who wish to sell their Offer Shares may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Offer Shares. Therefore, holders of the Offer Shares should be aware that they may be required to bear the financial risks of an investment in the Offer Shares for an indefinite period of time.

The sale of the Offer Shares or any rights thereto prior to the listing of the Offer Shares cannot be made through the PSE. The Company has filed an application for the listing of the Offer Shares on the PSE.

Prior to the listing of the Offer Shares to the PSE, the sale of subscription rights to the Offer Shares may be treated as sale of shares and subject to documentary stamp tax, capital gains tax (on any gain derived from the sale thereof) or donor's tax (in case of donation or sale of the subscription rights to the Offer Shares for a price below the fair market value of the subscription rights).

Volatility of market price of the Offer Shares

The market price of the Offer Shares could be affected by various factors, including:

- general market, political and economic conditions;
- changes in earnings estimates and recommendations by financial analysts;
- changes in market valuations of listed stocks, in general, and stocks of other conglomerates;
- changes to government policy, legislation or regulations, and
- general operational and business risks.

In addition, many of the risks described within this section could materially and adversely affect the market price of the Offer Shares.

Additional Taxes

The sale, exchange or disposition of the Offer Shares after the Offer Period, if made outside the facilities of the PSE is subject to capital gains tax and documentary stamp tax, and if made through the facilities of the PSE (except for a dealer in securities) is subject to stock transaction tax. Changes in laws, rules and regulations may result in additional taxes on the acquisition, disposition, or transfer of the Offer Shares. For a discussion on the taxes currently imposed by the Bureau of Internal Revenues of the Philippines ("BIR"), please refer to the section on "Taxation" on pages 191 of the Prospectus.

Deferral of dividend payment

Dividends on the Offer Shares may not be paid or may pay less than full dividends, under the terms and conditions governing the Offer Shares. Holders of the Offer Shares will not receive dividends on a Dividend Payment Date or for any period during which the Company does not have retained earnings out of which to pay dividends.

Subordination to other indebtedness of the Company

The obligations of SMC under the Offer Shares are unsecured and are subordinated obligations to all of the indebtedness of the Company.The rights and claims of holders of the Offer Shares will (subject to the extent permitted by law) rank senior to the holders of the Common Shares of the Company and *pari passu* with the other preferred shares.

In the event of the winding-up of the Company, the Offer Shares rank junior in right of payment to all indebtedness of the Company and junior in right of payment to securities of, or claims against, the Company which rank or are expressed to rank senior to the Offer Shares. The Offer Shares, however, rank in *pari passu* with the Series "1" Preferred Shares and the other subseries of the Series "2" Preferred Shares. There is a substantial risk that an investor in the Offer Shares will not receive any return of the principal amount or any unpaid amounts due under the terms of the Offer unless SMC can satisfy in full all of its other obligations ranking senior to the Offer Shares.

There are no terms in the Offer Shares that limit the ability of SMC to incur additional indebtedness, including indebtedness that ranks senior to or *pari passu* with the Offer Shares.

Insufficient distributions upon liquidation

Upon any voluntary or involuntary dissolution, liquidation or winding up of SMC, holders of Offer Shares will be entitled only to the available assets of the Company remaining after the indebtedness of SMC is satisfied. If any such assets are insufficient to pay the amounts due on the Offer Shares, then the holders of the Offer Shares shall share ratably in any such distribution of assets in proportion to the full distributions to which they would otherwise be respectively entitled.

Subordination of payments to the Holders of the Offer Shares

SMC has and will continue to have a certain amount of outstanding indebtedness. The current terms of the financing agreements of SMC contain provisions that could limit the ability of the Company to make payments to the holders of the Offer Shares. Also, SMC may in the future, directly or indirectly through its subsidiaries, enter into other financing agreements which may restrict or prohibit the ability of the Company to make payments on the Offer Shares. There can be no assurance that existing or future financing arrangements will not adversely affect the ability of SMC to make payments on the Offer Shares.

Liquidity of the securities market

The Philippine securities markets are substantially less liquid and more volatile than major securities markets in other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The Company cannot guarantee that the market for the Offer Shares will always be active or liquid upon their listing on the PSE.

In addition, the Company and the Underwriters are not obligated to create a trading market for the Offer Shares and any such market making will be subject to the limits imposed by applicable law, and may be interrupted or discontinued at any time without notice. Accordingly, the Company cannot predict whether an active or liquid trading market for the Offer Shares will develop or if such a market develops, if it can be sustained. Consequently, a shareholder may be required to hold his Offer Shares for an indefinite period of time or sell them for an amount less than the Offer Price.

Effect of non-payment of dividends

If dividends on the Offer Shares are not paid in full, or at all, the Offer Shares may trade at a lower price than they might otherwise have traded if dividends had been paid. The sale of Offer Shares during such a period by a holder of Offer Shares may result in such holder receiving lower returns on the investment than a holder who continues to hold the Offer Shares until dividend payments resume. In addition, because of the dividend limitations, the market price for the Offer Shares may be more volatile than that of other securities that do not have these limitations.

Inability to reinvest at a similar return on investment upon redemption

On the Optional Redemption Date or at any time redemption occurs, SMC may redeem the Offer Shares at the Redemption Price, as described in ‘‘Description of the Series “2” Preferred Shares’’. At the time of redemption, interest rates may be lower than at the time of the issuance of the Offer Shares and, consequently, the holders of the Offer Shares may not be able to reinvest the proceeds at a comparable interest rate or purchase securities otherwise comparable to the Offer Shares.

Limited voting rights

Holders of Offer Shares will not be entitled to elect the Board of Directors of the Company. Except as specifically set forth in the Amended Articles of Incorporation and as provided by Philippine law, holders of Offer Shares will have no voting rights (see ‘‘Description of the Series “2” Preferred Shares’’ on page 34).

Use of Proceeds

The use of proceeds for each tranche of the Offer shall be set out in the relevant Offer Supplement.

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.

In the event of any substantial deviation, adjustment or reallocation in the planned use of proceeds, the Company shall inform the SEC, PSE and the holders of the Offer Shares in writing at least 30 days before such deviation, adjustment or reallocation is implemented. Any material or substantial adjustments in the use of proceeds, as indicated above, should be approved by the Board and disclosed to the PSE. In addition, the Company shall submit via the Electronic Disclosure Generation Technology (EDGE) of the PSE, the following disclosures to ensure transparency in the use of proceeds:

(i) any disbursements made in connection with the planned use of proceeds from the Offer;

(ii) quarterly progress report on the application of the proceeds from the Offer on or before the first 15 days of the following quarter;

(iii) annual summary of the application of the proceeds on or before January 31 of the following year; and

(iv) approval by the Board of any reallocation on the planned use of proceeds. The actual disbursement or implementation of such reallocation must be disclosed by the Company at least 30 days prior to the said actual disbursement or implementation.

The Company shall submit a certification by the Treasurer of the Company and external auditor on the accuracy of the information reported by the Company to the PSE, as well as a detailed explanation for any material variances between the actual disbursements and the planned use of proceeds in the Prospectus, if any, in the quarterly and annual reports of the Company as required in items (ii) and (iii) above. Such detailed explanation will state the approval of the Board as required in item (iv) above.

Determination of Offer Price

The Offer Price of ₱75.00 is at a premium to the par value of the Offer Shares, which is ₱5.00 per share. The Offer Price was arrived at by dividing the desired gross proceeds of ₱73,167,885,000.00 by the amount of Offer Shares allocated for the Offer.

Dilution

The Offer Shares will not have any dilutive effect on the rights of the holders of the common shares of the Company as the Offer Shares are non-voting, non-convertible and non-participating. With respect to the outstanding preferred shares, namely, the Series “1” Preferred Shares and the Series “2” Preferred Shares – Subseries “2-B”, “2-C”, “2-D”, “2-E” and “2-F” (the “Outstanding Preferred Shares”), the issuance of the Offer Shares will result in the dilution of the percentage ownership of the holders of the Outstanding Preferred Shares in relation to the total outstanding capital stock of the Company. The Offer Shares rank in *pari passu* with the rights of the holders of the Outstanding Preferred Shares of the Company.

Plan of Distribution

SMC plans to issue the Offer Shares to institutional and retail investors in the Philippines through a public offering to be conducted through the Underwriters. The Offer does not include an international offering.

The detailed plan of distribution and underwriting arrangements for each tranche of the Offer shall be as set out in the Offer Supplement.

The Underwriters are duly licensed by the SEC to engage in the underwriting or distribution of the Offer Shares. The Underwriters 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.

The Underwriters 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 Underwriters have no contract or other arrangement with SMC by which it may return to SMC any unsold Initial Offer Shares.

Sale and Distribution

The distribution and sale of the Offer Shares shall be undertaken by the Underwriters who shall sell and distribute the Offer Shares to third party buyers/investors. The Underwriters are authorized to organize a syndicate of underwriters, soliciting dealers and/or Selling Agents for the purpose of the Offer. In connection with the foregoing, the Underwriters may enter into agreements, participation agreements, or like agreements with other co-lead managers and managers (who may be named or have been named in the Offer Supplement) and/or Selling Agents, as necessary. There is nothing in such agreements that allow the Underwriters to return to SMC any unsold Offer Shares.

The Company will not allocate any Offer Shares for Local Small Investors. As defined in the PSE Revised Listing Rules, a Local Small Investor is a share subscriber whose subscription does not exceed ₱25,000.00. The Offer will have a minimum subscription amount of ₱37,500.00, which is beyond the prescribed maximum subscription amount for Local Small Investors.

Prior to close of the Offer Period for each tranche of the Offer, any Offer Shares not taken up by the trading participants shall be distributed by the Underwriters directly to their clients and general public. All Offer Shares not taken up by the trading participants, general public, and the Underwriters’ clients shall be purchased by the Underwriters pursuant to the terms and conditions of the relevant Underwriting Agreement.

Term of Appointment

The term of the appointment of the Underwriters for each tranche of the Offer shall be as set out in the relevant Offer Supplement.

Manner of Distribution

The Underwriters shall, at their discretion, determine the manner by which proposals for subscriptions to, and issuances of, the Offer Shares shall be solicited, with the sale of the Offer Shares to be effected only through the Underwriters. The Underwriters may appoint other entities, including trading participants, to sell on their behalf.

Offer Period

The Offer Period for each tranche of the Offer shall be set out in the relevant Offer Supplement.

Application to Purchase

The requirements to purchase the Offer Shares are discussed under the “Terms of the Offer” on page 26 and will also be set out in the Offer Supplement of the relevant issue tranche.

All applications to purchase the Offer Shares shall be evidenced by a duly completed and signed application to purchase, together with two (2) fully executed signature cards authenticated by the Corporate Secretary with respect to corporate and institutional investors, and shall be accompanied by the payment in full of the corresponding purchase price of the Offer Shares applied for, by check or by the appropriate payment instruction, and the required documents which must be submitted to the Underwriters.

Corporate and institutional purchasers must also submit the following:

(a) a copy of the SEC Certificate of Registration, Articles of Incorporation and By-laws, or such other relevant organizational or charter documents, all of which are duly certified by the Corporate Secretary of such corporate or institutional purchasers, and

(b) an original, notarized Secretary's Certificate confirming the resolution of the Board of Directors and/or committees or bodies authorizing the purchase of the Offer Shares, and designating the authorized signatory/ies therefore.

Individual applicants must also submit a photocopy of any one of the following identification cards ("ID"): passport/driver's license, company ID, SSS/Government Service Insurance System ID and/or Senior Citizen's ID or such other ID and documents as may be required by or acceptable to the Registrar and Paying Agent.

An applicant who is exempt from or is not subject to withholding tax or who claims reduced tax treaty rates shall, in addition, must submit the following requirements to the relevant Underwriter together with their applications who shall then forward the same to the Registrar and Paying Agent, subject to acceptance by the Company as being sufficient in form and substance:

(a) certified true copy of the original tax exemption certificate, ruling or opinion issued by the BIR on file with the applicant as certified by its duly authorized officer,

(b) with respect to tax treaty relief, proofs to support applicability of reduced treaty rates, consularized proof of tax domicile issued by the relevant tax authority of the Preferred Shareholder, and original or SEC-certified true copy of the SEC confirmation that the relevant entity is not doing business in the Philippines,

(c) an original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Company and the Registrar and Paying Agent of any suspension or revocation of its tax exempt status and agreeing to indemnify and hold the Company, the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax, and

(d) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities.

The Underwriters shall be responsible for accepting or rejecting any application or scaling down the amount of Offer Shares applied for. The application, once accepted, shall constitute the duly executed purchase agreement covering the amount of Offer Shares so accepted and shall be valid and binding on the Company and the applicant. The Underwriters shall advise the Selling Agents of any Applications that were rejected and/or scaled down, with copy to the Company.

Minimum Purchase

A minimum purchase of 500 shares shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of 100 shares.

Payment of the Offer Shares

The Offer Price of the Offer Shares must be paid in full upon submission of the Application.

Payment shall be in the form of either:

(a) a Metro Manila clearing cashier's/manager's or corporate check or personal check drawn against a bank account with a BSP-authorized agent bank located in Metro Manila and dated as of the date of submission of the Application to Purchase covering the entire number of the Offer Shares covered by the same Application. Checks should be made payable to "SMC Preferred Shares Offer"; or

(b) for applicants submitting their Application to Purchase to any of the Underwriters or selling agents:

   (i) through the Real Time Gross Settlement facility of the BSP to the Underwriter or selling agent to whom such Application was submitted, or
   (ii) via direct debit from their deposit account maintained with the Underwriter or selling agent.

Refunds

In the event an Application is rejected or the amount of Offer Shares applied for is scaled down, the Underwriters, upon receipt of such rejected or scaled down Applications, shall notify the applicant concerned that his Application has been rejected or the amount of Offer Shares applied for is scaled down, and refund the amount paid by the applicant with no interest thereon. With respect to an applicant whose Application was rejected, refund shall be made by the Underwriters by making the check payment of the applicant concerned available for his retrieval. With respect to an applicant whose Application has been scaled down, refund shall be made by the issuance by the concerned Underwriter and of its own check payable to the order of the applicant and crossed "Payees' Account Only" corresponding to the amount in excess of the accepted Application. All checks shall be made available for pick up by the applicants concerned at the office of the Underwriter to whom the rejected or scaled down Application was submitted within five (5) Banking Days after the last day of the relevant offer period. The Company shall not be liable in any manner to the applicant for any check payment corresponding to any rejected or scaled-down Application which is not returned by the Underwriter; in which case, the Underwriter shall be responsible directly to the applicant for the return of the check or otherwise the refund of the payment.

Secondary Market

SMC may purchase the Offer Shares, then tradeable at that time, at any time without any obligation to make pro rata purchases of Offer Shares from all Shareholders.

Registry of Shareholders

The Offer Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as Registrar for the Offer, and lodged with PDTC as Depository Agent on Listing Date through PSE trading participants nominated by the applicants. Applicants shall indicate in the proper space provided for in the Application Form the name of the PSE trading participant under whose name their Offer Shares will be registered.

Legal title to the Offer Shares will be shown in an electronic register of shareholders (the "Registry of Shareholders") which shall be maintained by the Registrar. The Registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Offer Shares that is effected in the Registry of Shareholders (at the cost of the requesting shareholder). The Registrar shall send (at the cost of the Company) at least once every quarter a Statement of Account to all shareholders named in the Registry of Shareholders, except certificated shareholders and depository participants, confirming the number of Offer Shares held by each shareholder on record in the Registry of Shareholders. Such Statement of Account shall serve as evidence of ownership of the relevant shareholder as of a given date thereof. Any request by the Shareholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Shareholder.

Expenses

All out-of-pocket expenses, including but not limited to, registration with the SEC, printing, publication, communication and signing expenses incurred by the Underwriters in the negotiation and execution of the transaction will be for the account of SMC irrespective of whether the transaction contemplated herein is completed. Such expenses are to be reimbursed upon presentation of a composite statement of account. See "Use of Proceeds" on page 59 for details of expenses.

The Company

Overview

SMC is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales of about 6.2% of the Philippine gross domestic product in 2014. Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a market-leading beverages, food and packaging business with a globally recognized beer brand, into a large and diversified conglomerate with additional market-leading businesses and investments in the fuel and oil, energy, infrastructure, telecommunications and banking industries. 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 Philippines. As of September 30, 2015, SMC had a market capitalization of ₱115,358 million, with a common share price of ₱48.50. The consolidated sales and recurring EBITDA of SMC in 2014 were ₱782,434 million and ₱88,096 million, respectively.

Corporate Transformation of SMC

Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a market-leading beverage, food and packaging business with a globally recognized beer brand, into a diversified conglomerate with market-leading businesses and investments in the fuel and oil, energy, infrastructure, telecommunications and banking industries. SMC owns a portfolio of companies that is tightly interwoven into the economic fabric of its home market, benefiting from and contributing to, the development and economic progress of the Philippines. The common shares of SMC were listed on November 5, 1948 at the Manila Stock Exchange, now The Philippine Stock Exchange, Inc.

In 2007, in light of the opportunities presented by the global financial crisis, the ongoing program of asset and industry privatization of the Philippine government, the strong cash position of SMC enhanced by recent divestments and the strong cash flow generated by its established businesses, SMC adopted an aggressive business diversification program. The program channeled the resources of SMC into what it believes were attractive growth sectors, aligned with the development and growth of the Philippine economy. SMC believes this strategy 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.

Since January 2008, SMC has either directly or through its subsidiaries, made a series of acquisitions in the fuel and oil, energy, infrastructure, telecommunications and banking industries. A summary of these transactions is set forth below.

- **Fuel and Oil:** SMC completed on December 15, 2010 to exercise its option to acquire equity in Sea Refinery Corporation, which has interest in Petron which made SMC owning approximately 68.26% of the outstanding and issued shares of Petron. On March 30 2012, an affiliate of SMC, Petron Oil & Gas International Sdn Bhd, completed the acquisition of 65.0% (currently 73.4%) of Esso Malaysia Berhad, a publicly listed company in Malaysia, 100.0% of ExxonMobil Malaysia Sdn Bhd, and 100.0% of ExxonMobil Borneo Sdn Bhd.

- **Energy:** SMC was awarded administration rights for three (3) power plants in Sual, Ilijan and San Roque under IPPA agreements which commenced on November 6, 2009, January 26, 2010 and June 26, 2010, respectively, and which will expire on October 24, 2024, June 4, 2022 and May 26, 2028, respectively. The Company also started operating the 140-MW coal Co-generation power plant in Limay, Bataan in 2014. In addition, SMC also owns 60.0% interest in the AHEPP.

  SMC, through SMEC, acquired a 100.0% interest in the concession holders of the Daguma, Bonanza Energy, and Sultan Energy coal deposits on January 29, 2010, January 29, 2010 and May 13, 2010, respectively.

- **Infrastructure:** SMC acquired a 35.0% interest in PIDC, which is developing the 88.85 km Tarlac-Pangasinan-La Union expressway, on September 11, 2009, which currently stands at 70.11%. SMC also acquired a 93.0% interest in TADHC (formerly known as Caticlan International Airport Development Corporation) on April 29, 2010, which currently stands at 99.80%. The Company also has a 51.0% interest in Universal LRT, the concession holder for the MRT-7 Rail and Road Project, since November 8, 2010. SMHC has acquired 46.53% stake in AAI, a company which has an 80.0% stake in SLTC (which holds a 30-year concession (valid until 2035) to operate the 36.1 km SLEX, one of the three (3) major expressways that links Metro Manila to key southern provinces); an 87.84% stake in CMMTC, concession holder of the Skyway Stages 1 and 2; and an 80.0% in CCEC, concession holder of the Skyway Stage 3 Project. Starting March 5, 2015, SMHC holds 95.0% interest in AAIBV. 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 50.0% shares in Wiselink. Sleep Coop and Wiselink owns 40.0% and 60.0% of CTCII, respectively which owns 100.0% of SIDC. With the acquisition of Sleep Coop and Wiselink, SMHC effectively owns 53.32% of CTCII. As such, CTCII became a majority-owned subsidiary and is controlled by SMHC effective June 28, 2013.

- **Telecom:** SMC through its subsidiary, Vega, acquired 41.48% of Liberty Telecom in 2010, which interest now stands at 97.46% of the total issued and outstanding shares of Liberty Telecom. SMC acquired 100.0% of BellTel, a full-service telecommunications company which is licensed to provide a range of services throughout the Philippines. In addition, SMC, through Vega, acquired 100.0% of the outstanding and issued shares of stock of AGNP, the beneficial owner of approximately 40.0% of Eastern Telecom, inclusive of the existing businesses, investments and telecommunications service facilities of Eastern Telecom. On October 20, 2011, the Parent Company through its wholly-owned subsidiary, SMESI, acquired an additional 37.7% of the outstanding and issued shares of stock of Eastern Telecom bringing its total indirect equity interest in Eastern Telecom to 77.7%.

- **Banking:** SMC through SMPI acquired a 30.0% interest in BOC in October 2007, which interest is now at 39.93%.

The Businesses of SMC

SMC is one of the largest and most diversified conglomerates in the Philippines. Its portfolio comprises of the following businesses, which are market leaders in their respective industries:

Beverages

The beverage business consists of brewing, distilling, selling, marketing and distributing beer, liquor and non-alcoholic beverages. SMB sells the dominant beer brands in the Philippines, with a total market share by volumes of 90% in 2012, according to the Canadean data, with no sigfinicant change thereafter. Its products include *San Miguel Pale Pilsen*, which is the flagship beer of SMB and is sold throughout the world, *San Miguel Super Dry*, *San Mig Light*, *San Mig Strong Ice* and *San Miguel Premium All-Malt*. Other SMB beer brands include *Cerveza Negra*, *Red Horse*, *Gold Eagle*, *Oktoberfest Brew*, *San Miguel Flavored Beer, San Mig Zero* and *Alcoholic Malt Beverage*. In addition to its Philippine beer operations, SMB has brewery and sales operations in China, Hong Kong, Thailand, Vietnam and Indonesia and exports to 30 countries. SMB recently added in its portfolio the non-alcoholic beverage business, which produces non-carbonated, ready-to-drink tea, fruit juice products and water, primarily under the Magnolia brand. Ginebra is the largest gin producer by volume in the world with some of the most recognizable brands in the Philippine liquor market, including *Ginebra San Miguel*, *GSM Blue*, *GSM Blue Light*, *Primera Light* and *Vino Kulafu*.

Food

The food operations of SMC holds numerous market-leading positions in the Philippine food industry, offering a wide range of high-quality food products and services to household, institutional and foodservice customers. The food business is conducted through San Miguel Pure Foods Company, Inc. (“San Miguel Pure Foods”). In addition to its Philippine operations, the food business has presence in Indonesia and Vietnam.

San Miguel Pure Foods 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* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Super Coffee* for coffee, *La Pacita* for biscuits *and B-Meg* for animal feeds.

Packaging

The packaging business has one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, PET and other packaging products. The packaging business is the major source of packaging requirements of the other businesses of SMC. The Packaging Group has international operations located in China (glass, plastic and paperboard), Vietnam (glass and metal), Malaysia (flexibles, plastic films, woven bags, industrial laminates and a packaging research center), Australia (glass, trading, wine closures and bottle caps) and New Zealand (plastics and trading).

Properties

SMPI was created in 1990 initially as the corporate real estate arm of SMC. It is the primary property subsidiary of the SMC Group, currently 99.68% owned by SMC. SMPI is presently engaged in commercial property development, sale and lease of real properties, management of strategic real estate ventures and corporate real estate services.

Fuel and Oil

SMC operates its fuel and oil business through Petron in which it holds a 68.26% interest. Petron is the number one integrated oil refining and marketing company in the Philippines, supplying almost 40.0% of the refined oil requirements of the country and is the largest LPG distributor, with a 35.4% market share as of December 2014 (based on industry data of the DOE). The core business of Petron involves the refining of crude oil and the marketing and distribution of refined petroleum products, mainly for the Philippine market. Petron possesses the most extensive oil distribution infrastructure in the country with more than 30 depots, terminals and airport installations and approximately 2,200 service stations in the Philippines. Petron also exports various petroleum products and petrochemical feedstock, including high sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

In March 2012, Petron increased its regional presence when it acquired an integrated refining, distribution, and marketing business in Malaysia. Petron Malaysia operates an 88,000 barrel-per-day refinery, seven (7) storage facilities and a network of 560 service stations. Petron holds a 17.1% share of the retail market as of September 30, 2015, based on Petron and Fahreinheit Research estimates.

Energy

The energy business is one of the leaders in the Philippine power generation industry in terms of installed capacity. SMC administers three (3) power plants, located in Sual, Pangasinan (coal), Ilijan, Batangas (natural gas) and San Roque, Pangasinan (hydroelectric), pursuant to IPPA agreements with PSALM and NPC, and owns the Co-generation power plant in Limay, Bataan. In addition, SMC also owns 60.0% interest in the AHEPP plant in Bulacan. This brings total capacity to 2,903 MW. SMC is one of the largest power companies in the Philippines and holds a 22.2% market share of the total installed power generation capacity for the Luzon power grid and a 16.5% market share of the national grid as of September 2015. SMC, through SMEC, likewise owns three (3) mining companies which are concession holders of coal deposits in Southern Mindanao.

Infrastructure

The infrastructure business, through SMHC, consists of investments in companies that hold long-term concessions in the infrastructure sector in the Philippines. Current operating tollroads include the TPLEX, SLEX, Skyway Stage 1 and 2 and the STAR Tollways and ongoing tollroad projects are the NAIAx and the Skyway Stage 3. It also operates and is currently expanding Boracay Airport. In addition, it has the concession right to construct, operate and maintain the MRT-7.

Telecom

SMC has made investments in the telecommunications sector in the Philippines through acquisitions of stakes in Liberty Telecom, BellTel and Eastern Telecom.

Liberty Telecom

In 2010, SMC through its subsidiary, Vega, acquired a 41.48% stake in Liberty Telecom, a telecommunications carrier listed in the PSE, offering data communications and data connectivity services. Vega increased its ownership from 41.48% to 45.05% in April 2014, to 45.58% in December 2014 and 97.46% of the total issued and outstanding shares of Liberty Telecom effective September 2, 2015.

BellTel

Also, in 2010, Vega subscribed to shares of stock equivalent to 100.0% of Two Cassandra-CCI Conglomerates, Inc., Power Smart Capital Limited, and Perchpoint Holdings, Corp. that collectively own 100.0% of BellTel. In December 2014, Vega made a direct additional investment to BellTel by subscribing to its unissued shares.

Eastern Telecom

In 2010, SMC, through Vega, acquired 100.0% of the outstanding and issued shares of stock of AGNP, the beneficial owner of approximately 40.0% of Eastern Telecom, inclusive of the existing businesses, investments and telecommunications service facilities of Eastern Telecom. On October 20, 2011, the Company through its wholly-owned subsidiary, SMESI, acquired an additional 37.7% of the outstanding and issued shares of stock of Eastern Telecom bringing its total indirect equity interest in Eastern Telecom to 77.7%.

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

	2012		**2013**		**2014**		**As of and for the Nine Months Ended September 30, 2015**	
	Revenues	**%**	**Revenues**	**%**	**Revenues**	**%**	**Revenues**	**%**
	(in millions)		(in millions)		(in millions)		(in millions)	
Beverages	₱ 89,603	12.8%	₱ 89,452	12.0%	₱ 94,516	12.1%	₱ 70,277	13.9%
Food	95,787	13.7%	99,773	13.3%	103,000	13.2%	76,601	15.2%
Packaging	24,460	3.5%	25,187	3.4%	24,226	3.1%	18,186	3.6%
Energy	74,656	10.7%	74,044	9.9%	84,293	10.8%	58,997	11.7%
Fuel and Oil	424,795	60.7%	463,638	61.9%	482,535	61.7%	278,295	55.2%
Infrastructure	134	0.0%	6,473	0.9%	9,657	1.2%	9,004	1.8%
Other Operations, Investments and Eliminations	(9,519)	(1.4%)	(10,326)	(1.4%)	(15,793)	(-2.0%)	(6,840)	(1.4%)
Total	**₱ 699,916**	**100.0%**	**₱ 748,421**	**100.0%**	**₱782,434**	**100.0%**	**₱ 504,520**	**100.0%**

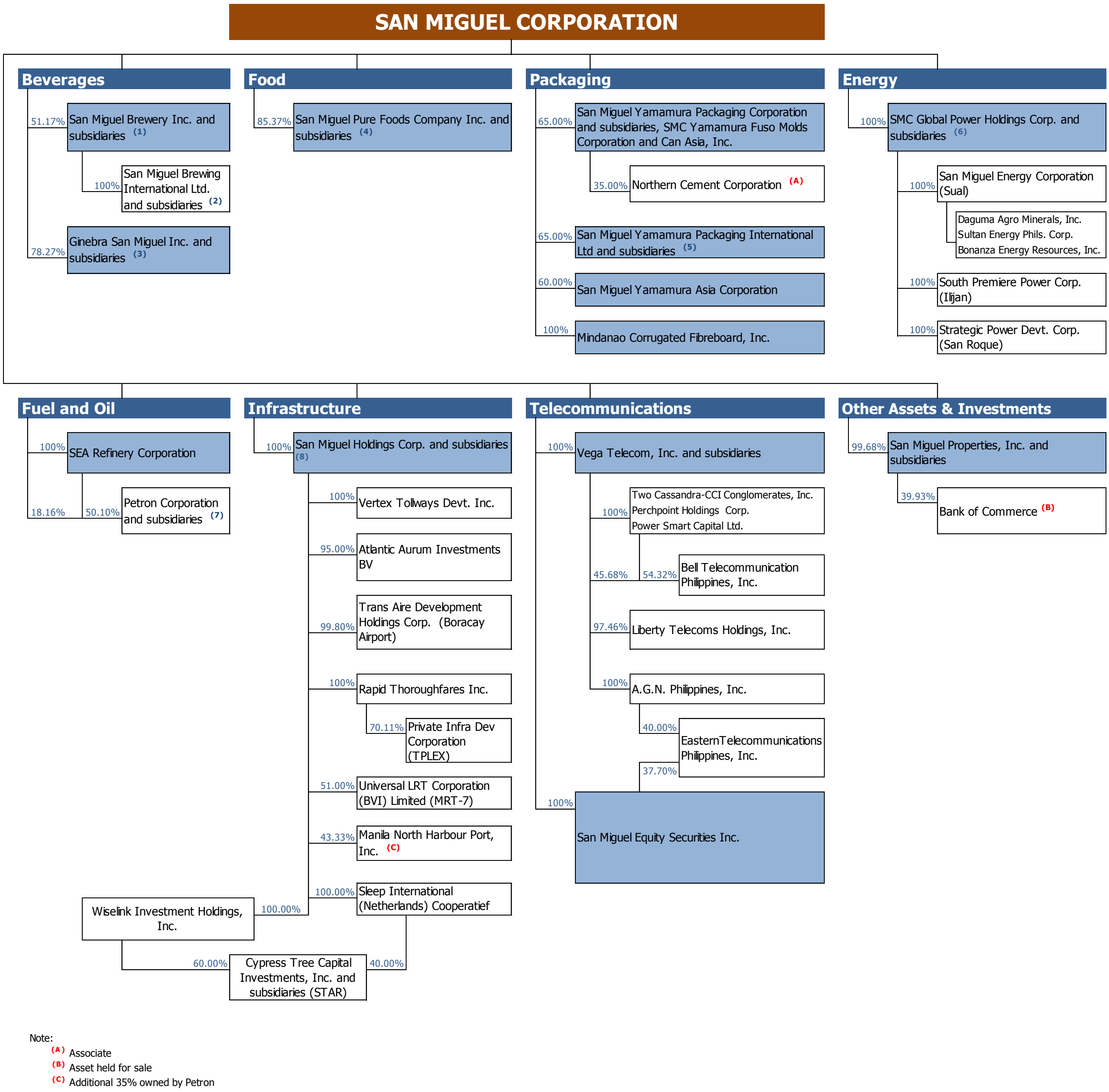
The foreign operations of the SMC Group in 2014 contributed about 26.7% of consolidated sales and 3.1% of consolidated net income. Foreign sales are broken down by market as follows:

	(%) to Consolidated Sales		
Market	**2012**	**2013**	**2014**
Malaysia	20.7	24.9	23.6
Indonesia	1.0	1.0	0.9
China	0.9	0.9	0.9
Vietnam	0.5	0.4	0.4
Others	0.5	1.8	0.9

Corporate Organization

Set forth below is the corporate organizational chart of SMC as of December 31, 2015.

SMC and its Major Subsidiaries and Associates



Subsidiaries:

(1) San Miguel Brewery Inc. subsidiaries also include Iconic Beverages, Inc. and Brewery Properties Inc. and subsidiary

(2) San Miguel Brewing International Ltd. subsidiaries include 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

(3) Ginebra San Miguel Inc. subsidiaries include Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc., Ginebra San Miguel International Ltd., GSM International Holdings Limited, Global Beverage Holdings Ltd. and Siam Holdings Ltd.

(4) San Miguel Pure Foods Company Inc. subsidiaries include: San Miguel Foods, Inc., San Miguel Mills, Inc. and subsidiaries, The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiaries, San Miguel Super Coffeemix Co., Inc., PT San Miguel Pure Foods Indonesia, San Miguel Pure Foods International Limited and subsidiary and San Miguel Hormel (Vn) Co., Ltd.

(5) San Miguel Yamamura Packaging International Limited subsidiaries include: San Miguel Yamamura Phu Tho Packaging Company Limited, Zhaoqing San Miguel Yamamura Glass Co., Ltd., Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty. LTd. and subsidiaries and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary

(6) SMC Global Power Holdings Corp. subsidiaries also include San Miguel Electric Corp., SMC PowerGen Inc., PowerOne Ventures Energy Inc., Albay Power and Energy Corp., SMC Consolidated Power Corporation, San Miguel Consolidated Power Corporation and Ondarre Holdings Corporation.

(7) Petron Corporation subsidiaries include: Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation, Petron Singapore Trading Pte., Ltd., New Ventures Realty Corporation and subsidiaries, Petron Global Limited, Petron Oil & Gas International Sdn. Bhd., including Petron Fuel International Sdb. Bhd., Petron Oil (M) Sdn. Bhd. And Petron Malaysia Refining & Marketing Berhad (collectively Petron Malaysia), Petron Finance (Labuan) Limited, Limay Energen Corporation and Petrochemical Asia (HK) Limited and subsidiaries

(8) San Miguel Holdings Corp. subsidiaries also include: Optimal Infrastructure Development, Inc., Terramino Holdings, Inc. and subsidiary and Alloy Manila Toll Expressways Inc.

(9) Vega Telecom, Inc. subsidiaries also include High Frequency Telecommunication Inc., Multi-technology Investment Holdings, Inc., Cobaltpoint Telecom, Inc. (formerly Express Telecommunications Company Inc.), Trans Digital Excel Inc., and San Miguel Equity Securities Inc.

None of the SMC Group companies is involved in any bankruptcy or receivership proceedings. Except as disclosed in this Prospectus, none of the SMC Group companies is involved in any reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business which has a material effect on SMC.

Strengths of SMC

SMC believes that its principal strengths include the following:

Diversified platform with broad exposure to the Philippine economy

The Philippines has become one of the fastest growing economies in Asia, with consecutive annual positive gross domestic product growth since 1999. According to the ASEAN Briefing, the Philippines announced a gross domestic product growth of 6.1% in 2014, the second highest in the Asia-Pacific region. According to the IMF, the Philippines is expected to experience strong gross domestic product growth at the rate of 6.2% and 6.5% for 2015 and 2016, respectively. In addition, the Philippine population is young, comparably literate and growing, which provides the Philippine economy with favorable demographics for further growth.

As one of the largest conglomerates in the Philippines by revenues and total assets, with sales of about 6.2% of the Philippine gross domestic product in 2014, the SMC Group is broadly exposed to the Philippine economy through its diverse range of businesses spanning the beverage, food, packaging, fuel and oil, energy, telecommunication, infrastructure, property and banking industries. The 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 domestic markets.

Beverages: The domestic beer business of SMC has consistently dominated the Philippine beer market, with a market share of 90% by volume in 2012, according to Canadean data, with no significant change thereafter. SMB has held this position since 1999. SMC also produces some of the most recognizable liquor brands in the Philippines. It also has a growing non-alcoholic beverage business which produces non-carbonated ready to drink tea, fruit juices and water.

Food: San Miguel Pure Foods is a leading Philippine food company with market-leading positions in key food categories and offers a broad range of high-quality food products and services to household, institutional and foodservice customers. Based on data from certain Philippine government agencies and internal assumptions and calculations, San Miguel Pure Foods believes it had market shares of 38% for poultry, 40% for fresh meats (based on sow population of large commercial farms), and 43% for animal feeds, in each case as of December 2014 and 16% for flour as of September 2015. According to Kantar Worldpanel, San Miguel Pure Foods had a market share of 58% for hotdogs sold in Philippine supermarkets, 84% in the chicken nugget product category, and market shares of 42% for butter, 97% for refrigerated margarine, in each case based on value as of September 2015. According to Nielsen, San Miguel Pure Foods has a 97% market share for non-refrigerated margarine and 20% market share for cheese as of August 2015. San Miguel Pure Foods has continuously enhanced brand recognition and trust with consumers by consistently maintaining high product quality, as well as through active and targeted advertising and promotional campaigns.

Packaging: The packaging business is one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, PET and other packaging products. The packaging business is the major source of packaging requirements of the other businesses of SMC. It also supplies its products to major multinational corporations in the Philippines and customers across the Asia-Pacific region, the United States, Africa, Australia and the Middle East.

Fuel and oil: Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, Petron is the number one integrated oil refining and marketing company, with an overall market share of 35.4% of the Philippine oil market in terms of sales volume based on industry data from the DOE as of December 2014. Petron had a 17.1% share of the Malaysian retail market as of September 2015, based on Petron and Fahrenheit Research estimates, the market research consultant appointed by Malaysian retail market participants to compile industry data.

Energy: SMC Global Power is one of the largest power companies in the Philippines, holding a 22.2% market share of the total installed capacity of the Luzon power grid and 16.5% market share of the national grid as of September 2015, based on the ERC 2015 installed generating capacity data. SMC Global Power administers three (3) power plants, located in Sual, Pangasinan (coal-fired), Ilijan, Batangas (natural gas) and San Roque, Pangasinan (hydroelectric), pursuant to the IPPA agreement with PSALM, and owns the power plant in Limay, Bataan (Co-generation). In addition, SMC also owns 60.0% interest in the AHEPP located in Bulacan. This brings total combined installed capacity of SMC Global Power to 2,903 MW.

Infrastructure: SMHC has become one of the major infrastructure companies in the country, with concessions in tollroads, an airport and mass rail transit system. SMHC currently operates TPLEX, SLEX, Skyway Stages 1 and 2 and STAR tollways, which comprise 52.7% of total tollroads in the country. Ongoing projects include NAIAx and Skyway Stage 3. SMHC also operates the Boracay Airport, which is currently undergoing improvement and expansion activities that will take advantage of the growing number of tourists in the area. In addition, SMC also holds the concession to construct, operate and maintain the MRT-7 project.

Experienced management team

SMC has an extensive pool of experienced managers, who have been with SMC for more than 20 years. The management team has a deep knowledge and understanding of the Philippine operating environment and has been able to effectively manage SMC through periods of crisis and instability in the Philippines. In addition, the management team has successfully directed the diversification strategy of SMC, including retaining key management personnel from acquired companies in order to maintain their expertise and leverage their industry experience.

Operating businesses provide sustainable stream of income and cash flows

The beverage, food and packaging businesses provide SMC with a sustainable stream of income. These businesses demonstrated resilience during the global financial crisis and provided SMC with a strong financial base from which to pursue its diversification strategy. In 2014, the core businesses of beverage, food and packaging businesses provided 28.3% of consolidated sales and 43.9% of total EBITDA of SMC. For the period ending September 30, 2015, core businesses provided 32.2% of total SMC sales and 37.6% of total SMC EBITDA.

For the period ending September 30, 2015, SMC generated ₱77,466 million of EBITDA and ₱6,167 million of net income attributable to the Parent Company with ₱43,983 million of capital expenditure. In 2014, SMC generated ₱88,096 million of EBITDA and ₱14,692 million of net income attributable to the parent company with ₱38,951 million of capital expenditure. In 2013, it generated ₱77,283 million of EBITDA and ₱38,053 million of net income attributable to the parent company with ₱65,865 million of capital expenditure. In 2012, it generated ₱76,626 million of EBITDA and ₱26,806 million of net income attributable to the parent company with ₱52,917 million of capital expenditure.

Well-positioned for significant future growth

SMC is well-positioned for significant future growth. The established businesses in beverage, food and packaging continue to provide stable cash flow, while its new businesses have enabled the Company to expand its ability to generate higher returns.

Beverage: The beverage business is well-positioned to benefit from the increasing affluence and population growth in the Philippines, which the Company believes are significant opportunities in the premium beer market. Additionally, the international beer business of SMC is experiencing increased sales through increasing brand recognition in selected overseas markets such as Indonesia, Thailand, Singapore, Hong Kong, the Middle East, US and Asia-Pacific region. SMC is expanding its liquor business throughout the Philippines. SMC plans to create rapid deployment task forces, particularly in the southern Philippines, where market penetration is low and where there is no existing dealership system. With the transfer of the non-alcoholic beverage business from Ginebra to SMB, SMC believes that the strong distribution infrastructure of SMB will be able to increase margins and improve profitability of the beverage business as a whole. The beverage business continues 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.

Food: The food business aims to become the least-cost producer through its vertically-integrated meats business model, which allows it to secure stable raw material supply and develop cheaper alternative raw materials. San Miguel Pure Foods 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.

Packaging: The packaging business 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. The rising 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 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 favorable 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 that provides stable returns to fuel retailers.

Petron owns refineries in both the Philippines and Malaysia capable of producing finished petroleum products. Petron believes it has the 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. Petron also plans to increase the production of higher margin products mainly from the benefits of RMP-2. The RMP-2 is the second phase of a refinery expansion project, which includes further enhancements to the operational efficiencies of the refinery, increase in conversion capability and reduction of production of lower-value fuel oils. In addition to RMP-2 and the expansion of the service station network, Petron is operating the new coal Co-generation power plant to supply the power requirements of the Limay Refinery that replaced some of the existing turbo and steam generators. The new coal Co-generation power plant is utilizing more efficient technology and generating power at lower costs.

Energy: SMC Global Power is expanding its power generating capacity over the next five (5) years, and believes its energy business will benefit from both growing demand for electricity in the Philippines, which is forecasted to exceed the growth rates of the Philippine gross domestic product, and shortage in electricity supply, with the industry constrained by aging power generation assets and minimal additional capacities. Also, if spot electricity rates move higher as a result of increased demand, the margins of SMC Global Power are expected to increase.

Infrastructure: SMHC believes there are significant opportunities in building or acquiring infrastructure assets in a growing economy that has historically under-invested in infrastructure. In addition, SMC believes its operating licenses will provide strong and stable long-term income streams, as well as serve as a barrier to entry of new players to the business.

Telecommunications: SMC believes its investments in the telecommunications industry provide it with exposure to an industry that is expecting high growth as the Philippine population becomes more affluent and spends more on higher margin services. In particular, SMC is currently refining its telecom business strategy, where it plans to take advantage of opportunities in the digitization of businesses, the emergence of mobile platforms for businesses and the provision of services to consumers. Moreover, the companies acquired by SMC have a wide bandwidth of spectrum that would enable SMC to be competitive in both current (2G/3G/4G) and future technologies.

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 it has opportunities within its existing businesses to secure growth in its new businesses by using the relevant areas to conduct business and activities. Potential initiatives of this type include installing SMC Group advertisements and building service stations, retail outlets, rest stops and kiosks along toll roads.

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 beverage and food products of SMC.

Economies of scale: SMC believes the size and scale of its distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC should 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, such as supplying the fuel and oil and power requirements of its businesses internally.

Business 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.

Continue to 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 to position itself for the economic growth and industrial development of 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 is pursuing plans to integrate its production and distribution facilities for its established and newly acquired 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 constructing new power plants and expanding its power generation portfolio, building additional service and micro-filling stations and expanding food distribution networks. 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 it believes have the potential to gain leading positions in their respective markets.

Adopt world-leading practices and joint development of businesses

SMC continues to develop strategic partnerships with global industry leaders, such as Kirin for beer, Hormel Foods Corporation for processed meats and NYG for packaging products. These partnerships provide marketing and expansion opportunities.

Recent Developments

Subscription to Shares of Stock of Manila North Harbour Port, Inc.

On December 9, 2015, SMHC subscribed to and fully paid for 13,000,000 common shares of Manila North Harbour Port, Inc. ("MNHPI"), at a subscription price of ₱100.00 per share. Subscription of SMHC to the shares of MNHPI resulted in SMHC owning 43.33% equity interest in MNHPI. MNHPI is engaged in the management, development and operation of the Manila North Harbor and other port facilities.

Cobaltpoint Telecom, Inc. (formerly Express Telecommunications Company, Inc.) and High Frequency Telecommunications, Inc.

Vega acquired 100.0% equity interest in (i) Multi-technology Investment Holdings, Inc. which holds the total outstanding capital stock of High Frequency Telecommunications, Inc and (ii) Trans Digital Excel, Inc. which holds 78.45% equity interest in the total outstanding capital stock of Cobaltpoint Telecom, Inc. (formerly Express Telecommunications Company, Inc.), respectively.

Dispute between South Premiere Power Corporation (SPPC) and Power Sector Assets and Liabilities Management Corporation (PSALM)

The Issuer 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 approximately ₱6.4 billion inclusive of interest, covering the period December 26, 2012 to April 25, 2015, being the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by the Issuer.

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 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 the Issuer pursuant the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court of Mandaluyong City. In its Complaint, SPPC requested the Court that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour Temporary Restraining Order (the "TRO") be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. On even date, the Court 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. The TRO was extended for until September 27, 2015.

On September 28, 2015, the Court 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 22, 2015, the Court also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco. Currently pending for resolution of the Court are: 1) PSALM's Motion for Reconsideration of the Order granting the Preliminary Injunction; and 2) PSALM's Motion to Dismiss. A preliminary conference among the parties is scheduled on February 18, 2016.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Plant to Meralco under its Power Supply Agreement with the latter.

Criminal Cases filed against PSALM

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of Republic Act No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act (RA 3019), before the Department of Justice (DOJ), against Ms. Lourdes S. Alzona, President and CEO of PSALM, in connection with the termination of SPPC's IPPA Administration Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, PSALM fraudulently misrepresented its entitlement to draw on the Performance Bond posted by SPPC, resulting in actual injury to SPPC in the amount of US$ 60 million.

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA 3019, before the DOJ against Ms. Lourdes S. Alzona, President and Chief Executive Officer of PSALM, and certain officers of Team (Philippines) Energy Corporation ("Team Energy") and Team Sual Corporation relating to the illegal grant of the so-called "excess capacity" of the Sual Power Station in favor of Team Energy which enabled it to receive around P17.3 billion at the expense of the Government and SMEC.

Bulacan Bulk Water Supply Project

In December 2015, the consortium of SMC and K-Water was selected through public bidding as the winning bidder, and was issued the Notice of Award for, the Bulacan Bulk Water Project (the "Project"), which involves the supply of treated bulk water to, and alleviating the chronic water shortage and providing the potable water needs of, the Province of Bulacan. On January 15, 2016, the Concession Agreement for the Project was executed by and between the Metropolitan Waterworks and Sewerage System Luzon Clean Water Development Corporation, a corporation which is 80% owned by SMHC and 20% owned by K-Water, as Concessionaire.

Compliance with environmental laws

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

Employees

As of September 30, 2015, the SMC Group has 20,488 regular employees. Substantially all of the employees are based in the Philippines and other areas in the Asia-Pacific region. As of September 30, 2015, the approximate number of employees in each of the businesses is set forth below:

Number of Employees

Beverages	5,524
Food	3,384
Packaging	3,501
Energy	206
Fuel and Oil	2,986
Infrastructure	1,164
Other Operations and Investment	3,723
Total	**20,488**

As of September 30, 2015, approximately 20.0% 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 32 labor unions represent the employees of the subsidiaries of SMC.In the past decade, the SMC Group has not experienced any strikes or work stoppages. The SMC Group considers its relationship with its employees to be good.

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.

Beverage Business

The beverage business consists of brewing, distilling, selling, marketing and distributing beer, liquor and non-alcoholic beverages. SMC conducts its beverage business through its majority-owned subsidiaries: SMB for beer and non-alcoholic beverages, which is 51.17%-owned, and Ginebra for liquor, which is 78.27%-owned.

The beverages business of SMC had sales of ₱94,516 million and ₱70,277 in 2014 and the first nine months of 2015, respectively. The following table sets forth certain information with respect to the beer, liquor and non-alcoholic beverage sales of SMC in 2014 and the third quarter of 2015:

	Year Ended December 31, 2014		**Period Ended September 30, 2015**	
	Actual (in ₱ Million)	**%**	**Actual (in ₱ Million)**	**%**
Beer	79,005	83.6	58,591	83.4
Liquor	14,921	15.8	11,414	16.2
Non-Alcoholic Beverage	590	0.6	272	0.4
Total	**94,516**	**100.0%**	**70,277**	**100.0%**

Beer Business

SMB is the largest producer of beer in the Philippines, with a total market share of 90% by volume in 2012, according to Canadean data, with no significant change thereafter. It has six (6) production facilities strategically located across the Philippines and a highly developed distribution system with a network of close to 500 dealers and serving approximately 450,000 on-premise and off-premise outlets nationwide. In addition to its Philippine beer operations, SMB has one (1) brewery each and sales operations in Hong Kong, Indonesia, Thailand and Vietnam, and two (2) breweries in China through its wholly-owned subsidiary, San Miguel Brewing International Ltd. ("SMBIL"). SMBIL also exports its beer products to over 30 countries and territories worldwide in North America, Africa, the Middle East, Australia and the rest of Asia. The exports of SMBIL are primarily sold under various beer brands as well as under private labels. SMBIL has a sales office in Taiwan, which is one of SMBIL's major export markets while other countries are served through various importers and distributors. Apart from this, SMBIL also has licensing agreements in Nepal and the UK as well as a distribution agreement in Cambodia.

In 2014, SMB was the largest contributor to the beverages business of SMC, which accounted for 83.6% of sales of the beverages business. SMB markets its beer primarily under the *San Miguel* brand. San Miguel branded beer products include *San Miguel Pale Pilsen*, which is the flagship beer of SMB, as well as *Red Horse, San Mig Light, San Miguel Super Dry, Cerveza Negra, Gold Eagle, San Miguel Premium All-Malt, San Miguel Flavored Beer, San Mig Zero, Oktoberfest Brew* (seasonal beer) and *Cali*, the only malt-based non-alcoholic drink in the country.

On December 5, 2014, the Board of Directors of Ginebra authorized the sale and transfer to SMB of certain non-alcoholic beverage assets consisting of machinery and equipment as of December 31, 2014, and inventories as of March 31, 2015. The non-alcoholic beverage segment stands to benefit from the distribution and marketing expertise of SMB and further strengthen the growth potential of SMB as it taps new sources of growth in the beverage industry.

In April 2015, SMB acquired the assets of Ginebra used in its NAB business, comprising of machinery, vehicles, coolers, chillers and other equipment, finished goods inventories and other inventories consisting of containers (bottles, shells/crates and pallets) on hand, packaging materials, goods in process and raw materials. Total amount paid was ₱432 million (VAT exclusive).

Philippine Beer Industry

The Philippines is the third (3rd) largest beer market in Southeast Asia (Vietnam, Thailand, the Philippines, Indonesia, Malaysia and Singapore) and the sixth (6th) largest beer market in greater Asia by sales volume. In 2014, sales volume for beer in the Philippines was 15.3 million hectoliters, per Canadean.

Sales of beer are closely tied to the purchasing power and disposable income levels of consumers. Consumer income has been improving in recent years supported by favourable Philippine economic performance. SMB believes there is a positive correlation between per capita gross domestic product and beer consumption in the Philippines. In 2014, gross domestic product per capita in the Philippines was ₱71,726 while beer consumption per capita was 14.7 liters per person.

The beer market in the Philippines is highly concentrated, with SMB continuing to consolidate its leadership locally. SMB recorded a high market share of 90% by volume in 2012, according to Canadean data, with no significant change thereafter as a result of its extensive distribution network and strong brand portfolio. Key brands include *San Miguel Pale Pilsen, Red Horse* and *San Mig Light.*

The other key local player is Asia Brewery Inc. ("ABI"), which was established in 1981. The market share of ABI was estimated at 10% in 2012. Imported beer comprises a small proportion of the market and its distribution is normally limited to upscale hotels, bars, restaurants and supermarkets in Metro Manila.

The Philippines is composed of over 7,100 islands which makes distribution highly complex and expensive and represents a significant barrier to market entry for new brewers looking to distribute nationally. Following recovery in 2014, the beer market is seen to sustain its growth momentum at 1.0% to 2.0% growth rate in the medium term.

Strengths

SMB believes that its principal strengths include the following:

Dominant market share and brand leadership

From a single product produced in a single brewery in 1890, San Miguel beer has, 125 years later, grown into an array of popular beer products catering to the distinct tastes and preferences of beer drinkers across all segments and markets in the Philippines. *San Miguel Pale Pilsen*, the flagship brand of SMB, has been an iconic Philippine brand for most of the 20th century and up to today. After considering the evolving preferences of the Filipino beer drinker, other brands and products have been introduced, and these have been very successful. Today, SMB offers a portfolio of eleven strong and popular local brands: *San Miguel Pale Pilsen, Red Horse, San Mig Light, San Miguel Super Dry, Cerveza Negra, Gold Eagle, San Miguel Premium All-Malt, San Miguel Flavored Beer, San Mig Zero, Oktoberfest Brew* (a seasonal beer), and *Cali*, the only malt-based non-alcoholic drink. SMB also imports and distributes *Kirin Ichiban* under a distribution agreement with Kirin. The various products carry distinct attributes that cater to the various segments of the Philippine beer market. The products of SMB have been internationally recognized for quality, garnering 80 gold, silver and bronze medals as well as more than ten (10) trophies and awards from the Monde Selection International since 2000.

Strong brand equity

The products of SMB have consistently dominated the market for beer in the Philippines, the largest alcoholic beverage segment in the country. The top four (4) beer brands in the country are all produced by SMB. Despite the entry of local competition in 1981 and the introduction of a few locally brewed versions of foreign brands, SMB has maintained an extremely strong market position supported by the popular acceptance and widespread availability of the products of SMB. Imported brands account for only 0.3% of the market, based on Canadean data, with distribution primarily in upscale bars, hotels and modern trade channels. The size and scale of the operations of SMB provide significant economies of scale in production, research and development, distribution, and managerial and marketing functions over a diversified product portfolio and geographic base. Its size also results in substantial leverage and significant bargaining power with suppliers and retailers.

Efficient manufacturing process

Proximity of Production Facilities to Consumer Markets

To ensure product availability and freshness, as well as to minimize distribution costs, SMB maintains a network of six (6) production facilities that are strategically located in the three (3) main islands of the Philippines: Luzon, Visayas and Mindanao. SMB has facilities in each of Valenzuela City in Metro Manila, Sta.Rosa City in Laguna, San Fernando City in Pampanga, Mandaue City in Cebu, Bacolod City in Negros Occidental and Darong, Sta. Cruz in Davao del Sur, with a total annual production capacity of approximately 17.0 million hectoliters. The facilities are equipped with automated equipment capable of brewing and packaging the products of SMB in a variety of sizes and formats, including bottles, cans, and kegs. The strategic location of the production facilities of SMB reduces overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country. This also assists SMB in ensuring that the beer is freshly delivered to dealers and retailers at an optimal cost. The archipelagic nature of Philippine geography and the relative difficulty of transporting products to the substantial rural population make these dispersed production facilities particularly valuable.

Cost leadership

SMB maintains a strong cost leadership position through high productivity and efficiency, as well as cost control measures, which facilitate pricing flexibility and greater profit growth by maintaining its margins. Product quality initiatives, process enhancements, and improvement programs for plant operations and facilities management are all expected to be sustained. SMB continuously implements process optimization efforts and technology enhancements to generate cost savings.

Extensive distribution system and wide dealership network

SMB has a far-reaching and efficient distribution system in the Philippines. Its 51 sales offices, contracted logistics service providers and transportation assets including hauling trucks, routing trucks, pre-sell vans and service pickups and its network of close to 500 dealers across the Philippines enable it to maintain optimum stock levels in terms of quality and quantity in approximately 450,000 on-premise and off-premise outlets nationwide. The products of SMB from any one of its six (6) production facilities reach sales offices or dealer warehouses within five (5) days from production date. The sales office or dealer then delivers the beer to the wholesaler or retailer promptly afterward, ensuring ample stock and quality wherever and whenever the products of SMB are needed.

Returnable glass bottle system

The returnable glass bottle system of SMB helps keep the price of its beer products affordable. SMB is able to achieve more than 90.0% retrieval rate for its bottles, maximizing bottle usage and substantially reducing its packaging costs.

Positioned in strategic growth markets in Asia-Pacific

SMB through its subsidiary, SMBIL, has business operations in five (5) countries which are major beer markets in Asia and offer attractive growth prospects in the medium-term (i.e., China, Hong Kong, Vietnam, Indonesia and Thailand). SMBIL has a broad portfolio of strong international and local brands, with the premium brand *San Miguel* growing in most of its international markets while local brands *Blue Star* in Baoding in northern China and *Anker* in Indonesia remain as major brands in their respective markets.

SMBIL also employs focused sales and distribution systems and owns six (6) breweries which have a total production capacity of approximately 7.1 million hectoliters to support its operations. The footprint of SMB in the global beer market is also backed by the export operations of SMBIL which cover over 30 markets worldwide.

Financial strength

SMB has consistently shown a strong financial position with attractive growth prospects. Sales growth and cost efficiencies have resulted in consistently high EBITDA margins. SMB continues to exhibit strong cash flows due to efficient working capital management and prudent capital expenditure programs.

Business Strategies

Domestic Operations

The principal strategy of SMB is to sustain volume expansion and strengthen leadership in the alcoholic beverage market by focusing on demand-generating and value creating initiatives. It plans to achieve this through the following:

Assert market leadership

SMB intends to fortify its market leadership in the beer and alcoholic industry by ensuring that its products offer relevant and compelling value proposition to consumers. Volume-generating and brand-building programs consisting of thematic campaigns, visibility initiatives and below-the-line activities will be pursued in an integrated manner, complemented by enhanced trade efficiencies via intensified outlet penetration, availability programs, price campaigns and other trade initiatives. Furthermore, it plans to execute targeted sales and marketing initiatives in the regions and localities where the market share of SMB is relatively lower than national average and where competition is aggressive. In the broader alcoholic industry, SMB intends to reinforce its leadership by further strengthening consumer preference for beer and intensifying defense programs against competition from other alcoholic products.

Expand the beer market

SMB also plans to increase its sales volume by expanding the total market for beer sales. Its primary strategies to achieve this include:

Segmented pricing strategy

SMB intends to keep its products affordable for the middle and lower socio-economic sectors by maintaining a moderate pricing strategy for its products in the Popular and Economy markets, where sales are highly price elastic. For the more upscale, or Upper Popular market, where sales are less price elastic, SMB plans to sustain the higher price positioning of its specialty brands, supported by image-building activities to strengthen their premium positioning and improve their profitability. In the medium term, SMB intends to sustain the different price points among segments to ensure coverage of all market segments while sustaining a healthy brand mix.

Enhancing the value proposition of its products

SMB intends to enhance the value proposition of its products via relevant brand-building initiatives backed by on-ground activations. These will enable SMB to strengthen patronage for its products as well as take advantage of segment-specific growth opportunities and shifts in consumer profile and patterns. Programs and initiatives to protect its core customers and strengthen preference of new and younger drinkers for the brands of SMB will be pursued. SMB expects to further grow its main brands *San Miguel Pale Pilsen*, *Red Horse* and *San Mig Light* through the brand-building initiatives, demand-generating programs, on-ground and digital activations as well as special events aligned with the respective positioning of these brands in the market. Examples of brand-building activities previously implemented include advertising campaigns for *San Miguel Pale Pilsen* using famous endorsers such as Vic Sotto, Kris Aquino and Allan Pineda (a.k.a. apl.de.ap) under the *Walang Katulad* ("Beer like no other"), *Ito ang Beer* ("This is the Standard of Beers") and *Homecoming* campaigns while demand-generating programs include beerhouse and bar tours and various consumer promotions.

Increase size of the upscale segment and tap emerging consumer segments and channels

The Upper Premium and Premium markets for beer in the Philippines are relatively small segments, but they play important roles in brand-building and overall market development. The segments offer promising prospects, underpinned by rising consumer incomes, increasing consumer sophistication, rapidly changing drinker habits and preferences, as well as increasing urbanization. SMB intends to support programs that develop the upscale segment of the beer industry through higher-priced and higher-margin specialty products. For example, specialty brands of SMB, including *San Miguel Premium All-Malt*, *Cerveza Negra* and *San Miguel Super Dry* are promoted by highlighting their premium ingredients and numerous awards for superior quality via visibility programs and consumer promotions. With this strategy, SMB aims to take advantage of opportunities in segmenting the market as well as pre-empting the incursion of foreign brands. Relative to other Asian countries, the Philippine beer market offers greater potential with regard to premium pricing of brands given the current relatively narrow price gap between the Premium and Upper Popular brands. In addition to the upscale segment, SMB intends to continuously tap new growth segments such as the business process outsourcing sector, overseas Filipino workers, tourism sector and gaming industry through initiatives tailor-fit for these segments and utilization of channels which cater to these markets. SMB also recognizes the importance of fast-growing modern trade channels such as large supermarket chains, hypermarkets and modern convenience stores in marketing and carrying its products to consumers, especially in urban areas. Accordingly, SMB is implementing sales and marketing programs in these emerging segments which offer growth potential.

Intensify trade execution and innovation

SMB intends to expand its trade reach and increase the visibility and availability of its products to support volume growth. In pursuing this strategy, SMB will focus on improving trade efficiencies and creating new markets for volume expansion while enhancing dealer operations and trade partnerships. Furthermore, SMB will likewise implement programs to improve outlet servicing, strengthen channel management as well as enhance sourcing and distribution schemes to ensure availability of its products in specific channels and locations including remote areas. In addition, SMB will sustain presence in growing modern retail formats while optimizing growth in tertiary outlets and other channels to effectively reach consumers.

Increase sales through special events and promotions

SMB intends to pursue volume-generating initiatives such as innovative consumer promotions and campaigns, on-ground activations as well as occasion-creation programs and special events. Examples of these activities include the dominance of SMB in town fiestas and conduct of trademark events, such as *San Miguel Beer Oktoberfest*, *Red Horse Muziklaban*, *San Mig Light Party All Night*, *Sarap Mag Babad* summer program activations as well as the National Beer Drinking Contest that aim to make the beer drinking experience more relevant and closer to the consumers.

Develop new products and packaging innovations

SMB will continue to explore the introduction of new products and innovative package formats. SMB believes this strategy can tap new consumer segments as well as address the needs of an increasingly fragmenting market. For example, to entice the entry point drinkers, SMB introduced *San Miguel Flavored Beer* in lemon and apple flavors in late 2010, the first flavored alcoholic beer in the market. The brand was received favorably in the market and continued to display strong performance. To capitalize on the rapid growth momentum of the brand, SMB launched canned variants in 2014 for both apple and lemon flavors. Meanwhile, *San Miguel Pale Pilsen* in 330ml long neck bottle with paper label packaging was released in 2011 in selected on-premise outlets to contemporize the brand and further boost its awareness and consumption. To capitalize on the health and wellness trend, SMB introduced *San Mig Zero* in 2013 which was formulated to offer the lowest calorie, lowest carbohydrate and zero sugar proposition to health-conscious individuals. SMB likewise intends to pursue packaging innovations to capitalize on the market trends toward convenience packaging as well as increasing sophistication of consumers.

Improve resource allocation and value creation in the supply chain

SMB aims to improve resource allocation and cost management towards programs that would create more value for SMB as well as ensure appropriate mix of advertising and promotions that would generate higher sales for SMB. In support of value creation in the supply chain, SMB intends to broaden its base for suppliers and materials to drive down costs without sacrificing quality. Third party service providers will also be managed more effectively, anchored on stronger partnership and shared objectives. Process and productivity improvements will be vigorously pursued in the different stages and areas of production, distribution and promotions to deliver products of superior quality while protecting profitability.

Strategy for International Operations

In the international beer business, the overall objective of SMBIL is to achieve strong volume and profit growth trend following the improvement in its performance. This will be achieved through market-specific programs that cater to local tastes and preferences while pursuing an integrated and consistent campaign for San Miguel beer brands in the region. In particular, key strategies include the following:

Strengthening the portfolio of local and international brands

SMBIL intends to further push the appropriate combination of local and international brands in its operating units to capitalize on the varied preferences of consumers in the international markets and pursue a healthy and profitable brand mix.

Accelerating the expansion of San Miguel brand

SMBIL aims to accelerate growth of San Miguel beer brands mainly *San Miguel Pale Pilsen* and *San Mig Light*, consistent with the thrust of SMB to promote *San Miguel* as the lead brand in the portfolio in the international markets. This will be done primarily through consumer and trade promotions events as well as development of new advertising campaigns and creative merchandising materials. SMBIL will continue to support growth of *Red Horse* through trade coverage expansion as well as conduct of brand building and volume generating programs. SMBIL is also working on expanding its portfolio in selected markets through the launch of other San Miguel brands such as *Cerveza Negra* and *San Miguel Premium All-Malt* as well as the introduction of draught variant for its *San Mig Light*, *Red Horse* and *Cerveza Negra* brands.

Improving sales and distribution management

Supporting the thrust on volume expansion and appropriate brand mix is the objective of improving the efficiency of sales and distribution. This involves strengthening the management of dealers/wholesalers, outlet and channel-specific programs such as bar games, sports viewing parties and promotions aligned with the respective positioning of brands. SMBIL also aims to strengthen its position in its core markets through increasing outlet penetration in existing areas as well as geographic expansion to new territories. SMBIL will also grow volumes in markets beyond Asia and the Middle East.

Cost reduction and efficiency improvements

To increase the cost competitiveness of SMBIL, efficiency improvement programs and cost containment measures will be implemented in the different aspects of the business such as logistics, manufacturing, sales, procurement and marketing. Processes are regularly evaluated for optimization, capability-building and development of potential synergies, where applicable, among the different units. SMBIL intends to reduce freight and distribution costs through improvements in sourcing and ordering of stocks as well as implementation of packaging improvements, lower cost formulation and procurement of materials on a regional scale, among others.

Selected operating metrics for the beer business of SMB for 2012, 2013, 2014 and the Third quarter of 2015 are set forth in the table below:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Sales	75,580	75,053	79,005	56,283	58,790
Gross profit	37,550	35,648	36,211	25,161	26,825
Gross profit margin(1)	49.7%	47.5%	45.8%	44.7%	45.6%
EBITDA(2)	25,736	24,614	25,106	17,435	17,869
EBITDA margin(3)	34.1%	32.8%	31.8%	31.0%	30.4%
Net income before tax	20,938	17,851	19,595	13,310	14,108
Net income before tax margin(4)	27.7%	23.8%	24.8%	23.6%	24.0%

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

Domestic Beer Sales

In the Philippines, SMB markets its beer primarily under the following brands: *San Miguel Pale Pilsen*, which is the flagship brand of SMB, *San Miguel Super Dry, San Mig Light*, *San Miguel Premium All-Malt, Cerveza Negra*, *Red Horse*, *San Miguel Flavored Beer, San Mig Zero, Oktoberfest Brew* and *Gold Eagle*. In 2013, *San Mig Zero* was introduced to target health conscious individuals. *Kirin Ichiban* is also distributed by SMB in the Philippines under an agreement with Kirin. SMB also sells *Cali,* the only malt-based non-alcoholic drink in the country. *Cali* is available in three (3) variants: *Cali Classic Sparkling Pineapple Drink, Cali Ice Apple* and *Cali Light* (low calorie).

Over the years, beer products of SMB have been consistent recipient of numerous international awards for product quality and excellence, including the Monde Selection awards. Monde Selection, founded in 1961, is an international and independent quality institute based in Belgium that evaluates the quality of various products including alcoholic beverages. SMB considers Monde Selection awards as an advertising asset which highlights the quality of products to consumers. The latest awards in 2014 gave SMB a total of 80 gold, silver and bronze medals, as well as more than ten trophies and awards since 2000.

SMB beer products compete in the Premium/Upper Premium, Upper Popular, Popular and Economy market segments in the Philippines. The share of upscale brand sales of SMB (which includes the Premium/Upper Premium and Upper Popular market segments) to total SMB sales has been steadily increasing from 2.0% in 2000 to 12.0% in 2014. These trends primarily reflect shifts in consumer preferences given improvements in income, increased urbanization and changes in lifestyle.

International Beer Sales

SMB has brewery operations in Hong Kong, China, Vietnam, Thailand, and Indonesia through SMBIL. These breweries have a combined annual capacity of approximately 7.1 million hectoliters and sell their products locally as well as in various export markets.

In addition, SMB exports its beer products to over 30 countries, with key markets in Asia, the Middle East, Africa, North America and Australia. Exports of SMB are primarily sold under various San Miguel brands as well as under private labels.

Grupo Mahou San Miguel of Madrid, Spain has the rights to the *San Miguel* brand for beer in Europe, and is not affiliated with either SMB or SMC.

Production and Raw Materials

Due to the high cost of shipping within the Philippines relative to product cost as well as the importance of maintaining freshness and other distribution considerations, SMB maintains a system of regional breweries rather than a central consolidated brewing facility. SMB currently owns and operates five (5) breweries and one (1) bottling plant in the Philippines. These facilities are located in the three (3) main island groups of Luzon, Visayas and Mindanao in the Philippines, and are located close to the intended end-markets in order to reduce transportation costs.

In 2014, the five (5) breweries and one (1) bottling plant of SMB had a total production capacity of approximately 17 million hectolitres, with overall utilization rate of close to 80.0%.

The Polo Brewery is located north of Metro Manila and serves the Metro Manila and Southern Luzon markets. Established in 1947, it is the oldest operating brewery of SMC. The Polo Brewery underwent a modernization program during the 1990s to upgrade its brew house facilities. The San Fernando Brewery is located in Pampanga province north of Metro Manila and serves Central and Northern Luzon. It was built in 1981 and was expanded and upgraded in the late 1980s up to mid-1990s. The Mandaue Brewery, located on the island of Cebu, serves part of the Visayas region and Mindanao. This brewery was built in 1968 and its facilities were expanded and modernized in the early 1990s. The Bacolod Brewery was built in 1990 on the island of Negros which serves Negros and the island of Panay, and was modernized in 2005-2006. The Davao Brewery was built in 1995 and serves the Mindanao market. While production at each brewery is typically targeted to serve the geographical area around it, the distribution system can shift production from one (1) brewery to other regions if operational issues or demand changes require. SMB transports finished beer from the Polo Brewery for bottling into the Sta. Rosa plant which was established in 2011.

SMB employs state-of-the-art brewing equipment and technology which are sourced from leading manufacturers in Germany, United States, Japan and Italy. These include the cylindro-conical beer fermentation and maturation tanks, modern filtering systems, pasteurizers with energy saving systems and camera-type electronic bottle inspectors, among others. Each of the breweries of SMB is equipped with automated facilities capable of manufacturing products in a variety of packages to meet market preferences, including bottles, cans and kegs.

Beer production requires malted barley and hops, which are sourced generally from North America, Australia, Europe, China and South America, and adjuncts, which are generally sourced domestically.

SMB enters into supply contracts with key raw material suppliers with terms ranging from approximately one (1) year to five (5) years. Each of these contracts typically provide for a pre-determined fixed and formula price for the duration of the contract. In addition, depending on considerations such as price trends and the quality of raw materials, SMB also makes spot purchases on the open market. To ensure the quality of its products, SMB closely monitors the quality of its raw materials.

All water supply used by SMB in its production is provided by company-owned and operated deep wells, except for water used at the Polo Brewery, which is supplied by the Maynilad Water Services, Inc., a privatized water company serving parts of Metro Manila. While for the international operations, water is supplied by company-owned deep wells or by water utility service providers.

The packaging materials of SMB are primarily sourced from the San Miguel Packaging Group. All of the breweries of SMB are compliant with the requirements of the International Organization for Standardization ("ISO") ISO 9001:2008 and ISO 14001:2004, as assessed by its pool of technical assessors. All of the breweries are also certified by the Food Development Center as compliant to food safety requirements of current Good Manufacturing Practices (cGMP) – Hazard Analysis of Critical Control Points (HACCP).

Packaging costs are also a significant factor in the manufacture of beer. SMB mostly sells its products in returnable glass bottles of varying sizes and shapes, as well as in aluminum cans and kegs. As of December 31, 2014, over 90.0% of the glass bottles used by SMB were returned bottles.The returnable glass bottle is by far the most important and popular package for beer in the Philippines, accounting for more than 95.0% of the sales of SMB for 2014. These returnable glass bottles are used for over 50 cycles typically over a span of approximately ten years. Retail outlets selling the products of SMB collect deposits on these bottles when customers buy the beer and return the deposit when the bottles are returned. New glass bottles are purchased from time to time to support accelerating sales and to replace broken and scuffed bottles.

Cans are less popular mainly because they are more expensive, although the volume of cans has been increasing in recent years with greater availability. Kegs or draft beers, which come in 15, 30 and 50 liter sizes, have minimal share and are present in key on-premise outlets.

Research and Development

SMB 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. Brewing technology and processes are constantly updated and new product development is ensured through continuing research and development. Research and development activities are conducted in a technical center and pilot plant located in the Polo Brewery.

SMB also has a central analytical laboratory, or "CenLab," located in the technical center building of the Polo Brewery. The laboratory is equipped with modern equipment necessary for strategic raw materials analysis and validation, beer product evaluation and new raw material accreditation. Specialized equipment includes gas chromatography, high performance liquid chromatography, atomic absorption spectroscopy, protein analyzer, and laboratory scale mashing/milling system for malt analysis. Analytical methods and validation procedures are constantly enhanced and standardized across all the beer laboratories of SMB. It runs proficiency tests for brewery laboratories and malted barley suppliers to ascertain continuous reliability and quality of analytical test results. CenLab is also tasked with ensuring compliance of all systems with international standards, specifically ISO 17025-2005.

To promote technical manpower development, SMB 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 included those highly advanced classes necessary to qualify the most senior of its technical personnel known as brewmasters. Each of the more than 35 brewmasters has extensive advanced coursework and over ten years of on-the-job-training experience with SMB.

Sales and Distribution

SMB markets, sells and distributes its beer products principally in the Philippines. SMB believes it maintains an extensive distribution networkof six (6) strategically located production facilities across the country, a broad network of sales offices and warehouses and effective management of dealership and third party service providers.

The strategic location of the production facilities of SMB in the Philippines reduces overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country. This also assists SMB in ensuring that the beer is freshly delivered to customers at an optimal cost. Products are delivered from any one of the six (6) production facilities by contract haulers and, in certain circumstances, by a fleet of boats contracted by SMB, to a sales office or dealer warehouse generally within five (5) days from production in the breweries. From the sales office or dealer, beer is then promptly delivered to the retailer or wholesaler, ensuring the quality and sufficient stocks wherever and whenever San Miguel beer products are needed. As of December 31, 2014, beer products are distributed and sold at approximately 450,000 outlets, including off-premise outlets such as supermarkets, grocery stores, sari-sari stores, and convenience stores, as well as on-premise outlets such as bars, restaurants, hotels and beer gardens. SMB also manages 51 sales offices and partners with close to 500 dealers throughout the Philippines.

Dealers provide their own warehouse facilities and trucks, considerably reducing investment requirements for SMB. To increase distribution efficiency, SMB closely works with the dealers and provides support such as systems and promotional support and various trainings related to dealer operations. SMB enters into written distribution agreements with its dealers that specify the territory in which the dealer is permitted to sell the products of SMB, the brands that the dealer is permitted to sell, the performance standards applicable to the dealer, procedures to be followed by the dealer in connection with the distribution rights and circumstances upon which distribution rights may be terminated. The sales force of SMB designs and awards strategic sales territories to dealers based on research of the specific territory covered. Distribution rights, performance standards and sales procedures are developed by SMB and implemented in tandem with dealers to ensure high quality of services. As dealers are given exclusivity over defined geographic areas that SMB actively monitors and enforces, and based on performance, these franchises are heavily sought after by potential dealers.

SMB formed a business development group to handle accounts management and business building of the modern trade accounts such as hypermarkets, convenience stores and high visibility on-premise outlets. Field sales operations, on the other hand, are responsible for the servicing requirements of these accounts.

Marketing Activities

SMB actively pursues marketing initiatives to promote new and existing products, as well as to maintain and enhance brand awareness of its existing products. These initiatives include media advertisements featuring well-known Philippine celebrities, sponsorship of special events, conducting various consumer and trade promotions and other merchandising activities. SMB taps various channels such as television, radio, print and digital space to reach targeted segments while deploying outdoor billboards and posters that can be placed on the walls of retail outlets and restaurants, bars and other on-premise outlets. SMB operates a beer delivery service in Metro Manila and selected key cities via its "632-BEER" (632-2337) hotline delivery program wherein customers can place their orders by calling, text messaging or online ordering (www.smbdelivers.com). The delivery service enables SMB to tap emerging segments such as the home market and online consumers. Advertising and promotion expenses of SMB were ₱2,544 million in 2014.

SMB holds trademark special events. San Miguel Beer *Oktoberfest* has been its flagship event of the brand for over three (3) decades. This beer festival takes places at numerous locations across the Philippines and offers beer, popular bands and celebrities, games and raffle promos to entertain the crowds. 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 country. SMB also holds *San Miguel Pale Pilsen*'s nationwide *Sarap Mag Babad* 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 *Muziklaban*, the biggest annual rock challenge in the country. For *San Mig Light*, SMB conducts music party initiatives such as *Party All Night* and club music events. SMB also conducts beer tasting bar tours in upscale outlets for its specialty brands *San Miguel Premium All-Malt*, *San Miguel Super Dry* and *Cerveza Negra*.

Competition

SMB faces competition from another domestic producer, ABI, which sells both its own brand and foreign brands it produces under license from foreign brewers. ABI is the largest competitor of SMB in the Philippine market and operates two (2) breweries. It also holds the license for *Colt 45* and is the exclusive distributor of *Asahi Super Dry* in the country. ABI competes mainly through *Beer na Beer* and *Colt 45,* as well as its alcopop brand, *Tanduay Ice.* Specifically, *Colt 45* competes with the high-alcohol beer of SMB, *Red Horse*, while also targeting *San Mig Light* and *San Miguel Flavored Beer* with *Tanduay Ice* variants. In 2014, ABI launched *Brew Kettle*, a locally manufactured beer positioned in the upscale segment and expanded its alcoholic product portfolio to include *Ultimo Craft*, a wine and brandy mix, and *Red Oak Sangria*, an alcomix beverage.

Competition from imported beers is minimal. Imported beer comprises a small proportion of the market as these products are primarily found in upscale hotels, bars, restaurants and supermarkets in Metro Manila.

SMB also competes with producers of other alcoholic beverages, primarily gin, rum, brandy, and recently, alcopops which are close substitutes to beer. In the beer industry — and more generally the alcoholic beverage industry — competitive factors generally include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. SMB believes that its market leadership, size and scale of operations, and extensive distribution network in the Philippines create high entry barriers and provide SMB with a competitive advantage in the Philippines.

In its main international markets, SMB contends with both foreign and local beer brands, such as *Blue Girl* (Hong Kong), *Carlsberg* (Hong Kong, Thailand), *Heineken* (Hong Kong, South China, Thailand, Vietnam and Indonesia), *Tsingtao* (Hong Kong, China), *Yanjing* (China), *Tiger* (Thailand, Vietnam and Indonesia), *Guinness* (Hong Kong and Indonesia), *Bintang* (Indonesia), *Budweiser* and *Snow* (China, Hongkong), *Singha* and *Asahi* (Thailand), and *Saigon Beer* (Vietnam).

Liquor Business

In 2014, the liquor operations of SMC had sales of ₱14,921 million, accounting for 15.8% and 1.9% of the beverages sales and total consolidated sales of SMC, respectively. The liquor operations of SMC are conducted through its 78.27% owned subsidiary, Ginebra San Miguel Inc.

Ginebra San Miguel was first produced in 1834 in a distillery owned by prominent Spanish clans. In 1924, the distillery was acquired by a Filipino-Chinese mestizo who owned La Tondeña Incorporada. Ginebra was acquired by SMC in 1987 to form La Tondeña Distillers, Inc. and was listed in the PSE in 1995. In 2003, it adopted the name Ginebra San Miguel, its core brand, after it was fully acquired by SMC. It trades under the symbol “GSMI”.

Among its subsidiaries is Distileria Bago, Inc. (“DBI”), an entity with a distillery located at Bago City, Negros Occidental that converts sugar cane molasses into alcohol, which became a wholly owned subsidiary of Ginebra in 1996.

To support its entry into the regional markets, Ginebra entered into a share purchase agreement with the Thai Life Group of Companies covering shares in Thai San Miguel Liquor Co., Ltd., and owned 44.9% of such company as of December 31, 2014.

In 2012, Ginebra acquired its toll manufacturer, East Pacific Star Bottlers Philippines Inc., which operates bottling plants in Cauayan, Isabela and Ligao City, Albay.

On December 5, 2014, the Board of Directors of Ginebra authorized the sale and transfer to SMB of certain non-alcoholic beverage assets consisting of machinery and equipment as of December 31, 2014 and inventories as of March 31, 2015.

Philippine Liquor Industry

The majority of domestic sales of liquor are made to those segments of the population seeking economy products. While quality and drinkability of liquor are important, popular pricing strategies are essential, especially for new products. Local manufacturers enjoy a competitive advantage in terms of price as demand is highly price sensitive. The performance of the liquor industry is highly dependent on the economy, especially for imported brands.

Domestic brands, namely *Ginebra*, *Tanduay*, and *Emperador* continue to dominate the market, accounting for about 97.6% share of total industry volume sales in 2014, according to an internal Retail Trade Audit Report. The products sold consist mainly of gin, brandy and rum.

Competitive Strengths

Ginebra believes that its principal strengths include the following:

Market leading brands

Ginebra has market leading brands in *Ginebra San Miguel Gin and Vino Kulafu*. In January 2015, Ginebra launched a new light brandy product, *Primera Light,* to capture the growing brandy market and create an appeal to a younger consumer segment.

Streamlined distribution network

Ginebra has a streamlined distribution network with direct shipments to a diversified base of large dealers assigned to specific geographic areas.

Strong Cost Leadership

Ginebra has established and led the establishment of a diversified raw material base.

Business Strategies

The principal strategies of Ginebra include the following:

Expand distribution

Ginebra is expanding its distributors and setting up direct selling operations particularly in the Greater Manila Area and Southern Philippines. Ginebra reinforces its distribution network through wholesalers, extending its reach in underserved areas of Luzon and Visayas.

Wholesaler development programs continue to be implemented to support and boost productivity of dealers.

Protect and expand the Gin market

Ginebra is focusing its strategy on its core gin products. Thematic campaigns, such as the "*Ganado sa Buhay*", strengthen the dominance of its flagship brand, *Ginebra San Miguel,* in the gin category. Purposive product launches allow Ginebra to capture new markets, particularly in Eastern Visayas. Ginebra is also introducing new product offerings to serve the dynamic consumer market in key areas in Northern Philippines, such as the offering of lower proof alcohol products through the re-launch of *GSM Blue*.

Secure raw material sources

Ginebra has embarked on initiatives to search for alternative raw materials to complement molasses, which is under threat from increasing prices and decreasing availability as it is used as a raw material for the clean fuel program of the Philippine government. Cassava has proven to be a reliable substitute for molasses and Ginebra, through its subsidiary DBI, has installed capability. Ginebra will also import more crude alcohol as an alternative if proven to be more cost efficient at certain points in time.

Sustain cost improvement programs

Increased use of second-hand bottles, better distillery and bottling efficiencies has yielded reduced production spending for Ginebra. Fixed costs are being kept in check with more prudent spending, particularly with advertising and promotion.

Selected operating data for the liquor business of Ginebra are set forth in the table below for the periods indicated:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Sales	13,340	13,677	14,921	10,176	11,414
Gross profit	3,236	2,942	3,973	2,760	3,144
Gross profit margin(1)	24.3%	21.5%	26.6%	27.1%	27.5%
EBITDA(2)	83	(124)	1,009	602	910
EBITDA margin(3)	0.6%	-0.9%	6.8%	5.9%	8.0%
Net income before tax	(987)	(1,334)	(54)	(214)	91
Net income before tax margin(4)	-7.4%	-9.8%	-0.4%	-2.1%	0.8%

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

Ginebra Sales

Ginebra is one of the leaders in the Philippine liquor market, and produces, markets and sells some of the most recognizable brands in the Philippine liquor market, including *Ginebra San Miguel*, *GSM Blue*, *Antonov Vodka* and *Vino Kulafu*.

Ginebra offers a range of liquor in the Premium, Popular and Economy market segments, including gin, brandy, chinese wine, vodka, tequila and whisky.

The quality of the products of Ginebra has been recognized by a number of organizations, including the Monde Selection of Belgium which has awarded quality medals to various Ginebra brands in past years.

Consumer preferences in the Philippine liquor market vary largely by geographical region. Consumers in Northern Philippines prefer gin and brandy, while consumers in Southern Philippines prefer rum. Through the years, brandy has become popular in both Northern and Southern Philippines.

With the strength of Ginebra in the gin category, it is further expanding the market, particularly in the Southern Philippines.

Exports and Overseas Operations

The primary export markets of Ginebra are Thailand, Taiwan, Korea, Japan, China, Middle East, North and South America, Canada, Hong Kong, Malaysia, Singapore, India, Bahrain, Vietnam, UAE and UK. Competition in the export markets is intense. The competitors of Ginebra include a number of international liquor producers, some of which may have greater production, marketing, financial and other resources than Ginebra.

In addition to exports of liquor, Ginebra also sells and distributes liquor in Thailand through its joint venture with Thai Life Group of Companies via Thai San Miguel Liquor Co., Ltd.

Raw Materials and Production

Alcohol is the main raw material used in the production of liquor. Ginebra produces most of its alcohol at its distillery plant in Bago City, Negros Occidental. Alcohol is produced primarily from molasses, which is purchased from a variety of third-party suppliers pursuant to supply contracts as well as on the open market. Recently, as the price for molasses has increased, Ginebra has been considering alternative raw materials such as cassava starch milk. Ginebra has constructed a cassava starch milk plant in the Philippines to enable it to use this alternative raw material for the production of alcohol.

Ginebra owns one (1) distillery, five (5) liquor bottling plants and one (1) cassava starch milk plant strategically located throughout the Philippines and one (1) bottling and distillery plant in Thailand.

The liquor products of Ginebra are packaged in glass bottles which are sourced from the packaging business of SMC. In addition to using new glass bottles, Ginebra maintains a network of bottle suppliers in the Philippines that recycles second-hand bottles back to the plants of Ginebra. Even with the additional cost of maintaining a quality control system for the safety of recycled bottles, the cost of recycled bottles is approximately half of the cost of new bottles. As a result, bottling costs for any particular product are generally expected to decrease over time with the increased use of recycled bottles.

Distribution

Ginebra distributes its products by shipping directly to dealers. Ginebra has recently streamlined its distribution network by reorganizing its network of dealers by assigned geographic areas. The reorganization was designed to enhance the efficiency of the distribution network by having fewer but larger dealers. Ginebra had 91 dealers for its liquor products. Ginebra utilizes third party services in the warehousing and delivery of its products.

Recently, Ginebra has embarked on a program to increase its distributor base throughout the country, including Southern Philippines. It also maintains an organization for direct selling operations to gain better control of market operations. The sales force of Ginebra has a Key Accounts Group which handles the modern trade and on-premise outlets in key cities.

Marketing and Competition

Ginebra markets its products through a variety of channels, including television, radio, billboard and print advertisements, as well as special event sponsorships, consumer promotions and trade promotions. Ginebra targets the Popular and Economy market segments. The major competitors of Ginebra in these segments include Emperador Distillers Inc. and Tanduay Distillers Inc.

In the Premium market segment, the major competitors of Ginebra include *Gilbey's* and *Absolut.* As Ginebra endeavors to create a niche in the Premium market segment with the introduction of premium brand names, Ginebra will continue to rely on its competitive advantages including price, quality and extensive distribution network.

Food Business

SMC operates its food business through San Miguel Pure Foods and its subsidiaries. San Miguel Pure Foods was formed in 2001 through the operational integration of two (2) leading Philippine food groups - the food businesses of SMC and Pure Foods Corporation. SMC currently owns 85.37% of the common shares of San Miguel Pure Foods. San Miguel Pure Foods has been listed on the PSE since 1973.

San Miguel Pure Foods is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional and foodservice customers. San Miguel Pure Foods has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream, and milk products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Super Coffee* for coffee, *La Pacita* for biscuits *and B-Meg* for animal feeds.

San Miguel Pure Foods organizes its operations into four (4) business segments: agro-industrial, value-added meats, milling, and others. The agro-industrial business segment includes the animal feeds, poultry and fresh meats businesses; the value-added meats business segment includes the production of refrigerated processed meats and canned meats; the milling business segment includes the production of flour, customized and premixes, other flour-based products and grain terminal operations; and others include the dairy, spreads and oils, coffee, biscuits, foodservice and franchising businesses and international operations.

In 2014 and for the period ended September 30, 2015, the contribution of each business segment to the revenues of San Miguel Pure Foods was as follows:

	Year Ended December 31, 2014		Period Ended September 30, 2015	
	Revenues ₱	**% of Revenues**	**Revenues ₱**	**% of Revenues**
		(in millions, except %)		
Agro-industrial...	68,181	66.2	51,500	67.2
Value-added meats......................................	15,033	14.6	10,805	14.1
Milling	8,854	8.6	6,626	8.7
Others..	10,931	10.6	7,670	10.0
Total	**102,999**	**100.0**	**76,601**	**100.0**

Notes:
(1) Represents the external revenues of each segment and excludes inter-segment revenues.

The contribution of the international operations of San Miguel Pure Foods to its total revenues was 1.7% in 2014 and 0.8% for the period ended September 30, 2015

The following table sets forth the operating results of San Miguel Pure Foods by business segment for the periods indicated [(1)]:

	Year Ended December 31, 2014		Period Ended September 30, 2015	
	Operating Results ₱	% of Total Operating Results	Operating Results ₱	% of Total Operating Results
		(in millions, except %)		
Agro-industrial	2,579	39.9	1,507	33.5
Value-added meats	964	14.9	608	13.5
Milling	2,338	36.2	1,625	36.1
Others	581	9.0	759	16.9
Eliminations[(2)]	1	0.0	-	0.0
Total	**6,463**	**100.0**	**4,499**	**100.0**

Notes:

(1) Includes operating results from inter-segment revenues. For information concerning the amount of inter-segment revenue for each segment, see Note 3 to the September 30, 2015 Unaudited condensed consolidated interim financial statements and Note 6 to the 2014 audited consolidated financial statements. Inter-segment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meats from the agro-industrial segment to the value-added meats segment, (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment, and (iv) service revenue of the grain terminal operations of the milling business from the agro-industrial segment.

(2) Represents the deferred taxes set-up for PT San Miguel Pure Foods Indonesia.

Philippine Food and Agriculture Industry

According to the Philippine Statistical Authority, there was a general upward movement in food prices in the Philippines in 2014, as a result of typhoons.

In mid-2014, Typhoon Glenda resulted in a tight supply of chicken meat which caused meat prices to go up by 3.8% nationwide. Due to higher demand, the increase in meat prices was more pronounced in the NCR at 4.6% vs. 1.8% in 2013 compared to Areas Outside NCR where meat prices rose by 4.3% vs. 2.2% in 2013.

Meanwhile, a decline in chicken layers lowered the production of eggs thereby limiting supplies in the markets. Thus, the nationwide milk, cheese and eggs price index increased by 3.5% in 2014 from 2.1% in 2013. NCR registered a 4.8% increase in the index in 2014 from 2.0% in 2013 while Areas Outside NCR posted a 3.2% increase from 2.0% in 2013.

Competitive Strengths

San Miguel Pure Foods believes that it has the following competitive strengths:

Portfolio of leading and highly recognized brands known for quality

San Miguel Pure Foods has successfully developed a strong portfolio of well-recognized brands known for quality in the Philippines, including *Magnolia* for chicken, ice cream and milk products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Super Coffee* for coffee, *La Pacita* for biscuits *and B-Meg* for animal feeds. As a testament to the strength of its brands in the Philippines, San Miguel Pure Foods has established market-leading positions in several segments and product categories. Based on data from certain Philippine government agencies and internal assumptions and calculations, San Miguel Pure Foods believes it had market shares of 38% for poultry, 40% for fresh meats (based on sow population of large commercial farms), and 43% for animal feeds, in each case as of December 2014 and 16% for flour as of September 2015. According to Kantar Worldpanel, San Miguel Pure Foods had a market share of 58% for hotdogs sold in Philippine supermarkets, 84% in the chicken nugget product category, and market shares of 42% for butter, 97% for refrigerated margarine, in each case based on value as of September 2015. According to Nielsen, San Miguel Pure Foods has a 97% market share for non-refrigerated margarine and 20% market share for cheese as of August 2015. San Miguel Pure Foods has continuously enhanced brand recognition and trust with consumers by consistently maintaining high product quality, as well as through active and targeted advertising and promotional campaigns.

Through these efforts, San Miguel Pure Foods has not only developed leading brands for traditionally branded food segments, but has also established successful branding for traditionally commoditized product segments such as *Magnolia* for poultry, *Monterey* for fresh meats, *B-Meg* for animal feeds, *Emperor, King and Queen* for flour. San Miguel Pure Foods believes that its well-recognized brands have allowed it to develop strong customer loyalty resulting in repeat purchases that provide it with greater pricing power relative to its competitors. In addition, the multi-brand strategy of San Miguel Pure Foods allows it to reach customers more easily than its competitors given its significant brand recognition and reputation for quality.

San Miguel Pure Foods and its products have won a number of industry and consumer awards. The *Magnolia* chicken and *Monterey* brands were recipients of the *Gold and Platinum Reader's Digest Philippines Trusted Brands* awards from 2010 to 2014. The *Magnolia* chicken brand was also awarded the 2011 *Asian Livestock Industry Award* by Asian Agribusiness Media Pte Ltd.

Highly diversified product portfolio catering to a broad spectrum of customers

San Miguel Pure Foods offers one of the widest arrays of food products in the Philippines. San Miguel Pure Foods produces food products for household, institutional and foodservice customers and derives its revenues from different product segments, including poultry, fresh meats, refrigerated processed meats and canned meats, basic flour and flour premixes, dairy, spreads and oils, coffee and biscuits. San Miguel Pure Foods also produces animal and aquatic feeds.

The product diversity of San Miguel Pure Foods reduces its dependence on any single product segment and makes it more resilient to changes in competitive dynamics or raw material price fluctuations that may impact a particular product segment. Its diverse product portfolio also provides marketing and product synergies across segments, as products can complement each other and provide an integrated, one-stop solution for everyday food needs of the customers. For example, *Monterey Meatshops* also carry value-added meats, flour premixes and dairy products, as well as other complementary products such as vegetables, eggs and condiments, allowing San Miguel Pure Foods to leverage on its wide array of products and offer creative food solutions to its customers.

In addition, San Miguel Pure Foods believes that its presence in multiple segments provides different avenues for future growth, both within and across several product categories. San Miguel Pure Foods believes that, it is only present in about 40% of the total packaged food industry (measured by number of categories currently present in versus total number of packaged food categories), thus presenting tremendous opportunities for San Miguel Pure Foods to expand into other packaged food categories that are adjacent and complementary to its existing categories.

Strong commitment to product innovation

San Miguel Pure Foods continues to introduce new and innovative products and is very mindful of growing trends for more convenient and healthy foods.

Since 2013, San Miguel Pure Foods introduced more than 72 new products. More convenient options were offered to the market such as *Purefoods Crispy Fried Chicken products* which are all fully cooked and ready-to-eat products that only takes a few minutes to heat and serve. San Miguel Pure Foods also introduced *Purefoods Tocino* and *Purefoods Longanisa* in pork and chicken variants. These products not only allow San Miguel Pure Foods to be a player in the huge native line segment of the semi-processed meats category but also maximize brand and supply synergies with *Magnolia* chicken and *Monterey* fresh meats. San Miguel Pure Foods also introduced a health and wellness line with the launch of *Purefoods Sexy Chix*, a ready-to-eat canned chicken line made with *Magnolia Fresh Chicken*. *Purefoods Thick Cut Bacon* in Honeycured, Honey Roast and Spicy BBQ flavors were also introduced to the market to expand usage occasion beyond breakfast. New flavors which strengthened the *Best of the Philippines* ice cream line were also launched featuring Sili Con Tsokolate Eh!, Mango & Mangosteen, Strawberry Red Velvet Otap and Cashew Sans Rival. The *Magnolia All-Purpose Cream Original* was also re-launched to widen the dairy products offering of San Miguel Pure Foods. These new products contributed a significant portion of the incremental revenues of San Miguel Pure Foods and its projects that its innovation platform and entry into new categories will continue to drive the growth of its value-added segment.

Extensive market penetration through multi-channel distribution network

The Philippines is the second (2nd) largest archipelago in the world, with a population widely distributed over 7,100 islands, presenting significant logistical challenges for food and beverage companies trying to reach consumers nationwide and a barrier to entry for new players. San Miguel Pure Foods operates and manages one of the most extensive distribution networks across the Philippines, with its products available in every major city, and it believes that this provides a significant competitive advantage.

To maximize market penetration, San Miguel Pure Foods has a multi-channel distribution network that supplies its products to supermarkets and traditional retail outlets, trade, foodservice channels and franchised stores. For the value-added meats business, San Miguel Pure Foods centrally manages sales and distribution through San Miguel Integrated Sales ("SMIS") which is responsible for selling its value-added products to both modern trade, such as major supermarket chains, hypermarkets, groceries, convenience stores, and general trade, such as market traders and "*sari-sari*" stores (small neighborhood stores). For its animal feeds, poultry, fresh meats and flour businesses, San Miguel Pure Foods also maintains business-specific sales forces to service trade channels and manage its distributors and dealers. Great Food Solutions of San Miguel Pure Foods, on the other hand, manages sales to key foodservice customers, such as hotels, restaurants, bakeshops, fast-food and pizza chains.

San Miguel Pure Foods believes that its multi-channel distribution platform allows it to maximize customer reach and is one of the key factors to its success in building and developing its market-leading positions.

Vertically-integrated meats business model allowing for higher efficiency, profitability and operational synergies

San Miguel Pure Foods manages a fully integrated meats operation. This starts at the plantations level, where San Miguel Pure Foods works with farmers to ensure availability of raw materials. These raw materials are then mixed in the feed milling facilities wherein approximately half of the output is for external customers and the remaining balance is for the internal requirements of the poultry and fresh meats businesses.

San Miguel Pure Foods imports breeder animals from leading global suppliers to produce stock for raising broilers and hogs. These animals are raised by contract growers, who are paid based on set standards such as harvest recovery, average live weight and feed conversion ratio. At harvest, these animals are processed (dressed and slaughtered) for both retail and institutional sales, while some are further processed and converted into higher-margin, value-added products, such as hotdogs, chicken nuggets, luncheon meats, etc.

San Miguel Pure Foods controls the branding and marketing of products to ensure the highest brand recognition and loyalty from customers for all brands. These are then distributed through all channels, namely, the modern trade, general trade via exclusive distributors, foodservice and the own franchised stores of San Miguel Pure Foods.

Extensive distribution network

San Miguel Pure Foods has access to all distribution channels which allows it to significantly expand customer reach.

Revenues are obtained through modern trade channels (such as hypermarkets, supermarkets and convenience stores), general trade (such as wet markets, *"sari-sari"* stores, small groceries and dealers) and through foodservice and institutional clients (such as bakeries, foodservice clients and hotels).

In addition, San Miguel Pure Foods has demonstrated the ability for innovation in distribution through the development of franchised channels such as *Monterey Meatshops* and *Magnolia Chicken Stations*. As of September 30, 2015, there are over 640 *Monterey Meatshops* and over 1,000 *Magnolia Chicken Stations*. In 2012, the *Kambal Pandesal* bakery outlets were launched to complement and expand the distribution reach of its flour business, which as of September 30, 2015, has more than 600 outlets.

Business Strategies

San Miguel Pure Foods plans to maintain its market-leading position and expand its business operations by implementing the following three-pronged business strategy:

Enhance product offering and distribution

Focus on increasing stable-priced and value-added product offerings

San Miguel Pure Foods categorizes its product portfolio into three (3) groups: (i) value-added products, (ii) stable-priced products, and (iii) basic food products. Value-added products include processed meats, dairy, bread spreads, oils, ice cream, coffee, biscuits, condiments and meal mixes. These products are typically branded and command higher selling prices than stable-priced and basic food products. Stable-priced products include flour premixes and bakery ingredients and poultry and fresh meats products that are distributed through differentiated stable-priced sales channels. These products include (i) minimally processed branded products sold through *Magnolia Chicken Stations* and *Monterey Meatshops*, (ii) branded products that have undergone further processing, such as marinated meats, ready-to-cook and ready-to-eat products sold through *Magnolia Chicken Stations* and *Monterey Meatshops*, and (iii) products sold to foodservice clients. Basic food products include (i) animal feeds, (ii) live chickens and hogs, (iii) fresh-chilled and frozen whole chicken, and chicken, pork and beef cuts sold through wet markets and supermarkets, and (iv) basic flour products.

San Miguel Pure Foods has limited pricing power for its basic food products due to the lack of product differentiation, while it believes that its stable-priced and value-added products are able to command higher and more stable prices and margins due to (i) strong brand equity with customers, (ii) processing or customization to cater to specific needs or tastes, and/or (iii) sale through its branded distribution outlets (such as *Monterey Meatshops* and *Magnolia Chicken Stations*), where cleanliness, convenience and quality assurance allow for premium pricing and higher margins. San Miguel Pure Foods has made a concerted effort to improve its product mix by shifting away from basic food products, which generally have lower and more volatile margins, and into value-added and stable-priced products, which it believes have higher and more consistent margins.

San Miguel Pure Foods has successfully implemented several initiatives to improve its product mix towards a higher percentage of stable-priced and value-added products. Some of these initiatives include (i) the introduction of new and more innovative products, such as chicken nuggets, fully-cooked fried chicken and other ready-to-cook and ready-to-eat offerings to take advantage of growing need of consumers for convenience, (ii) concentration on selling its fresh meats and poultry products through its branded distribution outlets, and (iii) expansion of its foodservice business by providing food solutions, which include menu analysis and planning, food safety training and recipe and product development.

Through these initiatives, San Miguel Pure Foods has significantly increased the proportion of value-added and stable-priced products in its product offerings over the past ten years. In 2014, the contribution of value-added and stable-priced products accounted for more than half of the total revenues of San Miguel Pure Foods as compared to approximately one-fourth in 2000.

Continuous investment in brand equity

San Miguel Pure Foods aims to continue building its brand equity through advertising and promotional activities. San Miguel Pure Foods advertises on television, radio and billboards, as well as in print and on the web. This year, San Miguel Pure Foods advertised through television commercials which featured its key brands: *Tender Juicy, Purefoods Corned Beef, Magnolia Best of the Philippines and Magnolia Cheezee*. San Miguel Pure Foods also supported the launch of its ready-to-eat new products such as fully cooked fried chicken and canned chicken with television commercials. San Miguel Pure Foods also has strategic alliances with institutions, such as theme parks, event venues, cinemas and schools. San Miguel Pure Foods participates in fiestas and food fairs and is active in merchandising activities in supermarkets, wet markets and foodservice accounts, to further build on the brand equity of *Tender Juicy and its other brands* being omnipresent across all consumer touch points.

As part of its brand-building activities, San Miguel Pure Foods maintains a professional basketball team in the Philippine Basketball Association, the premiere basketball league in the country. In the past, the team carried the banners of *Purefoods Tender Juicy*, *B-Meg Llamados and San Mig Super Coffee Mixers*, among others. Currently, the team is called *Star Hotshots* and the brand will benefit from the franchise's mass market appeal and the team's physical attributes to strengthen the "*Angat ka with Purefoods Star Hotdogs*" brand position.

Improve profitability through cost leadership

San Miguel Pure Foods believes that it can improve its margins by adopting a multi-faceted approach of managing input costs with respect to its raw materials and optimizing its production efficiency.

Continue sourcing alternative raw materials

The use of alternative raw materials, from grains and by-products used for animal feed ingredients, to alternative protein sources and flavors for processed meats, is critical for cost management given the volatile nature of global commodity supply and prices.

San Miguel Pure Foods expects to continue to expand its raw material supply base and identify alternative raw materials that are critical to cost management. One key breakthrough is the use of cassava as a substitute for corn, a key feed ingredient. San Miguel Pure Foods has implemented a program to encourage farmers to plant cassava and other crops that can be used as animal feed ingredients. San Miguel Pure Foods encouraged local farmers to develop approximately 64,000 hectares of cassava plantations, which will satisfy the cassava requirements of San Miguel Pure Foods during the year. San Miguel Pure Foods will continue to focus on developing alternative raw materials to manage its cost base. Based on certain internal assumptions and calculations, San Miguel Pure Foods estimates that it realized cost avoidance of approximately ₱238 million for the nine months ending September 30, 2015, computed based on the cost differential between actual cassava costs and estimated corn costs, from the use of cassava as a substitute for corn. San Miguel Pure Foods is currently using and expects to increase usage of local cassava as a lower cost alternative to corn.

The strong research and development team of San Miguel Pure Foods is responsible for the continued effort in identifying cost improvements while maintaining product quality standards.

Focus on efficiency improvements

San Miguel Pure Foods has been focused on improving efficiency of existing operations and implementing targeted initiatives in its businesses. For example, the adoption of climate-controlled housing systems for its poultry and hog farms has increased production cycles per farm per year, improved feeds-consumed-to-weight-gained ratio and resulted in better harvest recovery. During the last quarter of 2013, Golden Bay Grain Terminal in Mabini, Batangas started operations, which allowed San Miguel Pure Foods to ship grains through panamax vessels, consequently lowering freight costs and addressing grain handling requirements for the animal feeds and flour operations.

In addition, San Miguel Pure Foods intends to continuously review its product portfolio to rationalize unprofitable products. Consistent with this, San Miguel Pure Foods aims to enhance the price stability of its revenue streams and margins by increasing the percentage of sales of products that have historically performed well and which it believes will continue to do so.

Continue harvesting synergies through further integration of the businesses

San Miguel Pure Foods continues to maximize its vertically-integrated meats business model, simplify its organizational structure and standardize its business processes to achieve operational synergies and prepare for future growth. An example is the establishment of a shared service delivery center for finance, which is able to serve all of the business segments of San Miguel Pure Foods and perform transaction processing activities, reducing administrative expenses. It also continues to strive to have a world class supply chain that will reduce inventory days' level and improve service levels.

Explore additional growth opportunities

San Miguel Pure Foods believes the Philippine market is still underserved in certain product categories and there are growth opportunities to improve its distribution network, particularly in remote areas in the Visayas and Mindanao. It also intends to enter into new product categories and expand its existing production capabilities to support its growing range of product offerings to meet the changing consumer needs.

San Miguel Pure Foods continues to explore new opportunities through acquisitions or greenfield and capacity expansion in food or food-related businesses, as part of its growth strategy. In February 2015, San

Miguel Pure Foods acquired the trademarks, formulations, recipes and other intangible properties (IP rights) relating to *La Pacita* biscuit and flour-based snack business from Felicisimo Martinez & Co. Inc. ("FMC"), which initiated the entry of San Miguel Pure Foods into the biscuit segment.

San Miguel Pure Foods produces a wide range of food products. It believes its brands include some of the most recognizable and well-regarded brands in the Philippines, such as *Magnolia*, *Monterey*, *Purefoods*, *Purefoods Tender Juicy, Purefoods Star, Star*, *Dari Crème*, *San Mig Super Coffee*, *La Pacita and B-Meg* . Its business is organized into the following segments: agro-industrial, value-added meats, milling and others.

The table below sets forth the major products and services of each business segment.

Business Segment	Major Products and Services
Agro- industrial	
Feeds..	Hog, poultry, aquatic and other customized animal feeds are primarily sold under the *B-Meg, B-Meg Premium, Integra, Expert, Dynamix, Essential, Pureblend, Bonanza*, and *Jumbo* brands
Poultry..	Branded products are sold under the *Magnolia Fresh Chicken* label and include fresh-chilled and frozen whole and cut-up chicken, easy to prepare chicken products, customized products for foodservice and export customers, supermarket house-brands and live chicken
Fresh Meats......................................	Branded fresh meats are sold under the *Monterey* brand and include pork and beef carcasses and cuts, lamb products, marinated meats and live hogs
Value-added meats	Refrigerated processed meats, including hotdogs, nuggets, cold cuts, hams, bacon, and other ready-to-heat meal products, as well as canned meats, including corned beef and luncheon meats, sausages, spreads, sauces and viands are primarily sold under the Purefoods, Purefoods Tender Juicy, and Purefoods Star brands
Milling	A full range of basic, specialty and cusctomized flour and flour premises are primarily sold under the Emperor, Kind and Queen, Baron, Prince and Princess brands. The grain terminal operations is also under the Milling business segment.
Others	
Dairy, Spreads and Oils	Bread spreads, cheese, milk, ice cream, jelly-based snacks and cooking oils are primarily sold under the Magnolia, Star and Dari Creme brands
Coffee	Coffee sold under the San Mig Super Coffee brand
Biscuits..	Biscuits sold under the La Pacita brand
Condiments and Meal Mixes.............	Powdered Mixes sold under the Wandah brand
International Operations.....................	Processed meats in Indonesia are sold under the Farmhouse and Vida brands, while processed meats in Vietnam are sold under the Le Gourmet brand. In addition, Vietnam is also licensed to engage in live hog farming and the production of feeds.
Other Businesses...............................	Foodservice and franchising businesses

The products of San Miguel Pure Foods are produced using both company-owned and tolled facilities. As of September 30, 2014, San Miguel Pure Foods owns over 30 production facilities and has contracts with close to 1,800 tolled facilities and contract farms.

Selected operating data for the business of San Miguel Pure Foods are set forth in the table below for the periods indicated:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Sales	95,787	99,773	102,999	74,415	76,601
Gross profit	17,838	20,188	20,450	14,376	15,562
Gross profit margin[(1)]	18.7%	20.2%	19.8%	19.3%	20.3%
EBITDA[(2)]	8,415	8,581	8,801	6,238	6,539
EBITDA margin[(3)]	8.8%	8.6%	8.5%	8.4%	8.5%
Net income before tax	5,808	5,596	5,676	3,945	4,149
Net income before tax margin[(4)]	6.1%	5.6%	5.5%	5.3%	5.4%

Notes:
(1) Calculated as gross profit divided by revenues
(2) Calculated as net income plus the following: income tax expense, net financing charges (interest expense and other financing charges net of interest income), foreign exchange losses (gains), equity in net losses (earnings) of an associate and cash dividends (including property dividends already sold and converted to cash) from an associate, depreciation and amortization
(3) Calculated as EBITDA divided by revenues
(4) Calculated as net income before income tax divided by revenues

Agro-industrial Business Segment

The agro-industrial business segment of San Miguel Pure Foods includes its animal feeds, poultry and fresh meats businesses.

Feeds

The commercial feed products include hog feeds, layer feeds, poultry feeds, aquatic feeds, branded feed concentrates and specialty and customized feeds. These animal feeds are sold and marketed under various brands including *B-Meg*, *B-Meg Premium*, *Integra*, *Expert, Dynamix, Essential*, *Pureblend*, *Bonanza* and *Jumbo*.

The Philippine feeds industry comprises three (3) segments of animal feed users: (i) the commercial segment, which comprises of small farms that purchase animal feeds from retail outlets supplied by commercial feed manufacturers as well as medium-to-large farms that purchase directly from these manufacturers, (ii) the intra-segment, which comprises of large, integrated livestock and poultry farms that operate their own feedmills, and (iii) the homemix segment, which comprises of small-to-medium farms producing their own animal feeds for self-use.

The Philippine feeds industry derives its sales mainly from hog and broiler producers. Many of these feed millers have evolved from merely selling feed products to offering total value service packages to customers, such as technical services and after-harvest payment schemes. The feed milling industry is a commodity-based industry, with most of its major raw materials consisting of commodities, such as corn, soybean meal and feed wheat. Since most feed millers use imported raw materials, the industry is affected by foreign exchange fluctuations.

Based on data from the Philippine Statistics Authority and certain internal assumptions and calculations, San Miguel Pure Foods believes the Philippine feeds market was approximately ₱163 billion in 2014, of which the commercial feeds segment accounted for approximately ₱48 billion.

Production and Raw Materials

Compound feeds are manufactured at seven (7) San Miguel Pure Foods-owned facilities that are operated by third parties and 33 third party-owned and operated feeds plants, located throughout the Philippines. Most of these plants are capable of producing pelleted and crumble format feeds, and five (5) plants have extrusion capabilities to produce aquatic floating feeds. San Miguel Pure Foods also maintains tolling arrangements for six (6) rendering facilities that convert animal by-products used as raw materials in some feed types.

The largest single component of the cost of sales of San Miguel Pure Foods for animal 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. San Miguel Pure Foods purchases corn locally from corn traders and occasionally from suppliers in the United States and Southeast Asia. Soybean meal is imported from Argentina, the United States and India, while other raw materials are purchased from various suppliers in North America, Asia, Europe and the Philippines. In 2015, San Miguel Pure Foods bought over 60.0% of its total grain purchases in the domestic market and the rest from the United States, Southeast Asia and Argentina.

Raw materials used in the animal feeds business of San Miguel Pure Foods are sourced by its Business Procurement Group ("BPG"). San Miguel Pure Foods also uses as raw materials spent grain, malt dust and yeast, which are by-products of SMB, pollard from SMMI and offals and feathers from the poultry dressing plants of San Miguel Pure Foods.

Sales and Distribution

San Miguel Pure Foods produces animal feeds for its own poultry and meats businesses and the commercial feeds market, which accounted for 51.0% and 49.0%, respectively, of the feeds production volumes as of September 30, 2015. Feeds supplied to the poultry and fresh meats businesses are not included in the revenue or volume sold of the feeds business.

San Miguel Pure Foods sells its commercial feeds products through several distribution channels, with 80.0% of products sold through authorized distributors within a defined territory and 20.0% sold directly to hog, poultry and aquatic farm operators. The commercial feeds business has 18 sales offices across the Philippines with dedicated sales teams supported by technical experts focused on growing existing markets and developing new ones.

Competition

Based on data from the Philippine Statistics Authority and certain internal assumptions and calculations, San Miguel Pure Foods believes it is the largest producer of commercial feeds in the Philippines, with an estimated market share of approximately 43.0% of the commercial feeds market by volume as of December 31, 2014.

In its animal feeds business, San Miguel Pure Foods competes on quality, customer service, distribution network and price. San Miguel Pure Foods competes with major domestic producers such as Pilmico Foods Corporation, Univet Nutrition and Animal Healthcare Company, Universal Robina Corporation, as well as numerous regional and local feed mills. It also faces increasing competition from foreign feeds manufacturers, such as Charoen Pokphand Foods of Thailand and New Hope Group of China, which have established operations in the Philippines.

Poultry

In its poultry business, San Miguel Pure Foods breeds broilers and produces and markets chicken products, mostly for retail. The broad range of chicken products is sold under the *Magnolia Fresh Chicken* brand. These products include fresh-chilled or frozen whole and cut-up products. Through its *Magnolia Chicken Stations*, San Miguel Pure Foods offers a wide variety of fresh and easy-to-cook products. San Miguel Pure Foods also sells customized products to foodservice and export clients, supplies supermarket house brands, serves chicken products to wet markets through distributors, and sells live chickens to dealers.

The poultry business of San Miguel Pure Foods operates a vertically-integrated poultry production process that spans from breeding broilers to producing chickens and related products.

Traditionally, the Philippine poultry industry was highly fragmented and primarily a commercial industry. However, several major producers, including San Miguel Pure Foods, have been successful in introducing modern technologies and processes to the industry, allowing them to consolidate market share and achieve economies of scale. Most of the major integrated producers employ contract-growing schemes for the production of live broilers, and also engage in contract breeding and toll dressing arrangements. The Philippine poultry industry has commodity characteristics and is subject to frequent changes in demand and supply. Based on data from the Philippine Statistics Authority and certain internal assumptions and calculations, San Miguel Pure Foods estimates the Philippine market for poultry was approximately ₱104 billion as of September 30, 2015.

Production and Raw Materials

San Miguel Pure Foods primarily utilizes third party-owned facilities operated under tolling arrangements for its poultry production. Approximately 99.0% of its poultry growing output and 96.0% of its processing output come from tolled facilities, allowing San Miguel Pure Foods to outsource production at a lower cost and direct more resources toward improving its marketing, sales and distribution capabilities. Approximately 84% of these poultry growing facilities employ climate-controlled systems, which provide more comfortable and stable temperatures in growing facilities, thus, increasing efficiency and reducing mortalities. As of September 30, 2015, San Miguel Pure Foods contracted with tolled growing farms with an aggregate estimated annual capacity of more than 300 million birds. The vertically controlled poultry operations of San Miguel Pure Foods also includes two (2) owned and 32 processing plants operated under tolling arrangements and utilizes an extensive network of third party cold storage warehouses and distribution facilities throughout the Philippines.

The primary raw materials used in the chicken operations of San Miguel Pure Foods are live chickens raised primarily by independent contract growers. Breeder flocks (grandparents of birds that are ultimately sold) are raised to maturity in grandparent growing and laying farms where fertile eggs are produced. Fertile eggs are hatched at the grandparent hatchery and produce day-old parent stock (parents of birds that are ultimately sold). Parent stocks are then sent to breeder houses, and the eggs produced are sent to the hatcheries. Once eggs are hatched, the chicks are sent to the broiler farms. There, contract growers care for and raise the chicks according to the standards of San Miguel Pure Foods, with feeds supplied by the feeds business and with advice from its technical service personnel, until the chicks reach marketable weight. Grown chickens are transported to processing plants, where they are dressed and processed into finished products, which are then sent to distribution centers and sold to customers.

As of September 30, 2015, feeds accounted for the majority of production costs for the poultry business, representing approximately 61.0% of the cost of growing a live chicken. All of the feeds required by the poultry business are supplied by its feeds business.

Sales and Distribution

San Miguel Pure Foods sells its poultry products through a variety of channels, including, *Magnolia Chicken Stations*, supermarkets, convenience stores, warehouse clubs, institutional accounts such as quick service restaurants and hotels, export clients, wet market, commissaries, wholesalers, distributors, and buyers of live birds.

The poultry business distributes its products to two (2) market segments through the different channels mentioned above in order to maximize market penetration throughout the Philippines:

- commodity segment (including wet markets and supermarkets), which accounted for 50.0% and 48.0% of total revenues of the poultry business in 2014 and for the period ended September 30, 2015, respectively; and

- stable-priced segment (including *Magnolia Chicken Stations* in supermarkets, *Monterey Meatshops*, and foodservice and export clients) accounted for 50.0% and 52.0% of the total revenues of the poultry business in 2014 and for the period ended September 30, 2015, respectively.

In 2004, San Miguel Pure Foods began its “bringing the wet market to the supermarket” strategy, by introducing *Magnolia Chicken Stations* in supermarkets. These stations offer more choices of cuts and better customer service. As of September 30, 2015, approximately 35.0% of these *Magnolia Chicken Stations* are franchisee-owned and the rest are company-owned and third party-operated, with over 1,000 *Magnolia Chicken Stations* in operation. While wet markets remain the most popular source of chicken for consumers in the Philippines, San Miguel Pure Foods intends to focus on its *Magnolia Chicken Station* outlets in the coming years, as it looks to further build on its strong brand reputation, increase the contribution of the stable-priced product segment and further protect market share.

San Miguel Pure Foods distributes some of its products from processing plants located throughout the Philippines to cold storage facilities and warehouses, which serve as a midpoint in distribution to wholesalers and local customers. Majority are distributed directly from the plants to supermarkets and foodservice operations. For its distribution infrastructure, San Miguel Pure Foods engages various third-party logistics providers for its distribution infrastructure, which includes cold-storage warehouses and facilities throughout the Philippines and a large fleet of vehicles.

Competition

Based on data from the Philippine Bureau of Animal Industry and certain internal assumptions and calculations, San Miguel Pure Foods believes that it held an approximately 38.0% market share in the Philippine broiler market as of December 2014 based on volume sold, ahead of the second and third major players, which had market shares of approximately 21.0% and 5.0%, respectively.

In its poultry business, San Miguel Pure Foods competes on quality, distribution network and customer service. The poultry business faces competition from large integrated producers such as Bounty Fresh Foods Inc., Bounty Agro Ventures, Inc., Gama Foods Corp. and the Charoen Pokphand Group, as well as numerous smaller independent broiler producers. San Miguel Pure Foods also faces competition from lower-priced imports from the United States, Canada and Brazil.

Fresh Meats

The fresh meats business breeds, grows and processes hogs and cattle and produces and trades beef and pork products. Its operations include slaughtering live hogs and cattle and processing beef and pork carcasses into primal and sub-primal meat cuts, such as shoulder, leg, loin and belly, and case-ready products, such as steaks and chops. It sells a wide variety of products in the Philippines, including pork, beef and lamb retail cuts and marinated products, under the well-recognized *Monterey* brand name.

The Philippine fresh meats industry remains highly fragmented despite the attempts of larger producers to modernize the industry. Consolidation of the fresh meats industry is expected to increase in the future as larger producers continue to invest in new technologies and processes.

Production and Raw Materials

The fresh meats business raises its hogs using a two-site system, which separates breeding from nursery and growing into isolated facilities to minimize the risk of disease.

San Miguel Pure Foods believes that it pioneered the use of the vertically controlled pork and beef production system in the Philippines, controlling the entire value chain including selection of genetic stocks, growing and processing of hogs and cattle and selling, mainly through its *Monterey Meatshop* operations. Approximately 56.0% of its hog production capacities are third party-owned and operated under tolling arrangements. As of September 30, 2015, approximately 54.0% of the hog growing facilities employ climate-controlled and elevated housing systems, which provide more comfortable and stable temperatures in growing facilities, thus increasing efficiencies and reducing mortalities.

The primary raw materials for the processing plants are live hogs and cattle. In 2014, San Miguel Pure Foods sourced all of its live hogs from its contract growing farms. With respect to sourcing beef supply in 2014, San Miguel Pure Foods imported all of its feeder cattle from Australia and its boxed beef from Australia, New Zealand and Brazil.

Other primary raw materials of the fresh meats business are hog and cattle feed. All of the feeds required by the fresh meats business are supplied by the feeds business.

Sales and Distribution

The fresh meats business distributes its products through a variety of channels, including supermarket-based meat shops, *Monterey* neighbourhood meat shops, wet markets, foodservice clients, membership shopping club outlets, and to the value-added meats business. Live hogs and cattle are also sold to dealers.

San Miguel Pure Foods adopted a strategy focusing on the supermarket-based modern trade market to accelerate pork sales by introducing a *Monty's* supermarket meat shop in 1990. In 1993, the fresh meats business introduced *Monterey* stand-alone neighborhood meat shops as part of the strategy to differentiate its products from those of its competitors by branding the selling outlets. Pork, beef and lamb retail cuts and marinated products are sold in *Monterey Meatshops* through franchisees.

As of September 30, 2015, more than 640 *Monterey Meatshops* selling San Miguel Pure Foods fresh meat products were in operation across the Philippines. As of the same date, approximately 73.0% of its meat shops were franchised operations and certain functions, such as inventory monitoring and staffing, were also undertaken by third party operators and franchisees. As part of its strategy to increase sales volumes and improve profitability and customer service in these shops, the fresh meats business provides marketing support to franchisees and actively seeks entrepreneurs to become franchisees.

Competition

Based on data from the Philippine Swine Producers Association and certain internal assumptions and calculations, San Miguel Pure Foods believes that it holds the largest market share in the Philippine hogs industry among the large commercial farms in the Philippines.

In the fresh meats business, San Miguel Pure Foods competes on quality, distribution network and customer service. 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. While the majority of fresh meats sales in the Philippines continue to be made in the more traditional, outdoor wet markets, San Miguel Pure Foods considers supermarkets selling their own house-brand products as its main competition.

Value-added Meats Business Segment

The value-added meats business produces both refrigerated processed meats and canned meats. Refrigerated processed meats include hotdogs, nuggets, bacon, hams, and a line of local Philippine products, which are sold under the *Purefoods, Purefoods Tender Juicy, Purefoods Star, Purefoods Beefies, Vida, Purefoods Fun Stuff Nuggets, Purefoods Crisp'n Juicy*, and *Monterey* brands. Canned meats, such as corned beef, luncheon meats, sausages, sauces, meat spreads and ready-to-eat viands, are sold under the *Purefoods, Purefoods Star* and *Ulam King* brands.

Production and Raw Materials

San Miguel Pure Foods owns a value-added meats processing plant located in Cavite. The Cavite plant manufactures hotdogs, nuggets, hams, bacon, sausages, meat toppings, cold cuts and sauces. San Miguel Pure Foods maintains toll-manufacturing agreements for halal-accredited facilities 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.

The primary raw materials used in the value-added meats business are commodity-based raw materials, including chicken, beef and pork primal cuts. The value-added meats business sources most of its raw materials through its BPG, which strives to secure prices lower than prevailing market or published rates. BPG maintains a pool of San Miguel Pure Foods accredited suppliers for local and imported raw materials, which are regularly audited by a quality assurance team. In 2015, the value-added meats business sourced approximately 21.0% of its raw materials from the other businesses of San Miguel Pure Foods and 79.0% from imports.

Sales and Distribution

The value-added meats products are distributed locally by the SMIS and Great Foods Solution. SMIS Sales handles product distribution to supermarkets and traditional trade markets in the Philippines, such as groceries, convenience stores, wet markets and *"sari-sari"* stores. Great Foods Solution distributes products to foodservice operators, such as hotels, restaurants, fast food chains, food kiosks and carts. Domestic distribution is handled by the Supply Chain group of the branded business, which manages planning, technical logistics services, warehousing and transportation. The International Business division handles exports to Asia, North America, Middle East, and Europe, mainly to supply Filipino communities abroad.

Competition

The combined shares of its hotdog brands have positioned San Miguel Pure Foods as a market leader in the hotdogs category, with a market share of 58% for hotdogs sold in Philippine supermarkets. San Miguel Pure Foods also dominates the nuggets category with a market share of 84%. San Miguel Pure Foods also has a 76% market share in the premium segment of corned meats. All market shares are based on value as of September 2015 and as reported by Kantar Worldpanel.

For the entire corned beef and luncheon meats categories, San Miguel Pure Foods has market shares of approximately 15% and 5%, respectively, both based on value as of September 2015 according to Kantar Worldpanel.

In the value-added meats business, San Miguel Pure Foods competes on quality, product innovation, distribution network and customer service. In recent years, the value-added meats business of San Miguel Pure Foods has faced increased competition both from established local players, which are employing aggressive pricing and promotion schemes, and from new entrants to the market. Competitors and competing brands in the value-added or processed meats business include Foodsphere, Inc. (*CDO*), Virginia Foods, Inc. (*Winner* and *Champion*), Century Pacific Food Inc. (*Swift, Argentina and 555*), Mekeni Food Corporation (*Mekeni*), Frabelle Food Corp. *(Bossing)* and the distributors of *Maling*. To maintain its leadership position, San Miguel Pure Foods has responded by maintaining high product quality, continuing innovation, increasing advertising and promotions, and by enhancing consumer experience through strategic alliances with institutions such as theme parks, event venues, cinemas and schools.

Milling Business Segment

San Miguel Pure Foods offers a variety of flour products, including bread flour, noodle flour, biscuit and cracker flour, all-purpose flour, cake flour, whole wheat flour, customized flour and flour premixes, such as pancake mix, cake mix, brownie mix, pandesal mix, and puto mix. San Miguel Pure Foods believes that it started the trend in the Philippines of using customized flours for specific applications, such as noodles and *pandesal*, a soft bread commonly eaten in the Philippines during breakfast. The flour products are sold under 17 brand names and San Miguel Pure Foods believes that it enjoys strong brand loyalty among its institutional clients and other intermediaries, such as bakeries and biscuit manufacturers.

In 2012, San Miguel Pure Foods launched *Kambal Pandesal* bakery outlets, which is an innovative concept in the local baking industry. San Miguel Mills, Inc. (“SMMI”) simplifies bakery operations for entrepreneurs, providing its proprietary bread premixes and technical assistance such as site search and training on bakery operations and management. SMMI also provides continuous product development and marketing support, thus, helping ensure the continuous introduction of high quality and innovative bread products to consumers. As of September 30, 2015, there are more than 600 *Kambal Pandesal* bakery outlets which are all third party-owned and operated.

San Miguel Pure Foods believes that while rice has traditionally been the primary source of carbohydrates in the Philippines, bread and noodles have become increasingly popular alternatives in recent years, which helped drive growth in the Philippine flour industry. In addition, while the bread market is generally still dominated by traditional neighborhood bakeries, large bakery chains are expanding rapidly in the Philippines. San Miguel Pure Foods believes these larger chains often place greater emphasis on the quality of the flour they use, providing an opportunity for flour producers to sell customized, higher-margin flour products.

Production and Raw Materials

San Miguel Pure Foods believes it owns and operates the largest flour milling facilities in the Philippines based on aggregate annual rated milling capacity. It owns two (2) flour mills, located in Mabini and Tabangao in Batangas. Its flour mills have a combined rated milling capacity of 1,660 tons per day. The milling facilities include two (2) flour blending facilities in Mabini, which allow San Miguel Pure Foods to produce customized flours. The flour business also operates a premix plant, which produces different premix products for both the retail and the institutional markets. Its production capabilities are augmented by its Flour Technology Center, which it believes is the first of its kind in the Philippines. The center develops customized flour blends and new flour-based products.

In the last quarter of 2013, San Miguel Pure Foods, through SMMI, inaugurated and commenced operations of the Golden Bay Grain Terminal in Mabini, Batangas which can accommodate panamax vessels. This facility has an estimated discharge rate of at least 10,000 metric tons per day. San Miguel Pure Foods believes that this new facility has provided it with a significant 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. This facility is adjacent to the flour mill in Mabini, Batangas and also services the grain handling requirements of its feeds business. It expects to service external customers such as commercial grains traders in the future.

The principal raw material used by the flour business is wheat. Historically, more than 90.0% of the wheat requirements of the flour business are sourced from the United States and Canada with the remaining balance sourced from various other countries. San Miguel Pure Foods monitors worldwide wheat prices daily to determine its long-term and short-term buying strategies to control costs in its flour business.

Sales and Distribution

The marketing strategy for its milling business focuses on offering the widest array of differentiated flour products in the Philippine market. The sales team, supported by baking technicians, determines the specific flour product requirements of its various customers. In addition, the baking technicians conduct field baking tests of the products and demonstrate their applications. For customized products, the research and development team and the sales team work with the customers to develop formulations specific to their requirements. San Miguel Pure Foods manages a nationwide distribution network that distributes flour and other bakery ingredients to major flour users, such as Gardenia Bakeries, the Jollibee group, KFC, Monde MY San and smaller users across the Philippines.

Competition

Based on data from the Philippine Association of Flour Millers and certain internal assumptions and calculations, San Miguel Pure Foods believes it is the largest producer, seller and distributor of flour in the Philippines, with a 16.0% market share based on volume sold as of September 2015.

The flour business competes on price, quality, customer service and distribution. Its main competitors are Philippine Foremost Milling Corporation, Pilmico Foods Corporation and Universal Robina Corporation. Currently, most of the competitors only produce a limited number of flour types such as hard flour for bread products and soft flour for biscuits. San Miguel Pure Foods differentiates itself by focusing on the production of more specialized, higher quality and higher priced flours. In recent years, imported flour has increased its presence in the local market. San Miguel Pure Foods expects to face increased competition in the lower priced and lower quality segments and from international and regional flour producers in the future.

Others Business Segment

The other business segment of San Miguel Pure Foods is divided into the following businesses: dairy, spreads and oils, coffee, biscuits, foodservice, franchising and international operations.

Dairy, Spreads and Oils

The dairy, spreads and oils business manufactures and markets a variety of bread spreads, milk, ice cream, jelly-based snacks, salad aids and cooking oils. Bread spreads make up the largest portion of the dairy, spreads and oils business and as of September 30, 2015, accounted for approximately 80% of revenues from this category. Bread spreads include butter, refrigerated and non-refrigerated margarines and cheeses sold primarily under its *Magnolia*, *Dari Crème*, *Star* and *Cheezee* brands. Dairy products include ready-to-drink milk, ice cream and all-purpose cream all under the *Magnolia* brand. Jelly snacks and fruit jams are under the *Magnolia Jellyace* brand while salad aids like mayonnaise and dressings are under the *Magnolia* brand. Cooking oil products are sold under the *Magnolia Nutri-Oil* brand.

Production and Raw Materials

San Miguel Pure Foods produces bread spreads products at its own facility in Cavite, 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 is manufactured in Santa Rosa, Laguna. Milk, jelly-based snacks and cooking oil products are manufactured in third party plants under tolling arrangements, each of which is required to meet quality standards.

All of the raw materials required by the dairy, spreads and oils business are sourced through BPG. Approximately 49% of dairy materials, such as cheese curds, rennet-casein and milk powders are imported from various suppliers in Oceania. Vegetable oils are sourced from various suppliers in Malaysia and in the Philippines.

Sales and Distribution

Supermarkets are the largest distribution channel for the dairy, spreads and oils business, and other channels include groceries, warehouse clubs, *"sari-sari"* stores, market stalls, bakeries, wholesale outlets and convenience stores. SMIS serves as the distribution arm of the dairy, spreads and oils business for both modern and general trade channels. Food chain and other institutional distribution channels for dairy, spreads and oils business include bakeshops, food manufacturing companies, quick service restaurants and hotels. The distribution channels of the majority of the dairy, spreads and oils business are in the Greater Manila and Luzon areas, which have seen substantial growth in consumption for these products. The dairy, spreads and oils business is further developing regional distribution channels through exports primarily to Asia, the United States and the Middle East.

Competition

According to Kantar Worldpanel, as of September 2015, San Miguel Pure Foods has a market share of 42.0% for butter, followed by Fonterra Brands Philippines Inc. and New Zealand Creamery, Inc. San Miguel Pure Foods dominates the refrigerated margarine segment with a 97% share of the market. New Zealand Creamery, Inc. and RFM Corporation also compete in this category.

According to Nielsen, as of August 2015, San Miguel Pure Foods has a 97% market share for non-refrigerated margarine with San Pablo Manufacturing and AD Gothong Manufacturing as its competitors. In the cheese category, Mondelez Philippines, Inc. is the leading player followed by Magnolia with a 20% market share as of August 2015. In the ice cream market, Unilever-RFM and Nestlé are the dominant players, while Magnolia ranks third with 9% market share as of December 2014.

Coffee

The coffee business is a joint venture with a Singaporean partner, Super Coffee Corporation Pte. Ltd., and is 70%-owned by San Miguel Pure Foods. The joint venture commenced operations in 2005 and sells coffee-mix products under the *San Mig Super Coffee* brand. As of December 2014, according to Nielsen, San Miguel Pure Foods has a 3% market share for coffee based on value sold. Competitors in the coffee-mix segment include Nestlé (*Nescafe*), Tridharma Marketing Corp. (*Kopiko*), URC (*Great Taste*), and Goldshine Pharmaceuticals, Inc. (*Jimm's*). All of the procurement, manufacturing and pre-packing of the raw materials of the coffee business are handled by the partner of San Miguel Pure Foods in Singapore and Thailand and San Miguel Pure Foods manages re-packing, marketing, selling and distribution in the Philippines.

Biscuits

In February 2015, San Miguel Pure Foods acquired the trademarks, formulations, recipes and other intangible properties (IP rights) relating to *La Pacita* biscuit and flour-based snack business from Felicisimo Martinez & Co. Inc. ("FMC"), which initiated the entry of San Miguel Pure Foods into the biscuit segment. Its product offerings include crackers, biscuits and cookies, distributed here in the Philippines as well as in other countries.

Condiments and Meal Mixes

San Miguel Pure Foods entered into the powdered condiments and meal mixes category under the *Wandah! All-Around Mix* brand. Sweet tomato catsup, gravy, cheese, mayonnaise and cream variants were initially launched in the last quarter of 2015.

International Operations

Vietnam

The Vietnam food business primarily engages the sale of processed meats, which are under the *Le Gourmet* brand. It is also licensed to engage in live hog farming and the production of feeds.

In January 2015, San Miguel Pure Foods acquired the remaining 49.0% of San Miguel Pure Foods Investment (BVI) Limited, through San Miguel Pure Foods International, Limited, a wholly-owned subsidiary of San Miguel Pure Foods, to bring total ownership to 100.0%. San Miguel Pure Foods International is the sole investor in San Miguel Pure Foods (Vn) Co. Ltd., which is engaged in the production of processed meats and owns assets in hog farming and feed milling.

Indonesia

The business in Indonesia is a joint venture with Penderyn (formed in 1995) which produces a variety of halal-certified processed meats for the Indonesian market under the brands *Farmhouse* and *Vida*. The joint venture is 75% owned by San Miguel Pure Foods.

Other Businesses

Foodservice

Great Foods Solutions, the foodservice business of San Miguel Pure Foods, was established in 2002 and is one of the largest foodservice providers in the Philippines. It distributes and markets foodservice formats for value-added meats, fresh meats, poultry, dairy, oil, flour and coffee. Great Foods Solutions receives a development fee from the subsidiaries of San Miguel Pure Foods 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.

Franchising

San Miguel Pure Foods has developed franchise models to serve as contact points with consumers, a trial venue for new product ideas and a channel to introduce product applications for its products. These franchise models include roast chicken and rice toppings outlets under the *Hungry Juan* franchise, and convenience store outlets under the *San Mig Food Ave* franchise, most of which are located in Petron stations.

Quality Control, Health, Safety and Environmental Matters

San Miguel Pure Foods conforms to the statutory and regulatory requirements in relation to quality assurance and food safety. Compliance to Good Manufacturing Practice is a mandatory requirement across all food businesses, based on international hygiene standards, to ensure high quality and safe food products.

San Miguel Pure Foods 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 odor emissions and the management and disposal of hazardous materials.

San Miguel Pure Foods applies its quality standards uniformly across all of its production facilities, whether company-owned or contracted, including through training it provides to its third-party operators before they commence operations. San Miguel Pure Foods representatives oversee toll plant operations on a regular basis, providing technical support and working closely with the management of third-party operators. The quality assurance personnel of San Miguel Pure Foods conducts periodic operational audits.

San Miguel Pure Foods seeks to reduce the risk of contamination of its products through strict sanitation procedures and constant monitoring and response. Consistent with the Hazard Analysis and Critical Control Points model, it has identified specific stages of processing where preventative measures such as equipment sterilization, hygiene, temperature control and regular equipment testing will greatly reduce risks and have designed its operations to reduce these risks. San Miguel Pure Foods follows Good Manufacturing Practice, which is a key factor to produce good quality, safe, and affordable products.

San Miguel Pure Foods intends to continue to strengthen its commitment to food safety standards. Its Quality Assurance and Food Safety Management System Guidelines is anchored on Hazard Analysis and Critical Control Points, Good Manufacturing Practice, ISO 22000, ISO 9001 and FSSC 22000 with the objective of complying with the Food Safety Act of the Philippines (RA 10611) and the requirements of the customers.

San Miguel Pure Foods believes it is in material compliance with applicable health, safety and environmental laws.

San Miguel Pure Foods and its subsidiaries incurred about ₱32.2 million in expenses for environmental compliance for the year 2014. On an annual basis, operating expenses incurred by San Miguel Pure Foods to comply with environment laws are not significant or material relative to the total costs and revenues.

Research and Development

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, San Miguel Pure Foods engages in research and development to identify cost improvements and improvements that can be made to its production processes. Among others, cost reductions have been achieved through the use of alternative raw materials, from grains and by-products used in the feed products to alternative protein sources and flavors in processed meats.

San Miguel Pure Foods owns several research and development facilities that analyze 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. These research facilities include a bio assay-focused research facility, a metabolizable energy-focused research facility, a research facility for tilapia, three (3) hog research farms, three (3) broiler research farms, a fry production facility and various hatching facilities for tilapia breeding.

San Miguel Pure Foods also engages in the development, reformulation and testing of new products. It believes that its 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, San Miguel Pure Foods regularly conducts consumer surveys and has a Corporate Innovations Group that spearheads a company-wide innovation program to introduce breakthrough products and services.

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 business of SMC is conducted through: (i) SMYPC, a joint venture of SMC and NYG, one of the largest glass and plastic packaging corporations in Japan; (ii) SMYPIL, which owns the international businesses in Malaysia, Vietnam, China, Australia and New Zealand; (iii) SMYAC, a domestic glass packaging subsidiary; and (iv) Mincorr, a paper corrugated carton manufacturer.

The Packaging Group has one of the largest packaging operations in the Philippines with diversified businesses producing glass, molds, metal closures, aluminum cans, plastics and pallet/crate leasing, PET beverage packaging and filling, flexibles, paper, as well as other packaging products. The packaging business 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, the United States, South Africa, Australia, the Middle East, as well as to major multinational corporations in the Philippines, including Coca Cola Femsa Philippines, Inc., Nestle Philippines and Pepsi Cola Products Philippines, Inc. In 2014, the Packaging Business had sales of ₱24,226 million, of which approximately 85.0% were from external sales.

Philippine Packaging Industry

The usage growth rate for glass containers (which is the largest business of the Packaging Group) for beverage applications has been growing steadily. Glass bottles for beverage accounts for the largest share among the glass packaging format. Most of these are available in traditional *sari-sari* stores where carbonated soft drinks, energy drinks and ready-to-drink juices come in returnable glass bottles. 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.

PET bottles for beverages also recorded growth for the past five (5) years 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 future prospects in this packaging format.

Flexible packaging continues to reflect growth due to the several advantages it has, including lower cost, ease of disposing and most importantly, convenience. Flexible packaging is considered to be the most affordable pack type and is therefore used by many consumer products to capture mass markets. It is used extensively in confectionery, dried processed food and sweet and savoury snacks and has captured brand manufacturers of canned/preserved food, baby food and agri-chemical products.

Metal beverage cans saw a flat growth due to tight competition with other beverage packaging formats such as stand-up pouches, glass and rigid plastic bottles.

It is evident that the growth of the total packaging sector for food and beverages has been at par with the long-term trend of Philippine economic and population growth. As both foreign investor and Philippine consumer confidence continue to rise, the Packaging Group can expect better growth rates for the packaging business. The historical rates for the various packaging formats could be easily outpaced.

Competitive 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.

State-of-the-art manufacturing facilities

The Packaging Group maintains state-of-the-art manufacturing facilities and best practices in manufacturing and quality procedures.

Compliance to 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).

Business 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 new can filling facility to provide tolling services to the current alcoholic and non-alcoholic customers. In February 2015, the Packaging Group acquired 100.0% of the wine closure and customized wine bottle business of Vinocor, through SMYV Pty Ltd, located in Australia.This acquisition leverages the market proposition to new and existing wine customers as a “one-stop shop” bottling solution for wine makers.

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 innovate to enter new markets and market segments with new products such as slim cans and ends, down gauged crowns, high-impact resistance pallets for cements, laminated paper, and wine closures (cork).

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, scrap laminates as fillers in pallets, 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.

Selected operating data for the packaging business is provided below for the periods indicated:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Sales	24,460	25,187	24,226	17,264	18,186
Gross profit	6,567	6,687	6,673	4,823	5,036
Gross profit margin(1)	26.8%	26.5%	27.5%	27.9%	27.7%
EBITDA(2)	4,131	3,435	3,700	2,818	3,064
EBITDA margin(3)	16.9%	13.6%	15.3%	16.3%	16.8%
Net income before tax	1,495	1,233	1,614	1,338	1,569
Net income before tax margin(4)	6.1%	4.9%	6.7%	7.8%	8.6%

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.

A description of the businesses of the Packaging Group is as follows:

Glass

The Packaging Group is the largest supplier in the Philippine glass packaging industry segment and serves many of the leading beverage, food and healthcare companies in the country.

Metal

The metal business is the second largest business in the Packaging Group. It manufactures metal caps, crowns, resealable caps and the newly modernized two-piece aluminum beverage cans for a wide spectrum of industries that include beer, soft drinks, non-alcoholic beverages and food.

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.

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 beer and non-alcoholic beverages.

Paper

The paper business produces corrugated cartons and partition boxes. In addition, SMC also manufactures corrugated cartons and other paper-based packaging products through its wholly owned subsidiary, Mincorr. The paper business serves a broad range of beverage, food and agricultural industries.

Plastics

The plastics business produces bread and food trays, industrial containers, crates, pallets, poultry flooring, pails and tubs to companies in the beer and beverages industries as well as chicken and agricultural industries.

Production

The Packaging Group owns and operates four (4) glass plants, four (4) metal plants, one (1) plastics plant, three (3) PET packaging and filling plants, one (1) composite plant, and one (1) paper plant. The plants are strategically located throughout the Philippines. It also owns and operates 13 overseas packaging facilities located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, woven bags and a packaging research center) and Australia (glass, trading, wine closures and bottle caps) and New Zealand (plastics).

Property Business

Established in 1990 as the corporate real estate arm of SMC, SMPI is aiming to be one of the major players in the property sector through mixed-use developments. SMPI is 99.68% 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.

Cavite Projects

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 132.00 square meters.

Wedge Woods is located west of Sta. Rosa, Laguna – in Silang, Cavite, offering prime lots on a rolling terrain, with a majestic view of Mount Makiling.

Bel Aldea

Bel Aldea, located in General Trias, Cavite, is a 17-hectare development which serves the economic housing segment, offers smartly designed townhouse units, with an average floor area of 42 square meters.

Maravilla

Spanning 24 hectares, Maravilla is a mid-range residential community located at General Trias, Cavite, offering Spanish Mediterranean houses, which currently offers new house models to suit the changing needs of the market.

Asian Leaf

Launched in 2011, Asian Leaf is a seven-hectare premier residential community in the heart of General Trias, Cavite, composed of single attached house-and-lots, with floor areas ranging from 88.50 to 108.30 square meters. Fusing modern Asian architecture and vibrant landscaping, Asian Leaf is perfect for homeowners looking for a tranquil and ideal haven.

Metro Manila Projects

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, 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.

Makati Diamond Residences

A luxury serviced apartment across Greenbelt 5 in Legaspi Village, Makati City, is already operational as of 2015.

Dover Hill

A 93-unit luxury townhouse development in Addition Hills, San Juan that offers three to five-bedroom units ranging from 202 up to 355 square meters. Each multi-level unit affords ample space for family and friends. A three-car parking area located directly below each unit ensures maximum convenience. Within the Dover Hill compound is Dover Club, a five-storey amenity building which includes a fully-equipped, state-of-the-art fitness gym, and a party venue with its own kitchen and dining area good for up to 30 guests. Dover Hill also has a swimming pool and playground.

One Dover View & Two Dover View

Both located along Lee St., Mandaluyong, One Dover View and Two Dover View are exclusive and premier condominium-townhouse projects, offering three (3) and four (4) bedrooms, with only 23 and eight (8) units, respectively, with floor areas ranging from 222.80 to 327.10 square meters.

Emerald 88

Located along Dr. Sixto Avenue, Pasig City, Emerald 88 is a 14-unit townhouse development, with generous floor areas ranging from 187.48 to 216.94 square meters.

Fuel and Oil Business

SMC operates its fuel and oil business through its 68.26% ownership in Petron. Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia.

In the Philippines, Petron is the number one integrated oil refining and marketing company. Petron had an overall market share of 35.4% of the Philippine oil market for the year ended December 2014 in terms of sales volume based on DOE report. The ISO 14001-certified Limay Refinery of Petron in the Philippines has a crude oil distillation capacity of 180,000 barrels per day, processes crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene. In the fourth quarter of 2014, Petron completed Phase 2 of its RMP-2 of the Limay Refinery. The RMP-2, which was initiated in the fourth quarter of 2010, was a US$2 billion investment project designed to enable the Limay Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products, and increase production of petrochemicals. The completion of the RMP-2 made Petron the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standard fuels.

From the Limay Refinery, Petron moves its products, mainly by sea, to depots, terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises of 11 depots and terminals in Luzon, eight (8) in the Visayas and seven (7) in Mindanao, as well as two (2) airport installations in Luzon, one (1) in the Visayas and one (1) in Mindanao. Through its network of approximately 2,200 retail service stations in the Philippines as of September 30, 2015, Petron sells gasoline, diesel, and kerosene to motorists and to the public transport sector. Petron also sells its LPG brands *Gasul* and *Fiesta Gas* to households and other consumers through its extensive dealership network. Petron also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

Petron entered the Malaysian market in March 2012 through the purchase of downstream oil business of ExxonMobil in that country. Petron had a 17.1% share of the Malaysian retail market as of September 2015, based on the estimates of Petron and industry data from Fahrenheit Research, a market research consultant appointed by Malaysian retail market participants to compile industry data.

In Malaysia, Petron operates a refinery with crude distillation capacity of 88,000 barrels per day. The network of service stations and distribution infrastructure of Petron in Malaysia also facilitate the capture of a growing share of the market. The network of Petron in Malaysia includes more than 560 service stations, more than 260 convenience stores and, 10 product terminals as of September 30, 2015.

Global and Regional Oil Market

According to International Energy Agency (“IEA”), global oil demand is expected to increase by 1.8 million bbl/d and average at 94.6 million bbl/d in 2015. Moreover, it is forecasted to grow by 1.2 million bbl/d to reach 95.8 million bbl/d in 2016. These represent an annual change of 2% and 1.3% for 2015 and 2016, respectively. Global growth of 2.1 million bbl/d in 3Q2015 was dominated by gasoline and driven by Europe and non-OECD Asia. For the succeeding quarter, a slowdown to +1.5 million bbl/d is forecasted due to expectations of weaker OECD demand growth, and predictions of mild northern hemisphere temperatures. Global demand growth is predicted to ease towards 1.2 million bbl/d as recent sources of demand growth support are likely to have temporary effects.

Emerging markets and developing economies (non-OECD countries) such as China and India are expected to be the growth drivers of global oil demand. Non-OECD demand grew y-o-y by 1.4 million bbl/d, reaching 48.7 million bbl/d levels in 3Q2015, and is forecasted to increase to 48.3 million bbl/d in 4Q2015. 2016 demand is expected to rise to 49.5 million bbl/d, accounting for 1.16 million bbl/d growth. China and India are foreseen to contribute 0.32 million bbl/d and 0.18 million bbl/d, respectively, to world demand growth in 2016. OECD demand was recorded at 46.6 million bbl/d in 3Q2015, approximately 0.7 million bbl/d higher than in the same period last year, and is expected to remain at the same level until 4Q2015. Moreover, 2016 OECD demand is seen to average at 46.3 million bbl/d, 0.05 million bbl/d higher than in 2015.

The divide in growth outlook between emerging market and developing economies, compared with advanced economies, is also reflected more broadly in economic forecasts. The IMF[1] projects real gross domestic product growth in 2016 of 2.8% and 1.6% for the United States and the Eurozone, compared with 6.3% and 5.1% for China and India, respectively.

Global Oil Demand (2014 - 2016E)

(million barrels per day)

	1Q14	2Q14	3Q14	4Q15	2014	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16	3Q16	4Q16	2016
Africa	4.0	4.0	3.9	4.0	**4.0**	4.1	4.1	3.9	4.1	**4.0**	4.2	4.2	4.1	4.3	**4.2**
Americas	30.5	30.5	31.3	31.5	**31.0**	30.9	30.9	31.7	31.6	**31.3**	31.1	31.1	31.6	31.9	**31.4**
Asia Pacific	31.3	30.4	29.9	31.5	**30.8**	32.1	31.5	31.4	32.5	**31.9**	32.9	32.3	32.1	33.1	**32.6**
Europe	13.6	14.0	14.5	14.1	**14.1**	14.1	14.2	14.8	14.3	**14.4**	14.2	14.4	14.6	14.3	**14.4**
FSU	4.6	4.9	5.1	5.1	**4.9**	4.6	4.9	5.1	4.9	**4.9**	4.7	4.8	5.0	4.9	**4.9**
Middle East	7.8	8.2	8.4	7.9	**8.1**	7.7	8.3	8.5	8.0	**8.1**	7.9	8.4	8.8	8.2	**8.3**
World	**91.8**	**92.0**	**93.2**	**94.0**	**92.7**	**93.5**	**93.9**	**95.3**	**95.5**	**94.6**	**94.9**	**95.1**	**96.4**	**96.7**	**95.8**
Annual Change (%)	1.2	0.5	0.8	1.2	**0.9**	1.9	2.1	2.2	1.6	**2.0**	1.5	1.3	1.1	1.2	**1.3**
Annual Change (million bbl/d)	1.1	0.5	0.7	1.1	**0.8**	1.7	1.9	2.1	1.5	**1.8**	1.4	1.2	1.1	1.2	**1.2**

Note: Figures from 4Q2015 onwards are estimates.

Asian oil demand has continued to drive growth for 2015. Supported by strong diesel and gasoline barrel gains, India’s demand grew the fastest in more than ten years. Moreover, despite signs of its economy slowing down, China has also been a key driver. Asia-Pacific is expected to account for approximately 33.7% of expected global oil demand in 2016, and the United States is expected to account for 31.3 million bbl/per day or approximately 33.1% of expected demand.

According to IEA, “As global demand growth decelerates to +1.2 mb/d in 2016, gasoline's share eases further as two of the key supports in 2015 - China and US - slow. Gas/oil/diesel and LPG are forecasted to take up the slack, as non-OECD growth is likely to remain robust - underpinned respectively by still-expanding industrial and petrochemical sectors.”[2]

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[1] International Monetary Fund. 2015. *World Economic Outlook: Adjusting to Lower Commodity Prices.* Washington (October).

[2] Mackey, P. (2015, November 13). Oil Market Report: 13 November 2015. Retrieved December 2, 2015, from https://www.iea.org/media/omrreports/fullissues/2015-11-13.pdf

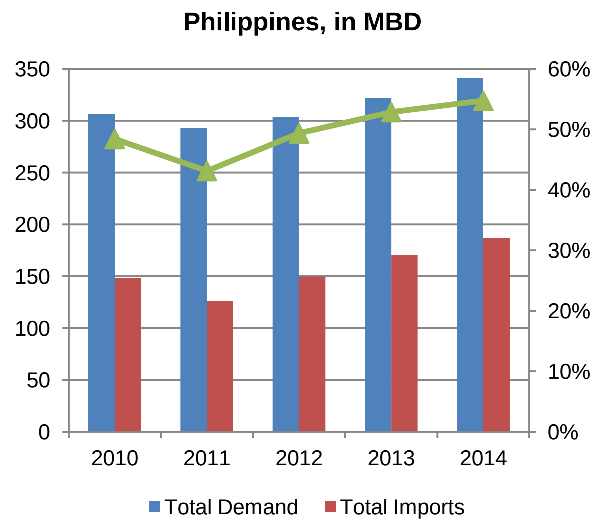
Global oil supply reached 96.9 million bbl/d in 3Q2015, 1.6 million bbl/d higher than in the same period the previous year. Based on latest IEA data, OPEC oil supply remained steady at 31.76 million bbl/d in October 2015. Non-OPEC oil supply is expected to average at 58.3 million bbl/d in 2015 (2.3% growth) and fall by 0.6 million bbl/d to 57.7 million bbl/d. The negative growth will mainly be attributed to declines in US drilling activities, and therefore, steep drops in oil production. However, expected strong output in Russia will help offset lower refinery activity in the US.

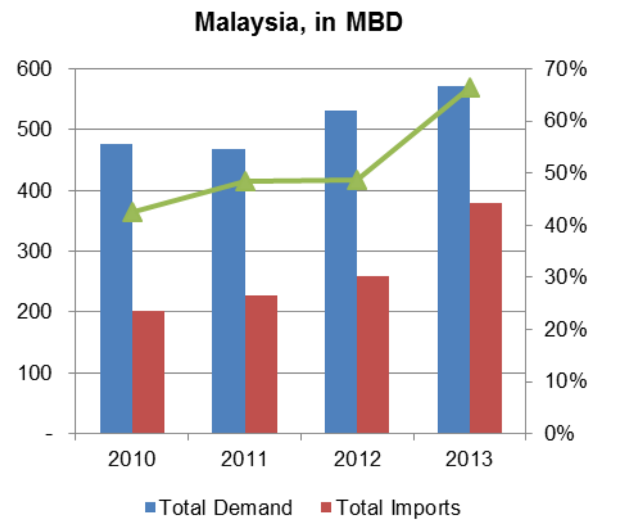
Global refinery runs declined by 1.2 million bbl/d to 80.4 million bbl/d in October 2015 due to seasonal refinery maintenance. However, refining activity is expected to resume to higher levels in December as maintenance ends, with stronger than expected runs in the US and OECD Asia-Oceania. As a result, estimate of global refinery crude throughputs for 4Q2015 has been raised to 79.7 million bbl/s.

The Philippine and Malaysian Oil Markets

The Philippines and Malaysia are major importers of finished petroleum products, importing over 50.0% of their total consumption requirements. The charts below show demand, imports, and imports as a percentage of demand, for the periods indicated.

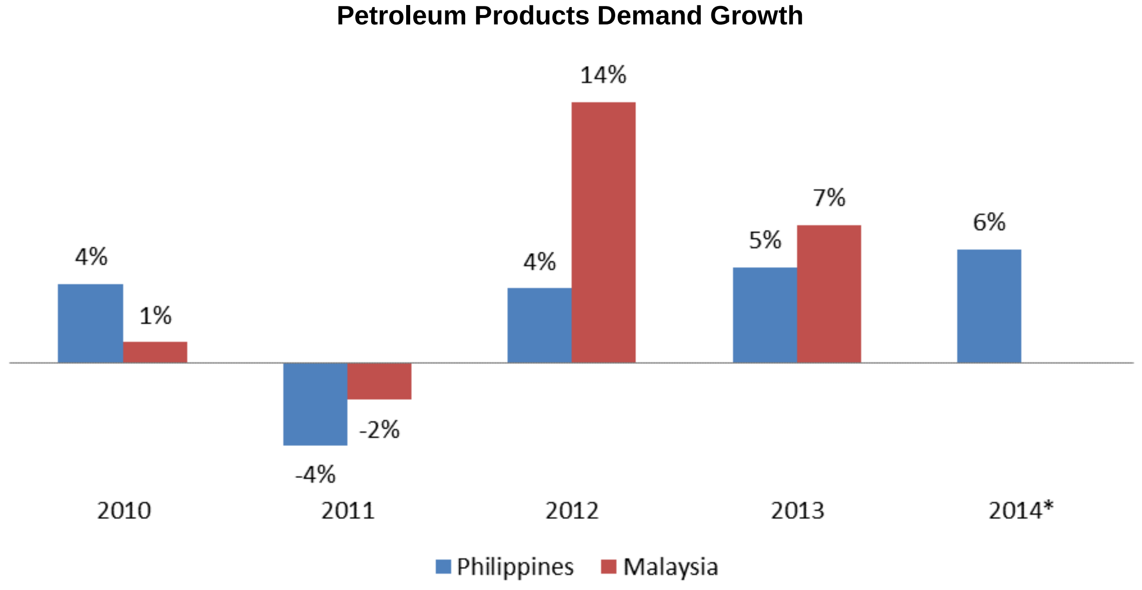
Gross Imports as a Percentage of Total Petroleum Products Consumption in the Philippines and Malaysia





Source: Philippine Department of Energy, Malaysia Energy Information Hub

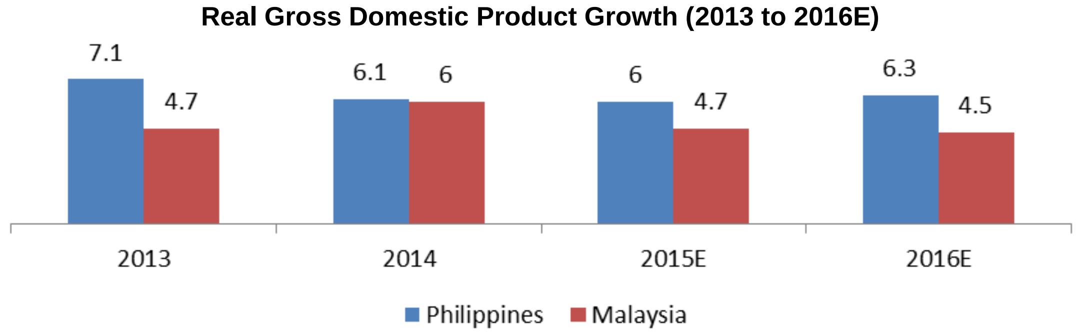
The petroleum products demand in the Philippines and Malaysia have generally experienced growth, as shown in the chart below.



**no data available for 2014 Petroleum Demand Growth in Malaysia*
Source: Philippine Department of Energy, Malaysia Energy Information Hub

Real Gross Domestic Product growth

According to the IMF, the Philippine and Malaysian economies are expected to exhibit stable real gross domestic product growth at annual rates of 6% to 6.3% and 4.5% to 4.7%, respectively, as indicated in the chart below. This favorable economic backdrop is expected to contribute to energy and petroleum products demand growth in these countries.



Source: International Monetary Fund as of October 2015

Philippine Oil Market

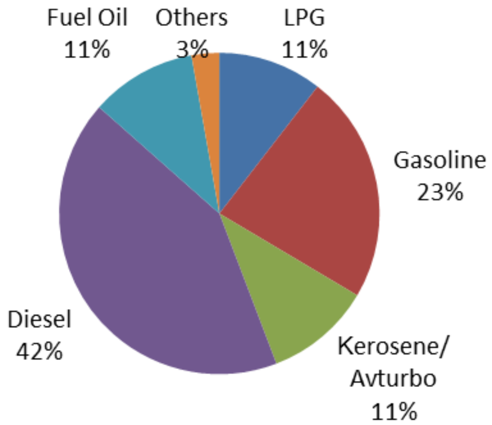
Based on data from the DOE, the crude oil imports of the country reached 64.9 million barrels for the year 2014, an increase of 15.3% from 56.3 million barrels in 2013. Historically, the majority of crude oil imports to the Philippines have been from the Middle East. In 2014, approximately 75.0% of crude oil imports were from the Middle East. Saudi Arabia accounted for 57.1%, the United Arab Emirates for 9.9%, and Qatar for 8.6% of the total.

The current maximum working crude distillation capacity of the Philippines is 285,000 barrels per stream day, based on data from the DOE.

Due to the shortfall in domestic supply, the Philippines is an importer of finished products. Product imports during 2014 were at 68.1 million barrels, an increase of 9.7% from 62.1 million barrels in 2013. Imports of diesel were up 11.5%, gasoline by 2.1%, LPG by 2.8% and fuel oil by 81.6%. However, imports of kerosene/Avturbo dropped by 12.0%.

In 2014, petroleum products demand grew by 6.0% to 124.5 million barrels form 117.5 million barrels in 2013. The chart below shows the demand mix for the 2014.

Philippine Demand Breakdown by Product (2014)

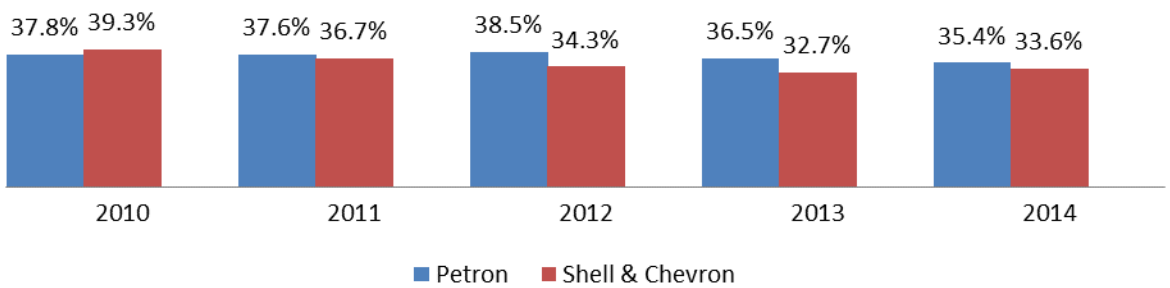


Source: Philippine Department of Energy

Petroleum product exports from the Philippines have not been historically significant. In 2014, exports were up by 10.2% from 8.6 million barrels in 2013 to 9.5 million barrels. The largest components of the export mix for 2014 were condensate (46.4%), naphtha (17.7%), fuel oil (17.0%), mixed xylene (7.3%), toluene (3.8%), pygas (2.9%), propylene (2.0%), benzene (1.8%), and reformate (1.2%). Oil refiners accounted for 50.7% of the total export mix while exports by Shell Philippines Exploration B.V., Liquigaz, and Petronas accounted for the remainder, according to the DOE.

Petron has historically maintained a leading market share in the Philippine oil industry, with an overall market share of 35.4% as of December 2014 in terms of sales volume pursuant to Petron estimates, based on its internal assumptions and calculations and industry data from the DOE. The chart below provides market share data for the Philippine oil industry for the periods indicated.

Philippine Petroleum Product Sales Market Share (2010 –2014)



Source: Philippine Department of Energy

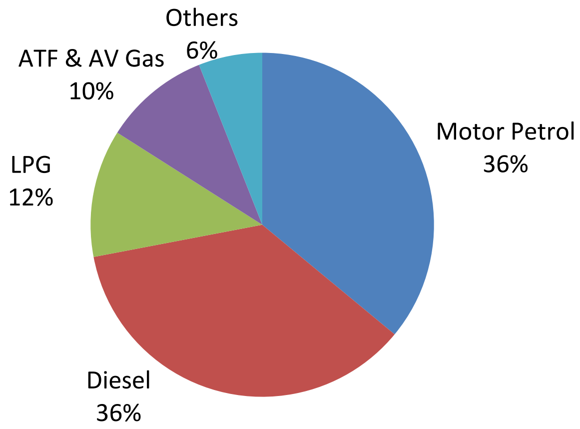
Malaysia Oil Market

Malaysia is one of the largest producers of oil and gas in Southeast Asia. According to the 2014 BP Statistical Review of World Energy, Malaysia had proven oil reserves of 3.7 billion barrels and proven gas reserves of 1.1 trillion cubic meters in 2013. The natural gas production of the country grew by 3.9%, to 69.1 billion cubic metres in 2013. The majority of crude oil in Malaysia comes from offshore fields, predominantly in the Malaya basin. The benchmark crude oil of Malaysia is the Tapis Blend, which is categorized as light and sweet.

The oil and gas and energy sectors are the largest contributors to the national gross domestic product of Malaysia. Petronas is the integrated national oil and gas of Malaysia and is the exclusive holder of ownership rights to all oil and gas exploration and production projects. Petronas is also responsible for all licensing procedures in Malaysia.

According to the Malaysia Energy Statistics Handbook 2014, the final consumption of petroleum products in Malaysia grew by 3.0%, to 24,634,000 tons of oil equivalent in 2012. Motor petrol accounted for the largest consumption at 36.2%, followed by diesel at 35.5%, LPG at 11.7%, and ATF & AV gas at 10.2%. In terms of a regional breakdown, Peninsular Malaysia accounted for nearly 80.0% of petroleum product sales, with Sabah and Sarawak accounting for the remaining 20.0% in 2012, according to the 2012 National Energy Balance by the Suruhanjaya Tenaga (Energy Commission of Malaysia).

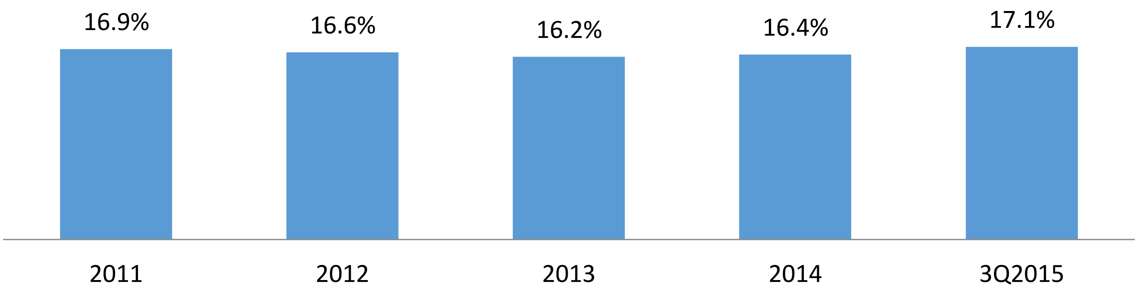
Breakdown of Consumption of Petroleum Products in Malaysia (2012)



Source: Malaysia Energy Information Hub

The Malaysian oil industry is dominated by Petronas and Shell, followed by Petron. In the retail segment, Petron had a market share of 17.1% as of September 30, 2015 pursuant to Petron estimates based on its internal assumptions and industry data from Fahrenheit Research. The following table shows the historical retail market share for Malaysian operations of Petron, which was acquired in March 2012.

Petron Malaysia / ExxonMobil Malaysia Historical Retail Market Share (2011 – 3Q 2015)



Source: Petron estimates based on Petron information and data from Metrix Research

Over the last decade, Malaysia has been a net importer of gasoline, with imports mainly from Singapore. It has also been a net importer of diesel and fuel oil. Conversely, Malaysia has been a net exporter of LPG, naphtha and jet fuel/kerosene. Exports have predominantly been to countries in Asia, particularly India, Japan, Singapore, South Korea and Thailand.

Global Petrochemical Market

Petrochemical Products

Petrochemicals are chemical products derived from petroleum or other hydrocarbons. Primary petrochemicals include olefins and aromatics. Olefins are unsaturated molecules of carbon and hydrogen that appear as short chains of between two (2) and four (4) carbons in length, while aromatics contain a six (6) carbon ring structure. Olefins and aromatics form the basis of a range of materials, including adhesives and solvents, and olefins form the basis for polymers, which are used, among other things, in plastics, fibers, resins and lubricants. Descriptions of certain petrochemicals are set forth below, of which propylene is an olefin while benzene, toluene and xylene are aromatics.

(1) Propylene is the feedstock for the production of polypropylene, which is used to manufacture items such as food packaging plastics, car bumpers, computer housings, appliance parts and fibers.

(2) Benzene is used to produce numerous compounds, such as styrene, phenol, cyclohexane, alkylbenzenes, and chlorobenzenes, which are used to produce plastics, pharmaceuticals, pesticides and other chemicals. It is also used as a solvent for paints and natural rubber.

(3) Toluene is used as a solvent in paints, inks, adhesives and cleaning agents, and in chemical extractions. It is also used in the chemical synthesis of benzene, urethane foams and other organic chemicals and in the production of pharmaceuticals, dyes, and cosmetic nail products.

(4) Xylene is used to make polyester fibers, packaging materials, bottles and films.

Refining – Petrochemical Integration

Key factors affecting petrochemical companies include access to feedstock, the cost of feedstock, proximity to demand centers, technological advances and access to talent. In particular, the integration of petrochemical operations with refineries has been a way for companies to secure access to feedstock and also to capture more value from the product streams of the refinery. This gives some flexibility in whether to maximize production of petroleum products or petrochemicals, depending on market requirements and the refinery's configuration. In addition, the integration of petrochemical facilities with refineries can provide economies of scale from the use of shared facilities and infrastructure, other overhead costs, as well as a sales channel for the products, which are used as feedstocks for petrochemical processes.

Petrochemical Outlook

The petrochemicals industry has historically been cyclical and has usually coincided with the business cycles of global and regional economies. Changes in supply and demand and resulting utilization levels are key factors that affect profitability. Periods of low industry profitability typically alternate with high profitability and result in periods of over- and under-investment. The long lead times for the construction of new facilities can result in capacity additions coinciding with, and subsequently exacerbating, weakening market conditions.

Petrochemicals demand from Asian countries is expected to be a significant contributor to overall global growth over the next few years. China and India are expected to be among the key countries contributing to this growth, driven by the manufacturing sector and the broader economy. In particular, the per capita consumption of products such as polyethylene and polypropylene in these countries is considerably lower than for instance in Europe. There have been new capacity additions in Asia-Pacific, with further facilities being built and planned. Nevertheless, in the medium term, countries in the region are generally expected to remain net importers of feedstock and petrochemical products.

Depots, terminals and airport installation in the Philippines

Through its network of approximately 2,200 retail service stations in the Philippines as of September 30, 2015, Petron sells gasoline, diesel, kerosene, and auto-LPG (in some stations) to motorists and to the public transport sector. Petron also sells its LPG brands *Gasul* and *Fiesta Gas* to households and other consumers through its extensive dealership network.

Petron also currently manufactures lubricants and greases through its blending plant in Pandacan in the Philippines, and these products are sold through service stations and sales centers of Petron. Petron owns and operates a fuel additives blending plant in the Subic Bay Freeport Zone in the Philippines, which has a tolling agreement with Innospec, Limited ("Innospec"), a global fuel additives supplier. Regional customers of Innospec and own requirements of Petron are served from the output of the Subic plant.

In recent years, Petron has also diversified into petrochemicals, adding a mixed xylene recovery unit to the Limay Refinery complex in 2000 and a propylene recovery unit in 2008. Its benzene-toluene extraction unit became operational in May 2009. In March 2010, Petron acquired a 40.0% stake in Petrochemical Asia (HK) Ltd. (PAHL), which owns Philippine Polypropylene Inc. (PPI) through a wholly owned subsidiary Robinson International Holdings Ltd. (RIHL). As of December 31, 2014, Petron had increased its stake in PAHL to 45.85%. PPI operated a polypropylene plant 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 the polypropylene business of PPI and took over the operations of the polypropylene plant in order to enhance the overall efficiency of its petrochemical operations.

On March 30, 2012, Petron completed its acquisition of the integrated downstream oil business of ExxonMobil in Malaysia. With this acquisition, Petron has extended its portfolio of oil refining and marketing businesses outside the Philippines. 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 low-sulfur waxy residue ("LSWR"). As of September 30, 2015, Petron had 10 product terminals, and a network of more 560 retail service stations in Malaysia.

The products of Petron are primarily sold to customers in the Philippines and Malaysia, and Petron also exports various petroleum products and petrochemical feedstocks, including LSWR, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region. Revenues of Petron from these export sales amounted to ₱26.7 billion, or 9.6% of total sales, as of September 30, 2015.

Competitive Strengths

Petron believes that its principal competitive strengths include the following:

Leader in the Philippine downstream oil sector

With an overall market share of approximately 35.4% of the Philippine oil market for the year ended December 31, 2014 in terms of sales volume pursuant to Petron estimates based on the industry data from the DOE, Petron believes it is the leader in the Philippine oil industry. In the lubricants and greases market segment, Petron enjoys a strong second (2nd) position in terms of market share based on sales volumes of the three (3) major oil companies.

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.

Petron has the most extensive distribution network in the Philippines, which allows it to operate and serve its customers across the Philippines. This distribution network includes more than 30 depots, terminals, and airport installations that reach most key points in the Philippines. Given the challenges of distribution across the Philippine archipelago, this capability plays a significant role in securing the leading position of Petron 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. The strong participation of Petron 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, 2015, Petron had approximately 2,200 service stations nationwide, more than any other market participant, and intends to grow this number to serve the increased production from RMP-2. Petron believes that it is also the leader in the LPG segment with more than 1,100 branch stores. Industrial sales of Petron cover approximately 1,100 direct industrial accounts as of September 30, 2015.

Established position in the Malaysian downstream oil sector

Petron has acquired an established position in the Malaysian downstream oil sector through its acquisition of the downstream oil business of ExxonMobil 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.

JBC Energy estimates that the Malaysian market will continue to grow annually by approximately 2.6%, at its current market size of approximately 700,000 barrels per day, or more than double the size of the Philippine market. Pursuant to Petron estimates based on its internal assumptions and industry data from Farenheit Research, Petron had a 17.1% market share of the Malaysian retail segment as of September 30, 2015.

The network of service stations and distribution infrastructure of Petron in Malaysia also facilitates the capture of a growing share of the market. The network of Petron in Malaysia includes more than 560 service stations, 261 convenience stores and 10 product terminals. Following the acquisition of the downstream oil business of Petron in Malaysia in March 2012, Petron rebranded ExxonMobil Esso-branded service stations to the *Petron* brand to increase the awareness of the *Petron* brand in Malaysia. Since March 31, 2015, all of the 550 Esso-branded service stations acquired had been rebranded. Concurrent with the rebranding, Petron launched a comprehensive refurbishment initiative with the goal of creating a convenient one-stop service experience for customers. This refurbishment initiative included upgrading the service stations with a modern look, brighter lights and more efficient display of products and services. Petron also has presence in the aviation segment with a 20.0% ownership of a multi-product pipeline to Kuala Lumpur International Airport ("KLIA"). Pursuant to Petron estimates based on its internal assumptions and calculation and industry data from Fahrenheit Research, as of September 30, 2015, Petron has 12.7% market share in terms of sales volume in the LPG segment in Malaysia.

The retail and certain selected transportation sectors in Malaysia operate under a regulated market pursuant to the automatic pricing mechanism ("APM"), which 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. This regulated environment provides stability to the Malaysian operations of Petron in such sectors.

Well-positioned for the production of high margin products

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.

Petron embarked on the RMP-2 project to upgrade the Limay Refinery. The RMP-2, which was completed in the fourth quarter of 2014, was a US$2 billion investment project designed to enable the Limay Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products, and increase production of petrochemical feedstock. Currently, the RMP-2 is undergoing stabilization and optimization. The completion of RMP-2 has made Petron the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standard fuels. The upgraded production capability already improved current refinery utilization rate to more than 80.0% compared to pre-RMP-2 operating levels of approximately 55.0% utilization rate. Subsequently, utilization rate is expected to improve to more than 90.0%.

Differentiated service experience driving retail volumes

The network of service stations of Petron in the Philippines and Malaysia offers differentiated and comprehensive services to customers. Beyond just a petroleum station, the service station of Petron provides a one-stop service experience to travelers 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. Most recently in Malaysia, Petron rebranded all ExxonMobil Esso-branded service stations to the *Petron* brand and refurbished the stations. Approximately 261 out of the more than 560 Petron service stations in Malaysia have convenience stores. Petron has also partnered with the Royal Malaysia Police to set up a "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 the unique needs of the customers. 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. As of September 30, 2015, more than 3.2 million Petron Value Cards had been issued in the Philippines and approximately 2.4 million Petron Miles Privilege Cards had been issued in Malaysia.

Operations in markets with favorable industry dynamics

Petron operates as an integrated oil refining and marketing Petron in the Philippines and Malaysia, both of which Petron believes have favorable oil industry dynamics. According to the IMF, the Philippines and Malaysia are expected to experience strong gross domestic product growth at the rate of 6.3% and 4.5% respectively, for 2016, significantly higher than the global average expected gross domestic product growth of 3.6% during the same period. Given the high correlation between gross domestic product per capita and fuel consumption, and relatively low fuel consumption in the Philippines and Malaysia compared to other developed countries, there is significant fuel consumption growth potential in these fast-growing markets. The strong potential demand for refined petroleum products is expected to lead to a further supply shortfall, given that 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, which give it a significant competitive advantage over its competitors.

Business Strategies

The principal strategies of Petron are set out below:

Further increase market share in the downstream oil markets in the Philippines and Malaysia

Petron intends to leverage on its leading market position and extensive retail and distribution network in the Philippines to maximize its revenue potential.

Petron believes that the downstream oil markets in the Philippines are still underserved and intends to grow its market position by: (i) increasing its retail outlets for fuels and LPG to capture industry growth and improve market penetration; (ii) introducing new products with differentiated and superior qualities; (iii) developing and expanding its logistical facilities, including the addition of new aviation facilities in tourist destinations; (iv) building more LPG re-filling and auto-LPG facilities; (v) 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 (vi) intensifying its dealer and sales personnel training to support the retail business of Petron.

In Malaysia, Petron intends to increase its market share by expanding its existing retail network of more than 560 retail service stations. Petron plans to strategically increase its presence in urban areas with high traffic 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 promoting enhanced loyalty programs in both countries.

Focus on 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 aims to increase revenues and reduce costs and place the utilization of the Limay Refinery, processing and energy efficiency at par with more advanced refineries in the region and improve its competitiveness. Petron expects to continue investing in upgrading its production capability.

Continue investments to increase operational efficiency and profitability and to increase market reach

Petron has undertaken a number of strategic projects such as the RMP-2 aimed at increasing operational efficiency and profitability, and increasing market reach through the expansion of the 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) optimizing its crude oil mix to produce more profitable products from the existing refining configuration 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) enhancing receiving and storage 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 with the spot market; and (v) reducing distribution costs through rationalization of the depot 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 network, products and services of SMC.

Pursue selective synergistic acquisitions

In addition to organic growth, Petron will continue to consider selective opportunities to expand both within and outside the Philippines through strategic acquisitions consistent with its focus on the Philippine market and creation of operational synergies. For example, in March 2010, Petron acquired a 40.0% stake in PAHL, which owned PPI through a wholly owned subsidiary RIHL. As of December 31, 2014, Petron had increased its stake in PAHL to 45.85%. PPI operates a polypropylene plant located in Mariveles, Bataan in the Philippines, which has the capacity to produce 160,000 metric tons of polypropylene resin annually. The polypropylene plant is owned by RIHL. On July 1, 2014, Petron acquired the polypropylene business of PPI and took over the operations of the polypropylene plant in order to enhance the overall efficiency of its petrochemical operations. In addition, on March 30, 2012, Petron completed its acquisition of the downstream business of ExxonMobil in Malaysia, extending its portfolio of oil refining and marketing businesses outside the Philippines.

Selected financial data for the business of Petron are set forth in the table below for the periods indicated:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Sales	424,795	463,638	482,535	379,540	278,295
Gross profit	17,997	23,159	19,435	15,665	23,256
Gross profit margin[(1)]	4.2%	5.0%	4.0%	4.1%	8.4%
EBITDA[(2)]	13,908	17,217	15,260	12,233	16,281
EBITDA margin[(3)]	3.3%	3.7%	3.2%	3.2%	5.9%
Net income before tax	2,239	6,942	3,813	4,032	6,999
Net income before tax margin[(4)]	0.5%	1.5%	0.8%	1.1%	2.5%

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

Production Facilities

Philippines

Petron owns and operates a petroleum refinery complex located in Limay, Bataan, which has a crude distillation capacity of 180,000 barrels per day. Its facilities include three (3) crude oil distillation units, two (2) vacuum pipestill units, a delayed coker unit, two (2) catalytic cracking units, a continuous catalyst regeneration reformer unit, a semi-regenerative reformer unit, three (3) naphtha hydro-treaters, two (2) kerosene merox treaters, three (3) gas oil hydro-treater units, a coker gas oil hydro-treater, four (4) LPG treaters, two (2) selective hydro-processing units, an isomerization unit, benzene, toluene, and mixed xylene recovery units, two (2) propylene recovery units, four (4) sulfur recovery units, a hydrogen production unit, a hydrogen recovery facility, a nitrogen plant, two (2) waste water treatment facilities, four (4) sour water facilities, a desalination facility, eight (8) steam generators, five (5) turbo generators, four (4) cooling towers, a reverse osmosis unit, flare facilities, bulk asphalt receiving facilities, six (6) crude oil storage tanks, as well as a number of refined petroleum products storage tanks. It has its own piers and other berthing facilities, one (1) of which can accommodate very large crude oil carriers, or VLCCs.

The Limay Refinery is capable of producing a broad range of petroleum products such as LPG, gasoline, jet fuel, diesel and fuel oil. In 2000, the Limay Refinery expanded into petrochemical production with the commercial operation of its mixed-xylene plant. The Limay Refinery started producing propylene in 2008 with the commissioning of its propylene recovery unit, which has a demonstrated capacity of 130,000 tons per year of polymer-grade propylene. The benzene-toluene extraction became operational in May 2009 and is designed to produce benzene and toluene at respective capacities of 24,000 and 158,000 tons per year.

In early 2011, PPI, in which Petron had a 45.9% indirect interest as of December 31, 2014, commissioned a rehabilitated polypropylene plant in Mariveles, Bataan, to capture the incremental margin from converting the propylene production into polypropylene in the Limay Refinery. 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 propylene production operation of the Limay Refinery.

Petron also completed a fuel additive blending plant in the Subic Freeport Zone in July 2008 with a capacity of 12,000 MT a year, which serves the fuel additive requirements of a leading global additives manufacturer in the Asia-Pacific region and operates as the exclusive blender for customers of that manufacturer.

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. Its facilities include a crude oil distillation unit, a naphtha hydrotreating unit with a processing capacity of 26,000 barrels per day, one (1) semi-regeneration reformer unit~~s~~ with a processing capacity of 11,000 barrels per day and a kerosene hydrotreating unit with a processing capacity of 12,000 barrels per day. The Port Dickson Refinery has waste water treatment facilities, a boiler, a cooling water plant, flare and safety relieving facilities, six (6) crude oil storage tanks with a total capacity of 1.1 million barrels, 20 refined petroleum products storage tanks with a total capacity of one (1) million barrels and five (5) spheres for LPG storage with a total capacity of 33,000 barrels

The Port Dickson Refinery produces a range of 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 (predominantly light low-sulfur crude oil) is received at the Port Dickson Refinery by means of a single buoy mooring and crude pipeline facilities that are jointly owned with Shell through an unincorporated joint venture. The single buoy mooring is operated by Shell, and Petron shares the operating costs equally with Shell. Petron also pays a levy of one-third of the overhead and administrative charges incurred by Shell in connection with the operation of the single buoy mooring.

Refining Process and Quality Improvement Initiatives

Limay Refinery

Petron has been implementing various programs and initiatives to achieve key performance indices on reliability, efficiency and safety in its refinery. These programs include the Reliability Availability and Maintenance program and the profitability improvement program which were developed and implemented in coordination with KBC Market Services, an international consultant. The Reliability Availability and Maintenance program resulted in improved operational availability and lower maintenance cost through higher plant reliability and a longer turnaround cycle of four to five (4 - 5) years from the previous two (2) years. The Profitability Improvement Program likewise significantly improved White Products recovery, particularly diesel and LPG.

The Continuous Improvement Program of Petron was one of the finalists for the 2008 Peoples' Program of the Year award sponsored by the People Management Association of the Philippines. In 2009, the Limay Refinery achieved its Integrated Management System ("IMS") certification issued by TÜV-SÜD-PSB, an internationally recognized certification and inspection body. The IMS is an integration of three (3) management systems: (i) Quality ISO 9001:2000, (ii) Environment ISO 14001:2004, and (iii) 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; and hazard and injury free working environment, and environmentally friendly operations.

Port Dickson Refinery

The Port Dickson Refinery utilizes various management systems in support of its operations. These systems include the Safety Management System, the Loss Prevention System, the Reliability Management System and additional plant optimization initiatives for improved plant efficiency. The Port Dickson Refinery adopted the loss prevention system to prevent or reduce losses and incidents using behavior-based tools and other safety management techniques. The Safety Management System provides a structured approach to the management of risks related to safety, security, health and the environment and compliance with local regulations and laws. As of September 2015, the Port Dickson Refinery had accumulated more than 13 consecutive years without any lost-time injury for employees or contractors and had received numerous awards from the Malaysian Society for Occupational Safety and Health, as well as the Prime Minister Hibiscus Award for good environmental performance.To increase plant reliability, the Port Dickson Refinery adopted the reliability management system, 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, flaring, oil loss and energy conservation through the use of advanced process computer control and an integrated plant information system.

Operating Sites

Petron owns the largest integrated petroleum refinery complex in the Philippines located in Limay, Bataan and the Port Dickson Refinery complex in Port Dickson, Negeri Sembilan, Malaysia. It operates a network of terminals and depots as bulk storage and distribution points throughout the Philippines, as well as LPG plants in its Pasig terminal, San Fernando depot and Legaspi depot and a number of terminals in Malaysia. Its airport installations serve the fuel requirements of the airline industry and other aviation accounts. Petron moves its products, mainly by sea, to 30 depots, terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network in the Philippines. The network comprises eleven depots and terminals in Luzon, eight (8) in Visayas and seven (7) in Mindanao, as well as two (2) airport installations in Luzon, one (1) in Visayas and one (1) in Mindanao. Depots and 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.

The Malaysian distribution operation network of Petron includes ten product terminals located in strategic locations across Peninsular and East Malaysia. The Port Dickson terminal is located at the Port Dickson Refinery, and the other terminals are located near major fuel product market areas.

Petron entered into commercial leases with the Philippine National Oil Company (“PNOC”) for parcels of land occupied by its Limay Refinery, depots, terminals and certain of its service stations. The lease agreements include upward escalation adjustment of the annual rental rates. In 2009, Petron renewed its lease with PNOC (through New Ventures Realty Corporation (“NVRC”)) for the continued use of the Limay Refinery land for 30 years starting January 1, 2010 (renewable upon agreement of the parties for another 25 years). Petron is currently in negotiations with PNOC for the early renewal of leases for 22 terminals, depots and sales offices and 68 service stations that will expire in August 2018. Expenses relating to the PNOC leases paid directly to PNOC and through NVRC amounted to ₱162.5 million as of September 30, 2015.

Petron leases 104 parcels of land for service stations and depots from NVRC. Total expenses relating to the NVRC leases amounted to ₱205.8 million in as of September 30, 2015.

Petron also leases land for its service stations from third parties. As of September 30, 2015, there were 480 leases covering service stations: 362 in Luzon, 60 in the Visayas and 58 in Mindanao. Expenses under these leases amounted to ₱390 million as of September 30, 2015.

In Malaysia, the land on which the retail service stations of Petron are based is either owned by Petron or leased from third parties. As of September 30, 2015, Petron owned 161 parcels of land for service stations and leased 274 additional parcels of land for its service stations from third parties. Rentals for the service station lands are either paid in advance and amortized over the lease period, or paid over the lease period pursuant to the relevant schedules. Payments under these leases amounted to approximately MYR8.6 million as of September 30, 2015. The Port Dickson Refinery occupies a 579.34 acre site. Petron holds freehold title to 403.8 acres of this site and leases the remaining 175.54 acres pursuant to a 99-year lease that expires in 2060.

Raw Materials and Utilities

Philippine Operations

The main raw material used in the production process of Petron is crude oil. Petron acquires crude oil from foreign sources, through a combination of short-term purchase contracts and spot market purchases. In 2014, Petron purchased approximately 86.0% of its total crude oil requirements for the Limay Refinery from Saudi Aramco. Petron has a term contract with Saudi Aramco entered into in 2008 to purchase various Saudi Aramco crude. The pricing and payment mechanisms under this contract are consistent with the standard practice of Saudi Aramco 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 and 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, 2015, neither Petron nor Saudi Aramco had terminated the contract.

The Limay Refinery is capable of processing various types of crude oil. The crude oil optimization strategy of Petron includes the utilization of various types of crude oil that are not confined to light and sweet crude, which the Limay Refinery has been processing predominantly, 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 also has a term contract for the supply of group I base oils (SN500, SN150 and BS150). This contract is renewable annually and pricing is calculated using a formula based on an international standard price benchmark for base oils. The group I base oils are the main feedstock of Petron for the production of automotive, industrial and marine lubricants. Petron is the sole buyer of all the ethanol produced by San Carlos Bioenergy, Inc. pursuant to a supply contract based on a formula price. The balance of the ethanol requirements of Petron is sourced from other local ethanol producers and imports. Ethanol is blended with gasoline to comply with the current requirement under the Philippine Biofuels Act of 2006 that all premium gasoline sold by every oil company in the Philippines should contain 10% bioethanol starting August 6, 2011.

Petron also imports fuel oil, aviation gas, asphalt and some gasoline blending components. These imports are necessary as Petron does not produce fuel oil, 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.

The principal utilities required for the production process of Petron are water, electricity and steam. Deep wells (ground water) and sea water provide the water requirements of the Limay Refinery. The electricity and steam requirements of the Limay Refinery are sourced from the existing turbo and steam generators of the Limay Refinery as well as from the Limay Co-generation power plant in Limay, Bataan, which was sold by Petron in 2013 to SMC Powergen Inc., a subsidiary of SMC and an affiliate of Petron. Petron has a 25-year power supply agreement with SMC Powergen Inc., commencing in 2013 under which the SMC Powergen Power Plant supplies power to the Limay Refinery. Petron also has a 10-year supply agreement with SMC Powergen Inc. commencing in 2013 under which it supplies diesel, condensate and petcoke to the SMC Powergen Power Plant. Based on the estimates for the year 2015, approximately 76% of the power requirements and 47% of the steam requirements of the Limay Refinery will be purchased from SMC Powergen Power Plant, which was commissioned in the second quarter of 2014.

Malaysian Operations

The main raw material used in the production process of the Port Dickson Refinery is crude oil and condensate. Petron acquires crude oil for the Port Dickson Refinery from local sources, through a combination of term purchase contracts and spot purchases. Petron has a long-term supply contract for Tapis crude oil and Terangganu condensate with EMEPMI, supplemented by other spot crude purchases. Usually approximately 70.0% of the crude and condensate volume processed in the Port Dickson Refinery is sourced from EMEPMI, while the balance of approximately 30.0% is sourced from 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. The crude oil optimization strategy of Petron includes diversification in processing different types of sweet crude oil.

Petron buys Palm Oil Methyl Ester ("POME") from Malaysian government-approved local suppliers for its biodiesel mix. POME 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 5.0% POME and 95.0% diesel. Subsequently, the Malaysian Biofuel Industry Act of 2007 changed the mix to 7.0% POME and 93.0% diesel. In October 2014, the Malaysian government announced the implementation of the B7 programme (blending of 7.0% POME and 93.0% diesel) for the subsidized sector. The B7 programme is being implemented in stages throughout Malaysia. The first stage, which covers Peninsular Malaysia, was completed in the fourth quarter of 2014. The second stage, which covers the states of Sabah, Sarawak and Wilayah Persekutuan Labuan, is ongoing.

Petron also imports LPG, diesel, gasoline and some gasoline blending components. These imports, which Petron purchases through term purchase contracts and in the spot market, are necessary as Petron does not produce enough refined products to meet domestic demand in Malaysia. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline and some gasoline blending components, or Saudi CP for LPG.

The clean water requirements of the Port Dickson Refinery 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. The electricity requirements of the Port Dickson Refinery are purchased from Tenaga Nasional Berhad, the Malaysian national electricity provider, while the fired and waste heat boilers of the Port Dickson Refinery supply the steam requirements of the process units of the refinery.

Sales and Marketing

Philippines

In the retail market, Petron has approximately 2,200 retail service stations throughout the Philippines as of September 30, 2015, representing about 30.0% of the total gasoline station count in the country of around 7,300 according to internal estimates. Most of these stations are located in Luzon, where demand is heaviest.

Petron employs two (2) types of service station operating structures in the Philippines, namely: company-owned-dealer-operated service stations ("CODO") and dealer-owned-dealer-operated service stations ("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 Company specifications, lease the service station equipment from Petron, and operate the DODOs. As of September 30, 2015, approximately 28.0% of retail service stations of Petron in the Philippines were CODOs, and approximately 72.0% were DODOs.

Petron believes it is the leading supplier to the Philippine industrial sector, which includes major manufacturing, aviation, marine, and power accounts. Petron had more than 1,100 direct industrial account customers as of September 30, 2015. Petron is the leading market participant in the Philippine LPG market in terms of market share. It had set up more than 1,100 branch stores through its *Gasul* and *Fiesta Gas* LPG dealers as of September 30, 2015. It has also gained market share in the field of alternative fuels through its auto-LPG program, *Petron Xtend*, and auto-LPG facilities have been installed in 15 service stations throughout the Philippines. In 2011, Petron started supplying the LPG requirements of SMC plants. Petron commissioned eleven mini-refilling plants in the Philippines as of September 30, 2015 to broaden the reach of the LPG products of Petron and make them accessible to more Filipinos.

To augment lubricants and greases sales, Petron had a network of approximately 26 Car Care Centers, 18 Lube Centers, and 15 Motorcycle Centers throughout the Philippines as of September 30, 2015. Petron capitalizes on its expanded LPG-outlet network by utilizing its LPG branch stores as outlets for 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 its customers, and is able to tap the customer base of Innospec in Asia to broaden the market for its own lubricant brands.

In line with its efforts to increase its presence in the regional market, Petron also exports various petroleum products and petrochemical feedstocks, including high-sulfur fuel oil, 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.

Malaysia

The fuels marketing business of Petron in Malaysia is divided into retail business and commercial sales.

The retail business markets fuel and other retail products through a dealer network comprising more than 560 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, 2015, approximately 73.0% and 27.0% of more than 560 retail service stations of Petron were CODOs and DODOs, respectively, 261 of the service station sites had convenience stores, which generate non-fuel revenues and improve traffic in the service stations.

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 has rebranded its loyalty card programs to Petron Miles Privilege Cards, as part of the general rebranding of its Malaysian retail service station network. As of September 30, 2015, loyalty card program of Petron in Malaysia comprised more than 2.4 million cardholders.

The commercial sales of Petron are divided into three (3) segments: industrial and wholesale fuels, LPG and lubricants and specialties.

The industrial and wholesale segment sells diesel and gasoline to unbranded mini-stations and power plants, as well as to the manufacturing, plantation, transportation and construction sectors. 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 spot prices. The pricing of these sales is determined through a formula that is linked to international industry benchmarks. Sales of diesel to the manufacturing, 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 subject to a quota system in Malaysia, the sales of Petron to these transportation sectors are subject to volume limits. Sales in excess of the approved quotas are not entitled to subsidies. Accordingly, when the government-mandated prices are lower than the built-up costs of Petron, Petron has to manage its sales of subsidized products to ensure that such sales do not exceed the amount permitted under the approved quotas.

Petron is also one of the three (3) major jet fuel suppliers in Malaysia and sells jet fuel at the KLIA and KLIA2 pursuant to a throughput agreement with the Kuala Lumpur Aviation Fuelling System, the operator of the storage and hydrant facility of KLIA.

Petron markets LPG in 12-kg and 14-kg cylinders for domestic use through redistribution centers, stockists and dealers. LPG redistribution centers 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 centers and stockists for onward sale to domestic consumers. Sales of LPG in 14-kg cylinders or less are subsidized under the APM.

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. The wide range of automotive lubricants of Petron is sold through its 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.

Capital Expenditures

Over the past several years, Petron has made significant capital expenditures to maintain and upgrade the Limay Refinery, to expand its retail service station network in the Philippines, and to upgrade its service stations in Malaysia. In 2012, 2013 and 2014, the capital expenditures of Petron were ₱41.8 billion, ₱51.6 billion and ₱11.9 billion, respectively, which were primarily related to expenditures for RMP-2. Petron has historically funded its capital expenditures with net cash flows provided by operating activities and debt or equity financing.

The estimated consolidated capital expenditures of Petron for 2015 is approximately ₱9.1 billion, primarily to fund the expansion of its retail service station network in the Philippines and Malaysia and upgrading of its logistics network. These capital expenditures are expected to be funded by a combination of net cash flows provided by operating activities and external financing sources. The anticipated capital expenditures of Petron are based on the estimates of management and have not been appraised by an independent organization. In addition, the capital expenditures of Petron may change as projects are reviewed or contracts entered into and are subject to various factors, including market conditions, the general state of the Philippine and Malaysia economies, the operating performance and cash flow of Petron and the ability of Petron to obtain financing on terms satisfactory to management.

Competition

Philippines

In the Philippines, Petron operates in a deregulated business environment, selling its products to individual, commercial and industrial customers. The enactment of the Downstream Oil Industry Deregulation Law in 1998 effectively removed the rate-setting function of the Philippine government through what was then known as the Energy Regulatory Board, leaving price-setting to market forces. It also opened the oil industry to free competition. The Philippine oil industry is dominated by three (3) major Philippine oil companies: Petron, Shell and Chevron (formerly Caltex Philippines), which, based on industry data from the DOE for the year ended December 31, 2014, together constitute 68.9% of the Philippine market based on sales volume. Deregulation has seen the entry of more than 100 other industry market participants, rendering the petroleum business more competitive. Petron and Shell operate the only 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), LPG, industrial and lube sectors, through its network of service stations, terminals and bulk plants, 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. The small market participants also continue to grow, with station count increasing from 695 in 2001 to approximately 3,300 stations as of September 30, 2015. 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 LPG importers in the Philippines increased from three (3), prior to deregulation, to about six (6), with new entrants having more flexible and bigger import receiving capacities. Although Petron is the biggest participant in the Philippine LPG sector, one of the new participants in this sector, *Liquigaz*, has amassed a substantial market share of 28.1% as of the first half of, pursuant to estimates of Petron based on its internal assumptions, calculations and industry data from the DOE. 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 over 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 is the leader in the Philippine oil industry, with an overall market share of 35.4% of the Philippine oil market, as of December 2014, ahead of the other two (2) major Philippine oil companies, in terms of sales volume pursuant to estimates of Petron based on its internal assumptions, calculations and industry data from the DOE. Approximately 100 smaller oil market participants, which started operations after the deregulation of the oil industry in 1998, account for the remaining market share. Petron is the leader in terms of sales volume in the retail, industrial and LPG market segments and a strong second, as compared with the market shares of the two (2) other major Philippine oil companies, in the lubricants and greases market segment estimates of Petron based on its internal assumptions, calculations and industry data from the DOE for the year ended December 2014.

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, the Malaysian operations of Petron compete with four (4) other main participants in the market, namely: subsidiaries of Petroliam Nasional Berhad ("Petronas"), Royal Dutch Shell plc, Caltex and BHPetrol. Of these competitors, Petronas and Shell also have refinery operations in Malaysia. The Malaysian government regulates the pricing of gasoline and diesel at retail service stations through the APM.

Petron continues to face intense competition in the Malaysian 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.

The aviation market is also very competitive, as the three (3) local refiners offload their jet fuel through the mulit-product pipeline 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, the APM applies only for sales of LPG in domestic cylinders. Competition in this market is driven by supply reliability, dealer network efficiency and customer service. Petron, being well established, remains competitive in this segment.

The lubricants and specialties market is dominated by the traditional global brands as well as Petronas. Petron has the advantage of an extensive 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.

Health, Safety and Environmental Matters

Philippines

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 and Engineering Services Group ("CTESG") responsible for formulating, implementing and enforcing the employee health, safety and environment policies of Petron, as well as ensuring compliance with applicable laws and regulations in the Philippines.

The Safety division of the CTESG ("CTESG-Safety") ensures, among others, compliance by the contractors of Petron and service station dealers to government-mandated safety standards and regulations, and conducts training programs designed to raise awareness on process safety, oil spill response, fire-fighting and basic safety procedures for employees, contractors and service station dealers. CTESG-Safety has put together a Corporate Safety Management System, the main reference of all safety management systems in Petron based mainly on OHSAS 18001. The Limay Refinery and some of the depots, terminals and service stations have implemented third party certified management systems. The Limay Refinery is certified by TUV-SUD-PSB, an internationally recognized certification and inspection body, for its Integrated Management System ("IMS") on Quality (ISO 9001), Environment (ISO 14001), and Safety (OHSAS 18001). As of September 30, 2015, 29 of the depots and terminals of Petron had been IMS-certified. In addition, all of the depots and terminals of Petron have Philippine Coast Guard-approved Oil Spill Response Contingency Plans.

CTESG-Safety also conducts multi-functional audits of the Limay Refinery as well as of the facilities, depots, service stations, industrial accounts of Petron in the Philippines and the facilities of Petron in Malaysia to ensure compliance with Petron safety standards and government laws and regulations on safety.

The Environment division of the CTESG ("CTESG-Environment") provides among others, technical assistance and consultancy services on areas of environmental management and conducts environmental awareness training for the employees, contractors and service station dealers of Petron. It is also responsible for formulating and implementing an Environmental Management System ("EMS") based on ISO 14001-2001 standards in the Limay Refinery and the depots, terminals and service stations of Petron. As of September 30, 2015, 22 Petron service stations have been certified compliant to the EMS, a first in the

Philippine oil industry.

As part of its advocacy functions, the CTESG is also actively involved in public stakeholder consultations during the drafting of Philippine safety and environmental protection standards, laws and regulations. Petron also actively participates in the implementation of government programs, such as the Kapatiran WISE-TAV program (also known as the Big Brother/Small Brother Project) of the Philippine Department of Labor and Employment, as well as in local and regional oil spill response consortiums such as Oil Spill Response Ltd.

Malaysia

Petron is subject to local safety, health and environmental regulation in Malaysia, including (i) the Factories and Machinery Act 1967 (Act 139) and the Occupational Safety and Health Act 1994 (Act 514), as amended, and regulations, rules and orders made pursuant thereto, which are administered by the Malaysian Department of Occupational Safety and Health, (ii) the Environmental Quality Act 1974 (Act 127), as amended, and regulations, rules and orders made pursuant thereto, which are administered by the Malaysian Department of Environment and (iii) the Fire Services Act 1988 (Act 341), as amended, and regulations made pursuant thereto, which are administered by the Malaysian Fire and Rescue Department.

CTESG-Safety and CTESG-Environment conduct multi-functional audits of the Port Dickson Refinery and the other facilities, depots and service stations in Malaysia every two (2) years. Petron also has a corporate safety, security, health and environment ("SSHE") department that is responsible for formulating, implementing and enforcing the safety, health and environmental policies of Petron in Malaysia, coordinating and conducting relevant programs to raise the level of awareness of Safety, SSHE and ensuring compliance with applicable laws and regulations. For more than ten years, operating facilities, plants and other businesses of Petron in Malaysia have attained good SSHE performance without any lost-time injury for employees or contractors. The Port Dickson Refinery and distribution terminals at Peninsular and East Malaysia have been awarded annual recognition of their safety and health performance by the Malaysian Society for Occupational Safety and Health ("MSOSH") for more than five (5) consecutive years. The Port Dickson Refinery has been awarded the Prime Minister Hibiscus Award for good environmental performance. As prescribed by local regulatory requirements, the Port Dickson Refinery and the Malaysian terminals of Petron have established emergency response and oil spill contingency plans. For more than 15 years, the Malaysian operations of Petron have actively participated in local and regional oil spill response consortiums, such as the Petroleum Industries of Malaysia Mutual-Aid Group and Oil Spill Response Ltd.

Petron strives to achieve and sustain good SSHE performance in Malaysia through the implementation of various key programs including (i) the safety, health and environmental management system, which provides a structured approach to the management of work-related personal and operational risks, including the selection, recruitment and training of employees and contractors, equipment design, maintenance and servicing, as well as to ensuring regulatory compliance, and (ii) the loss prevention system, which was adopted to prevent or reduce losses and incidents using behavior-based tools and other safety management techniques.

Research and Development

To enhance productivity, efficiency, reduce costs and strengthen the competitiveness of Petron, it engages in research and development to identify improvements that can be made to its production processes. The development, reformulation and testing of new products are continuing business activities of Petron.

As part of its product innovation strategy, Petron produces Blaze 100 Euro 4, the first premium plus gasoline in the Philippines that meets the Euro IV standard, a globally accepted European emission standard for vehicles. Petron Blaze 100 Euro 4 meets the fuel quality requirements of Euro 4 technology vehicles. It also exceeds the Euro-4PH fuel specifications for sulfur and benzene content of the Philippine National Standards. Petron Blaze 100 Euro 4 was launched two-and-a-half years ahead of the Philippine government mandate for this global fuel standard which is set to take effect by 2016. Petron spent approximately ₱1.0 million to develop the product.

Petron utilizes appropriate technology in developing new fuel and lubricant products for performance, cost-effectiveness and environment-friendliness. Petron also enhances the quality level of its existing products.

Petron also voluntarily applied its products for Original Equipment Manufacturers ("OEMs") certification and accreditation. This year, the American Petroleum Institute ("API") Engine Oil Licensing and Certification System has renewed license of Petron to use the API Service Certification mark for its Ultron Race and Rev-X All Terrain engine oil products. Similarly, approval certifications were granted by original engine manufacturers, including Mercedes Benz and BMW, allowing the use of these products in their engines.

Petron is committed to continuing to develop high quality and innovative products to meet the requirements of the market. Petron believes that its continued success will be affected 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 ₱50 million in 2012, ₱60 million in 2013, and ₱66 million in 2014.

As of September 30, 2015, 28 of the employees of Petron were employed in the Research and Development Group. The Research and Development Group has long-standing partnerships with leading global technology providers in fuels, lubricants and grease products. It is engaged in the customization of products at globally competitive quality and performance. It also manages a petroleum and allied products testing facility that meets global standards. 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 and its subsidiaries. SMC Global Power is a leader in the Philippine power generation industry in terms of installed capacity. Incorporated in 2008, SMC Global Power, through its subsidiaries, has successfully bid for the privatization of electrical power generation plants in the Philippines, which are administered pursuant to IPPA agreements with PSALM, an entity owned by the Philippine government. In addition, SPI, a subsidiary of SMC Global Power, acquired the Limay Co-generation Plant from Petron. SMC Global Power entered into a joint venture with K-Water for the acquisition of the Angat Hydroelectric Power Plant through PVE. SMC Global Power is also embarking on greenfield power plants along with strategic ventures into related businesses to vertically integrate its power assets.

SMC Global Power currently has interests in a portfolio of five (5) operating power plants, three (3) of which are under IPPA agreements, with a combined capacity of 2,903 MW including the entire capacity of AHEPP.

As of December 31, 2014, SMC Global Power had total assets of ₱313,749 million and revenues in 2014 of ₱84,294 million. As of September 30, 2015, SMC Global Power had total assets of ₱332,327 million and revenues of ₱58,997.

Philippine Power Generation Industry

The current framework of the Philippine power sector is governed by the EPIRA, which was enacted in 2001. The Philippine power industry, following the passage of the EPIRA, is undergoing major reforms. The EPIRA aims to improve the power sector in the Philippines by ensuring and accelerating total electrification of the country and providing a fairer and competitive landscape for power sector participants, resulting in a more efficient and transparent industry. Among other things, the EPIRA mandated:

- The creation of the ERC, which is an independent quasi-judicial regulatory body under the EPIRA;
- Separation of the industry into generation, transmission, distribution and supply sectors;
- Break-up and privatization of generation assets of the NPC, and the privatization of transmission assets by PSALM;
- Removal of the monopoly distribution utilities held on retailing electricity within their franchise areas to allow retail competition; and
- Retail competition and open access to distribution networks.

The open access regime commenced on June 26, 2013 in Luzon and Visayas. Under the open access regime, all electricity end-users with an average monthly peak demand of 1MW for the past 12 months, as certified by the ERC, will have the right to choose their own electricity suppliers.

The Philippine power industry has evolved into a competitive market with clear separation among the generation, transmission, distribution and supply sectors. Under the EPIRA, cross ownership is not allowed in the transmission sector with the generation and distribution sector.

According to the DOE, peak demand is expected to grow significantly within the next 5 years in line with the growth of the Philippine economy. SMC believes this increase in demand will lead to opportunities for new power plants to enter the market. SMC is confident of its abilities to capture this growth through power supply agreements while leveraging on arbitrage and spot sale opportunities in the WESM.

IPPA Framework

PSALM, together with NPC, has ECAs or other PPAs in place with various IPPs in the Philippines. Under the EPIRA, PSALM is required to achieve, through open and competitive bidding, the transfer of the management and control of at least 70.0% of the total energy output of the IPP plants under contract with NPC to IPPAs pursuant to IPPA agreements, such as those held by SMC Global Power.

Under the IPPA agreements, the IPPAs have the right to sell the electricity generated by such IPP in the WESM and also by entering into PSCs with specific customers. For SMEC in particular, it will, manage procurement of the fuel supply to the associated IPP. IPPAs pay PSALM a fixed monthly payment and a variable energy or generation fee the amount of which depends on the dispatch and performance of the IPP. IPPA agreements provide relief for IPPAs such as SMC Global Power in the event the associated IPPs are unable to dispatch for a certain period of time not due to the fault of the IPPA. PSALM/NPC in turn pays the IPPs capacity and energy payments based on their respective ECAs or PPAs. In some cases, IPPA agreements provide the IPPA with the right to acquire ownership of the power plants or generation facilities from the IPPs at the end of the terms of the ECAs or PPAs. Under the IPPA agreements of SMC Global Power, it has 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 May 2028 or on some earlier date due to certain events such as changes in applicable law or non-performance by the IPP.

The IPPA framework is intended to provide successful bidders a way to enter and trade in the WESM for a minimal capital outlay without the expense of building a new power plant and for IPPAs to enjoy the benefits normally attributed to owners of power generation plants, including controlling the fuel and its dispatch, trading, and contracting of the power plant, without maintenance costs or capital upgrades, which remain with the IPPs. Also, many of the risks of owning a power plant are explicitly managed through the contract. If there is an extended outage at the power generation plants, for example, there is up to a 50.0% discount on the monthly fees, and PSALM bears the force majeure risks to the power generation plants. The IPPA framework also permits an IPPA to assume the role of NPC as an offtaker of power generated by IPPs without affecting NPCs underlying agreements with the IPP.

IPPAs are permitted to trade in the WESM, and are also free to enter into bilateral contracts and seek other markets for the balance of their contracted capacities and energy, as well as enter into other forms of financial hedging instruments, if desired, to manage their position in and exposure to the market.

Competitive Strengths

Leading power company in the Philippines with a strong platform for future growth

SMC Global Power is one of the largest power companies in the Philippines based on the contracted capacity of its existing power portfolio. SMC Global Power is the IPPA for the Sual, Ilijan and San Roque power plants, which have a combined contracted capacity attributable to SMC Global Power of 2,545 MW. In addition, SMC Global Power also owns the 140 MW Limay Co-generation Plant and the 218 MW Angat Hydroelectric Power Plant through a joint venture. This brings total combined capacity of SMC Global Power to 2,903 MW. Based on the total installed capacity, SMC Global Power has a 16.5% market share of the power supply of the national grid of the Philippines and a 22.2% market share of the Luzon grid, in each case as of September 2015, based on industry data from the ERC.

The IPPA business model provides SMC Global Power with the benefit of having the right to sell electricity generated by the IPPs without having to incur large upfront capital expenditures for the power plant construction, or to bear any related development risk or ongoing maintenance capital expenditures. As an IPPA, SMC Global Power determines the amount of power to be produced by the IPP for supply to the customers of the IPPA and sells the power generated by the IPPs either pursuant to 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.

The experience of SMC Global Power in acting as an IPPA, and its history of power plant ownership and operation, have enabled SMC Global Power to gain significant expertise in the Philippine power generation industry. With this experience, SMC Global Power believes 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 of selected NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework.

In addition, capitalizing on changes in the Philippine regulatory structure, SMC Global Power holds a retail electricity supplier license from the ERC, which allows SMC Global Power to enter into offtake agreements with customers with power requirements of at least 1 MW. With further developments in open access and retail competition, SMC Global Power may be able to enter into offtake agreements with retail customers with requirements of as low as 750 KW by June 2016. SMC Global Power also maintains its coal concession assets which may serve as a back-up fuel source for its greenfield coal plants.

Flexible and diversified power portfolio

SMC Global Power manages the capacity of a balanced portfolio of some of the newest and largest power plants in the Philippines, which benefit from diversified fuel sources. The IPPA power plants have an average age of 14 years. In terms of installed capacity in the Philippines, the Sual Power Plant is the largest coal-fired power plant, the Ilijan Power Plant is the largest natural gas-fired power plant and the San Roque Power Plant is one of the largest and newest hydro-electric power plants.

The existing power portfolio of SMC Global Power consists of (i) IPPAs, covering natural gas-fired (Ilijan Power Plant), which represents 41% of the capacity of SMC Global Power, coal-fired (Sual Power Plant), which represents 34% of the capacity of SMC Global Power, and hydro-powered (San Roque Power Plant), which represents 12% of the capacity of SMC Global Power, (ii) the Limay Cogeneration Plant, which represents 5% of the capacity of SMC Global Power, and (iii) the AHEPP which represents 8% of the capacity of SMC Global Power, as of September 30, 2015. Power generated by the Sual and Ilijan Power Plants is primarily used as baseload supply, and sold to customers pursuant to 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. Power generated by the Limay Cogeneration Plant is 100% sold to Petron Corporation.

SMC Global Power believes that the size and diversity of the fuel supply of its power portfolio reduces its and the exposure 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 fuel cost competitiveness. SMC Global Power can enter into bilateral contracts and to 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. The plants owned by SMC Global Power are also maintained by world-class partners such as Petron Corporation for the Limay Co-generation power plant, and the joint venture partner for the Angat power plant, K-Water. 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 believes that these well-established relationships provide a strong foundation for its existing business and a platform of potential partners for future expansion.

Well-positioned to capitalize on the anticipated growth of the Philippine electricity market

Over the period 2015 to 2020, growth in demand for electricity in the Philippines is expected to continue along with the robust growth rate of the Philippines' gross domestic product ("GDP"), according to the DOE.

Construction of new power plants on average takes a minimum of three years. Given the gap between projected electricity demand and committed power projects, SMC Global Power expects that there will be inadequate reserves, and in certain periods, a power supply shortage, in the short to 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 existing power supply deficiencies. The latter is exacerbated by an existing base of old Government-owned power plants, which are nearing the end of their useful life, as well as a large base of seasonal power supply such as the hydropower plants particularly in Mindanao. To meet this need, SMC Global Power has a defined roadmap to increase capacity by developing greenfield power projects and bidding for selected NPC-owned power generation plants that are scheduled for privatization.

SMC Global Power is already in the construction stage for two (2) greenfield power projects with 450 MW of generation capacity expected to be commissioned in 2016 and another 300 MW in 2017. In addition, 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 increased electricity demand.

Strong parent company support

The principal shareholder of SMC Global Power, San Miguel Corporation, is a highly diversified conglomerate with over 125 years of operations in the Philippines. San Miguel Corporation today has become one of the largest companies listed on the SEC in terms of market capitalization. In addition to its power business, San Miguel Corporation has investments in vital industries that support the economic development of the country, including the food and beverage, packaging, fuel and oil, infrastructure, telecommunications, banking and property businesses.

Under the stewardship of San Miguel Corporation, 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 San Miguel Corporation, its in-depth understanding of the Philippine economy and expertise of its senior managers to identify and capitalize on growth opportunities. Given the substantial electricity requirements of the other businesses of San Miguel Corporation, SMC Global Power believes that it can benefit from potential revenue and operational synergies with the San Miguel Corporation group of companies, and that the San Miguel Corporation group potentially provides a large captive energy demand base for SMC Global Power.

Business Strategies

Optimize the generation capacity of the IPPA power plants, leverage operational synergies and expand its customer base

SMC Global Power intends to actively manage its revenues and optimize the operations of its IPPA power plants and the Limay Co-generation Plant in order to achieve a balanced mix of power sales through (i) contractual arrangements with electricity customers including distribution utilities, industrial and commercial customers, (ii) sales through the WESM and (iii) capturing the contestable market through retail electricity supply. This approach provides SMC Global Power with the certainty and predictability of sales from contracted volumes while being able to capture sales upside from the WESM. The objective of SMC Global Power is to supply customers based on the least cost while dispatching according to the requirements of the IPPA agreements, and to sell available excess energy of the IPPA power plants through the WESM at favorable prices. As such, SMC Global Power seeks to maximize profitability through effective fuel cost risk management and dispatch decisions. Specifically, in case of high prices in the WESM, SMC Global Power can sell the excess output of the IPPA 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 from either the Sual 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 manages the generation capacity of each IPPA power plant centrally through its executive management team, who regularly reviews performance reports prepared by its onsite team and members of senior management. SMC Global Power leverages on the strengths of its world class IPP partners in operating its existing power portfolio by monitoring their adherence to international best practices.

SMC Global Power intends to continue working efficiently and profitably by building on synergies across its operations based on economies of scale as it increasingly works with a growing network of suppliers, IPPs, customers, other business partners and industry regulators, and continue to gain substantial leverage and bargaining power.

As one of the largest power companies in the Philippines with a diversified power portfolio, SMC Global Power believes that it can offer its customers a more stable supply of electricity, as well as the capacity to supply their additional electricity requirements. SMC Global Power has closed long-term contracts of five (5) years or more with majority of its offtakers. As the regime of open access matures, and with the construction of new capacities in strategic locations of Limay, Bataan and Malita, Davao, SMC Global Power is expected to secure and enhance its position as a leader in the power business by allowing it to diversify its customer base and expand its geographical reach to customers in the Visayas and Mindanao.

Grow its power portfolio through development and acquisition of power generation capacity

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 by bidding for selected NPC-owned power generation plants that are scheduled for privatization as asset sale or under the IPPA framework.

SMC Global Power seeks to capitalize on regulatory and infrastructure developments by scheduling the construction of greenfield power projects to coincide with the growth in electricity demand, as well as the maturation of the regime of the RCOA and the full implementation of WESM in Mindanao. In addition, SMC Global Power seeks to maintain the cost competitiveness of these new projects by investing in new technologies able to utilize cost-effective fuel sources, and strategically locating them near load centers.

SMC Global Power is considering the expansion of its power portfolio of new capacity nationwide through greenfield power projects over the next ten years, depending on market demand. SMC Global Power plans to carry out the expansion of its power portfolio in phases across Luzon, Visayas and Mindanao. SMC Global Power plans to use clean coal technology and renewable technologies such as hydro for its planned and contemplated greenfield power projects.

Pursue vertical integration

SMC Global Power intends to continue to expand into businesses along the power sector value chain that complement its current power generation business. SMC Global Power has obtained a retail electricity supplier license through SMELC to expand its customer base and diversify its sales. With the open access and retail competition fully implemented, the electricity supplier license allows SMC Global Power to enter into retail electricity supply agreements with customers with power requirements of at least 1 MW, a threshold which will be lowered to 750KW by June 2016. In addition, SMC Global Power has invested in distribution assets, namely OEDC and APEC which creates a competitive advantage through integrated generation and distribution operations. On the other hand, SMC Global Power has acquired coal exploration, development and production rights over approximately 17,000 hectares of land in Mindanao. If SMC Global Power is able to develop these assets and commence mining operations successfully, SMC Global Power through SMEC, expects these assets could potentially provide a source of coal fuel supply for its greenfield power projects. SMC Global Power believes that such vertical integration will provide it with a competitive advantage in the Philippine power market.

SMC Global Power receives income from the sale of electricity by its administered and owned power generation facilities to a variety of customers, including Meralco, electric cooperatives, industrial customers and the WESM. In 2014, SMC Global Power delivered an offtake volume of 17,001 giga-watt hours (“GWh”) of electricity.

The table below summarizes certain operating metrics in respect of the three (3) power generation facilities owned or administered by SMC Global Power as of end 2014:

Project	Placed in service	Date SMC Global Power assumed operations	Operator	Installed capacity (MW)	Fuel	Energy Generation (GWh) (1)		Capacity Utilization (%)		Availability Factor (%)	
						2013	2014	2013	2014	2013	2014
Sual	10/25/1999	11/6/2009	TeaMSual Corp	2 x 500(1)	Coal	6,427	6,536	73.27	74.62	88.47	89.51
Ilijan	6/5/ 2002	6/26/ 2010	KEILCO	2 x 600	Gas	8,147	8,576	77.50	81.58	94.05	97.61
San Roque	5/1/ 2003	1/26/2010	SRPC	345	Hydro-electric	785	695	25.97	22.99	97.31	99.59
Limay Cogen	Phase 1 – 5/6/2013 Phase 2 – 5/19/2014	9/23/2013	Petron Corporation	4x35 MW	Coal/ Petcoke	104(2)	537	67.95(2)	51.23	99.59(2)	86.52
Angat	Main 1 & 2 and Aux 1 & 2 – 1967 Main 3 & 4 – 1968 Aux 3 – 1978	November 2014	Angat Hydro Power Corporation	218 MW	Hydro-electric	not applicable	50(3)	not applicable	17.54(3)	not applicable	62.26(3)

Notes:

(1) Installed capacity is 2 x 647 MW but contracted capacity of the Sual Power Plant is 2 x 500 MW

(2) Covers the period September – December 2013 only

(3) Covers the period November – December 2014 only

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:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Sales	74,656	74,044	84,294	65,516	58,997
Gross profit	18,811	22,090	28,807	23,189	22,694
Gross profit margin(1)	25.2%	29.8%	34.2%	35.4%	38.5%
EBITDA(2)	24,981	27,684	32,943	26,872	24,242
EBITDA margin(3)	33.5%	37.4%	39.1%	41.0%	41.1%
Net income before tax	15,648	3,206	13,323	11,601	3,432
Net income before tax margin(4)	21.0%	4.3%	15.8%	17.7%	5.8%

Notes:

(1) Calculated as gross profit divided by revenues.

(2) EBITDA is calculated as (a) net income plus (b) income tax expense (benefit), finance cost (less interest income) and depreciation, in each case (c) foreign exchange gain (loss), gain on sale of investment for the trailing 12 month period.

(3) Calculated as EBITDA divided by revenues.

(4) Calculated as net income before income tax divided by revenues.

In addition, SMC Global Power, through its subsidiaries, Daguma, Bonanza Energy, and Sultan Energy, owns various coal properties that it may develop as a hedge against international coal price fluctuations.

SMC Global Power, through its subsidiaries, derives a substantial portion of its revenues from PSCs with established offtakers. According to DOE Power Statistics, peak demand has increased from 9.1 GW in 2008 to 11.8 GW in 2014 at a CAGR of 4.6%. On the other hand, installed capacity has only grown at a CAGR of 2.3%. This has resulted in a narrowing reserve margin, peak demand is projected to grow at an annual average rate of 4.8%, 8.0% & 8.0% for Luzon, Visayas & Mindanao respectively. SMC Global Power expects these factors, and the scarcity of new capacity expected to come online over the next few years, to support dispatch for it as well as other existing generators.

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The following table sets forth offtake arrangement pursuant to PSCs for the Sual, Ilijan, and Limay Co-generation Power Plants. PSCs are contracts pursuant to which IPPAs sell electricity to offtakers. The San Roque Power Plant is a peaking plant primarily serving the WESM or as back-up power for affiliates. The AHEPP is also a peaking plant and exclusively served the WESM for 2014.

Plant	Customer	% of Total Volume Sold as of September 2015	Expiration of PSCs
Sual	MERALCO	35.19%	26-Dec-19 extendable to October 2024
	Mpower	9.30%	26-Dec-19
	CEDC	6.81%	26-Dec-19
	PAMPANGA II ELECTRIC COOPERATIVE, INC.	5.35%	25-Dec-19
	CENTRAL PANGASINAN ELECTRIC COOPERATIVE	4.75%	25-Dec-23
	ISABELA I ELECTRIC COOPERATIVE	4.20%	25-Dec-18
	ILOCOS NORTE ELECTRIC COOPERATIVE	3.61%	25-Dec-16
	SMELC	3.02%	Upon termination
	OLONGAPO ELECTRICITY DISTRIBUTION COMPANY INC.	2.81%	25-Dec-23
	HANJIN - SUBIC ENERZONE	2.58%	25-Feb-18
	PAMPANGA III ELECTRIC COOPERATIVE, INC.	2.41%	25-Dec-18
	NORTHERN CEMENT CORPORATION	2.10%	25-Dec-16
	QUEZON 1 ELECTRIC COOPERATIVE	1.87%	25-Dec-16
	ALBAY ELECTRIC COOPERATIVE	1.81%	25-Jan-15
	NUEVA VIZCAYA ELECTRIC COOPERATIVE	1.71%	25-Dec-16
	CAMARINES SUR III ELECTRIC COOPERATIVE	1.36%	25-Dec-16
	STRONGHOLD STEEL CORPORATION	1.13%	25-Dec-16
	PENINSULA ELECTRIC COOPERATIVE	1.09%	COD - Limay
	TARLAC 2 ELECTRIC COOPERATIVE	0.93%	COD - Limay
	CAMARINES SUR I ELECTRIC COOPERATIVE	0.79%	25-Dec-16
	SUBIC ENERZONE CORPORATION	0.72%	25-Dec-22
	LEPANTO CONSOLIDATED MINING CORPORATION	0.66%	25-Dec-15
	TARLAC 1 ELECTRIC COOPERATIVE	0.62%	COD - Limay
	CAMARINES SUR IV ELECTRIC COOPERATIVE	0.58%	25-Dec-18
	GLOBAL ENERGY SUPPLY CORPORATION	0.47%	25-Feb-15
	ILOCOS SUR ELECTRIC COOPERATIVE INC	0.46%	COD - Limay
	REAL STEEL CORPORATION	0.39%	COD-Limay
	PHILIPPINE POLYPROPYLENE INC.	0.37%	25-Dec-18
	CONSORT LAND INC.	0.35%	25-Dec-16
	PANGASINAN III ELECTRIC COOPERATIVE	0.34%	COD - Limay
	NPC ALLIANCE CORPORATION	0.24%	25-Dec-15
	QUANTA PAPER CORPORATION	0.23%	25-Dec-16
	SAN MIGUEL MILLS INC.	0.20%	COD - Limay
	DISTILERIA BAGO, INC	0.17%	25-Dec-18
	CAMARINES SUR II ELECTRIC COOPERATIVE	0.15%	COD - Limay
	FORMOSA Ceramic Tiles Mfg. Corp.	0.14%	25-Dec-18
	CENTRAL AZUCARERA DE TARLAC	0.13%	25-Apr-15
	OLIVER ENTERPRISES	0.12%	25-Dec-18
	SAN MIGUEL BREWERY, INC. (BACOLOD)	0.12%	25-Dec-18
	CENTERRA CORPORATION	0.09%	25-Dec-17

	BASA AIR BASE	0.07%	25-Dec-16
	GRAND PLANTERS INTERNATIONAL, INC.	0.07%	26-Dec-16
	ALINDECO	0.07%	25-Dec-15
	NORTH LUZON TRITON MALL, INC.	0.07%	26-Dec-15
	CONSERBEST ICE PLANT	0.07%	25-Dec-15
	RGS ICE PLANT	0.06%	25-Dec-18
	PHIL. RADIO EDUCATION & INFORMATION CENTER, INC.	0.04%	25-Dec-16
	PUYAT FLOORING PRODUCTS, INC.	0.03%	25-Dec-16
	ORICA PHILIPPINES, INC.	0.03%	25-Jul-14
	INGASCO INCORPORATED	0.03%	25-Feb-16
	RJS COMMODITIES	0.02%	25-Dec-15
	GALLINTINA INDUSTRIA CORPORACION	0.02%	25-Dec-18
	KABAYAN ICE PLANT	0.01%	25-Dec-18
	ITOGON-SUYOC RESOURCES, INC.	0.01%	25-Dec-15
	COASTAL BAY	0.01%	25-Dec-15
	GALLINTINA INDUSTRIA CORPORACION	0.002%	25-Dec-18
Ilijan	MERALCO	90.68%	25-Dec-19 extendable to June 2022
	MANILA ELECTRIC COMPANY (SUNPOWER LAGUNA)	0.16%	25-Dec-19
	MANILA ELECTRIC COMPANY (SUNPOWER BATANGAS)	2.48%	25-Dec-19
	MPower	6.69%	25-Dec-22
Limay Cogen	PETRON CORPORATION	100%	22-Sep-38

Extent of Power Generation Facilities

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, and 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-Tranfer (“BOT”) scheme that expires on October 24, 2024. In 2007, Team Sual Corporation, which is a joint venture between Marubeni Corporation and Tokyo Electric Power Corporation, acquired the Sual Power Plant.

SMC Global Power, through its subsidiary SMEC, assumed administration of the Sual Power Plant on November 6, 2009 in accordance with an IPPA agreement (the “Sual IPPA agreement”) entered into with PSALM. PSALM remains responsible under an ECA to remunerate the IPP of the Sual Power Plant for the electricity it produces.

Sual IPPA

PSALM, NPC and SMC Global Power entered into the Sual IPPA agreement pursuant to which SMC Global Power has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the Sual Power Plant, while SMC Global Power must supply and deliver, at its own cost, fuel required by the power plant and necessary for it to generate the electricity required to be produced under the ECA between NPC and TeaM Energy (the “Sual ECA”). In addition, SMC Global Power must pay fixed monthly payments comprising both a U.S. Dollar and Peso component. These fixed monthly payments are reduced proportionately in any month that the Sual Power Plant is unable to produce power for an entire day (a “Non-Delivering Day”) (for reasons not attributable to SMC Global Power) and reduced further in proportion to the number of Non-Delivering Days in that month. In addition, SMC Global Power must pay monthly energy fees that are periodically adjusted for inflation and that consist of (i) a fixed base energy rate for power actually delivered by the Sual Power Plant comprising both a U.S. Dollar and Peso component plus (ii) a variable energy rate for power actually delivered by the Sual Power Plant, in U.S. Dollars only, that takes into account the cost and efficiency of fuel supplied to the Sual Power Plant as well as the efficiency (unit heat rate) of the Sual Power Plant, which is measured on an annual basis.

The Sual IPPA agreement also requires SMC Global Power to maintain a performance bond in favor of PSALM equivalent to US$58.0 million, and perform the obligations of NPC in its PSCs, including the obligation to procure electricity at its own cost to meet deficiencies, in cases where the Sual Power Plant is unable to supply the contracted power.

Under the Sual IPPA agreement, SMEC has the right to acquire the Sual Power Plant in October 2024, which is the end of the cooperation period between NPC and TeaM Energy under the Sual ECA, or on some earlier date due to certain events such as changes in law or non-performance by TeaM Energy under the Sual ECA.

Power Offtakers

The PSCs of the Sual Power Plant have two (2) main types – Energy and Capacity. Energy contracts require its offtakers to take or pay for, within a contract year, a mutually agreed minimum energy quantity ("MEQ"). Such offtakers may exceed the MEQ, but any consumption in excess of the MEQ may be subject to additional charge.

Pricing is based on a reasonable return over the cost structure of SMEC and benchmarked to the basic rates of NPC, or on prevailing WESM prices. The components for pricing comprise a Basic Energy Rate ("BER"), also on a time-of-use basis, and a monthly Basic Energy Rate Adjustment ("BERA") charge. The components for the BERA include adjustments for fuel, foreign exchange and inflation costs. Any changes to the level of the BER and/or the BERA are not affected by movements in the charges of NPC.

Capacity contracts require its offtakers to pay a monthly fixed capacity charge based on their contract capacity. This ensures recovery of all fixed costs along with the applicable margin. In addition to this, they pay variable energy charges based on their actual utilization of their contract capacity. Pricing is based on the fixed and variable costs of SMEC. Similar to BERA, components are adjusted based on movements in fuel, foreign exchange, and inflation costs.

Fuel Supply

SMEC entered into a coal supply agreement with KPC. This ensures coal supply from 2015–2024, subject to the extension of the Coal Contract of Work in 2021. Under the coal supply agreement, KPC is required to supply a total of 24 panamax shipments per annum, each comprising 65,000 metric tons. Pricing under the coal supply agreement is subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by KPC.

Operations and Maintenance

Under the Sual ECA, TeaM Energy is required, at its own cost, to be responsible for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Sual Power Plant until the date of transfer (to NPC or to SMC Global Power, as the case may be), and shall use its best endeavors to ensure that during such period the Sual Power Plant is in good operating condition and capable of converting fuel supplied by SMC Global Power 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 KEPCO Ilijan Corporation pursuant to a 20-year ECA with NPC under a BOT scheme that expires on June 4, 2022. NPC supplies natural gas to the Ilijan Power Plant from the Malampaya field in Palawan. The Ilijan Power Plant consists of two (2) blocks with a rated capacity of 600 MW each. The power plant can also run on diesel oil stored on site.

On April 16, 2010, SMC successfully bid for the appointment to be the IPPA for the Ilijan Power Plant and received a notice of award on May 5, 2010. On June 10, 2010, SMC and South Premiere Power Corp. ("SPPC"), a wholly-owned subsidiary of SMC Global Power, 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, which assumed administration of the Ilijan Power Plant on June 26, 2010 in accordance with an IPPA agreement with PSALM ("Ilijan IPPA agreement").

Ilijan IPPA

PSALM, NPC and SMC Global Power (through SPPC) entered into the Ilijan IPPA agreement pursuant to which SMC Global Power has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the Ilijan Power Plant. SMC Global Power must pay fixed monthly payments comprising both a U.S. Dollar and Peso component. In addition, SMC Global Power 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. The "must pay" amount in a given month is the sum of: 80.0% of the statutory rate SMC Global Power charges Meralco for supplying electrical power under the offtake agreement between SMC Global Power and Meralco for the given month multiplied by a factor equal to the volume sold (the "T1 Volume"), where the T1 Volume cannot exceed the Must Pay Volume; and 80.0% of the price for the electrical power sold to WESM during the month, multiplied by a factor equal to the Must Pay Volume less the T1 Volume, where such factor may not be less than zero.

The variable amount of the monthly generation payment is payable for electricity sold in excess of the Must Pay Volume for that month and is calculated as a base rate plus an index based on the cost of natural gas, the U.S. Dollar/Peso exchange rate and the efficiency of the Ilijan Power Plant.

The Ilijan IPPA agreement also requires SMC Global Power to maintain a performance bond in favor of PSALM equivalent to US$60 million, and perform the obligations of NPC in its PSCs, including the obligation to procure electricity at its own cost to meet deficiencies, in cases where the Ilijan Power Plant is unable to supply the contracted power.

Under the Ilijan IPPA agreement, SMC Global Power has the right to acquire the Ilijan Power Plant in June 2022, which is the end of the cooperation period between NPC and KEPCO Ilijan Corporation under the ECA with KEPCO Ilijan Corporation, or on some earlier date due to certain events such as changes in law or non-performance by KEPCO Ilijan Corporation under the ECA.

Power Offtakers

The Ilijan Power Plant PSCs generally require its offtakers to take or pay for, within a contract year, a mutually agreed MEQ, and such offtakers would be allowed to exceed up to 20.0% of its MEQ. Any power taken in excess 20.0% of the MEQ is subject to a premium on the base tariff rate imposed by SMC Global Power.

For PSCs assigned by NPC to SMC Global Power in respect of the Ilijan Power Plant, the pricing structure is similar to that provided under the PSCs assigned by NPC to SMC Global Power in respect of the Sual Power Plant. Likewise, pricing for PSCs entered into by SMC Global Power with new offtakers on a bilateral basis for the Ilijan Power Plant (or with those offtakers under previously assigned PSCs which have expired), is based on the BER and the BERA structure.

Fuel Supply

NPC is responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant. Under a fuel supply and management agreement with Shell Exploration B.V. and Occidental Philippines, Inc., 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-in-diameter onshore pipeline running 15 km to the power plant.

Operations and Maintenance

KEPCO Ilijan Corporation currently owns and is responsible for the operations and maintenance of the Ilijan Power Plant for 20 years effective from June 5, 2002. KEPCO Ilijan Corporation is majority owned by KEPCO, with its partners, Mitsubishi Corporation and TeaM Energy. KEPCO Ilijan Corporation is a stock corporation incorporated in the Philippines, in accordance with the Corporation Code and the Foreign Investment Act of 1991 (the “FIA”).

Under the ECA for the Ilijan Power Plant, KEPCO Ilijan Corporation shall operate the Ilijan Power Plant in accordance with the operating criteria and guidelines provided therein, including output of 1,200 MW guaranteed net contracted capacity, base load operation, spinning reserve capability, a minimum stable load of not more than 30.0% of the unit rated generating capacity, and a ramp rate of not less than 5.0% of the rate unit generator capacity per minute.

San Roque Power Plant

The 345 MW San Roque multi-purpose hydroelectric 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 pursuant to a PPA with NPC under a BOT scheme.

The San Roque Power Plant utilizes the Agno River for power generation and irrigation and contributes to flood control and water quality improvement for the surrounding region, and comprises three (3) 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, the irrigation of approximately 34,450 hectares of agricultural land, storage of water that would otherwise flood the Pangasinan plains, and improvement of water quality of the Agno River which, otherwise, would pollute the downstream rivers.

On December 15, 2009, Stategic Power Dev. Corp. (“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 an IPPA agreement with PSALM (the “San Roque IPPA agreement”). PSALM remains responsible under a PPA to remunerate the IPP of the San Roque Power Plant for the electricity it produces.

San Roque IPPA

PSALM, NPC and SMC Global Power (through SPDC) entered into the San Roque IPPA agreement pursuant to which SMC Global Power 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, may be requested to obtain and maintain water rights necessary for the testing and operation of the power plant. SMC Global Power 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 PPA (the “San Roque PPA”) of NPC with San Roque Power Corporation (“SRPC”). In addition, SMC Global Power must pay fixed monthly payments comprising both a U.S. Dollar and Peso component. These fixed monthly payments are reduced when there is a Non-Delivering Day for reasons not attributable to SMC Global Power. In addition, SMC Global Power has energy fee payments of ₱1.30 per kWh.

The San Roque IPPA agreement also requires SMC Global Power to maintain a performance bond in favor of PSALM equivalent to US$20 million and perform the obligations of NPC in its PSCs, including the obligation to procure electricity at its own cost to meet deficiencies, in cases where the San Roque Power Plant is unable to supply the contracted power.

Under the San Roque IPPA agreement, SMC Global Power has the right to acquire the San Roque Power Plant in May 2028, which is the end of the cooperation period between NPC and SRPC under the San Roque PPA, or on some earlier date due to certain events such as changes in law or non-performance by SRPC under the San Roque PPA.

Power Offtakers

Since the San Roque Power Plant is a peaking plant, all of its output is traded on the WESM or sold as replacement power to its affiliates. SPDC has no PSC with any party except for its affiliates.

In addition to the WESM, San Roque provides necessary ancillary services to the grid to ensure supply stability. Further, San Roque uses its expertise as a hydro power generator to procure power from other hydro plants and supply affiliate, Albay Power and Energy Corp.

Water Rights

The generated output energy of the San Roque Power Plant is limited by the Irrigation Diversion Requirements set by the National Irrigation Administration. Water allocation is usually dictated by 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 particular 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. In general, the rule curve dictates the following:

- Water Level Above The Upper Rule Curve — All demands for water supply and irrigation are met and electricity can be generated at the full capacity of the turbine units. Excess inflow is discharged through the spillway. Water released through the spillway is controlled and regulated by the NPC Dam Office personnel.

- Between Upper And Lower Rule Curves — All demands for water supply and irrigation are satisfied. Generation of electricity is limited to the released water for water supply and irrigation. Further water releases for power generation are allowed provided that the auxiliary units are utilized first before main units.

- Water Level Below Lower Rule Curve — The remaining water in the reservoir is reserved for water supply and irrigation. Generation of electricity is limited to these water releases. No further water release for power generation is allowed.

Generally, the output energy of San Roque Power Plant is high during planting seasons which covers 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 SMC Global Power, 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 National Water Resources Board.

Operations and Maintenance

SRPC 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 and Kansai-Electric and is a stock corporation incorporated in the Philippines, in accordance with the Corporation Code and the FIA.

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 SMC Global Power, 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 PPA. The operating fee is the product of the contracted capacity for the contract year in kW, which is nominated annually, multiplied by ₱250 per kW per month. This fee is in addition to the capital recovery fee and covers the fixed operating and maintenance costs of the power structures and equipment.

Limay Co-generation Power Plant

The Limay Co-generation Plant is a 4 x 25 MW fuel-fired cogeneration power plant located in Barangay Lamao, Limay Bataan. Phase 1 (70 MW) of the Limay Co-generation Plant commenced commercial operations in May 6, 2013, while Phase 2 (70 MW) commenced commercial operations on May 19, 2014.

SMC Global Power, through its subsidiary SPI, acquired the Limay Co-generation Plant from Petron in September 2013. Petron remains responsible for the operation and maintenance of the Limay Co-generation Plant.

Petron has the right of first refusal in case of sale of the Limay Co-generation Plant.

Power Offtakers

The Limay Co-generation Plant has a net power contracted capacity of 140 MW and a steam generation capacity of 76 MW fully contracted to Petron under a 25-year PSA. The output of the Limay Co-generation Plant will supply the electricity and steam requirements of the Limay refinery of Petron including the increase in demand from the RMP-2.

Fuel Supply

The Limay Co-generation Plant was designed to operate on coal and/or petcoke. Petron is expected to supply petcoke as byproduct of RMP-2 operations. Currently, the Limay Co-generation is intended to use a mix of coal and petcoke from RMP-2.

Operations and Maintenance

Petron also serves as the operations and maintenance contractor for the Limay Co-generation Plant under a 25-year operations and maintenance contract. Under this contract, Petron has the responsibility to operate and maintain the Limay Co-generation Plant at par with the industry standards.

Angat Hydroelectric Power Plant

AHEPP is an operating hydroelectric power plant located at the Angat reservoir in San Lorenzo, Norzagaray, Bulacan approximately 58 km northeast of Metro Manila. Pursuant to EPIRA, the AHEPP was privatized through an Asset Purchase Agreement between PSALM and K-Water. The latter assigned its rights in favor of Angat Hydropower Corporation ("AHC"), a joint venture between PVEI and K-Water, the former being a subsidiary of SMC Global Power.

The AHEPP has a total electricity generating capacity of 218 MW, comprising of four (4) main units of 50 MW capacity each and three (3) auxiliary units of 6 MW capacity each. The Main Units were commissioned in 1967 (Main Units 1 and 2) and 1968 (Main Units 3 and 4). The Auxiliary Units were commissioned in 1967 (Auxiliary Units 1 and 2) and 1978 (Auxiliary Unit 3). Auxiliary Unit 3 was manufactured by Allis-Chalmer and Ebara and all the other units were manufactured by Toshiba Corporation of Japan. All units are run by the Francis type turbines, which is the most commonly used model in hydroelectric power generation.

Fuel Supply & Water Rights

The AHEPP utilizes water resources of the Angat reservoir, which in turn was formed by the Angat dam. The Angat reservoir is 35 km long and 3 km wide at its widest points, and has surface of 2,300 hectares and viable storage volume of 850 million cubic meters. The water discharged by the project is used for two (2) purposes:

- Water discharged through Auxiliary Units and through the spillway flows to the Ipo reservoir, whose water resources are used to supply 97.0% of the residential drinking water of Metro Manila.

- Water discharged through Main Units flows downstream to the Bustos reservoir, whose water resources are utilized for irrigation purposes.

Water rights surrounding the Project are co-owned and governed by the following government-owned entities, pursuant to the Water Code of the Philippines, Angat Reservoir Operation Rules issued and regulated by National Water Resources Board ("NWRB") as implemented by a Memorandum of Agreement on the Angat Water Protocol between Metropolitan Waterworks and Sewerage System ("MWSS"), National Irrigation Administration ("NIA"), AHC, PSALM, NPC and NWRB:

- MWSS, for domestic water supply to Metro Manila;

- Provincial Government of Bulacan, for water supply in the Bulacan Province;

- NIA, for irrigation diversion requirements.

- NPC, for power generation

Power Offtakers

AHC sells 100.0% of its generated capacity to the WESM at the prevalent spot price. The main units are being operated as peaking units. The strategy for the Main Units is to allocate daily water release during the peak hours. Auxiliary Units are being operated as base load units, as the water requirement from MWSS is continuous throughout the day, thus eliminating any discrete optionality to choose the hour of allocation.

AHC is exploring options to contract the capacity of its Auxiliary Units come 2016.

Operations & Maintenance

AHC will undertake the operation and maintenance of the project in-house. The O&M team consists of the incumbent local technical team who are operating the AHEPP for decades, supported by technical experts seconded from K-Water. AHC will enter 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 operation and maintenance requirements of AHC.

Related Coal Investments

SMC Global Power has acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao, which may provide a source of coal fuel supply for its planned and contemplated greenfield power projects. Such assets are in the exploratory stage. The mines of SMC Global Power are envisioned to provide back-up fuel supply for the two new greenfield projects under construction.

Investments in the Distribution Sector

SMC Global Power entered into a joint venture with Cagayan Electric Power & Light Co., Inc. ("CEPALCO") for the ownership and operation of the franchise area of the Public Utilities Department ("PUD") of Olongapo City through. OEDC. SMC Global Power has a 35.0% stake in this project. OEDC formally took over operations of the PUD on June 24, 2013.

SMC Global Power, through subsidiary APEC, is also the concessionaire of the electricity distribution franchise of ALECO. On February 26, 2014, APEC formally took over the operations of ALECO in line with its 25-year concession agreement.

Competition

SMC Global Power is the largest independent power producer administrator in the country, with a 16.5% share of the power supply of the national grid, and a 22.2% market share of the Luzon grid as of September 2015. Its main competitors are the Lopez Group and the Aboitiz Group. The Lopez Group holds significant interests in First Gen Corporation and Energy Development Corporation, while the Aboitiz Group holds interests in Aboitiz Power Corporation and Hedcor, Inc, among others.

With the Philippine government committed to privatizing the majority of PSALM-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. Multinationals that currently operate in the Philippines and could potentially compete against SMC Global Power in the privatization process include KEPCO, Marubeni, Tokyo Electric Power Corporation, AES Corporation and Sumitomo, among others. Several of these competitors have greater financial resources, and have more extensive operational experience and other capabilities than SMC Global Power, giving them the ability to respond to operational, technological, financial and other challenges more quickly than SMC Global Power. SMC Global Power will also 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 of the energy supply in the Philippines 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.

The implementation of several EPIRA policies, namely creating the regime of Open Access and Retail Competition, expands the market a generator or power supplier can tap while promoting competition. The law allows for the creation of Retail Electricity Supplier ("RES"), who are to compete for the large industrial users of 1 MW and above or those certified as contestable by the ERC. SMC Global Power is a holder of an

RES License through its subisidiary, San Miguel Electric Corp. ("SMELC"). The intent of this regime is to remove the supply sourcing monopoly of the franchised Distribution Utility/Electric Cooperative. As this regime matures, a competitive generation supply market is expected in the country.

Safety, Health and Environmental Regulation and Initiatives

Power generation 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 (the "Clean Water Act"), Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990, and Occupational Safety and Health Standard of 1989 of the Department of Labor and Employment, 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 social and economic well-being as well as their physical safety and health of the employees.

The management of SMC Global Power believes that the IPPs for each of the IPPA power plants comply in all material respects with all applicable safety, health and environmental laws and regulations.

Insurance

Pursuant to the IPPA arrangements of SMC Global Power, the IPPs associated with the IPPA power plants are responsible for maintaining insurance for all of the facilities, equipment and infrastructure for the power plants of SMC Global Power, with the exception of the dam and spillway of the San Roque Power Plant, for which NPC retains responsibility for insuring.

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 and a mass rail transit system. Certain details of these investments are set forth in the table below:

Concession	% SMC Effective Ownership Interest	Expected Project Cost (in millions)		Concession Length
TPLEX Tollway ……………………………………..	70.11%(1)	₱27,341	US$ 585(8)	35 years
Boracay Airport ……………………………………..	99.80%(2)	₱7,900	US$ 176(8)	25 years
MRT-7 ………………………………………………	51.00%(3)	₱68,100	US$1,540(9)	25 years
SLEX Toll Road (TR) 1, 2, & 3.……………………	76.00%(4)	N/A	-	25 years
SLEX TR4……………..………………………………	76.00%(4)	₱16,682(4)	US$ 360(8)	25 years
Skyway Stage 1 & 2………………………………...	83.45%(5)	N/A	-	25 years
Skyway Stage 3……………………………………..	76.00%(6)	₱ 45.104	US$ 965(8)	30 years
NAIA Expressway………………………………......	100.00%	₱ 26.543	US$ 568(8)	30 years
Star Tollway …………………………………………	100.00%(7)	None	-	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: 95.0% SMHC to AAIBV, 100.0% AAIBV to MTDME and 80.0% MTDME to SLTC. All major capex have been completed prior to equity acquisition.
(5) Ownership through SMHC equity interest: 95.0% SMHC to AAIBV, 100% AAIBV to AAIPC and 87.84% AAIPC to CMMTC. All major capex have been completed prior to equity acquisition.
(6) Ownership through SMHC equity interest: 95.0% SMHC to AAIBV, 100% AAIBV to S3HC and 80% S3HC to CCEC.

400,000 worth of shares are reserved for PNCC for future subscription.
(7) Ownership through SMHC equity interest: 100% SMHC to Sleep Coop, 40.0% Sleep Coop to CTCII, 100.0% CTCII to SIDC and 100.0% SMHC to Wiselink, 60.0% Wiselink to CTCII and 100.0% CTCII to SIDC.
(8) Conversion rate used – US$ 46.74 / ₱ as of September 30, 2015.
(9) Based on conversion rate used by the National Economic Development Authority of the Philippines.

Philippine Infrastructure Industry

Under the current administration, the Philippine government has accelerated the implementation of a number of key infrastructure projects. It has created the Public-Private Partnership ("PPP") Center as it recognizes the essential role of the private sector as the main engine for national growth and development. In accordance with this initiative, pertinent incentives will be provided to stimulate private resources for the purpose of financing the construction, operation and maintenance of infrastructure and development projects normally undertaken by the Philippine government.

Private sector investors will be selected through open competition under the fair and transparent terms outlined by the BOT Law (Republic Act No. 6957 as amended by Republic Act No. 7718). All interested investors will be given a level playing field with reasonable returns and appropriate sharing of risks without compromising the protection of public interests. Through this program, end users will be provided with adequate, safe, efficient, reliable, and reasonably-priced infrastructure services.

Currently, the list of infrastructure projects under the PPP includes the following:

- Regional Prison Facilities Project
- Laguna Lakeshore Expressway-Dike Project
- LRT Line 2 Operations and Maintenance
- Davao Sasa Port Modernization Project
- Bundled Airports Project
- New Centennial Water Source - Kaliwa Dam Project
- North-South Railway Project (South Line)

Strengths

Project portfolio vital to the growth of the Philippine economy

SMHC has ownership in various companies which 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 and STAR, serving as the main thoroughfare for motorists between Metro Manila and the Cavite, Laguna, Batangas, Rizal and Quezon ("CALABARZON") areas. Given improved access to and from the region, Southern Luzon has seen tremendous economic development these past few years, registering an average of gross regional domestic product growth rate of about 6.0% to 7.0% from 2012 to 2014, based on National Statistics and Coordination Board data. As a result, CALABARZON now accounts for about 17.0% of the total gross domestic product of the country, second only to the NCR.

SMHC has also benefited from this economic growth as evidenced in the increasing traffic volume during the said period as set forth in the table below.

	As of and for the years ended December 31,			**As of and for the nine months ended September 30,**	**CAGR (2012 –2014)**
	2012	**2013**	**2014**	**2015**	
	Annual Average Daily Traffic ("AADT")				**(%)**
SLEX TR 1, 2 & 3	217,301	231,234	247,124	269,726	6.6%
Skyway Stages 1 & 2	204,215	218,553	228,079	238,608	5.7%
STAR	27,560	29,724	33,436	39,228	10.1%
TPLEX…………………….........			8,488	11,901	

SMHC also has ongoing projects such as TPLEX, SLEX TR4, Skyway Stage 3, NAIAx and the Boracay Airport, which are also projected to further support the growth in areas they will serve.

Highly experienced technical team

The infrastructure business is composed of a highly experienced and qualified technical team, with an 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 in the course of construction and operations of various infrastructure projects. Strong professional relationships have also been developed with key industry participants, such as DOTC, DPWH, Civil Aviation Authority of the Philippines ("CAAP"), Philippine National Construction Company ("PNCC") and TRB as well as reputable construction contractors such as D.M. Consunji, Inc., EEI Corporation and Matiére S.A.S.

Strong principal shareholder

With SMC as 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 to the implementation and completion of its projects. SMC has continuously provided the necessary financial support to the infrastructure business whose projects are capital-intensive.

Under the stewardship of SMC, the infrastructure business was able to become one of the major players in the industry in a relatively short period of time. 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.

Business 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 will support the continued growth of the Philipine economy. Thus, SMHC believes its long-term concessions will provide strong and stable cash flows.

Potential to extract synergies across businesses

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 telecommunications businesses of SMC, as well as further expand the distribution network for food and beverages business of SMC.

Selected financial highlights for the infrastructure business is provided below for the periods indicated:

	As of and for the years ended December 31,			**As of and for the nine months ended September 30,**	
	2012	**2013**	**2014**	**2014**	**2015**
	(₱ in millions, except percentages)				
Revenue	49	5,503	922	631	9,004
Gross profit	29	4,670	383	203	6,166
Gross profit margin(1)	59%	85%	42%	32%	68%
EBITDA(2)	184	3,785	1,692	1,253	6,792
EBITDA margin(3)	376%	69%	184%	199%	75%
Net income before tax	(47)	1,124	575	527	2,708
Net income before tax margin(4)	(96%)	20%	62%	84%	30%

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.

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 in 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 DOTC) 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 seven (7) operational toll road facilities in the country recognized by the TRB, which are the TPLEX, Skyway Stages 1 and 2, SLEX, STAR, Subic-Clark-Tarlac Expressway ("SCTEX"), North Luzon Expressway ("NLEX") and CAVITEX. Out of the seven (7) operating toll facilities in the country, four (4) are owned and controlled by SMHC namely, TPLEX, Skyway Stages 1 and 2, SLEX and STAR. Several projects are still under construction while some are still in the design and planning stage. SMC has rights to about 52.71% of the total road length of awarded toll road projects in the country.

TOLL ROAD PROJECT	Length (km)	Status
San Miguel Corporation (SMC)		
Tarlac Pangasinan La Union Expressway (TPLEX)	88.85	Section 1 & 2 Operational. Section 3 On going
Skyway (Stage 1 and 2)	29.59	Operational
South Luzon Expressway (SLEX TR1-TR3)	36.12	Operational
Southern Tagalog Arterial Road (STAR)	41.85	Operational
NAIA Expressway	5.40	Ongoing construction
Skyway Stage 3 (NLEX-SLEX Link SMC)	14.82	Ongoing construction
SLEX TR4	57.59	Detailed Design Stage
TOTAL SMC…………………………………………	**274.22**	**52.71%**
Others		
Subic Clark Tarlac Expressway (SCTEX)	93.77	Operational
Noth Luzon Expressway (NLEX)	89.12	Operational
CAVITEX	13.75	Operational
Cavite Laguna Expressway (CALAX)	45.35	To be awarded by DPWH to MPIC
Daang-Hari SLEX Expressway	4.00	Ongoing construction
TOTAL Others……………………………………….	**245.99**	**47.29%**
GRAND TOTAL…………………………………………	**520.21**	**100.0%**

TPLEX

In August 2009, SMC made its first infrastructure investment by acquiring a 35.0% (currently 70.11%) stake in PIDC. PIDC holds the 35-year BTO concession for TPLEX. The TPLEX is an 88.85 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) to expand the road/expressway network in and around Metro Manila by 325 km.

Project cost for the development of TPLEX is estimated at ₱27.3 billion, 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 while the remainder of the expressway from Urdaneta to Rosario is projected to be completed by end 2015. In 2014, the AADT of TPLEX is around 8,500 vehicles. By September 30, 2015, AADT increased by about 52.0% to 11,901 vehicles.

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 (4) 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 (4) 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 (6) to eight (8) lanes.TR2 involved the widening of the SLEX segment between Filinvest exit and Sta. Rosa, Laguna from four (4) to eight (8) lanes and segment between Sta. Rosa, Laguna to Calamba, Laguna from four (4) to six (6) lanes. TR3 involved the construction of a 4-lane roadway from Calamba, Laguna to Sto. Tomas Batangas. The construction of this section connected Metro Manila, SLEX, and STAR. In 2014, SLEX had an AADT of around 247,124 vehicles. As of September 30, 2015, SLEX registered a strong 11.0% growth in vehicular traffic which is approximately 269,726 per day.

In December 2014, SLTC submitted to the TRB for approval the Detailed Engineering Design of Sections A, B and C of TR4 (from Sto. Tomas, Batangas to Lucena City in Quezon). TR4 is expected to start in 2015 which involves a 57.59 km, four (4) lane road that will start from Sto. Tomas, Batangas to Lucena City, in Quezon. This will shorten the travel time to about an hour from the current four (4) hours. It is divided into five (5) sections: Sto. Tomas to Makban in Laguna (10.58 km); Makban to San Pablo City (12.2 km); San Pablo to Tiaong, Quezon (8.1 km); Tiaong to Candelaria, Quezon (14.4 km); Candelaria to Lucena City (12.31 km). It will include seven (7) interchanges in Sto. Tomas, Makban, San Pablo City, Tiaong, Candelaria, Sariaya and Lucena City. The whole project is estimated to cost around ₱16.8 billion and is set to be finished by year 2019.

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 thru 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 project.

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 one (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 2014, the AADT of Skyway Stages 1 and 2 is at 228,079 vehicles. As of September 30, 2015, the AADT for Skyway Stage 1 and 2 increased to about 238,608 vehicles, representing a 6.0% increase compared to the AADT last year.

As of December 31, 2015, AAIPC, a 95.0% owned subsidiary of SMC, has an ownership interest of 87.84% in CMMTC.

Skyway Stage 3

Skyway Stage 3 is a 14.82 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), and is estimated to cost a total of ₱45.1billion.

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 December 31, 2014, S3HC, a 95.0% owned subsidiary of SMC, has an ownership interest of 80.0% in CCEC.

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 50.0% shares in Wiselink. Sleep Coop and Wiselink owns 40.0% and 60.0% of CTCII, respectively which owns 100.0% of SIDC.

STAR Tollway is composed of two (2) 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 has an AADT of 33,436 vehicles in 2014. As of September 30, 2015, the AADT in STAR Tollway is 39,228, representing a 22.0% increase compared to 2014 AADT levels.

With the acquisition of Sleep Coop and Wiselink by SMHC, CTCII became a majority-owned subsidiary and is controlled by SMHC effective June 28, 2013.

NAIAx

Vertex, a wholly-owned subsidiary of SMHC, was incorporated on May 31, 2013 for the purpose of holding the 30-year concession rights (including a 2-year construction period) for the NAIAx project.

The ₱26.5 Billion NAIAx is the third (3rd) 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. Once operational, the NAIAx is expected to (i) significantly reduce travel time from Skyway Stage 1 and 2 to Roxas Boulevard; (ii) provide easy access to airports in Metro Manila, linking them to Skyway Stages 1 and 2 and the CAVITEX; (iii) boost tourism by providing access to and from Entertainment City, paving the way for further developments within the PAGCOR Entertainment City; and (iv) be the first expressway system in the Philippines to eventually utilize a barrier-less toll collection system with an Automatic License Plate Recognition feature in its software.

Airport concession

Boracay Airport

In April 2010, SMHC acquired a 93.0% stake in Caticlan International Airport Development Corp. (subsequently renamed TADHC). TADHC holds a 25-year BROT granted by the ROP, through the DOTC, to develop and operate Boracay Airport which shall end by 2038. The remaining 7.0% interest is held by Akean Resorts Corporation, a non-affiliated entity. As of December 31, 2014, SMHC owns 99.80% of TADHC.

Boracay airport is the principal gateway to the Boracay Island, a popular resort for passengers traveling from Manila. Due to a short runway, the airport is only able to accommodate turbo propeller airplanes. The airport has experienced rapid growth in passenger volumes in the last decade. In 2014, approximately 300,000 tourists passed through Boracay Airport.

The planned expansion of the airport is expected to be completed in a number of stages and involves the following:

- Upgrade and extension of the runway, from original scale of 950 meters long and 30 meters wide, to 2,600 meters long and 60 meters wide to accommodate larger international and domestic aircraft;

- 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;

- Removal of obstruction along Eastern Approach to enhance operational safety and further shaving of the hill for the construction of runway extension and terminal facilities;

- 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 2015;

- Improvement of road networks around Boracay Airport and its facilities; and

- Upgrade of air navigational systems.

Mass rail transit concession

MRT-7

In October 2010, SMC acquired a 51.0% 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 ten (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 three-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 six-lane access road connecting the Intermodal Transport Terminal to the Bocaue exit of NLEX.

Other Operations and Investments

Telecom

SMC has made investments in the Philippine telecommunications sector through acquisitions of stakes in Liberty Telecom, BellTel and Eastern Telecom.

Liberty Telecom

As of December 31, 2012, SMC owned 41.48% of Liberty Telecom, in partnership with G.S.P.C. Qtel Westbay Holding (26.75%), Wi-Tribe Asia Limited (5.90%) and White Dawn Solutions Holdings, Inc. (18.36%), with the remaining shares owned by the public. Vega increased its ownership from 41.48% to 45.05% in April 2014 and to 45.58% in December 2014.

In September 2015, Vega acquired an additional 51.88% equity interest in Liberty Telecom thru the conduct of a tender offer and the acquisition of shares from the other shareholders.

In compliance with the Securities Regulation Code, Vega conducted a tender offer for the common shares of Liberty Telecom held by the public. A total of 57,271,369 common shares or 4.43% of the outstanding common shares of Liberty Telecom were tendered, and subsequently were crossed at the PSE on September 2, 2015.

Simultaneously on September 2, 2015, Vega acquired a total of 426,800,168 common shares and 2,907,768,174 preferred shares from West Bay Holding S.P.C. Company, Wi-Tribe Asia Limited ("Wi-Tribe") and White Dawn Solutions Holdings, Inc.

Upon completion of the tender offer and share purchases, Vega beneficially owns 87.18% of the outstanding common shares and 100% of the unlisted preferred shares of Liberty Telecom. As such, Vega obtained control and consolidated Liberty Telecom effective September 2, 2015.

Liberty Telecom is a telecommunications carrier offering services including nationwide telephone service, data communications, inter-exchange carrier services and international voice and data connectivity services.

BellTel

SMC acquired 100.0% of BellTel in 2010, a full-service telecommunications company which is licensed to provide a range of services throughout the Philippines. The telecommunication license of BellTel authorizes it to provide data services throughout the Philippine archipelago and telephony to all central business districts and special economic zones. BellTel was one of the first companies to deploy point-to-multipoint fixed wireless access technologies delivering multiple product offerings. BellTel has also entered into strategic alliances with operators of underutilized telecommunications infrastructures, such as hybrid fiber-coaxial and fiber optic networks, giving it several cost-effective last mile options for rapid service deployment. In addition, BellTel holds licenses in the 1.7, 3.5 and 24 GHz spectra, which enable it to provide a wide array of wireless broadband products and services.

Eastern Telecom

In 2011, SMC, through Vega, acquired 100.0% of the outstanding and issued shares of stock of AGNP, the beneficial owner of approximately 40.0% of Eastern Telecom. On October 20, 2011, SMC through its wholly owned subsidiary, SMESI, acquired an additional 37.7% of the outstanding and issued shares of stock of Eastern Telecom, bringing its total indirect equity interests in Eastern Telecom to 77.7% as of December 31, 2014. Eastern Telecom is a provider of voice, data and internet services to the corporate, government and business process outsourcing market.

Banking

SMC through SMPI made a series of acquisitions of BOC shares in 2007 and 2008 and has a current ownership of 39.9%. 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.

Legal Proceedings

Neither SMC nor any of its subsidiaries is a party to nor its properties subject of, any material pending legal proceeding that could be expected to have a material adverse effect on the issuance of the Offer Shares and on the results of the financials and the operations of SMC.

SMC has initiated the appropriate actions to contest an assessment imposed by the SEC – Corporation Finance Department of a substantial fine in connection with the filing of the Statement of Initial Beneficial Ownership and Statement of Changes in the Beneficial Ownership (SEC Form 23-A and B, respectively) under the Securities Regulation Code of the Philippines ("SRC").

For further details on pending legal proceedings of the Company and some of its subsidiaries, please refer to notes 25 and 44 of the audited financial statements of the Company for the period ended December 31, 2014.

Ownership and Capitalization

Share Capital

As of December 31, 2015, the Company had a total of 3,283,277,515 common shares issued, of which 2,378,524,978 are outstanding common shares; 279,406,667 issued and outstanding Series “1” Preferred Shares; and 792,654,600 issued and outstanding Series “2” Preferrred Shares.

Top 20 Shareholders (as of January 31, 2016)

Rank	Name of Stockholders	Common	Series “1” Preferred Shares	Series “2-B” Preferred Shares	Series “2-C” Preferred Shares	Series “2-D” Preferred Shares	Series “2-E” Preferred Shares	Series “2-F” Preferred Shares	Total No. of Shares	% of out-standing
1	TOP FRONTIER INVESTMENT HOLDINGS, INC.	1,573,100,340	0	0	0	0	0	0	1,573,100,340	45.589351%
2	PCD NOMINEE CORPORATION (FILIPINO)	158,205,570	0	0	0	86,503,600	127,192,500	216,823,800	588,725,470	17.061602%
3	PRIVADO HOLDINGS CORP.	368,140,516	0	0	0	0	0	0	368,140,516	10.668924%
4	PCD NOMINEE CORPORATION	34,354,462	0	56,176,530	229,577,813	0	0	146,800	320,255,605	9.281191%
5	METROPLEX HOLDINGS CORPORATION	0	106,174,534	0	0	0	0	0	106,174,534	3.076999%
6	LUCENA HOLDINGS CORPORATION	0	89,410,133	0	0	0	0	0	89,410,133	2.591157%
7	GINGOOG HOLDINGS CORPORATION	1,830,082	83,822,000	0	0	0	0	0	85,652,082	2.482247%
8	PCD NOMINEE CORPORATION (NON-FILIPINO)	48,184,673	0	93,500	961,397	188,100	398,300	1,012,100	50,838,070	1.473316%
9	PCGG IN TRUST FOR THE COMPREHEN-SIVE AGRARIAN REFORM PROGRAM	27,636,339	0	0	0	0	0	0	27,636,339	0.800917%
10	SAN MIGUEL CORPORATION RETIREMENT PLAN	15,001	0	26,435,700	0	0	0	0	26,450,701	0.766557%
11	G & E SHAREHOL-DINGS INC.	0	0	0	15,000,000	0	0	0	15,000,000	0.434709%
12	MILLENIUM ENERGY, INC.	10,807,380	0	0	0	0	0	0	10,807,380	0.313204%
13	GSIS PROVIDENT FUND	0	0	1,300,000	2,666,700	0	0	0	3,966,700	0.114957%
14	SYSMART CORPORATION	3,457,000	0	0	0	0	0	0	3,457,000	0.100186%
15	COLUMBUS CAPITANA CORPORATION	2,716,830	0	0	0	0	0	0	2,716,830	0.078735%
16	MARINE SHORE INVESTMENT HOLDINGS, INC.	2,089,660	0	0	0	0	0	0	2,089,660	0.060560%
17	PETRON CORPORATION EMPLOYEES RETIREMENT PLAN	0	0	2,000,000	0	0	0	0	2,000,000	0.057961%
18	EVERETT STEAMSHIP CORPORATION	1,903,330	0	0	0	0	0	0	1,903,330	0.055160%
19	EDUARDO M. COJUANGCO JR.	1,718,679	0	0	0	0	0	0	1,718,679	0.048908%
20	KNIGHTS OF COLUMBUS	0	0	0	1,333,300	0	0	0	1,333,300	0.038640%

Rank	Name of Stockholders	Common	Series "1" Preferred Shares	Series "2-B" Preferred Shares	Series "2-C" Preferred Shares	Series "2-D" Preferred Shares	Series "2-E" Preferred Shares	Series "2-F" Preferred Shares	Total No. of Shares	% of out-standing
	FRATERNAL ASSOCIATION OF THE PHILS., INC.									
	TOTAL	**2,234,159,862**	**279,406,667**	**86,005,730**	**249,539,210**	**86,691,700**	**127,590,800**	**217,982,700**	**3,281,376,669**	**95.096180%**
	OTHER STOCK-HOLDERS	144,366,126	0	4,422,470	6,020,190	2,641,700	6,409,300	5,350,800	169,210,586	4.903820%
	TOTAL	**2,378,525,988**	**279,406,667**	**90,428,200**	**255,559,400**	**89,333,400**	**134,000,100**	**223,333,500**	**3,450,587,255**	**100.00000%**

Market Price of and Dividends on the Equity of SMC and Related Shareholder 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 of the last three (3) fiscal years and for the first three quarters of 2015 are as follows:

2012

	Common		Series "1"		Series "2-A"		Series "2-B"		Series "2-C"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	123.00	110.00	80.00	76.60	N/A	N/A	N/A	N/A	N/A	N/A
2nd	117.00	111.00	79.10	74.50	N/A	N/A	N/A	N/A	N/A	N/A
3rd	115.00	110.00	78.10	73.00	75.10	74.90	80.00	74.50	76.00	75.00
4th	111.00	100.00	75.50	75.50	75.20	74.50	81.50	74.00	77.90	74.50

2013

	Common		Series "1"		Series "2-A"		Series "2-B"		Series "2-C"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	125.00	103.20	N/A	N/A	75.00	74.65	77.00	74.50	79.25	74.50
2nd	125.00	83.00	N/A	N/A	80.50	74.95	82.00	75.75	84.00	77.50
3rd	94.50	65.50	N/A	N/A	77.75	74.50	79.60	75.00	81.50	74.95
4th	88.00	57.30	N/A	N/A	77.30	75.60	77.50	75.40	79.80	76.80

2014

	Common		Series "1"		Series "2-A"		Series "2-B"		Series "2-C"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	76.00	54.50	N/A	N/A	77.00	75.00	78.95	76.00	81.00	77.50
2nd	87.00	74.65	N/A	N/A	76.10	74.30	78.90	74.90	81.85	75.00
3rd	83.00	76.90	N/A	N/A	76.00	74.20	76.50	74.50	78.00	75.00
4th	78.95	72.00	N/A	N/A	96.90	75.30	79.00	76.00	82.50	77.00

2015

	Common		Series "1"		Series "2-A"		Series "2-B"	
	High	Low	High	Low	High	Low	High	Low
1st	81.00	66.70	N/A	N/A	76.80	75.00	89.50	78.00
2nd	71.80	59.30	-	-	76.85	75.00	85.60	80.00
3rd	60.60	43.50	-	-	76.00	74.00	85.05	76.00
4th	52.00	44.05	-	-	-	-	85.00	77.00

	Series "2-C"		Series "2-D"		Series "2-E"		Series "2-F"	
	High	Low	High	Low	High	Low	High	Low
1st	84.50	78.00	N/A	N/A	N/A	N/A	N/A	N/A
2nd	90.00	83.05	N/A	N/A	N/A	N/A	N/A	N/A
3rd	89.00	79.00	80.00	76.00	78.80	76.50	80.00	77.10
4th	84.00	81.00	85.00	78.00	80.10	76.00	80.90	78.50

The closing prices as of February 29, 2016, the latest practicable trading date, are as follows:

Common	₱74.80
Series 1 Preferred	not applicable
Series "2-A" Preferred	not applicable
Series "2-B" Preferred	₱79.00 (February 26, 2016)
Series "2-C" Preferred	₱83.00
Series "2-D" Preferred	₱78.00
Series "2-E" Preferred	₱77.00
Series "2-F" Preferred	₱78.20

The approximate number of shareholders as of December 31, 2015 is 37,334.

Dividends and Dividend Policy

Cash dividends declared by the Board of Directors of SMC to common shareholders amounted to ₱1.40 per share in 2015.

Cash dividends declared by the Board of Directors of SMC to Series "1" preferred shareholders amounted to ₱3.17 per share in 2015.

Cash dividends declared by the Board of Directors of SMC to all Series "2" – Subseries "2-A", Subseries "2-B" Subseries "2-C", Subseries "2-D", Subseries "2-E" and Subseries "2-F" preferred shareholders amounted to ₱4.22, ₱5.72, ₱6.00, ₱1.11, ₱1.19 and ₱1.28 per share, respectively, in 2015.

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 2012.

Common Shares

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2012 ………………..	Cash	0.35	January 20	February 6	February 20
	Cash	0.35	April 18	May 4	May 28
	Cash	0.35	July 24	August 10	September 3
	Cash	0.35	October 11	October 26	November 9
	Cash	0.35	December 13	January 4, 2013	January 30, 2013
Total:		1.75			
2013 ...……………..	Cash	0.35	April 11	April 26	May 6
	Cash	0.35	June 11	June 28	July 15
	Cash	0.35	September 19	October 18	November 8
	Property*	1 for 10	October 17	November 5	January 2
	Cash	0.35	December 12	January 17, 2014	February 7, 2014
Total:		1.40			
2014 ...…………….	Cash	0.35	April 10	April 29	May 16
	Cash	0.35	June 10	June 27	July 21
	Cash	0.35	September 18	October 17	November 7
	Cash	0.35	December 11	January 7, 2015	February 2, 2015
Total:		1.40			
2015 ...…………….	Cash	0.35	April 22	May 8	May 20
	Cash	0.35	July 14	July 31	August 14
	Cash	0.35	September 17	October 9	November 4
	Cash	0.35	December 10	January 8, 2016	February 2, 2016
Total:		**1.40**			

Preferred Shares — Series 1

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2012 ………………	Cash	1.50	March 28	April 17	May 11
	Cash	1.50	June 14	June 29	July 23
	Cash	1.50	August 13	August 31	September 10
	Cash	1.50	August 13	September 11	October 5
Total:		6.00			
2015 ...……………	Cash	1.0546	June 9	June 26	July 8
	Cash	1.0565625	August 20	September 11	September 21
	Cash	1.0565625	November 10	December 17	December 29
Total:		**3.167725**			

Preferred Shares — Series 2A

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2013 ……………....	Cash	1.40625	November 14	December 20	January 4
	Cash	1.40625	January 17	March 20	April 4
	Cash	1.40625	May 10	June 18	July 3
	Cash	1.40625	August 12	September 16	October 1
	Cash	1.40625	November 11	December 13	December 27
Total:		7.03125			
2014………………..	Cash	1.40625	November 11	March 14	April 10
	Cash	1.40625	May 12	June 13	June 27
	Cash	1.40625	May 12	September 11	September 26
	Cash	1.40625	November 10	November 28	December 23
Total:		5.625			
2015………………..	Cash	1.40625	November 10	February 27	March 25
	Cash	1.40625	May 14	May 29	June 11
	Cash	1.40625	August 20	September 11	September 21
Total:		**4.21875**			

Preferred Shares — Series 2B

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2013 ……………….	Cash	1.4296875	November 14	December 20	January 4
	Cash	1.4296875	January 17	March 20	April 4
	Cash	1.4296875	May 10	June 18	July 3
	Cash	1.4296875	August 12	September 16	October 1
	Cash	1.4296875	November 11	December 13	December 27
Total:		7.1484375			
2014……………….	Cash	1.4296875	November 11	March 14	April 10
	Cash	1.4296875	May 12	June 13	June 27
	Cash	1.4296875	May 12	September 11	September 26
	Cash	1.4296875	November 10	November 28	December 23
Total:		5.71875			
2015 ……………….	Cash	1.4296875	November 10	February 27	March 25
	Cash	1.4296875	May 14	May 29	June 11
	Cash	1.4296875	August 20	September 11	September 21
	Cash	1.4296875	November 10	December 17	December 29
Total:		**5.71875**			

Preferred Shares — Series 2C

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2013 ……………….	Cash	1.50	November 14	December 20	January 4
	Cash	1.50	January 17	March 20	April 4
	Cash	1.50	May 10	June 18	July 3
	Cash	1.50	August 12	September 16	October 1
	Cash	1.50	November 11	December 13	December 27
Total:		7.50			
2014 ……………….	Cash	1.50	November 11	March 14	April 10
	Cash	1.50	May 12	June 13	June 27
	Cash	1.50	May 12	September 11	September 26
	Cash	1.50	November 10	November 28	December 23
Total:		6.00			
2015 ………………	Cash	1.50	November 10	February 27	March 25
	Cash	1.50	May 14	May 29	June 11
	Cash	1.50	August 20	September 11	September 21
	Cash	1.50	November 10	December 17	December 29
Total:		**6.00**			

Preferred Shares — Series 2D

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2015 ………………	Cash	1.11433125	November 10	December 17	December 29
Total:		**1.11433125**			

Preferred Shares — Series 2E

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2015 ………………	Cash	1.18603125	November 10	December 17	December 29
Total:		**1.18603125**			

Preferred Shares — Series 2F

Year	Type	Per Share Amount (P)	Date Declared	Record Date	Payment Date
2015 ………………	Cash	1.27635	November 10	December 17	December 29
Total:		**1.27635**			

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

There were no securities sold by SMC within the past three (3) years which were not registered under the SRC, except for the following:

Name of Security Sold	Underwriters	Date of Sale	Amount of Securities	Basis for Exemption
Series “1” Preferred Shares……….	N/A	March 30, 2015	₱1,397,033,335.00 at par value; ₱ 20,955,500,025.00 at issue price of ₱75.00	Section 10 (k) and (l) of 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.

SMC has filed a notice with the SEC and has not obtained a written confirmation for the foregoing exempt transactions.

Effect on Common Equity Holders

The Offer Shares will not have any dilutive effect on the rights of the holders of the common shares of SMC, as these are non-voting, non-convertible and non-participating.

Foreign Equity Holders

As of January 31, 2016, the percentage of the total outstanding capital stock of SMC held by foreigners is 1.87%.

Class of Shares	Foreign Shares	% of Foreign Owned
Common Shares	61,585,927	2.59%
Series “1” Preferred Shares	0	0.00%
Series “2-B” Preferred Shares	94,000	0.10%
Series “2-C” Preferred Shares	1,030,397	0.40%
Series “2-D” Preferred Shares	188,600	0.21%
Series “2-E” Preferred Shares	420,000	0.31%
Series “2-F” Preferred Shares	1,075,100	0.48%
TOTAL	**64,394,024**	**1.87%**

Directors and Executive Officers

Board of Directors

Name	Age	Citizenship	Position
Eduardo M. Cojuangco, Jr………	80	Filipino	Chairman and Chief Executive Officer
Ramon S. Ang……………………	62	Filipino	Vice Chairman, President and Chief Operating Officer
Estelito P. Mendoza……………..	86	Filipino	Director
Leo S. Alvez……………………..	72	Filipino	Director
Aurora T. Calderon……………...	61	Filipino	Director
Joselito F. Campos, Jr................	65	Filipino	Director
Ferdinand K. Constantino............	64	Filipino	Director
Menardo R. Jimenez……………	83	Filipino	Director
Alexander J. Poblador................	61	Filipino	Director
Horacio G. Ramos………………	70	Filipino	Director
Thomas A. Tan………………….	61	Filipino	Director
Iñigo U. Zobel……………………	59	Filipino	Director
Winston F. Garcia……………….	57	Filipino	Independent Director
Reynato S. Puno........................	75	Filipino	IndependentDirector
Margarito B. Teves………………	71	Filipino	Independent Director

The members of the Board of Directors were elected during the Annual Stockholders meeting of the Company on June 9, 2015.

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 Pure Foods Company, 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 and Nomination and Hearing 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; Chairman of the Board of San Miguel Brewery Inc. and San Miguel Brewery Hong Kong Limited (listed in the Hong Kong Stock Exchange), and Liberty Telecoms Holdings Inc.; Vice Chairman of the Board of Ginebra San Miguel, Inc., and San Miguel Pure Foods Company, Inc.. He is also the Chairman of the Board and CEO of SMC Global Power Holdings Corp., Chairman and President of San Miguel Holdings Corp. and San Miguel Equity Investments Inc.; Chairman of the Board of Sea Refinery Corporation, San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, San Miguel Properties, Inc., Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Philippine Diamond Hotel & Resort, Inc., Philippine Oriental Realty Development, Inc., and Atea Tierra Corporation. He is also the sole director and shareholder of Master Year Limited and the Chairman of Privado Holdings, Corp. He formerly held the following positions: President and Chief Operating Officer of PAL Holdings, Inc., Philippine Airlines, Inc.; Director of Air Philippines Corporation; Chairman of the Board of Cyber Bay 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 SMC 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, Audit Committee, and the Chairman of the Nomination and Hearing Committee of the Company. He is also a Director of Petron Corporation, and Philippine National Bank, Philippine Airlines, Inc. and Chairman of Prestige Travel, Inc. He was formerly a director of the Manila Electric Company 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 Committee and Nomination and Hearing Committee of the Company. He is also a Director of Ginebra San Miguel, Inc. 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 Executive Compensation 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 Petron Corporation. 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 Corp., Thai San Miguel Liquor Co., San Miguel Equity Investments Inc., Bank of Commerce, and Kankiyo Corporation. She is the President and the Director of Total Managers, 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 from the University of the East with a degree in BS Business Administration, major in Accountancy, magna cum laude. 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 Executive Compensation Committee. 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 from Cornell University, New York.

Ferdinand K. Constantino has been a Director of the Company since May 31, 2010. He is a member of the Executive Committee, Audit Committee, Executive Compensation Committee and Nomination and Hearing Committee. He is Senior Vice President, 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 San Miguel Brewery Inc., 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 Yamamura Packaging Corporation, San Miguel Foods Inc., Citra Metro Manila Tollways Corporation and Northern Cement Corporation; 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 SMC 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.

Menardo R. Jimenez has been a Director of the Company since February 27, 2002 and the Chairman of the Executive Compensation Committee and a Member of the Executive Committee of the Company. He is also a Director of San Miguel Pure Foods Company, Inc., a publicly listed company, and Magnolia, Inc. His other positions include: Chairman of the Board of the United Coconut Planters Bank; President and Chief Executive Officer of Albay-Agro Industrial Corporation; Chairman of Majent Management and Development Corporation; Chairman of Fibers Trading, Inc., 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 Nomination and Hearing 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).

Horacio C. Ramos has been a Director of the Company since June 10, 2014. He is the President of Clariden Holdings, Inc. He was formerly the Secretary of the Department of Environment and Natural Resources from February to June 2010, and was the Director of Mines from 2006 to 2010. He holds the degree of Bachelor of Science in Mining Engineering from the Mapua Institute of Technology in 1967, a Graduate Diploma in Mining and Mineral Engineering from the University of New South Wales, Australia in 1976, and a Master of Engineering in Mining Engineering also from the University of New South Wales, Australia in 1978.

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 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 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 IZ Investment Holdings, Inc., E. Zobel, Inc., and Zygnet Prime Holdings 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 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.

Winston F. Garcia has been a Director of the Company since February 1, 2001, and a Member of the Audit Committee and Executive Compensation Committee of the Company. He has been an independent director of the Company since May 9, 2006. He is currently the President of Golden Garfields Development Corporation. Atty. Garcia was President and General Manager of the Government Service Insurance System and was Vice Chairman of its Board of Trustees. He also held the following positions: Chairman of the National Reinsurance Corporation of the Philippines, GSIS Mutual Fund, Inc., Asean Forum, Incorporated and Philippine Social Security Association; Director of Philippine National Construction Corporation, and Philippine Health Insurance Corporation; Board Member of Asean Social Security Association; and a Member of the International Insurance Society, Inc., International Social Security Association, and Federation of Afro Insurers and Reinsurers. Atty. Garcia has been a practicing lawyer since 1983. He is a graduate of the San Beda College of Law, and has a Bachelor of Arts in Philosophy from the University of Santo Tomas and Associate in Arts degree in Southwestern University.

Reynato S. Puno was elected to the Board as an Independent Director of the Company on January 20, 2011 and a member of the Executive Compensation Committee and Nomination and Hearing 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, Union Bank of the Philippines, Inc. and Apex Mining Corporation. He is also the President of the Philippine Bible Society, Chairman of the Board of the Gerry Roxas Foundation, Chairman of the Environmental Heroes Foundation, Vice Chairman of World Vision, Vice Chairman of the Board of the GMA Kapuso Foundation, Director of Marcventure Holdings, Inc., and The New Standard. 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 (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 Committee. 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., Alphaland MarinaClub, Inc., The City Club at Alpahaland 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 executive officers of the SMC Group as of the date of this Prospectus.

Name	Age	Citizenship	Position
Ferdinand K. Constantino.	64	Filipino	Senior Vice President – Chief Finance Officer
Virgilio S. Jacinto…………	59	Filipino	Senior Vice President – General Counsel, Compliance Officer and Corporate Secretary
Joseph N. Pineda………..	51	Filipino	Senior Vice President – Deputy Chief Finance Officer
Aurora T. Calderon………	61	Filipino	Senior Vice President – Senior Executive Assistant to the Office of the President and Chief Operating Officer
Sergio G. Edeza………….	58	Filipino	Senior Vice President – Head of Treasury
Roberto N. Huang………..	67	Filipino	President- San Miguel Brewery, Inc.
Carlos Antonio M. Berba..	51	Filipino	Managing Director – San Miguel Brewing International Ltd.
Bernard D. Marquez……..	46	Filipino	President – Ginebra San Miguel Inc.
Francisco S. Alejo III…….	67	Filipino	President – San Mguel Pure Foods Company Inc.
Ferdinand A. Tumpalan…	55	Filipino	President – San Miguel Yamamura Packaging Corporation
Lubin B. Nepomuceno….	64	Filipino	General Manager– Petron Corporation
Alan T. Ortiz……………..	62	Filipino	President – SMC Global Power Holdings Corp.
Elenita D. Go…………….	55	Filipino	General Manager – SMC Global Power Holdings Corp.
Lorenzo G. Formoso……	54	Filipino	Head of Infrastructure Business
Mary Rose S. Tan………	39	Filipino	Assistant Corporate Secretary
Lorenzo G. Timbol……....	78	Filipino	Assistant Corporate Secretary

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 and Ginebra San Miguel, Inc. He is a Director of San Miguel Brewery Inc. and 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. Mr. 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. In addition, Mr. Edeza holds various directorships in various SMC subsidiaries.

Roberto N. Huang is the President of San Miguel Brewery, Inc. He is also a member of the Executive Committee of Ginebra San Miguel, Director of San Miguel, Brewing International Limited and San Miguel Brewery Hong Kong Limited (Hong Kong), and Chairman and President of Iconic Beverages, Inc., Brewery Properties Inc, and Brewery Landholdings, Inc. He also served as General Manager of San Miguel Brewery Inc. (2007-2009); Director of Ginebra San Miguel Inc. (2004-2008), San Miguel Pure Foods Company, Inc. (2004-2008); President of San Miguel Beverages, Inc. (2007); and President of Coca-Cola Bottlers Philippines, Inc., Cosmos Bottling Corporation and Philippine Beverage Partners, Inc. (2003-2007). Mr. Huang holds a Bachelor’s Degree in Mechanical Engineering from Mapua Institute of Technology and completed academic requirements for a Master’s Degree in Business Administration from De La Salle University.

Carlos Antonio M. Berba has been Managing Director of San Miguel Brewing International Ltd. since 2008. He is also currently Director of San Miguel Brewery Inc. and Deputy Chairman of San Miguel Brewery Hong Kong Limited (Hong Kong), a Commissioner of PT Delta Djarkarta Tbk (Indonesia) (“PT Delta”) and Chairman and Director of other subsidiaries of San Miguel Brewing International Ltd. He previously served SMC as President of the San Miguel Beer Division (2006); and Vice President, CFO for International Beer Operations and Director for Business Planning and Information Management, San Miguel Beer Division (2002-2006). Mr. Berba holds a Bachelor’s Degree in Electrical Engineering from the University of the Philippines, a Master’s Degree in Japanese Business Studies from the Japan America Institute of Management Science & Chaminade University of Honolulu, and a Master’s Degree in Business Administration from the Wharton School, University of Pennsylvania.

Bernard D. Marquez is the President of Ginebra San Miguel Inc. since May 12, 2011 and is a member of the Executive Committee and Nomination and Hearing Committee of GSMI and Executive Compensation Committee. He is currently a director of Thai San Miguel Liquor Co., Ltd (“TSML”). He previously held the following positions: General Manager of TSML (January 2010-March 2011); Business Manager of the non-alcoholic beverage business of Ginebra San Miguel Inc. (July-December 2009); Assistant Vice President and Business Manager of San Miguel Beverages, Inc. (March 2007-June 2009) and Assistant Vice President and Business Planning and Development Manager of Coca-Cola Bottlers Philippines, Inc. (August 2004-February 2007).

Francisco S. Alejo III is the President (since 2005) and a Director (since 2001) of San Miguel Pure Foods Company Inc. He also holds the following positions: Vice Chairman of the Board of San Miguel Foods, Inc.; San Miguel Mills, Inc.; The Purefoods-Hormel Company, Inc., Magnolia, Inc. and San Miguel Super Coffeemix Co., Inc.; and Chairman of Sugarland Corporation and a Director of Ginebra San Miguel, Inc.

Ferdinand A. Tumpalan has been President of San Miguel Yamamura Packaging Corporation since 2005. He is also President of San Miguel Yamamura Asia Corporation, San Miguel Paper Packaging Corporation, Mindanao Corrugated Fibreboard Inc., CanAsia, Inc., SMC Yamamura Fuso Molds Corporation, and San Miguel Yamamura Packaging International Ltd. He is a former President of the Packaging Products Division of SMC in 2005.

Lubin B. Nepomuceno is the General Manager of Petron Corporation since February 10, 2015 and was previously the President since February 19, 2013. He is also a member of its Executive Committee, Audit and Risk Management Committee and Compensation Committee. He holds various board and executive positions in Petron and has held various board and executive positions in various SMC domestic and international subsidiaries. He holds a Bachelor of Science degree in Chemical Engineering and a Masters in Business Administration degree from De La Salle University.

Alan T. Ortiz is the President of SMC Global Power Holdings Corp. since August 31, 2010 and a member of its Audit Committee and Nomination and Hearing Committee following his election on September 2, 2011. Previously, he was a Director of the Manila Electric Company. He is currently the Managing Partner of CEOs Inc., a Director and Treasurer of Global Resource for Outsourced Workers, Inc., and an Assistant Professor in the Department of Economics/Political Science of the Ateneo de Manila University.

Elenita D. Go is the General Manager of SMC Global Power Holdings Corp. She joined SMC Global Power Holdings Corp. in June 2011 as head of its Sales and Trading Group. She was also a Member of the Board of Directors of Meralco from November 2009 until June 2010. From April 2008 until October 2010, Ms. Go was the head of the Corporate Procurement Unit of San Miguel Corporation. Ms. Go obtained her Masters in Business Administration degree from Ateneo de Manila - Graduate School of Business and her Bachelor of Science degree in Electrical Engineering from Mapua Institute of Technology.

Lorenzo G. Formoso III is the Head of the Infrastructure Business. Previously, he was a consultant of the Company for Infrastructure, Transportation and Telecommunications 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.

Board Committees

Executive Committee

The Executive Committee is currently composed of six directors, which includes the Chairman of the Board of Directors and Chief Executive Officer, and the Vice-Chairman of the Board of Directors, President and Chief Operating Officer. Mr. Eduardo M. Cojuangco, Jr. sits as Chairman of the Committee.

The Committee acts within the power and authority granted upon it by the Board of Directors and is called upon when the Board of Directors 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 of Directors or by law.

Audit Committee

The Audit Committee is currently composed of five members with two independent directors as members, Mr. Margarito B. Teves, who also sits as Committee Chairman, and Mr. Winston Garcia.

The Audit Committee reviews and monitors, among others, the integrity of all financial reports and ensures their compliance with both the internal financial management manual and pertinent accounting standards, including regulatory requirements. It also performs oversight financial management functions and risk management, approves audit plans, directly interfaces with internal and external auditors, and elevates to international standards the accounting and auditing processes, practices, and methodologies of the Company.

The Company intends to comply with SEC Memorandum Circular No. 4 Series of 2012 on the adoption of an Audit Committee charter.

Nomination and Hearing Committee

The Nomination and Hearing Committee is currently composed of six voting directors— one of whom is independent, Mr. Reynato S. Puno—and one (1) non-voting member in the person of the Corporate Human Resources Head of the Company. Atty. Estelito P. Mendoza is the Chairman of the Committee.

Among others, the Nomination and Hearing Committee screens and shortlists candidates for Board directorship in accordance with the qualifications and disqualifications for directors set out in the Manual on Corporate Governance of the Company (the “Manual”), the Amended Articles of Incorporation and Amended By-laws of the Company and applicable laws, rules and regulations.

Executive Compensation Committee

The Executive Compensation Committee of the Company is composed of six directors, two of whom are independent in the persons of Mr. Winston F. Garcia and Mr. Reynato S. Puno. Mr. Menardo R. Jimenez is Chairman of the Committee.

The Executive Compensation Committee advises the Board of Directors in the establishment of formal and transparent policies and practices on directors and executive remuneration and provides oversight over remuneration of senior management and other key personnel—ensuring consistency with the culture, strategy and control environment of the Company.

It designates the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Company successfully.

Significant Employees

The Company has no individual employee who is not an executive officer but who is expected to make a significant contribution to the business.

Corporate Governance

Manual on Corporate Governance

The Manual was approved by the Board of Directors on August 16, 2002 and amended on March 30, 2010 and March 27, 2014. The monitoring of the implementation of the evaluation system of SMC 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

The Compliance Officer is appointed by the Board of Directors. He is responsible for monitoring compliance by the Company with the provisions and requirements of the Manual and the rules and regulations of the relevant regulatory agencies, and ensures adherence to corporate principles and best practices. The Compliance Officer holds the position of a Vice President or its equivalent and has direct reporting responsibilities to the Chairman of the Board of Directors. The Compliance Officer has certified that the Company has substantially adopted all the provisions of the Manual on Corporate Governance.

Pursuant to its commitment to good governance and business practice, the Company continues to review and strengthen its policies and procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company and its stockholders.

Shareholder and Investor Relations

The Company responds to information request from the investing community and keep shareholders informed through timely disclosures to the PSE and SEC, annual shareholders meeting, inventors briefing and conferences, the website of the Company and responses to email and telephone queries. The disclosures of the Company and other filings with the PSE and SEC are available for viewing and download from the website of the Company.

The Company through the Investor Relations Group under Corporate Finance holds regular briefings and meetings with investment and financial analysts.

Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the Company's directors, executive officers or persons nominated or chosen by the Company to become its directors or executive officers.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of SMC have been the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his 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 (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in SMC.

Compensation of Directors and Executive Officers

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, Mr. Eduardo M. Cojuangco, Jr., and senior executive officers of the Company are as follows:

Name	Year	Salary	Bonus	Others	Total
Total Compensation of the Chief Executive Officer and Senior Executive Officers[3]……	2015 (estimated)	₱170.7 Million	₱131.9 Million	₱31.7 Million	₱334.3 Million
	2014	₱156.3 Million	₱192.2 Million	₱41.1 Million	₱389.6 Million
	2013	₱145.9 Million	₱173.6 Million	₱42.6 Million	₱362.1 Million
All other officers and directors as a group unnamed………………	2015 (estimated)	₱181.5 Million	₱51.1 Million	₱38.6 Million	₱271.2 Million
	2014	₱154.6 Million	₱68.7 Million	₱39.5 Million	₱262.8 Million
	2013	₱138.9 Million	₱37.9 Million	₱35.0 Million	₱211.8 Million
Total……………………	**2015 (estimated)**	**₱352.2 Million**	**₱183.08 Million**	**₱70.3 Million**	**₱605.5 Million**
	2014	**₱310.9 Million**	**₱260.9 Million**	**₱80.6 Million**	**₱652.4 Million**
	2013	**₱284.8 Million**	**₱211.5 Million**	**₱77.6 Million**	**₱573.9 Million**

Section 10 of the Amended By-Laws of the Company provides that the Board of Directors shall receive as compensation no more than 2.0% 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 ₱50,000 and ₱20,000 for each Board and Committee meeting attended, respectively.

The Long-Term Incentive Plan for Stock Options 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 November 10, 2005, the Company approved the grant of stock options to 1,096 executives and middle managers of about 4.43 million shares based on the closing price of the Company's shares, computed in accordance with the Long-Term Incentive Plan for Stock Options. Also on March 1, 2007, the Parent Company approved the grant of options to 822 executives consisting of 18.31 million shares. On June 25, 2009 and June 26, 2008, the Parent Company approved the grant of options to 755 executives consisting of 5.77 million shares and to 742 executives consisting of 7.46 million shares, respectively. Options to purchase 13,722,480 shares and 13,340,202 shares in 2013 and 2014, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled about 3,024,920 and 382,278 shares in 2013 and 2014, respectively.

[3]*The Chief Executive Officer and senior executive officers of the Company for 2015 are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Joseph N. Pineda, and Casiano B. Cabalan, Jr. while for 2014, and 2013, they are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Joseph N. Pineda, and Maria Cristina Menorca.*

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.

Other Arrangements

There are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

Employment Contract

In lieu of an employment contract, the directors are elected at the annual meeting of stockholders for a one (1) year term. Any director elected in the interim will serve for the remaining term until the next annual meeting.

Warrants or Options

There are no warrants or options on the Offer Shares held by Directors or Officers.

Security Ownership of Management and Certain Record and Beneficial Owners

Owners of more than 5.0% of the Company's voting[4] securities as of December 31, 2015 were 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
Common…...	Top Frontier Investment Holdings Inc.[5] 5th Floor, ENZO Bldg., No. 339 Sen. Gil Puyat, Makati City	Iñigo 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.%[6] of the outstanding common stock of Top Frontier, respectively.	Filipino	1,573,100,340	45.59%
Common…...	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ entities	Filipino	150,646,583	16.94%
Series "2" Preferred Shares……..	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ entities	Filipino	433,703,900	

[4]*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.*

[5]*The shares owned by Top Frontier Investment Holdings, Inc. are voted, in person or by proxy, by its authorized designate. As of December 31, 2015, Top Frontier Investment Holdings, Inc. has voting rights to a total of 1,573,100,340 shares of the Company which represent about 66.14% of the outstanding common capital stock of the Company.*

[6]*As of December 31, 2015, through Privado Holdings, Corp. and Master Year Limited, both stockholders of record of Top Frontier*

Common…...	Privado Holdings, Corp. Room 306 Narra Buuilding, 2776 Pasong Tamo Extension, Makati City	Ramon S. Ang, Filipino, as beneficial owner of 100% of the outstanding capital stock of Privado.[7]	Filipino	368,140,516	10.67%
Common…...	PCD Nominee Corporation Makati City	Various individuals/ entities	Filipino	33,861,903	9.27%
Series "2" Preferred Shares……..	PCD Nominee Corporation Makati City	Various individuals/ Entities	Filipino	285,902,143	

The following are the number of shares comprising the capital stock of the Company (all of which are voting shares) owned of record by Chief Executive Officer, the directors, key officers of the Company, and nominees for election as director, as of December 31, 2015:

Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares
	Common	Preferred		
Eduardo M. Cojuangco, Jr……..	1,718,679 (D)		Filipino	1,718,679 (0.05%)
Ramon S. Ang…………………..	757,873 (D) 368,140,516 (I)[8]		Filipino	368,898,389 (10.69%)
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%)
Ferdinand K. Constantino……..	187,500 (D)	200,000 (D)	Filipino	387,500 (0.01%)
Winston F. Garcia………………	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%)
Horacio C. Ramos....................	5,000 (D)		Filipino	5,000 (0.00%)
Thomas A. Tan.........................	5,000 (D)	400,000 (I)	Filipino	405,000 (0.01%)
Margarito B. Teves...................	5,000 (D)		Filipino	5,000 (0.00%)
Iñigo U. Zobel…………………...	16,171 (D) 943,230,964 (I)[9]		Filipino	943,247,135 (27.34%)
Virgilio S. Jacinto......................	25,622 (D)		Filipino	25,622 (0.00%)
Joseph N. Pineda……………….	42,600 (D)		Filipino	42,600 (0.00%)
Lorenzo G. Formoso.................	20,000 (D)		Filipino	20,000 (0.00%)
Elenita D. Go............................	62,600 (D)		Filipino	62,600 (0.00%)

Voting Trust Holders of 5.0% or more

There is no person holding more than 5.0% of the Company's voting securities under a voting trust arrangement.

Changes in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

[7] *As of December 31, 2015.*
[8] *Through his 100% shareholdings in Privado Holdings, Corp.*
[9] *Through his 59.96% shareholdings in Top Frontier Investment Holdings, Inc.*

Certain Relationships and Related Transactions

Related Party Transactions

The Parent Company, certain subsidiaries and their shareholders and associates and joint ventures in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of September 30, 2015 and December 31, 2014:

	Reporting Period	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	**September 30, 2015**	**₱1**	**₱1**	**₱5,797**	**₱551**	On demand or less than 4 to 6 years;	Unsecured;
	December 31, 2014	₱26	₱ -	₱5,677	₱551	Interest and non-interest bearing	No impairment
Retirement Plans	**September 30, 2015**	**363**	**-**	**13,092**	**-**	On demand;	Unsecured;
	December 31, 2014	216	-	12,686	-	Interest bearing	No impairment
Associates	**September 30, 2015**	**1,371**	**119**	**176**	**-**	On demand;	Unsecured;
	December 31, 2014	2,066	98	7,473	159	Interest and non-interest bearing	No impairment
	September 30, 2015	**-**	**-**	**-**	**17,562**	Less than 1	Unsecured and
	December 31, 2014	-	-	-	16,640	to 10 years; Interest bearing	secured
Joint Ventures	**September 30, 2015**	**-**	**85**	**671**	**-**	On demand;	Unsecured;
	December 31, 2014	-	83	674	1	Non-interest bearing	No impairment
Shareholders in Subsidiaries	**September 30, 2015**	**222**	**61**	**49**	**1,483**	On demand;	Unsecured;
	December 31, 2014	107	15	20	347	Non-interest bearing	No impairment
Others	**September 30, 2015**	**99**	**-**	**60**	**6,147**	On demand;	Unsecured;
	December 31, 2014	92	-	6,931	46	Non-interest bearing	No impairment
Total	**September 30, 2015**	**₱2,056**	**₱266**	**₱19,845**	**₱25,743**		
Total	December 31, 2014	₱2,507	₱196	₱33,461	₱17,744		

a. Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.

b. Amounts owed to related parties consist of trade payables and professional fees. The amount owed to the Ultimate Parent Company pertains to dividend payable.

c. The amounts owed to associates include interest bearing loans to Bank of Commerce presented as part of “Loans payable” and “Long-term debt” accounts in the consolidated statements of financial position.

Selected Financial Information and Other Data

Prospective investors should read the selected financial information presented below in conjunction with the consolidated financial statements of SMC and the notes to those consolidated financial statements included as Appendices “A” and “B” of this Prospectus. Prospective investors should also read “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

The summary financial and operating information of SMC presented below as of and for the years ended December 31, 2014, 2013 and 2012 were derived from the consolidated financial statements of SMC, audited by R.G. Manabat & Co. (formerly Manabat Sanagustin & Co.) and prepared in compliance with PFRS. The financial and operating information of SMC presented below as of and for the nine months ended September 30, 2015 and 2014 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 no guarantee of its future operating and financial performance.

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2012	**2013**	**2014**	**2014**	**2015**
		(Audited)		**(Unaudited)**	
	(in millions except per share figures or where otherwise indicated)				
Consolidated Statements of Income Data					
Sales	₱ 699,916	₱ 748,241	₱782,434	₱593,470	₱504,520
Cost of sales	595,581	631,856	669,641	506,617	402,176
Gross profit	104,335	116,385	112,793	86,853	102,344
Selling and administrative expenses	(52,600)	(60,971)	(57,018)	(39,644)	(44,213)
Interest expense and other financing charges	(29,800)	(30,970)	(29,710)	(21,925)	(24,111)
Interest income	4,253	3,539	4,012	2,844	3,286
Equity in net earnings (losses) of associates and joint ventures	2,638	(967)	1,255	1,009	(486)
Gain on sale of investments and property and equipment	4,549	41,192	777	218	75
Other income (charges) – Net	12,689	(13,780)	6,307	7	(7,837)
Income before income tax	46,064	54,428	38,416	29,362	29,058
Income tax expense	8,406	3,700	10,284	6,211	10,113
Net income	₱37,658	₱50,728	₱ 28,132	₱23,151	₱18,945
Attributable to:					
Equity holders of the Parent Company	₱ 26,806	₱ 38,053	₱14,692	₱13,170	₱6,167
Non-controlling interests	10,852	12,675	13,440	9,981	12,778
	₱37,658	₱ 50,728	₱ 28,132	₱ 23,151	₱18,945
Earnings per common share attributable to equity holders of the Parent Company basic	₱ 8.72	₱13.43	₱ 3.61	₱3.61	₱0.46
Earnings per common share attributable to equity holders of the Parent Company diluted	₱ 8.67	₱ 13.36	₱ 3.59	₱3.59	₱0.46

	As of the years ended December 31,			As of the nine months ended September 30,
	(Audited)			(Unaudited)
	(in millions except per share figures or where otherwise indicated)			
	2012	2013	2014	2015
Consolidated Statements of Financial Position Data				
Assets				
Total current assets	₱ 372,891	₱ 489,006	₱ 539,235	₱456,223
Total noncurrent assets	670,079	681,081	677,815	780,791
Total assets	₱ 1,042,970	₱ 1,170,087	₱ 1,217,050	₱1,237,014
Liabilities and Equity				
Current liabilities				
Total current liabilities	₱ 268,710	₱ 335,546	₱ 354,411	₱329,508
Total noncurrent liabilities	425,323	468,764	473,158	526,252
Equity				
Equity attributable to equity holders of the Parent Company	252,249	237,707	240,462	236,147
Non-controlling interests	96,688	128,070	149,019	145,107
Total equity	348,937	365,777	389,481	381,254
Total liabilities and equity	₱ 1,042,970	₱ 1,170,087	₱ 1,217,050	₱1,237,014

	For the years ended December 31,			For the nine months ended September 30,	
	2012	2013	2014	2014	2015
	(Audited)			(Unaudited)	
	(in millions except per share figures or where otherwise indicated)				
Cash Flow Data					
Net cash provided by (used in):					
Operating activities	₱ 15,763	₱49,739	₱ 29,417	₱19,493	₱35,386
Investing activities	(56,262)	(27,219)	27,520	38,794	(31,254)
Financing activities	37,843	42,563	9,904	(13,479)	(70,117)
Effect of exchange rates changes in cash and cash equivalents	(701)	1,023	152	1,280	2,027
Net increase/(decrease) in cash and cash equivalents	(3,357)	66,106	66,993	46,088	(63,958)
Cash and cash equivalents at beginning of year	128,864	125,507	191,613	191,613	258,606
Cash and cash equivalents at end of period	₱125,507	₱ 191,613	₱ 258,606	₱ 237,701	₱194,648

Management's Discussion and Analysis of Results of Operations and Financial Condition

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of the SMC Group for the three-year period ended December 31, 2014 and the unaudited consolidated financial statements as of for the nine months ended September 30, 2015. The following discussion is lifted from the 2014 annual report (SEC Form 17-A) and the quarterly report as of September 30, 2015 (SEC Form 17-Q) filed with the SEC and should be read in conjunction with the attached audited consolidated statements of financial position of the SMC Group as of December 31, 2014 and 2013 and September 30, 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2014 and the nine months ended September 30, 2015. All necessary adjustments to present fairly the consolidated financial position of the SMC Group as of December 31, 2014 and the financial performance and cash flows for the year ended December 31, 2014 and for all the other periods presented, have been made.

2015 SIGNIFICANT TRANSACTIONS

INVESTMENTS

INFRASTRUCTURE

Acquisition of 44% Equity Interest in Atlantic Aurum Investments B.V. (AAIBV) and Exercise of Option to Acquire Additional 4.47%

On March 5, 2015, a Notarial Deed of Transfer of Shares was executed in accordance with the requirements of the laws of the Netherlands whereby Padma Fund L.P. transferred to San Miguel Holdings Corp. (SMHC) the following: (i) 44% additional equity interest in AAIBV; and (ii) 4.47% equity interest in AAIBV following the exercise by SMHC of its option in compliance with the terms and conditions of the Option Agreement. The total investment cost for the additional 48.47% equity interest amounted to US$224 million or ₱9,893 million.

With the transfer of the additional 48.47% equity interest, SMHC has 95% ownership interest in AAIBV as of March 5, 2015. As such, AAIBV became a subsidiary and is consolidated by SMHC effective March 5, 2015.

AAIBV has shareholdings in the companies that hold the concession rights to operate and maintain the South Luzon Expressway (SLEX) and the 16.38-kilometer (Stages 1 and 2) South Metro Manila Skyway (Skyway) and Stage 3 of the Skyway which connects the North Luzon Expressway and SLEX.

Acquisition of Additional 25.11% Ownership Interest in Private Infra Dev Corp. (PIDC) by Rapid Thoroughfares, Inc. (Rapid)

On September 21, 2015, Rapid , DMCI Holdings, Inc. and D.M. Consunji, Inc. (collectively, "DMCI") entered into a Deed of Sale of Shares wherein Rapid acquired the shares held by DMCI in PIDC, equivalent to 25.11% of the total outstanding capital stock of PIDC for a consideration of ₱1,827 million. As of September 30, 2015, Rapid effectively and beneficially owns 70.11% ownership interest in PIDC.

TELECOMMUNICATIONS

Acquisition of Additional 51.88% Equity Interest in Liberty Telecoms Holdings, Inc. (LTHI)

In September 2015, Vega Telecom, Inc. (Vega) acquired an additional 51.88% equity interest in LTHI thru the conduct of a tender offer and the acquisition of shares from the other shareholders.

In compliance with the Securities Regulation Code, Vega conducted a tender offer for the common shares of LTHI held by the public. A total of 57,271,369 common shares or 4.43% of the outstanding common shares of LTHI were tendered, and subsequently were crossed at the Philippine Stock Exchange (PSE) on September 2, 2015.

On September 2, 2015, Vega acquired a total of 426,800,168 common shares and 2,907,768,174 preferred shares from West Bay Holding S.P.C. Company, Wi-Tribe Asia Limited and White Dawn Solutions Holdings, Inc.

Upon completion of the tender offer and share purchases, Vega beneficially owns 87.18% of the outstanding common shares and 100% of the unlisted preferred shares of LTHI. As such, Vega obtained control and consolidated LTHI effective September 2, 2015.

LTHI is a holding company and owns 100% of shares of stock in Wi-Tribe. It operates its business through Wi-Tribe which provides data communications services primarily through broadband internet services.

FOOD

Acquisition of the 49% Interest in San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited)

In January 2015, San Miguel Pure Foods International, Limited (SMPFIL), a wholly-owned subsidiary of San Miguel Pure Foods Company Inc. (SMPFC), purchased from Hormel Netherlands B.V. (Hormel) the latter's 49% of the issued share capital of SMPFI Limited. SMPFIL already owned 51% of SMPFI Limited prior to the acquisition. SMPFI Limited is the sole investor in San Miguel Hormel (Vn) Co., Ltd., a company incorporated in Vietnam which is licensed to engage in live hog farming and the production of feeds and fresh and processed meats. Following the acquisition, SMPFI Limited has become a wholly-owned subsidiary of SMPFIL.

BEVERAGE

Acquisition by San Miguel Brewery Inc. (SMB) of the Non-alcoholic Beverage Assets of Ginebra San Miguel Inc. (GSMI)

SMB paid a total of ₱432 million (exclusive of value-added tax) for the acquisition of the assets of GSMI used in its non-alcoholic beverage business ("NAB Business") under the Deed of Sale for the property, plant and equipment used in the NAB Business ("NAB PPE") executed on April 1, 2015 and the Deed of Sale for the finished goods inventories and other inventories consisting of containers, raw materials, goods-in-process and packaging materials for the NAB Business executed on April 30, 2015. The purchase price is net of adjustments to the price of the NAB PPE after subsequent validation and confirmation by the parties.

OTHERS

Divestment of the Shares of Stock of Indophil Resources NL (Indophil)

On January 23, 2015, the Indophil shares of stock held by Coastal View Exploration Corporation (Coastal View) were transferred to Alsons Prime Investments Corporation (Alsons) for AUD30 cents per share following the approval by the Supreme Court of Victoria and the shareholders of Indophil of the Scheme of Arrangement proposed by Alsons. Coastal View received the payment on the sale of the investment amounting to AU$14.41 million or ₱493 million on January 30, 2015.

PREFERRED SHARES

Reissuance of Series "1" Preferred Shares of the Parent Company

On April 14, 2015, the Parent Company issued from its treasury shares 279,406,667 Series "1" Preferred Shares in the name of certain subscribers at ₱75.00 per share or a total amount of ₱20,956 million.

On June 10, 2015, the 279,406,667 Series "1" Preferred Shares of the Parent Company were traded on the PSE.

Reclassification of 810,000,000 Series "1" Preferred Shares to Series "2" Preferred Shares of the Parent Company

At the Annual Stockholders' Meeting of the Parent Company held on June 9, 2015, the stockholders of the Parent Company approved the amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" Preferred Shares to Series "2" Preferred Shares. With the approved reclassification, the resulting distribution of the preferred shares of the Parent Company was 300,000,000 for Series "1" Preferred Shares and 1,910,000,000 for Series "2" Preferred Shares. The stockholders also approved the issuance of the Series "2" Preferred Shares subject to the passage of Enabling Resolutions containing the details of the terms and conditions of the issuance.

The amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" Preferred Shares to Series "2" Preferred Shares was approved by the Securities and Exchange Commission (SEC) on July 14, 2015.

On July 14, 2015, the Board of Directors (BOD) of the Parent Company authorized the following:

- Issuance and offer for sale to the public and investors of 446,667,000 of the Series "2" Preferred Shares of the Parent Company, at an issue price of ₱75.00 per share, to be issued up to three subseries;
- Filing of a Registration Statement and Prospectus with the SEC; and
- Filing of listing application with the PSE of the new subseries of the Series "2" Preferred Shares.

For these purposes, the BOD has authorized the engagement of the services of underwriters, advisors, legal counsels, stock and transfer agent, receiving agent/bank, and other agents as may be necessary, proper or desirable to effect the offering. The proceeds of the public offering will be used for the redemption of the outstanding Series "2-A" Preferred Shares of the Parent Company which may be redeemed on September 21, 2015.

Issuance of 446,667,000 Series "2" Preferred Shares – Subseries D, E and F by the Parent Company

On September 21, 2015, the Parent Company issued and listed in the PSE 446,667,000 Series "2" Preferred Shares in Subseries D, E and F. The Parent Company received ₱33,500 million from the issuance of the shares and used the proceeds from such issuance to redeem the SMC2A Preferred Shares.

The preferred shares were issued with the following dividend rates.

Subseries	**Number of Shares**	**Dividend Rate Per Annum**
2 – D	89,333,400	5.9431%
2 – E	134,000,100	6.3255%
2 – F	223,333,500	6.8072%

Redemption of Series "2" Preferred Shares – Subseries A by the Parent Company

On September 21, 2015, the Parent Company redeemed the Series "2" Preferred Shares – Subseries A at a redemption price of ₱75.00 per share plus any unpaid cash dividends.

Redemption of the 2010 Preferred Shares by Petron Corporation (Petron)

On November 7, 2014, the BOD of Petron approved the redemption of the 2010 Preferred Shares at a redemption price of ₱100.00 per share in accordance with terms and conditions of the issuance of the 2010 Preferred Shares. The redemption price of the 2010 Preferred Shares and all accumulated unpaid cash dividends was paid on March 5, 2015 to the stockholders of record as of February 18, 2015.

Redemption of Preferred Shares by Petron Global Limited (PGL)

On May 13, 2015, PGL redeemed its 150,000,000 series A and 200,000,000 series B cumulative, non-voting, non-participating and non-convertible preferred shares at a redemption price equal to its original issue price and par value of US$1.00 per share. These preferred shares were issued to a third party investor in 2012.

Redemption of Outstanding Preferred Shares by SMPFC

On February 3, 2015, SMPFC's BOD approved the redemption on March 3, 2015 of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of ₱1,000.00 per share.

The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as at February 17, 2015. The redeemed preferred shares thereafter became part of SMPFC's treasury shares.

Issuance of Series "2" Perpetual Preferred Shares (PFP2 Shares) by SMPFC

On January 20, 2015, the BOD of PSE approved, subject to SEC approval and certain conditions, the application of SMPFC to list up to 15,000,000 PFP2 Shares with a par value of ₱10.00 per share to cover SMPFC's preferred shares offering at an offer price of ₱1,000.00 per share and with a dividend rate to be determined by management.

On February 5, 2015, the SEC favorably considered SMPFC's Registration Statement covering the registration of up to 15,000,000 PFP2 Shares at an offer price of ₱1,000.00 per share (the "PFP2 Shares Offering"), subject to the conditions set forth in the pre-effective letter issued by the SEC on the same date.

On February 9, 2015, the PSE issued, subject to certain conditions, the Notice of Approval on SMPFC's application to list up to 15,000,000 PFP2 Shares with a par value of ₱10.00 per share to cover the PFP2 Shares Offering at an offer price of ₱1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

On February 11, 2015, further to the authority granted by SMPFC's BOD to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the PFP2 Shares Offering, management determined the terms of the PFP2 Shares (Terms of the Offer), including the initial dividend rate for the PFP2 Shares at 5.6569% per annum.

The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD. The PFP2 Shares are redeemable in whole and not in part, in cash, at the sole option of SMPFC, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The PFP2 Shares may also be redeemed in whole and not in part, under certain conditions (i.e., accounting, tax or change of control events). Unless the PFP2 Shares are redeemed by SMPFC on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the 3-day average of the 7-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by SMPFC, and issued the Order of Registration of up to 15,000,000 PFP2 Shares at an offer price of ₱1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, SMPFC's 15,000,000 PFP2 Shares with par value of ₱10.00 per share were issued and listed with the PSE.

A. UNDATED SUBORDINATED CAPITAL SECURITIES

Issuance of US$300 Million Undated Subordinated Capital Securities by SMC Global Power Holdings Corp. (SMC Global)

On August 26, 2015, SMC Global issued and listed in the Singapore Stock Exchange a Reg S, Unrated Perpetual Non-Call 5.5 years US$300 million Undated Subordinated Capital Securities. SMC Global priced the deal at 6.75%.

The issuance proceeds of ₱13,862 million will be used to finance investments in power-related assets, including its Greenfield power projects, and general corporate purposes.

B. FINANCING

PARENT COMPANY

On April 10, 2015, the Parent Company purchased a total of US$284 million or ₱12,611 million in principal amount of the US$800 million Medium Term Notes (MTN) issued in April 2013 to mature in 2023. The Parent Company purchased the Notes validly tendered and accepted for purchase at 95%, or a discount of 5%. The Parent Company recognized a gain of about ₱275 million for the transaction.

On September 8, 2015, the Parent Company drew US$287 million or ₱13,469 million from a loan facility agreement signed in April 2015. Proceeds from the 5-year floating rate loan were used for the repayment on April 10, 2015 of the MTN Tender Offer and any fees, costs and expenses in connection with the Tender Offer. The US$287 million loan's interest rate of LIBOR + 1.6% per annum is lower than the MTN rate of 4.875%.

PETRON

On July 29, 2015, Petron drew a US$550 million loan, amortized over 5 years with a 2-year grace period and is subject to a floating interest rate plus a fixed spread. Proceeds were used to refinance existing debt amounting to US$550 million, effectively extending the loan maturity profile from 2016 and 2017 to 2020. The US$550 million refinancing facility's spread is lower compared to the refinanced loans.

SMC Global

On March 6, 2015, SMC Global made the final drawdown of US$200 million (₱8,825 million) from the US$700 million 5-year floating rate loan facility agreement, for the financing of ongoing construction of power plants in Davao and Limay, investments in power-related assets, and for general corporate purposes.

South Luzon Tollway Corporation (SLTC)

On May 22, 2015, SLTC issued fixed rate bonds amounting to ₱7,300 million divided into Series A (₱2,400 million), Series B (₱2,400 million) and Series C (₱2,500 million) having a term of 5 years and 3 months or maturing on August 22, 2020, 7 years or maturing on May 22, 2022, and 10 years or maturing on May 22, 2025 respectively, with a fixed interest rate per annum of 4.9925%, 5.5796% and 6.4872%, respectively.

The net proceeds of SLTC's ₱7,300 million fixed rate bond offering were used to prepay the 5-year ₱7,975 million Peso-denominated Floating Rate Corporate Notes and Security Agreement drawn on April 4, 2012 with interest rate of the higher of (i) a spread of 3% per annum over PDST-F rate and (ii) the BSP Overnight Borrowing Rate plus 0.75% per annum.

Internally generated funds was used to pay the balance of the prepayment amounting to ₱675 million.

Vertex Tollways Devt. Inc. (Vertex)

On February 27 and May 29, 2015, Vertex has drawn ₱2,200 million and ₱2,600 million loan, respectively, for the financing of the ongoing construction of the Ninoy Aquino International Airport (NAIA) Expressway Project.

PIDC

On April 24, 2015, PIDC made the final drawdown of ₱3,640 million to complete the ₱15,140 million ten-year term loan facility used for financing the Tarlac-Pangasinan-La Union Toll Expressway (TPLEX) Project.

CITRA CENTRAL EXPRESSWAY CORP. (CCEC)

On August 28 and September 30, 2015, CCEC has drawn ₱3,500 million and ₱480 million from the ₱31,000 million available loan facility to partially finance the design and construction of the Stage 3 of Metro Manila Skyway Project.

I. FINANCIAL PERFORMANCE

2015 vs. 2014

San Miguel Corporation's consolidated sales revenues for the first nine months of 2015 amounted to ₱504,520 million, 15% lower than last year. This mainly reflects lower revenues from Petron due to the effect of lower oil prices and lower volumes from SMC Global with the scheduled maintenance of some facilities. This was slightly moderated by the contribution of infrastructure business with the consolidation of Skyway and SLEX starting March 2015 as well as the 7% increase in the combined sales of beverage, food and packaging businesses.

In contrast, the consolidated operating income grew 23% to ₱58,131 million, mainly attributed to Petron's higher margin, with the more stable pricing environment particularly during the current period, higher contribution from our infrastructure business and the continued good performance from the beverage, food and packaging businesses.

Excluding the effect of foreign exchange, net income stood at ₱26,832 million, 7% higher than last year. However, with the foreign exchange losses mostly unrealized and resulting from the conversion of foreign denominated debt to ₱46.74 to a dollar as of end September 2015, the year-to-date consolidated net income amounted to ₱18,945 million.

The consolidation of AAIBV Group starting March 2015 mainly accounts for the increase in interest expense and other financing charges.

The increase in interest income was mainly due to the interest income earned on the proceeds from the disposal of investments in Trustmark Holdings Corporation (Trustmark) and Zuma Holdings and Management Corporation (Zuma) and the net proceeds from the reissuance of treasury shares by the Parent Company.

In 2015, the equity in net losses primarily represents the share of SMC Global in the net loss of Angat Hydropower Corporation, a joint venture company starting November 18, 2014, net of the Group's share on AAIBV's net earnings for the period from January 1 up to March 4, 2015. AAIBV Group was consolidated starting March 5, 2015. Equity in net earnings in 2014 mainly represents the Group's share in AAIBV's net earnings for the nine-month period.

The depreciation of the peso against the US$ by ₱2.02 on September 30, 2015 as compared to ₱0.48 on September 30, 2014, resulted to higher foreign exchange losses in 2015.

The higher income tax expense in 2015 primarily resulted from the higher taxable income of Petron and SMB, the expiration of the income tax holiday of SMEC, SPPC and SPDC effective July 2014 and the consolidation of the AAIBV Group.

2014 vs. 2013

San Miguel Corporation's 2014 consolidated sales revenue for September 2014 amounted to about ₱593,470 million, 9% higher than 2013. Most businesses continued to grow during the third quarter of 2014 with the Energy business registering 25% increase versus same quarter in 2013.

The corresponding consolidated operating income for September 2014 amounted to ₱47,209 million, 2% higher than 2013. SMC Global continued to deliver better results with higher volumes and prices as well as lower generation costs. Petron, on the other hand, showed a decline in profitability with the sharp drop in crude prices during the 3rd quarter of 2014 resulting to high-priced inventories being sold at lower prices.

Net income before non-controlling interests amounted to ₱23,151 million, 31% higher than 2013, with lower interest expenses and foreign exchange losses. The corresponding net income attributable to equity holders of the Parent Company is ₱13,170 million, 74% higher than 2013's comparable figure.

The increase in equity in net earnings of associates and joint ventures was mainly due to the increase in share in the net income in our non-controlling interests in Philippine Airlines, Inc. and in AAIBV.

Interest expense in 2014 is lower than of the same period in 2013 mainly due to higher capitalized interest on loans used to finance the Refinery Master Plan Phase 2 (RMP-2) Project of Petron.

The overall performance of the Group resulted in the significant increase in income before tax and income tax expense in September 2014.

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

1. BEVERAGE

2015 vs. 2014

SMB

SMB, for the first nine months of 2015, posted consolidated sales revenues of ₱58,790 million, 4% higher versus 2014. This is mainly attributed to domestic operations' sustained volume. Domestic revenues increased by 11% to ₱50,165 million. International operations, on the other hand, have been affected by challenges in North China, Hong Kong and Indonesia. This, in turn, resulted in a 3% decline in consolidated volumes or down to 148.2 million cases.

Operating income grew 3% to ₱15,746 million, on the back of sustained revenue growth and execution of cost management programs.

GSMI

GSMI continues to recover its profitability with September 2015 year-to-date net income reaching ₱9 million, a significant turnaround from last year.

This was achieved on the back of 5% volume growth bringing September year-to-date volumes to 15.8 million cases, a result of a 7% increase in volumes of the flagship brand, Ginebra San Miguel. Consolidated revenues reached ₱11,487 million, 8% ahead of last year.

Improved distillery efficiencies also helped lowered alcohol costs and further improved gross contribution margin resulting to an operating income as of September 2015 of ₱396 million, significantly higher than last year.

2014 vs. 2013

SMB

SMB's consolidated sales volume reached 153 million cases, 3% higher compared to the same period in 2013. This translated to a 5% growth in consolidated revenues reaching about ₱56,283 million.

Operating income reached ₱15,270 million. Beer Domestic operations still felt the effects of the increase in excise taxes in January 1, 2014, as reflected in the slightly slimmer margins. On the other hand, Beer International continued to deliver strong operational performance, particularly from Hong Kong, Guangdong and exports.

GSMI

GSMI continued to recover as it posted an operating income of ₱124 million as of September 2014, a turnaround from 2013. This was on volumes of 15 million cases, 2% higher than 2013's level. Consolidated revenues of ₱10,628 million are up by 7% from 2013, at the back of the implemented price increase last January 2014. Gross contribution remained at 26%, significantly ahead of 2013, owing to lower bottle and alcohol costs, and improved efficiencies at the distillery.

1. FOOD

2015 vs. 2014

SMPFC posted revenue growth of 3%, bringing food revenues as of September 2015 to ₱76,601 million. Feeds and flour businesses sustained the revenues of Agro and Milling Clusters, even with lower selling prices in poultry and meat businesses in the first half of the year. On the other hand, new product launches as well as, the continued strong demand for core brands, such as Pure Foods, Magnolia, Star and Dari Crème, contributed to the revenue growth of Branded Value-Added Cluster revenues.

The consolidated operating income for the period rose 4% to ₱4,499 million. This was achieved as margins for feeds business and core brands have improved, moderating the weak performance of poultry and meats businesses.

<u>2014 vs. 2013</u>

SMPF's consolidated revenue for September 2014 grew 4% to ₱74,415 million. This growth was driven by Agro and Milling businesses which posted a revenue increment of 7% due to favorable market prices and better sales volume. Branded value-added cluster has improved sales by 2% to ₱15,883 million driven by Magnolia dairy, fats and oil.

Including the incremental cost incurred due to port congestion and the net cost of damages to our facilities due to Typhoon Glenda, the Food business managed to increase its consolidated operating income by 18%. Consolidated operating income reached ₱4,327 million in September 2014, resulting from better margins for Poultry, Meats business and Flour as well as improved fixed cost management.

2. PACKAGING

<u>2015 vs. 2014</u>

San Miguel Yamamura Packaging Group (SMYPG) grew revenues by 5% to ₱18,186 million for the first nine months of 2015. The glass business continued its strong performance, posting a 27% increase in revenues, driven by strong demand from beverage and pharmaceutical companies. Australia operations also made a solid performance with improved sales from Cospak Limited and contribution from the newly acquired cork company, Vinocor Worldwide Direct Pty. Ltd.

Corresponding operating income increased by 8% to ₱1,709 million.

<u>2014 vs. 2013</u>

SMYPG's consolidated operating income for September 2014 amounted to ₱1,576 million, 6% higher than 2013.

Revenues as of September 2014, on the other hand, showed a decline of 3% versus 2013 - ending at ₱17,264 million. The business continued to experience lower demands from Glass, Plastics and Metal businesses due to lower requirements from SMB, GSMI and carbonated soft drink clients.

3. ENERGY

2015 vs. 2014

SMC Global's offtake volume for the first nine months of 2015 was 12.3 giga-watt hours, 5% lower than last year. This was mainly due to lower bilateral volumes, still reflective of the scheduled maintenance outage and occasional gas supply restrictions experienced at the Malampaya gas facilities and the scheduled annual maintenance of Ilijan and Sual power plants. The decrease was moderated by higher generation of San Roque and higher contribution from the Limay Co-generation power plant.

This resulted in consolidated revenues of about ₱58,997 million, an amount lower than last year. Likewise, operating income at ₱19,343 million registered a decline versus last year.

<u>2014 vs. 2013</u>

Higher bilateral volume from Sual and Ilijan contributed primarily to SMC Global's higher off-take volume at 13 million megawatt hours as of September 2014, surpassing 2013's level by 4%. Coupled with higher average bilateral and Wholesale Electricity Spot Market prices versus 2013, consolidated revenues grew 19% to about ₱65,516 million.

The Energy business' September 2014 consolidated operating income amounted to ₱21,877 million. The co-generation solid fuel fired power plant in Limay contributed 5% to the total operating income.

4. FUEL AND OIL

2015 vs. 2014

Petron posted ₱5,068 million in consolidated net income for the first nine months of 2015, a 58% increase from the same period of last year. This growth is attributed to higher volumes and a more stable pricing environment.

Philippine operations led the volume growth with September year-to-date sales reaching 46.6 million barrels, higher by 22% from last year. Gains from the company's service station expansion program continued as shown by the 12% increase in retail volumes. LPG sales also grew 21% as Petron Gasul brand remains the most preferred in the market.

On the other hand, Petron Malaysia's volumes also increased by 3%, ending at 27 million barrels. The combined volumes for the first three quarters of 2015 reached 73.6 million barrels, higher by 14% from last year.

Petron consolidated revenues, however, dipped by 27% and ended at ₱278,295 million due to lower oil prices. Operating income grew by as much as 91% and reached ₱13,662 million.

2014 vs. 2013

Petron's September 2014 consolidated revenues reached about ₱379,540 million, 13% higher than 2013. This is on volumes of 64.7 million barrels, 7% ahead of 2013's level. Petron Philippines contributed 38.3 million barrels in volume and ₱234,849 million in revenues, 11% and 17% higher than 2013, respectively. Higher demand from power generation coupled with the 6% increase in retail volumes contributed by the service station expansion program supported the growth. Malaysia operations also contributed 26.3 million barrel, a 2% growth from 2013 driven by retail and aviation fuel sales.

Operating income for the first nine months of 2014 amounted to ₱7,148 million, a 25% decline from 2013. This is due to the sharp drop in crude prices during the third quarter of 2014 resulting to high-priced inventories being sold at low prices.

5. INFRASTRUCTURE

2015 vs. 2014

Infrastructure business which is mainly represented by the toll way operations of Skyway and SLTC, were consolidated in the San Miguel group starting March 2015, contributing ₱9,004 million in revenues and about ₱5,146 million in operating income.

On a full nine-months results, the Infrastructure business reached about ₱10,954 million in revenues and contributed operating income of ₱6,411 million, both 17% higher than last year. Revenue growth is attributed to increase in traffic volumes of Skyway, SLEX, and Southern Tagalog Arterial Road (STAR) and full operations of sections 1 and 2 for TPLEX.

II. FINANCIAL POSITION

2015 vs. 2014

The Group's consolidated total assets as of September 30, 2015 amounted to ₱1,237,014 million, ₱19,964 million higher than 2014. The increase is primarily due to the consolidation of AAIBV's balance of toll road concession rights to operate and maintain the SLEX and the Skyway and the recognition of goodwill upon the consolidation of AAIBV starting March 5, 2015, net of the decrease in cash and cash equivalents.

Cash and cash equivalents decreased by ₱63,958 million mainly due to the: a) redemption of the 2010 Preferred Shares of Petron and Series A and B Preferred Shares of PGL; b) net payment by Petron of short-term loans; c) payment by SMC Global of finance lease liabilities; and d) payment by the Group of interests and other financing charges and dividends and distributions. The effect of the foregoing transactions was partially offset by the consolidation of the cash and cash equivalents balance of AAIBV Group and the proceeds from issuance of undated subordinated capital securities and loan drawdown by SMC Global.

Trade and other receivables decreased by ₱28,558 million mainly due to the receipt by Petron of the refund of Value-Added Tax (VAT) claims and the collection of: a) non-trade receivables of SMHC, b) advances to crude supplier of Petron, and c) trade receivables of SMPFC.

Inventories decreased by ₱10,345 million mainly due to lower volume and price of crude and finished products of Petron, net of the seasonal build-up of raw materials by SMPFC.

Prepaid expenses and other current assets increased by ₱20,437 million mainly due to the increase in: a) unutilized VAT credit certificates of Petron Philippines and excess input VAT of Petron Malaysia with the implementation of Goods and Services Tax starting April 1, 2015; and b) excess input VAT of SMC Global due to payments made for the purchase of materials and equipment and payment of labor for the construction of the new power plants; and the consolidation of AAIBV Group's balance, particularly its advances to contractors and suppliers, prepaid taxes, restricted cash and prepaid insurance and other expenses.

The decrease in assets held for sale was primarily due to the sale of the investment in shares of stock of Indophil by Coastal View.

Investments and advances decreased by ₱13,353 million in 2015 mainly due to the reclassification from investments in associates to investments in subsidiaries of the carrying amount of the investment in AAIBV Group and LTHI.

Property, plant and equipment increased by ₱32,722 million mainly due to the on-going plant construction of Davao Power Plant, Limay Power Plant (Phase 1 and 2), additional capital expenditures on the RMP-2 project and Petron Malaysia's network expansion and regular maintenance.

Investment property increased by ₱329 million mainly due to the acquisition by San Miguel Properties, Inc. of land for future development in Makati City, net of the reclassification to property, plant and equipment of the Makati Diamond Residences' (MDR) model unit and land where the building is located.

Biological assets increased by ₱163 million as breeding stocks affected by typhoon Glenda were replenished.

Goodwill increased by ₱17,206 million mainly due to the recognition of goodwill upon the consolidation of AAIBV Group.

Other intangible assets increased by ₱70,365 million mainly due to the consolidation of AAIBV's toll road concession rights to operate and maintain the SLEX and the Stages 1 to 3 of the Skyway; the recognition of licenses upon the consolidation of LTHI and the recognition of additional toll road concession rights for the various infrastructure projects namely: NAIA Expressway, TPLEX and Boracay Airport.

Deferred tax assets increased by ₱2,049 million mainly due to the recognition by the Parent Company of deferred tax asset on the net operating loss carry over (NOLCO), marked-to-market loss on derivatives and unrealized forex loss.

Other noncurrent assets decreased by ₱6,654 million mainly due to the elimination of the noncurrent receivable of the Parent Company from AAIBV upon its consolidation starting March 2015.

Loans payable decreased by ₱33,418 million in 2015 mainly due to the payments made by Petron and SMPFC of their short-term loans.

Accounts payable and accrued expenses decreased by ₱19,129 mainly due to payment made by Petron to various contractors and suppliers, primarily related to the RMP-2 Project and lower liabilities for crude oil and petroleum product importations due to decline both in volume and price of crude and finished products. The decrease was moderated by the increase in payable to suppliers and contractors pertaining to the on-going power plant construction in Davao and Bataan (Phase 1 and 2), and consolidation of AAIBV Group's balance.

Dividends payable decreased by ₱1,592 million mainly due to the payment by the Parent Company in 2015 of the dividends payable to its preferred stockholders which were outstanding in 2014.

The increase in long-term debt of ₱66,396 million was mainly due to the consolidation of the balance of AAIBV, and the loan availments made by: a) SMC Global to finance the ongoing construction of the power plant in Limay - Phase 2, b) Vertex to fund the NAIA Expressway Project, c) CCEC to fund the Skyway Stage 3 Project, and d) PIDC to fund the TPLEX Project.

Deferred tax liabilities increased by ₱6,879 million primarily due to the consolidation of AAIBV.

The decrease in finance lease liabilities was mainly due to payments, net of interests and the effect of foreign exchange rate changes.

Other noncurrent liabilities increased by ₱13,549 million mainly due to deposit for future stock subscription received by Vega and consolidation of the noncurrent liability of the AAIBV Group.

Revaluation increment decreased by ₱1,346 million primarily due to the acquisition by Rapid from DMCI of its 25.11% non-controlling interest in PIDC.

Cumulative translation adjustments decreased by ₱3,405 million mainly due to the translation adjustments on the net assets of the foreign subsidiaries of Petron and SMHC.

Additional appropriation on retained earnings was made by SMPFC mainly to finance future capital expenditures.

The decrease in non-controlling interests (NCI) of ₱3,912 million was mainly due to the redemption of the Series A and B Preferred Shares of PGL and the 2010 Preferred Shares of Petron and the acquisition by Rapid from DMCI of its 25.11% NCI in PIDC. The effect of these transactions was tempered by the recognition of NCI upon the issuance of undated subordinated capital securities of SMC Global and the consolidation of AAIBV Group.

2014 vs. 2013

The Group's consolidated total assets as of September 30, 2014 amounted to ₱1,230,501 million, ₱60,414 million higher than 2013. The increase is primarily due to the higher balances of cash and cash equivalents, property, plant and equipment and other intangible assets.

Cash and cash equivalents increased by ₱46,088 million mainly due to the receipt of the proceeds from the sale of equity interest in Trustmark and Zuma and other related investments and advances and the collection of the remaining balance of the receivable on the sale of Meralco shares from JG Summit Holdings, Inc. (JG Summit), net of the funds used for payment of dividends.

Trade and other receivables decreased by ₱27,494 million primarily due to the collection of the remaining balance of the receivable on the sale of Meralco shares from JG Summit.

The increase in inventories amounting to ₱6,230 million basically represents the increase in importations of finished products by Petron Philippines and the increase in inventory of certain raw materials for feeds and the seasonal build-up of other major raw materials such as wheat, soybean meal and rice bran by SMPFC.

Prepaid expenses and other current assets increased by ₱7,539 million mainly due to the higher amount of input VAT of a) Petron as a result of the increase in the importations of crude oil and finished products during the period and b) SMC Global on the purchases of materials and equipment and payment of labor for the construction of the new power plants.

The increase in assets held for sale and the corresponding decrease in investments and advances pertains to the reclassification of the carrying value of the investment in shares of stock of Trustmark and Zuma and other related investments and advances.

Investment property increased by ₱1,956 million mainly due to the acquisition by Brewery Properties, Inc. of a property in Malabon for future expansion of Polo Brewery and additional construction costs of the MDR Project.

The increase in other intangible assets of ₱6,005 million represents the recognition of additional toll road concession rights for the various infrastructure projects namely: TPLEX, STAR, NAIA Expressway and the Boracay Airport.

Deferred tax assets increased by ₱2,373 million mainly due to the recognition of deferred tax on the NOLCO and on the unrealized foreign exchange loss of the Parent Company.

Other noncurrent assets decreased by ₱7,164 million mainly due to partial collection by Petron of its noncurrent receivables from Petron Corporation Employees Retirement Plan.

The increase in loans payable of ₱13,592 million in 2014 represents the net availments made by the Group during the period, for working capital requirements.

The increase in accounts payable and accrued expenses of ₱41,181 million primarily represents the proceeds from the divestment of the equity interest in Trustmark and Zuma and other related investments and advances, which were booked under this account pending the fulfillment of certain closing conditions under the Agreement.

Income and other taxes payable decreased by ₱1,647 million mainly due to the lower income subject to tax for the third quarter of 2014 compared to the fourth quarter of 2013.

Dividends payable decreased by ₱1,957 million mainly due to the payment by the Parent Company in 2014 of the dividends to its preferred stockholders which were outstanding in 2013.

The decrease in long-term debt of ₱2,977 million was mainly due to the payments made for the following: SMC exchangeable bonds, SMB bonds and San Miguel Yamamura Asia Corporation (SMYAC) loan, net of availments used for the various capital projects of Petron, Infrastructure and Energy businesses and translation adjustments.

Deferred tax liabilities increased by ₱1,054 million mainly due to the recognition by SMC Global of deferred tax liabilities relating to its finance lease liabilities and the increase in deferred tax liabilities of Petron from its unrealized gains and capitalized interests.

The reclassification to current liabilities of the retention payable to the contractors of the RMP-2 Project of Petron primarily represents the decrease in other noncurrent liabilities by ₱3,421 million.

Cumulative translation adjustments increased by ₱751 million mainly due to the effect of translation of the net assets of foreign subsidiaries and the fair value adjustment on the investment in shares of stock of Indophil.

Additional appropriations of retained earnings were made by SMC Shipping and Lighterage Corporation, SMPFC, SMYAC and SMITS, Inc. to finance future capital expenditures.

NCI increased by ₱12,058 million primarily due to the issuance of undated subordinated capital securities by SMC Global and the share of NCI in the net income of mainly SMB, Petron and SMPFC, net of dividends declared by Petron, SMB and SMPFC.

Equity

The increase (decrease) in equity is due to:

(In millions)	September 30	
	2015	2014
Reissuance of treasury shares	**₱54,456**	₱ -
Income during the period	**18,945**	23,151
Issuance of capital stock	**25**	95
Redemption of Subseries "2-A" preferred shares	**(54,076)**	-
Cash dividends and distributions	**(17,417)**	(16,997)
Other comprehensive income (loss)	**(5,431)**	1,176

Net addition (reduction) to non-controlling interests and others	**(4,729)**	13,094
	(₱8,227)	₱20,519

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	September 30	
	2015	2014
Net cash flows provided by operating activities	**₱35,386**	₱19,493
Net cash flows provided by (used in) investing activities	**(31,254)**	38,794
Net cash flows used in financing activities	**(70,117)**	(13,479)

Net cash from operations for the period basically consists of income for the period less changes in noncash current assets, certain current liabilities and others.

Net cash flows provided by (used in) investing activities basically include the following:

(In millions)	September 30	
	2015	2014
Cash and cash equivalents acquired from business combination net of cash paid	**₱14,415**	₱ -
Decrease (increase) in other noncurrent assets and others	**3,996**	(3,509)
Interest received	**3,203**	2,860
Proceeds from sale of investments and property and equipment	**731**	67,029
Additions to property, plant and equipment	**(43,983)**	(25,197)
Acquisition of subsidiaries	**(7,721)**	(247)
Additions to investments and advances	**(1,902)**	(2,147)

Net cash flows used in financing activities primarily consist of the following:

(In millions)	September 30	
	2015	2014
Redemption of preferred shares	**(₱94,718)**	₱ -
Proceeds from (payments of) short-term loans - net	**(31,541)**	13,276
Payment of cash dividends	**(19,010)**	(18,955)
Payment of finance lease liabilities	**(16,614)**	(15,075)
Proceeds from reissuance of treasury shares	**54,456**	-
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	**28,746**	13,127
Proceeds from (payment of) long-term debt - net	**9,000**	(5,831)

The effect of exchange rate changes on cash and cash equivalents amounted to ₱2,027 million and ₱1,280 million on September 30, 2015 and 2014, respectively.

IV. 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 2015	December 2014
Liquidity:		
Current Ratio	**1.38**	1.52
Solvency:		
Debt to Equity Ratio	**2.24**	2.12
Asset to Equity Ratio	**3.24**	3.12
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**3.23%**	6.15%
Interest Rate Coverage Ratio	**3.21**	2.97

	Period Ended September 30	
	2015	2014
Operating Efficiency:		
Volume Growth	**10%**	4%
Revenue Growth	**(15%)**	9%
Operating Margin	**12%**	8%

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	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests, Taxes, Depreciation and Amortization}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Sales at Prior Period Prices}}{\text{Prior Period Net Sales}}\right) - 1$
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*

External Audit Fees and Services

The Parent Company paid the external auditor Audit Fees amounting to ₱12 million, ₱10 million, and ₱13 million in 2015, 2014, and 2013. 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.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with the external auditors of the Company on accounting and financial disclosure.

Interest of Named Experts and Counsel

Legal Matters

All legal opinions/matters in connection with the issuance of the Offer Shares will be passed upon by Picazo Buyco Tan Fider & Santos (“Picazo Law”) for the Company and SyCip Salazar Hernandez & Gatmaitan for the Underwriters (“Sycip Law”). Picazo Law and Sycip Law have no direct interest in the Company.

Picazo Law and Sycip Law may from time to time be engaged to advise in the transactions of the Company and perform legal services on the basis that Picazo Law and Sycip 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, 2012, 2013, and 2014 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 unaudited condensed consolidated interim financial statements as of September 30, 2015 have been prepared in compliance with PAS 34.

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.

Taxation

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Offer Shares. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Offer Shares and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Offer Shares 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 Offer Shares 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 Offer Shares 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 Preferred Shares.

PROSPECTIVE PURCHASERS OF THE OFFER SHARES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE OFFER SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY 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.

Taxes on Dividends on the Offer Shares

Individual Philippine citizens and resident aliens are subject to a final tax on dividends derived from the Offer Shares at the rate of 10.0%, which tax shall be withheld by the Company.

Non-resident alien individuals engaged in trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Offer Shares at the rate of 20.0% on the gross amount thereof, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile or residence of such non-resident alien individual. A non-resident alien individual not engaged in trade or business in the Philippines is subject to a final withholding tax on dividends derived from the Offer Shares at the rate of 25.0% of the gross amount, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile or residence of such non-resident alien individual.

The term "non-resident holder" means a holder of the Offer Shares:

- who is an individual who is neither a citizen nor a resident of the Philippines or an entity which is a foreign corporation not engaged in trade or business in the Philippines; and

- should a tax treaty be applicable, whose ownership of the Offer Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

Dividends derived by domestic corporations (i.e., corporations created or organized in the Philippines or under its laws) and resident foreign corporations from the Offer Shares shall not be subject to tax.

Dividends received from a domestic corporation by a non-resident foreign corporation are generally subject to final withholding tax at the rate of 30.0%, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident foreign corporation. The 30.0% rate for dividends paid to non-resident foreign corporations with countries of domicile having no tax treaty with the Philippines may be reduced to a special 15.0% rate if:

- the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign sourced dividends; or
- the country in which the non-resident foreign corporation is domiciled allows a credit against the tax due from the non-resident foreign corporation for taxes deemed to have been paid in the Philippines equivalent to 15.0%.

The BIR has prescribed, through an administrative issuance, procedures for the availment of tax treaty relief. The application for tax treaty relief has to be filed with the BIR by the non-resident holder of the Offer Shares (or its duly authorized representative) at least 15 calendar days (Revenue Memorandum Order 1-2000) prior to the first taxable event, or prior to the first and only time the income tax payor is required to withhold the tax thereon or should have withheld taxes thereon had the transaction been subject to tax.

The requirements for a tax treaty relief application in respect of dividends are set out in the applicable tax treaty and BIR Form No. 0901-D. These include proof of tax residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the non-resident holder of Offer Shares which states that the non-resident holder is a tax resident of such country under the applicable tax treaty. If the non-resident holder of Offer Shares is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

If tax at the regular rate is withheld by the Company instead of the reduced rates applicable under a treaty, the non-resident holder of the Offer Shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue obtaining such a refund. Moreover, in view of the requirement of the BIR that an application for tax treaty relief be filed prior to the first taxable event as previously stated, the non-resident holder of the Offer Shares may not be able to successfully pursue a claim for refund if such an application is not filed before such deadline.

Stock dividends distributed pro rata to any holder of shares are not subject to Philippine income tax. However, the sale, exchange or disposition of shares received as share dividends by the holder is subject to either capital gains tax and documentary stamp tax or stock transaction tax.

Tax Treaties

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

Country	**Dividends** (%)	**Capital Gains Tax Due on Disposition of Shares Outside the PSE** (%)
Canada	25[(a)]	Exempt[(h)]
France	15[(b)]	Exempt[(h)]
Germany	15[(c)]	5/10[(i)]
Japan	15[(d)]	Exempt[(h)]
Singapore	25[(e)]	Exempt[(h)]
United Kingdom	25[(f)]	Exempt[(j)]
United States	25[(g)]	Exempt[(h)]

Notes:

(a) 15.0% if the recipient company controls at least 10.0% of the voting power of the company paying the dividends.

(b) 10.0% if the recipient company (excluding a partnership) holds directly at least 10.0% of the voting shares of the company paying the dividends.

(c) 10.0% if the recipient company (excluding a partnership) owns directly at least 25.0% of the capital of the company paying the dividends.

(d) 10.0% if the recipient company holds directly at least 10.0% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six months immediately preceding the date of payment of the dividends.

(e) 15.0% if during the part of the paying company's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year (if any) at least 15.0% of the outstanding shares of the voting shares of the paying company were owned by the recipient company.

(f) 15.0% if the recipient company is a company which controls directly or indirectly at least 10.0% of the voting power of the company paying the dividends.

(g) 20.0% if during the part of the paying corporation's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year (if any), at least 10.0% of the outstanding shares of the voting shares of the paying corporation were

owned by the recipient corporation. Notwithstanding the rates provided under the Republic of the Philippines-United States Treaty, residents of the United States may avail of the 15.0% withholding tax rate under the tax-sparing clause[10] of the Tax Code provided certain conditions are met.

(h) Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.

(i) Under the tax treaty between the Philippines and Germany, capital gains from the alienation of shares of a Philippine corporation may be taxed in the Philippines irrespective of the nature of the assets of the Philippine corporation. Tax rates are 5.0% on the net capital gains realized during the taxable year not in excess of ₱100,000 and 10.0% on the net capital gains realized during the taxable year in excess of ₱100,000.

(j) Under the tax treaty between the Philippines and the United Kingdom, capital gains on the sale of the shares of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.

In order for an exemption under a tax treaty to be recognized, an application for tax treaty relief on capital gains tax on the sale of shares must be filed by the income recipient before the deadline for the filing of the documentary stamp tax return, which is the fifth day from the end of the month when the document transferring ownership was executed.

The requirements for a tax treaty relief application in respect of capital gains tax on the sale of shares are set out in the applicable tax treaty and BIR Form No. 0901-C. These include proof of residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the seller of shares which provides that the seller is a resident of such country under the applicable tax treaty. If the seller is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

Sale, Exchange or Disposition of Shares after the Offer Period

Capital gains tax

Net capital gains realized by a resident or non-resident other than a dealer in securities during each taxable year from the sale, exchange or disposition of shares outside the facilities of the PSE, unless an applicable treaty exempts such gains from tax or provides for preferential rates, are subject to tax as follows: 5.0% on gains not exceeding ₱100,000 and 10.0% on gains over ₱100,000. An application for tax treaty relief must be filed (and approved) by the Philippine tax authorities to obtain an exemption under a tax treaty. Such application must be filed before the deadline for the filing of the documentary stamp tax return − otherwise, the tax treaty exemption cannot be availed of. The transfer of shares shall not be recorded in the books of the Company unless the BIR certifies that the capital gains and documentary stamp taxes relating to the sale or transfer have been paid or, where applicable, tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR in respect of the capital gains tax or other conditions have been met.

Taxes on transfer of shares listed and traded at the PSE

A sale or other disposition of shares through the facilities of the PSE by a resident or a non-resident holder, other than a dealer in securities, is subject to a stock transaction tax at the rate of 0.5% of the gross selling price or gross value in money of the shares sold or otherwise disposed, unless an applicable treaty exempts such sale from said tax. This tax is required to be collected by and paid to the Government by the selling stockbroker on behalf of his client. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Under certain tax treaties, the exemptions from capital gains tax discussed herein may not be applicable to stock transaction tax.

In addition, VAT of 12.0% is imposed on the commission earned by the PSE-registered broker, and is generally passed on to the client.

Prospective purchasers of the Offer Shares should obtain their own tax advice in respect of their investment in relation to these developments.

Documentary Stamp Taxes on Shares

The original issue of shares is subject to documentary stamp tax of ₱1.00 on each ₱200.00 par value, or fraction thereof, of the shares issued. On the other hand, the transfer of shares is subject to a documentary stamp tax at a rate of ₱0.75 on each ₱200.00, or fractional part thereof, of the par value of the Shares. The

[10] The tax-sparing clause of the Tax Code may also apply to countries other than the United States, i.e. Switzerland.

documentary stamp tax is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable either by the vendor or the purchaser of the shares.

However, the sale, barter or exchange of Offer Shares should they be listed and traded through the PSE are exempt from documentary stamp tax.

In addition, the borrowing and lending of securities executed under the securities borrowing and lending program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority, are likewise exempt from documentary stamp tax. However, the securities borrowing and lending agreement should be duly covered by a master securities borrowing and lending agreement acceptable to the appropriate regulatory authority, and should be duly registered and approved by the BIR.

Estate and Gift Taxes

The transfer of the Offer Shares upon the death of a registered holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5.0% to 20.0% if the net estate is over ₱200,000.00.

Individual registered holders, whether or not citizens or residents of the Philippines, who transfer the Offer Shares by way of gift or donation, will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2.0% to 15.0% if the total net gifts made during the calendar year exceed ₱100,000.00. The rate of tax with respect to net gifts made to a stranger (one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a flat rate of 30.0%. Corporate registered holders are also liable for Philippine donor's tax on such transfers, but the rate of tax with respect to net gifts made by corporate registered holders is always at a flat rate of 30.0%.

Estate and gift taxes will not be collected in respect of intangible personal property, such as shares, (1) if the deceased at the time of death, or the donor at the time of 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 (2) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow 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 that foreign country.

Corporate Income Tax

In general, a tax of 30.0% is imposed upon the taxable net income of a domestic corporation from all sources (within and outside the Philippines) pursuant to R.A. 9337, except, among other things, (a) gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust funds, and similar arrangements as well as royalties from sources within the Philippines which are generally taxed at the lower final withholding tax rate of 20.0% of the gross amount of such income; and (b) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax at the rate of 7.5% of such income.

Minimum Corporate Income Tax ("MCIT") of 2.0% of the gross income as of the end of the taxable year is imposed on a domestic corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when MCIT is greater than the ordinary income tax for the taxable year.

Nevertheless, any excess of the MCIT over the ordinary corporate income tax shall be carried forward and credited against the latter for the three immediately succeeding taxable years. Furthermore, subject to certain conditions, the MCIT may be suspended with respect to a corporation which suffers losses on account of a prolonged labor dispute, force majeure, or legitimate business reverses.

Regulatory Framework

The statements herein are based on the laws in force as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the regulatory and environmental considerations that may be relevant to the Company or the offering.

SMC

The Consumer Act

The Consumer Act of the Philippines, the provisions of which are principally enforced by the Department of Trade and Industry of the Philippines ("DTI"), 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 labeling 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, labeling and advertisement of products and prohibits the manufacture for sale, offer for sale, distribution, or importation of products which are not in conformity with applicable consumer product quality or safety standards promulgated thereunder.

Advertising Regulations

The Ad Standards Council Circulars in the Advertising Industry as formulated by the Ad Standards Council, a non-stock, non-profit organization, established by the Kapisanan ng mga Brodkaster ng Pilipinas, Philippine Association of National Advertisers and Association of Accredited Advertising Agencies handles the screening of all broadcast, out-of-home and print advertising and settlement of disputes regarding advertising content.

Foreign Investment Laws and Restrictions

Retail Trade Liberalization Act

Republic Act No. 8762, otherwise known as the Retail Trade Liberalization Act of 2000 ("R.A. 8762"), was enacted into law on March 7, 2000. R.A. 8762 liberalized the Philippine retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. Prior to the passage of R.A. 8762, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

"Retail Trade" is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling direct to the general public any merchandise, commodities, or goods for consumption. The law provides that foreign-owned partnerships, associations and corporations formed and organized under the laws of the Philippines may, upon registration with the SEC and the DTI or in case of foreign-owned single proprietorships, with the DTI, engage or invest in the retail trade business, in accordance with the following categories:

- Category A — Enterprises with paid-up capital of the equivalent in Philippine Pesos of less than US$2.5 million shall be reserved exclusively for Filipino citizens and corporations wholly-owned by Filipino citizens;
- Category B — Enterprises with a minimum paid-up capital of the equivalent in Philippine Pesos of US$2.5 million but less than US$ 7.5 million may be wholly owned by foreigners except for the first two years after the effectivity of R.A. 8762 wherein foreign participation shall be limited to not more than 60% of total equity;
- Category C — Enterprises with a paid-up capital of the equivalent in Philippine Pesos of US$7.5 million or more may be wholly owned by foreigners, provided, that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent in Philippine Pesos of US$830,000; and
- Category D — Enterprises specializing in high-end or luxury products with a paid up capital of the equivalent in Philippine Pesos of US$250,000 per store may be wholly-owned by foreigners.

No foreign retailer is allowed to engage in retail trade in the Philippines unless all the following qualifications are met:

- A minimum of US$200 million net worth in its parent corporation for Categories B and C, and US$50 million net worth in its parent corporation for Category D;
- Five retail branches or franchises in operation anywhere around the world unless such retailers has at least one (1) store capitalized at a minimum of US$25 million;
- Five-year track record in retailing; and
- Only nationals from, or judicial entities formed or incorporated in, countries which allow the entry of Filipino retailers, shall be allowed to engage in retail trade in the Philippines.

The implementing rules of R.A. 8762 define a foreign retailer as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly-owned by Filipinos, engaged in retail trade. The DTI is authorized to pre-qualify all foreign retailers, subject to the provisions of R.A. 8762, before they are allowed to conduct business in the Philippines.

Foreign Investment Act of 1991

The FIA liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100.0% equity except in areas specified in the Foreign Investment Negative List. This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws.

In connection with the ownership of private land, however, 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 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 60.0% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- a corporation organized abroad and registered as doing business in the Philippines under the Corporation Code, of which 100.0% 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 60.0% of the fund will accrue to the benefit of Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60.0% of the total shares outstanding and voting, the corporation shall be considered as a 100.0% Filipino-owned corporation. A corporation with more than 40.0% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years.

Local Government Code

The Local Government Code establishes the system and powers of provincial, city, municipal, and *barangay* governments in the country. The Local Government Code 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.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, though 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, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Securities and Exchange Commission

Under the SRC, the SEC has jurisdiction and supervision over all corporations, partnerships or associations that are grantees of primary franchises, license to do business or other secondary licenses. As the government agency regulating the Philippine securities market, the SEC issues regulations on the registration and regulation of securities exchanges, the securities market, securities trading, the licensing of securities brokers and dealers and reportorial requirements for publicly listed companies and the proper application of SRC provisions, as well as the Corporation Code, and certain other statutes.

Department of Trade and Industry

The DTI is the primary government agency with the dual mission of facilitating the creation of a business environment wherein participants could compete, flourish, and succeed and, at the same time, ensuring consumer welfare. It is the enforcement of laws to protect and educate consumers that becomes the driving factor in the relationship of DTI and manufacturers, such as SMC.

Department of Labor and Employment

Department of Labor and Employment stands as the national government agency mandated to formulate policies, implement programs and services, and serve as the policy-coordinating arm of the Executive Branch of the Government in the field of labor and employment. The Department has exclusive authority in the administration and enforcement of labor and employment laws and such other laws as specifically assigned to it or to the Secretary of Labor and Employment.

Social Security System and PhilHealth

An employer, or any person who uses the services of another person in business, trade, industry or any undertaking is required under the Social Securities Act of 1997 (Republic Act No. 8282) to ensure coverage of employees following procedures set out by the law and the Social Security System of the Philippines ("SSS"). The employer must deduct from its employees their monthly contributions based on a given schedule, pay its share of contribution and remit these to the SSS within a period set by law and/ or SSS regulations.

PhilHealth is a government corporation attached to the Department of Health of the Philippines ("DOH") that ensures sustainable, affordable and progressive social health insurance pursuant to the provisions of RA 7875 or the National Health Insurance Act of 1995. Employers are required to ensure enrollment of its employees in a National Health Program being administered by the PhilHealth.

Bangko Sentral ng Pilipinas

The Bangko Sentral ng Pilipinas ("BSP") is the central bank of the Republic of the Philippines. It was rechartered on July 3, 1993, pursuant to the provisions of the 1987 Philippine Constitution and the New Central Bank Act of 1993. The BSP was established on January 3, 1949, as the country's central monetary authority. Among its functions is the management of foreign currency reserves, by maintaining sufficient international reserves to meet any foreseeable net demands for foreign currencies in order to preserve the international stability and convertibility of the Philippine peso.

The Beverage Business

Various government agencies in the Philippines regulate the different aspects of the beer manufacturing, sales and distribution business of the Company. Philippine national and local government legislation require a license to sell alcoholic beverages and prohibit the sale of alcoholic beverages to persons below 18 years of age or within a certain distance from schools and churches.

The Food and Drugs Administration ("FDA", under the DOH, formerly known as the Bureau of Food and Drugs) administers and enforces the law, and issues rules and circulars, on safety and good quality supply of food, drug and cosmetic to consumers; and regulation of the production, sale, and traffic of the same to protect the health of the people. Pursuant to this, food manufacturers are required to obtain a license to operate as such. The law further requires food manufacturers to obtain a certificate of product registration for each product.

The Department of Health also prescribed the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers.

The Food Business

Health Regulations

The FDA administers and enforces the law, and issues rules and circulars, on safety and good quality supply of food, drug and cosmetic to consumers; and regulation of the production, sale, and traffic of the same to protect the health of the people.

Pursuant to this, food manufacturers are required to obtain a license to operate as such. The law further requires food manufacturers to obtain a certificate of product registration for each product.

The DOH (which includes the FDA) is the government agency tasked to implement the Consumer Act with respect to food products. The DOH also prescribes the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers. 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 Food Safety Act

In 2013, Republic Act No. 10611 (Food Safety Act of 2013) (the "Food and 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 and the Department of Health, their pertinent bureaus, and the local government units.

The law aims to: (i) protect the public from food-borne and water-borne illnesses and unsanitary, unwholesome, misbranded or adulterated foods, (ii) enhance industry and consumer confidence in the food regulatory system, and (iii) 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 Department of Agriculture and the Department of Health 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: (i) food to be imported into the country must come from countries with an equivalent food safety regulatory system; (ii) Imported foods shall undergo cargo inspection and clearance procedures by the Department of Agriculture and the Department of Health at the first port of entry to determine compliance with national regulations; and (iii) 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: (i) food business operators 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; (ii) in the event a food business operator 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; (iii) food business operators 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 (iv) where the unsafe or noncompliant food product may have reached the consumer, the food business operators shall have effectively and accurately informed the consumers of the reason for the withdrawal, and if necessary, recall the same from the market.

The FDDC 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 FDDC Act prohibits, among others, (i) the manufacture, importation, exportation, sale, offering for sale, distribution, transfer, non-consumer use, promotion, advertising, or sponsorship of 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, cosmetic or household/urban hazardous substance by any natural or juridical person without the license to operate from the FDA required under the FDDC Act. 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.

The Livestock and Poultry Feeds Act

The Philippine Livestock and Poultry Feeds Act and its implementing rules and regulations (the "Livestock and Poultry Feeds Act"), regulates and controls the manufacture, importation, labeling, advertising and sale of livestock and poultry feeds. The Bureau of Animal Industry (the "BAI") is the governmental office under the Department of Agriculture of the Philippines ("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, labeling 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.

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, labeling, packaging, branding and importation of meat (including, but not limited to, pork, beef and chicken meat) and meat products. The National Meat Inspection Service ("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.

The Meat Inspection Code provides for labeling, branding and packaging requirements for meat and meat products to enable consumers to obtain accurate information and ensure product traceability. The Meat Inspection 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 Price Act

Republic Act No. 7851 or the Price Act (the "Price Act") covers basic necessities such as fresh pork, beef and poultry meat, milk, coffee and cooking oil, and prime commodities such as flour, dried, processed and canned pork, beef and poultry meat, other dairy products and swine and poultry feeds. It is primarily enforced and implemented by the DA and DTI.

Under the Price Act, the prices of basic commodities may be automatically frozen or placed under price control in areas declared as disaster areas, under emergency or martial law or in a state or rebellion or war. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of 60 days. 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 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 prohibits and penalizes illegal price manipulation through cartels, hoarding or profiteering. 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 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 food service 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.

Other Relevant Tax-Related Regulations

On July 21, 2014, the Food and Drug Administration issued FDA Circular No. 2014-017 which prescribed the procedure for the issuance of the Food and Drug Administration Certification for Animal Feeds and Products. The FDA issued the circular pursuant to BIR Revenue Memorandum Circular No. 55-2014 which required FDA certification that imported livestock and poultry feeds or ingredients thereof are not fit for human consumption before the same would be considered exempt from VAT.

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 Adminstrative 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.

The Properties Business

Presidential Decree No. 957 (P.D. 957), the Subdivision and Condominium Buyer's Protective Decree, and Batas Pambansa Blg. 220 (B.P. 220) as amended, are the primary statutes which govern the development and sale of real estate projects such as subdivisions. These laws regulate subdivision projects including all areas included therein for residential, commercial, industrial and recreational purposes.

The Housing Land Use and Regulatory Board is the government agency with the jurisdiction to regulate real estate trade and business. In addition, subdivision plans for residential, commercial, industrial and other development projects are subject to the approval of the concerned local government unit ("LGU") where the project is located. Only upon the issuance of a development permit from the LGU may the development of the subdivision commence.

All subdivision plans are required to be filed with and approved by the HLURB. The HLURB shall approve the plan upon evaluation of the financial, technical, and administrative capabilities of the developer. Any alteration of the approved plan requires the approval of the HLURB and the written conformity or consent of the duly organized homeowners association of the development or a majority of the buyers.

The HLURB also issues licenses to sell to developers before any sale or disposition of he lots in the real estate development can be sold to the public. Individual dealers, brokers, and salesman of the company are likewise required to register with the HLURB as provided under the Real Estate Service Act of the Philippines (Republic Act 9646).

Under P.D. 957, a developer of residential subdivisions with an area of one (1) hectare or more is required to reserve at least 30.0% of the gross land area of the subdivision for open same and common areas. Furthermore, 3.5% of the gross project area must be reserved for parks and playgrounds.

The Urban Development and Housing Act (R.A. 7279), as amended, further requires developers of proposed subdivision projects to develop for socialized housing an area at least 20.0% of the total subdivision area or total subdivision project cost, at the option of the developer, within the same city or municipality, whenever feasible, and in accordance with the standards set by the HLURB and other existing laws. To comply, developers may choose to develop for socialized housing an area equal to 20.0% of the total area of the main subdivision project or allocate and invest an amount equal to 20.0% of the main subdivision total project cost in the development of a new settlement through purchase of socialized housing bonds, slum upgrading, participation in a community mortgage program, the undertaking of joint-venture projects and the building of a large socialized housing project to build a credit balance.

The Realty Intallment Buyer Act, (R.A. No. 6552), otherwise known as the "Maceda Law", applies to all transactions or contracts involving the sale or financing of real estate through installment payments. The Maceda Law, affords buyers who have paid at least two (2) years of instalment, a grace period of one (1) month for every year of paid installment to cure any payment default. In the event that the sale is cancelled, the seller must return to the buyer at least 50.0% of the total payments made by the buyer, with an additional 5.0% per annum in cases where at least five years of installment have been paid (but with the total not to exceed 90.0% of the total payments). Buyers who have paid less than two (2) years of installment and who default on installment payments are given a 60-day grace period to pay all unpaid installment before the sale can be cancelled, without right of refund.

Zoning and Land Use

LGUs are authorized under the Local Government Code to enact zoning ordinances. These ordinances may restrict or limit the zoning and land use of parcels of land within the locality. LGUs may classify parcels of land as commercial, industrial, residential or agricultural. A procedure for change of land use is allowed, although the process may be lengthy and cumbersome.

Land classified for agricultural purposes as of or after June 15, 1988, canot be convereted to non-agricultural use without the prior approval of DAR.

Property Registration

The property registration system of the Philippines confirms land ownership and is binding on all persons, including the Government. Once registered, title to the parcel of land can no longer be challenged unless it involves claims noted on the certificate of title. Title to registered lands may not be lost through adverse possession or prescription. The Property Registration Decree (P.D. 1529), as amended, codified the laws relative to land registration and is based on the generally accepted principles underlying the Torrens System.

Transfers or encumbrances on the parcel of land must be registered in the system, to bind third persons. A subsequent registration and a new Transfer Certificate of Title will be issued upon presentation of documents and settlement of taxes and fee. All documents evidencing conveyances of the subdivision should also be registered with the Register of Deeds. Title to the subdivision must be delivered to the purchaser upon full payment of the purchase price.

Nationality Restrictions

The Philippine Constitution limits ownership of land in the Philippines to Filipino citizens or to corporations the outstanding capital stock of which is at least 60.0% owned by Philippine Nationals. While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning building and other permanent structures.

For as long as the Company or any of its Subsidiaries own land in the Philippines or continue to conduct property development in the Philippines, foreign ownership in the Company must not exceed 40.0% of the capital stock of the Company which is outstanding and entitled to vote.

Property Taxation

Real property taxes are payable annually based on the property's assessed value, which vary depending on the location, use and the nature of the property. Under the Local Government Code, real property tax must not exceed 2.0% of the assessed value in municipalities and cities within Metro Manila or in other chartered cities and 1.0% in all other areas. An additional special education fund tax of 1.0% of the assessed value of the property is also levied annually.

The Fuel and Oil Business

Downstream Oil Industry Deregulation Act

Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (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.

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 liquefied petroleum gas 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 liquefied petroleum gas which are not property 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 liquefied petroleum gas cylinder, is broken or is absent or removed, it shall give rise to the presumption that the dispensing pump is underdelivering, or that the liquefied petroleum gas 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, (i) the sale or distribution of petroleum products without license or authority from the Oil Industry Management Bureau ("OIMB"), (ii) 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, (iii) refilling of liquefied petroleum gas 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 (iv) 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 liquefied petroleum gas 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 Department of Energy 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; and (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 (LPG) 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; and (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.

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 Environmental Compliance Certificate ("ECC") issued by the Department of Natural Resources of the Philippines ("DENR") for service stations and for environmentally-critical projects. Reports to the DOE are required for the following activities/projects relating to petroleum products: (i) refining, processing, including recycling and blending; (ii) storing/transshipment; (iii) distribution/ operation of petroleum carriers; (iv) gasoline stations; (v) LPG refilling plant; (vi) bunkering from freeports and special economic zones; and (vii) 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.

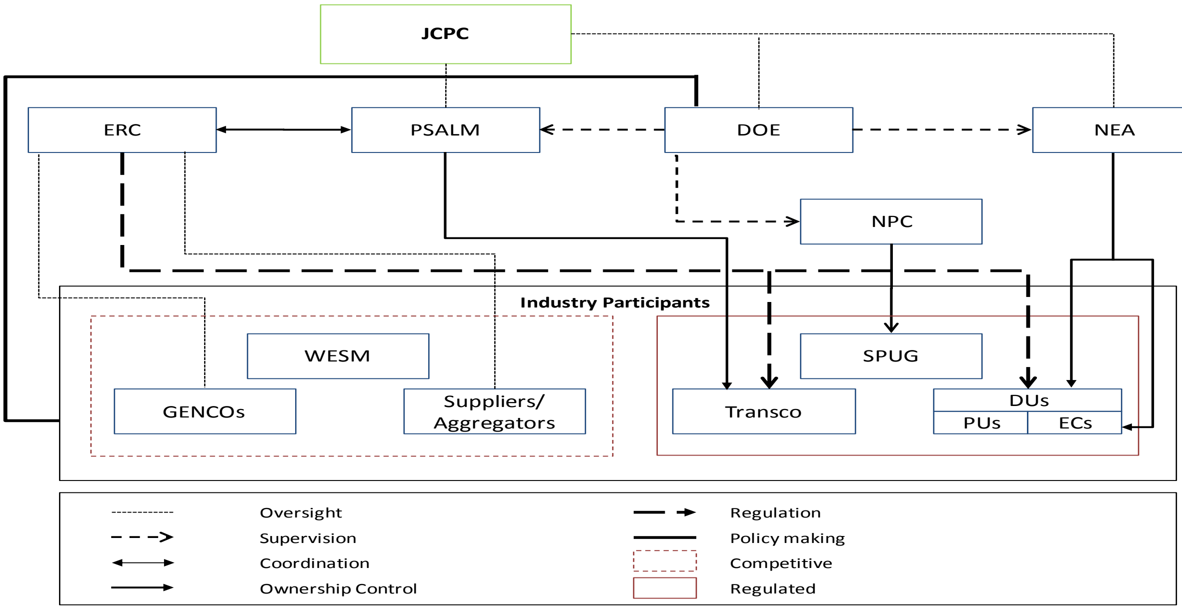
Republic Act No. 9337, also known as the "Expanded VAT Law", imposed a VAT of 10.0% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was increased to 12.0% effective February 1, 2006. The Expanded VAT Law also limited 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.

The Energy Business

Organization and Operation of the Power Industry

The EPIRA established a framework for the organization and operation of the electric power industry in connection with its restructuring, 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.

Power Industry Structure under the EPIRA



Note:
DUs: Distribution Utilities
ECs: Electric Cooperatives
GENCOs: Any entity authorized by the ERC to operate electricity generation facilities
JCPC: Joint Congressional Power Commission
PUs: Production Utilities

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Through the EPIRA, the Philippine government began to institute 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 to 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 ensure 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 Implementing Rules and Regulations of the EPIRA (the "EPIRA IRR") on February 27, 2002.

The EPIRA 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, namely the DOE, NPC, National Electrification Administration ("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 and distribution sectors will remain regulated. 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

The EPIRA provides that power generation is not a public utility operation. Thus, generation companies are not required to secure 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.

Generation companies are also subject to the rules and regulations of the ERC on abuse of market power and anti-competitive behavior. The ERC may impose fines and penalties for violation of the EPIRA and the EPIRA 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 contracts with various suppliers and private distribution utilities, or through spot sale transactions in the Wholesale Electricity Spot Market ("WESM"). Competition will be based largely on pricing, subject to availability of transmission lines to wheel electricity to the grid and/or buyers. 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. Upon commencement of retail competition and open access, generation rates, except those intended for the "Captive Market" (i.e., a market of electricity end-users who may not choose their supplier of electricity), will cease to be regulated.

The generation sector converts fuel and other forms of energy into electricity. This sector, by utility, 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. Successes in the privatization process of NPC continue to build up momentum for the power industry reforms.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to retail electricity suppliers through either bilateral contracts or the WESM as described below. Once the regime of retail competition and open access is implemented, generation companies may likewise sell electricity to eligible end-users. The ERC issued a resolution on January 24, 2007 prescribing the timeline for full retail competition and open access in Luzon. Pursuant to Section 31 of the EPIRA, such implementation is subject to the fulfillment of five conditions. The last of these conditions have been substantially fulfilled, namely: (i) the establishment of WESM; (ii) unbundling of transmission and distribution wheeling charges; (iii) initial implementation of the cross-subsidy removal scheme; and (iv) privatization of at least 70.0% of the total capacity of the generating assets of NPC in Luzon and Visayas, with the successful asset turnover of the rebidding for the 600 MW Calaca coal-fired power plant in August 2009. To date, the one (1) condition that remains unsatisfied is the transfer to IPPAs the management and control of at least 70.0% of the total energy output of power plants under contract with NPC and the IPPs. The same was accomplished in 2011 . No generation company is allowed to own more than 30.0% of the installed generating capacity of the Luzon, Visayas or Mindanao grids and/or 25.0% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50.0% of the distribution utility’s total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the effectiveness of the EPIRA.

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 agreements of NPC, which exclude the assets devoted to missionary electrification through the NPC Small Power Utilities Group (“SPUG”). 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.

As of June 30, 2011, PSALM has privatized 25 operating/generating power facilities with an aggregate rated capacity of 3,468.23 MW accounting for 91.80% of the total 3,778.23 MW total rated capacity of NPC generating assets in the Luzon and Visayas grids. Major generation assets include the 748 MW Tiwi-Makban geothermal power plant, the 655 MW Limay combined-cycle power plant, the 600 MW Calaca coal-fired thermal power plant, the 600 MW Masinloc coal-fired thermal power plant, the 360 MW Magat hydro-electric power plant and the 305 MW Palinpinon-Tongonan geothermal power plant. In addition, as of June 30, 2011, IPPA agreements covering generation assets with an aggregate rated capacity of 4,213.75 MW, or approximately 85.90% of the total energy output of power plants under contract with NPC and IPPAs have been awarded. These include IPPA agreements for the 1,000 MW Sual coal-fired power plant, the 700 MW Pagbilao coal-fired power plant, the San Roque Power Plant, the 70 MW Bakun hydro-electric power plant, the 40 MW Benguet hydro-electric power plant and the 1,200 MW Ilijan combined-cycle gas-fired power plant.

In terms of market share limitations, no generation company is allowed to own more than 30.0% of the installed generating capacity of the Luzon, Visayas, or Mindanao and/or 25.0% of the total nationwide installed generating capacity. To date, there is no power generation company, including NPC, breaching the mandated ceiling. Also, no generation company associated with a distribution utility may supply more than 50.0% of the total demand of the distribution utility under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the enactment of EPIRA.

Requirement of Public Offering for Generation Companies

Under Section 43(t) of the EPIRA, the ERC was mandated to issue rules and guidelines under which, among others, generation companies which are not publicly listed shall offer and sell to the public a portion of not less than 15.0% of their common shares of stock.

ERC Resolution No. 9, Series of 2011, the latest ruling of the ERC with regard to public offerings of generation companies and distribution utilities, adopted the rules to implement Section 43(t) of the EPIRA. Under the resolution, generation companies, among others, which are not publicly listed are required to sell to the public a portion of not less than 15.0% of their common shares of stock. If the authorized capital stock of a generation company is fully subscribed, such company must increase its authorized capital stock by 15.0% or sell or cause the sale of 15.0% of its existing subscribed capital stock in order to comply with the public offering requirement under the EPIRA.

Any offer of common shares of stock for sale to the public through any of the following modes may be deemed as a public offering for purposes of compliance with the public offering requirement under the EPIRA: (i) listing on the PSE; and (ii) listing of the shares of stock in any accredited stock exchange or direct offer of the required portion of a company’s capital stock to the public. For generation companies registered with the BOI under the Omnibus Investments Code, the public offering requirement may be complied with by a direct offer of the required portion of the registered enterprise’s shares of stock to the public or through its employees through an employee stock option plan (or any plan analogous thereto), provided such offer is deemed feasible and desirable by the BOI.

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 agreements that have not been disposed of by PSALM.

The Transmission Sector

Pursuant to the EPIRA, NPC has transferred its transmission and sub-transmission assets to the National Transmission Corporation ("TransCo"), which was created pursuant to the EPIRA to assume, among other functions, the operation of the electrical transmission systems throughout the Philippines. 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 Access to all industry participants. The EPIRA granted TransCo a monopoly over the high-voltage network and subjected it to performance-based regulations.

The transmission of electricity through the transmission grid is subject to transmission wheeling charges. Inasmuch as the transmission of electric power is a regulated common carrier business, the transmission wheeling charges of TransCo 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 subtransmission 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 US$3.95 billion. NGCP was officially granted the authority to operate the country's sole transmission system on January 15, 2009.

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: (i) the grid owner, or TransCo; (ii) the system operator, or NGCP as the current concessionaire of TransCo; and (iii) the market operator, or 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 operation 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;
- 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 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 ("CPCN") from the ERC to operate as public utilities.

All distribution utilities 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 ("DSOAR") and the performance standards set out in the EPIRA IRR.

The distribution sector is and will continue to be regulated by the ERC, with distribution and wheeling charges, as well as connection fees from its consumers, subject to ERC approval. Likewise, the retail rate imposed by distribution utilities for the supply of electricity to its captive consumers is subject to ERC approval. In addition, as a result of the Philippine government's policy of promoting free competition and open access, distribution utilities are required to provide universal and non-discriminatory access to their systems within their respective franchise areas following commencement of retail open access.

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 connected 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 is currently being undertaken solely by franchised distribution utilities. However, upon commencement of retail open access, the supply function will become competitive. The business is not considered a public utility operation and suppliers are not required to obtain franchises. However, the supply of electricity to the "Contestable Market" (i.e., a market of electricity end-users who have a choice on their supplier of electricity) is considered a business with a public interest dimension. As such, the EPIRA requires all suppliers of electricity to the Contestable Market 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.

Once retail competition and open access are implemented as mandated by the EPIRA, it is expected that the Contestable Markets may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. The EPIRA also contemplates that certain end-users will directly source power directly through the WESM or by entering into contracts with generation companies. This will encourage competition at the retail level. It has been planned that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

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 and wheeling charges and retail rates and to fix and regulate the rates and charges to be imposed by distribution utilities and their captive 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 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 review all power purchase contracts executed between NPC and IPPs, including the distribution utilities;
- 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 sector relating to the foregoing powers, functions and responsibilities.

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 sector 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 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
- recommendation of necessary remedial legislation or executive measures to correct the inherent weaknesses in the EPIRA.

Competitive Market Devices

Wholesale Electricity Spot Market

The EPIRA mandates the establishment of the WESM, which is a pre-condition for the implementation of retail competition and open access, within one (1) 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.

On June 28, 2002, the DOE, in cooperation with electric power industry participants, promulgated detailed rules for the WESM. These rules 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. The PEMC 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 became operational in the Luzon grid on June 26, 2006. Prior to the commencement of the Luzon WESM commercial operations, the ERC issued the enforcement of 90% cap on the bilateral supply contracts of distribution utilities to address other issues that may arise during the commercial operations of the WESM. The ERC is responsible for monitoring the 90.0% cap on power sourced from bilateral PSCs of distribution utilities' total monthly demand. As of the date of this Prospectus, there were more than 200 entities registered as WESM members.

Retail Competition and Open Access

The EPIRA likewise provides for a system of retail competition and 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 and wheeling charges. Conditions for the commencement of the 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 70.0% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- transfer of the management and control of at least 70.0% of the total energy output of power plants under contract with NPC to the IPPAs.

The Philippine government expects retail competition and open access to be implemented in phases. As far as Luzon is concerned, the WESM began operations in June 2006 and retail competition has already been introduced, with end-users who comprise the Contestable Market for this purpose already identified.

The ERC officially declared December 26, 2011 as the open access date, marking the commencement of the full operation of the competitive retail electricity market in Luzon and Visayas. This declaration (ERC Resolution No. 10 Series of 2011) was signed on June 6, 2011.

On October 24, 2011, through ERC Case No. 2011-009 RM, the ERC declared the deferment of the open access date. The ERC found that not all rules, systems, preparations, and infrastructures required to implement retail competition and open access have been put in place to allow a December 26, 2011 open access commencement. For instance, the accounting and billing system had not been finalized. The essential business-to-business system, an information technology structure that shall handle the information exchange among retail competition and open access participants, is also not yet in place.

Upon implementation of open access, the various 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 IPP 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.

Unbundling of Rates and Removal of Cross Subsidies

The EPIRA mandates that transmission and 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 (3) 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 (1) 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. The initial implementation of the cross-subsidy removal scheme was accomplished in 2001.

These arrangements are now in place, in satisfaction of the conditions for retail competition and open access.

The EPIRA likewise provides for a socialized pricing mechanism such as the lifeline rate subsidy 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 (10) years, unless extended by law. Its application was extended for another ten years by Republic Act No. 10150, which was approved in June 2011.

Implementation of the PBR

On June 22, 2009, the ERC issued the Rules for Setting Distribution Wheeling Rates that apply to privately owned distribution utilities entering Performance Based Regulation ("PBR") for the fourth entry points, 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 ("RORB") 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 which are reviewed and approved by the ERC and used by the ERC to determine a distribution utility's efficiency factor. For each year during the regulatory period, a distribution utility's distribution charge is adjusted upwards or downwards taking into consideration the utility's efficiency factor 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.

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 EPIRA IRR, President Arroyo enacted Executive Order No. 100 on May 3, 2002, to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

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 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 (5) years from the date of issuance.

In addition to the certificate of compliance requirement, a generation company must comply with technical, financial 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 for the Financial Standards of Generation Companies," which sets 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 coverage ratio 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, comparative audited financial statements for the two most recent 12-months periods, if available, 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 (2) financial years, as well as other documents.

The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties.

The ERC also governs the approval process for Power Supply Agreement ("PSAs") between distribution utilities and power suppliers. Under ERC Resolution No. 38, Series of 2006, Rule 20 (B), the ERC specified that the procedures established by the Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Rates (ERC Res. No. 11, s. 2005), shall also be applicable for PSAs of the distribution utilities. Aside from the regulatory certificates from the SEC, BOI, DOE, and the like, the ERC also requires additional documentary support for PSA approval. For instance, they require financial data such as debt-to-equity ratios, project costs, annual interests, weighted average cost of capital, bank loans, to name a few. The ERC also requires a specification of the cash flow on the initial costs, operating & maintenance expenses, Minimum Energy Offtake ("MEOT"), fuel costs, and the like. In addition, technical and economic characteristics of the generating plant such as the kWh generation (basis of maintenance allowance), installed capacity, mode of operation, and dependable capacity, also need to be presented for ERC approval.

Both resolutions specify that ERC must render a decision within 90 days from the date of filing of the application. If no decision is rendered within the 90 day period, the PSA shall be deemed approved, unless the extension of the period is due to extraordinary circumstances

Upon the introduction of retail competition and open access, the rates charged by a generation company will no longer be regulated by the ERC, except rates for Captive Markets (which are 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 licenses and permits.

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 Department of Transportation and Communications (DOTC). 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 SMC are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

Environmental Impact Statement System Law

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain aECC prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau (the "EMB"), determines whether a project is environmentally critical or located in an environmentally critical area and processes all applications for an ECC. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement ("EIS") to the EMB while a non-environmentally critical project in an environmentally critical area is generally required to submit an Initial Environmental Examination (the "IEE") to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required. Some activities of the Company are classified as environmentally critical projects such as the construction of major roads and bridges and engaging in petroleum and petro-chemical for which EIS and ECC are mandatory.

The EIS refers to both the document and the study of a environmental impact of the project, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by EMB during the scoping, environmental management program, direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Philippine government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the abandonment phase of the project.

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 that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not occur later than the initial construction phase of the project. The Environmental Monitoring Fund must be used to support the activities of a multi-partite monitoring team, which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

Clean Water Act

In 2004, Republic Act No. 9275, or the "Philippine Clean Water Act", was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country's water resources and provide for a comprehensive water pollution management program focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land based sources. The EMB, in partnership with other Philippine government agencies and the respective local government units, is tasked by the Implementing Rules of the Philippine Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law. The Philippine Water Act also authorizes the DENR to formulate water quality criteria and standards for oil and gas exploration which encounter re-injection constraints.

Said Act require 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 said 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.

Other Regulations on Water Pollution

Philippine maritime laws and regulations are enforced by two Philippine government agencies: the Maritime Industry Authority ("MARINA") and the Philippine Coast Guard. Both are agencies under the Philippine Department of Transportation and Communications.

The MARINA is responsible for integrating the development, promotion, and regulation of the maritime industry in the Philippines. It exercises jurisdiction over the development, promotion, and regulation of all enterprises engaged in the business of designing, constructing, manufacturing, acquiring, operating, supplying, repairing, and/or maintaining vessels, or component parts thereof, of managing and/or operating shipping lines, shipyards, dry docks, marine railways, marine repair ships, shipping and freight forwarding agencies, and similar enterprises.

To address issues on marine pollution and oil spillage, the MARINA issued: (i) Circular No. 2007-01 which mandated the use of double-hull vessels for oil tankers, including those below 500 tons deadweight tonnage by the end of 2008 for transporting Black Products; and (ii) Circular No. 2010-01 for transporting White Products in certain circumstances by 2011.

The Philippine Coast Guard, in a 2005 Memorandum Circular, provided implementing guidelines based on the International Convention for the Prevention of Pollution from Ships, MARPOL 73/78. The guidelines provide that oil companies in major ports or terminals/depots are required to inform the Philippine Coast Guard through its nearest station of all transfer operations of oil cargoes in their respective areas. Furthermore, oil companies and tanker owners are required to conduct regular team trainings on managing oil spill operations including the handling and operations of MARPOL combating equipment. A dedicated oil spill response team is required to be organized to react to land and ship-originated oil spills. Oil companies, oil explorers, natural gas explorers, power plants/barges and tanker owners are also required to develop shipboard oil pollution emergency plans to be approved by the PCG.

Moreover, both the Clean Water Act and the Philippine Coast Guard Guidelines provide that the spiller or the person who causes the pollution have the primary responsibility of conducting clean-up operations at its own expense.

Philippine Clean Air Act

Republic Act No. 8749, otherwise known as the "Philippine Clean Air Act", provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Clean Air Act provides for air quality standards and regulations against air pollution. It provides that the DENR shall have authority to issue permits as it may determine necessary for the prevention and abatement of air pollution. Said permits shall cover emission limitations for regulated air pollutants to help attain and maintain the ambient air quality standards. Under the implementing rules and regulations of the Clean Air Act, all sources of air pollution are required to obtain a valid Permit to Operate while new or modified sources must first obtain an Authority to Construct. The DENR, together with other government agencies and the different local government units, are tasked to implement the Clean Air Act.

The Clean Air Act provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Clean Air Act mandates the sulfur and benzene content for gasoline and automotive diesel. Under the law, oil firms are mandated to lower the sulfur content of automotive diesel oils to 0.05% by January 1, 2004 nationwide. The law also regulates the use of any fuel or fuel additives. Furthermore, the Clean Air Act prohibits a manufacturer, processor or trader of any fuel or additive to import, sell, offer for sale, or introduce into commerce such fuel or additive unless these have been registered with the DOE. All the requirements of the said law have been implemented, starting with the phase-out of leaded gasoline in Metro Manila in April 2000 and all over the country in December 2000.

The Technical Committee on Petroleum Products and Additives sets the standards for all types of fuel and fuel related products, to improve fuel consumption for increased efficiency and reduced emissions. The committee is guided by strict time-bound and quality-specific targets under the mandate of the Philippine Clean Air Act and the DOE initiative on alternative fuels.

The Biofuels Act of 2006

Republic Act No. 9367, also known as “The Biofuels Act of 2006”, aims to reduce the dependence of the transport sector on imported fuel and, pursuant to such law, regulations mandate that all gasoline fuel sold by every oil company in the Philippines should contain a minimum 10.0% blend of bioethanol starting August 6, 2011. For diesel engines, the mandated biodiesel blend in the country was increased from 1.0% to 2.0% starting February 2009.

In 2008, a Joint Administrative Order known as the “Guidelines Governing the Biofuel Feedstock Production and Biofuels and Biofuel Blends Production, Distribution and Sale” (the “Guidelines”) was issued by various Philippine government agencies. The Guidelines mandate oil companies to blend biodiesel with diesel and bioethanol with gasoline. The Guidelines further require oil companies to source biofuels only from biofuel producers accredited by the DOE or from biofuel distributors registered with the DOE. Moreover, unless authorized by DOE to import in case of shortage of supply of locally-produced bioethanol as provided for under the Act, failure of an oil company to source its biofuels from accredited biofuels producers and/or registered biofuel distributors would constitute a prohibited act.

In 2011, the DOE issued Circular No. 2011-12-0013, entitled “Guidelines on the Utilization of Locally-Produced Bioethanol in the Production of E-Gasoline Consistent with the Biofuels Act of 2006” (the “Circular”). The Circular requires oil companies operating in the Philippines to submit to the DOE’s Oil Industry Management Bureau certain reports in order for the Oil Industry Management Bureau to monitor the oil companies’ compliance with the Circular, including a quarterly certification on compliance with local monthly allocations for the use of locally-sourced bioethanol during the previous quarter and the 10% mandated blend of biofuel by volume into all gasoline fuel distributed and sold.

Renewable Energy Act of 2008

Republic Act No. 9513, also known as “The Renewable Energy Act” aims to promote development and commercialization of renewable and environment-friendly energy resources such as biomass, solar, wind, hydro, geothermal, and energy sources through various tax incentives. The tax incentives granted to renewable energy developers under the law include (i) a seven-year income tax holiday; (ii) duty free importation of renewable energy machinery, equipment, and materials; (iii) special realty tax rates on equipment and machinery; (iv) zero percent VAT rate for the sale of power-generated from these energy sources; (v) the imposition of a reduced corporate tax of 10% on its net taxable income after the income tax holiday; (vi) tax exemption of carbon credits; and (vii) subject to prior approval of the DOE and under certain circumstances, tax credit on domestic capital equipment and services.

Other Laws

Other regulatory environmental laws and regulations applicable to the businesses of SMC include the following:

The Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990 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. Said Act is implemented by the DENR.

The Ecological Solid Waste Management Act of 2000 provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. Said Act prohibits, among others, the transporting and dumping of collected solid wastes in areas other than such centers and facilities prescribed thereunder. 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 Sanitation Code provides for sanitary and structural requirements in connection with the operation of certain establishments such as food establishments which include such places where food or drinks are manufactured, processed, stored, sold or served. Under the Sanitation Code, food establishments are required to secure sanitary permits prior to operation which shall be renewable on a yearly basis. Said Code is implemented by the DOH.

The Philippine Stock Market

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Underwriters or any of their respective subsidiaries, affiliates or advisors in connection with sale of the Preferred Shares.

Brief History

The Philippines initially had two (2) stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Philippine Government have resulted in the unification of the two bourses into The Philippine Stock Exchange, Inc. ("PSE"). The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two (2) trading floors, one (1) in Makati City and the other in Pasig City, these floors are linked by an automated trading system which integrates all bid and ask quotations from the bourses.

In June 1998, the SEC granted the Self-Regulatory Organization ("SRO") status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE has an authorized capital stock of 97.8 million shares, of which 73,380,397 shares are outstanding. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member broker allowing the use of the trading facilities of the PSE. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the Main Board or the Small and Medium Enterprises Board of the PSE. Each index represents the numerical average of the prices of component stocks. The PSE has an index, referred to as the PHISIX, which as at the date thereof reflects the price movements of selected stocks listed on the PSE, based on traded prices of stocks from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006 simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. The PSEi is composed of shares of 30 selected companies listed on the PSE.

With the increasing calls for good corporate governance, the PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

The table below sets out movements in the composite index from 1995 up to December 29, 2014 and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization (in ₱ billions)	Combined Value of Turnover (in ₱ billions)
1995..	2,594.2	205	1,545.7	379.0
1996…………………………	3,170.6	216	2,121.1	668.8
1997…………………………	1,869.2	221	1,251.3	586.2
1998…………………………	1,968.8	222	1,373.7	408.7
1999…………………………	2,142.9	225	1,936.5	781.0
2000…………………………	1,494.5	229	2,576.5	357.7
2001…………………………	1,168.1	231	2,141.4	159.6
2002…………………………	1,018.4	234	2,083.2	159.7
2003…………………………	1,442.4	236	2,973.8	145.4
2004…………………………	1,822.8	235	4,766.3	206.6

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization (in ₱ billions)	Combined Value of Turnover (in ₱ billions)
2005…………………………	2,096.0	237	5,948.4	383.5
2006…………………………	2,982.5	239	7,173.2	572.6
2007…………………………	3,621.6	244	7,977.6	1,338.3
2008…………………………	1,872.9	246	4,069.2	763.9
2009…………………………	3,052.7	248	6,029.1	994.2
2010…………………………	4,201.1	253	8,866.1	1,207.4
2011…………………………	4,372.0	245	8,697.0	1,422.6
2012…………………………	5,812.7	254	10,952.7	1,771.7
2013…………………………	5,889.8	257	11,931.3	2,546.3
2014…………………………	7,230.6	270	11,905.6	2,130.1

Source: PSE

Trading

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bid or ask prices are posted on the electronic trading system of the PSE. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one (1) broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Trading on the PSE is a continuous session from 9:30 a.m.to 3:30 p.m. with a recess from 12:00 p.m. to 1:30 p.m. inclusive of a 10-minute extension at the end of the trading session during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal holidays and days when the BSP clearing house is closed.

Minimum trading lots range from five (5) to 1,000,000 shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50.0% or down by 50.0% in one (1) day (based on the previous closing price or last posted bid price, whichever is higher), the price of that security is automatically frozen by the PSE, unless there is an official statement from the company or a government agency justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If the issuer fails to submit such explanation, a trading halt is imposed by the PSE on the listed security the following day. Resumption of trading shall be allowed only when the disclosure of the company is disseminated, subject again to the trading ban.

Non-Resident Transactions

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three (3) business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

Settlement

The Securities Clearing Corporation of the Philippines ("SCCP") is a wholly-owned subsidiary of the PSE and was organized primarily as a clearance and settlement agency for SCCP eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

- synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also trading participants of the Exchange;

- guaranteeing the settlement of trades in the event of a trading participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund, and;

- performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three (3) trading days after transaction date ("T+3"). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book-entry system of the Philippine Depository & Trust Corporation's ("PDTC", formerly the Philippine Central Depository, Inc). Each trading participant maintains a Cash Settlement Account with one of the seven (7) existing Settlement Banks of SCCP which are BDO Unibank, Inc., Deutsche Bank AG (Manila Branch), Hong Kong and Shanghai Banking Corporation (Manila), Maybank Philippines, Inc., Metropolitan Bank & Trust Company, Rizal Commercial Banking Corporation, and Union Bank of the Philippines. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement ("CCCS") system on May 29, 2006. CCCS employs multilateral netting whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

Scripless Trading

In 1995, the PDTC, (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, BDO Unibank, Inc., Deutsche Bank AG (Manila Branch), Hong Kong and Shanghai Banking Corporation (Manila), Maybank Philippines, Inc., Metropolitan Bank & Trust Company, Rizal Commercial Banking Corporation, and Union Bank of the Philippines.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation (''PCD Nominee''), a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged into the PDTC. ''Immobilization'' is the process by which the warrant or share certificates of lodging holders are canceled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of PCD Nominee through the PDTC participant will be recorded in the registry of the issuing corporation. This trust arrangement between the participants and PDTC through PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the CCCS system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his shareholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the stockholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PDC nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are canceled and confirmation advice is issued in the name of PCD Nominee to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current ''de facto'' custodianship role.

Amended Rule on Lodgment of Securities

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in the amended rule on Lodgment of Securities of the PSE.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

- For a new company to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the transfer agent on the company shall no longer issue a certificate to PCD Nominee but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on listing date.

- On the other hand, for an existing listed company, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the transfer agent for cancellation. The transfer agent shall issue a Registry Confirmation Advice to PDTC evidencing the total number of shares registered in the name of PCD Nominee in the registry of the Issuer as of confirmation date.

Issuance of Stock Certificates for Certificated Shares

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with the PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his shareholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of beneficial ownership in the shares to certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the transfer agent of the relevant company.

Appendix

A. Unaudited Consolidated Financial Statements as of and for the nine months ended September 30, 2015

B. Audited Consolidated Financial Statements as of and for the years ended December 31, 2014, 2013 and 2012

C. List of properties owned and leased by SMC