

COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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(Business Address: No. Street City/Town/Province)

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Contact Person

(632)	632-3000
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Company Telephone Number

1	2
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Month

3	1
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Day

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FORM TYPE

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Month

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Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document I. D.

Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes

PROXY

I, the undersigned stockholder of SAN MIGUEL CORPORATION (the “Company”), appoint:

The Chairman of the Board of Directors of the Company, or in his absence

The Vice Chairman of the Board of Directors of the Company, or in his absence

The President of the Company, or in his absence

The Chairman of the July 24, 2007 Annual Meeting of the Stockholders

as my proxy, to represent me at the regular meeting of the stockholders of the Company scheduled for Tuesday, July 24, 2007 at 2:00 p.m. at the Ballroom, Valle Verde Country Club, Inc., Capt. Henry P. Javier St., Bo. Oranbo, Pasig City, Philippines, and any of its adjournment(s), as fully as I could do if present and voting in person, ratifying all action taken on matters that may properly come before such meeting or its adjournment(s). I direct my proxy to vote shares which I own, or may hereafter own, and such shares as I am authorized to vote in my capacity as Administrator, Executor or Attorney-in Fact, on the agenda items I have indicated with “X” below. **If I fail to indicate my vote on the items specified below, my proxy shall vote in accordance with the recommendation of Management. Management recommends a “FOR ALL” vote for proposal 1, and a “FOR” vote for proposals 2 through 9.**

PROPOSAL	ACTION		
	FOR ALL	WITHHOLD FOR ALL	EXCEPTION
1. Election of Management’s Nominees as Directors Management’s Nominees are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Estelito P. Mendoza, Iñigo Zobel, Winston F. Garcia, Corazon C. Santos-de la Paz, Menardo R. Jimenez, Pacifico M. Fajardo, Leo S. Alvez, Henry Sy, Jr., Egmidio de Silva Jose, Silvestre H. Bello III, Tsukahara Kazuhiro, Munechika Yokomizo, and Koichi Matsuzawa. INSTRUCTIONS: <i>To withhold authority to vote for any individual nominee(s) of Management, please mark Exception box and list the name(s) under.</i>			
	FOR	AGAINST	ABSTAIN
2. Approval of Increase in the Authorized Capital Stock of the Company from 4.5 Billion Common Shares with par value of P5.00 per share, divided into 2.7 Billion Class “A” shares and 1.8 Billion Class “B” shares to 7.5 Billion Shares with par value of P5.00 per share, divided into 3.6 Billion Class “A” shares, 2.4 Billion Class “B” shares and 1.5 Billion Preferred Shares			
3. Approval of amendments to Article VII of the Amended Articles of Incorporation of the Company to (A) increase the Authorized Capital Stock of the Company, (B) provide for the issuance of Preferred Shares and authorizing the Board of Directors of the Company to determine its rights, preferences and limitations, and (C) include a provision denying the pre-emptive rights of shareholders to the issuance of Common Shares issued by the Company upon conversion of the Preferred Shares into Common Shares			
4. Approval to invest corporate funds and/or engage in other businesses: (A) Power Generation/Transmission; (B) Water; (C) Other Utilities; (D) Mining; and (E) Infrastructure INSTRUCTIONS: <i>To limit approval to invest in particular field(s) of business, please mark box of desired field(s) of business. If no box is marked, vote for approval to invest shall be construed for all fields of business as proposed.</i>	☐ Power generation/transmission ☐ Water ☐ Other Utilities ☐ Mining ☐ Infrastructure		
5. Approval to spin-off the domestic beer business of the Company to a new wholly-owned subsidiary			
6. Approval of the Minutes of the 2006 Annual Stockholders’ Meeting			
7. Approval of the Annual Report of the Company for year ended December 31, 2006			
8. Ratification of all the acts of the Board of Directors and Officers since the 2006 Annual Stockholders’ Meeting.			
9. Appointment of Manabat Sanagustin & Company as external auditors of the Company			

Signed this ____ day of _____ 2007.

PRINTED NAME OF SHAREHOLDER

SIGNATURE OF SHAREHOLDER/
AUTHORIZED SIGNATORY

Revocability of Proxies . A person giving a proxy may revoke it at any time before it is exercised. A proxy may be revoked by any of the following means: (1) filing with the Corporate Secretary, at least 10 working days before the scheduled meeting, a written notice revoking it; or (2) attending the meeting and voting in person. Mere attendance at the meeting will not automatically revoke a proxy.

Persons Making the Solicitation. This solicitation is being made by the Company. Solicitation of proxies in the Philippines will be mainly conducted through mail. Proxies will also, however, be solicited in person or through telephone. The cost of solicitation, approximately ₱740,000.00, will be borne by the Company.

Interest of Certain Persons in Matters to be Acted Upon. No director, nominee for election as director, associate of the nominee or executive officer of the Company at any time since the beginning of the last fiscal year has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.



SAN MIGUEL CORPORATION

NOTICE OF REGULAR MEETING OF STOCKHOLDERS

July 24, 2007

The Regular Meeting of the Stockholders of San Miguel Corporation will be held on **Tuesday, July 24, 2007 at 2:00 P.M.** at the **Ballroom, Valle Verde Country Club, Inc., Capt. Henry P. Javier St., Bo. Oranbo, Pasig City.**

The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Regular Stockholders' Meeting held on May 9, 2006
3. Presentation of the Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Approval of Increase in the Authorized Capital Stock of the Company
6. Approval of Amendments to Article VII of the Amended Articles of Incorporation of the Company
7. Approval to Invest Corporate Funds and/or Engage in Other Businesses:
 - (a) Power Generation/Transmission
 - (b) Water
 - (c) Other Utilities
 - (d) Mining
 - (e) Infrastructure
8. Approval to Spin-off the Domestic Beer Business of the Company to a New Wholly-owned Subsidiary
9. Appointment of External Auditors
10. Election of the Board of Directors
11. Other Matters
12. Adjournment

Minutes of the last Regular Stockholders' Meeting and resolutions of the Board of Directors from January 1, 2006 will be available for examination during office hours at the office of the Corporate Secretary.

The deadline for submission of proxies is on **July 10, 2007**. Validation of proxies will be on **July 17, 2007** at 10:00 a.m. at the SMC-Stock Transfer Service Corporation Office, Podium Level, SMC Head Office Complex, No. 40 San Miguel Ave., Mandaluyong City, Philippines. For your convenience in registering your attendance, please present some form of identification, such as passport, driver's license, or company I.D. Registration will start at 11:30 A.M. and the registration booths will be closed at 2:15 P.M.



FRANCIS H. JARDELEZA
Corporate Secretary

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

☐ Preliminary Information Statement
☒ Definitive Information Statement

2. Name of Registrant as specified in its charter **SAN MIGUEL CORPORATION**

3. Province, country or other jurisdiction of incorporation or organization **Philippines**

4. SEC Identification No. **PW 000277**

5. BIR Tax Identification No. **041-000-060-741-V**

6. Address of principal office Postal Code

No. 40 San Miguel Avenue, Mandaluyong City 1550

7. Registrant's telephone number, including area code **(02) 632-3000**

8. Date, Time and Place of the meeting of security holders

**Tuesday, July 24, 2007 at 2:00 P.M.
Ballroom, Valle Verde Country Club, Inc.,
Capt. Henry P. Javier St., Bo. Oranbo, Pasig City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders

June 12, 2007

10. Name of Person Filing the Statement: **San Miguel Corporation**
Address: **40 San Miguel Ave., Mandaluyong City 1550**
Telephone No.: **(02) 632-3000**

11. Securities registered pursuant to Sections 8 and 12 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding (as of April 30, 2007)
Class "A" Common Shares	1,916,509,211
Class "B" Common Shares	<u>1,234,318,546</u>
	3,150,827,757

12. Are any or all of registrant's securities listed on a Stock Exchange?
Yes [☒] No [☐]

If yes, disclose name of the Stock Exchange and class of securities listed therein:
Philippine Stock Exchange Class "A" and Class "B" Common Shares

INFORMATION STATEMENT

GENERAL INFORMATION

Date, Time and Place of Annual Meeting

The annual stockholders' meeting of San Miguel Corporation (the "Company") will be held at the **Ballroom, Valle Verde Country Club, Inc., Capt. Henry P. Javier St., Bo. Oranbo, Pasig City** on **July 24, 2007 at 2:00 p.m.** The complete mailing address of the principal office of the Company is No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

The information statement and form of proxy are first to be sent to security holders approximately on **June 12, 2007**.

Revocability of Proxies

A person giving a proxy may revoke it at any time before it is exercised. A proxy may be revoked by any of the following means: (1) filing with the Corporate Secretary, at least ten (10) working days before the scheduled meeting, a written notice revoking it; or (2) attending the meeting and voting in person. Mere attendance at the meeting will not automatically revoke a proxy.

Dissenters' Right of Appraisal

Stockholders who shall vote against the proposal to (i) amend the Amended Articles of Incorporation of the Company, (ii) spin-off the domestic beer business of the Company, or (iii) authorize the Company to invest in New Businesses, as set out in the ***Acquisition or Disposition of Property, Other Proposed Action, and Amendment to Charter, By-Laws or Other Documents*** and ***Authorization or Issuance of Securities Otherwise than for Exchange*** sections, respectively, of this Information Statement shall be entitled to exercise their right of appraisal as provided in Title X of the Corporation Code.

Stockholders who shall vote against the proposal to amend the Amended Articles of Incorporation of the Company shall be entitled to exercise their right of appraisal for a period commencing on the date on which the proposal is approved by the stockholders until the thirtieth (30th) day from the actual issuance of the Preferred shares as notified by the Company through publication of a notice thereof and disclosure to the Exchange. The fair value of the dissenting shares shall be the fair value thereof as of the day prior to the date of the approval of the proposal by the stockholders, excluding any appreciation or depreciation in anticipation of such action.

SOLICITATION INFORMATION

Persons Making the Solicitation

This solicitation is being made by the Company.

Solicitation of proxies in the Philippines will be mainly conducted through mail. Proxies will also, however, be solicited in person or through telephone. The cost of solicitation, approximately ₱740,000.00, will be borne by the Company.

Interest of Certain Persons in Matters to be Acted Upon

No director, nominee for election as director, associate of the nominee or executive officer of the Company at any time since the beginning of the last fiscal year has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.

None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

As of April 30, 2007 the Company had the following outstanding shares of common stock:

<u>Title of Class</u>	<u>No. of shares outstanding</u>
Common Class "A" Shares	1,916,509,211
Common Class "B" Shares	<u>1,234,318,546</u>
	3,150,827,757

The record date with respect to this solicitation is May 25, 2007. Only stockholders of record at the close of business on May 25, 2007 will be entitled to vote at the meeting.

A stockholder entitled to vote at the meeting has the right to vote in person or by proxy. With respect to the election of directors, in accordance with Section 24 of the Corporation Code of the Philippines, a stockholder may vote the number of shares held in his name in the Company's stock books as of May 25, 2007, and may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; Provided, That the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected.

The total number of votes that may be cast by a stockholder of the Company is computed as follows: **no. of shares held on record as of record date x 15 directors.**

The deadline for submission of proxies is on **July 10, 2007**. Validation of proxies will be on **July 17, 2007** at 10:00 a.m. at the SMC-Stock Transfer Service Corporation Office, Podium Level, SMC Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

Security Ownership of Certain Record and Beneficial Owners

Owners of more than 5% of the Company's voting securities as of April 30, 2007 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
Class "A" Common	CIIF Companies ¹ c/o 16/F, UCPB Building, Makati City	N.A.	Filipino	446,452,536	23.93%
Class "B" Common				307,395,776	
Class "A" Common	ECJ Companies ² c/o 18/F, Northeast Tower, The Goldloop Tower, One Goldloop Plaza, Ortigas Center, Pasig City	N.A.	Filipino	473,332,727	17.35%
Class "B" Common				73,334,357	
Class "B" Common	Kirin Brewery Co., Ltd. ³ 10-1 Shinkawa, 2-Chome, Chuo-Ku, Tokyo, Japan	N.A.	Japanese	628,640,175	19.95%

¹Companies holding shares of SMC as investments of the CIIF, which companies are comprised of ASC Investors, Inc., ARC Investors, Inc., Anglo Ventures Corporation, AP Holdings, Inc., Fernandez Holdings, Inc., First Meridian Development, Inc., Randy Allied Ventures, Inc., Rock Steel Resources, Inc., Roxas Shares, Inc., San Miguel Officers Corps., Inc., Soriano Shares, Inc., Te Deum Resources, Inc., Toda Holdings, Inc. and Valhalla Properties Limited, Inc. None of these companies owns more than 5% of the Company's voting securities except ASC Investors, Inc. which has 144,673,424 Class "A" common shares and 22,809,671 Class "B" common shares or a total of 167,483,095 common shares equivalent to 5.32% of the Company's voting securities as of April 30, 2007. The administrator of the CIIF Companies is the United Coconut Planters Bank and the Chairman of the Board or its President or the designate of the Chairman is usually authorized to vote in person or by proxy the shares registered in the name of the CIIF Companies.

² Primavera Farms, Inc., Misty Mountains Agricultural Corporation, Black Stallion Ranch, Inc., Pastoral Farms, Inc., Meadow-Lark Plantations, Inc., Silver-Leaf Plantations, Inc., Agricultural Consultancy Services, Inc., Archipelago Realty Corporation, Balete Ranch, Inc., Christensen Plantation Corporation, Discovery Realty Corporation, Dream Pastures, Inc., Echo Ranch, Inc., Far East Ranch, Inc., First United Transport, Inc., Habagat Realty Development Corporation, Kalawakan Resorts, Inc., Kaunlaran Agricultural Corporation, Labayug Air Terminals, Inc., Land Air International Marketing Corporation, LHL Cattle Corporation, Lucena Oil Factory, Inc., Metroplex Commodities, Inc., Northeast Contract Traders, Inc., Northern Carriers Services Management Corporation, Oceanside Maritime Enterprises, Inc., Oro Verde Services, Inc., PCY Oil Manufacturing Corporation, Philippine Technologies, Inc., Punong Bayan Housing Development Corporation, Pura Electric Co., Inc., Radio Audience Developers Integrated Org., Inc., Radyo Pilipino Corporation, Rancho Grande, Inc., Reddee Developers, Inc., San Esteban Development Corporation, Southern Service Traders, Inc., Southern Star Cattle Corporation, Spade One Resorts Corporation, Unexplored Land Developers, Inc., Verdant Plantations, Inc., Vesta Agricultural Corporation and Wings Resort Corporation. None of these corporations owns more than 5% of the voting securities of the Company. In May 2007, certain of these companies sold a total of 56,681,813 Common Class "B" shares or approximately 1.8% of the Company's outstanding capital stock. The sale resulted in the decrease of the aggregate Common Class "B" shareholdings of these companies to 16,652,544 and the percentage of their aggregate Common Class "A" and "B" shareholdings to approximately 15.6% of the Company's outstanding capital stock as of May 31, 2007. The shares owned by these companies are voted, either in person or by proxy, by the authorized designate of their respective boards.

Class “A” Common	SM Investments Corporation ⁴ Rm. 426, Makati Stock Exchange Building, Ayala Ave., Makati	N.A.	Filipino	339,349,120	10.77%
Class “A” Common	San Miguel Corporation Retirement Plan ⁵ 40 San Miguel Ave. Mandaluyong City	N.A.	Filipino	215,952,125	7.95%
Class “B” Common				34,505,109	
Class “A” Common	Social Security System ⁶ East Avenue, Diliman, Quezon City	N.A.	Filipino	174,487,526	5.59%
Class “B” Common				1,696,539	
Class “A” Common	Others ⁷	Please see footnote 7. The Company has no record of beneficial owners of shares lodged with the PCD.	Filipino and Non- Filipino	266,935,177	14.46%
Class “B” Common				188,746,590	

The following are the number of shares comprising the Company’s capital stock (all of which are voting shares) owned of record by the directors, Chief Executive Officer, key officers of the Company, and nominees for election as director, as of April 30, 2007:

Title of Class	Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares
		Class A	Class B		
Common	Eduardo M. Cojuangco, Jr.	292,388	0	Filipino	292,388(r)
Common	Ramon S. Ang	6,050	0	Filipino	6,050(r)
Common	Estelito P. Mendoza	31,972	0	Filipino	31,972 (r)
Common	Silvestre H. Bello III	5,000	0	Filipino	5,000 (r)
Common	Kazuhiro Sato	0	5,500	Japanese	5,500 (r)
Common	Iñigo Zobel	16,171	0	Filipino	16,171 (r)
Common	Winston F. Garcia	5,000	0	Filipino	5,000 (r)
Common	Corazon S. de la Paz	5,001	0	Filipino	5,001 (r)
Common	Menardo R. Jimenez	5,000	0	Filipino	5,000 (r)
Common	Pacifico M. Fajardo	5,000	0	Filipino	5,000 (r)

³ The shares owned by Kirin Brewery Co., Ltd. are voted, in person or by proxy, by its authorized designate.

⁴ The shares owned by SM Investments Corporation are voted, in person or by proxy, by its authorized designate.

⁵ These shares are lodged with the Philippine Central Depository, Inc. (PCD). The shares owned by the San Miguel Corporation Retirement Plan (SMCRP) are voted, in person or by proxy, by its authorized designate. Purchases by SMCRP in May 2007, which included 56,681,813 Common Class “B” shares from certain ECJ Companies, increased its aggregate Common Class “A” and “B” shareholdings to 320,448, 872 or approximately 10.2% of the Company’s outstanding capital stock as of May 31, 2007.

⁶ Includes shares lodged with the PCD. The shares owned by the Social Security System are voted, in person or by proxy, by its authorized designate.

⁷ These include shares lodged with the PCD and the other registered stockholders of the Company. None of these stockholders has shares registered in their names equivalent to more than 5% of the voting securities of the Company.

Common	Leo S. Alvez	14,326	0	Filipino	14,326 (r)
Common	Egmidio de Silva Jose	5,500	0	Filipino	5,500 (r)
Common	Tsukahara Kazuhiro	0	5,000	Japanese	5,000 (r)
Common	Yoshinori Isozaki	0	5,500	Japanese	5,500 (r)
Common	Henry Sy, Jr.	5,500	0	Filipino	5,500 (r)
Common	Iñigo Zobel	16,171	0	Filipino	16,171 (r)
Common	Ferdinand K. Constantino	109,160	0	Filipino	109,160 (r)
Common	Francis H. Jardeleza	50,001	70,000	Filipino	120,001 (r)
Common	Carlos Antonio M. Berba	1,045	0	Filipino	1,045(r)
Common	Francisco S. Alejo III	10,000	96,900	Filipino	106,900 (r)
Common	Roberto N. Huang	12,430	2,750	Filipino	15,180 (r)
Common	Gerardo C. Payumo	348	20,000	Filipino	20,348 (r)

The aggregate number of shares owned of record by the Chief Executive Officer, key officers and directors as a group as of April 30, 2007 is 785,542 shares or approximately 0.0249% of the Company's outstanding capital stock.

The aggregate number of shares owned by all officers and directors as a group as of April 30, 2007 is 2,319,318 shares or approximately 0.0736% of the Company's outstanding capital stock.

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.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

The names of the incumbent and nominee directors and key executive officers of the Company, and their respective ages, periods of service, directorships in other reporting companies and positions held in the last five (5) years, are as follows:

Eduardo M. Cojuangco, Jr., Filipino, 71, is the Chairman and Chief Executive Officer of the Company, a position he has held since July 7, 1998. He also holds the following positions: Chairman and Chief Executive Officer of Ginebra San Miguel, Inc.; and Chairman of San Miguel Pure Foods Company, Inc. He is also the Chairman of ECJ & Sons Agricultural Enterprises, Inc. and the Eduardo Cojuangco, Jr. Foundation, Inc., and a Director of Cainaman Farms, Inc.

Ramon S. Ang, Filipino, 53, is the Vice Chairman (since January 28, 1999), President and Chief Operating Officer (since March 6, 2002) of the Company. He also holds the following positions: Chairman of San Miguel Properties, Inc., The Purefoods-Hormel Company, Inc., San Miguel Packaging Specialists, Inc., Anchor Insurance Brokerage Corporation, San Miguel Brewery Hong Kong Limited (Hong Kong) and National Foods Limited (Australia); and a Director of Ginebra San Miguel, Inc. and San Miguel Pure Foods Company, Inc. He is also the Chairman of Philippine Diamond Hotel & Resort, Inc., Philippine Oriental Realty Development, Inc., Atea Tierra Corporation and Cyber Bay Corporation.

Estelito P. Mendoza, Filipino, 77, has been a Director of the Company since April 21, 1998 and for the years 1991 to 1993. He also holds the following positions: Chairman of Prestige Travel, Inc.; and a Director of Philippine Airlines, Inc. 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. He is also a former Chairman of Dutch Boy Philippines, Inc. and Alcorn Petroleum and Minerals Corporation, and Director of East-West Bank.

Iñigo Zobel, Filipino, 50, has been a Director of the Company since May 5, 1999; and a Member of the Company's Executive Committee, Executive Compensation Committee and Nominations and Hearing Committee. He is also a Director of Ginebra San Miguel, Inc., San Miguel Pure Foods Company, Inc. and San Miguel Properties, Inc. He also holds the following positions: President and Chief Executive Officer of E. Zobel, Inc.; President of Ayala International España, Diamond Star Agro Products, Inc., Calatagan Golf Club, Inc. and Hacienda Bigaa, Inc.; and a Director of Calatagan Resort, Inc., Calatagan Gulf Realty, Inc., and Mermac, Inc.

Winston F. Garcia, Filipino, 49, has been a Director of the Company since February 1, 2001; and a Member of the Company's Audit Committee. Atty. Garcia is the President and General Manager of the Government Service Insurance System and Vice Chairman of its Board of Trustees. He also holds the following positions: Chairman of the National Reinsurance Corporation, GSIS Mutual Fund, Inc., PCIB Securities, Inc. and Equitable Savings Bank; Vice Chairman of Equitable PCI Bank, Equitable Card Network, Inc. and Philippine Social Security Association; a Director of Asean Social Security Association, Philippine National Construction Corporation, Philippine Health Insurance Corporation, EBC Investments, Inc., PCI Capital Corporation and Asean Forum, Inc.; and a Member of the International Insurance Society, Inc. and International Social Security Association. Atty. Garcia is a practicing lawyer since 1983.

Corazon C. Santos-de la Paz, Filipino, 66, has been a Director of the Company since October 25, 2001; and the Chairman of the Company's Audit Committee; and a Member of the Company's Executive Compensation Committee. Ms. de la Paz is the President and Chief Executive Officer of the Social Security System, and Vice Chairman of the Social Security Commission. She also holds the following positions: Chairman of Equitable PCI Bank; and a Director of Philippine Long Distance Telephone Company, Ayala Land, Inc., Ionics, Inc., Republic Glass Holdings Corporation, Philex Mining Corporation, Philex Gold, Inc., PCI Leasing and Finance, Inc., PCI Capital Corporation, Equitable Card Network, Inc., EBC Investments, Inc. and Equitable Savings Bank. She is also a member of the Board of Trustees of the Philippine Health Insurance Corporation, Asian Institute of Journalism & Communication, Jaime V. Ongpin Foundation, Inc., Laura Vicuna Foundation for Street Children and Makati Business Club. She was previously the President of the International Social Security Association (2004-2007).

Menardo R. Jimenez, Filipino, 74, has been a Director of the Company since February 27, 2002. He is also a Director of San Miguel Pure Foods Company, Inc. and Magnolia, Inc. His other positions include: President and Chief Executive Officer of Albay-Agro Industrial Development Corporation; Chairman and President of Majent Management and Development Corporation, Majent Agro Industrial Corporation, M. A. Jimenez Enterprises, Inc., Pac Rim Realty Development Corporation, Television International Corporation, Alta Tierra Resources, Inc. and Fibers Trading, Inc.; Chairman of Cable Entertainment Corporation, Majent Foundation, Inc., Marathon Building Technologies, Inc. and Meedson Properties Corporation; and a Director of First Metro Investment Corporation, Cunickel Mining Corporation, Electronic Realty Associates, Inc., Mabuhay Philippines Satellite Corporation, Franchise One Corporation, CBTL Holdings, Inc., CCC Insurance Corporation and Pan-Phil Aqua Culture Corporation.

Pacifico M. Fajardo, Filipino, 63, has been a Director of the Company since November 4, 2004 and for the years 2002 to 2004. He also holds the following positions: Chairman and President of Harvestgold Shipping, Transport and Trading Corporation and P.M. Fajardo Youth Development and Scholarship Foundation, Inc.; Chairman of RICNOR Farms, Inc.; and a Member of the Board

of Regents of the Nueva Ecija University of Science and Technology. He previously served as Congressman of the Third District of Nueva Ecija (1992-2001), City Mayor (1988-1992) and Officer-in-Charge/City Mayor (1986) of Palayan City, Nueva Ecija, and Administrator of the Light Rail Transit Authority (2004).

Leo S. Alvez, Filipino, 64, has been a Director of the Company since February 27, 2002. He is also a Director of Ginebra San Miguel, Inc. and San Miguel Pure Foods Company, Inc. 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).

Yoshinori Isozaki, Japanese, 53, has been a Director of the Company since April 20, 2004. He is also the General Manager, Corporate Planning Department of Kirin Holdings Company Limited. He is a former Deputy General Manager, Media Section, Corporate Communication Department of Kirin Brewery Company Limited (2001) and General Manager of Hotel Hopinn of the Kirin Hotels Development Company Limited (1998).

Kazuhiro Sato, Japanese, 59, has been a Director of the Company since May 17, 2005. He is also the Executive Vice President of Kirin Brewery Company Limited. His work experience in Kirin Brewery Company Limited includes: Managing Director (2004); Executive Officer and General Manager of Finance and Accounting Department (2003); Director of Finance and Accounting Department (2002); and General Manager of Finance and Accounting Department (2000).

Henry Sy, Jr., Filipino, 53, has been a Director of the Company since January 29, 2004. He also holds the following positions: Vice Chairman of SM Investments Corporation, SM Development Corporation and Highlands Prime Inc.; and a Director of SM Prime Holdings, Inc. and China Banking Corporation.

Egmidio de Silva Jose, Filipino, 60, has been a Director of the Company since April 20, 2004. He also holds the following positions: President of Valerie Products Manufacturing, Inc., Sanoh Fulton (Philippines), Inc., VA Components, Inc., Optimum Securities Corporation, Kyoei Kogyo (Philippines) Corporation and ESJ Properties. He is also a Director of Hanano Philippines Corporation, Asahi Cast Philippines, Inc., Metal Press Assembly and Jupiter Logistics Philippines.

Silvestre H. Bello III, Filipino, 62, has been a Director of the Company since October 2, 2006. He is the Chief Executive Officer and General Manager of the Philippine Reclamation Authority (since 2006) and a partner at the Yulo and Bello Law Offices (since 2001). Mr. Bello is a former Chief Executive Officer and President of PNOC-Development and Management Corporation (2004-2005); and Chairman of the GRP Panel for Talks with the CCP-NPA-NDF (2001-2004).

Tsukahara Kazuhiro, Japanese, 49, is a Director of the Company since March 1, 2007. He previous work experience includes: President of Kirin Brewery of America LLC (2004); and Branch Manager, Aomori Sales Branch (2001), Section Manager, Public Relations Department (1998) and Branch Manager, Yamanashi Sales Branch (1994), Kirin Brewery Company Limited.

Munehika Yokomizo, Japanese, 48, is a nominee for Director of the Company. His is a former President and Representative Director of Kirin Mc Danone Waters Company Limited (2002); and Manager, Corporate Planning Department (2001) and Manager, Divisional Planning Department, Sales Division (1998), Kirin Beverage Corporation.

Koichi Matsuzawa, Japanese, 58, is a nominee for Director of the Company. His previous work experience with Kirin Brewery Company Limited includes: Managing Director (2006); Managing

Executive Officer and General Manager (2005), Executive Officer and General Manager (2004), and General Manager (2003), Production and Quality Control Department, Production Division; and General Manager, Hokuriku Plant (2002). He is also a former Managing Director of Kirin Europe GmbH (1996).

Ferdinand K. Constantino, Filipino, 55, is the Senior Vice President, Chief Finance Officer and Treasurer of the Company since January 1, 2001. He also holds the following positions: President of Anchor Insurance Brokerage Corporation; and a Director of San Miguel Properties, Inc., San Miguel Packaging Specialists, Inc., San Miguel Brewery Hong Kong Limited (Hong Kong), Magnolia, Inc. and San Miguel Foods, Inc. Mr. Constantino previously served the Company as Chief Finance Officer of the San Miguel Beer Division (1999-2005).

Francis H. Jardeleza, Filipino, 57, is the Corporate Secretary (since April 2, 2001) and Senior Vice-President and General Counsel (since 1996) of the Company. He is also the Corporate Secretary of Ginebra San Miguel, Inc., San Miguel Pure Foods Company, Inc., San Miguel Properties, Inc. and The Purefoods-Hormel Company, Inc.; Chairman of SMC Stock Transfer Service Corporation; and a Director of San Miguel Brewery Hong Kong Limited (Hong Kong).

Carlos Antonio M. Berba, 42, is the President of the San Miguel Beer Division of the Company (since 2006). He is also a Director of San Miguel Brewery Hong Kong Limited (Hong Kong) and a Commissioner of PT Delta Djakarta Tbk (Indonesia). He previously served the Company as Vice President, CFO for International Beer Operations and Director for Business Planning and Information Management, San Miguel Beer Division (2002-2006). Mr. Berba was formerly the Chief Finance Officer of Baxter Healthcare Philippines (2001-2002) and First Vice President of All AsiaCapital Managers, Inc. (2000-2001).

Francisco S. Alejo III, Filipino, 58, is the President (since May 20, 2005) and a Director (since May 22, 2001) of San Miguel Pure Foods Company, Inc. He also holds the following positions: Chairman and Chief Executive Officer of Monterey Foods Corporation; President of The Purefoods-Hormel Company, Inc., Magnolia, Inc., San Miguel Foods, Inc. and San Miguel Super Coffeemix Co., Inc.; and Chairman and President of Sugarland Corporation and Star Dari, Inc.

Ferdinand A. Tumpalan, Filipino, 46, is the President of San Miguel Packaging Specialists, Inc. (since September 16, 2005). He is also a Director of San Miguel Yamamura Asia Corporation, San Miguel Rengo Packaging Corp., Mindanao Corrugated Fibreboard, Inc., San Miguel Yamamura Asia Corporation and SMC Yamamura Fuso Molds Corporation. He is a former President of the Company's Packaging Products Division (2005).

Roberto N. Huang, Filipino, 58, is the President of San Miguel Beverages, Inc.; and a Director of Ginebra San Miguel, Inc. and San Miguel Pure Foods Company, Inc. His previous work experience in the Company includes the following: Senior Vice President, Corporate Sales (2002-2003); Vice President and Director, Corporate Sales (2001-2002); and Vice President, Sales and Marketing Manager, San Miguel Beer Division (1999-2001).

Gerardo C. Payumo, Filipino, 49, is the President of Ginebra San Miguel, Inc. (since August 9, 2006). He is a former Senior Vice President and Director of the Corporate Procurement Unit of San Miguel Corporation (1998-2006).

Term of Office

Pursuant to the Company's By-Laws, the directors are elected at each annual stockholders' meeting by stockholders entitled to vote. Each director holds office until the next annual election and his successor is duly elected, unless he resigns, dies or is removed prior to such election.

The nominees for election to the Board of Directors on July 24, 2007 are as follows:

1. Eduardo M. Cojuangco, Jr.
2. Ramon S. Ang
3. Estelito P. Mendoza
4. Iñigo Zobel
5. Winston F. Garcia
6. Corazon C. Santos-de la Paz
7. Menardo R. Jimenez
8. Pacifico M. Fajardo
9. Leo S. Alvez
10. Henry Sy, Jr.
11. Egmidio de Silva Jose
12. Silvestre H. Bello III
13. Tsukahara Kazuhiro
14. Munechika Yokomizo
15. Koichi Matsuzawa

Independent Directors

The incumbent independent directors of the Company are as follows:

1. Iñigo Zobel
2. Winston F. Garcia
3. Corazon C. Santos-de la Paz

The incumbent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the SRC. The Certifications of the incumbent directors submitted to the SEC on December 14, 2006 are attached hereto as **Annexes "A-1", "A-2" and "A-3"**.

The nominees for election as independent directors of the Board of Directors on July 24, 2007 are as follows:

Nominee for Independent Director (a)	Person/Group recommending nomination (b)	Relation of (a) and (b)
Iñigo Zobel	Eduardo M. Cojuangco, Jr.	None
Winston F. Garcia	Government Service Insurance System (GSIS)	Mr. Garcia is the President and General Manager of GSIS
Corazon C. Santos-de la Paz	Social Security System (SSS)	Ms. de la Paz is the President and Chief Executive Officer of the SSS

In approving the nominations for independent directors, the Nominations Committee took into consideration the guidelines on the nomination of independent directors prescribed in SRC Rule 38.

Under Section 2, Article III of the Company's By-Laws, (i) any stockholder having at least five thousand (5,000) shares registered in his name may be elected Director, and (ii) a person engaged in any business which competes with or is antagonistic to that of the Company as defined in Section 2, Article III of the Company's By-Laws is not qualified or eligible for nomination or election to the Board of Directors.

All the nominees for election to the Board of Directors satisfy the mandatory requirements specified under the provisions of Section 2, Article III of the Company's By-Laws.

All nominations for the election of directors by the stockholders shall be submitted in writing to the Board of Directors through the Corporate Secretary on or before January 20 or at such earlier or later date that the Board of Directors may fix.

Significant Employees

The Company has no employee who is not an executive officer but who is expected to make a significant contribution to the business.

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.

Certain Relationships and Related Transactions

There were no transactions with directors, officers or any principal stockholders (owning at least 10% of the total outstanding shares of the Company) which are not in the Company's ordinary course of business.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers, underwriters or control persons of the Company have been involved in any legal proceeding, including without limitation being the subject of any (a) bankruptcy petition, (b) conviction by final judgment, (c) order, judgment or decree, or (d) violation of a securities or commodities law, 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 the Company.

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 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 ⁸	2007 (estimated)	P 121.0 Million	P 51.9 Million	P 34.9 Million	P 207.8 Million
	2006	P 120.6 Million	P 56.5 Million	P 34.0 Million	P 211.1 Million
	2005	P 117.4 Million	P 48.1 Million	P 31.9 Million	P 197.4 Million
All other officers and directors as a group unnamed	2007 (estimated)	P 398.6 Million	P 114.1 Million	P 140.2 Million	P 652.9 Million
	2006	P 502.2 Million	P 122.3 Million	P 183.4 Million	P 807.9 Million
	2005	P 394.5 Million	P 172.1 Million	P 141.5 Million	P 708.1 Million
Total	2007 (estimated)	P 519.6 Million	P 166.0 Million	P 175.1 Million	P 860.7 Million
	2006	P 622.8 Million	P 178.8 Million	P 217.4 Million	P 1,019.0 Million
	2005	P 511.9 Million	P 220.2 Million	P 173.4 Million	P 905.5 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% 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 Long-Term Incentive Plan for Stock Options (“LTIP”) 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 LTIP. The Company also approved the grant of options to 1,007 executives and middle managers in 2004 of about 5.11 million shares, likewise computed in accordance with the LTIP. No options were granted for 2006. Options to purchase 6.19, 2.81 and 1.41 million shares in 2006, 2005 and 2004, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled about 1.08, 1.53 and 0.55 million shares in 2006, 2005 and 2004, respectively. The price is adjusted for any stock dividend declaration.

⁸ The Chief Executive Officer and senior executive officers of the Company for 2007 are as follows: Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Francis H. Jardeleza, Francisco S. Alejo III, Roberto N. Huang, Ferdinand A. Tumpalan, Gerardo C. Payumo and Carlos Antonio M. Berba; for 2006: Eduardo M. Cojuangco, Jr., Ramon S. Ang, Faustino F. Galang, Ferdinand K. Constantino, Francis H. Jardeleza, Francisco S. Alejo III, Roberto N. Huang, Ferdinand A. Tumpalan and Gerardo C. Payumo; and for 2005: Eduardo M. Cojuangco, Jr., Ramon S. Ang, Faustino F. Galang, Enrique A. Gomez, Jr. (retired on January 31, 2006), Ferdinand K. Constantino, Francis H. Jardeleza, Roberto N. Huang, Danilo C. Navarro (retired in August 2006) and Ferdinand A. Tumpalan.

In 2006, a total of 4,402 shares were exercised by certain above-named key officers⁹ at an exercise price of 39.24¹⁰ with market price of 39.24¹¹ at the date of the grant. Market price of the shares at the time of exercise is 65.69.¹²

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.

ACTION WITH RESPECT TO REPORTS

The approval of the following will be considered and acted upon at the meeting:

1. Management Report of the Company for the year ended December 31, 2006;
2. Minutes of the 2006 Annual Stockholders' Meeting with the following items:
 - a) Approval of the Minutes of the 2005 Annual Stockholders' Meeting;
 - b) Approval of Annual Report;
 - c) Ratification of all acts of the Board of Directors and Officers since the 2005 Annual Stockholders' Meeting;
 - d) Election of Board of Directors; and
 - e) Appointment of External Auditors; and
3. Ratification of all the acts of the Board of Directors and Officers since the 2006 Annual Stockholders' Meeting adopted in the ordinary course of business such as:
 - a) Approval of investments and divestments;
 - b) Declaration of cash dividends;
 - c) Appointment of officers; and
 - d) Approval of signing authorities and limits.

Minutes of the 2006 Annual Stockholders' Meeting and resolutions of the Board of Directors since the date of the 2006 Annual Stockholders' Meeting will be available for examination during office hours at the office of the Corporate Secretary.

⁹ Ferdinand A. Tumpalan for options granted in 1998-2005.

¹⁰ Weighted average of exercise prices of Common Class "A" and Common Class "B" shares. Exercise price refers to purchase price of option, which is based on the market price at the time of grant, computed in accordance with LTIP. In the event of a merger, consolidation, reorganization, recapitalization, reclassification of stock, stock dividend, stock split or other change in the corporate structure or capitalization affecting the Company's shares, reasonable adjustments shall be made as warranted in the aggregate number and kind of shares for which options may be granted, the number and kind of shares and the price per share subject to the outstanding options and the method of exercise of options under the LTIP. None of the above events occurred in 2006.

¹¹ Weighted average market prices of Common Class "A" and Common Class "B" shares on the date of the grant.

¹² Weighted average market prices of Common Class "A" and Common Class "B" shares on the date of exercise.

AUTHORIZATION OR ISSUANCE OF SECURITIES OTHERWISE THAN FOR EXCHANGE

Amount and Description of Securities to be Issued Rationale for Issuance

At its 2005 annual meeting, the Company's stockholders approved the denial of pre-emptive rights on the issuance of shares relating to equity linked debt or other securities, any class of preferred shares, shares in payment of a previously contracted debt or shares in exchange for property needed for corporate purposes to give the Company greater flexibility in raising additional capital, managing its financial alternatives and issuing financing instruments. In line with this approval, the Board of Directors approved at its May 8, 2007 meeting the issuance of 1.5 Billion Preferred shares.

Description of Transaction in which Securities are to be Issued

The Preferred shares may be issued in series as the Board of Directors may determine and authority will be granted to the Board to 1) fix the number of shares in each series, issue price, coupon rate and other financial terms of the Preferred shares, and 2) determine the other features of the Preferred shares. The terms of each series of Preferred shares will be contained in enabling resolutions of the Board of Directors, which resolutions shall be recorded with the Securities and Exchange Commission and shall be deemed to be a part of the Company's Amended Articles of Incorporation. Management will determine the timing of the issuance of the Preferred shares taking into consideration, among others, viable business opportunities and the prevailing market conditions.

As the Preferred shares shall be issued in series, effects of their issuance on the ownership percentage of existing shareholders may only be determined at the time of their issuance.

The funds to be raised from the contemplated issuance of Preferred shares will be used to pay down debts, fund new businesses, acquisitions and possible share buyback.

The Board of Directors has also approved to propose for the Company's shareholders' approval the denial of the pre-emptive rights on the Common shares to be issued upon conversion of the Preferred shares considering that the Preferred shares may be convertible to Common shares. The conversion ratio will likewise be determined by the Board of Directors.

AMENDMENT TO CHARTER, BY-LAWS OR OTHER DOCUMENTS

To enable the Company to implement the issuance of the 1.5 Billion Preferred shares, the authorized capital stock of the Company will be increased from 4.5 Billion Common shares at par value of P5.00 per share (equivalent to P22.5 Billion Pesos) consisting of 2.7 Billion Common Class "A" shares and 1.8 Billion Common Class "B" shares to 7.5 Billion shares at par value of P5.00 per share (equivalent to P37.5 Billion Pesos) consisting of 3.6 Billion Common Class "A" shares, 2.4 Billion Common Class "B" shares and 1.5 Billion Preferred shares.

Article VII of the Amended Articles of Incorporation of the Company shall be further amended to provide for the following rights, preferences and limitations of the Preferred shares: (i) no voting rights except in cases expressly provided by law; (ii) no preference over holders of Common shares in the distribution of assets of the Company in the event of liquidation, dissolution or winding up of the Company; and (iii) other terms and conditions of the Preferred shares as may

be determined by the Board of Directors with respect to their issuance, participation in dividends, voting rights, conversion and redemption. Further, as the Preferred shares may be converted into Common shares if determined to be so by the Board of Directors, Article VII shall be further amended to include the denial of pre-emptive rights to the issuance of Common shares issued by the Company upon the conversion of Preferred shares.

Article VII of the Amended Articles of Incorporation of the Company is proposed to be worded as follows:

“That the capital stock of the aforementioned Corporation shall be **THIRTY SEVEN BILLION FIVE HUNDRED MILLION PESOS (P 37,500,000,000)**, Philippine Currency, and that said capital stock is divided into **SIX BILLION (6,000,000,000)** Common shares of the par value of **FIVE PESOS (P5.00)** and **ONE BILLION FIVE HUNDRED MILLION (1,500,000,000)** Preferred shares of the par value of **FIVE PESOS (P5.00)**.

The Common shares shall consist of the following two classes:

1. Class “A” shares, which shall comprise sixty per centum (60%) of the said capital stock equivalent to **THREE BILLION SIX HUNDRED MILLION SHARES (3,600,000,000)** which may be owned by, transferred to or subscribed for by citizens of the Philippines only or corporations or associations at least 60% of the capital of which is owned by citizens of the Philippines; and,

2. Class “B” shares, which shall comprise forty per centum (40%) of the said capital stock equivalent to **TWO BILLION FOUR HUNDRED MILLION (2,400,000,000)** shares, which may be owned by , transferred to or subscribed for by Filipinos or any person or entity or any nationality or citizenship.

The Preferred shares shall be issued serially, as the Board may determine and authority is hereby expressly granted to the Board of Directors, subject to the provisions of this Article Seventh to establish and designate series of preferred shares and fix the number of shares to be included in each series.

Without limiting the generality of the foregoing, each series of the preferred shares shall have the following rights, preferences and limitations:

1. Dividends

The holders of Preferred shares shall be entitled to receive dividends at such rate or amount, as the Board of Directors, in its sole discretion, shall deem appropriate under the circumstances and considering the rate of return on similar securities at the time of issuance of such shares. The Board of Directors shall likewise determine the terms and conditions upon which dividends shall be payable and whether the right to receive dividends shall be cumulative and if cumulative, the date/s from which dividends shall accumulate.

2. Voting rights

The holders of Preferred shares shall not be entitled to vote except in those cases expressly provided by law.

3. Conversion

(a) The Preferred shares may be convertible into Common shares of the Corporation within a period, and at a ratio and price, to be determined and fixed by the Board of Directors upon issuance.

The conversion price, rate of conversion and exchange and the method, if any, of adjusting the same, shall be determined by the Board of Directors taking into consideration a predetermined historical trading average of the shares of the Corporation.

(b) The conversion of the Preferred shares shall be made upon surrender of the corresponding stock certificates for the Preferred shares being converted duly endorsed or accompanied by proper instruments of transfer to the Corporation. The holders of the Preferred shares shall be entitled to receive one or more certificates for the number of Common shares into which such Preferred shares shall at the time be convertible.

4. Redemption

The Preferred shares shall be redeemable at the option of the Corporation at a price and at such period to be determined by the Board of Directors. The Board of Directors shall prescribe and regulate the procedure to be followed and the details concerning the redemption of the Preferred shares.

5. No Preference or Participation With Respect to Liquidation of Assets

In the event of liquidation or dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of Preferred shares shall have no preference over holders of Common shares in the distribution of the assets of the Corporation.

To the extent not set forth in this Article Seventh, the terms of each such series shall be specified in the resolution or resolutions adopted by the Board of Directors pursuant to the authority granted herein, which resolutions shall be recorded with the Philippine Securities and Exchange Commission and thereupon be deemed a part of these Articles of Incorporation.

That the issuance, sale or transfer of Class “A” shares to persons or entities not qualified under the provisions of this Article whether such issuance, sale or transfer is voluntary or otherwise, shall not be recognized nor registered in the books of the Corporation.

That in the event the Corporation shall find that a holder of Class “A” Common stock is not qualified or has in any manner become disqualified to own Class “A” Common stock of the Corporation, then the Corporation either by itself or through any qualified and willing person or entity designated by its Board of

Directors, shall have the right to forthwith purchase the shares of Class “A” Common stock of the disqualified stockholder at the then prevailing market value of such shares. Upon payment or tender of payment to the qualified stockholder, the Secretary of the Corporation shall have full authority and shall be considered as the attorney-in-fact of the disqualified stockholder to transfer the said stockholder’s shares in favor of the Corporation or in favor of such transferee as may be designated by the Board of Directors. The disqualified stockholder, upon demand, shall surrender to the Corporation for cancellation the corresponding stock certificates duly endorsed. Failure to surrender such stock certificates, however, shall not constitute a bar to the transfer and registration of such transfer in the books of the Corporation. (As amended on May 9, 1978).

That there shall be no pre-emptive rights with respect to shares of stock to be issued, sold or otherwise disposed of by the Corporation to its officers and/or employees pursuant to a duly approved stock option, stock purchase, stock subscription or similar plans, provided, however, that where the number of shares of stock subject to each stock option, stock purchase, stock subscription or similar plan exceeds five percent (5%) of the outstanding shares of stock at the time of the approval of the plan involved, there shall be pre-emptive rights with respect to such shares in excess of the five percent (5%). (As amended on May 10, 1988)

That there shall be no pre-emptive rights to the issuance of 442,560,000 Common Class “B” shares from the increase in authorized capital stock from Fifteen Billion Pesos (P15,000,000,000) to Twenty Two Billion Five Hundred Million Pesos (P22,500,000,000). (As amended on February 27, 2002).

That there shall be no pre-emptive rights to the issuance of shares relating to equity linked debt or other securities, any class of preferred shares, shares in payment of a previously contracted debt or shares issued in exchange for property needed for corporate purposes. (As amended on May 17, 2005)

That there shall be no pre-emptive rights to the Common shares issued by the Corporation upon conversion of the Preferred shares convertible into Common shares.”

ACQUISITION OR DISPOSITION OF PROPERTY

The Board of Directors of the Company, at its May 8, 2007 meeting, approved the transfer of the assets and properties (excluding land and brands) (“Spin-off”) of the Company’s domestic beer business (“Domestic Beer Assets”) to a new wholly-owned subsidiary (“Domestic Beer Company”) in exchange for the shares of the Domestic Beer Company. The Domestic Beer Assets to be transferred and the basis for the valuation thereof, and the equivalent shares of the Domestic Beer Company to be issued to the Company pursuant to the Spin-off shall be determined by the Board of Directors. The Spin-off is pursuant to the proposed listing of the Domestic Beer Company shares in the Philippine Stock Exchange and public offering of such Domestic Beer Company shares.

The Spin-off aims to provide the domestic beer business the financial flexibility to maximize its operating capacity and revenue generating potential, and compete more effectively in its industry.

OTHER PROPOSED ACTION

On April 12, 2007, the Board of Directors of the Company, upon the recommendation of its financial advisor, Goldman Sachs, approved to authorize the Company to make investments in new businesses in the Philippines such as power generation/transmission, water, other utilities, mining and infrastructure (“New Businesses”). In making the investments in the New Businesses, the Company shall conduct further studies and feasibility analysis to identify key opportunities in such businesses.

The Company has maintained market leadership in key food, beverage and packaging categories in the Philippines. Accordingly, the Board of Directors has deemed it timely to actively consider developing new engines of growth to further augment the gains realized from nurturing its current core businesses.

The Company will seek stockholders authorization for the investments in these New Businesses under Section 42 of the Corporation Code.

VOTING PROCEDURES

In the election of directors, the 15 nominees with the greatest number of votes will be elected directors.

For the proposal to increase the Company’s authorized capital stock, amend its Amended Articles of Incorporation, spin-off its domestic beer business and authorize the Company to invest in New Businesses, a vote by stockholders, in person or by proxy, representing at least 2/3 of the outstanding capital stock is required for the approval thereof. For the other proposals or matters submitted to a vote, a vote of the majority of the shareholders present or represented by proxy at the meeting is necessary for approval of such proposal or matter.

Counting of the votes will be done by the Corporate Secretary or Assistant Corporate Secretaries with the assistance of the independent auditors and the Company's stock transfer agent.

FINANCIAL AND OTHER INFORMATION

Brief Description of the General Nature and Business of the Company

San Miguel Corporation (the “Company”), together with its subsidiaries (collectively referred to as the “Group”), is the largest publicly listed food, beverage and packaging company in Southeast Asia. Established in 1890 as a single-product brewery, the Group today has over 100 facilities in the Philippines, Southeast Asia, China, and Australia. In 2006, the Group accounts for about 3.8% of the country’s gross national product and 4.2% of the country’s gross domestic product.

The Group’s extensive product portfolio includes beer, hard liquor, carbonated and non-carbonated non-alcoholic beverages, processed and packaged food products, meat, poultry, dairy products and a number of packaging products.

The Company's flagship product, San Miguel Beer, is among the world's largest selling beers and ranks among the top two brands in Southeast Asia.

From its original cerveza, the Company now owns a wide range of popular beverage brands and products that extends from beer to hard liquor, soft drinks, bottled water, powdered juice and juice drinks.

The Group's food operations involve poultry and livestock operations, the production and marketing of fresh, ready-to-cook and processed meats as well as milk, butter, cheese, margarine, ice cream, flour and flour-based products, snack foods, coffee, cooking oil, coconut oil, pet food and animal and aquatic feeds.

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

The Group has strategic partnerships with international companies, among them Nihon Yamamura Glass Company, Ltd. and Rengo Co., Ltd. of Japan, and The Coca-Cola Company (up to February 2007) and Hormel Foods Corporation of the United States. Kirin Brewery Co. Ltd., one of the largest beer manufacturing companies in Japan, has a significant stake in the Company.

The Group is one of the nation's biggest private employers with an estimated 27,000 employees. In addition, the Group contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers.

Major developments in the Company are discussed in Management's Discussion and Analyses of Financial Conditions and Results of Operations, attached herein as **Annex "C"**, and in Note 9 of the Audited Consolidated Financial Statements.

Beverage

The San Miguel Beer Division ("SMBD") has five breweries in the Philippines strategically located in Luzon, Visayas and Mindanao.

The international beer group of SMBD operates one brewery each in Indonesia, Australia, Vietnam, Thailand, and three breweries in China, including Hong Kong.

Apart from beer, the Group also produces hard liquor through its majority-owned subsidiary, Ginebra San Miguel, Inc. ("GSMI"). GSMI is not only the leader in the domestic hard liquor market, but also the world's largest gin producer by volume and the fourth largest spirits company by volume.

In February 2007, the Company divested its 65% equity interest in Coca-Cola Bottlers Philippines, Inc. (including subsidiaries Cosmos Bottling Corporation and Philippine Beverages Partners, Inc.) to its partner The Coca-Cola Company. The Group, however, continues to participate in the growing non-carbonated beverage business by producing and selling ready-to-drink tea and fruit juices in the Philippines, Thailand and Indonesia through its newly formed subsidiary San Miguel Beverages, Inc.

Food

The Group's domestic food and agribusiness operations are comprised of San Miguel Pure Foods Company, Inc. and its subsidiaries ("SMPFC"), which include San Miguel Foods, Inc. and its subsidiary, San Miguel Mills, Inc., The Purefoods-Hormel Company, Inc., Magnolia, Inc., Monterey Foods Corporation, and Star Dari, Inc.

The Company's business portfolio offers a complete line of food products and services for both individual and food service customers. Its businesses range from vegetable oils, feeds, flour, poultry, fresh and processed meats, coffee, snacks, and dairy products, to food service. The Company carries some of the best-known brands in the Philippine food and agribusiness industry, among them Magnolia, Monterey, Star, Purefoods, Dari Crème, and B-Meg.

Having established partnerships with world-renowned food companies- Hormel Foods Corporation of the United States and the Lasalle Company- SMPFC enjoys access to global and regional expertise.

Expansion in the region came from the increase in equity participation of SMPFC to 75% in P.T. San Miguel Pure Foods Indonesia (formerly P.T. Purefoods Suba Indah), a company engaged in the manufacture and trade of processed meats and related products in Indonesia and the acquisition of San Miguel Pure Foods Investment (BVI) Limited ("SMPFI"), which wholly owns San Miguel Pure Foods (VN) Co., Ltd., (formerly TTC (VN) Co. Ltd.), a hogs and feed mill business in Binh Duong, Vietnam. In December 2006, however, the Company, through San Miguel Food and Beverage International Limited, sold to Hormel Netherlands B.V. its 49% shareholdings in SMPFI.

The establishment of San Miguel Super Coffeemix Co., Inc. ("SMSCCI"), through the partnership with Super Coffeemix Manufacturing Ltd. of Singapore, marked the entry of SMPFC in the coffee business. SMSCCI imports, packages, manufactures, markets and distributes coffee and coffee-related products in the Philippines.

To further diversify the Group's revenue and geographic base, the Company acquired Berri, Ltd. ("Berri") in August 2004, Kings Creameries Pte. Ltd in March 2005, National Foods Limited ("NFL") in June 2005, a stake in Del Monte Pacific, Ltd. (DMPL) in January 2006 (which it subsequently sold in April 2007), and Lactos Pty, Ptd. ("Lactos") in May 2006. In October 2006, the Company, through San Miguel Pure Foods (Vn) Co. Ltd., entered into a Sale and Purchase Agreement (the "SPA") with Le Gourmet Company Limited ("Le Gourmet"), for the purchase of certain tangible assets, trademarks, processes and information, as well as the take over of the land use rights of Le Gourmet used in relation to the processing and sale of its meat products in Vietnam, for the purchase price of approximately US\$2 million, subject to the terms and conditions specified in the SPA, including the relevant governmental approvals of the transaction in Vietnam. The transaction has not yet been completed to date.

An ice cream business based in Malaysia and Singapore, King's is ranked as the fourth largest overall in both countries. King's, however, enjoys the No. 1 position in modern retail trade in Malaysia.

NFL is Australia's leading dairy manufacturer while Berri is one of the largest producers of fruit juice in Australia. NFL has strong leadership positions in highly-attractive product categories, including expanding healthy, "better for you" segments like soymilk. NFL enjoys No. 1 positions in white milk and flavored milk, dairy desserts and yogurt in Australia. Lactos, on the other hand, is the leading specialty cheese maker in the continent.

With the integration of Berri and Lactos into NFL, the Group enjoys a wide consumer base, a diverse product offering and an efficient business platform in Australia.

Packaging

The San Miguel Packaging Group (the “Packaging Group”) is a “Total Packaging Solutions” business servicing many of the region's leading food, pharmaceutical, chemical, beverages, and personal care manufacturers. The Packaging Group serves clients in the Asia-Pacific, Middle East, and U.S. markets. The Packaging Group manufactures glass bottles, PET bottles, corrugated cartons, paperboard, paper pallets, flexible packaging, plastic crates and pallets, plastic caps, plastic poultry flooring, plastic pails and trays, plastic films, industrial laminates, woven bags, metal closures, two-piece aluminum beverage cans; and offers filling services, as well as graphics design and testing services.

Apart from supplying the internal requirements of the Group, the Packaging Group also supplies major Philippine-based multinational corporations such as Nestlé, Unilever, Kraft, Diageo, Del Monte and Pepsi-Cola Products Phils., Inc.

A wholly owned subsidiary of the Company under the Packaging Group is San Miguel Packaging Specialists, Inc. (formerly Beverage Packaging Specialists, Inc.) (“SMPSI”), which manufactures, among many other packaging products, PET containers. It also handles the recycling of PET containers which makes it Asia’s first food-grade recycling system using state-of-the-art technology. On April 27, 2007, the Company entered into a Sale and Purchase Agreement with Nihon Yamamura Glass Co., Ltd. (“NYG”), a leading Japanese manufacturer of glass and plastic container, for the sale of the Company’s 35% stake in the packaging businesses. This represents the domestic businesses under SMPSI and regional operations under San Miguel Packaging International, Ltd. To date, the Company and NYG are completing the closing conditions to finalize the sale.

Further increasing its presence in the international market, the Group acquired four packaging businesses in Malaysia through San Miguel Packaging International Limited. These businesses are San Miguel Plastic Films, San Miguel Packaging & Printing Sdn Bhd., San Miguel Woven Products Sdn Bhd and the Packaging Research Center.

The Packaging Group has five international packaging plants located in China (glass, metal, plastic), Vietnam (glass, metal), Indonesia (plastic) and Malaysia (corrugated carton and paperboard, composites, plastic films, laminates and woven bags). Aside from extending the reach of the packaging business overseas, these facilities also serve the packaging requirements of SMC breweries in China and Vietnam.

Properties

San Miguel Properties, Inc. (“SMPI”) was created in 1990 as an independent developer, it is the Company’s primary property subsidiary, currently owned 99.68% by the Company. SMPI was formed by a merger of San Miguel Properties Philippines, Inc. and publicly-listed Monterey Farms Corporation on January 30, 1998, where Monterey Farms Corporation emerged as the surviving entity. Upon the merger’s effectivity, Monterey Farms Corporation changed its name to San Miguel Properties, Inc.

SMPI is presently engaged in the development, sale and lease of real properties. Since then, its mandate has changed to being the corporate real estate arm of the Group.

Financial Statements

The Statement of Management's Responsibility and Audited Consolidated Financial Statements of the Company are attached hereto as **Annex "B."** The notes to the Audited Consolidated Financial Statements are found in the Annual Report earlier distributed to the stockholders.

Management's Discussion and Analysis or Plan of Operation

The Management's Discussion and Analysis or Plan of Operation of the Company is attached hereto as **Annex "C."**

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with the Company's external auditors on accounting and financial disclosure.

Audit and Audit Related Fees

Fees for the services rendered by the external auditor to the Company for the last (2) fiscal years are as follows:

(in millions, approximate)

	Audit Fees	Tax Fees	All Other Fees
2005	P11.5	-	P5.4
2006	P30.0	-	-

All Other Fees in 2005 were for trainings provided in connection with the transition to the new accounting standards.

The stockholders approve the appointment of the Company's external auditors. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of the board and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations.

Market Price of and Dividends on the Company's Common Equity and Related Stockholder Matters

The Company's common equity is traded in the Philippine Stock Exchange.

The Company's high and low closing prices for each quarter of the last two (2) fiscal years are as follows:

Quarter	2005 ¹³				2006			
	Class A		Class B		Class A		Class B	
	High	Low	High	Low	High	Low	High	Low
1 st	59.06	56.00	84.50	74.98	65.00	58.50	89.50	76.50
2 nd	60.00	56.00	94.50	81.00	65.50	59.00	84.00	68.00
3 rd	70.00	59.00	101.00	91.50	66.00	62.50	76.00	70.00
4 th	65.50	64.00	92.50	82.50	67.50	63.50	77.50	70.00

¹³ Closing prices are adjusted to reflect the retroactive effect of the 1:10 stock rights of the Company.

The closing prices as of April 30, 2007 are as follows:

Common Class “A” ₱ 64.50
Common Class “B” ₱ 73.00

The approximate number of shareholders as of April 30, 2007 is 44,832. The number of Treasury Shares as of April 30, 2007 is 54,662,760 for Common Class “A” shares and 10,812,611 for Common Class “B” shares.

The top 20 stockholders as of April 30, 2007 are as follows:

Rank	Name of Stockholders	Class “A”	Class “B”	Total No. of Shares	% of Total O/S
1	Kirin Brewery Co., Ltd.	0	628,640,175	628,640,175	19.95%
2	SM Investments Corporation	339,349,120	0	339,349,120	10.77%
3	PCD Nominee Corporation (Filipino) ¹⁴	265,651,164	556,706,319	322,357,483	10.23%
4	ASC Investors, Inc.	144,673,424	22,809,671	167,483,095	5.32%
5	Social Security System	140,286,264	51,110	140,337,374	4.45%
6	Primavera Farms, Inc.	94,738,250	13,426,216	108,164,466	3.43%
7	PCD Nominee Corporation (Non-Filipino)	0	106,934,386	106,934,386	3.39%
8	ARC Investors, Inc.	12,160,662	93,528,698	105,689,360	3.35%
9	Toda Holdings, Inc.	74,880,174	0	74,880,174	2.38%
10	Black Stallion Ranch, Inc.	63,158,769	8,950,856	72,109,625	2.29%
11	Misty Mountains Agricultural Corp.	63,158,769	8,950,856	72,109,625	2.29%
12	Pastoral Farms, Inc.	63,158,769	8,950,856	72,109,625	2.29%
13	Te Deum Resources, Inc.	58,483,000	4,823	58,487,823	1.86%
14	Rock Steel Resources, Inc.	4,138,792	54,098,611	58,237,403	1.85%
15	Meadow-Lark Plantations, Inc.	47,369,039	6,713,177	54,082,216	1.72%
16	Silver-Leaf Plantations, Inc.	47,369,061	6,713,153	54,082,214	1.72%
17	San Miguel Officer Corps., Inc.	35,719,434	18,143,601	53,863,035	1.71%
18	Roxas Shares, Inc.	7,032,718	45,782,476	52,815,194	1.68%
19	AP Holdings, Inc.	33,592,251	1,077,154	34,669,405	1.10%
20	Valhalla Properties Limited, Inc.	13,700,183	17,711,665	31,411,848	1.00%

Cash dividends per share amounted to P1.40 in 2005 and 2006.

¹⁴ Registered owner of shares held by participants in the Philippine Central Depository, Inc., a private company organized to implement an automated book entry system of handling securities in the Philippines.

Independent Public Accountants

The accounting firm of Manabat Sanagustin & Company ("MSC") served as the Company's external auditors for the last fiscal year. The Board of Directors will again nominate MSC for re-appointment this fiscal year.

Representatives of MSC are expected to be present at the stockholders' meeting and will be available to respond to appropriate questions. They will have the opportunity to make a statement if they so desire.

Sycip Gorres Velayo & Co. ("SGV") served as the Company's external auditors for fiscal year 2005. The change in the external auditors of the Company from SGV to MSC during the 2006 annual stockholders' meeting of the Company is in accordance with its policy of rotating its external auditors.

Compliance with leading practice on Corporate Governance

The Company has complied with its Manual on Corporate Governance, which incorporates the leading practices and principles of good governance; and no deviations have been made from the same since its adoption by the Company.

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.

UNDERTAKING

Upon the written request of the stockholder, the Company undertakes to furnish such stockholder with a copy of SEC Form 17-A free of charge. Such written request for a copy of SEC Form 17-A shall be directed to the Office of the Corporate Secretary, 7/F SMC-HOC Building, No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and behalf, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Mandaluyong on May 31, 2007.



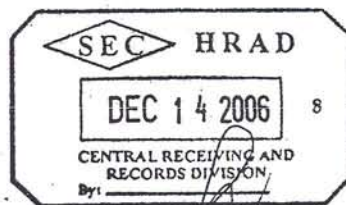
FRANCIS H. JARDELEZA
Corporate Secretary

CERTIFICATION of INDEPENDENT DIRECTOR

I, **INIGO ZOBEL**, of legal age, Filipino and with address at 5th Floor, ENZO Building, 399 Sen. Gil Puyat Avenue, Makati City after being duly sworn to in accordance with law, hereby depose and state: That ---

1. I am an Independent Director of San Miguel Corporation, Ginebra San Miguel, Inc., San Miguel Pure Foods Company, Inc., San Miguel Properties, Inc. and Cosmos Bottling Corporation;
2. I am affiliated with the following companies or organizations:

<u>Company/Organization</u>	<u>Position</u>
E. Zobel, Inc.	Chairman/President
MERMAC, Inc.	Director
Diamond Star Agro Products, Inc.	Chairman/President
Hacienda Bigaa, Inc.	Chairman/President
Calatagan Golf Club, Inc.	Vice-President
E. Zobel Foundation, Inc.	President
Calatagan Bay Realty, Inc.	Director



3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the foregoing companies, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations;
4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.
5. I shall inform the Corporate Secretary of the Companies of any changes in the abovementioned information within five (5) days from its occurrence.

DONE ON THIS 8th day of December, 2006 at Makati City.


INIGO ZOBEL
Affiant

SUBSCRIBED AND SWORN to before me this 8th day of December 2006, affiant personally appeared before me and exhibited to me his Community Tax Certificate No. 18823838 issued at Calatagan on January 12, 2006.

Doc. No. 349
Page No. 57
Book No. 1
Series of 2006.

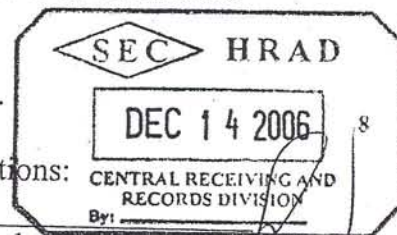

PATRICK T. LUGUE
NOTARY PUBLIC
Until December 31, 2006
IBP No. 668931; 01-09-2006 Q.C.
PTR No. 4186604; 01-05-2006; Makati
Roll No. 38486 May 13, 1993

CERTIFICATION OF INDEPENDENT DIRECTORS

I, **WINSTON F. GARCIA**, Filipino, of legal age and a resident of 86 Juan Luna Street, San Lorenzo Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of San Miguel Corporation.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
GSIS	Pres. & Gen. Mgr	Jan. 25, 2001 to present
GSIS	Vice Chairman - Board of Trustees	Jan. 25, 2001 to present
GSIS Mutual Fund, Inc.	CHAIRMAN	Nov. 17, 2005 to present
Philippine Health Insurance Corporation	DIRECTOR	Jan. 25, 2001 to present



3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of San Miguel Corporation, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

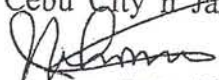
4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of San Miguel Corporation of any changes in the abovementioned information within five days from its occurrence.

Done this 7th day of December, 2006 at Pasay City.


WINSTON F. GARCIA
Affiant

SUBSCRIBED AND SWORN to before me this 8th day of Dec, 2006 at Pasay, affiant personally appeared before me and exhibited to me his/her Community Tax Certificate No. 08246171 issued at Cebu City on January 17, 2006.

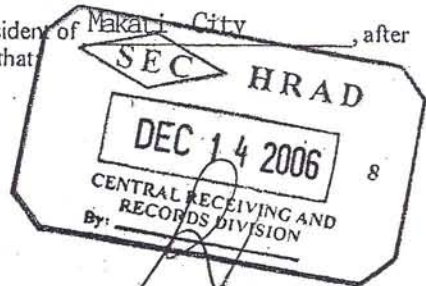

NURMITA RECIO-HONORIO
NOTARY PUBLIC
NOTIL DEC. 31, 2006
PTR NO. 0305284
IBF NO. 41000

Doc. No. 57 ;
Page No. 12 ;
Book No. 27 ;
Series of 2006 .

CERTIFICATION OF INDEPENDENT DIRECTORS

I, Corazon S. de la Paz, Filipino, of legal age and a resident of Makati City, after having been duly sworn to in accordance with law do hereby declare that

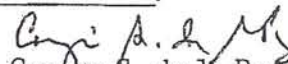
1. I am an independent director of San Miguel Corporation
2. I am affiliated with the following companies or organizations:



Company/Organization	Position/Relationship	Period of Service
Please see attached ANNEX A		

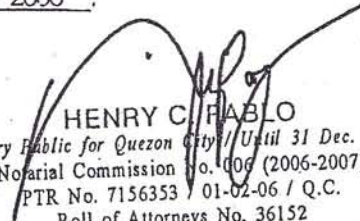
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of San Miguel Corporation, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.
5. I shall inform the corporate secretary of San Miguel Corporation of any changes in the abovementioned information within five days from its occurrence.

Done, this 7th day of December, at 2006


Corazon S. de la Paz
 Affiant

2006 SUBSCRIBED AND SWORN to before me this 7th day of December at
2006, affiant personally appeared before me and exhibited to me
 his/her Community Tax Certificate No. 24322906 issued at
Makati City on 27 February 2006.

Doc. No. 335;
 Page No. 68;
 Book No. XIX;
 Series of ml.


 HENRY C. PABLO
 Notary Public for Quezon City / Until 31 Dec. 2007
 Notarial Commission No. 006 (2006-2007)
 PTR No. 7156353 / 01-02-06 / Q.C.
 Roll of Attorneys No. 36152
 IBP Lifetime Roll No. 00976
 TIN No. 132-679-576

ANNEX A

Company/Organization	Position/Relationship	Period of Service
Equitable-PCI Bank	Chairperson	2001 - 2006 as Director
		2006 - present as Chairperson
Equitable Card Network, Inc.	Director	2001 - present
PCI Capital Corporation	Director	2001 - present
PCI Leasing & Finance, Inc.	Director	2001 - present
PLDT	Director	2001 - present
Ionics Circuits Inc.	Director	2001 - present
Philex Mining Corporation	Director	2001 - present
Philex Gold	Director	2001 - present
Republic Glass Holdings	Director	2001 - present
Philippine Health Insurance Corp.	Director	2001 - present
Ayala Land Inc.	Director	2006 - present
Meralco Foundation Inc.	Board of Trustee - Treasurer	1989 - present



SAN MIGUEL CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of San Miguel Corporation is responsible for all information and representations contained in the financial statements for the years ended December 31, 2006 and 2005. The financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

Manabat Sanagustin & Co., the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with auditing standards generally accepted in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.



EDUARDO M. COJUANGCO, JR.

Chairman and Chief Executive Officer



RAMON S. ANG

President and Chief Operating Officer



FERDINAND K. CONSTANTINO

Senior Vice President and
Chief Finance Officer / Treasurer

SUBSCRIBED AND SWORN to before me this APR 18 2007 day of April 2007, affiant exhibiting to me their Community Tax Certificate, as follows:

<u>Name</u>	<u>Com. Tax Cert. No.</u>	<u>Date & Place of Issue</u>
Eduardo M. Cojuangco, Jr.	18067301	03-13-07 / Pontevedra, Negros Occidental
Ramon S. Ang	05863140	01-29-07 / Mandaluyong City
Ferdinand K. Constantino	18189536	02-23-07 / Pasig City


MAILA R. NICOLASORA

Commission No. 0259

Notary Public for Mandaluyong City

Until Dec. 31, 2007

SMC, 40 San Miguel Ave., Mandaluyong City

Roll No. 45082

PTR No. 1191236 ; 01/08/07 ; Mandaluyong City

IBP No. 694886 ; 12/19/06 ; Quezon City

Doc. No. 173 ;

Page No. 36 ;

Book No. V ;

Series of 2007.



Manabat Sanagustin & Co.
Certified Public Accountants
(Formerly Laya Mananghaya & Co.)
22/F, Philamlife Tower, 8767 Paseo de Roxas
Makati City 1226, Metro Manila, Philippines

Telephone +63 (2) 885 7000
+63 (2) 893 8507
Fax +63 (2) 894 1985
+63 (2) 816 6595
Internet www.kpmg.com.ph
e-Mail manila@kpmg.com.ph

PRC-BOA Registration No. 0003
SEC Accreditation No. 0004-FR-1
BSP Accredited

The Stockholders and the Board of Directors
San Miguel Corporation
No. 40 San Miguel Avenue
Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Corporation and its Subsidiaries included in this Form 17-A and have issued our report thereon dated April 12, 2007. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code 68 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the financial statements data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

MANABAT SANAGUSTIN & CO.

JORGE MA. S. SANAGUSTIN

Partner

CPA License No. 0030399

SEC Accreditation No. 0026-AR-1

Tax Identification No. 124-282-616

BIR Accreditation No. 08-001987-7-2004

Issued July 14, 2004; Valid until July 13, 2007

PTR No. 0325120 J

Issued January 18, 2007 at Makati City

April 12, 2007
Makati City, Metro Manila



Manabat Sanagustin & Co.
 Certified Public Accountants
 (Formerly Laya Mananghaya & Co.)
 22/F, Philamlife Tower, 8767 Paseo de Roxas
 Makati City 1226, Metro Manila, Philippines

Telephone +63 (2) 885 7000
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 Fax +63 (2) 894 1985
 +63 (2) 816 6595
 Internet www.kpmg.com.ph
 e-Mail manila@kpmg.com.ph

PRC-BOA Registration No. 0003
 SEC Accreditation No. 0004-FR-1
 BSP Accredited

REPORT OF INDEPENDENT AUDITORS

The Stockholders and the Board of Directors
 San Miguel Corporation
 No. 40 San Miguel Avenue
 Mandaluyong City

We have audited the accompanying consolidated financial statements of San Miguel Corporation and its Subsidiaries which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of San Miguel Corporation and Subsidiaries as of December 31, 2005 were audited by other auditors whose report dated March 3, 2006, expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Manabat Sanagustin & Co.
 certified public accountants,
 a professional partnership established
 under Philippine law, is a member of the
 KPMG network of independent member
 firms affiliated with KPMG International, a
 Swiss cooperative.

Units 142/144 & 146/148
 Ground Floor, Alpha Building
 Subic International Hotel Compound
 Rizal corner Sta. Rita Roads
 Subic Bay Freeport Zone 2222
 Philippines

Telephone +63 (47) 252 2825
 Fax +63 (47) 252 2826
 e-Mail subic@kpmg.com.ph

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 Samar Loop corner
 Cardinal Rosales Avenue
 Cebu Business Park
 Cebu City 6000
 Philippines

Telephone +63 (32) 233 9337
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 Fax +63 (32) 233 9327
 e-Mail cebu@kpmg.com.ph

2nd Floor, Uy Building
 Sen. B. Aquino Avenue
 Mandurriao
 Iloilo City 5000
 Philippines

Telephone +63 (33) 321 3821
 +63 (33) 321 3822
 Fax +63 (33) 321 3823
 e-Mail iloilo@kpmg.com.ph

Suite 3, Doll Building
 6th Street
 Bacolod City 6100
 Philippines

Telephone +63 (34) 434 9225
 Fax +63 (34) 434 8015
 e-Mail bacolod@kpmg.com.ph



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of San Miguel Corporation and its Subsidiaries as of December 31, 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

MANABAT SANAGUSTIN & CO.

JORGE MA. S. SANAGUSTIN

Partner

CPA License No. 0030399

SEC Accreditation No. 0026-AR-1

Tax Identification No. 124-282-616

BIR Accreditation No. 08-001987-7-2004

Issued July 14, 2004; Valid until July 13, 2007

PTR No. 0325120 J

Issued January 18, 2007 at Makati City

April 12, 2007

Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006

(With Comparative Figures for 2005)

(In Millions)

	<i>Note</i>	2006	2005
ASSETS			
Current Assets			
Cash and cash equivalents	6, 35	P24,280	P20,876
Trade and other receivables - net	4, 7, 35	43,275	43,767
Inventories - net	4, 8	42,627	40,693
Current portion of biological assets - net	4, 12	3,570	3,557
Prepaid expenses and other current assets	34, 35	5,234	4,953
Total Current Assets		118,986	113,846
Noncurrent Assets			
Investments and advances - net	9, 34, 35	5,989	7,305
Property, plant and equipment - net	4, 10	97,986	94,603
Investment properties - net	11	1,744	1,661
Biological assets - net of current portion	12	1,260	1,154
Goodwill - net	4, 9, 13	72,899	69,615
Other intangible assets - net	4, 13	28,115	28,329
Deferred tax assets	4, 19	6,653	6,128
Other noncurrent assets - net	14, 34, 35	15,952	15,891
Total Noncurrent Assets		230,598	224,686
		P349,584	P338,532
LIABILITIES AND EQUITY			
Current Liabilities			
Drafts and loans payable	15, 34, 35	P42,354	P32,879
Accounts payable and accrued expenses	16,17, 34, 35	39,321	40,277
Income and other taxes payable	19	3,016	2,472
Dividends payable	30	318	1,389
Redeemable preferred shares - net of issuance costs	17, 34	-	6,895
Current maturities of long-term debt - net of debt issuance costs	18, 34, 35	11,007	7,754
Total Current Liabilities		96,016	91,666

Forward

	<i>Note</i>	2006	2005
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issuance costs	18, 34, 35	P84,908	P94,158
Deferred tax liabilities	19	13,974	13,633
Other noncurrent liabilities	28, 34	2,157	971
Total Noncurrent Liabilities		101,039	108,762
Equity	18, 20, 30, 33		
Equity Attributable to Equity Holders of the Company			
Capital stock		16,067	16,031
Additional paid-in capital		30,211	29,647
Revaluation increment		18	18
Cumulative translation adjustments	20	4,577	5,619
Retained earnings:			
Appropriated for expansion projects		6,036	6,087
Unappropriated		78,011	70,695
Treasury stock		(4,053)	(4,053)
		130,867	124,044
Minority Interest		21,662	14,060
Total Equity		152,529	138,104
		P349,584	P338,532

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2006

(With Comparative Figures for 2005 and 2004)

(In Millions, Except Per Share Data)

	<i>Note</i>	2006	2005	2004
SALES		P249,650	P226,737	P174,703
COST OF SALES	<i>21</i>	172,834	161,206	121,726
GROSS PROFIT		76,816	65,531	52,977
SELLING AND ADMINISTRATIVE EXPENSES	<i>22</i>	(56,258)	(48,066)	(35,469)
INTEREST EXPENSE AND FINANCING CHARGES	<i>15, 17, 18, 25</i>	(10,762)	(11,822)	(3,607)
INTEREST INCOME		2,994	2,775	1,212
FOREIGN EXCHANGE GAIN - Net		2,817	2,159	302
EQUITY IN NET EARNINGS OF ASSOCIATES	<i>9</i>	170	89	146
OTHER INCOME (CHARGES) - Net	<i>26</i>	(515)	737	(869)
INCOME BEFORE INCOME TAX		15,262	11,403	14,692
PROVISION FOR INCOME TAX	<i>19</i>	5,092	2,430	4,695
NET INCOME		P10,170	P8,973	P9,997
Attributable to:				
Equity holders of the Company		P10,566	P9,031	P8,859
Minority interest		(396)	(58)	1,138
		P10,170	P8,973	P9,997
Basic Earnings Per Share, attributable to equity holders of the Company	<i>31</i>	P3.36	P2.95	P3.11

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006
(With Comparative Figures for 2005 and 2004)
(In Millions)

	<i>Note</i>	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P15,262	P11,403	P14,692
Adjustments for:				
Depreciation, amortization and others - net		11,875	13,087	11,003
Interest expense and financing charges	25	10,762	11,822	3,607
Interest income		(2,994)	(2,775)	(1,212)
Equity in net earnings of associates	9	(170)	(89)	(146)
Gain on sale of investments and property and equipment	26	(272)	(63)	(70)
Operating income before working capital changes		34,463	33,385	27,874
Changes in noncash current assets, certain current liabilities and others	32	419	(15,019)	(9,989)
Cash generated from operations		34,882	18,366	17,885
Interest paid		(12,698)	(9,194)	(2,848)
Income taxes paid		(4,895)	(5,747)	(5,496)
Net cash flows from operating activities		17,289	3,425	9,541
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash acquired	9	(4,981)	(87,912)	(5,851)
Addition to investments and advances		(3)	(5,566)	(1,731)
Additions to property, plant and equipment	10	(12,593)	(11,901)	(16,855)
Decrease (increase) in other noncurrent assets		(4,931)	5,824	(6,508)
Proceeds from sale of investments and property and equipment		2,741	2,857	186
Interest received		3,015	2,787	1,197
Dividends received		73	-	44
Net cash flows used in investing activities		(16,679)	(93,911)	(29,518)

Forward

	<i>Note</i>	2006	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		P232,386	P221,404	P68,914
Long-term borrowings		17,354	71,741	22,904
Payments of:				
Short-term borrowings		(222,865)	(213,576)	(60,667)
Long-term borrowings		(19,892)	(8,498)	(1,959)
Reissuance of treasury shares	20	-	17,799	-
Cash dividends paid	30	(4,369)	(4,267)	(4,061)
Issuances of capital stock	20, 33	600	487	237
Dividends paid to minority shareholders		(157)	(280)	(220)
Increase in minority interest		480	46	-
Net cash flows provided by financing activities		3,537	84,856	25,148
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		(743)	(494)	3
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		3,404	(6,124)	5,174
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		20,876	27,000	21,826
CASH AND CASH EQUIVALENTS AT END OF YEAR				
		P24,280	P20,876	P27,000

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006
(With Comparative Figures for 2005 and 2004)
(In Millions)

									Minority Interest	Total Equity
	<i>Note</i>	Capital Stock	Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments	Retained Earnings Appropriated	Retained Earnings Unappropriated	Treasury Stock	Total	
At January 1, 2006		P16,031	P29,647	P18	P5,619	P6,087	P70,695	(P4,053)	P124,044	P14,060
Changes in the fair value of cash flow hedges, net of tax		-	-	-	18	-	-	-	18	-
Net effect of translation adjustments		-	-	-	(1,060)	-	-	-	(1,060)	-
Net income		-	-	-	-	-	10,566	-	10,566	(396)
Total income and expense for the year		-	-	-	(1,042)	-	10,566	-	9,524	(396)
Issuances	33	36	376	-	-	-	-	-	412	-
Stock options	33	-	188	-	-	-	-	-	188	-
Addition in minority interest , dividends and others		-	-	-	-	-	-	-	-	-
Appropriations - net	20	-	-	-	-	(51)	51	-	-	-
Cash dividends	30	-	-	-	-	-	(3,301)	-	(3,301)	-
At December 31, 2006		P16,067	P30,211	P18	P4,577	P6,036	P78,011	(P4,053)	P130,867	P21,662

Forward

									Minority Interest	Total Equity
	Note	Capital Stock	Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments	Retained Earnings Appropriated	Retained Earnings Unappropriated	Treasury Stock	Total	
At January 1, 2005, as restated		P15,982	P27,902	P18	P15,102	P5,787	P66,175	(P20,724)	P110,242	P17,344
Effect of change in accounting for financial instruments		-	-	-	-	-	180	-	180	(12)
At January 1, 2005, as adjusted		15,982	27,902	18	15,102	5,787	66,355	(20,724)	110,422	17,332
Changes in fair value of cash flow hedges, net of tax		-	-	-	(82)	-	-	-	(82)	-
Net effect of translation adjustments	19	-	-	-	(9,401)	-	-	-	(9,401)	-
Net income		-	-	-	-	-	9,031	-	9,031	(58)
Total income and expense for the year		-	-	-	(9,483)	-	9,031	-	(452)	(58)
Issuances	33	49	438	-	-	-	-	-	487	-
Stock option	33	-	179	-	-	-	-	-	179	-
Reissuance of treasury shares	20	-	1,128	-	-	-	-	16,671	17,799	-
Reduction in minority interest , dividends and others		-	-	-	-	-	-	-	-	(3,214)
Appropriations - net	20	-	-	-	-	300	(300)	-	-	-
Cash dividends	30	-	-	-	-	-	(4,391)	-	(4,391)	-
At December 31, 2005		P16,031	P29,647	P18	P5,619	P6,087	P70,695	(P4,053)	P124,044	P14,060

Forward

										Minority Interest	Total Equity
	Note	Capital Stock	Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments	Retained Earnings		Treasury Stock	Total		
At January 1, 2004		P15,959	P27,600	P -	P13,772	P5,325	P61,762	(P20,724)	P103,694	P13,529	P117,223
Net effect of translation adjustments	19	-	-	-	1,330	-	-	-	1,330	-	1,330
Net income		-	-	-	-	-	8,859	-	8,859	1,138	9,997
Total income and expense for the year		-	-	-	1,330	-	8,859	-	10,189	1,138	11,327
Issuances	33	23	214	-	-	-	-	-	237	-	237
Stock options	33	-	88	-	-	-	-	-	88	-	88
Addition in minority interest, dividends and others		-	-	-	-	-	-	-	-	2,677	2,677
Revaluation increment from business combination		-	-	18	-	-	-	-	18	-	18
Appropriations - net	20	-	-	-	-	462	(462)	-	-	-	-
Cash dividends	30	-	-	-	-	-	(3,984)	-	(3,984)	-	(3,984)
At December 31, 2004		P15,982	P27,902	P18	P15,102	P5,787	P66,175	(P20,724)	P110,242	P17,344	P127,586

See Notes to the Consolidated Financial Statements.



SAN MIGUEL CORPORATION

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of San Miguel Corporation (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the three-year period ended December 31, 2006. The following discussion should be read in conjunction with the attached audited consolidated balance sheets of the Group as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2006. All necessary adjustments to present fairly the Group’s consolidated financial position as of December 31, 2006 and the results of operations and cash flows for the year ended December 31, 2006 and for all the other periods presented, have been made.

I. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for the following:

- derivative financial instruments are measured at fair value;
- available-for-sale financial assets are measured at fair value; and
- agricultural produce are measured at fair value less estimated point-of-sale costs.

The consolidated financial statements are presented in Philippine peso, which is the Group’s functional and presentation currency, and all financial information are rounded to the nearest million (P000,000), except when otherwise indicated.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including interpretations issued by the Financial Reporting Standards Council.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial periods except for the following new and amended PAS and Philippine Interpretation from International Financial Reporting Interpretation Committee (IFRIC), which were adopted starting January 1, 2006:

- Amendment to Philippine Accounting Standard (PAS) 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*, provides an option for recognizing actuarial gains and losses in full in the period in which they occur, outside profit or loss. The amendment also (a) specifies how group entities should account for defined benefit group plans in their separate or individual financial statements and (b) requires entities to provide additional disclosures. The adoption did not have a recognition or measurement impact as the Group chose not to apply the new option offered to recognize actuarial gains or losses outside of the consolidated statements of income.

- Amendment to PAS 21, *Effects of Changes in Foreign Exchange Rates*, states that all exchange differences arising from a non monetary item that forms part of a Company's net investment in foreign operations are recognized in a separate component of stockholder's equity in the financial statements regardless of the currency in which the monetary item is denominated.
- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Cash Flow Hedge Accounting of Forecast Intragroup Transactions*, permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into the transaction and that the foreign currency risk will affect the consolidated statements of income. As the Group has no such transactions, the amendment did not have an effect on the consolidated financial statements.
- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - The Fair Value Option*, limits the fair value option to those financial instruments that meet the following conditions: where such designation eliminates or significantly reduces an accounting mismatch, when a group of financial assets, financial liabilities or both are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and when an instrument contains an embedded derivative that meets particular conditions. The Group had not previously used this option. Hence, the amendment did not have an effect on the consolidated financial statements.
- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Financial Guarantee Contracts*, requires the issuer of a financial guarantee contract to measure the contract: initially at fair value and subsequently at the higher of (a) the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and (b) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue*. However, if specified criteria are met, the issuer may use the fair value option in PAS 39. As the Group has no such transactions, the amendment did not have an effect on the consolidated financial statements.
- Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease* provides guidance for determining whether an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments, is or contains, a lease that should be accounted for in accordance with PAS 17, *Leases*.

The adoption of the above amendments to PAS and Philippine interpretation from IFRIC did not have a material effect on the consolidated financial statements.

II. RESULTS OF OPERATIONS

Comparisons of key operating results for the last three years are summarized in the following tables.

	Years Ended December 31		
	2006	2005	2004
	<i>(In Millions)</i>		
Sales	₱249,650	₱226,737	₱174,703
Gross Profit	76,816	65,531	52,977
Selling and Administrative Expenses	(56,258)	(48,066)	(35,469)
Interest Expense and Financing charges	(10,762)	(11,822)	(3,607)
Others	5,466	5,760	791
Income Before Income Tax and Minority Interests	15,262	11,403	14,692
Net Income attributable to Equity holders of the Parent	10,566	9,031	8,859

2006 vs 2005

2006 was an eventful and challenging year for San Miguel. Substantial progress was made in focusing the Company's resources on areas of highest growth potential and best strategic fit, as we refined our portfolio of businesses by announcing plans to divest our soft beverage joint venture with The Coca-Cola Company and acquisitions such as Lactos Pty. Ltd., a specialty cheese maker with strong leadership positions in the Australian market; a minority stake in Del Monte Pacific Ltd. through a joint venture company, and a sale purchase agreement signed with Le Gourmet, an emerging player in Vietnam's processed meats segment, and

With the National Foods-Berri integration and consolidation completed, we started a new program of reallocating resources against areas where we have the strongest competitive positions. Much of the efforts focused on integrating functions, streamlining the organization's operating structure and optimizing resources across the businesses to further deepen the Company's commercial capabilities.

With San Miguel now a more diverse conglomerate – in terms both of geography and portfolio – programs zeroed in on harnessing synergies available across the larger San Miguel Group.

Yet even as we enhance operational relationships among the different competencies and drive efficiencies higher, we also delivered on our commitments to shareholders as financial results continue to support a growing San Miguel. Consolidated net sales amounted to ₱249,650 million - 10% higher than last year. Consolidated operating income, on the other hand, of ₱20.558 million is 18% higher than 2005 level.

BEVERAGE

Beer Domestic

San Miguel Beer Domestic volume fell short of previous year's level as price adjustments on beer products, prompted by the implementation of additional value added tax early last year and increases in fuel and power costs, further dampened demand as consumers, faced with slower income growth, trimmed their spending. Revenue of ₱39,943 million nonetheless matched 2005 levels.

Cost-containment and efficiency-improvement programs kept overall expenses in check – delivering a new record operating income performance of ₱9,518 million – 15% higher than 2005.

Despite lower volumes, San Miguel nevertheless reinforced its domestic market position, hitting a record high in the last two decades--the result of continued enhancements to the SMBD distribution system and marketing programs.

Above-the-line initiatives, like the *Walang Katulad* campaign, combined with annual volume generating events like the *Sarap Mag Babad* summer program, the *Tambayang SMB* rainy season drive, Oktoberfest and Red Horse Muziklaban, among others, set the stage for year-round beer consumption.

Brand-specific bar tours like the Cerveza Negra Jazz Improv Tours, San Miguel Trendspotting and San Mig Light Inumornings as well as sports sponsorships such as the San Mig Light Enduro Challenge, the San Miguel Asian 9-Ball Tour and the 2006 World Pool Championships further magnified exposure for San Miguel Beer brands.

Beer International

San Miguel Beer Division International embarked on an extensive market and product expansion drive to effectively deliver volumes – resulting in improved sales and profitability. Volumes grew 8% from the previous year with consolidated revenues reaching US\$299 million. Operating income reached US\$4.4 million as a result of sustained operational efficiencies and vigilance in costs.

In South China operations, San Miguel Guangdong Brewery (SMGB) posted hefty volume and income growth due to the strong performance of Valor and Dragon brands, complemented by rationalized discounts and reduced production costs particularly for the Valor brand. The launch of Dragon's TVC in Shunde and nearby counties, "Refreshing to Fly", and eye-catching outlet signage in key outlets in Greater Foshan, has further improved the brand's awareness. Meanwhile, the Valor brand was also rolled out in these regions to further expand availability and boost volumes.

Guangzhou San Miguel Brewery (GSMB) has shown strong recovery and progress after the handover of the factory and production assets to Guangzhou Brewery last year. The operations are expected to return to profitability this year following the restructuring of operations.

While GSMB sales volume declined, the strategic intent to push for higher-margin products drove revenue higher. Specifically, San Mig Light registered volume gains driven by integrated distribution and marketing programs – supported by television commercial and outdoor advertising in core markets.

To cater to the volume requirements of GSMB, SMGB embarked on an expansion program aimed at increasing the brewery's production capacity.

North China operations saw volumes rising 16% from the previous year, primarily buoyed by strong sales of Blue Star brands. Three new products along the Blue Star line were launched to expand the volume base, including the introduction of Super Cool and Valor Super Light that are designed to compete in the premium segment.

Volume growth in Hong Kong continued driven by the economy brands, where San Miguel enjoys a strong following. The Wild Day Out campaign, which was extended year round and held in more locations, proved effective in enhancing the image and driving sales of San Miguel Beer brands.

In Indonesia, higher fuel costs and increase in taxes on alcoholic beverages dampened consumer demand. Heavy discounting by major local competitor placed further pressure on volumes of P.T. Delta Djakarta. Nevertheless, sales of Anker Stout grew, slowly grabbing a bigger share in the stout market. The availability of San Mig Light, the first light beer in the market, was likewise expanded.

In Australia, volumes were spurred by robust sales of Boag's Draught and Boag's St. George amid massive discounting from premium competing brands. A new pricing strategy implemented towards the end of the year proved effective in addressing the situation that affected volumes for most parts of 2006.

Meanwhile, strong sales of San Miguel Pale Pilsen and an own version of local favorite biahoi in Vietnam were responsible for driving the brewery's double-digit growth. The strong performance was attributed to rationalized channel sponsorships, improved outlet yield, and enhanced utilization and efficiency of promo merchandises.

In Thailand, revenue rose as the sales and distribution set up in Greater Bangkok and Central Thailand expanded availability and coverage of premium brands, particularly San Mig Light and Pale Pilsen. Strong contributions from tolling and exports likewise provided a significant boost in volumes.

Liquor and Spirits

The hard liquor business under Ginebra San Miguel, Inc. (GSMI) reported a 21% revenue growth to ₱12,435 million largely at the back of strong domestic sales. In particular, the impressive growth in relatively new offerings – Gran Matador Brandy and GSM Blue – and the recovery in the flagship GSM Red pushed consolidated volumes up 17% from the previous year despite the continued slack in exports.

However, a tighter cost environment induced by external and internal pressures – higher cost of molasses and the absorption of the incremental VAT early in the year, respectively – negated these gains and dragged operating income down to ₱733 million.

Despite these, efforts directed at reinforcing core brand equity and increasing product availability continued especially as market competition intensified further in 2006. GSMI embarked on strengthening brand Ginebra's image through tri-media campaigns that created broader awareness and boost consumption.

GSMI likewise worked on cementing its affinity with the Filipino drinker through massive barangay-based, consumer and outlet promotions and support for local celebrations and fiestas. This was complemented by a deliberate move to maintain prices, resulting in substantial volume gains for flagship GSM Bilog as volumes rose 9% year-on-year.

Gran Matador continued to fortify its position in the brandy market – substantially growing volumes from the previous year and become the second largest-selling local brandy in the market.

Buoyed by an effective series of campaigns over the last four years, G.S.M. Blue helped boost total gin volumes for the year, more than doubling its volumes from 2005 levels, at the same time creating a niche in the local gin market.

In terms of distribution, GSMI employed the dual functions of company-owned and third-party resources to tap previously underserved areas nationwide. A strategic collaboration with the logistics set-up of other San Miguel products was likewise initiated to improve product availability in key competitor-controlled areas.

Internally, GSMI re-doubled efforts to contain costs and manage funds to preserve gains in volume. Efficient working capital and inventory management freed up resources, amid tight cash flows, that were utilized for servicing debt, reducing interest payments and improving the company's financial health in general. GSMI also firmed its sights on the greater opportunities present in the regional markets as the joint venture with the Thai Life Group commences operations by the last quarter of 2007.

Non-Alcoholic Beverage

The growing segmentation in the local soft beverage industry, which has favored the non-carbonated sector, took its toll on the Coca-Cola Beverage Group (CCBG). As a result, the non-alcoholic beverage business as a whole failed to take-off in 2006. With consolidated volume of 14% below than last year, CCBG contributed ₱38,618 million in sales revenue, 3% lower than last year. Operating income stood at ₱575 million, 51% lower than 2005 level.

In February 2007, the partners The Coca-Cola Company (TCCC) and San Miguel Corporation completed the sale of the latter's 65% shareholding in Coca-Cola Bottlers Philippines, Inc. (CCBPI). With this sale, TCCC acquired full ownership of CCBPI, which includes subsidiaries Cosmos Bottling Corp. (manufacturer of Cosmos and Pop Cola) and Philippine Beverage Partners, Inc. (producer of water and juice), along with all voting and economic rights for a total consideration of US\$590 million.

Terms of the deal include a non-compete clause in carbonated soft drinks, flavored water, sports and energy drinks in the Philippines for five years. All other beverage formats such as water, juices, tea and coffee are open to San Miguel.

The sale of CCBPI supports San Miguel's more focused business model, emphasizing fully-owned branded positions. While it has relinquished control of CCBPI, San Miguel remains a key packaging supplier to the business.

The transaction also provides San Miguel the opportunity to focus on core business areas in the Philippines and its planned expansion throughout the region. The company is advancing its own regional beverage platform, already producing juice drinks and ready-to-drink tea in existing manufacturing facilities in the Philippines, Thailand and Indonesia.

FOOD AND AGRI

By realigning operations across the entire Food platform, San Miguel has taken major steps toward achieving a more efficient business model for its Food Group and building a stronger manufacturing base for growth, innovation and continued success.

Through a combination of an expanded product range, broadened distribution, and increased efficiencies, consolidated revenue totaled ₱63,999 million – 5% higher than the previous year. Effective expense management and the growing share of branded food products in the portfolio pushed margins higher, enabling operating income to reach ₱2,833 million, 38% higher than 2005.

Apart from sustaining volume and revenue growth across most of the businesses, San Miguel Pure Foods Co., Inc. has also strengthened its organizational structure to preserve efficiencies in the Group's growing operations.

Domestically, SMPFC completed an internal restructuring and realignment program that optimizes the sharing of resources among the different units and reduces operating costs in general. Moreover, both the Board and its shareholders recently approved a restructuring exercise that consolidates the different food businesses' ownership under SMPFC.

Agro-Industrial Cluster

Integrated agro-industrial zone. The Agro-industrial cluster benefited from stable pricing, improved capacities and wider distribution of products to sustain a robust performance. Increased presence in trade, especially through Monterey Supermarket and Neighborhood Meatshops – which now operates more than 300 outlets nationwide – Magnolia Chicken Stations, and San Miguel Food Shops enabled poultry and basic meat products to reach more consumers, driving a 5% growth in sales revenue as compared to last year, to ₱37,644 million. Operating income, likewise, posted a remarkable 36% increase, to ₱1,723 million.

In poultry operations, more contract growers embraced the concept of the climate-controlled system – a technological advancement in poultry farming that raises yields – leading to improved revenue of ₱16,891 million, 7% better than previous year. Operating income improved by 27% to ₱887 million.

Basic meats, meanwhile, competed with lower cost meat resulting in sluggish sales. Efficient operations nonetheless enabled operating income to surge by 28%, from ₱318 million in 2005 to ₱409 million in 2006.

In the feeds business, volume generating initiatives that produced contracts in both trade and farm levels and opening of new accounts complemented the strong demand and increased requirements from broiler and layer farms, ushering a sales revenue of ₱14,669 million, 5% higher than 2005 level. An effective raw material substitution program, through the use of cassava and other cheaper alternatives, lifted operating income to ₱427 million, 72% better than 2005.

Milling. Meanwhile, increased capacity utilization of new plants to drive innovation allowed the flour business to grow sales revenue by 5% to ₱13,329 million. The launch of E-Aji Dip Snacks likewise provided incremental business to the flour operations as well as the introduction of new high-value added and ready-to-cook flour mixes Magnolia Waffle Mix and Magnolia Pancake

Plus and institutional items like cookie and muffin mixes. Exports to Thailand likewise provided an extra push for the entire flour business.

Branded and Value-Added Businesses

Processed meats. While the processed meat cluster contributed ₱9,870 million in sales revenue and ₱508 million in operating income, the entry of cheaper products, particularly in the hotdogs segment, affected volumes and market position of Purefoods Hormel Corp. (PHC). To compete with lower priced players and recoup market share, the business intensified the offering of longer shelf life and more affordable variants complemented by a rationalized distribution utilizing existing channels like the Monterey Meatshops, San Mig Food Shops and PureFoods Market shops to expand availability. Growing exports are also expected to provide fresh revenue streams.

A total of 39 new products were brought to the market last year to support a growing revenue base. Among these was Mom's Kitchen – a new line of innovative products targeting the growing ready-to-eat market – which easily beefs up PHC's branded portfolio and promotes the company's strategy of serving a wider consumer base – together with Vida Balls, Flavored Tocino, and Tender Juicy Footlong Hotdog.

Dairy, Oils & Fats. Magnolia Inc. recorded ₱4,782 million in revenue, 14% higher from the previous year, with stronger performances posted in all product lines. Volumes were likewise boosted by the distribution arrangement of NFL products, which enjoyed a wide reception among consumers. To further cultivate these gains, investments in cold-chain storages as well as enhanced outlet coverage will be implemented.

Food Service. Great Food Solutions continued to expand its presence among institutional clients through its own branded food service business. With sustained innovation and product customization complemented by an aggressive coverage of the domestic food service industry – particularly an increased support to the quick service restaurants' need for speed and variety – GFS recorded another robust performance, posting sales revenue of ₱4,739 million – 4% higher than 2005. Operating income stood at ₱28 million.

Riding high on the flourishing business process outsourcing business in the country, GFS grew its market by supplying the 24/7 convenience stores with ready-to-eat, home-cooked flavor meals. The company also took advantage of the emergence of food carts and kiosks by providing affordable yet nutritious offerings like cheese and meat fillings for waffle dogs, pizza and rice toppings. GFS likewise expanded its portfolio horizontally by grabbing market shares in the poultry, flour and oils segments.

Emerging Businesses. San Miguel Super Coffeemix Co. Inc. continued with its impressive performance in 2006 posting sales revenue of ₱376 million – 87% better than last year. Just three years into the market, the San Mig Coffee brand has gained considerable share of the instant coffee market. The introduction of Sugar Free variants in the 3-in-1 segment and the launch of San Mig Super Coffee Instant Black Coffee in the mainstream last year are expected to stir additional revenue and market share growth.

Furthermore, the debut of E-Aji Dip Snacks marked San Miguel's entry into the snacks industry. With the first of its kind dip-in-snack feature, sales are forecast to increase substantially this year to become a significant player in the domestic snacks industry. In fact, SM Supermarket cited E-Aji as the "Breakthrough Product of the Year" in 2006.

The introduction of Magnolia Pancake Plus and Magnolia Waffle Mix likewise strengthened the Food Group's position in the branded food category. These ready-to-cook specialty mixes not only boosts prospects for the flour operations but also drives the business higher along the value chain.

Regional Operations

San Miguel Pure Foods Vietnam. San Miguel Pure Foods Vietnam (SMPFV) feeds business continued to flourish although sales from the piggery operations remained muted. To address the situation, SMPFV advanced its move towards higher value added and branded products through the sale purchase agreement forged with Le Gourmet – a processed meats manufacturing outfit in that country with strong presence in modern retail and institutional channels. The transaction completes the desired business model of an integrated food manufacturing, selling and distribution platform. Together with Hormel Foods Company's additional investment, the deals strengthen SMPFV's branding power and commercial leverage in the country.

PT San Miguel Pure Foods Indonesia. The processed meats business in Indonesia continued to endure the prevailing preference for cheaper and unbranded products available in the market – aggravated by persistent price inflation that further eroded consumer incomes. While volumes and revenue were depressed posting a sales revenue of ₱634 million in 2006 as against ₱673 million in 2005, existing operational efficiencies delivered an operating income higher than the previous year.

NATIONAL FOODS LIMITED

A full year after its consolidation into San Miguel, NFL sustained a strong performance in 2006 that yielded solid financial results. Operating a bigger and highly integrated platform of dairy, milk, juice and specialty cheese businesses, NFL further strengthened its position in the Australian market amid aggressive competition. Consolidated revenues grew 8% from the previous year to reach AU\$1,836 million.

In May 2006, NFL finalized the acquisition of Lactos – a leading specialty cheese manufacturer in the continent – which it later folded into King Island's distribution system. Soon after, NFL successfully consolidated its juice (Berri), cheese (Lactos and King Island), milk, and dairy operations' – beefing up the group's product offering and widening its consumer base. NFL also merged King's Creameries operations – the Singapore and Malaysian based ice cream company 77% owned by San Miguel – to rationalize branding for San Miguel's regional dairy strategy. Operational efficiencies derived from these initiatives allowed NFL's operating income to increase 10% to AUS\$170 million.

While white milk contended with the growing preference for private labels, flavored milk performed strongly in both the grocery and route channels as a result of extensive above-the-line campaigns and the successful launches of new products. In the fresh dairy segment, NFL maintained its market leadership through focus, innovation and sustained marketing support for well known consumer brands.

In the juice industry, NFL reported healthy volume and revenue performances with timely execution of sales and marketing strategies that enabled the business to compete with new entrants. This included increased brand building investment on core brands that has, in fact, solidified NFL's leadership in the chilled juice market.

NEW VENTURES

Del Monte Pacific Ltd. (DMPL) posted a considerable improvement in 2006 under the new management of NutriAsia Pacific, Ltd. – the joint-venture company between San Miguel Corp. and the NutriAsia Phils – which took over starting April 2006.

Revenue amounted to US\$243 million – 9% higher than the previous year as a result of sustained innovation and brand-building programs. Operational synergies achieved within the joint-venture together with the ongoing cost-efficiency program enabled operating profit to rise 16% to US\$28 million despite significant cost inflation.

Growth was strongest in the Philippines, where bulk of DMPL's business is derived from, reflecting gains in operational enhancements, product developments and a renewed focus on the company's beverage segment.

PACKAGING

San Miguel Packaging Products' sales reeled from weak requirements from internal clients, adversely affecting volumes particularly of the more profitable businesses – glass, metal and plastics. While other operations – paper, composite, PET, and San Miguel Packaging Malaysia – sustained their strong performances, this failed to lift consolidated revenues, which fell 7% to ₱19,400 million. Operating income came in at ₱1,639 million.

SMPP also initiated several measures that will allow them to thrive under intense competition in the international market. Domestically, San Miguel Yamamura Asia Corp. unveiled its second furnace to serve a growing market – making it the largest glass manufacturing plant in the Philippines that also employs pioneering technology. In addition, three new injection machines were commissioned to upgrade its plastics business while printing and bag making capacities were also increased in its Paper and Composite businesses, respectively, to enable SMPP to meet the increasing needs for more sophisticated packaging solutions.

2005 vs 2004

2005 have been a period of focus and activity for San Miguel as the Company continued to build new and stronger platforms to enhance its position as one of Asia-Pacific's leading beverage, food and packaging companies. Through the course of 2005, the Company delivered another year of solid financial results amid a demanding operating environment.

Energy and raw material costs were at record highs, putting pressure on margins. Consumer demand was relatively modest compared with the previous years as the share of utilities spending rose as a percentage of household incomes. Nevertheless, the consolidated results show the resilience of the Group due to its brand franchise, diverse product range, geographic spread and cost containment programs.

San Miguel's consolidated revenue rose to ₱226,737 million in 2005 – 30% higher than 2004 – mainly attributable to the inclusion of National Foods and full-year contribution of Berri. Operating income of ₱17,465 million was at par with 2004 as higher costs of raw materials, packaging, and utilities affected margins.

On a per business basis, National Foods and Berri contributed significantly to revenues for 2005. The international beer operations also reported solid results. In the domestic front, the juice and water businesses were the main volume drivers in the beverage sector. The packaging business served the non-traditional customers and focused on improving operating efficiency, which resulted in double-digit revenue gains.

San Miguel's consolidated net income amounted to ₱9,031 million at the back of financing charges of ₱6,888 million. However, excluding the one-off items related to the purchase of National Foods, net income would have increased by 8%.

BEVERAGE

Beer Domestic

SMBD's revenue grew 10% to ₱40,474 million in 2005 already taking into account the 20% excise tax hike for 2005, which compelled the Company to adjust selling prices in February. Although beer volumes ended slightly below 2004, beer domestic reported record operating profits of ₱8,308 million, 13% more than 2004 levels.

The beer unit strengthened its market position through programs directly targeting competition and efforts to reinforce San Miguel beer brands.

The "Beer na Walang Katulad" (Beer like no other) campaign focused on image-enhancing and volume-generating events. The annual Oktoberfest, "Sarap MagBabad" summer program, "Tambayang SMB" rainy season drive coupled with regional festivals, were venues to execute aggressive below-the-line consumer promotions to drive consumption.

New products and formats were introduced to create excitement in the market and offer consumers more choices. San Miguel Beer in 1.5 liter PET packaging and special edition cans were launched to support the flagship Pale Pilsen brand.

Capitalizing on the growing consumer preference for strong beers and low-calorie brews, sales volume of San Mig Light and Red Horse continued to grow in 2005. In the economy segment, the distribution coverage of Gold Eagle King was expanded to tap new areas nationwide.

Beer International

The international beer operations reported solid gains in 2005. SMBD-Int'l posted volume growth of 11% over 2004. This led to US\$284 million in revenue, 8% better than 2004.

Consolidated operating income grew 33% to US\$12.9 million – largely a result of strong volume and vigilance on costs.

San Miguel (Guangdong) Brewery Co., Ltd. (SMGB), which operates in Guanzhou province, reported healthy top-line volume and revenue growth a result of SMGB's successful programs to improve the market position of the Dragon brand. Innovative packaging and variants were launched to cater to the different market channels. South China operations also fortified its leadership in the economy segment with the introduction of Valor in 640ml bottles in the city of Shunde.

Meanwhile, Guangzhou San Miguel Brewery Company, Ltd. (GSMB) incurred an operating loss in 2005 due to a shift in volume mix favoring the lower priced brands and higher marketing costs necessary to build the brand and compete head-on with other market players.

San Miguel is in the process of restructuring its South China operations and will rationalize production capacities in the area. In addition, efforts will be refocused towards reinforcing brand equity and strengthening the sales and distribution networks in this key market.

Spurred by intensified sales and marketing efforts, the North China operations recorded growth volume and sales terms. A new thematic campaign “101 reasons to Love Baoding” for its Blue Star Beer earned for the brand the title “City Beer of Baoding.”

Fuelled by increased sales of economy brands, SMBD operations in Hong Kong gained further momentum in 2005. Various brand-building activities like the “Wild-day-Out” promo and the “Our City, Our Beer” campaign reinforced the image and preference for the San Miguel brand – Hong Kong’s only local beer brand.

PT Delta Djakarta Tbk (PT Delta) posted significant gains in market share and strong growth across its product portfolio. Riding on the upturn in Indonesia’s economy and led by flagship Anker Bir, PT Delta outpaced its previous year’s performance driven largely by effective sales strategies, successful marketing campaigns and new product introductions.

Anker Bir’s excellent performance solidified San Miguel’s position as Indonesia’s second largest-selling brewery. San Mig Light likewise made its debut in 2005, making it the first low-calorie beer in the Indonesian market.

In Australia, J. Boag and Son’s sustained its performance and strengthened its position as a leading player in the premium beer segment. Boag’s St. George’s and Boag’s Draught were launched in mainland Australia and enjoyed strong consumer off-take.

In Vietnam, competition further intensified in 2005. Improvements in operational efficiencies together with cost-cutting initiatives allowed the brewery to pare down its losses. Branded *bia hoi* was launched to capitalize on the fast growing popularity of the economy draft segment.

Following the acquisition of a brewery in 2004, SMBD-International moved quickly to enter the Thai beer market via its introductory brands Red Horse Beer and Blue Ice Beer – San Miguel’s entry into the economy and standard/popular segments, respectively. The brands were rolled out in Bangkok through on-premise outlets, selected hypermarts, supermarkets and convenience store chains. In December 2005, San Miguel Pale Pilsen and San Mig Light were introduced into the premium segment. Following the selling and distribution focus in 2005, marketing efforts will now be stepped up in order to build brand awareness and build consumption.

Liquor and Spirits

Ginebra San Miguel, Inc. (GSMI) focused on reshaping and diversifying its portfolio and reinforcing support structures to strengthen the business amid changing industry dynamics and cost pressures. Investment in new products was complemented by efforts to expand and improve distribution infrastructures and, at the same time, manage organizational and production costs.

Apart from a 30% hike in excise taxes early in the year, GSMI absorbed sharp increases in production costs – specifically the 60% increase in average price of molasses, surge in transport and freight rates, and investment in new bottles for new products. While GSMI effected staggered price adjustments during the year, consumption was relatively slow resulting in lower volume sales. GSMI reported revenues of ₱10,240 million in 2005.

While gin volumes softened, the newly launched Gran Matador Brandy reported a seven-fold increase in volumes and is already a major player in the brandy segment.

In 2005, GSMI intensified trade penetration for existing products, sustained brand-building activities, and launched new premium lines to serve previously untapped markets and to broaden the drinker base.

Improvements in product packaging, which includes tamper-evident features and attractive designs, were also amongst the key priority areas in order to ensure product safety and quality. Aside from exporting its product, GSMI continues to look for opportunities in the region.

Due to the combination of lower revenues and higher operating costs, however, GSMI's operating profit reached ₱880 million. The results include a one-time cost related to the Company's restructuring exercise in 2004. Interest charges were likewise a drag GSMI's net earnings.

Non-Alcoholic Beverage

The Philippine carbonated soft drink (CSD) market remained difficult in 2005 with slower than anticipated growth in consumption levels ushering in a steady decline in the CSD category. In addition, pricing pressures and competition were unrelenting. As a result, the Coca-Cola Beverage Group (CCBG) reported an 8% drop in volume.

Gains in the juice and water businesses were not enough to offset the downturn in the CSD business as Coca-Cola Bottlers Phils., Inc. (CCBPI) deferred price moves, resulting in CCBG's sales revenue of ₱39,779 million. Rigorous cost containment measures and improvements in operational efficiencies could not compensate for increases in input costs. Slimmer margins resulted in an operating income of ₱1,167 million – 63% lower from 2004.

To drive the business and revive growth in the soft beverage industry, CCBG fast-tracked its expansion into new channels—introducing new products and penetrating dry outlets.

Additional cost management measures such as improved production yields, use of alternative raw materials, and control of packaging, fuel, and electricity costs were also instituted to mitigate the impact of higher production and overhead costs. Restructuring efforts continued, resulting in the closure of two bottling plants in 2005 with an associated restructuring cost of ₱298 million. Manufacturing upgrades are ongoing in other CCBG facilities.

Carbonated soft drinks. CCBPI maintained its market leadership, sustaining and in some areas increasing outlet penetration and product availability in stores. Despite this, the shift to non-carbonated beverages (NCBs) and increasing share of non-food items in the consumers' disposable income affected volumes.

As pressure from low-priced competitors intensified, a wider distribution of new and existing products backed by aggressive penetration of outlets was employed. The Coke "Sakto" 200 ml bottle strategy proved effective in preventing the market grab of competing brands, especially in Metro Manila. Together with Sakto, Coke 769ml Family Size was relaunched to address the issue of affordability in the multi-serve segment.

Pop Cola was also rolled out nationwide, backed by a national TV ad and a suggested retail price campaign to promote price compliance and strengthen its position as the country's most affordable CSD.

A host of new and exciting products were also launched to maximize opportunities in a changing market. Sarsi root beer in returnable glass formats, 330ml cans, 1.5 liter PET, and fountain were rolled out nationwide while Sparkle was positioned as the primary offering in the growing lemon- flavored segment. In the modern trade, two-liter packages, cans in multi-packs, Sprite Ice, and four Royal Tru- fruit flavor variants in 500ml PET bottles were also introduced.

Juice Drinks. Demand created by growing preference for alternative drinks continue to benefit the NCB business. To capitalize on the opportunity, Philbev refined its sales organization to ensure maximum coverage and distribution, specifically in retail outlets and tertiary accounts. In addition, presence in modern trade and groceries was further strengthened by expanding points of engagement in key accounts and execution of impulse merchandising in convenience stores.

Water. The water business continued to surge, reaching more consumers in 2005 as coverage was expanded nationwide through Philbev's own dealers and CCBPI's distribution infrastructure. Penetration in on-premise outlets improved through the efforts of San Miguel Corp.'s Centralized Key Accounts Group (CKAG) and CCBPI's own National Key Accounts group (NKAG).

Wilkins Distilled Water maintained its position as the number one brand in the distilled water category while VIVA! was re-positioned as the health and lifestyle water brand of CCBG. Safety First was launched into the broad CDE market, enabling Philbev to directly compete with aggressive and lower-priced local players.

Iced Tea. Philbev's Earth and Sky Lemon Iced Tea proved to be a strong rival to the long-time leader. With an effective execution of sales and marketing programs, the brand grabbed an impressive share of the market in less than a year since its nationwide rollout. Earth & Sky Green Tea was introduced to follow on the success of the Lemon Tea flavor and further strengthen Philbev's position in the iced tea segment.

New Categories. As the growth of NCB segment was driven largely by relatively new segments, CCBG entered the fast-growing energy and sports drink segments through Hero Energy Drink to adapt to changing consumer needs and diversify Philbev's revenue base. Powerade was also reintroduced in 500ml PET bottle to cater to specific market demand.

FOOD AND AGRI

San Miguel started to reap benefits from the restructuring of the Food Group, with the business today more balanced and skewed towards branded and value-added products.

The Food Group has been transformed into a more rationalized and focused organization, centralizing important support functions like selling and marketing across the entire business. A more defined business structure was likewise achieved with the separation of the branded, commodities and regional businesses into major clusters with each one further delineated into smaller groups.

This strategy has not only helped boost the efficiency of the Food Group, but also raised effectiveness at defining and meeting the needs of consumers in innovative ways.

Over the last two years, a record number of new products were introduced into the market and the brand segmentation strategy has progressively helped shape a stronger portfolio.

Consolidated revenues of the Food Group in 2005 hit ₱61,118 million, a 6% growth over 2004. Stable selling prices pushed margins up and brought operating income to ₱2,051 million in 2005, a 10% improvement over 2004.

The growth is encouraging considering that it is largely volume driven and reflects a more balanced performance across the different food categories against full recovery of cost increases through price adjustment.

Almost all businesses managed to register year-on-year revenue growth complemented by sustained marketing and selling activities, new product introductions and improved distribution network.

Agro-Industrial Cluster

Integrated agro-industrial zone (IAIZ). The Food Group's IAIZ program started to compensate for increasing prices of major raw materials for San Miguel's feeds, poultry and basic meats businesses, resulting in lower cost of production inputs. The businesses under the agro-industrial loop contributed combined revenue in 2005 of ₱35,705 million – 8.5% higher than 2004—with operating income amounting to ₱1,263 million.

The poultry business remained one of the largest contributors to the Group. Stable pricing amid tight supply created a favorable operating landscape while cost-cutting measures and the effective application of new technology improved feeds-conversion ratio – enabling the sector to post a higher operating income.

Meanwhile, favorable industry prices, higher pork volumes and expanded market reach through the opening of 39 new supermarket meat shops, 81 Monterey neighborhood and New Look meat shops in 2005 were jointly responsible for the volume and revenue growth of basic meats.

The feeds' business revenue, on the other hand, grew amid a contraction in the hog industry, tough competition and sluggish commercial broiler and layer industries. Income from operations improved significantly. Increasing the use of cassava compensated for the higher cost of other raw materials.

Milling. The flour and coconut oil milling business recorded ₱12,712 million in revenue. Tight competition and higher raw material costs however pulled operating income down to ₱288 million.

Commissioning of new and expanded milling and blending facilities boosted the flour business' capacity, enabling it to augment local sales through exports and graduate into higher value-added flour blends – allowing the business to extend its coverage outside its traditional market.

Coconut oil exports, on the other hand, reeled from the negative impact of a stronger peso resulting in loss of revenue. To offset this, the oils & fats business thrived under stiff industry competition by expanding its revenue base through product diversification and tapping both institutional and industrial markets to augment its existing client base. The business likewise reiterated its presence in the local cooking oil and other specialty oils business by introducing more product sizes and formats in the domestic market.

Branded & Value-Added Businesses

Processed meats. Despite greater competition among industry players, the business registered double-digit revenue growth of 17% to ₱9,819 million due to aggressive sales and marketing programs. This was driven mainly by the strong performance of hotdogs and growth in canned grocery products, particularly Chunkee corned beef.

Operating income, however, fell 20% from last year to ₱705 million caused by sharp increases in both local and imported raw material prices and higher fixed costs with the operation of new plant. Also, operating expenses rose on the back of more aggressive advertising and promo spending to support volume growth.

Dairy, oils & fats. The business' revenue grew 15% to ₱4,198 million on account of improved prices and higher volumes of ready-to-drink milk and ice cream. However, margins of all product categories were lower as a result of rising imported raw material prices.

Margarine and cheese volumes rose steadily together with sales improvements across the entire product line. Despite these, an operating loss was incurred due to the unabated increase in costs and investment spending on new products.

Food Service. Great Food Solutions (GFS) sustained growth in 2005, posting sales revenue of ₱4,538 million – 56% higher than 2004. Volume likewise grew 45% from the previous year. GFS' sales and distribution expansion, development of new and customized value-added products and improved market shares contributed favorably to these results, helping the company tap opportunities in the growing Philippine food service industry.

The annexing of the San Miguel Pure Foods Commissary allowed GFS to be more responsive to institutional market needs. As GFS seeks to further penetrate key leverage operators nationwide, it remains focused on customization as its strategic edge.

Emerging Businesses. San Miguel Super Coffeemix Company, Inc. posted remarkable market share gains, which reflected in the six-fold increase in revenue to ₱201 million. Recently, four new flavors of Grandeur were introduced to complement the four flavors of San Mig Coffee Instant Coffee Mix.

Distribution and availability of San Miguel brands continue to expand with the opening of eleven new San Miguel Food Shops in 2005, bringing to 20 the total outlets opened since its creation.

Regional Operations

Regional operations across Asia delivered strong financial results, benefiting from an expanded capacity and execution of effective selling and distribution schemes. Revenue reached US\$49.5 million.

San Miguel Pure Foods Vietnam. San Miguel Pure Foods (VN) Co., Ltd. in Vietnam continued to show strong performance. The expanded capacity of hog raising operations allowed the business to widen its reach and increase production, resulting in higher revenue.

PT San Miguel Pure Foods Indonesia. The processed meats business in Indonesia reeled from high raw material costs and the market shift to unbranded products. While revenue improved, the significant increase in cost of inputs affected operating results.

King's Creameries. King's Creameries continued to exceed projections as revenue doubled from the previous year. While the company has the fourth largest overall market share in Malaysia and Singapore, it holds the No. 1 and No. 3 positions, respectively, in these countries' modern retail trade as the company sustains innovative sales and marketing approaches in these high margin channels.

NATIONAL FOODS LIMITED

Following the Company's acquisition of Australia's largest dairy company, National Foods, in June 2005, the breadth and depth of San Miguel's operations has become more geographically dispersed. The acquisition diversifies San Miguel Group's revenue and geographic base which facilitates the San Miguel's drive towards more branded and value-added food products.

San Miguel purchased 50% of Berri in August 2004 and an additional 1% in November 2004. Berri was later transferred to National Foods under the integration program of the two companies. Late last year, National Foods completed the acquisition of the remaining 49% of Berri – making the juice company a wholly-owned subsidiary of the San Miguel Group.

Berri was consolidated into the San Miguel Group starting November 2004 while National Foods was consolidated in June 2005.

The integration of the two organizations will result in a leaner yet more efficient and profitable Australian dairy and juice platform for San Miguel. The combined revenue contribution from the integrated companies is estimated at A\$1,186 million for 2005. Operating income contribution was at A\$106 million.

NEW VENTURES

In December 2005, San Miguel, through San Miguel Foods Asia Limited, together with NutriAsia, Inc. formed a joint-venture company NutriAsia San Miguel Holdings, Ltd. (NSMH), which then holds 100% equity interest in NutriAsia Pacific Limited (NPL). In January 2006, NPL acquired 84.5% of Del Monte Pacific Limited (DMPL), a Singapore-based listed company.

With one of the world's largest and most efficient pineapple processing and canning facilities, and a diverse line of products ranging from canned fruits, a variety of tomato-based sauces, fruit salad cream, pasta, condiments, juice drinks and concentrates, DMPL provides strategic fit to San Miguel's portfolio.

PACKAGING

San Miguel Packaging Products' (SMPP) total revenues for 2005 amounted to ₱20,794 million, or 21% higher than previous year due to sustained volume and revenue increases, particularly in domestic cartons and composites businesses and in its offshore operations.

Despite escalating prices of fuel oil and raw materials that marked the year, SMPP achieved an operating income of ₱2,681 million—6% higher than previous year as SMPP sustained a Total Packaging Solutions approach to its operations combined with a focused management of both fixed and material costs.

Domestically, aggressive sales and marketing push combined with increased efficiencies boosted the performances of the glass, metal, plastics, paper and composites businesses. Revenues from

the Glass operations, which comprise a third of SMPP revenues, is expected to contribute more to SMPP's growth down the line with the completion of San Miguel Yamamura Asia Corp.'s second furnace by the third quarter of 2006. Composites business, on the other hand, will benefit further from an expanded coverage of local small and medium enterprises.

Consolidated for the full year after its acquisition in January 2005, SMPP's Malaysia Operations contributed significantly to the group's revenue stream.

Anchored on four distinct and high-value added businesses namely: 1) plastic films (San Miguel Plastic Films Sdn. Bhd.); 2) flexible packaging, cartons and paperboard (San Miguel Packaging & Printing Sdn. Bhd.); 3) woven products and radiant barrier (San Miguel Woven Products Sdn. Bhd.); and 4) a Packaging Research Center, Malaysian operations delivered ₱3,312 million to SMPP's revenues.

III. FINANCIAL CONDITIONS

2006 vs 2005

The Group's consolidated total assets as of December 31, 2006 amounted to ₱349,584 million, ₱11,052 million higher than December 2005. The increase was brought about by the increase in cash and cash equivalents, additional investments in property, plant and equipment and additional goodwill as a result of the acquisition made in 2006.

Below are the major developments in 2006:

INVESTMENTS AND ACQUISITIONS

- a. In April 2006, the SEC approved the ₱1,200 million increase in capital of SMYAC. The Company and its Japanese partner, Nihon Yamamura Glass Company, Limited invested ₱720 million and ₱480 million, respectively. The additional capital was used for the expansion of its glass plant in Imus, Cavite to keep up with the expected rise in demand of its glass exports.
- b. In May 2006, the Company through National Foods Limited completed the acquisition of 100% stake in Lactos Pty Ltd. from French company Bongrain International SAS for a consideration of AU\$129 million. Lactos is Australia's leading specialty cheese maker.
- c. In May 2006, the SEC approved the merger of Primepak, Rightpak, SMYBC and SMPSI effective June 1, 2006, with SMPSI as the surviving entity. The tax-free merger was confirmed by the Bureau of Internal Revenue. Consequently, in accordance with the terms of the plan of merger, all the assets and liabilities of Primepak, Rightpak and SMYBC as at June 1, 2006 were absorbed, at book values, by SMPSI. There was no issuance of shares by SMPSI pursuant to the tax-free merger since Primepak, Rightpak and SMYBC were wholly-owned subsidiaries of SMPSI at the time of the merger.
- d. In October 2006, SMPFVN entered into a Sale and Purchase Agreement (the "SPA") with Le Gourmet Company Limited ("Le Gourmet"), for the purchase of certain tangible assets, trademarks, processes and information, as well as the take over of the land use rights of Le Gourmet used by it in relation to the processing and sale of its meat products in Vietnam, for the purchase price of US\$2 million, subject to the terms and conditions specified in the SPA,

including the relevant governmental approvals of the transaction in Vietnam. The transaction has not yet been completed to date.

- e. In November 2006, Magnolia and SDI executed a Deed of Assignment in favor of Magnolia, for the transfer of certain machinery and equipment with an appraised value of ₱20 million. As of November 27, 2006. In exchange, Magnolia will issue 11.1 million shares of its stock valued at net book value as of May 31, 2006. SDI then declared the said Magnolia shares as property dividend to the Company. The issuance of shares of stock to SDI and the declaration of the shares as property dividend to SMC is still pending approval with the SEC.
- f. In December 2006, SMFBIL sold to Hormel Netherlands B.V. 17,395,000 shares in SMPFI, amounting to 49% of the total outstanding and issued shares of SMPFI, for US\$20.5 million. As a result of the transaction, SMFBIL now holds 18,105,000 shares in SMPFI, amounting to 51% of the total outstanding and issued shares of SMPFI. SMPFI owns 100% of SMPFVN, the hogs and feeds business undertaking of the Company in Vietnam.
- g. In December 2006, the Company together with its two wholly owned subsidiaries, San Miguel Beverages (L) PTE Limited (SMBPL) and San Miguel Holdings Limited (SMHL), (collectively referred to as the “Sellers”) entered into a Share Purchase Agreement (SPA) with Coca-Cola South Asia Holdings, Inc. (the “Purchaser”) for the sale of their combined 65% equity in CCBPI for a total consideration of US\$590 million. The agreement provides that the closing of the sale transaction shall be subject to the completion of all the pre-closing conditions stipulated in the SPA. The closing date shall take place 3 business days after the satisfaction of all the pre-closing conditions or such other date that may be mutually agreed in writing by all Parties, provided that the closing date shall not be later than March 31, 2007 without the mutual written agreement of all Parties.

The following are the unaudited proforma Consolidated Balance Sheet of the Group as of December 31, 2006 and the related Statement of Income for the year ended December 31, 2006, which has been prepared as if the sale of the 65% equity in CCBPI (including subsidiaries CBC and Philbev) on February 22, 2007 and certain expenses related to the transaction were completed on January 1, 2006. The unaudited proforma Consolidated Balance Sheet and Statement of Income are for informational purposes only and do not purport to present what the actual financial condition and results of operations would have been had the sale of CCBPI actually occurred on January 1, 2006 or purport to project the results of operations for any future period. The unaudited proforma Consolidated Statement of Income is based on the historical financial statements of the Group and CCBPI after giving effect to the assumptions and adjustments described below.

The unaudited proforma Consolidated Balance Sheet and Statement of Income assumes no interest income for the funds received in 2006 and for the remaining unpaid amount.

The unaudited proforma Consolidated Balance Sheet and Statement of Income should be read in conjunction with the Audited Financial Statements of the Group and the accompanying Notes to the Financial Statements.

For the year ended December 31, 2006

	San Miguel Corporation and Subsidiaries Audited Consolidated Balance Sheet	Coca-Cola Group Balances Included in Consolidated Balance Sheet ^a	Pro-forma Adjustments		San Miguel Corporation and Subsidiaries Pro-forma Consolidated Balance Sheet
		(in millions)			
Cash and cash equivalents	24,280	(2,866)	18,000	b	39,414
Trade and other receivables - net	43,275	(5,119)	5,884	c	44,040
Inventories – net	42,627	(8,438)			34,189
Current portion of biological assets - net	3,570	-			3,570
Prepaid expenses and other current assets	5,234	(321)			4,913
Total Current assets	118,986	(16,744)	23,884		126,126
Investments and advances - net	5,989	27,526	(27,809)		5,706
Property, plant and equipment - net	97,986	(12,538)			85,448
Investment properties - net	1,744	(113)			1,631
Biological assets - net of current portion	1,260	-			1,260
Goodwill - net	72,899	(4,877)			68,022
Intangible assets - net	28,115	(89)			28,026
Deferred tax assets	6,653	(2,064)			4,589
Other noncurrent assets - net	15,952	(11,455)	4,903	d	9,400
Total Noncurrent assets	230,598	(3,610)	(22,906)		204,082
Total Assets	349,584	(20,354)	978		330,208
Drafts and loans payable	42,354	(2,596)			39,758
Accounts payable and accrued expenses	39,321	(5,107)			34,214
Income and other taxes payable	3,016	(245)			2,771
Dividends payable	318	-			318
Current maturities of long-term debt - net of debt issuance cost	11,007	(1,164)			9,843
Total Current Liabilities	96,016	(9,112)	-		86,904
Long-term debt - net of current maturities and debt issuance cost	84,908	(3,245)			81,663
Deferred tax liabilities	13,974	(296)			13,678
Other noncurrent liabilities	2,157	(1,114)			1,043
Total Noncurrent Liabilities	101,039	(4,655)	-		96,384
Total Liabilities	197,055	(13,767)	-		183,288
<i>Forward</i>					

For the year ended December 31, 2006				
	San Miguel Corporation and Subsidiaries Audited Consolidated Balance Sheet	Coca-Cola Group Balances Included in Consolidated Balance Sheet ^a	Pro-forma Adjustments	San Miguel Corporation and Subsidiaries Pro-forma Consolidated Balance Sheet
	(in millions)			
Equity				
Equity Attributable to Equity Holders of the Company				
Capital stock	16,067	-		16,067
Additional paid-in capital	30,211	-		30,211
Revaluation increment	18	-		18
Cumulative translation adjustments	4,577	2,566		7,143
Retained earnings:				-
Appropriated for expansion projects	6,036	-		6,036
Unappropriated	78,011	-	978	78,989
Treasury stock	(4,053)	-		(4,053)
	130,867	2,566	978	134,411
Minority Interest	21,662	(9,153)		12,509
Total Equity	152,529	(6,587)	978	146,920
Total Liabilities and Equity	349,584	(20,354)	978	330,208

a represents Coca-Cola Group Balance Sheet, including elimination entries for consolidation purpose

b represents initial payment of US\$370 million, using actual foreign exchange rate at PhP48.648

c represents current portion of the proceeds, to be received in 2007, using foreign exchange rate of PhP49.03:US\$1

d represents non-current portion of the proceeds, to be received after 2007, using foreign exchange rate of PhP49.03:US\$1

For the year ended December 31, 2006				
	San Miguel Corporation and Subsidiaries Audited Consolidated Statement of Income	Statement of Income Coca-Cola Group Included in Consolidated Statement of Income ^a	Pro-forma Adjustments	San Miguel Corporation and Subsidiaries Pro-forma Consolidated Statement of Income
	(in millions)			
Sales	249,650	(28,080)		221,570
Cost of Sales	172,834	(19,296)		153,538
Gross Profit	76,816	(8,784)	-	68,032
Selling and Administrative Expense	(56,258)	8,853		(47,405)
Interest Expense and financing Charges	(10,762)	1,732		(9,030)
Interest Income	2,994	(106)		2,888
Foreign Exchange Gain-net	2,817	(22)		2,795
Equity in Net Earnings of Associates	170	-		170
Other Income(Charges)-net	(515)	80		(435)
Estimated gain on sales of CCBG investments			1,215	1,215
Expenses related to sale:				
Taxes (Capital gains/Doc. Stamps)	-		(40)	(40)
Professional Fees	-		(197)	(197)
Income Before Income Tax	15,262	1,753	978	17,993
Provision for Income Tax	5,092	(30)	-	5,062
Net Income	10,170	1,783	978	12,931
Attributable to:				
Equity holder of the Company	10,566	1,169	978	12,713
Minority Interest	(396)	614	-	218
	10,170	1,783	978	12,931

Revenue of CCBPI amounting to P36,651 million, as per note 9 of Consolidated Financial Statement includes the following:

Sales Revenue	36,107
Interest Income	106
Other Income (included under "Other Income(Charges)-net" account)	643
	36,856

a Includes elimination entries for consolidation purposes

b Computation of gain on sale of Coca-Cola investments was based on the following assumptions:
- initial payment received in the amount of US\$370 million was recorded using actual foreign exchange rate at PhP48.648
- remaining US\$220 million is recorded at foreign exchange rate of PhP49.03:US\$1

c Expenses were based on actual expenses incurred by the Company.

Detailed discussion of developments relating to the Company's investments in subsidiaries is presented under Note 9 of attached Consolidated Financial Statements.

BORROWING

In September 2006, the Company entered into a US\$250 million facility loan to refinance the outstanding loan of US\$257 million with a margin on interest from 1.55% to 0.65% over LIBOR. The loan was drawn on October 3, 2006.

2005 vs 2004

The Group's consolidated total assets as of December 31, 2005 amounted to ₱338,532 million, ₱102,226 million higher than December 2004. While a number of acquisition happened in 2005, the increase in assets was primarily due to the acquisition and consolidation of NFL into the Group.

Below were the major developments in 2005:

INVESTMENTS AND ACQUISITIONS

a. San Miguel Packaging Specialists, Inc. (SMPSI)

In December 2005, the Company started the consolidation of its packaging business through SMPSI, subject to the approval of the SEC. The Company assigned to SMPSI, in a tax-free asset-for-share arrangement, the property, plant and equipment of its Packaging Division with fair value totaling ₱1,633 million and its shares of stock in San Miguel Yamamura Ball Corporation, Rightpak International Corporation and Premium Packaging, Inc., in a tax-free equity-for-share basis, totaling ₱1,250 million. Advances of the Company to SMPSI amounting to ₱2,250 million were converted to equity in October 2005.

b. Berri Ltd. (Berri)

In December 2005, the Company, through wholly owned unit National Foods Holdings Ltd., fully acquired Berri Ltd. for A\$170 million (₱6,622 million). Goodwill recognized amounted to ₱3,769 million.

c. San Miguel Pure Foods Company, Inc. (SMPFC)

In December 2005, the Company subscribed to an additional 13.9 million shares of stock of SMPFC. The consideration paid by the Parent Company amounting to ₱850 million was recognized as deposit for future stock subscription, pending the SEC's approval to the amendment of SMPFC's Articles of Incorporation to include a provision on the denial of pre-emptive rights to minority stockholders with respect to the issuance of shares of stock to the Parent Company. The SEC approved the amendments on February 9, 2006.

d. San Miguel Mills, Inc. (SMMI)

In September 2005, SMMI, a wholly owned subsidiary of San Miguel Food Inc. (SMFI), was incorporated with an initial capital of ₱0.25 million.

In December 2005, SMFI and SMMI executed a Deed of Assignment transferring certain assets (at historical book value) and liabilities of the former's Flour Division in exchange for the latter's shares effective January 1, 2006. The transfer of the net assets at historical book value totaling ₱1,646 million will be the full payment of SMFI's subscription to 16.4 million common shares to be issued out of the increase in authorized capital stock of SMMI.

e. National Foods Limited (NFL)

In June 2005, the Company, through San Miguel Foods Australia Holdings Pty Ltd., a wholly owned subsidiary, acquired a 95.77% stake in NFL for A\$1,834 million (₱76,986 million) or A\$6.40 per share. In July 2005, the remaining shares were acquired for A\$81 million (₱3,399 million) or A\$6.40 per share, making NFL a wholly owned subsidiary. Goodwill amounting to ₱51,703 million was recognized upon consolidation.

f. King's Creameries (S) Pte. Ltd.

In March 2005, the Company, through SMFBIL, acquired 76.38% stake in King's Creameries (S) Pte. Ltd., an ice cream business based in Malaysia and Singapore, for S\$9.40 million (₱312.8 million). Goodwill amounting to ₱145 million was recognized upon consolidation.

g. San Miguel Packaging Companies in Malaysia

In January 2005, the Company, through SMPIL completed the acquisition of the packaging businesses of Malaysian firm Goulene Packaging Industries Berhad with payment of RM106.8 million (₱1,556 million) for the remaining 80% of the purchase price. Pursuant to the terms of the relevant purchase agreements, SMPIL paid in April 2005 the additional amount of RM2.6 million (₱38 million) as an adjustment to the purchase price based on the results of a post-completion audit of the packaging businesses.

The total cost of investment was RM136 million. Provisional goodwill amounting to ₱1,008 million was recognized upon consolidation.

h. San Miguel Super Coffeemix Co., Inc. (SMSCCI)

In April 2005, SMSCCI started commercial operations. SMSCCI, a joint venture company, is engaged in the importation, packaging, manufacturing, marketing and distribution of coffee and coffee-related products in the Philippines and other countries in the Asian region.

i. NutriAsia San Miguel Holdings Limited (NSMH)

In December 2005, the Company, through San Miguel Foods Asia Limited, together with NutriAsia, Inc., formed NSMH, which owns 100% of NutriAsia Pacific Ltd. (NPL). In January 2006, NPL acquired 84.5% ownership of Del Monte Pacific Limited, a Singapore-listed company involved in the manufacturing of canned fruits, juice drinks, concentrates,

tomato-based sauces and condiments. Total investment as of December 31, 2005 amounted to US\$76 million (₱4,035 million), which represents 42.22% of NSMH.

BORROWINGS

- a. In December 2005, the Company has drawn the remaining balance of ₱1,800 million from the ₱5,000 million unsecured syndicated term loan facility agreement entered in 2003. This facility is being used to finance the construction of certain plants and facilities and the acquisition of certain machinery and equipment to be used for the manufacturing and recycling of PET bottles by SMPSI.
- b. In November 2005, the Parent Company has made a total drawdown from the US\$650 million unsecured term loan facility to partially pay-off the Bridge Facility which was used to acquire National Foods Limited.

IV. MATERIAL CHANGES PER LINE OF ACCOUNT

2006 vs 2005

Cash and cash equivalents increased by 16% from ₱20,876 million in 2005 to ₱24,280 million in 2006 mainly due to cash generated from operating and financing activities.

Prepaid expenses and other current assets increased by 6% from ₱4,953 million in 2005 to ₱5,234 million in 2006 due to increase in SMPFC's creditable input and withholding taxes, tax prepayments made by San Miguel Thailand Company Limited and increase in San Miguel Foods Australia Holdings Pty Ltd derivative assets, net of decrease in San Miguel Yamamura Asia Corporation derivative assets.

Investments and advances decreased by 18% from ₱7,305 million in 2005 to ₱5,989 million in 2006 due to the maturity of ROP treasury bonds and translation adjustments of foreign investment accounts.

Goodwill increased by 5% from ₱69,615 million in 2005 to ₱72,899 million in 2006 due to acquisition of Lactos and recognition of additional goodwill for Berri, net of cumulative translation adjustment.

Investment properties increased by 5% from ₱1,661 million in 2005 to ₱1,744 million in 2006 mainly due to additional properties booked by the Company.

Noncurrent biological assets increased by 9% from ₱1,154 in 2005 to ₱1,260 in 2006 due to Monterey Foods Corporation's production for the year, net of sales.

Deferred tax assets increased by 9% from ₱6,128 million in 2005 to ₱6,653 million in 2006 mainly due to increase in unamortized past service cost and provisions of the non-alcoholic beverage group.

Drafts and loans payable increased by 29% from ₱32,879 million in 2005 to ₱42,354 million in 2006 due to additional loans for working capital requirements of the Company.

Income and other taxes payable increased by 22% from ₱2,472 million in 2005 to ₱3,016 million in 2006 mainly due to higher income tax due in 2006 particularly for the Company.

Dividends payable decreased by 77% from ₱1,389 million in 2005 to ₱318 million in 2006 mainly due to the deferment of the cash dividends declaration in the fourth quarter.

The decrease in redeemable preferred shares was due to the reclassification of the preferred shares to equity (minority interest) as a result of the amendment of CCBPI's articles of incorporation for the convertibility feature of CCBPI's Class A and B preferred shares.

Long Term Debt decreased by 6% from ₱101,912 million in 2005 to ₱95,915 million in 2006 mainly due to the effect of currency translation adjustments and net payments during the year.

Other noncurrent liabilities increased by 122% from ₱971 million in 2005 to ₱2,157 million in 2006 mainly due to increase in NFL's capital lease obligation.

The increase (decrease) in stockholders' equity in 2006 is due to:

<i>(In millions)</i>	2006
Income during the period	₱10,566
Increase in minority interest	7,602
Issuance of capital stock	600
Effect of translation adjustments	(1,042)
<u>Declarations of cash dividends</u>	<u>(3,301)</u>
	<u>₱ 14,425</u>

2005 vs 2004

Cash and cash equivalents decreased by 23% from ₱27,000 million in 2004 to ₱20,876 million in 2005 mainly due to the funds used for the acquisitions net of 1) proceeds from reissuance of treasury shares, 2) availing of loans, 3) maturity of Company's investment in sovereign bonds and 4) cash generated from operating activities.

Trade and other receivables increased by ₱4,682 million mainly due to consolidation of NFL and increase in the beer group's balances. The increase in the beer group's trade receivables was mainly due to higher credit sales and the implementation of price increase in 2005.

Inventories increased by ₱8,245 million mainly due to GSKI's increase in cost and volume of molasses and alcohol and higher stock level of Finished Goods; increase in raw materials inventory level of Agri, Beer and Packaging Divisions of the Parent Company and due to consolidation of NFL and Guolene .

Prepaid expenses and other current assets increased by 27% due to recognition of derivative asset net of application of advance contribution to Retirement Plan.

Investments increased by 71% mainly due to investment in NutriAsia San Miguel Holdings Limited .

Property, plant and equipment increased by 19% mainly due to consolidation of NFL, Guolene and King's Creameries net of depreciation for the period.

Investment properties decreased by 19% mainly due to depreciation for the period and effect of cumulative translation adjustments.

Goodwill increased by 337% from ₱15,927 million to ₱69,615 million, due to goodwill recognized from acquisition of NFL, Berri, Guolene Packaging Business and King's Creameries.

Intangible Assets, Deferred tax assets and Other noncurrent assets net increased by ₱22,549 million mainly due to consolidation of NFL, Guolene Packaging Business and King's Creameries.

Drafts and loans payable increased by ₱7,091 million, due to additional loans for working capital requirements.

Accounts payable and accrued expenses increased by 47% mainly due to consolidation of NFL and Guolene Packaging Business.

The 28% decrease in income taxes and other taxes payable is mainly due to lower taxable income due in 2005 compared with 2004.

Long Term Debt increased by 187% mainly due to the availment of loans for the acquisition of NFL and consolidation of Guolene Packaging Business and King's Creameries net of payments made during the year.

Redeemable preferred shares movement is mainly due to reclassification from non current to current maturities.

Deferred tax liabilities and Other noncurrent liabilities increased by ₱6,186 million due to consolidation of NFL and Guolene Packaging Business and King's Creameries.

The increase (decrease) in stockholders' equity in 2005 is due to:

	2005
	(In Millions)
Reissuance of treasury shares	₱17,799
Income during the period	9,031
Effect of translation adjustments	(9,483)
Declarations of cash dividends	(4,391)
Net movement of minority interest	(3,272)
Issuance of capital stock	487
Stock Option	179
	₱10,350

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2006	2005	2004
		<i>(In Millions)</i>	
Net cash flows from operating activities	₱17,289	₱3,425	₱9,541
Net cash flows used in investing activities	(16,679)	(93,911)	(29,518)
Net cash flows provided by financing activities	3,537	84,856	25,148

Net cash from operations for the year basically consists of income for the period less changes in noncash current assets, certain current liabilities and others, which include increases in inventory level.

Net cash used in investing activities included the following:

	December 31		
	2006	2005	2004
		<i>(In Millions)</i>	
Acquisitions of subsidiaries, net of cash acquired	₱4,981	₱87,912	₱5,851
Additions to property, plant and equipment	12,593	11,901	16,855
Additions to investments and advances	3	5,566	1,731
(Increase) Decrease in other noncurrent assets and others	(898)	(11,468)	5,081

Major components of cash flow provided by financing activities are as follows:

	December 31		
	2006	2005	2004
		<i>(In Millions)</i>	
Proceeds from short-term borrowings	₱232,386	₱221,404	₱68,914
Payments of short-term borrowings	(222,865)	(213,576)	(60,667)
Reissuance of treasury shares	-	17,799	-
Proceeds from long-term borrowings	17,354	71,741	22,904
Payments of long-term borrowings	(19,892)	(8,498)	(1,959)
Cash dividends paid	(4,526)	(4,547)	(4,281)
Others	1,080	533	237

The effect of exchange rate changes on cash and cash equivalents amounted to (₱743 million), (₱494 million) and ₱3 million in December 31, 2006, 2005 and 2004 respectively. The foreign exchange rates used in translating the U.S. dollar accounts of foreign subsidiaries and associates to Philippine peso were closing rates of P49.03 in 2006 and P53.09 in 2005 for balance sheet accounts; and average rates of P51.32 in 2006, P55.07 in 2005 and P56.05 in 2004 for income and expense accounts.

V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The following items are not available for declaration as dividends:

	December 31	
	2006	2005
	<i>(In Millions)</i>	
Accumulated equity in net earnings of subsidiaries and associates (included in the unappropriated retained earnings balance)	₱40,299	₱33,565
Treasury stock	(4,053)	(4,053)

VI. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Company 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 “Results of Operations” of the MD & A for the discussion of the computed certain Key Performance Indicators.

	December 31	
	2006	2005
Liquidity:		
Current Ratio	1.24	1.24
Solvency:		
Debt to Equity Ratio	1.29	1.45
Profitability:		
Return on Average Stockholders’ Equity Attributable to Equity Holders of the Company	8.29%	6.80%
Operating Efficiency:		
Volume Growth	10%	11%
Revenue Growth	10%	30%

The manner by which the Company calculates the above indicators is as follows:

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Non-current)}}{\text{Minority Interest + Stockholders' Equity}}$
Return on Average Stockholders’ Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Company}}{\text{Average Stockholders' Equity Attributable to Equity Holders of the Company}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$

VII. OTHER MATTERS

a. Subsequent Event

On April 12, 2007, the Company through SMFAL, entered into a Share Purchase Agreement (SPA) with Well Grounded Limited covering the sale of its 42.22% equity interest in NSMH for US\$122 million. The completion of the transaction shall be subject to the compliance of certain terms and conditions stipulated in the SPA. As of December 31, 2006, the carrying value of the Company's interest in NSMH was ₱3,719 million.

b. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

On April 12, 2004 and May 26, 2004, the Company was assessed by the Bureau of Internal Revenue for deficiency excise tax on one of its beer products. The Company contested the assessments before the Court of Tax Appeals (CTA) under CTA case numbers 7052 and 7053. In the opinion of management and its legal counsel, the Company has strong legal grounds to contest the assessments.

In relation to the aforesaid contested assessments, the Company, on January 31, 2006, filed with the CTA, under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

c. Commitments

The outstanding purchase commitments of the Group as of December 31, 2006 amounted to ₱63,000.

Amount authorized but not yet disbursed for capital projects as of December 31, 2006 is approximately ₱20,000.

The Group has available undrawn committed borrowing facilities amounting to ₱1,800 as of December 31, 2004. Such committed borrowing facilities were all drawn in 2005.

- d. The effects of seasonality or cyclicity on the interim operations of the Company's businesses are not material.
- e. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Conditions and Results of Operations.
- f. There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.

- g. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.
- h. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- i. There were no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual balance sheet date, except for Note 20 (c) of the 2006 Audited Consolidated Financial Statements and Note A of Section VII above, that remain outstanding as of December 31, 2006. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- j. There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Company as of and for the period December 31, 2006.