

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31, 2006**

(With Comparative Figures for 2005)

(In Millions)

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

*Forward*

|  | <i>Note</i>           | <b>2006</b>     | 2005     |
|--|-----------------------|-----------------|----------|
| <b>Noncurrent Liabilities</b>                                      |                       |                 |          |
| Long-term debt - net of current maturities and debt issuance costs | <i>18, 34, 35</i>     | <b>P84,908</b>  | P94,158  |
| Deferred tax liabilities   | <i>19</i>             | <b>13,974</b>   | 13,633   |
| Other noncurrent liabilities                                       | <i>28, 34</i>         | <b>2,157</b>    | 971      |
| <b>Total Noncurrent Liabilities</b>                                |                       | <b>101,039</b>  | 108,762  |
| <b>Equity</b>  | <i>18, 20, 30, 33</i> |                 |          |
| <b>Equity Attributable to Equity Holders of the Company</b>        |                       |                 |          |
| Capital stock  |                       | <b>16,067</b>   | 16,031   |
| Additional paid-in capital   |                       | <b>30,211</b>   | 29,647   |
| Revaluation increment  |                       | <b>18</b>       | 18       |
| Cumulative translation adjustments                                 | <i>20</i>             | <b>4,577</b>    | 5,619    |
| Retained earnings:   |                       |                 |          |
| Appropriated for expansion projects                                |                       | <b>6,036</b>    | 6,087    |
| Unappropriated   |                       | <b>78,011</b>   | 70,695   |
| Treasury stock   |                       | <b>(4,053)</b>  | (4,053)  |
|  |                       | <b>130,867</b>  | 124,044  |
| <b>Minority Interest</b>   |                       | <b>21,662</b>   | 14,060   |
| <b>Total Equity</b>  |                       | <b>152,529</b>  | 138,104  |
|  |                       | <b>P349,584</b> | 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>           | <b>2006</b>     | 2005     | 2004     |
|--|-----------------------|-----------------|----------|----------|
| <b>SALES</b>   |                       | <b>P249,650</b> | P226,737 | P174,703 |
| <b>COST OF SALES</b>   | <i>21</i>             | <b>172,834</b>  | 161,206  | 121,726  |
| <b>GROSS PROFIT</b>  |                       | <b>76,816</b>   | 65,531   | 52,977   |
| <b>SELLING AND ADMINISTRATIVE EXPENSES</b>                                     | <i>22</i>             | <b>(56,258)</b> | (48,066) | (35,469) |
| <b>INTEREST EXPENSE AND FINANCING CHARGES</b>                                  | <i>15, 17, 18, 25</i> | <b>(10,762)</b> | (11,822) | (3,607)  |
| <b>INTEREST INCOME</b>   |                       | <b>2,994</b>    | 2,775    | 1,212    |
| <b>FOREIGN EXCHANGE GAIN - Net</b>   |                       | <b>2,817</b>    | 2,159    | 302      |
| <b>EQUITY IN NET EARNINGS OF ASSOCIATES</b>                                    | <i>9</i>              | <b>170</b>      | 89       | 146      |
| <b>OTHER INCOME (CHARGES) - Net</b>  | <i>26</i>             | <b>(515)</b>    | 737      | (869)    |
| <b>INCOME BEFORE INCOME TAX</b>  |                       | <b>15,262</b>   | 11,403   | 14,692   |
| <b>PROVISION FOR INCOME TAX</b>  | <i>19</i>             | <b>5,092</b>    | 2,430    | 4,695    |
| <b>NET INCOME</b>  |                       | <b>P10,170</b>  | P8,973   | P9,997   |
| <b>Attributable to:</b>  |                       |                 |          |          |
| Equity holders of the Company  |                       | <b>P10,566</b>  | P9,031   | P8,859   |
| Minority interest  |                       | <b>(396)</b>    | (58)     | 1,138    |
|  |                       | <b>P10,170</b>  | P8,973   | P9,997   |
| <b>Basic Earnings Per Share, attributable to equity holders of the Company</b> | <i>31</i>             | <b>P3.36</b>    | 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> | <b>2006</b>     | 2005     | 2004     |
|---|-------------|-----------------|----------|----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                               |             |                 |          |          |
| Income before income tax  |             | <b>P15,262</b>  | P11,403  | P14,692  |
| Adjustments for:  |             |                 |          |          |
| Depreciation, amortization and others - net                               |             | <b>11,875</b>   | 13,087   | 11,003   |
| Interest expense and financing charges                                    | 25          | <b>10,762</b>   | 11,822   | 3,607    |
| Interest income   |             | <b>(2,994)</b>  | (2,775)  | (1,212)  |
| Equity in net earnings of associates                                      | 9           | <b>(170)</b>    | (89)     | (146)    |
| Gain on sale of investments and property and equipment                    | 26          | <b>(272)</b>    | (63)     | (70)     |
| Operating income before working capital changes                           |             | <b>34,463</b>   | 33,385   | 27,874   |
| Changes in noncash current assets, certain current liabilities and others | 32          | <b>419</b>      | (15,019) | (9,989)  |
| Cash generated from operations  |             | <b>34,882</b>   | 18,366   | 17,885   |
| Interest paid   |             | <b>(12,698)</b> | (9,194)  | (2,848)  |
| Income taxes paid   |             | <b>(4,895)</b>  | (5,747)  | (5,496)  |
| Net cash flows from operating activities                                  |             | <b>17,289</b>   | 3,425    | 9,541    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                               |             |                 |          |          |
| Acquisitions of subsidiaries, net of cash acquired                        | 9           | <b>(4,981)</b>  | (87,912) | (5,851)  |
| Addition to investments and advances                                      |             | <b>(3)</b>      | (5,566)  | (1,731)  |
| Additions to property, plant and equipment                                | 10          | <b>(12,593)</b> | (11,901) | (16,855) |
| Decrease (increase) in other noncurrent assets                            |             | <b>(4,931)</b>  | 5,824    | (6,508)  |
| Proceeds from sale of investments and property and equipment              |             | <b>2,741</b>    | 2,857    | 186      |
| Interest received   |             | <b>3,015</b>    | 2,787    | 1,197    |
| Dividends received  |             | <b>73</b>       | -        | 44       |
| Net cash flows used in investing activities                               |             | <b>(16,679)</b> | (93,911) | (29,518) |

*Forward*

|   | <i>Note</i> | <b>2006</b>      | 2005      | 2004     |
|---|-------------|------------------|-----------|----------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |             |                  |           |          |
| Proceeds from:  |             |                  |           |          |
| Short-term borrowings   |             | <b>P232,386</b>  | P221,404  | P68,914  |
| Long-term borrowings  |             | <b>17,354</b>    | 71,741    | 22,904   |
| Payments of:  |             |                  |           |          |
| Short-term borrowings   |             | <b>(222,865)</b> | (213,576) | (60,667) |
| Long-term borrowings  |             | <b>(19,892)</b>  | (8,498)   | (1,959)  |
| Reissuance of treasury shares                                       | 20          | -                | 17,799    | -        |
| Cash dividends paid   | 30          | <b>(4,369)</b>   | (4,267)   | (4,061)  |
| Issuances of capital stock  | 20, 33      | <b>600</b>       | 487       | 237      |
| Dividends paid to minority shareholders                             |             | <b>(157)</b>     | (280)     | (220)    |
| Increase in minority interest                                       |             | <b>480</b>       | 46        | -        |
| Net cash flows provided by financing activities                     |             | <b>3,537</b>     | 84,856    | 25,148   |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b> |             |                  |           |          |
|   |             | <b>(743)</b>     | (494)     | 3        |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>         |             |                  |           |          |
|   |             | <b>3,404</b>     | (6,124)   | 5,174    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>               |             |                  |           |          |
|   |             | <b>20,876</b>    | 27,000    | 21,826   |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                     |             |                  |           |          |
|   |             | <b>P24,280</b>   | 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<br>Interest | Total<br>Equity |                 |
|--|-------------|------------------|----------------------------------|--------------------------|--|-------------------|----------------|-------------------|----------------------|-----------------|-----------------|
|  | <i>Note</i> | Capital<br>Stock | Additional<br>Paid-in<br>Capital | Revaluation<br>Increment | Cumulative<br>Translation<br>Adjustments | Retained Earnings |                | Treasury<br>Stock | Total                |                 |                 |
|  |             |                  |                                  |                          |  | Appropriated      | Unappropriated |                   |                      |                 |                 |
| <b>At January 1, 2006</b>                                    |             | <b>P16,031</b>   | <b>P29,647</b>                   | <b>P18</b>               | <b>P5,619</b>                            | <b>P6,087</b>     | <b>P70,695</b> | <b>(P4,053)</b>   | <b>P124,044</b>      | <b>P14,060</b>  | <b>P138,104</b> |
| Changes in the fair value of cash<br>flow hedges, net of tax |             | -                | -                                | -                        | 18                                       | -                 | -              | -                 | 18                   | -               | 18              |
| Net effect of translation<br>adjustments                     |             | -                | -                                | -                        | (1,060)                                  | -                 | -              | -                 | (1,060)              | -               | (1,060)         |
| Net income   |             | -                | -                                | -                        | -  | -                 | 10,566         | -                 | 10,566               | (396)           | 10,170          |
| Total income and expense for the<br>year                     |             | -                | -                                | -                        | (1,042)                                  | -                 | 10,566         | -                 | 9,524                | (396)           | 9,128           |
| Issuances  | 33          | 36               | 376                              | -                        | -  | -                 | -              | -                 | 412                  | -               | 412             |
| Stock options  | 33          | -                | 188                              | -                        | -  | -                 | -              | -                 | 188                  | -               | 188             |
| Addition in minority interest,<br>dividends and others       |             | -                | -                                | -                        | -  | -                 | -              | -                 | -                    | 7,998           | 7,998           |
| Appropriations - net   | 20          | -                | -                                | -                        | -  | (51)              | 51             | -                 | -                    | -               | -               |
| Cash dividends   | 30          | -                | -                                | -                        | -  | -                 | (3,301)        | -                 | (3,301)              | -               | (3,301)         |
| <b>At December 31, 2006</b>                                  |             | <b>P16,067</b>   | <b>P30,211</b>                   | <b>P18</b>               | <b>P4,577</b>                            | <b>P6,036</b>     | <b>P78,011</b> | <b>(P4,053)</b>   | <b>P130,867</b>      | <b>P21,662</b>  | <b>P152,529</b> |

Forward

|   |             |                  |                                  |                          |  |                   |                |                   |          | Minority<br>Interest | Total<br>Equity |
|---|-------------|------------------|----------------------------------|--------------------------|--|-------------------|----------------|-------------------|----------|----------------------|-----------------|
|   | <i>Note</i> | Capital<br>Stock | Additional<br>Paid-in<br>Capital | Revaluation<br>Increment | Cumulative<br>Translation<br>Adjustments | Retained Earnings |                | Treasury<br>Stock | Total    |                      |                 |
|   |             |                  |                                  |                          |  | Appropriated      | Unappropriated |                   |          |                      |                 |
| At January 1, 2005, as restated                             |             | P15,982          | P27,902                          | P18                      | P15,102                                  | P5,787            | P66,175        | (P20,724)         | P110,242 | P17,344              | P127,586        |
| Effect of change in accounting<br>for financial instruments |             | -                | -                                | -                        | -  | -                 | 180            | -                 | 180      | (12)                 | 168             |
| At January 1, 2005, as adjusted                             |             | 15,982           | 27,902                           | 18                       | 15,102                                   | 5,787             | 66,355         | (20,724)          | 110,422  | 17,332               | 127,754         |
| Changes in fair value of cash<br>flow hedges, net of tax    |             | -                | -                                | -                        | (82)                                     | -                 | -              | -                 | (82)     | -                    | (82)            |
| Net effect of translation<br>adjustments                    | 19          | -                | -                                | -                        | (9,401)                                  | -                 | -              | -                 | (9,401)  | -                    | (9,401)         |
| Net income  |             | -                | -                                | -                        | -  | -                 | 9,031          | -                 | 9,031    | (58)                 | 8,973           |
| Total income and expense for the<br>year                    |             | -                | -                                | -                        | (9,483)                                  | -                 | 9,031          | -                 | (452)    | (58)                 | (510)           |
| Issuances   | 33          | 49               | 438                              | -                        | -  | -                 | -              | -                 | 487      | -                    | 487             |
| Stock option  | 33          | -                | 179                              | -                        | -  | -                 | -              | -                 | 179      | -                    | 179             |
| Reissuance of treasury shares                               | 20          | -                | 1,128                            | -                        | -  | -                 | -              | 16,671            | 17,799   | -                    | 17,799          |
| Reduction in minority interest ,<br>dividends and others    |             | -                | -                                | -                        | -  | -                 | -              | -                 | -        | (3,214)              | (3,214)         |
| Appropriations - net  | 20          | -                | -                                | -                        | -  | 300               | (300)          | -                 | -        | -                    | -               |
| Cash dividends  | 30          | -                | -                                | -                        | -  | -                 | (4,391)        | -                 | (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              | P138,104        |

Forward

|  |      |                  |                                  |                          |  |                   |                |                   |          | Minority<br>Interest | Total<br>Equity |
|--|------|------------------|----------------------------------|--------------------------|--|-------------------|----------------|-------------------|----------|----------------------|-----------------|
|  | Note | Capital<br>Stock | Additional<br>Paid-in<br>Capital | Revaluation<br>Increment | Cumulative<br>Translation<br>Adjustments | Retained Earnings |                | Treasury<br>Stock | Total    |                      |                 |
|  |      |                  |                                  |                          |  | Appropriated      | Unappropriated |                   |          |                      |                 |
| 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<br>adjustments               | 19   | -                | -                                | -                        | 1,330                                    | -                 | -              | -                 | 1,330    | -                    | 1,330           |
| Net income   |      | -                | -                                | -                        | -  | -                 | 8,859          | -                 | 8,859    | 1,138                | 9,997           |
| Total income and expense for the<br>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,<br>dividends and others |      | -                | -                                | -                        | -  | -                 | -              | -                 | -        | 2,677                | 2,677           |
| Revaluation increment from<br>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        |

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