



ALASKA MILK CORPORATION

# Quarterly Update

For the Quarter Ending June 30, 2006

## FIRST HALF NET INCOME AT P156M

**2Q06 Review** Revenues in the second quarter of the year grew by 20% to P1.482 billion from P1.235 billion in the same period last year. Higher sales volume across all product lines as well as the incremental sales generated from the distribution agreement with Kellogg's lifted overall Company revenues quarter-on-quarter. Cost of sales and operating expenses increased by 19% to P1.376 billion from P1.153 billion a year ago principally due to higher sales volume. In addition, selling-related expenditure rose on the back of heightened media spending and sales volume-generating activities to support volume growth and sustain consumer demand for milk products. Foregoing put operating income for the quarter at P106 million or 7.2% of net sales, 29% higher than operating income in the second quarter of 2005 of P82 million or 6.6% of net sales. Together with interest and other income of P8 million, net of other expenses, net income for the quarter under review stood at P82 million or 5.5% of net sales, 22% higher than net income in the second quarter of 2005 of P67 million or 5.4% of net sales.

**1H06 Review** Sustained sales volume growth during a seasonally strong second quarter pushed revenues for the first half of the year to P2.738 billion, 14% higher than revenues in the same period last year of P2.405 billion. Cost of sales and operating expenses rose 16% to P2.566 billion from P2.214 billion, largely due to the higher cost of major raw and packaging materials as well as higher selling and marketing expenditures. This put operating income for the first half of the year at P173 million or 6.3% of net sales. Together with interest and other income of P41 million, net of other expenses, net income for the first half of the year stood at P156 million or 5.7% of net sales, slightly lower than last year's first half net income of P160 million or 6.7% of net sales.

### FINANCIAL HIGHLIGHTS

(in Million Pesos)

	2Q '06	2Q '05	% Change	1H '06	1H '05	% Change
Net Sales	1,482	1,235	+ 20%	2,738	2,405	+ 14%
Operating Income	106	82	+ 29%	173	190	- 9%
Net Income	82	67	+ 22%	156	160	- 3%
Total Assets				4,459	4,112	+ 8%
Total Liabilities				1,361	1,333	+ 2%
Stockholders' Equity				3,098	2,779	+ 11%
<b>Ratios:</b>						
Earnings Per Share	P 0.09	P 0.08	+ P 0.01	P 0.16	P 0.18	- P 0.02
Operating Margin	7.2%	6.6%	+ 0.6% pt	6.3%	7.9%	- 1.6% pts
Return on Sales	5.5%	5.4%	+ 0.1% pt	5.7%	6.7%	- 1.0% pt
Current Ratio				2.5:1	2.4:1	+ 0.1
Debt to Equity Ratio				0.4:1	0.5:1	- 0.1

## SUMMARY OF RESULTS

**Sales Volume** Domestic consumption of milk products continued to decline year-on-year, with all categories and segments contracting at double-digit rates. Consumer demand remained soft largely influenced by inflationary pressures brought about by the two-percentage point hike in the Value Added Tax (VAT) rate as well as the effect of higher petroleum prices.

Despite the milk market's contraction, sales volume of both Alaska liquid canned milk and powdered milk products posted strong double-digit growth rates year-on-year with market share gains across all categories. The Company's UHT line of dairy products, ready-to-drink milk and ready-to-use product, sustained its robust performance during the quarter, with combined sales volume for the first half of the year up by almost 30% versus the same period last year. Brand building programs, which include advertisements and downline trade support as well as consumer promotions, were sustained to push volumes in the midst of heightened competition.

**Operating Costs** Cost of sales and operating expenses for the first half of the year reached P2.566 billion, up 16% from P2.214 billion in 2005. Higher sales volume and higher cost of production inputs, particularly skimmed milk powder (SMP) and tinplates, as well as higher cost of fuel and utilities pushed production costs higher. In addition heightened trade marketing initiatives and consumer-related promotions pushed operating expenses year-on-year. Altogether, these put operating income for the first six months of the year at P173 million and operating margin at 6.3%.

**Interest Income** Year-to-date interest income from the Company's short term investments amounted to P50 million, 44% higher than interest income for the first half of 2005 of P35 million principally due to the higher average investment yield and

partly to higher cash balance. The Company's cash position stood at P1.9 billion as of June 30, 2006.

**Net Income** Including foreign exchange losses, net income for the first half of the year stood at P156 million or 5.7% of net sales, slightly lower than last year's first half net income of P160 million. Foregoing first six-month net income for 2006 is equivalent to an earnings per share (EPS) of P0.16.

## UPDATES & OUTLOOK

**Skimmed Milk Powder (SMP)** World prices of SMP remained at high levels given a steady demand among import markets such as Southeast Asia. Oceania export markets are steady with prices unchanged from the previous quarter. Tight supply conditions in the world market is likely to continue at least for the near term, with most milk powder already committed until the new dairy season gets underway in late August and September. As of June 2006, SMP price quotes ranged between US\$1,950/MT to US\$2,200/MT, with the lower end of the price range slightly declining.



### NEW ALASKA ENDORSERS

Popular Philippine television hosts Janice de Belen and Gelli de Belen grace the latest print and television advertisements of Alaska Evaporada and Alaska Condensada. The new marketing campaign: "Tipid at Lasa Nasa Alaska"

(Value and Taste is in Alaska!), reinforces the brand's high quality and value-for-money positioning in the economy market.