



ALASKA MILK CORPORATION

# Quarterly Update

For the Quarter Ending June 30, 2007

## FIRST HALF NET INCOME SURGES 156% TO P399M

**2Q07 Review** Revenues in the second quarter of the year went up by 55% to P2.292 billion from P1.482 billion in the same period last year. Sustained sales volume growth across all product lines, particularly in the liquid canned milk category, combined with selling price increases pushed revenues higher quarter-on-quarter. Cost of sales and operating expenses for the period rose 42% to P1.954 billion from P1.377 billion a year-ago due primarily to the higher sales volume. This put operating income for the quarter at P338 million, more than triple the P105 million operating income earned in the same period in 2006. Operating margin improved to 14.7% from 7.1%. Net income for the quarter stood at P229 million or 10.0% of net sales, an increase of P148 million or 183% over year-ago net income of P81 million or 5.5% of net sales.

**1H07 Review** Following the second quarter performance, revenues for the first six months of the year amounted to P3.961 billion, 45% higher than revenues in the same period last year of P2.738 billion on account of strong sales volumes across all product categories. Higher selling prices as well as the additional business generated from the liquid milk brands acquired / licensed from Nestle likewise fueled revenue growth. Cost of sales and operating expenses for the period increased by 32% to P3.382 billion from P2.565 billion a year-ago relative to the upsurge in sales volume. Consequently, operating income for the first semester went up by P407 million or

236% to P579 million from P172 million a year earlier. Net income surged to P399 million or 10.1% of net sales from year-ago's net income of P156 million or 5.7% of net sales.

### FINANCIAL HIGHLIGHTS

Six Months Ended June 30

(in Million Pesos)

	2007	2006	% Change
Net Sales	3,961	2,738	+ 45%
Operating Income	579	172	+236%
Net Income	399	156	+156%
Total Assets	6,132	4,459	+ 38%
Total Liabilities	2,674	1,361	+ 96%
Stockholders' Equity	3,458	3,098	+ 12%
<b>Ratios:</b>			
Earnings Per Share	P 0.42	P 0.16	+P 0.26
Operating Margin	14.6%	6.3%	+8.3% pts.
Return on Sales	10.1%	5.7%	+4.4% pts.
Return on Equity	11.5%	5.0%	+6.5% pts.
Current Ratio	1.02:1	2.49:1	-1.47:1
Debt to Equity Ratio	0.77:1	0.44:1	+0.33:1

### SUMMARY OF RESULTS

**Domestic Milk Market** The general contraction of the domestic milk market slowed down during the first semester of 2007 compared to the double-digit contraction a year ago as consumption levels picked up on the back of an improving economy and stable food prices. Retail consumption of evaporated milk, Creamers in particular, was strong during the peak summer months. This was enough to grow the Evaporated Milk Category for the first half of the year, a turnaround from its double-digit contraction in the same period last year. On the other hand, the Condensed Milk Category registered a low double-digit decline year-on-year.

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The Powdered Milk Market staged a mild recovery during the second quarter of the year driven by the double-digit growth of the filled milk segment as consumers favor its affordability versus the premium-priced full cream milk products. With the recovery of the filled segment, the Powdered Milk Market's contraction for the first semester slowed down to a low single-digit rate.

**Sales Volume** Combined sales volume of the Company's liquid canned milk business surged year-on-year buoyed by the robust off-take of the Alaska brands. Heightened trade and marketing support during a seasonally strong second quarter helped boost consumer awareness and demand, especially for the Alaska Evaporada. Also contributory to the growth of the business is the incremental sales generated by the newly licensed and acquired liquid canned milk brands of Nestle. With the acquisition of Nestle's liquid canned milk business, AMC now has dominant market share of the entire liquid milk market.

Similarly, sales volume of Alaska Powdered Filled Milk for the first half of the year grew at a high single-digit rate compared to year ago levels, outperforming the Powdered Milk Market's contraction. Product availability has significantly improved with the commercial operations of the newly commissioned milk powder plant.

**Operating Costs** Higher sales volume pushed cost of sales and operating expenses for the first half of 2007 to P3.38 billion, up 32% from P2.56 billion in the same period last year. Forward-buying arrangements made early in the year as well as the appreciation of the Philippine Peso against the US Dollar helped cushion the sharp increase in world prices of skimmed milk powder and other imported raw materials. In addition, operating expenses rose on the back of higher advertising and promotional spending to support volume growth. Combined with the selling price increases in February and June 2007, operating income for six-month ended June 2007 surged to P579 million from P172 million a year ago. Operating margin, on the other hand, improved to 14.6% from 6.3%.

**Interest Income** Income earned from short-term investments in the first half of 2007 dropped by P26 million compared to the same period last year. Lower average cash balance, on account of the acquisition of Nestle's liquid canned milk brands, higher

working capital requirement and plant expansion investments, as well as declining interest rates contributed to the drop in interest income.

**Net Income** After considering foreign exchange losses and income tax, net income for the first half of the year surged to P399 million, P243 million or 156% higher than net income in the same period last year of P156 million. Return on sales likewise improved to 10.1% from 5.7% a year-ago. Net income for the six-month ending June 2007 is equivalent to an earnings per share (EPS) of P0.42, higher than the P0.16 EPS in the same period last year.

## UPDATES & OUTLOOK

**Skimmed Milk Powder (SMP)** Prices of SMP continued to trek higher on growing demand in China and Latin American countries, exacerbated by tight supply conditions in major exporting regions. Dairy production failed to keep pace with a 3% increase in annual milk consumption. Reduced government subsidies eliminated milk surpluses in Europe and slowed production in the United States given strong internal demand. Supply from Oceania remains limited as a result of the worst drought to hit Australia in a century. SMP price quotes are above US\$5,000/MT. The world market for SMP is likely to remain firm until early 2008.

**Alaska Powdered Filled Milk's New Look** Alaska Powdered Filled Milk now comes in a new pack design, symbolizing Alaska's commitment in bringing superior nutrition to the Filipino family.

