



ALASKA MILK CORPORATION

# Quarterly Update

For the Quarter Ending September 30, 2005

## NINE MONTH EARNINGS AT P207M

**3Q05 Review** Revenues in the third quarter of the year reached P1.230 billion, slightly higher than the P1.224 billion in revenues earned in the same period last year. Higher sales volume of the UHT business as well as the incremental revenues generated from the distributorship agreement with Kellogg's helped pushed revenues during the quarter. Higher cost of production inputs, particularly skimmed milk powder, tinplates and utilities, as well as heightened media spending and promotional activities pushed cost of sales and operating expenses to P1.188 billion, 10% higher than the cost of sales and operating expenses of P1.081 billion a year ago. This put operating income for the quarter at P42 million or 3.4% of net sales. Including other income of P20 million, net income for the quarter stood at P46 million or 3.8% of net sales.

**YTD September 2005 Review** Following the results for the third quarter, revenues for the first nine months of the year hit P3.635 billion, 2% higher than revenues in the same period last year of P3.560 billion. Higher selling prices of all milk products and strong volume performance of the high-value UHT business as well as the incremental revenues generated from the Kellogg's business helped lift revenues year-on-year. Increases in the cost of essential raw materials as well as heightened marketing initiatives pushed cost of sales and operating expenses to P3.403 billion,

### FINANCIAL HIGHLIGHTS

(in Million Pesos)

	3Q 2005	3Q 2004	% Change	YTD 2005	YTD 2004	% Change
Net Sales	1,230	1,224	+0.5%	3,635	3,560	+ 2%
Operating Income	42	142	-70%	232	398	-42%
Net Income	46	117	-60%	207	332	-38%
Total Assets				4,089	3,927	+ 4%
Total Liabilities				1,266	1,213	+ 4%
Stockholders' Equity				2,823	2,714	+ 4%
<b>Ratios:</b>						
Earnings Per Share	P 0.05	P 0.13	-P 0.08	P 0.23	P 0.37	-P 0.14
Operating Margin	3.4%	11.6%	- 8.2% pts.	6.4%	11.2%	- 4.8% pts.
Return on Sales	3.8%	9.5%	- 5.7% pts.	5.7%	9.3%	- 3.6% pts.
Current Ratio				2.5 x	2.8 x	- 0.3x
Debt to Equity Ratio				0.4 x	0.4 x	no change

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8% higher than year ago's cost of sales and operating expenses of P3.162 billion. This put operating income for the first nine months of the year at P232 million, 42% lower than the P398 million operating income in the same period last year. Similarly, operating margin declined to 6.4% from 11.2% a year ago. Interest and other income, net of other expenses, amounted to P49 million, putting year-to-date September 2005 net income at P207 million or 5.7% of net sales.

## SUMMARY OF RESULTS

**Sales Volume** Consumer demand for milk products – Evaporated, Sweetened Condensed and Powdered Milk – remained soft, partly due to inflationary pressures which tempered overall consumer spending. As of end September 2005, the domestic milk market contracted at double-digit rates year-on-year. The market's contraction was evident across all regions of the country, especially in areas where economic conditions are less favorable. Following the market's trends and the seasonal third quarter slowdown in milk sales, sales volume of Alaska's liquid canned milk posted a decline year-on-year. However, Alaska's market share on both Evaporated and Sweetened Condensed Milk Categories remained stable. On the other hand, Alaska's powdered milk market share continue to improve. Meanwhile, sales volume of Alaska's UHT products surged year-on-year driven by the brisk sales of Hershey's Chocolate Milk Drink and the recently launched Alaska Yamoo.

**Operating Costs** Cost of sales and operating expenses for the first nine months of the year reached P3.40 billion, up 8% from P3.16 billion in the same period last year. Substantially higher cost of raw and packaging materials, particularly skimmed milk powder and tinplates raised production costs during the year. In addition, heightened marketing support for both existing and newly launched products pushed operating expenses higher year-on-

year. Altogether, these put operating income as of end September 2005 at P232 million and operating margin of 6.4% from P398 million and 11.2%, respectively, in the first nine months of 2004.

**Interest Income** As a result of the decline in average interest rates, interest income earned from placements as of end September 2005 stood at P53 million, lower than interest income earned in the same period last year of P68 million.

**Net Income** Net income for the first nine months of the year amounted to P207 million or 5.7% of net sales. This was 38% lower than net income in the first nine months of 2004 of P332 million or 9.3% of net sales. This period's net income is equivalent to an Earnings Per Share (EPS) of P0.23 based on 893 million shares outstanding, net of treasury shares.

## UPDATES & OUTLOOK

**Market Outlook** The challenging business environment is expected to continue in the 4<sup>th</sup> quarter of the year especially with the higher corporate income tax rate effective November 1, 2005 and the recent implementation of the Expanded Value Added Tax (E-VAT) which may further influence consumer spending behavior. In addition, cost pressures especially on SMP and tinplates are forecasted to remain at their high levels. Nonetheless, the Company looks forward to better volumes relative to the third quarter as various promotional activities are scheduled for implementation to drive-up usage during the peak Christmas Season.

**Skimmed Milk Powder (SMP)** Continued strong export demand for SMP has kept prices at peak levels throughout the third quarter of 2005 coupled with a stronger Euro and Oceania currencies versus the US Dollar. Although the milk production season is underway, most output has already been committed at least for the balance of the year, hardly improving the current supply situation. SMP price quotes ranged between US\$2,300/MT – US\$2,400/MT. Export prices are likely to continue at their high levels until early next year.