



ALASKA MILK CORPORATION

# Quarterly Update

For the Quarter Ending September 30, 2006

## AMC NET INCOME RISES 26% AS OF SEPTEMBER 2006

**3Q06 Review** Sustained sales volume growth of the Company's core milk products lifted revenues for the third quarter of the year to P1.420 billion, 15% higher compared to year-ago revenues of P1.230 billion. In addition, higher sales volume of the high-value UHT business as well as the incremental sales generated from the the Company's distributorship agreement with Kellogg's helped pushed revenues year-on-year. Cost of sales and operating expenses increased by 8% to P1.286 billion from P1.188 billion a year ago principally due to higher sales volume. Selling-related expenditure rose on the back of heightened sales volume-generating activities to support volume growth and drive-up usage going into the Christmas Season. Foregoing put operating income for the quarter at P134 million or 9.4% of net sales, 219% higher than operating income in the third quarter of 2005 of P42 million or 3.4% of net sales. Together with interest and other income of P15 million, net of other expenses, net income for the quarter under review stood at P104 million or 7.3% of net sales, 126% higher than net income in the third quarter of 2005 of P46 million or 3.7% of net sales.

**YTD September 06 Review** Following the strong performance during the third quarter, revenues for the first nine months of the year grew 14% to P4.158 billion from P3.635 billion in the same period last year. Cost of sales and operating expenses rose 13% to P3.852 billion from P3.403 billion, largely driven by the upsurge in sales volume and related selling expenditures. This put operating income for the nine month ending September 2006 at P306 million, 32% higher than the P232 million operating income in the same period last year. Similarly, operating margin improved to 7.4% from 6.4% a year ago. Together with interest and other income of P55 million, net of other expenses, net income for the first nine months of the year grew 26% to P260 million or 6.3% of net sales from year-ago net income of P207 million or 5.7% of net sales.

### FINANCIAL HIGHLIGHTS

Year-to-Date September 30, 2006

(in Million Pesos)

	2006	2005	% Change
Net Sales	4,158	3,635	+14%
Operating Income	306	232	+32%
Net Income	260	207	+26%
Total Assets	4,615	4,089	+13%
Total Liabilities	1,443	1,266	+14%
Stockholders' Equity	3,172	2,823	+12%
<b>Ratios:</b>			
Earnings Per Share	P 0.27	P 0.23	+ P 0.04
Operating Margin	7.4%	6.4%	+1.0% pt
Return on Sales	6.3%	5.7%	+0.6% pt.
Current Ratio	2.3:1	2.5:1	- 0.2:1
Debt to Equity Ratio	0.4:1	0.4:1	no change

### 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 as consumer demand remained soft. However, the milk market's rate of decline during the quarter of the year was slower compared to the previous quarters' as the country's inflation rate eased due to the fall in crude oil cost and softening of food prices.

Intensive focus on distribution and improvements in service level to customers helped grow volumes amidst a soft market. In addition, brand building programs were sustained to maintain volume gains across product lines. Sales volume of the Company's liquid canned milk business grew at

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double-digit rates year-on-year, buoyed by the strong performance of the low-priced milk variants. Market share gains entrenched Alaska's position as the corporate leader in both the Evaporated and Condensed Milk Categories. Likewise, Alaska Powdered Filled Milk continued its solid performance, posting double-digit growth rates versus year ago levels, outperforming the Powdered Milk Market's double-digit contraction.

**Operating Costs** Cost of sales and operating expenses for the nine-month ending September 2006 reached P3.852 billion, up 13% from P3.403 billion in the same period last year due primarily to higher sales volume. In addition, higher trade support and consumer-related promotions pushed selling expenses year-on-year. Altogether, these put operating income for the first nine months of the year at P306 million with an operating margin of 7.4%, 32% higher than year-ago operating income of P232 million with an operating margin of 6.4%.

**Interest Income** Higher investment yields and higher cash balance pushed interest income for the first nine-month of the year to P72 million, P19 million higher than interest income earned in the same period last year of P53 million. Cash and cash equivalents as of September 30, 2006 stood at P1.9 billion.

**Net Income** Including foreign exchange losses, net income for the nine-month ending September 2006 stood at P260 million or 6.3% of net sales, 26% higher than net income in the same period last year of P207 million or 5.7% of net sales.

Foregoing year-to-date 2006 net income is equivalent to an earnings per share (EPS) of P0.27.

## UPDATES & OUTLOOK

**Skimmed Milk Powder (SMP)** World prices of SMP remained at high levels with export prices increasing by US\$50/MT during the quarter compared to end June 2006 prices. As of end September 2006, SMP price quotes ranged between US\$2,200/MT to US\$2,250/MT. World production of SMP has fallen significantly versus 2005 levels and supply is expected to remain tight for the rest of the year.



*Celebrate this Season with Alaska Christmas Evap, a special holiday treat from Alaska Milk Corporation*