



ALASKA MILK CORPORATION

Quarterly Update

For the Year Ending December 31, 2006

2006 UNAUDITED NET INCOME UP 34%

Higher sales volume across the Company's core product categories lifted full year revenues to P5.921 billion, 9% higher compared to the P5.410 billion in revenues earned in 2005. Cost of sales and operating expenses rose 7% to P5.405 billion from P5.062 billion primarily due to increased sales volume. In addition, operating expenses for the year rose on the back of heightened trade support as well as consumer-based promotions to sustain volume growth. Foregoing put operating income for the year at P516 million, 48% higher than the P348 million operating income in 2005. Similarly, operating margin improved to 8.7% from 6.4% a year ago. Together with interest and other income of P54 million, net of foreign exchange losses, net income for 2006 stood at P404 million or 6.8% of net sales, 34% higher than the 2005 net income of P301 million or 5.6% of net sales.

Sales Volume Retail grocery consumption of milk products (evaporated, condensed and powdered milk) in 2006 declined by 11% year-on-year. The market's contraction was attributed to the general slowdown in consumer spending in the first-half of the year brought about by the implementation of the Expanded Value Added Tax (E-VAT) Law and the upsurge in oil prices which took a toll on consumers' purchasing power. However, the rate of decline slowed down in the fourth quarter of the year largely influenced by the improvement in consumption levels during a seasonally strong Christmas Season, especially for liquid canned milk. The Evaporated Milk Category, in particular, exhibited a mild recovery in the fourth quarter compared to the

FINANCIAL HIGHLIGHTS

Years Ended December 31

(in Million Pesos)

	2006	2005	% Change
Net Sales	5,921	5,410	+ 9%
Operating Income	516	348	+48%
Net Income	404	301	+34%
Total Assets	4,953	4,257	+16%
Total Liabilities	1,614	1,135	+42%
Stockholders' Equity	3,339	3,122	+ 7%
Ratios:			
Earnings Per Share	P 0.43	P 0.33	+ P 0.10
Operating Margin	8.7%	6.4%	+2.3% pts
Return on Sales	6.8%	5.6%	+1.2% pts
Current Ratio	2.2:1	2.8:1	- 0.6:1
Debt to Equity Ratio	0.5:1	0.4:1	+ 0.1:1

same period a year ago due to the double-digit expansion of the Creamer Segment.

Despite the market's contraction, sales volume of the Company's liquid canned milk business posted strong double-digit growth rates versus year-ago levels, driven by the robust performance of Alaska *Evaporada* and Alaska *Condensada* in the economy market. Alaska continued to strengthen its market leadership in both the Evaporated and Condensed Milk Categories, with market shares up versus last year.

Similarly, sales volume of the Company's powdered milk business grew year-on-year, outperforming the category's contraction. Market share of Alaska Powdered Filled Milk remained stable.

Meanwhile, Alaska's line of UHT products sustained its growth momentum during the year. This was driven by the strong shelf offtake of Alaska Crema

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All-Purpose Cream and Alaska's ready-to-drink milk products. In addition, improvements in stock levels and selective marketing initiatives helped pushed volumes above 2005 levels.

Operating Costs Cost of sales and operating expenses for the year stood at P5.405 billion, up 7% from P5.062 billion in the same period last year largely due to the higher sales volume realized in 2006. However, lower foreign exchange cost helped cushion the uptick in world prices of milk powder during the year. Meanwhile, higher trade support and consumer-related promotions pushed selling expenses higher versus 2005 to stimulate consumer demand for milk products. Altogether, these put operating income for the year at P516 million with an operating margin of 8.7%, 48% higher than last year's operating income of P348 million with an operating margin of 6.4%.

Interest Income Higher average cash balances and higher average investment yields pushed interest income for the year to P96 million, P26 million higher than interest income earned in 2005 of P70 million. Cash and cash equivalents as of December 31, 2006 stood at P2.2 billion, higher than the P1.9 billion balance as of end December 2005.

Net Income After considering foreign exchange losses, net income for the year reached at P404 million or 6.8% of net sales, 34% higher than the 2005 net income of P301 million or 5.6% of net sales. The 2006 net income is equivalent to an earnings per share (EPS) of P0.43, P0.10 higher than the EPS of P0.33 last year.

UPDATES & OUTLOOK

Skimmed Milk Powder (SMP) Global shortages of milk powder, coupled with strong demand in Asia, pushed SMP prices to over

US\$3,400/MT. Prices rose sharply on strong European demand for dairy products and the diversion of milk to maintain cheese and liquid milk supplies in the domestic market. Strong US demand, particularly for cheese, had limited volumes available for export. In addition, a major supply gap in the world market this year, brought on by one of the worst droughts to hit Australia, has exerted upward pressure on world prices of milk powder. The combination of strong demand growth and weak exportable supply is expected to underpin high SMP prices throughout the year.

BOI Grants Incentives to AMC's New Milk Powder Plant The Philippine's Board of Investments (BOI) has approved incentives for the Company's new instant filled milk powder processing plant. The project has been awarded "pioneer status" which qualifies it for a six-year income tax holiday, duty-free importation of capital equipment and other financial and non-financial incentives. The new milk powder plant is expected to boost the Company's market position in the Powdered Milk Category.



AMC President and COO Wilfred Steven Uytensu, Jr. receives the Certificate of Registration from DTI Undersecretary and BOI Managing Head Elmer Hernandez. Also shown in photo are (L-R): Joselito Sarmiento, Jr., AMC VP for Finance & Treasurer and Rudy Cana, BOI Project Registration Department Director.