LT GROUP, INC.

MANAGEMENT REPORT

ITEM 1. BUSINESS

1.1. CORPORATE HISTORY

LT Group, Inc. ("LTG" or the "Corporation"), a holding company which maintains its principal office at the 11th Floor, Unit 3 Bench Tower, 30th St. Corner Rizal Drive Crescent Park West 5 Bonifacio Global City, Taguig City, was originally incorporated on 25 May 1937 as "The Manila Wine Merchants, Inc.", a trading company. It listed with the Philippine Stock Exchange ("PSE") sometime in 1947 and was granted an extension of its corporate life for another 50 years in 1987. In 1995, it changed its corporate name to "Asian Pacific Equity Corporation" and its primary purpose to that of a holding company.

In 1999, the Corporation acquired Twin Ace Holdings Corp. (now known as "Tanduay Distillers, Inc." and hereafter referred to as "TDI", a producer of distilled spirits) through a share swap with Tangent Holdings Corporation ("Tangent" or the "Parent Company") --the swap resulted in Tangent increasing its ownership in LTG to 97.0%. The Corporation thereafter changed its corporate name to "Tanduay Holdings, Inc".

In 2012, in preparation for the Corporation's new role, it adopted the corporate name "LT Group, Inc.". A series of restructuring activities followed in 2012 through 2013 whereby LTG expanded and diversified its investments to include the beverage, tobacco, property development, and banking businesses of Mr. Lucio C. Tan and his family and assignees (collectively referred to as the "Controlling Shareholders" or the "Tan Companies"), to wit:

* **Distilled Spirits**— The Corporation's wholly-owned subsidiary, TDI, is the third-largest distilled spirits producer in the Philippines according to Nielsen Philippines, with an approximate 27% share of the Philippine spirits market in 2018.

* **Beverages**— The Corporation owns 99.9% of Asia Brewery, Incorporated ("ABI"), one of the Philippines' leading producers of non-alcoholic beverages which includes energy drinks, bottled water, and soymilk. ABI conducts its alcoholic beverage business through a 50% stake in AB Heineken Philippines, Inc. ("ABHP"), which produces bear and alcopop.

* **Tobacco**— The Corporation owns 99.6% in Fortune Tobacco Corporation ("FTC"), which, together with other Tan Companies, owns 50% of PMFTC, Inc. ("PMFTC"). PMFTC is the leading tobacco manufacturer and distributor in the Philippines with over 69.9% market share in 2018.

* **Banking**— The Corporation conducts its banking business through Philippine National Bank ("PNB"), a universal bank currently listed in the Philippine Stock Exchange ("PSE"). The Corporation's indirect ownership in PNB is approximately 56.47%. In 2018, PNB is the Philippines' fourth largest private commercial bank in terms of total assets.

* **Property Development**— The Corporation conducts its property development business through Paramount Landequities, Inc. and Saturn Holdings, Inc., which in turn, collectively own 99.6% in Eton Properties Philippines, Inc. ("Eton"). Eton has a diverse portfolio of property development projects in various areas throughout the Philippines, primarily in Metro Manila and surrounding areas, and access to the large land bank of the Tan Companies. Eton's project portfolio comprises mainly residential real estate projects, including large-scale township projects. Eton also develops and leases out commercial properties to retail and BPO tenants.

1.2. DESCRIPTION OF SUBSIDIARIES

A. Distilled Spirits

Tanduay Distillers, Inc. ("TDI")

TDI was incorporated in the Philippines on 10 May 1988 and is primarily engaged in the business of manufacturing and selling, at wholesale and retail, distilled spirits such as rhum, brandy, whiskey, gin and other liquor products.

The following are subsidiaries of TDI:

* **Asian Alcohol Corporation ("Asian Alcohol")**

  Asian Alcohol, owned 95% by TDI, is primarily involved in manufacturing ethyl alcohol.

* **Absolut Distillers, Inc. ("ADI")**

  Absolut, owned 96% by TDI, is in the business of manufacturing, distilling, importing, exporting, buying and/or selling chemicals including ethyl alcohol and molasses, at wholesale and retail.

* **Tanduay Brands International, Inc. ("TBI")**

  TDI owns 100% of TBI, which handles the marketing of TDI's products for the export market.

B. *Beverage*

Asia Brewery, Inc. (“ABI”)

ABI was incorporated in 1979 as a manufacturing company. In 2012, ABI, in partnership with Corporation Empresarial Pascual S. L. of Spain, formed ABI Pascual Holdings Pte. Ltd., a jointly controlled entity organized and domiciled in Singapore. Later that same year, the joint venture established ABI Pascual Foods Incorporated, an operating company in the Philippines engaged in the marketing and distribution of yogurt products in the country.

In 2016, ABI and Heineken International B.V. (“HIBV”) of Netherlands partnered to form AB Heineken Philippines, Inc. (“ABHP”), a jointly controlled corporation in the business of manufacturing, purchasing, importing, exporting, selling, and distributing alcoholic beverages, non-alcoholic beer, malt-based beverages, and related products. As agreed by the parties, ABI transferred its alcoholic beverage business to ABHP when the latter commenced commercial operations in November 2016. The brands controlled by ABHP include ABI-developed brands Beer na Beer, Colt 45, Brew Kettle, and Tanduay Ice. It also includes HIBV’s Heineken and Tiger.

The following are the wholly owned subsidiaries of ABI:

* **Agua Vida Systems, Inc. (“Agua Vida”)**

  Agua Vida, incorporated in 1994, is engaged in the purified water business specifically, the distribution and refilling of purified water and water dispensers for use primarily in homes and offices.

* **Waterich Resources Corporation (“Waterich”)**

  Waterich, incorporated in 1997, performs toll manufacturing for ABI’s *Absolute Pure Distilled Drinking Water* and *Summit Water*.

* **Packageworld, Inc. (“Packageworld”)**

  Packageworld, incorporated in 1998, is in the business of producing and distributing packaging materials for alcoholic and non-alcoholic beverages and bottled water.

* **Interbev Philippines, Inc. (“Interbev”)**

  Interbev, incorporated in 2003, produces and distributes *Cobra* and *Sunkist* carbonated soft drinks.

* **AB Nutribev, Inc. (“Nutribev”)**

  Nutribev, incorporated in 2014, manufactures and sells dairy and soy milk-based beverages.

* **Asia Pacific Beverages Pte. Ltd. ("APBPL")**

APBPL, incorporated in 2014 in Singapore, was established as an investment holding company for business opportunities in the region.

C. Tobacco

Fortune Tobacco Corporation ("FTC")

FTC, incorporated in 1965 (its corporate term has since been extended for another 50 years or up to 2065), is primarily engaged in cigarette manufacturing, selling, importing, and exporting. FTC achieved market success early on and was responsible for introducing some of the most successful local cigarette brands in the Philippines, including the *Fortune*, *Champion* and *Hope* menthol brands. Prior to the creation of PMFTC, FTC was the largest domestic tobacco business in the Philippines.

FTC, together with other Tan Companies, currently has an effective 50% stake in PMFTC, the business combination between the Philippine operations of Philip Morris International and FTC. The brands currently produced by PMFTC include the aforementioned FTC brands and Philip Morris' *Marlboro*.

D. Banking

Philippine National Bank ("PNB")

PNB, incorporated in 1916, is the country's first universal bank and the fourth largest private local commercial bank in terms of assets as of 31 December 2018. PNB celebrated its Centennial Year in 2016. It continues to provide a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle market, SMEs and retail customers. It has the distinction of being one of the only five authorized Government depository banks in the Philippines. The current PNB is a result of the merger between PNB and Allied Banking Corp., which was completed in 2013.

The following companies are owned by PNB:

Subsidiaries	Nature of Business	Country Incorporation	ofFunctional Currency	Percentage of Ownership 2018 Direct	2018 Indirect	2017 Direct	2017 Indirect
PNB Savings Bank (PNBSB)*	Banking	Philippines	Php	**100.00**	–	100.00	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	**100.00**	–	100.00	–
PNB Forex, Inc. (PNB Forex)	FX trading	- do -	Php	**100.00**	–	100.00	–
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	Php	**100.00**	–	100.00	–
PNB General Insurers Inc.(PNB Gen)	Insurance	- do -	Php	**65.75**	**34.25**	65.75	34.25
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	**100.00**	–	100.00	–
PNB Corporation Guam	Remittance	USA	USD	**100.00**	–	100.00	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	**100.00**	–	100.00	–
PNB Remittance Centers, Inc. (PNB RCI) [(a)]	Remittance	- do -	USD	–	**100.00**	–	100.00
PNB Remittance Co. (Nevada) [(b)]	Remittance	-do-	USD	–	**100.00**	–	100.00
PNB RCI Holding Co. Ltd. [(b)]	Holding Company	- do -	USD	–	**100.00**	–	100.00

				Percentage of Ownership			
		Country of Incorporation	Functional Currency	2018		2017	
Subsidiaries	**Nature of Business**			**Direct**	**Indirect**	Direct	Indirect
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	GBP	**100.00**	–	100.00	–
PNB Europe PLC	Banking	- do -	GBP	**100.00**	–	100.00	–
PNB Remittance Co. (Canada) [(c)]	Remittance	Canada	CAD	–	**100.00**	–	100.00
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	–	100.00	–
Allied Commercial Bank (ACB)* [(d)]	Banking	People's Republic of China	USD	**99.04**	–	99.04	–
PNB-IBJL Leasing and Finance Corporation (PILFC)[(e)]	Leasing/Financing	Philippines	Php	**75.00**	–	75.00	–
PNB-IBJL Equipment Rentals Corporation[(f)]	Rental	- do -	Php	–	**75.00**	–	75.00
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) *[(g)]	Insurance	- do -	Php	**44.00**	–	80.00	–
Allied Leasing and Finance Corporation (ALFC) *	Rental	- do -	Php	**57.21**	–	57.21	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL) *	Banking	Hong Kong	HKD	**51.00**	–	51.00	–
ACR Nominees Limited *	Banking	- do -	HKD	–	**51.00**	–	51.00
Oceanic Holding (BVI) Ltd.*	Holding Company	British Virgin Islands	USD	**27.78**	–	27.78	–

** Subsidiaries acquired as a result of the merger with ABC*
[(a)] *Owned through PNB IIC*
[(b)] *Owned through PNB RCI*
[(c)] *Owned through PNB RCI Holding Co. Ltd.*
[(d)] *Purchase of additional shares was approved by BSP and China Banking Regulatory Commission on June 4, 2014 and November 12, 20015, respectively. On November 27, 2015, PNB purchased 8.63% ownership interest from individual stockholders.*
[(e)] *Formerly Japan-PNB Leasing*
[(f)] *Formerly Japan-PNB Equipment Rentals Corporation. Owned through PILFC*
[(g)] *As of 31 December 2015, APLII was classified as a disposal group held for sale and as a discontinued operation. The acquisition of the shares of APLII by Allianz SE was completed on 6 June 2016. As of 31 December 2017, the Group owns 44.0% interest in APLII and is presented as investment in an associate in the consolidated balance sheet..*

Bank Holding Companies

LTG acquired indirect ownership in the merged PNB through the acquisition of 27 holding companies that at that time, collectively owned 59.83% of PNB (collectively referred to as "Bank Holding Companies"), to wit:

1. Allmark Holdings Corp.
2. Dunmore Development Corp.
3. Kenrock Holdings Corp.
4. Leadway Holdings, Inc.
5. Multiple Star Holdings Corp.
6. Pioneer Holdings & Equities, Inc.
7. Donfar Management Ltd.
8. Fast Return Enterprises Ltd.
9. Mavelstone International Ltd.
10. Uttermost Success Ltd.
11. Ivory Holdings, Inc.
12. Merit Holdings & Equities Corp.
13. True Success Profits Ltd.
14. Key Landmark Investments Ltd.
15. Fragile Touch Investments Ltd.
16. Caravan Holdings Corp.
17. Solar Holdings Corp.

18. All Seasons Realty Corp.
19. Dynaworld Holdings Inc.
20. Fil-Care Holdings Inc.
21. Kentwood Development Corp.
22. La Vida Development Corp.
23. Profound Holdings Inc.
24. Purple Crystal Holdings, Inc.
25. Safeway Holdings & Equities Inc.
26. Society Holdings Corp.
27. Total Holdings Corp.

In 2018, the Bank Holding Companies collectively owned 56.47% of PNB.

E. Property Development

Saturn Holdings, Inc. ("Saturn"), a holding company, and Paramount Landequities, Inc. ("Paramount"), a real estate development company, effectively own 99.6% of Eton Properties Philippines, Inc.

Eton Properties Philippines, Inc. ("Eton")

Eton Properties Philippines, Inc. (hereinafter, "Eton" or the "Company") is the premier real estate arm of LT Group, Inc., one of the Philippines' biggest and well-established business conglomerates. The Company has distinguished itself for developing residential projects in well-chosen locations across Metro Manila and its outskirts. The Company's diversified portfolio includes residential and mixed-use high-rise and mid-rise condominiums, residential subdivisions, township projects, commercial centers and Business Process Outsourcing (hereinafter, "BPO") office buildings.

The following companies are 100%-owned by Eton:

* **Belton Communities, Inc. ("Belton")**

  Belton, incorporated in 2007, caters to the middle-income market segment. From well-located communities to exciting amenities and features, BCI's projects are ideal for families who want a home that they can proudly call their own.

* **Eton City, Inc. ("Eton City")**

  Eton City, established in 2008, offers a first of its kind development in the country inspired by next generation waterfront cities, positioning itself for the middle to high-end market. ECI's projects for the past three years include South Lake Village, Riverbend, Village Walk and Tierrabela, all located in Sta. Rosa, Laguna. In 2018, ECI launched the construction of the first retail complex in Eton City the Eton City Square.

* **FirstHomes, Inc. (“FirstHomes”)**

  Incorporated in 2010, FirstHomes is positioned to serve the broad affordable market segment. FHI provides innovatively-designed and fully-furnished compact condominium units in major growth centers such as Makati and Quezon City

* **Eton Properties Management Corporation (“EPMC”)**

  EPMC, incorporated in 2011, is a real estate management company which oversees the Company’s residential and commercial projects located in various sites. EPMC commenced commercial operations in 2016.

ITEM 2. DIRECTORS AND OFFICERS

Please refer to pages 5 through 13 of the Information Statement.

ITEM 3. MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

3.1. RESULTS OF OPERATIONS

The following discussion and analysis of the Group’s financial condition and results of operations should be read in conjunction with the consolidated financial statements as at 31 December 2018, 2017, and 2016 included in this report.

2018 vs 2017

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2018	2017
Revenues	₱75,559	₱63,727
Cost of Sales	35,965	29,680
Equity in Net Earnings of Associates	7,967	3,964
Operating Expenses	31,003	27,073
Operating Income	16,558	10,938
Other income-net	8,990	7,062
Income Before Income Tax	25,548	18,000
Net Income (Loss) from Discontinued Operations	(220)	70
Total Net Income	20,558	14,581
Net Income Attributable to Equity Holders of the Parent Company	16,195	10,831

LT Group, Inc. (LTG) recorded a consolidated net income of ₱20.6 billion for the year ended December 31, 2018, 41.0% higher than the ₱14.6 billion reported for the same period last year.

The consolidated net income attributable to equity holders of LTG was ₱16.2 billion for the year 2018, 49.5% more than 2017. This was on account of the improvement in the operating results of the tobacco, banking, distilled spirits and property development segments, which more than offset the lower net income of the beverage segment. The tobacco segment's net income increased by 100.0%, from ₱4.4 billion in 2017 to ₱8.8 billion in 2018. The banking segment's net income was up by 14.3%, from ₱8.6 billion for the year 2017 to ₱9.8 billion in 2018. The distilled spirits segment's 2018 net income was ₱909 million, 44.1% higher than the ₱631 million recognized for the year ended December 31, 2017. The property development segment's net income was ₱479 million, 37.6% higher than the ₱348 million in 2017. The beverage segment's net income of ₱421 million in 2018 was lower by 23.7% compared to the reported income of ₱552 million in 2017. Equity in net earnings from the 30.9% stake in VMC contributed ₱247 million.

Consolidated revenues amounted to ₱75.6 billion for the year ended December 31, 2018, 18.6% higher than the ₱63.7 billion recognized in 2017 on account of the increased revenues in the banking, distilled spirits, beverage and property development segments.

Cost of sales and services increased by 21.2% from ₱29.7 billion for the year ended December 31, 2017 to ₱36.0 billion in the same period in 2018, primarily attributable to higher interest expense on deposit liabilities and increased cost of sales of the beverage and distilled spirits segments mainly due to the sugar tax imposed starting 2018 and higher raw material costs.

Operating expenses amounted to ₱31.0 billion in 2018 from ₱27.1 billion in 2017 or an increase of 14.5%. This was a result of increased general and administrative expenses by 16.1%, from ₱24.4 billion in 2017 to ₱28.3 billion in 2018 and increase of 0.3% in selling expenses.

SEGMENT OPERATIONS

Banking

The banking segment's net income was ₱9.8 billion for the year ended December 31, 2018, 14.3% higher than the ₱8.6 billion recorded for the year 2017.

Interest income from banking operations was at ₱36.0 billion in 2018, 30.6% higher than the ₱27.6 billion earned last year, mainly on account of higher interest income from loans, investment securities and interbank loans receivables, as well as the improvement of Net Interest Margin (NIM) to 3.2% from 3.1%. Interest expense was at ₱9.0 billion for the year ended December 31, 2018, up 62.3% from ₱5.6 billion in same period of 2017 resulting to a net interest income of ₱27.0 billion, 22.7% higher year-on-year.

Net service fees and commission income improved from the previous period's ₱3.2 billion to ₱3.5 billion in the current period due to higher deposit, credit, interchange and bancassurance fees income.

Miscellaneous income increased by 44.5% from ₱5.1 billion to ₱7.4 billion, due to higher gain from the sale of Real and Other Properties Acquired (ROPA). On the other hand, trading and net foreign exchange gains were lower at ₱1.1 billion in 2018 compared to 2017's ₱2.2 billion.

Operating expenses increased by 16.3%, primarily due to higher provisioning on loans, taxes and licenses, depreciation, occupancy, personnel costs and miscellaneous expenses.

Beverage

The beverage segment's net income of ₱421 million for the year ended December 31, 2018 was lower by 23.7% against ₱552 million for the same period last year.

Revenues of the beverage segment were higher by 8.7% to ₱15.1 billion in 2018 from ₱13.9 billion in 2017. This was driven by the growth in revenues in packaging, energy drinks, bottled water and soymilk. Overall gross profit margin declined to 27.2% from 31.0% as a result of product mix, higher purchase price of raw materials, fuel and oil as well as the excise tax on sweetened beverages.

Operating expenses were flat at ₱2.4 billion for the years 2018 and 2017.

Distilled Spirits

The distilled spirits segment posted a net income of ₱909 million for the year ended December 31, 2018, a 44.1% increase from the net income of ₱631 million reported last year.

Net revenues of ₱18.1 billion in 2018 were higher by 8.0% year on year, mainly due to the improvement in sales of Tanduay Five Years rum, the Company's flagship product, and bioethanol revenues.

Cost of sales increased by 5.5% to ₱14.8 billion in the current period as against ₱14.1 billion in the same period last year, primarily due to higher volume, raw material costs and depreciation. Gross profit margin was at 18.1% in 2018, higher than the 16.2% in 2017.

Operating expenses were higher by ₱214 million at ₱2.1 billion in 2018, due to increased selling and administrative expenses.

Property Development

The property development segment reported a net income of ₱479 million for the year 2018, 37.6% higher than the ₱348 million for the same period last year.

Real estate sales of ₱1.7 billion were 101.7% higher year on year, and comprised 53.3% of revenues. Rental revenue for the year 2018 accounted for ₱1.5 billion or 46.7% of revenues, representing a 7.7% growth over the same period in 2017, as lease contracts were renewed at higher rates for the BPO offices as well as the additional retail space completed in December 2017.

Operating expenses were higher by 29.5% from ₱732 million in 2017 to ₱948 million in 2018.

Tobacco

The tobacco segment's net income was ₱8.8 billion for the year ended December 31, 2018, significantly higher than the ₱4.4 billion for the same period last year on account of the increase in equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱8.5 billion last year to ₱4.4 billion in 2018.

2017 vs 2016

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2017	2016
Revenues	₱63,727	₱57,830
Cost of Sales	29,680	26,127
Equity in Net Earnings of Associates	3,964	2,786
Operating Expenses	27,073	27,389
Operating Income	10,938	7,107
Other income-net	7,062	5,761
Income Before Income Tax	18,000	12,862
Net Income from Discontinued Operations	70	1,394
Total Net Income	14,581	12,089
Net Income Attributable to Equity Holders of the Parent Company	10,831	9,390

LT Group, Inc. (LTG) reported a consolidated net income of ₱14.6 billion for the year ended December 31, 2017, 20.6% higher than the ₱12.1 billion reported in 2016.

The consolidated net income attributable to equity holders of LTG was ₱10.8 billion for 2017, 15.3% more than the ₱9.4 billion in 2016. The banking segment's net income was higher by 15.9% from ₱7.4 billion for the year ended December 31, 2016 to ₱8.6 billion in 2017. LTG's share in the net income of the banking segment improved from ₱4.1 billion in 2016 to ₱4.8 billion in 2017. In 2016, LTG's share in net income of the banking segment included a ₱724 million elimination on the gain from sale of land by PNB to Eton. Including this elimination, the bank's net contribution to LTG in 2016 was ₱3.4 billion, and 2017's ₱4.68 billion, 41.3% higher year-on-year. The tobacco segment's net income increased by ₱1.8 billion from ₱2.6 billion in 2016 to ₱4.4 billion in 2017. Distilled spirits segment net income was ₱631 million, a decrease of 30.5% versus the 2016 income recorded. The beverage and property development segments' net income were ₱552 million and ₱348 million in 2017 were lower by 68.6% and 10.3%, respectively, compared to the incomes in 2016. Equity in net earnings from our stake in VMC contributed ₱174 million for 2017. As of December 31, 2017, LTG's stake in VMC stood at 30.9%.

Consolidated revenues amounted to ₱63.8 billion for the year ended December 31, 2017, 10.4% better than the ₱57.8 billion recognized in 2016 on account of the higher revenues in the banking, distilled spirits and beverage segments.

Cost of sales and services increased by 13.6% from ₱26.1 billion in 2016 to ₱29.7 billion in the current year, primarily attributable to higher interest expense on deposit liabilities and increased cost of sales of the distilled spirits and beverage segments mainly due to higher excise taxes and raw material costs. The property development segment reported a 39.8% decline in cost of sales as a result of lower booked sales from real estate development projects.

Operating expenses amounted to ₱28.3 billion in 2017, from ₱27.9 billion in 2016 or an increase of 1.5%. This was as a result of higher selling expenses, which amounted to ₱2.4 billion in 2016 as against ₱2.7 billion in 2017.

Other income increased by 30.4% primarily due to higher gain on sale of assets. Interest income and net foreign exchange gains were higher by 47.6% and 10.8%, respectively. Interest expense was lower by 29.9% due to loan settlements.

SEGMENT OPERATIONS

Banking

The banking segment's net income was ₱8.6 billion for the year ended December 31, 2017, higher by 15.9% compared to the ₱7.4 billion recorded for the same period in 2016.

Interest income from banking operations was at ₱27.6 billion in 2017, 13.4% higher than the ₱24.3 billion realized last year, mainly on account of higher interest income from loans and receivables, deposits with banks and others and interbank loans receivable.

Interest expense was at ₱5.6 billion for 2017, an increase of 15.5% from the ₱4.8 billion recorded in same period of 2016 resulting to a net interest income of ₱22.0 billion, 12.9% higher year-on-year.

Net service fees and commission income exceeded 2016's ₱2.7 billion to ₱3.2 billion in 2017, attributable to higher deposit and trade related fees, arranger's fees, bancassurance and other bank commission, underwriting and securities dealership transactions, as well as loan related and other fee income.

Miscellaneous income declined by 7.2% to ₱8.6 billion, due to lower mark-to market gains on trading and investment securities.

Beverage

The beverage segment's net income was ₱552 million for the year ended December 31, 2017, 68.5% lower than the ₱1.76 billion in 2016.

Revenues of the beverage segment were higher by 17.2% to ₱13.9 billion in 2017 from ₱11.9 billion in 2016. This was driven by the continued growth in the revenues of Absolute and Summit bottled water and Vitamilk soymilk. However, gross profit margin dipped from 34% in 2016 to 31% in 2017, on account of the increase in cost of sales by 22.7% due to higher depreciation, labor costs, fuel and utilities expenses. Likewise, operating expenses increased by 8.8% to ₱2.4 billion in 2017 from ₱2.2 billion in 2016 on account of higher advertising and promotional expenses, salaries and wages, taxes and licenses and miscellaneous expenses.

Distilled Spirits

The distilled spirits segment posted a net income of ₱631 million for the year ended December 31, 2017, 30.5% lower than the ₱908 million reported in 2016 due to lower bio-ethanol sales.

Net revenues were higher by 11.9% to ₱16.8 billion in 2017 compared to 2016's ₱15.0 billion due to higher volumes of liquor especially the flagship product Tanduay Five Years.

Cost of sales increased by 14.5% to ₱14.1 billion in 2017 as against ₱12.3 billion in 2016 primarily due to higher distilled spirits volumes, alcohol costs and increase in excise taxes. Consequently, gross profit margin was at 16.2% in 2017, lower than the 18.1% in 2016.

Operating expenses was at ₱1.9 billion in 2017, 22.7% higher than the ₱1.6 billion in 2016 on account of higher advertising, freight and handling, management and professional fees and other selling expenses.

Property Development

The property development segment reported a net income of ₱348 million for the year 2017, slightly lower than the ₱390 million for 2016.

Residential property sales were lower by 45.6% to ₱845 million for 2017. Rental revenues in 2017 accounted for ₱1.4 billion or 62.2% of revenues, representing a 8.6% growth over the same period in 2016, as the lease contracts were renewed at higher rates for the BPO offices.

Operating expenses were higher by 7.3% from ₱682 million in 2016 to ₱732 million in 2017, mainly on account of higher repairs and maintenance expense, depreciation and outside services fees.

Tobacco

The tobacco segment's net income was ₱4.4 billion for the year 2017, 70.3% higher than the ₱2.6 billion in 2016 on account of the increase in equity in net earnings from PMFTC from ₱2.6 billion in 2016 to ₱4.4 billion in 2017.

2016 vs 2015

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2016	2015
Revenue	₱ 57,800	₱ 51,473
Cost of Sales	26,127	22,003
Equity in Net Earnings of Associates	2,712	1,189
Operating Expenses	27,915	23,359
Operating Income	6,470	7,300
Other income-net	6,466	4,917
Income Before Income Tax	12,936	12,218
Total Net Income	12,089	29,497
Net Income Attributable to Equity Holders of the Parent Company	9,390	6,599

LTG posted a consolidated net income ₱12.1 billion for the year ended 31 December 2016, 27.3% higher than the previous period of ₱9.5 billion.

LTG's net income attributable to equity holders was ₱9.4 billion for 2016, an increase of 42.3% from last year's ₱6.6 billion. The banking segment contributed ₱4.14 billion, which accounted for 44% of total net income attributable to equity holders of LTG. The banking segment's income included a ₱1.28 billion gain from the sale of property to Eton in the first quarter of 2016. LTG's share of the gain at ₱725 million was eliminated. This resulted in the banking segment's net contribution of ₱3.42 billion. The tobacco business contributed ₱2.58 billion, followed by the beverage segment at ₱1.75 billion or 19%. Distilled spirits and the property development segments' net income amounted to ₱908 million or 10%, and ₱390 million or 4%, respectively. Equity in net earnings from the Corporation's stake in VMC provided ₱142 million or 2% of total. As of 31 December 2016, LTG's stake in VMC stood at 30.17%.

Consolidated revenues amounted to ₱57.8 billion for the year ended 31 December 2016, 12.3% higher than the previous period of ₱51.5 billion. The banking segment's revenues were higher by 9.4%, largely due to higher interest income on loans receivable, improved trading gains, and favorable foreign exchange transactions. The property segment's revenues were higher by 14.8% due to higher residential and leasing revenues. Beverage and distilled spirits segments' revenues were higher by

5.3% and 24.2%, respectively, for the year ended 31 December 2016.

Cost of sales and services increased by 18.7% from ₱22.0 billion for the year ended 31 December 2015 to ₱26.1 billion in the current period. This is mainly due to higher interest expense on deposit liabilities, bills payables and others.

Consolidated operating expenses were at ₱27.9 billion in 2016 and ₱23.4 billion in 2015 as selling and general and administrative expenses increased by 6.8% and 20.8%, respectively. Higher selling expenses were mainly on account of the increase in advertising and promotional expenses of the distilled spirits and beverage segment while general and administrative expenses increased mainly due to the banking segment's higher provisioning, marketing and other expenses.

SEGMENT OPERATIONS

Banking

The banking segment reported a net income of ₱7.4 billion in 2016, an improvement of 9.1% from the ₱6.8 billion earned in the same period last year.

Net interest income from banking operations increased by 10.9% to ₱19.5 billion this year, mainly on account of higher booked loans and receivables. Net interest margin was flat at 3.1%.

Net service fees and commission income dropped from ₱3.6 billion in the previous period to ₱2.7 billion in the current period, due to lower income from deposit-related fees and higher service fee expenses by 27.6%.

Miscellaneous income increased by 65.5% on account of higher trading and foreign exchange gains recognized this year, higher gain on sale on ROPAs and the recognition of re-measurement gain from the Bank's stake in Allianz PNB Life Insurance, Inc.

Operating expenses were higher by 22.9%, from ₱18.9 billion in 2015 to ₱23.2 billion in 2016 on account of expenses incurred for higher provisioning, marketing expenses, migration to a more secure EMV chip for its ATM and POS terminals, higher compensation, and debit and credit cards.

Beverage

The beverage segment net income reached ₱1.76 billion in 2016, 59.7% higher than the ₱1.1 billion earned in 2015. This is inclusive of the ₱594 million extraordinary income recognized from the revaluation of the beer assets. Excluding the extraordinary income, ABI's net income would have settled at ₱1.12 billion, a 2% increase over 2015's net income.

The results of operations of the beverage group were significantly impacted by the transfer of ABI's alcoholic beverage segment to its 50.0%-owned associate, ABHP in November 2016.

Excluding the beer and alcopop business, net revenues were at ₱11.9 billion in 2016, increased by 4.0% from the ₱11.4 billion in 2015. The higher revenues from bottled water were partially offset by lower revenues from packaging, specifically commercial bottles, as some of the Corporation's capacity was utilized in producing returnable glass bottles for the soymilk business. Cobra energy drinks was flat year-on-year.

Gross profit margin was 34% in 2016, slightly lower than the 35% in 2015 on account of the product mix sold. Operating expenses were 11.9% higher year-on-year as more advertising and marketing expenses were incurred.

Distilled Spirits

The distilled spirits segment reported a net income of ₱908 million for 2016, a significant improvement from the ₱422 million in the same period last year.

Higher net revenues in 2016 by 23.9% to ₱15.0 billion was attributed to the start of bioethanol operation in 2016. The sales volume of liquor had a slight increase of 2% from the growth in sales of its flagship product, Tanduay Rhum Five Years.

Cost of sales increased from ₱9.8 billion in 2015 to ₱12.3 billion in 2016 due to higher prices of alcohol. Likewise, gross profit margin dropped to 18% from 19% in 2015 due to lower margins for liquor.

Operating expenses remained at ₱1.6 billion for the years 2016 and 2015.

Property development

Eton reported a net income of ₱390 million for the year ended 2016. This is 24.6% higher than last year's net income after tax for the same period of ₱313 million. Growth in net income after tax can be traced to the 14.1% or ₱183.4 million improvement in gross profit. Another factor that contributed to the higher net income is the increase in percentage of completion of previously sold units.

Rental revenue for the year also increased by 9% from ₱1.17 billion in 2015 to ₱1.28 billion during the same period in 2016, as the lease contracts were renewed at higher rental rates, especially for the Corporation's BPO offices.

Other Charges increased by 83.8% compared to the same period last year. This was mainly due to the increase in finance charges by ₱181.91 million or 103.5% as the Corporation recognized its borrowing costs as an expense in the period incurred. Likewise, additional interest expense was incurred relating to the new bank loans obtained by the Corporation in 2016 and from outstanding payables to landowners for land acquisitions made during the last quarter of 2015 through the first quarter of 2016.

Provision for income tax decreased from ₱250 million in 2015 to ₱212 million in 2016 due to the timing difference in the taxable income as against the reported income.

Tobacco

The tobacco segment posted a net income of ₱2.6 billion for the year ended 31 December 2016, 149.2% higher than the ₱1.0 billion recognized in 2015. This was mainly on account of higher equity in net earnings from PMFTC of ₱2.6 billion for 2016, 165.9% more than last year's ₱975 million. The increased income of PMFTC were mainly attributed to the favorable change in the mix of sales as the volume of premium priced Marlboro was 25% higher year-on-year as customers continued to trade up with the narrowing of price gaps.

3.2. FINANCIAL CONDITION

2018

The Company's consolidated Total Assets as of December 31, 2018 amounted to ₱1,097.8 billion, an increase of 19.7% from ₱917.1 billion as of December 31, 2017. This was mainly on account of the increase in Current Assets by 14.3% or ₱59.4 billion and increase in Noncurrent Assets of ₱121.3 billion or 24.2%.

The increase in consolidated Current Assets by 14.3% from ₱416.6 billion as of December 31, 2017 to ₱475.0 billion was primarily due to the higher Current Portion of Loans and Receivables on account of the increased booking of loans and higher Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)- formerly called AFS Investments and Financial Assets at Fair Value through Profit or Loss, resulting from various reclassifications to Financial Assets at Amortized Cost formerly called Held to Maturity (HTM) Investments by the bank. Cash and Cash Equivalents were higher from ₱174.0 billion as of end-2017 to ₱176.5 billion as of December 31, 2018. Inventories and Other Current Assets declined by ₱0.26 billion and ₱3.4 billion, respectively, mainly due lower inventory level of the property development segment while for Other Currents Assets it declined because of the banking segments lower levels of FXTN and miscellaneous assets. Assets of Disposal Group Classified as Held for Sale pertains to the banking segment's PNB General Insurance (PNB Gen) assets which will be exchange for shares in Allied Bankers Insurance Corporation (ABIC), an affiliate.

The 24.2% increase in Total Noncurrent Assets was mainly due to the movements in the Noncurrent Financial Assets at Amortized Cost, Property, Plant and Equipment and Noncurrent Portion of Loans Receivables. Noncurrent Financial Assets at Amortized Cost were higher by 273.2% due to the bank's reclassification of Financial Assets at FVTOCI to HTM investments. Noncurrent Financial Assets at FVTOCI decreased by 31.9% to ₱48.1 billion from ₱70.7 billion. Noncurrent portion of Loans and Receivables were higher by ₱40.1 billion due to higher booking of loans by the bank. Property, plant and equipment (PPE) – at cost was higher by ₱0.8 billion due to various acquisitions during the year 2018 while PPE – at appraised was higher by ₱24.1 billion due to the banking segments new appraisal of properties in 2018.

Investment in Associates and Joint Ventures was higher by ₱3.1 billion to ₱20.3 billion, due to higher equity earnings from PMFTC. Other noncurrent assets and Deferred income tax assets were higher by ₱0.8 billion and ₱0.4 billion, respectively as compared to end-2017 balances.

Consolidated Total Liabilities increased by 19.1% to ₱859.4 billion as of December 31, 2018 from ₱721.8 billion as of December 31, 2017. This was on account of the increase in Total Current Liabilities by 16.5% from ₱665.4 billion in December 31, 2017 to ₱775.0 billion as of the end of the current period and increase in Noncurrent Liabilities of 62.5% from ₱56.4 billion to ₱91.6 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱672.3 billion as of December 31, 2018, 14.3% higher than December 31, 2017. Accounts Payable and Accrued Expenses increased to ₱22.5 billion or 2.2% higher than ₱22.0 billion as of December 31, 2017 due to the various accruals as of end-2018. Income tax payable is lower by 9.1% versus the December 31, 2017 level due to the income tax payments made during the year 2018. Financial liabilities at Fair Value through Profit or Loss were higher by 37.0% from ₱0.3 billion in December 31, 2017 to ₱0.5 billion as of December 31, 2018, on account of the bank's higher derivative liabilities. Short-term debt was higher by 32.3% to ₱2.1 billion in the current period from ₱1.6 billion in December 31, 2017, due to the availment of a loan by the beverage segment. Current portion of Due to Related Parties increased to ₱0.1 billion on account of reclassifications made during the year. Current portion of Bills and Acceptances Payable increased by 65.3% mainly due to the higher currently maturing bills and acceptances payable by the banking segment. Current portion of long-term debts outstanding of ₱91 million as of December 31, 2018 was lower versus end-2017 due to payments made during the year. Other current liabilities decreased from ₱15.2 billion as of end-2017 to ₱8.6 billion in current period due to various settlements made during the year 2018. Liabilities of disposal group classified as held for sale pertains to the banking segment's PNB Gen liabilities.

The increase in the Noncurrent Liabilities was on account of the issuance of bonds by the banking segment which increased the Long-Term Debts Noncurrent portion by ₱17.1 billion to ₱18.6 billion as of end-2018, and higher Noncurrent Bills and Acceptances Payable by ₱2.3 billion of the banking segment. Deposit Liabilities (noncurrent) of the banking segment increased from ₱39.3 billion as of December 31, 2017 to ₱47.2 billion as of December 31, 2018. Accrued Retirement Benefits decreased by 25.8% or ₱0.6 billion. Other noncurrent liabilities increased by 24.3% to ₱5.9 billion as of December 31, 2018 from ₱4.7 billion due to various accruals and additional obligations incurred in 2018. Deferred income tax liabilities increased to ₱8.8 billion due to various tax temporary timing differences accrued in 2018.

LT Group's consolidated Total Equity grew 18.4% to ₱231.2 billion as of December 31, 2018, on account of the increase in Retained Earnings coming from the net earnings during the period and increase in Other Comprehensive Income of 257.9% due to the increase in revaluation surplus of the banking segment's properties.

2017

The Company's consolidated Total Assets as of 31 December 2017 amounted to ₱917.1 billion, an increase of 10.6% from ₱829.1 billion as of 31 December 2016. This was mainly on account of the increase in Current Assets by 2.9% or ₱11.8 billion and increase in Noncurrent Assets of ₱76.2 billion or 18.0%.

The increase in the consolidated Current Assets from ₱404.8 billion as of December 31, 2016 to ₱416.6 billion was mainly due to the increase in Current Loans and Receivables by ₱14.8 billion, a result of the bank's higher booking of loans in 2017. Inventories and Other Current Assets increased by 4.0% and 27.2%, respectively to ₱13.4 billion and ₱13.5 billion as of 31 December 2017, respectively. Due From Related Parties increased from ₱1.9 billion to ₱2.0 billion due to additional advances during the year. There was a 70.0% decrease in Current Available For Sale Investments due to the various disposals and reclassifications to noncurrent by the bank.

The 18.0% increase in Total Noncurrent Assets was mainly due to the movements in the Noncurrent Loans and Receivables, AFS investments, Held to Maturity Investments, Property, plant and equipment (PPE) and Other Noncurrent Assets. Noncurrent Loans and Receivables increased to ₱307.6 billion as of 31 December 2017, due to the bank's higher booking of loans for 2017. AFS investments and Held to Maturity Investments were higher by 17.5% and 10.9%, respectively, on account of the bank's additional investments and higher market values of its portfolios. PPE account increased to ₱43.2 billion in the current period from ₱41.3 billion in 31 December 2016, on account of the various acquisitions for the year ended 2017. Other Noncurrent Assets increased by 26.1% to ₱4.7 billion in 2017.

Consolidated Total Liabilities increased by 11.0% to ₱721.8 billion as of end-2017 from ₱650.5 billion as of end-2016. This was on account of the increase in Total Current Liabilities by 15.1% from ₱578.1 billion in 31 December 2016 to ₱665.4 billion as of the end of the current period offset by the decrease in Noncurrent Liabilities of 22.1% from ₱72.4 billion to ₱56.4 billion.

The current portion of the banking segment's Deposit Liabilities amounted to ₱588.4 billion as of 31 December 2017, 14.1% higher than 31 December 2016. The current portion of Bills and Acceptances Payable increased by 46.1%, mainly due to the reclassification of currently maturing bills and acceptances payable by the banking segment. Accounts Payable and Accrued Expenses amounted to ₱22.0 billion or 27.4% higher than ₱17.3 billion as of 31 December 2016 due to the various accruals of different segments in 2017. Income tax payable is higher by 294.9% versus the 31 December 2016 level. Financial liabilities at fair value through profit or loss was 47.5% higher than the December 2016 level due to higher derivative liabilities during the year. Short-term debt was lower by 11.4%,from ₱1.8 billion in 31 December 2016to ₱1.6 billion in the current period, due to the payment of the beverage segment's loan. Current portion of long-term debt decreased by 75.4% to ₱114.7 million due to the payments made by the property development segment during the year. Other current liabilities decreased by 12.7% from ₱17.4 billion to ₱15.2 billion in the current period.

The decrease in the Noncurrent Liabilities was on account of lower Deposit Liabilities (noncurrent) of the banking segment from ₱45.9 billion as of 31 December 2016 to ₱39.3 billion as of 31 December 2017. Also, Noncurrent Bills and Acceptances Payable of the bank was lower by ₱3.5 billion, from ₱10.8 billion as of end-2016 to ₱7.3 billion in the current period. Long-term debt-net of current portion decreased by 71.1% due to the payment of the bank's subordinated debt in 2017. Accrued retirement benefits decreased by 43.4% due to the settlement and adjustments made during the year. Deferred Income Tax Liabilities increased by 6.9% due to accrual of temporary tax differences. Other Noncurrent Liabilities of the banking segment decreased by 12.8% or ₱693 million.

LTG's consolidated Total Equity grew 9.4% to ₱195.3 billion as of 31 December 2017, on account of the increase in Retained Earnings coming from the net earnings during the period and other comprehensive income.

2016

The Corporation's consolidated Total Assets as of 31 December 2016 amounted to ₱829.1 billion, 10.6% higher than the ₱749.6 billion as of 31 December 2015. This was mainly on account of the increase in Current Assets by 9.3% or ₱34.5 billion and in Noncurrent Assets by 11.9% or ₱45.0 billion.

The increase in the consolidated Current Assets by 9.3% from ₱370.3 billion as of 31 December 2015 to ₱404.8 billion was primarily due to Cash and Cash Equivalents, which had increased by 27.0% or ₱37.1 billion which was on account of the banking segment's increased levels of Due from BSP, Due from Other Banks and Interbank Loans Receivables. There was an increase in Current Loans and Receivables by ₱17.7 billion as the bank was able to book more loans this year. Current Available for Sale Investments were higher by 190.7% due to a reclassification from the noncurrent portion as well as various acquisitions and increases in the fair value of securities held by the bank.

Other Current Assets increased by 19.9% on account of increased levels in miscellaneous assets by the distilled spirits, beverage and property development segments. Due from Related Parties increased by 20.7% due to various advances made during the year. This was significantly offset by the sale of the bank's 51% stake in the life insurance business to Allianz, of which recorded assets of disposal group classified as held for sale as of 31 December 2015 was ₱23.5 billion. Financial Assets at Fair Value through Profit or Loss declined by ₱3.2 billion, mainly due to the banking segment's lower levels of FXTN. Inventories were lower on account of decreased levels in inventory by the beverage and property development segments.

The 11.9% increase in Total Noncurrent Assets was mainly due to the movements in the Loans and Receivables, Investment in Associates and Joint Ventures and Investment Properties accounts. Loans and Receivables-net of current portion went up by 20.2%, from ₱206.8 billion in 31 December 2015 to ₱248.6 billion as of 31

December 2016 as the bank was able to book more loans in 2016. Investment in Associates and Joint Ventures went up by ₱5.1 billion or 43.0% due to the additional investment in VMC in February 2016, equity in net earnings from these investments, investment in the life insurance business with Allianz (which is now an associate), and investment in ABHPI. Investment properties amounted to ₱28.2 billion as of 31 December 2016, 26.9% higher than the 2015 level primarily due to the reclassification of banking properties to investment properties as it revised its plans for these assets. Held to maturity investments by the bank were higher by ₱1.0 billion. Deferred income tax assets and other noncurrent assets were higher by 158.4% and 10.3%, respectively due to various timing difference tax adjustments and higher levels of other noncurrent assets by the various subsidiaries. This was offset by the decrease in the Noncurrent Available for Sale Investment by ₱6.5 billion by the banking segment due to reclassification of some investments to current. Property, plant and equipment decreased to ₱36.1 billion (at appraised values) and ₱5.2 billion (at cost) from the ₱39.5 billion (at appraised) and ₱5.3 billion (at cost) level in 31 December 2015, primarily due to the reclassifications of various properties by the banking segment to investment properties.

Consolidated Total Liabilities increased by 12.2%, from ₱579.8 billion as of 31 December 2015 to ₱650.5 billion as of 31 December 2016. This was on account of the increase in Total Current Liabilities by 13.2% from ₱496.3 billion in 31 December 2015 to ₱578.1 billion as of the end of the current period, offset by the decrease in Noncurrent Liabilities of 13.2% from ₱83.5 billion to ₱72.4 billion. Current portion of the banking segment's Deposit Liabilities amounted to ₱515.6 billion as of 31 December 2016--18.2% higher than 31 December 2015. Current portion of Bills and Acceptances Payable increased by 329.5%, mainly due to the reclassification of currently maturing bills and acceptances payable by the banking segment and increase in the transactions with the local banks. Other Current Liabilities increased by ₱4.1 billion due to the banking segments higher levels of various liabilities. Short-term Debts was higher by 25.0% or ₱350.0 million due to the availment of loan by the beverage segment. Financial Liabilities at Fair Value through Profit or Loss increased to ₱0.2 billion mainly on account of the banking segment's higher derivative liabilities. Due to related parties increased by 22.0% on account of additional payable recorded during the year. This was offset significantly by the transfer of liabilities from the bank's sale of the 51% stake in the life insurance business. Liabilities of disposal group classified as held for sale as of 31 December 2015 was ₱21.5 billion.

The decline in the Noncurrent Liabilities was on account of the decrease in the Other Noncurrent Liabilities of the banking segment by 32.0% or ₱2.5 billion, lower Noncurrent Bills and Acceptances Payable of ₱9.1 billion or 45.7% and payment of the long-term debt of PNB. This was offset by the increase in Deposit liabilities of the banking segment by ₱6.0 billion and Deferred Income Tax Liabilities by 11.9% on account of the various tax adjustment booked in 2016.

LTG's consolidated Total Equity grew 5.2% to ₱178.6 billion as of 31 December 2016, on account of the increase in Retained Earnings by 14.7% coming from the net earnings during the period.

3.3. KEY PERFORMANCE INDICATORS

LTG uses the following major performance measures. The analyses are based on comparisons and measurements on financial data of the current period against the same period of the previous year. The discussion on the computed key performance indicators can be found in the "Results of Operations" in the MD&A above.

2018 vs 2017

1.) **Gross Profit Ratio**

Gross profit ratio in 2018 was 52.4% versus 53.4% in 2017.

2.) **Return on Equity**

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2018 amounted to ₱16.2 billion; higher by 49.5% from last year's ₱10.8 billion. Ratio of net income to equity is 9.4% in 2018 and 7.3% in 2017.

3.) **Current Ratio**

Current Ratio for 2018 is 0.61:1 while last year's was 0.62:1.

4.) **Debt-to-equity ratio**

Debt-to-equity ratio for 2018 is 3.75:1 as compared to last year's 3.70:1.

5.) **Earnings per share**

Earnings per share attributable to holders of the parent company for 2018 is ₱1.50 and ₱1.00 in 2017.

2017 vs 2016

1.) **Gross Profit Ratio**

Gross profit ratio in 2017 was 53.5% versus 54.8% in 2016.

2.) **Return on Equity**

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2017 amounted to ₱10.8 billion; higher by 15.3% from last year's ₱9.4 billion. Ratio of net income to equity is 7.3% in 2017 and 6.9% in 2016.

3.) **Current Ratio**

Current Ratio for 2017 is 0.63:1 while last year's was 0.70:1.

4.) **Debt-to-equity ratio**

Debt-to-equity ratio for 2017 is 3.70:1 as compared to last year's 3.64:1.

5.) **Earnings per share**

Earnings per share attributable to holders of the parent company for 2017 is ₱1.00 and ₱0.87 in 2016.

2016 vs 2015

1.) **Gross Profit Ratio**

Gross profit ratio in 2016 was 54.8% versus 57.3% in 2015.

2.) **Return on Equity**

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2016 amounted to ₱9.4 billion; higher/lower by 42.3% from last year's ₱6.6 billion. Ratio of net income to equity is 6.9% in 2016 and 5.1% in 2015.

3.) **Current Ratio**

Current Ratio for 2015 is 0.70:1 while last year's was 0.75:1.

4.) **Debt-to-equity ratio**

Debt-to-equity ratio for 2015 is 3.64:1 as compared to last year's 3.42:1.

5.) **Earnings per share**

Earnings per share attributable to holders of the Parent Company for 2016 is ₱0.87 and ₱0.61 in 2015.

The manner by which LTG calculates the indicators above is as follows:

Gross profit ratio	= Gross profit/Net sales
Return on Equity	= Net Income Attributable to Equity Holders of the LTG/Stockholders equity
Current Ratio	= Current assets/Current liabilities
Debt-to-equity ratio	= Total liabilities/Total equity
Earnings per share	= Net income attributable to holders of the parent company/weighted average number of shares

3.4. OTHER MATTERS

(i) There are no other trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's increasing or decreasing liquidity in any material way. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company does not have any liquidity problems.

(ii) There are no events that will trigger direct or contingent financial obligation that is material to LTG, including any default or acceleration of an obligation.

(iii) There are no known material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of LTG with unconsolidated entities or other persons created during the reporting period.

(iv) The Group has on-going and planned capital expenditure projects as follows:

Distilled spirits

TDI is expected to take on various capital expenditure projects to improve its manufacturing facilities.

Asian Alcohol Corporation (AAC) will be putting up a Bio-Ethanol facility, which is targeted to operate within 2020.

Absolute Distillers, Inc. plans to invest in sugar mills for bioethanol production.

Beverage

To capitalize on the growing bottled water market, ABI put up a new bottled water facility in Pampanga that is set to operate in the second quarter of 2019.

ABI also made several investments in its sweetened beverage business to improve efficiencies in its production processes. Investments in returnable containers were also made to replace bottles and crates used in production and to support the growth of the local production of Vitamilk and Summit Water in returnable glass bottles.

International Bottled Water Association Membership
ABI's bottled water plant in Cabuyao has been a member of the International Bottled Water Association (IBWA) since it started its bottled water business in 1992. IBWA (in reference to U.S. FDA regulations of the Code of Federal Regulations) prescribes the Good Manufacturing Practices for Processing and

Bottling of Bottled Drinking Water. This includes specific design and performance requirements for determining whether the facilities, methods, practices, and controls used in the processing, bottling, holding and shipping of bottled drinking water are in conformance with or are operated or administered in conformity with good manufacturing practice to assure that bottled drinking water is safe and has been processed, bottled, held and transported under sanitary conditions.

ISO 9001:2015 Quality Management System Certification
ISO is a standard setting body that provides requirements, specifications, guidelines or characteristics that ensure that products and services are safe, reliable and are of good quality. To be ISO 9001:2015 certified, an organization must demonstrate its ability to consistently provide product that meets customer and applicable statutory and regulatory requirements. ABI and Waterich's manufacturing facilities were recertified in the first half of 2018. IPI's manufacturing facilities in Cabuyao, Pampanga and Davao are likewise ISO 9001:2015 certified. ISO 9001:2015 is an updated requirement for Quality Management System ISO 9001:2008.

(v) The company has no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenue or income from continuing operations.

(vi) There are no significant elements of income or loss that did not arise from the Company's continuing operations.

(vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item;

Results of our Horizontal (H) and Vertical (V) analyses showed the following material changes as of and for the years ended December 31, 2018 and 2017:

1. Financial assets at fair value through profit or loss – H, 65%
2. Financial assets at fair value through other comprehensive income (FVTOCI) - current – H, 264%
3. Loans and receivables-current – H, 20%
4. Other current assets – H, (27%)
5. Assets of disposal group classified as held for sale – H, 100%
6. Loans and receivables-noncurrent – H, 13%
7. Financial assets at FVTOCI - noncurrent – H, (32%)
8. Financial assets at amortized cost - noncurrent – H, 273%
9. Investment in associates and joint ventures – H, 18%
10. Property, plant and equipment – at appraised – H, 67%
11. Property, plant and equipment – at cost – H, 12%
12. Deferred income tax assets – H, 30%
13. Other noncurrent assets- H, 15%
14. Deposit liabilities – current – H, 14%
15. Financial liabilities at fair value through profit or loss – current – H, 37%
16. Bills and acceptances payable - current – H, 65%

17. Short-term debts – H, 32%
18. Income tax payable – H, (9%)
19. Long-term debts-current – H, (21%)
20. Due to related parties-current – H, 41%
21. Other current liabilities – H, (43%)
22. Liabilities of disposal group classified as held for sale – H, 100%
23. Deposit liabilities – noncurrent – H, 20%
24. Bills and acceptances payable - noncurrent – H, 31%
25. Long-term debt – net of current portion – H, 1,158%
26. Accrued retirement benefits – H, (26%)
27. Deferred income tax liabilities – H, 523%
28. Other noncurrent liabilities- H, 24%
29. Reserves of disposal group classified as held for sale – H, 100%
30. Other comprehensive income – H, 258%
31. Retained earnings- H, 17%
32. Noncontrolling interests – H, 24%
33. Banking revenue – H, 26%
34. Beverage revenue – H, 9%
35. Distilled spirits revenue – H, 8%
36. Property development revenue – H, 43%
37. Cost of sales – H, 21%
38. Equity in net earnings of associates – H, 101%
39. General and administrative expenses – H, 16%
40. Finance income – H, 32%
41. Foreign exchange gains – H, (36%)
42. Others-net – H, 47%
43. Provision for income tax – deferred – H, 33%
44. Provision for income tax – current – H, (86%)
45. Net income from continuing operations – H, 43%
46. Net income from discontinued operations – H, (413%)
47. Net income- H, 41%

The causes for these material changes in the balance sheet and income statement accounts are all explained in the Management's Discussion and Analysis (MDA) – Results of Operations and Financial Condition.

(viii) There are no seasonal aspects that have a material effect on the financial condition or results of operations of LTG.

ITEM 4. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

4.1. MARKET INFORMATION

The principal market for the Corporation's common equity is the Philippine Stock Exchange.

STOCK PRICES

	CLOSE	HIGH	LOW
2016			
1st Quarter	15.02	16.78	13.70
2nd Quarter	15.92	16.22	13.18
3rd Quarter	15.30	17.98	15.20
4th Quarter	12.56	15.92	12.48
2017			
1st Quarter	16.02	17.00	12.00
2nd Quarter	14.70	16.98	14.42
3rd Quarter	17.58	18.90	14.78
4th Quarter	18.74	19.70	16.98
2018			
1st Quarter	18.80	19.72	18.80
2nd Quarter	18.08	18.44	17.90
3rd Quarter	14.40	15.20	14.40
4th Quarter	15.50	15.56	15.26
2019			
19 March 2019*	16.00	16.46	15.82

**Latest Practical Date*

4.2. HOLDERS

As of 15 March 2019, the Corporation has 370 shareholders owning 10,821,388,889 common shares. The top 20 stockholders as of 15 March 2019 are as follows:

Stockholders' Name	No. of Common Shares Held	% to Total
Tangent Holdings, Corp.	7,848,399,398	72.5267
PCD Nominee Corporation (Non-Filipino)	1,464,982,722	13.5378
PCD Nominee Corporation (Filipino)	746,425,280	6.8977
Dragon Castle Holdings Ltd.	198,535,900	1.8347
Hinner Resources Ltd.	157,195,600	1.4526
Advance Goal Ltd.	152,812,600	1.4121
Absolute Classic Ltd.	95,811,000	0.8854
Conqueror Vision Ltd.	81,913,000	0.7570
Conway Equities, Inc.	35,000,000	0.3234
Pan Asia Securities Corp.	24,448,000	0.2259
Goldlabel Equities Corp.	5,039,800	0.0466
All Seasons Realty Corp.	4,974,794	0.0460

Dragonstar Management Corp.	1,773,900	0.0164
Kentron Holdings & Equities Corp.	569,800	0.0053
Luys Securities Co., Inc.	501,000	0.0046
Mandarin Securities Corp.	358,000	0.0033
Atlas Agricultural & Mercantile & Dev.	299,475	0.0028
Honorio Poblador Jr.	295,230	0.0027
Donald J.D. Nye	272,250	0.0025
Alex M. Tiongco	83, 600	0.0008

* LTG has no preferred shares.

4.3. DIVIDENDS

a.) Dividend declaration

Date Declared	Dividend Declared	Amount	Date Paid
13 March 2018	Regular Cash Special Cash	₱0.15 per share ₱0.05 per share	11 April 2018
14 March 2017	Regular Cash Special Cash	₱0.15 per share ₱0.03 per share	7 April 2017
12 April 2016	Cash	₱0.15 per share	6 May 2016

b.) Restrictions that limit the ability to pay dividends on common equity or that are likely to happen in the future.

There are no restrictions that limit the Corporation's ability to pay dividends apart from the requirement of law that the Corporation should have unrestricted retained earnings. The corporate by laws provide that dividends may be declared "*out of the surplus profits when such profit shall, in the opinion of the Directors, warrant the same*."

4.4. RECENT SALES OF UNREGISTERED SECURITIES (FOR THE PAST THREE YEARS)

There was no recorded sale of unregistered securities during the past three years.

ITEM 6. INDEPENDENT PUBLIC ACCOUNTANTS AND EXTERNAL AUDIT FEES

Please see pages 14 through 15 of the Information Statement.

ITEM 7. CORPORATE GOVERNANCE

In its meeting held last 04 September 2018, the Corporation's Corporate Governance Committee discussed and approved the necessary amendments made on the Company's Revised Manual on Corporate Governance ("Manual") for purposes of incorporating the recommendations of SEC Memorandum Circular No. 19, Series of 2016 in its existing Manual.

Atty. Marivic T. Moya was appointed as the Compliance Officer of the Corporation with the obligation to monitor, review, evaluate, and ensure the compliance by the Corporation's Board of Directors and Executive Officers with the Manual, relevant rules and regulations, and governance issuances of regulatory agencies.

To ensure awareness and compliance, all incumbent directors and key officers of the Corporation annually attend a seminar on corporate governance conducted by an SEC accredited provider.

The Corporation continues to review and strengthen its policies to ensure that such policies are consistent with the leading practices on good corporate governance that are in the best interest of the Corporation and its stakeholders.

The Corporation undertakes to provide without charge to each shareholder, upon written request by the shareholder, a copy of the Corporation's Annual Report on SEC Form 17-A and SEC Form 17-Q. Please direct all such requests to the Corporate Secretary, Atty. Ma. Cecilia L. Pesayco, 2/F Allied Bank Center, 6754 Ayala Avenue, Makati City, Philippines.