



President's Report

First Half 2017

LT Group, Inc. (LTG) had an unaudited attributable net income of Php4.53 billion for the first six months of 2017, slightly lower than the Php4.56 billion reported in 1H16.

The tobacco business contributed 41% or Php1.85 billion total attributable income, followed by Philippine National Bank (PNB) at Php1.52 billion or 34%. Asia Brewery, Inc. (ABI) added Php401 million or 9%, while Tanduay Distillers, Inc. accounted for Php339 million or 7%. Eton Properties Philippines, Inc. (Eton) provided Php174 million or 4%. Equity in net earnings from our 30.9% stake in Victorias Milling Company, Inc. (VMC) reached Php246 million or 5% of total.

LTG's balance sheet remains strong. As of end-June 2017, the parent company's cash balance was at Php2.21 billion. Debt-to-Equity Ratio was at 3.88:1 with the Bank, and at 0.17:1 without the Bank.

Tobacco

The tobacco business generated an income of Php1.86 billion in 1H17, Php405 million or 28% more than the Php1.46 billion reported in the first six months of 2016.

Equity in net earnings from the 49.6% stake in PMFTC, Inc. (PMFTC) amounted to Php1.85 billion, 32% more than 1H16's Php1.40 billion.

The higher earnings were mainly attributed to the increase in selling prices starting November 2016. PMFTC raised the price of Marlboro for the first time since January 2013, with the recommended retail price per stick at Php3.50 from Php3.00.

Total industry volume was estimated to have declined by 10% year-on-year (y-o-y) in 1H17, while PMFTC's shipment volume was 19% lower y-o-y. PMFTC's volume decline was due to the impact of price increases in 4Q16, which made our products more expensive than competitors. PMFTC's y-o-y volume decline in 2Q17 was at 14%, lower than the 24% decline reported in 1Q17.

Premium Marlboro accounted for 49% of PMFTC's total volume in 1H17, compared to 38% of volume in 1H16. Sales volume of the brand was 5% higher y-o-y. PMFTC's market share was estimated at 66% in 2Q17, same as in 1Q17 but lower than the 73% in 2Q16.

Government's actions versus the illicit trade, which include smuggled and locally produced, is a welcome development as this will level the playing field.

Philippine National Bank (PNB)

PNB's net income under the pooling method reached Php2.75 billion for 1H17, 38% or Php1.67 billion lower than the Php4.42 billion reported for 1H16. Earnings for 1H16 included a Php1.48 billion gain from the sale of Real and Other Properties Acquired (ROPA).

Net Interest Income grew by 8% or Php771 million as loans and receivables were 16% higher year-on-year (y-o-y) to Php455 billion, while Net Interest Margin was lower at 2.9% from 3.1%. Loans to Deposit Ratio (LDR) was at 71% as of end-June 2017, slightly lower than end-June 2016's 72% as deposits grew at a slightly faster pace at 17%.

Net Service Fees and Commission Income increased by 12% to Php1.62 billion from Php1.44 billion due to higher arranger's, underwriting, bancassurance and deposit-related fees. This is a reversal from the continuous drop in service fee income since the bank stopped charging inter-branch fees after March 2016 to become more competitive.

Other Income dropped by 58% to Php2.31 billion from Php5.46 billion in 1H16, as gains from the sale of ROPA declined to Php225 million. Trading and Foreign Exchange Gains were also 34% lower to Php1.02 billion from Php1.54 billion in the same periods.

Operating Expenses was relatively flat at Php10.66 billion. Provision for impairment and other losses in the first six months of 2017 amounted to Php205 million, compared to Php749 million in 1H16. Net Non-Performing Loans (NPL) ratio was at 0.3%, from 0.2% as of end 2016, while NPL cover stood at 130% from 133% as of end-2016.

Tanduay Distillers, Inc. (TDI)

TDI's bottom line settled at Php339 million for the first half of 2017, Php105 million or 24% lower than the Php444 reported in the same period in 2016.

Revenues reached Php8.31 billion, 17% higher y-o-y, as liquor revenues were 25% higher at Php7.21 billion on the back of a 22% volume growth.

Most of TDI's sales are generated in the Visayas and Mindanao areas, with the Company enjoying a big share of the market in these areas. In the Visayas, our market share stood at 60% as of end-June 2017, compared to 59% as of end-2016. In Mindanao, our market share was at 64% compared to 62% in December 2016. Nationwide market share stood at 24% as of June, just slightly higher than the 23% as of end-2016.

Revenues from ethanol were 30% lower y-o-y at Php 831 million as volume dropped 25% and prices were also lower.

TDI's GPM declined to 16% in 1H17 from 18% the previous year, largely due to lower margins for ethanol, brought about by lower selling prices and higher alcohol costs. GPM of liquor was relatively flat as the Company raised prices by Php24 per case in January 2017, to pass on the increase in excise taxes.

Asia Brewery, Inc. (ABI)

ABI's net income amounted to Php401 million for the first half of 2017, 44% lower than the Php721 million reported for 1H16.

Revenues increased by 11% to Php6.90 billion from Php6.21 billion with higher contribution from bottled water and soymilk, partly offset by the drop in energy drinks and packaging. The revenues of ABI no longer include the beer and alcopop business as these were transferred to the joint venture with Heineken, AB Heineken Philippines, Inc. (ABHPI) in November 2016.

Overall Gross Profit Margin (GPM) dropped to 32% from 38% as a result of product mix. Operating expenses increased by 25% as the Company spent more on marketing expenses for energy drink Cobra, and soymilk Vitamilk with the launch of the locally manufactured 200ml returnable glass bottle in 1Q17. We also had to book higher depreciation expense with the start of the commercial operations of the soymilk plant, while volumes are just starting to build up.

Cobra continues to account for the largest share of revenues at 36% of total. It remains the market leader with a market share of over 70%, but volume was 5% lower y-o-y due to the intensified competition in the carbonated beverage market.

The sales volume of our bottled water brands, Absolute and Summit, was 7% higher y-o-y. Notably, 2Q17 growth was at 11% after a 3% y-o-y increase in 1Q17 as sales were particularly high in 1Q16 during the election season. We continue to have the second largest market share in this segment, at 28% for 1H17. Water accounted for 25% of ABI's revenues.

With the completion of our plant in late 2016, we started selling Vitamilk soymilk in returnable glass bottles in 1Q17. Our market share remains at over 80%, as sales in this category continue to grow by double-digit.

The packaging business accounted for 16% of revenues in the first six months of 2017. It supplies the glass bottle and other packaging requirements of TDI, ABI and also sells to other third parties. Revenues were 11% lower than 1H16 as more capacity was dedicated for our own use, producing the returnable glass bottles of Vitamilk and Cobra.

In 1H17, we booked an equitized loss of Php249 million from our stake in ABHPI. We expect to be booking losses in the succeeding quarters as more is spent on marketing activities to increase sales in the alcoholic beverage segment.

Eton Properties Philippines, Inc. (Eton)

Eton reported a net income of Php174 million for 1H17, 31% higher than the Php133 million reported for the same period in 2016. Revenues, however, dropped by 15% to Php1.11 billion due to lower sales take up and the change in strategy to focus on increasing its recurring income base. On the other hand, revenues from leasing operations rose 6% primarily due to the opening of 2,100 square meters of additional retail space in Eton Tower Makati and higher lease rates. Eton's BPO office buildings continue to enjoy full occupancy.

In July 2017, Eton started land development at Eton City Square with an area of 3.7 hectares. This retail project will have 7,150 square meters of gross leasable area (GLA), and is targeted to be ready for lease by 4Q18. The Company also started clearing a 3,064 square meter property along Ortigas Extension in San Juan City in Metro Manila, for a strip retail development. It will have a GLA of 1,300 square meters, and is targeted for completion in 1Q18. The 5,000 square meter expansion of Centris Walk in Eton Centris in Quezon City will be completed by end-2017 and is currently accepting tenants.

Meanwhile, construction of the fifth BPO office building at Eton Centris is in full swing, with a GLA of 37,000 square meters. Construction started in August 2016 and is expected to be completed by end of 2018. The 15,000 square meters of retail and office space at the mixed-use WestEnd Square in Pasong Tamo, Makati which broke ground in 2Q16 will be completed by end-2019. Eton currently has a leasing portfolio of 125,000 square meters of BPO office space and over 29,000 square meters of retail space.

**LT GROUP, INC.
AND SUBSIDIARIES**

INTERIM CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	P215,274,694	P174,676,789
Financial assets at fair value through profit or loss	7,252,961	6,441,511
Available-for-sale (AFS) investments	3,562,510	8,473,221
Loans and receivables	204,663,991	189,812,938
Due from related parties	1,839,544	1,922,467
Inventories	14,234,646	12,849,799
Other current assets	13,444,847	10,600,399
Total Current Assets	460,273,193	404,777,124
Noncurrent Assets		
Loans and receivables - net of current portion	260,063,052	248,621,351
AFS investments	63,834,510	60,128,678
Held-to-maturity (HTM) investments	24,493,796	24,102,594
Investment in associates and joint ventures	16,740,229	16,817,351
Property, plant and equipment:		
At appraised values	36,096,420	36,104,048
At cost	5,764,446	5,170,574
Investment properties	28,434,816	28,217,373
Deferred income tax assets	1,249,869	1,424,159
Other noncurrent assets	4,157,980	3,727,772
Total Noncurrent Assets	440,835,118	424,313,900
TOTAL ASSETS	P901,108,311	P829,091,024

LIABILITIES AND EQUITY

Current Liabilities		
Short-term debts	P1,450,000	P1,750,000
Deposit liabilities	578,393,853	515,554,099
Financial liabilities at fair value through profit or loss	327,946	232,832
Bills and acceptances payable	34,399,437	25,068,268
Accounts payable and accrued expenses	24,459,090	17,291,277
Income tax payable	516,051	282,025
Due to related parties	106,842	57,054
Current portion of long-term debts	349,757	466,946
Other current liabilities	20,785,366	17,364,001
Total Current Liabilities (Carried Forward)	660,788,342	578,066,502

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Total Current Liabilities (Brought Forward)	P660,788,342	P578,066,502
Noncurrent Liabilities		
Deposit liabilities - net of current portion	36,519,634	45,866,133
Financial liabilities at fair value through profit or loss	163,991	—
Bills and acceptances payable	8,441,300	10,817,679
Long-term debts - net of current portion	1,475,385	5,101,801
Accrued retirement benefits	3,562,848	3,899,342
Deferred income tax liabilities	1,285,024	1,323,121
Other noncurrent liabilities	4,358,343	5,411,870
Total Noncurrent Liabilities	55,806,525	72,419,946
Total Liabilities	716,594,867	650,486,448
Equity		
Attributable to equity holders of the Company:		
Capital stock	10,821,389	10,821,389
Capital in excess of par	35,906,231	35,906,231
Preferred shares of subsidiaries issued to Parent Company	18,060,000	18,060,000
Other equity reserves	804,095	804,095
Other comprehensive income, net of deferred income tax effect	2,829,568	1,878,006
Retained earnings	71,740,829	68,640,783
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	140,149,593	136,097,985
Non-controlling interests	44,363,851	42,506,591
Total Equity	184,513,444	178,604,576
TOTAL LIABILITIES AND EQUITY	P901,108,311	P829,091,024

**LT GROUP, INC.
AND SUBSIDIARIES**

INTERIM CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Six Months Ended June 30		For the Quarter Ending June 30	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE				
Banking	P15,499,490	P14,287,960	P7,996,048	P7,132,597
Beverage	6,426,314	5,694,841	3,562,145	2,985,175
Distilled spirits	8,252,037	7,046,095	4,017,631	3,957,009
Property development	1,110,205	1,311,350	575,109	656,947
	31,288,046	28,340,246	16,150,933	14,731,728
COST OF SALES AND SERVICES	14,941,115	12,372,973	7,848,495	6,562,399
GROSS INCOME	16,346,931	15,967,273	8,302,438	8,169,329
EQUITY IN NET EARNINGS OF ASSOCIATES	1,885,321	1,509,068	887,429	500,555
	18,232,252	17,476,341	9,189,867	8,669,884
OPERATING EXPENSES				
Selling expenses	1,289,853	1,030,964	594,134	531,812
General and administrative expenses	11,987,621	11,674,110	6,028,146	5,912,684
	13,277,474	12,705,074	6,622,280	6,444,496
OPERATING INCOME	4,954,778	4,771,267	2,567,587	2,225,388
OTHER INCOME (CHARGES)				
Finance costs	(88,727)	(97,668)	(18,096)	(7,292)
Finance income	52,885	13,712	28,981	657
Foreign exchange gains - net	748,621	807,926	341,029	408,359
Others - net	1,473,914	2,726,229	767,566	1,498,174
	2,186,693	3,450,199	1,119,480	1,899,898
INCOME BEFORE INCOME TAX	7,141,471	8,221,466	3,687,067	4,125,286
PROVISION FOR INCOME TAX				
Current	1,381,425	2,361,581	741,526	1,067,379
Deferred	(5,373)	59,494	1,855	105,603
	1,376,052	2,421,075	743,381	1,172,982
NET INCOME FROM CONTINUING OPERATIONS	5,765,419	5,800,391	2,943,686	2,952,304
NET INCOME FROM DISCONTINUED OPERATIONS	—	172,331	—	206,199
NET INCOME	P5,765,419	P5,972,722	P2,943,686	P3,158,503
NET INCOME ATTRIBUTABLE TO:				
Equity holders of the Company	P4,529,037	P4,561,648	P2,283,980	P2,333,035
Non-controlling interests	1,236,382	1,411,074	659,706	825,468
	P5,765,419	P5,972,722	P2,943,686	P3,158,503
Basic/Diluted Earnings Per Share	P0.42	P0.42	P0.21	P0.22