



President's Report First Half 2018

LT Group, Inc.'s (LTG) unaudited attributable net income for the first half of 2018 amounted to Php8.96 billion, 98% or Php4.43 billion more than the Php4.53 billion reported for 1H17.

The tobacco business contributed Php4.86 billion or 54% of total attributable income, followed by Philippine National Bank (PNB) for Php3.08 billion or 35%. Tanduay Distillers, Inc. (TDI) generated Php437 million or 5%. Asia Brewery, Inc. (ABI) provided Php218 million while Eton Properties Philippines, Inc. (Eton) added Php212 million, both contributing 2% each of total attributable income. Our 30.9% stake in Victorias Milling Company, Inc. (VMC) added Php115 million, or 1% of total.

LTG's balance sheet remains strong. As of the end of June 2018, the cash balance of the parent company stood at Php1.6 billion. Debt-to-Equity Ratio was at 3.71:1 with the Bank, and at 0.16:1 without the Bank.

Tobacco

Income from the tobacco business was Php4.88 billion in 1H18, 162% or Php3.02 billion higher than 1H17's Php1.86 billion.

Equity in net earnings from the 49.6% stake in PMFTC, Inc. (PMFTC) amounted to Php4.72 billion, 155% or Php2.87 billion higher than 1H17's Php1.85 billion.

The higher earnings were mainly attributed to the increase in selling prices of the mid and low-end brands in November 2017, and premium Marlboro in January 2018. Marlboro accounted for 47% of PMFTC's total volume in 1H18, lower than the 49% of 1H17, due to frontloading in 4Q17 in anticipation of the price increase. PMFTC's market share was estimated at 69.6% in 2Q18, compared to 70.5% in 1Q18 and 66.5% in 2Q17.

The industry's total volume was estimated to have decreased by 3.9% or 1.4 billion sticks year-on-year (y-o-y) to 34.3 billion sticks in 1H18, largely due to excise tax driven price increases. The excise tax was increased by Php2.50 per pack in January 2018, and by another Php2.50 on July 1, bringing to Php5.00 per pack the total increase for 2018. Meanwhile, PMFTC's volume was 1.5% or 0.4 billion sticks higher y-o-y at 24.0 billion sticks in 1H18, compared to 23.6 billion sticks in 1H17.

PMFTC is currently operating in a level playing field as the Government's actions versus the illicit trade, which includes smuggled and locally produced, continues. The level playing field enables

the Company to pass on additional taxes and no longer price our products at economically unsustainable levels. However, continual price increases may result in a further drop in industry volumes.

Philippine National Bank (PNB)

PNB's net income under the pooling method was Php5.51 billion for the first semester of 2018, 100% more than 1H17's Php2.75 billion. The 2018 income included a net gain of Php2.9 billion from the sale of Real and Other Properties Acquired (ROPA), substantially higher than the gain of Php147 million in 1H17. Excluding the ROPA gain, the Bank's income was at Php2.61 billion, relatively flat compared to 1H17's Php2.60 billion.

Net Interest Income was 27% higher at Php13.09 billion from Php10.30 billion as loans and receivables increased by 16% y-o-y to Php529 billion, and Net Interest Margin improved to 3.3% from 2.9%. Loans to Deposit Ratio (LDR) was at 77.4% as of June 2018 compared to 70.8% as of June 2017 as deposits increased at a slower pace than loans at 8% y-o-y to Php672 billion.

Net Service Fees and Commission Income increased by 4% to Php1.68 billion from Php1.62 billion due to higher loan-related and bancassurance fees. Trading and Foreign Exchange Gains decreased 23% to Php786 million from Php1.02 billion.

Operating Expenses, excluding ROPA sale-related items, were 27% higher at Php13.55 billion from Php10.64 billion with the higher provisioning for probable credit losses of Php1.24 billion compared to Php205 million in 1H17, as well as the increase of documentary tax stamps under the Tax Reform for Acceleration and Inclusion (TRAIN) to Php672 million from Php402 million. The Bank also booked higher depreciation expenses from additional branches opened, and from the new core banking system which the Bank migrated to in 3Q17.

Net Non-Performing Loans (NPL) ratio was at 0.3%, same as of June 2017, while NPL cover stood at 132% from 130% as of end-June 2017.

Tanduay Distillers, Inc. (TDI)

TDI's bottom line for 1H18 was at Php437 million, 29% or Php98 million more than 1H17's Php339 million.

Total revenues were Php8.86 billion, 7% or Php555 million higher than 1H17's Php8.31 billion. Revenues from liquor were 8% higher y-o-y to Php8.08 billion from Php7.48 billion with the 4% growth in volume, as well as higher selling prices to pass on the increase in excise taxes. However, revenues from bioethanol were slightly lower at Php782 million from Php831 million, despite volume increasing by 8%, as prices were lower.

TDI's nationwide market share for distilled spirits was at 28.7% as of June 2018, higher than March 2018's 26.1% and June 2017's 23.5%. But with most of TDI's sales generated in the Visayas

and Mindanao regions, the Company enjoys a bigger share in these areas. In the Visayas, our market share was at 67.0% as of end-June 2018, compared to 59.9% as of end-June 2017. In Mindanao, our market share stood at 70.1% in June 2018 compared to 63.8% in June 2017.

GPM slightly improved to 18% from 16% due to improved margins for liquor and bioethanol. The Company was able to increase prices to pass on the additional excise taxes, while alcohol costs were slightly lower. Operating expenses were 27% higher as more was spent on advertising and selling expenses.

Asia Brewery, Inc. (ABI)

ABI's net earnings for 1H18 was at Php218 million, Php183 million or 46% lower than the Php401 million income reported for 1H17.

Revenues were at Php7.33 billion, 6% higher than 1H17's Php6.90 billion due to higher revenues from bottled water, soymilk and packaging.

Overall Gross Profit Margin (GPM) declined to 27% from 32% as a result of product mix, as well as higher costs attributed to the sugar tax and depreciation of the Peso. Operating expenses were 6% lower y-o-y largely due to lower advertising expenses.

Cobra energy drink continues to account for the largest share of revenues at 35% of total. It remains the market leader with a share of over 75%, but volume dropped 17% primarily due to the impact of the tax on sugary drinks starting 2018. ABI raised the selling price of Cobra by Php2 per 240ml returnable glass bottle to pass on the tax. The higher selling price resulted to the slight increase in revenues from Cobra despite the lower volume.

The sales volume of Absolute and Summit, our bottled water brands, increased by 15% y-o-y. Our market share is at 26%, the second largest in this segment. Water accounted for 26% of revenues.

ABI started selling Vitamilk in returnable glass bottles in 1Q17. Our market share is over 75% and sales in this category continue to grow by double-digit. Soymilk contributed 11% of total revenues.

The packaging business' revenues were 21% higher y-o-y and accounted for 18% of revenues. ABI supplies the glass bottle and other packaging requirements of TDI and ABI and also sells to third parties.

Eton Properties Philippines, Inc. (Eton)

Eton's earnings for 1H18 was Php212 million, Php38 million or 22% more than 1H17's Php174 million.

Revenues were 9% higher y-o-y to Php1.21 billion from Php1.11 billion as leasing revenues were 8% more at Php727 million while sales from residential units increased by 11% to Php486 million. Higher leasing revenues were from higher lease rates as well as the partial contribution from additional retail space from the 5,200 square meter expansion for Centris Walk within the Centris complex in Quezon City, Metro Manila, that was completed in December 2017.

The fifth BPO building in Centris topped off in 2017. It has 43,000 square meters of gross leasable area (GLA) that will be ready for occupancy within this year.

In August 2017, Eton broke ground Eton Square Ortigas, a stand-alone pocket retail development in Greenhills, San Juan City, Metro Manila. The development is slated for completion by the end of 2018.

In Makati, the construction of eWestMall and eWestPod, the office and retail components of the lifestyle hub Eton WestEnd Square are in full swing. The mixed-use development has 15,000 square meters of combined retail and office space targeted for completion by 2019.

Eton currently has a leasing portfolio of 125,000 square meters of office space and over 37,000 square meters of commercial space.

LT GROUP, INC. AND SUBSIDIARIES**INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(Amounts in Thousands)

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	P155,898,063	P174,024,418
Financial assets at fair value through profit or loss	6,043,704	6,518,419
Available-for-sale (AFS) investments	9,615,692	2,544,589
Loans and receivables	220,052,869	204,622,577
Due from related parties	2,028,625	2,028,625
Inventories	12,758,120	13,365,089
Other current assets	12,222,838	13,483,801
Total Current Assets	418,619,911	416,587,518
Noncurrent Assets		
Loans and receivables - net of current portion	322,850,734	307,622,788
AFS investments	48,928,546	70,664,823
Held-to-maturity (HTM) investments	74,489,610	26,732,182
Investment in associates and joint ventures	18,689,571	17,230,925
Property, plant and equipment:		
At appraised values	36,083,470	36,214,947
At cost	7,507,297	6,990,286
Investment properties	28,290,931	28,890,793
Deferred income tax assets	1,483,291	1,460,889
Other noncurrent assets	4,230,419	4,700,538
Total Noncurrent Assets	542,553,869	500,508,171
TOTAL ASSETS	P961,173,780	P917,095,689

LIABILITIES AND EQUITY**Current Liabilities**

Short-term debts	P1,650,000	P1,550,000
Deposit liabilities	614,555,477	588,394,301
Financial liabilities at fair value through profit or loss	798,678	343,522
Bills and acceptances payable	19,862,379	36,634,337
Accounts payable and accrued expenses	23,802,605	22,023,972
Income tax payable	1,636,822	1,113,799
Due to related parties	106,842	56,842
Current portion of long-term debts	—	114,681
Other current liabilities	13,727,337	15,166,369
Total Current Liabilities (Carried Forward)	676,140,140	665,397,823

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Total Current Liabilities (Brought Forward)	P676,140,140	P665,397,823
Noncurrent Liabilities		
Deposit liabilities - net of current portion	46,509,405	39,286,226
Bills and acceptances payable	7,825,594	7,282,350
Long-term debts - net of current portion	17,369,680	1,475,466
Net retirement benefits liability	2,900,089	2,205,229
Deferred income tax liabilities	1,413,847	1,414,348
Other noncurrent liabilities	4,846,678	4,718,832
Total Noncurrent Liabilities	80,865,293	56,382,451
Total Liabilities	757,005,433	721,780,274
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	4,051,397	4,299,674
Retained earnings	85,607,134	78,435,633
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	155,237,727	148,314,503
Non-controlling interests	48,930,620	47,000,912
Total Equity	204,168,347	195,315,415
TOTAL LIABILITIES AND EQUITY	P961,173,780	P917,095,689

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	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE				
Banking	P18,755,217	P15,499,490	P9,522,668	P7,996,048
Beverage	6,760,126	6,426,314	3,654,144	3,562,145
Distilled spirits	8,828,795	8,252,037	4,606,151	4,027,463
Property development	1,213,140	1,110,205	634,601	575,109
	35,557,278	31,288,046	18,417,564	16,160,765
COST OF SALES AND SERVICES	16,357,593	14,941,115	8,692,490	7,848,495
GROSS INCOME	19,199,685	16,346,931	9,725,074	8,312,270
EQUITY IN NET EARNINGS OF ASSOCIATES	4,461,903	1,885,321	2,293,692	887,429
	23,661,588	18,232,252	12,018,766	9,199,699
OPERATING EXPENSES				
Selling expenses	1,303,070	1,289,853	667,428	594,134
General and administrative expenses	15,314,260	11,987,621	8,374,111	6,028,146
	16,617,330	13,277,474	9,041,539	6,622,280
OPERATING INCOME	7,044,258	4,954,778	2,977,227	2,577,419
OTHER INCOME (CHARGES)				
Finance costs	(50,407)	(88,727)	(20,400)	(18,096)
Finance income	53,262	52,885	29,920	28,981
Foreign exchange gains - net	839,742	748,621	809,604	341,029
Others - net	6,154,039	1,473,914	5,164,997	757,734
	6,996,636	2,186,693	5,984,121	1,109,648
INCOME BEFORE INCOME TAX	14,040,894	7,141,471	8,961,348	3,687,067
PROVISION FOR INCOME TAX				
Current	2,636,685	1,381,425	1,884,909	741,526
Deferred	(8,742)	(5,373)	(30,101)	1,855
	2,627,943	1,376,052	1,854,808	743,381
NET INCOME	P11,412,951	P5,765,419	P7,106,540	P2,943,686
NET INCOME ATTRIBUTABLE TO:				
Equity holders of the Company	P8,963,127	P4,529,037	P5,332,599	P2,283,980
Non-controlling interests	2,449,824	1,236,382	1,773,941	659,706
	P11,412,951	P5,765,419	P7,106,540	P2,943,686
Basic/Diluted Earnings Per Share	P0.83	P0.42	P0.49	P0.21