



## **President's Report First Half 2019**

LT Group, Inc.'s (LTG) unaudited attributable net income for the first half of 2019 amounted to Php9.24 billion, Php274 million or 3% higher than the Php8.96 billion reported for 1H18.

The tobacco business accounted for Php5.85 billion or 63% of total attributable income. Philippine National Bank (PNB) contributed Php2.25 billion or 24%. Tanduay Distillers, Inc. (TDI) accounted for Php373 million, while Eton Properties Philippines, Inc. (Eton) added Php370 million, or 4% each of total. Asia Brewery, Inc. (ABI) provided Php244 million or 3%. The 30.9% stake in Victorias Milling Company, Inc. (VMC) accounted for Php148 million or 2%.

LTG's balance sheet remains strong. As of the end of June 2019, the cash balance of the parent company stood at Php1.51 billion. Debt-to-Equity Ratio was at 3.97:1 with the Bank, and at 0.15:1 without the Bank.

### **Tobacco**

The tobacco business reported a net income of Php5.87 billion for the first semester of 2019, Php998 million or 20% more than the Php4.88 billion reported for 1H18.

Equity in net earnings from LTG's 49.6% stake in PMFTC reached Php5.65 billion, 20% or Php935 million higher than the Php4.72 billion of 1H18. The improvement in earnings was mainly due to the volume mix in favor of premium Marlboro and the price increase of Fortune in December 2018.

The Government continued its efforts against the illicit trade which includes smuggled and locally produced products. In 1H19, there were 75 enforcements with 37 machines seized and an estimated US\$15.2 million worth of illicit cigarettes confiscated. This is significantly higher than the 35 enforcements in 1H18. We commend the Government for taking this problem seriously, as the number of raids has been increasing and has been effective in curbing the presence of illicit products in the market. However, continued actions and vigilance are needed in order to contain the growth of the illicit trade. The tax-driven price increases of the tax paying industry players make it attractive to make profits from the illicit trade.

On July 25, 2019, President Duterte signed Republic Act (RA) 11346 which increases further the excise tax on tobacco starting January 2020. It will increase from the current Php35 per pack to Php45 in 2020, increase by Php5 per pack annually from 2021 to 2023, then increase by 5% annually thereafter.

LTG is not against tax increases, but believes that the hikes should be moderate. Continual price increases to pass on higher excise taxes may result to further volume drops. The industry's volume was estimated at 109 billion sticks in 2012 and declined to an estimated 73 billion sticks in 2018, or a decrease of 33% over a six-year period. Excise taxes have substantially increased starting 2013, under RA 10351, then RA 10963 starting 2018, and RA 11346 starting 2020. From a low of Php2.72 per pack of 20 sticks in 2012 for the lower tier and Php12 per pack for the upper tier, the current excise tax of Php35 per pack is 3x to 13x more than the 2012 level.

### **Philippine National Bank (PNB)**

PNB's net income under the pooling method was Php4.05 billion for January to June 2019, 27% or Php1.46 billion lower than 1H18's Php5.51 billion. Both periods included gains from the sale of Real and Other Properties Acquired (ROPA), at Php64 million, net of taxes, in 1H19 and Php2.90 billion in 1H18. Excluding the ROPA gain, the Bank's core income was at Php3.98 billion in 1H19, 52% higher compared to 1H18's Php2.61 billion.

Net Interest Income was 13% higher at Php14.71 billion from Php13.06 billion as loans and receivables grew by 12% y-o-y to Php594 billion and Net Interest Margin was slightly lower at 3.1% from 3.3%. Loan to Deposit Ratio (LDR) was at 76.7% as of June 2019 from 77.4% as of June 2018 as deposits increased at a faster pace than loans at 15% y-o-y to Php775 billion from Php672 billion.

Net Service Fees and Commission Income grew 11% to Php1.86 billion from Php1.68 billion primarily due to higher deposit and credit card related fees.

Trading and Foreign Exchange Gains more than doubled to Php1.62 billion from Php775 million.

Operating Expenses, excluding ROPA sale-related items, were 9% higher at Php13.75 billion from Php12.58 billion. Provisioning for probable credit losses was lower at Php809 million compared to Php1.24 billion in 1H18. The Bank also booked Php298 million more depreciation expense from the new core banking system which the Bank migrated to in 3Q17.

Net Non-Performing Loans (NPL) ratio was at 0.3% as of June 2019, same as the June 2018 level. NPL cover stood at 158% compared to 141% as of June 2018.

### **Tanduay Distillers, Inc. (TDI)**

TDI's net income for 1H19 amounted to Php380 million, Php57 million or 13% lower than the Php437 million reported for 1H18.

Total revenues were Php9.51 billion, Php653 million or 7% higher than 1H18's Php8.86 billion. Revenues from liquor were Php167 million or 2% higher y-o-y to Php8.25 billion from Php8.08 billion despite the 5% drop in volume as TDI was able to increase selling prices by an average of

Php14 per case. Meanwhile, revenues from bioethanol were 38% higher at Php1.27 billion from Php782 million on the back of a 36% increase in volume.

As of end-June 2019, TDI's nationwide market share for distilled spirits was at 29.8%, higher than June 2018's 28.7%. In the Visayas and Mindanao regions where most of TDI's sales are generated, market share was at 64.4% and 72.4%, respectively, as of June 2019, compared to 67.0% and 70.1%, respectively, as of June 2018.

Gross Profit Margin (GPM) was slightly lower at 17% from 18%. Operating expenses were 11% higher at Php1.13 billion due to higher selling expenses.

### **Eton Properties Philippines, Inc. (Eton)**

Eton ended 1H19 with a net income of Php371 million, Php159 million or 75% higher than the Php212 million recorded in 1H18.

Revenues were 15% higher y-o-y at Php1.39 billion compared to Php1.21 billion, as both revenues from the sale of residential units and leasing out of office and retail space grew.

In Eton Square Ortigas, several tenants opened its doors in the first half of 2019. The stand-alone pocket retail development in Ortigas Avenue, San Juan City, is currently fully leased out with 2,062 square meters of gross leasable area.

Meanwhile, eWestMall, the retail component of mixed-use Eton WestEnd Square in Makati City, was completed with several tenants slated to open before the end of the year. Likewise, eWestPod, the office component is fully leased out. Blakes Tower, the 36-storey office and residential building was topped off in the first half of 2019. Once completed, Eton WestEnd Square will have over 23,800 square meters of combined retail and office space and over 13,900 square meters of residential area.

In Eton City in Sta. Rosa, Laguna, construction is on-going at Eton City Square 1, the neighborhood retail and commercial center. Once completed, it will have 6,500 square meters of gross leasable area. Construction is also underway for NXTower I, an office building located between Emerald Avenue and Ruby Road in Ortigas Center, which will offer 21,000 square meters of gross leasable area.

As of end-June 2019, Eton had a leasing portfolio of around 181,000 square meters of office space and over 39,000 square meters of retail space.

### **Asia Brewery, Inc. (ABI)**

ABI's bottom line for the first half of 2019 was Php244 million, 12% or Php26 million higher than the Php218 million reported for 1H18.

Revenues were at Php8.10 billion, 10% or Php762 million higher than 1H18's Php7.33 billion due to higher revenues from energy drinks, bottled water and soymilk.

Overall GPM was 28% from 27% primarily as a result of product mix. Operating expenses were 12% higher as the Company spent more on advertising and promotions.

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 70%. Cobra was able to post a growth in volume in 1H19, a reversal from the drop in FY2018 due to the impact of the price increase to pass on the tax on sugary drinks.

Our bottled water brands, Absolute and Summit, reported strong sales. Market share is at 26%, the second largest in this segment. Water accounted for 27% of revenues. The new plant in Pampanga started commercial operations in May.

ABI started selling Vitamilk in returnable glass bottles in 1Q17. Our market share is over 70% and sales in this category continue to grow by double-digit. Soymilk contributed 11% of total revenues.

The packaging business' revenues were 2% lower y-o-y and accounted for 16% of revenues. Revenues were lower as more of the production capacity was earmarked for internal use for Cobra and Vitamilk bottles. ABI supplies the glass bottle and other packaging requirements of TDI and ABI and also sells to third parties.

**LT GROUP, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Amounts in Thousands)

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	P203,248,633	P176,496,004
Financial assets at fair value through profit or loss	27,662,409	10,783,021
Financial assets at fair value through other comprehensive income (FVTOCI)	17,441,722	9,256,885
Financial assets at amortized cost	21,735,515	—
Loans and receivables	170,823,234	245,934,405
Inventories	13,203,688	13,108,204
Due from related parties	2,028,632	2,028,632
Other current assets	10,697,590	9,105,700
	466,841,423	466,712,851
Assets of disposal group classified as held for sale	7,606,647	8,238,623
<b>Total Current Assets</b>	<b>474,448,070</b>	<b>474,951,474</b>
<b>Noncurrent Assets</b>		
Loans and receivables - net of current portion	437,550,430	347,753,938
Financial assets at FVTOCI	89,060,237	48,094,583
Financial assets at amortized cost	72,714,858	99,772,711
Investment in associates and joint ventures	21,584,194	20,314,141
Property, plant and equipment:		
At appraised values	60,416,289	60,317,761
At cost	9,455,138	7,802,933
Investment properties	30,383,595	30,318,901
Deferred income tax assets	1,864,769	1,899,044
Other noncurrent assets	7,342,568	6,551,322
<b>Total Noncurrent Assets</b>	<b>730,372,078</b>	<b>622,825,334</b>
<b>TOTAL ASSETS</b>	<b>P1,204,820,148</b>	<b>P1,097,776,808</b>

**LIABILITIES AND EQUITY**

<b>Current Liabilities</b>		
Deposit liabilities	P715,347,972	P672,342,296
Financial liabilities at fair value through profit or loss	206,149	470,648
Bills and acceptances payable	67,152,909	60,549,245
Accounts payable and accrued expenses	25,257,531	22,516,482
Income tax payable	736,321	1,012,898
Short-term debts	2,050,000	2,050,000
Current portion of long-term debts	278,285	90,829
Due to related parties	80,199	80,199
Other current liabilities	11,112,469	8,616,177
	822,221,835	767,728,774
Liabilities of disposal group classified as held for sale	6,557,207	7,237,811
<b>Total Current Liabilities (Carried Forward)</b>	<b>828,779,042</b>	<b>774,966,585</b>

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
<b>Total Current Liabilities (Brought Forward)</b>	<b>₱828,779,042</b>	<b>₱774,966,585</b>
<b>Noncurrent Liabilities</b>		
Deposit liabilities - net of current portion	43,063,147	47,219,123
Bills and acceptances payable	5,526,577	9,533,590
Long-term debts - net of current portion	69,931,368	18,555,324
Net retirement benefits liability	1,327,618	1,636,201
Deferred income tax liabilities	8,697,420	8,811,004
Other noncurrent liabilities	5,240,058	5,864,593
<b>Total Noncurrent Liabilities</b>	<b>133,786,188</b>	<b>91,619,835</b>
<b>Total Liabilities</b>	<b>962,565,230</b>	<b>866,586,420</b>
<b>Equity</b>		
Attributable to equity holders of the Company (Notes 1 and 28):		
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
Reserves of disposal group classified as held for sale	(21,893)	(21,893)
Other comprehensive income, net of deferred income tax effect	16,825,425	15,410,482
Retained earnings	98,372,691	91,998,914
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	180,755,419	172,966,699
Non-controlling interests	61,499,499	58,223,689
<b>Total Equity</b>	<b>242,254,918</b>	<b>231,190,388</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱1,204,820,148</b>	<b>₱1,097,776,808</b>

**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 Ended June 30	
	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>REVENUE</b>				
Banking	P26,868,035	P18,724,379	P13,949,833	P9,506,306
Beverage	7,599,681	6,760,126	3,998,212	3,654,144
Distilled spirits	9,507,002	8,828,795	4,781,800	4,606,151
Property development	1,392,551	1,213,140	746,751	634,601
	45,367,269	35,526,440	23,476,596	18,401,202
<b>COST OF SALES AND SERVICES</b>	<b>22,908,813</b>	<b>16,357,593</b>	<b>12,130,466</b>	<b>8,692,490</b>
<b>GROSS INCOME</b>	<b>22,458,456</b>	<b>19,168,847</b>	<b>11,346,130</b>	<b>9,708,712</b>
<b>EQUITY IN NET EARNINGS OF ASSOCIATES</b>	<b>5,389,331</b>	<b>4,461,903</b>	<b>2,872,809</b>	<b>2,293,692</b>
	27,847,787	23,630,750	14,218,939	12,002,404
<b>OPERATING EXPENSES</b>				
Selling expenses	1,505,703	1,303,070	809,764	667,428
General and administrative expenses	15,253,594	14,341,468	7,728,040	7,918,664
	16,759,297	15,644,538	8,537,804	8,586,092
<b>OPERATING INCOME</b>	<b>11,088,490</b>	<b>7,986,212</b>	<b>5,681,135</b>	<b>3,416,312</b>
<b>OTHER INCOME (CHARGES)</b>				
Finance costs	(125,738)	(50,407)	(62,410)	(20,400)
Finance income	76,058	53,262	39,837	29,920
Foreign exchange gains - net	633,954	828,368	458,821	807,266
Others - net	1,203,373	5,506,976	580,428	4,837,749
	1,787,647	6,338,199	1,016,676	5,654,535
<b>INCOME BEFORE INCOME TAX</b>	<b>12,876,137</b>	<b>14,324,411</b>	<b>6,697,811</b>	<b>9,070,847</b>
<b>PROVISION FOR INCOME TAX</b>				
Current	1,895,641	2,629,742	975,772	1,881,108
Deferred	(46,998)	(8,742)	(10,138)	(30,101)
	1,848,643	2,621,000	965,634	1,851,007
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>11,027,494</b>	<b>11,703,411</b>	<b>5,732,177</b>	<b>7,219,840</b>
<b>NET INCOME FROM DISCONTINUED OPERATIONS</b>	<b>34,600</b>	<b>(290,460)</b>	<b>25,881</b>	<b>(113,300)</b>
<b>NET INCOME</b>	<b>P11,062,094</b>	<b>P11,412,951</b>	<b>P5,758,058</b>	<b>P7,106,540</b>
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Equity holders of the Company	P9,237,145	P8,963,127	P4,815,431	P5,332,599
Non-controlling interests	1,824,949	2,449,824	942,627	1,773,941
	P11,062,094	P11,412,951	P5,758,058	P7,106,540
<b>Basic/Diluted Earnings Per Share</b>	<b>P0.85</b>	<b>P0.83</b>	<b>P0.44</b>	<b>P0.49</b>