



LT GROUP, INC.

President's Report Full Year 2018

LT Group, Inc.'s (LTG) audited attributable net income for 2018 amounted to Php16.19 billion, 50% or Php5.36 billion more than the Php10.83 billion reported for 2017.

The tobacco business contributed Php8.72 billion or 54% of total attributable income, followed by Philippine National Bank (PNB) with Php5.47 billion or 33%. Tanduay Distillers, Inc. (TDI) accounted for Php890 million or 5%. Eton Properties Philippines, Inc. (Eton) added Php479 million while Asia Brewery, Inc. (ABI) provided Php421 million, each accounting for 3% of total. The 30.9% stake in Victorias Milling Company, Inc. (VMC) added Php247 million, or 2% of total.

LTG's balance sheet remains strong. As of the end of December 2018, the cash balance of the parent company stood at Php1.47 billion. Debt-to-Equity Ratio was at 3.75:1 with the Bank, and at 0.14:1 without the Bank.

Tobacco

The volume of the industry has been declining since the substantial increase in excise taxes was implemented under Republic Act (RA) 10351 starting 2013 and the current RA 10963 starting 2018. 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 excise tax is currently at Php35 per pack, or about 3x to 13x in seven years. This resulted in higher selling prices, which has adversely affected volume. 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. Continual price increases to pass on higher excise taxes may result in a further drop in industry volumes.

For PMFTC Inc. (PMFTC), its sales volume has also declined with the substantial increase in excise taxes, exacerbated by the illicit trade which thrived from 2013 until the government took drastic actions in 2017. From 92.7 billion sticks in 2012, the Company's volume has declined 45% over a six-year period.

We commend the Government for its efforts against the illicit trade which includes smuggled and locally produced products, and for taking this problem seriously. The number of raids by the Government 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 make it attractive to make profits from the illicit trade.

With the government keeping the illicit trade in check, PMFTC is currently operating in a level playing field and has enabled the Company to pass on taxes and no longer price our products at economically unsustainable levels.

PMFTC was able to gain some market share in 2018 to 69.9%, compared to 67.6% in 2017, and post a modest 1.1% growth in volume to 51.2 billion sticks from 50.6 billion sticks in 2017. PMFTC implemented higher selling prices in November 2017 for the mid and low-end brands and in January 2018 for premium Marlboro. A price increase was implemented for mid-priced Fortune in December 2018. LTG's equity in net earnings from its 49.6% stake in PMFTC amounted to Php8.46 billion in 2018.

Fortune Tobacco Corporation, which is the holding company for LTG's stake in PMFTC, reported an income of Php8.75 billion for 2018.

Philippine National Bank (PNB)

PNB's net income under the pooling method was Php9.78 billion for 2018, 14% higher than 2017's Php8.56 billion. Both years included gains from the sale of Real and Other Properties Acquired (ROPA), at Php3.85 billion, net of taxes, in 2018 and Php2.71 billion in 2017. Excluding the ROPA gain, the Bank's income was at Php5.93 billion in 2018, compared to 2017's Php5.85 billion.

Net Interest Income was 23% higher at Php27.00 billion from Php22.02 billion as loans and receivables grew by 16% year-on-year (y-o-y) to Php581 billion, and Net Interest Margin improved to 3.2% from 3.1%. Loan to Deposit Ratio (LDR) was at 78.6% as of December 2018 compared to 75.9% as of end-2017 as deposits increased at a slower pace than loans at 15% y-o-y to Php733 billion.

Net Service Fees and Commission Income increased by 9% to Php3.48 billion from Php3.20 billion due to higher deposit, credit, interchange and bancassurance fees. Trading and Foreign Exchange Gains declined by 51% to Php1.09 billion from Php2.24 billion.

Operating Expenses, excluding ROPA sale-related items, were 16% higher at Php24.89 billion from Php21.47 billion with the higher provisioning for probable credit losses of Php1.74 billion compared to Php884 million in 2017, the Php700 million increase of documentary tax stamps under the Tax Reform for Acceleration and Inclusion (TRAIN) to Php1.57 billion from Php869 million, as well as higher gross receipts tax (GRT) to Php414 million from Php123 million. The Bank also booked higher depreciation expenses from the new core banking system which the Bank migrated to in 3Q17.

Net Non-Performing Loans (NPL) ratio was at 0.3%, flat compared to end-2017. NPL cover stood at 157% compared to 131% as of end-2017.

Tanduay Distillers, Inc. (TDI)

TDI's net income for 2018 amounted to Php909million, 44% or Php278 million more than the Php631 million reported for 2017.

Total revenues were Php18.13 billion, 8% or Php1.34 billion higher than 2017's Php16.79 billion. Revenues from liquor were 7% higher y-o-y to Php16.20 billion from Php15.19 billion with the 3% growth in volume, as well as higher selling prices to pass on the increase in excise taxes. Meanwhile, revenues from bioethanol were 21% higher at Php1.94 billion from Php1.60 billion on the back of an 18% increase in volume.

TDI's nationwide market share for distilled spirits was at 27.3% as of December 2018, higher than end-2017's 24.8%. The Company enjoys a bigger share in the Visayas and Mindanao regions where most of TDI's sales are generated. In the Visayas, TDI's market share was at 63.6% as of end-2018, compared to 60.5% as of end-2017. In Mindanao, market share stood at 69.1% compared to 64.8% for the same periods.

GPM improved to 18% from 16% due to improved margins for liquor and bioethanol. The Company was able to increase prices in early 2018 to pass on the additional excise taxes, while alcohol costs were slightly lower. Operating expenses were 11% higher as more was spent on advertising and selling expenses.

Eton Properties Philippines, Inc. (Eton)

Eton Properties ended the year with a net income of Php479 million, 38% higher than the Php348 million recorded in 2017.

Revenues were 43% higher y-o-y to Php3.20 billion from Php2.23 billion as leasing revenues were 8% more at Php1.50 billion while sales from residential units increased by 102% to Php1.70 billion.

Eton completed the construction of Eton Square Ortigas, a stand-alone pocket retail development, adding 2,000 square meters of gross leasable area to its commercial leasing portfolio. It is currently fully leased out with all tenants lined up for opening within the first half of 2019.

Moreover, eWestMall and eWestPod, the retail and office components of the township development Eton WestEnd Square in Makati, is nearing its completion. The mixed-use development has 16,000 square meters of combined retail and office space targeted for completion by the end of 2019.

In Centris Walk at Eton Centris, Quezon City, new restaurants and specialty stores opened its doors in 2018. Likewise, Cyberpod Five, the Company's fifth office building in Eton Centris is almost complete. It has a total gross leasable area of 43,000 square meters.

Meanwhile, construction is on-going for Eton City Square, the neighborhood mall destination in Eton City, Sta. Rosa, Laguna. The 3.7 hectare pocket retail development features 7,000 square meters of gross leasable area. Construction is also underway for NXTower I, the Company's office building located between Emerald Avenue and Ruby Road in Ortigas. Once completed within 2021, it will have 21,000 square meters of gross leasable area.

Eton currently has a leasing portfolio of 125,000 square meters of office space and over 39,000 square meters of commercial space.

Asia Brewery, Inc. (ABI)

ABI's earnings for 2018 was at Php421 million, 24% lower than the Php552 million reported for 2017.

Revenues were at Php15.10 billion, 9% higher than 2017's Php13.89 billion due to higher revenues from packaging, energy drinks, bottled water and soymilk.

Overall Gross Profit Margin (GPM) declined to 27% from 31% as a result of product mix, as well as higher costs attributed to the sugar tax and depreciation of the Peso. Operating expenses were 2% lower y-o-y largely due to lower advertising expenses.

Cobra energy drink continues to account for the largest share of revenues. It remains the market leader with a share of 75%. However, volume dropped 14% 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 increase in revenues from Cobra despite the lower volume.

The sales volume of Absolute and Summit, our bottled water brands, increased by 13% y-o-y. Our market share is at 27%, the second largest in this segment.

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.

The packaging business' revenues were 37% higher y-o-y. ABI supplies the glass bottle and other packaging requirements of TDI and ABI and also sells to third parties.

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

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	₱176,496,004	₱174,024,418
Financial assets at fair value through profit or loss (FVTPL)	10,783,021	6,518,419
Financial assets at fair value through other comprehensive income (FVTOCI)	9,256,885	—
Available-for-sale (AFS) investments	—	2,544,589
Loans and receivables	245,934,405	204,622,577
Inventories	13,108,204	13,365,089
Due from related parties	2,028,632	2,028,625
Other current assets	9,105,700	12,471,592
	466,712,851	415,575,309
Assets of disposal group classified as held for sale	8,238,623	—
Total Current Assets	474,951,474	415,575,309
Noncurrent Assets		
Loans and receivables - net of current portion	347,753,938	307,622,788
Financial assets at FVTOCI	48,094,583	—
AFS investments	—	70,664,823
Financial assets at amortized cost	99,772,711	—
Held-to-maturity investments	—	26,732,182
Investments in associates and joint ventures	20,314,141	17,230,925
Property, plant and equipment:		
At appraised values	60,317,761	36,214,947
At cost	7,802,933	6,990,286
Investment properties	30,318,901	28,890,793
Deferred income tax assets – net	1,899,044	1,460,889
Other noncurrent assets	6,551,322	5,712,747
Total Noncurrent Assets	622,825,334	501,520,380
TOTAL ASSETS	₱1,097,776,808	₱917,095,689
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities	₱672,342,296	₱588,394,301
Financial liabilities at FVTPL	470,648	343,522
Bills and acceptances payable	60,549,245	36,634,337
Accounts payable and accrued expenses	22,516,482	22,023,972
Income tax payable	1,012,898	1,113,799
Short-term debts	2,050,000	1,550,000
Current portion of long-term debts	90,829	114,681
Due to related parties	80,199	56,842
Other current liabilities	8,616,177	15,166,369
	767,728,774	665,397,823
Liabilities of disposal group classified as held for sale	7,237,811	—
Total Current Liabilities (Carried Forward)	774,966,585	665,397,823

	December 31	
	2018	2017
Total Current Liabilities (Brought Forward)	₱774,966,585	₱665,397,823
Noncurrent Liabilities		
Deposit liabilities - net of current portion	47,219,123	39,286,226
Bills and acceptances payable	9,533,590	7,282,350
Long-term debts - net of current portion	18,555,324	1,475,466
Net retirement benefits liability	1,636,201	2,205,229
Deferred income tax liabilities - net	8,811,004	1,414,348
Other noncurrent liabilities	5,864,593	4,718,832
Total Noncurrent Liabilities	91,619,835	56,382,451
Total Liabilities	866,586,420	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
Reserves of disposal group classified as held for sale	(21,893)	—
Other comprehensive income, net of deferred income tax effect	15,410,482	4,299,674
Retained earnings	91,998,914	78,435,633
Shares of stock of the Company held by subsidiaries	(12,519)	(12,519)
	172,966,699	148,314,503
Non-controlling interests	58,223,689	47,000,912
Total Equity	231,190,388	195,315,415
TOTAL LIABILITIES AND EQUITY	₱1,097,776,808	₱917,095,689

LT GROUP, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Years Ended December 31		
	2018	2017	2016
REVENUE			
Banking	P40,172,558	P31,840,282	P29,142,262
Distilled spirits	18,062,573	16,704,933	14,904,343
Beverage	14,125,559	12,948,796	10,932,326
Property development	3,198,735	2,233,063	2,851,514
	75,559,425	63,727,074	57,830,445
COST OF SALES AND SERVICES	35,965,402	29,679,810	26,126,881
GROSS INCOME	39,594,023	34,047,264	31,703,564
EQUITY IN NET EARNINGS OF ASSOCIATES	7,966,691	3,963,505	2,785,845
	47,560,714	38,010,769	34,489,409
OPERATING EXPENSES			
Selling expenses	2,700,387	2,692,425	2,351,522
General and administrative expenses	28,302,277	24,380,465	25,037,148
	31,002,664	27,072,890	27,388,670
OPERATING INCOME	16,558,050	10,937,879	7,100,739
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	1,090,891	1,703,858	1,533,701
Finance income	206,641	157,100	106,426
Finance costs	(145,457)	(141,937)	(202,490)
Others - net	7,837,908	5,343,160	4,323,812
	8,989,983	7,062,181	5,761,449
INCOME BEFORE INCOME TAX	25,548,033	18,000,060	12,862,188
PROVISION FOR (BENEFIT FROM) INCOME TAX			
Current	4,785,686	3,605,838	2,523,314
Deferred	(15,886)	(116,061)	(356,545)
	4,769,800	3,489,777	2,166,769
NET INCOME FROM CONTINUING OPERATIONS	20,778,233	14,510,283	10,695,419
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(219,972)	70,373	1,393,737
NET INCOME	P20,558,261	P14,580,656	P12,089,156

(Forward)

	Years Ended December 31		
	2018	2017	2016
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	P16,194,778	P10,830,773	P9,390,407
Non-controlling interests	4,363,483	3,749,883	2,698,749
	P20,558,261	P14,580,656	P12,089,156
Basic/Diluted Earnings Per Share			
Attributable to Equity Holders of the Company	P1.50	P1.00	P0.87
Basic/Diluted Earnings Per Share			
Attributable to Equity Holders of the Company from Continuing Operations	P1.48	P1.00	P0.86