LT GROUP, INC.

President's Report

Full Year 2016

LT Group, Inc.'s (LTG) audited attributable net income for full-year 2016 reached Php9.39 billion, a 42% increase over the Php6.60 billion reported for full-year 2015.

In 2016, Philippine National Bank (PNB) reported a net income of Php7.38 under the pooling method, with LTG's share at Php4.14 billion. As part of PNB's income included a Php1.28 billion gain from the sale of property to Eton Properties Philippines, Inc. (Eton) in 1Q16, LTG's share of the gain at Php725 million was eliminated. This brought PNB's net contribution to LTG to Php3.42 billion, or 36% of LTG's attributable income. In 2015, PNB's attributable income contribution to LTG was at Php3.51 billion, from the Php3.72 billion share in PNB's income less LTG's share in the gain from the sale of a property to Eton of Php208 million.

The tobacco business contributed Php2.58 billion or 27% of total, followed by Asia Brewery, Inc. (ABI) at Php1.75 billion or 19%. Tanduay Distillers, Inc. (TDI) added Php908 million or 10%, and Eton generated Php388 million or 4%. Equity in net earnings from Victorias Milling Company, Inc. (VMC) amounted to Php142 million, or 2% of total.

LTG's balance sheet remains strong. As of end-December 2016, the parent company's cash balance was at Php1.9 billion. Debt-to-Equity Ratio was at 3.64:1 with the Bank, and at 0.15:1 without the Bank.

On March 14, 2017, the Board of Directors approved a cash dividend of Php0.18 per share, or a total of Php1.95 billion, equivalent to a 20.7% pay-out rate on 2016's attributable net income.

Philippine National Bank (PNB)

PNB reported a net income of Php7.38 billion for 2016, under the pooling method, a 9% growth from the Php6.77 billion reported in 2015.

Net Interest Income grew by 11% or Php1.92 billion to Php19.55 billion as loans and receivables grew by 17% year-on-year (y-o-y) to Php428 billion, while Net Interest Margin was flat at 3.1%. Loans to Deposit Ratio (LDR) was at 73.3% as of end-December 2016, slightly lower than the 74.0% as of end-2015, as deposits grew at a slightly faster pace.

Net Service Fees and Commission Income dropped by 26% to Php2.66 billion from Php3.60 billion. Service Fee Income was 17% lower largely due to lower deposit-related fees, while Service Fee Expenses were 28% higher.

Other Income grew by 65% to Php9.29 billion from Php5.62 billion. Trading and Foreign Exchange Gains were 60% higher to Php2.87 billion. On the other hand, Others of Other Income was Php2.60 billion higher to Php6.43 billion with the gain from the sale of Real and Other Properties Acquired (ROPA) and re-measurement gain from the Bank's stake in Allianz PNB Life Insurance, Inc.

The Bank also booked a gain of Php496 million from the sale of the 51% stake in the life insurance business to Allianz. This is part of the income from discontinued operations of the Bank.

PNB continues to sell its ROPAs. In 2016, the Bank sold Php866 million (book value), and booked a gain of Php2.56 billion. This included a lot sold to Eton in 1Q16 for Php1.9 billion, which enabled the Bank to book a gain of Php1.3 billion. ROPA as of end 2016 stood at Php10.12 billion, from Php11.8 billion as of end 2015.

Operating Expenses were 23% higher at Php23.22 billion from Php18.89 billion in 2015. These include the reversal of probable losses. In 2016, there was a Php234 million reversal for the Peace Bonds while 2015 included a reversal of Php974 million from the National Steel Corporation case. Without the reversals, Operating Expenses for 2016 would be 18% higher than 2015, due to 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.

The Bank's asset quality continued to improve as Net Non-Performing Loans (NPL) ratio was at 0.2% while NPL cover stood at 133% as of end-2016, compared to 0.3% and 126%, respectively as of end-2015.

Tobacco

Income from the tobacco business amounted to Php2.59 billion in 2016, Php1.55 billion or 149% more than the Php1.04 billion reported in 2015.

Equity in net earnings from the 49.6% stake in PMFTC, Inc. (PMFTC) reached Php2.59 billion in 2016, significantly higher than the Php975 million of the previous year.

The higher earnings were mainly attributed to the change in the mix of PMFTC's sales, with Marlboro accounting for 40% of total volume, compared to 27% in 2015. The volume of premium Marlboro was 25% higher y-o-y, as customers continued to trade up with the narrowing of price gaps.

The total industry's volume was estimated to have declined by 12% y-o-y, while PMFTC's shipment volume was 15% lower y-o-y. The decrease in volume was due to the impact of price increases in the fourth quarter of 2015 and 2016. From only Php0.50 per stick in 2012, the recommended retail price of cigarettes in the super-low segment has increased to Php2 to Php2.25.

PMFTC's market share was estimated at 71% for full-year 2016, from 73% in 2015.

There was a price increase in November 2016, with PMFTC raising the price of Marlboro for the first time since January 2013. This increased the recommended retail price per stick from Php3.00 to Php3.50.

Recently, there have been news reports of raids by the Bureau of Customs and the Bureau of Internal Revenue on warehouses and malls with cigarettes with fake stamps, as well as factories producing illicit cigarettes. Two of the latest reports are on a raid in four warehouses in Pampanga and General Santos City where Mighty brand cigarettes with fake stamps were found, as well as in containers from a ship that docked in Tacloban and Cebu. The Secretary of Finance has said that they "are now busy gathering evidence for submission to the Department of Justice, preparatory to the government's filing of an airtight case against Mighty Corporation for tax evasion and other possible charges."

The Bureau of Customs has also suspended the customs accreditation of Mighty Corporation. A customs accreditation allows a company to legitimately import products from abroad to the Philippines.

Asia Brewery, Inc. (ABI)

ABI's earnings amounted Php1.76 billion in 2016, Php656 million or 60% higher than the income disclosed in 2015. This is inclusive of the Php594 million extraordinary income arising from the gain from the revaluation of the beer assets. Excluding the extraordinary income, ABI's net income would have settled at Php1.16 billion, a 6% increase over 2015's net income of Php1.10 billion.

In May 2016, ABI disclosed that it would form a joint venture with Heineken for the beer business. This was formalized in November, and the beer and alcopop businesses were transferred to AB Heineken, Inc., the joint venture company.

Excluding the beer and alcopop business, ABI's revenues were 4% higher y-o-y in 2016, at Php11.85 billion from Php11.40 billion in 2015. Higher revenues from bottled water were partially offset by lower revenues from packaging, specifically commercial bottles, as some of the Company's capacity was utilized in producing returnable glass bottles for the soymilk business. Revenues from energy drinks, which contributes the most to revenues, were flat.

Overall Gross Profit Margin (GPM) was at 34%, slightly lower than the 35% in 2015 as a result of product mix. Operating expenses were 12% higher y-o-y as the Company spent more on marketing expenses.

Cobra, our energy drink, continues to account for the largest portion of revenues at 42%. It remains the market leader with a market share of over 70%. Cobra's volume in 2016 was flat, as stiff competition in the carbonated beverage market continued.

Absolute and Summit, our bottled water brands, continued to sustain strong sales with volume 15% higher y-o-y. The expansion in our Laguna plant was completed in June, and after commissioning, started commercial operations in mid-September. We have the second largest market share in this segment, at 25% as of end-December 2016. Water contributed 26% to ABI's revenues.

Vitamilk, the soymilk brand under an exclusive distributorship agreement with Green Spot, continues to post sales growth and enjoy a market share of over 80%. Our plant has been completed, and we started distributing the beverage in returnable glass bottles in 1Q17.

The packaging business accounted for 18% of revenues in 2016. Aside from supplying the glass bottle requirements of its beverage business and TDI, ABI also sells to other third parties.

Tanduay Distillers, Inc. (TDI)

TDI's earnings for full-year 2016 rose to Php908 million, more than double the Php422 million generated in 2015.

Revenues increased by 24% to Php15.01 billion from Php12.12 billion in 2015 due to the start of bioethanol's contribution in 2016. Revenues from liquor grew by 4% y-o-y to Php12.33 billion.

TDI started selling bioethanol to fuel companies in 2016. Revenues from the sale of bioethanol amounted to Php2.24 billion for 2016. TDI has two distilleries, Absolut Distillers, Inc. and Asian Alcohol Corporation. These distilleries supply some of the alcohol requirements of TDI, aside from selling bioethanol.

The sales volume of liquor had a slight increase of 2%, with the growth coming from its flagship product, Tanduay Rhum Five Years. TDI's market share based on Nielsen's customer off-take on volume was at 23% as of the end of 2016, a slight decline from the 24% as of end-2015.

Most of Tanduay's sales are generated in the Visayas and Mindanao areas, where our market share stood at 59% and 62%, respectively, as of December 2016. We lost some market share in Visayas from 61% in December 2015, but we improved our share in Mindanao from 56%, thereby improving our Visayas-Mindanao share to 60% by December 2016 from 58% in end-2015.

TDI's GPM dropped to 18% in 2016 from 19% in 2015, due to lower margins for liquor. Higher prices of alcohol were not passed on by the price increase in December 2015 that primarily covered the increase in excise tax starting January 1, 2016.

Eton Properties Philippines, Inc. (Eton)

Eton reported a net income of Php390 million for 2016, 25% higher than the Php313 million reported a year ago.

Total revenues increased by 14% to Php2.83 billion. Revenues from leasing operations increased by 9% brought about by higher lease rates at the fully-leased out BPO office buildings with a gross leasable area (GLA) of about 124,000 square meters. Revenues from the sale of residential units were 18% higher than 2015 primarily due to the percentage completion of previously sold units.

Eton broke ground on the fifth BPO office tower at Eton Centris in Quezon City in August. It will have a GLA of around 37,000 square meters and is expected to be completed by end-2018. Moreover, the 5,000 square meter expansion of the retail space at Centris Walk in Eton Centris which commenced in April 2016 is targeted to be completed by mid-2017.

In the second quarter, Eton also broke ground on Eton WestEnd Square, a mixed-use development along Pasong Tamo, Makati. It will have about 15,000 square meters of GLA for retail and office use, as well as a 44-storey residential component. The office and retail components are targeted to be completed by end-2019.

LT GROUP, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	**₱174,676,789**	₱137,556,341
Financial assets at fair value through profit or loss	**6,441,511**	9,663,734
Available for sale investments	**8,473,221**	2,915,170
Loans and receivables	**189,812,938**	172,140,625
Due from related parties	**1,922,467**	1,593,034
Inventories	**12,849,799**	14,024,047
Other current assets	**10,600,399**	8,841,923
	404,777,124	346,734,874
Assets of disposal group classified as held for sale	**–**	23,526,757
Total Current Assets	**404,777,124**	370,261,631
Noncurrent Assets		
Loans and receivables - net of current portion	**248,621,351**	206,782,709
AFS investments	**60,128,678**	66,649,517
Held to maturity investments	**24,102,594**	23,096,473
Investments in associates and a joint venture	**16,817,351**	11,761,290
Property, plant and equipment:		
At appraised values	**36,104,048**	39,538,145
At cost	**5,170,574**	5,299,731
Investment properties	**28,217,373**	22,231,525
Deferred income tax assets	**1,424,159**	551,237
Other noncurrent assets	**3,727,772**	3,380,244
Total Noncurrent Assets	**424,313,900**	379,290,871
TOTAL ASSETS	**₱829,091,024**	₱749,552,502
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities	**₱515,554,099**	₱436,362,854
Financial liabilities at fair value through profit or loss	**232,832**	126,075
Bills and acceptances payable	**25,068,268**	5,836,839
Accounts payable and accrued expenses	**17,291,277**	17,079,820
Income tax payable	**282,025**	294,581
Short-term and long-term debts – current	**2,216,946**	1,876,015
Due to related parties	**57,054**	46,770
Other current liabilities	**17,364,001**	13,249,643
	578,066,052	474,872,597
Liabilities of disposal group classified as held for sale	**–**	21,452,621
Total Current Liabilities (Carried Forward)	**578,066,502**	496,325,218

	December 31	
	2016	2015
Total Current Liabilities (Brought Forward)	**₱578,066,502**	₱496,325,218
Noncurrent Liabilities		
Deposit liabilities - net of current portion	**45,866,133**	39,793,338
Financial liabilities at fair value through profit or loss	**–**	9,118
Bills and acceptances payable	**10,817,679**	19,915,383
Long-term debts - net of current portion	**5,101,801**	10,706,431
Accrued retirement benefits	**3,831,620**	3,900,926
Deferred income tax liabilities	**1,323,121**	1,182,976
Other noncurrent liabilities	**5,479,592**	7,961,017
Total Noncurrent Liabilities	**72,419,946**	83,469,189
Total Liabilities	**650,486,448**	579,794,407
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	**–**	335,000
Other comprehensive income, net of deferred income tax effect	**1,878,006**	3,116,572
Retained earnings	**68,640,783**	59,855,195
Shares of the Company held by subsidiaries	**(12,519)**	(22,464)
	136,097,985	128,876,018
Non-controlling interests	**42,506,591**	40,882,077
Total Equity	**178,604,576**	169,758,095
TOTAL LIABILITIES AND EQUITY	**₱829,091,024**	₱749,552,502

LT GROUP, INC.
AND SUBSIDIARIES

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

	Years Ended December 31		
	2016	2015 (As represented)	2014 (As restated)
REVENUE			
Banking	**₱29,111,818**	₱26,600,160	₱24,210,181
Beverage	**10,932,326**	10,386,308	9,877,681
Distilled spirits	**14,904,343**	12,002,266	11,919,131
Property development	**2,851,514**	2,484,453	2,278,600
	57,800,001	51,473,187	48,285,593
COST OF SALES AND SERVICES	**26,126,881**	22,002,882	21,632,083
GROSS INCOME	**31,673,120**	29,470,305	26,653,510
EQUITY IN NET EARNINGS OF ASSOCIATES	**2,711,540**	1,188,974	894,555
	34,384,660	30,659,279	27,548,065
OPERATING EXPENSES			
Selling expenses	**2,351,522**	2,202,441	2,398,394
General and administrative expenses	**25,563,084**	21,156,533	20,994,127
	27,914,606	23,358,974	23,392,521
OPERATING INCOME	**6,470,054**	7,300,305	4,155,544
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	**1,535,217**	1,322,400	1,347,704
Finance costs	**(202,490)**	(202,518)	(454,855)
Finance income	**106,426**	110,376	119,041
Others - net	**5,026,447**	3,686,974	3,789,576
	6,465,600	4,917,232	4,801,466
INCOME BEFORE INCOME TAX	**12,935,654**	12,217,537	8,957,010
PROVISION FOR INCOME TAX			
Current	**2,535,861**	2,490,527	2,266,825
Deferred	**(361,393)**	238,292	409,818
	2,174,468	2,728,819	2,676,643
NET INCOME FROM CONTINUING OPERATIONS	**10,761,186**	9,488,718	6,280,367
NET INCOME FROM DISCONTINUED OPERATIONS	**1,327,970**	7,936	191,840
NET INCOME	**₱12,089,156**	₱9,496,654	₱6,472,207

(Forward)

	Years Ended December 31		
	2016	2015	2014 (As restated)
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱9,390,407**	₱6,599,035	₱4,410,230
Non-controlling interests	**2,698,749**	2,897,619	2,061,977
	₱12,089,156	₱9,496,654	₱6,472,207
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company	₱0.87	₱0.61	₱0.41
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company from Continuing Operations	₱0.86	₱0.58	₱0.39