



## **President's Report**

### **First Quarter 2017**

LT Group, Inc.'s (LTG) unaudited attributable net income for the first quarter of 2017 amounted to Php2.25 billion, flat compared to the Php2.23 billion reported in 1Q16.

The tobacco business contributed Php1.00 billion or 45% of total attributable income, followed by Philippine National Bank (PNB) at Php699 million or 31%. Tanduay Distillers, Inc. generated Php207 million or 9%, while Asia Brewery, Inc. (ABI) added Php151 million or 7%. Eton Properties Philippines, Inc. (Eton) provided Php75 million or 3%. Equity in net earnings from the 30.17% stake in Victorias Milling Company, Inc. (VMC) amounted to Php116 million or 5% of total.

LTG's balance sheet remains strong. As of end-March 2017, the parent company's cash balance was at Php3.84 billion. Debt-to-Equity Ratio was at 3.78:1 with the Bank, and at 0.17:1 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.

#### **Tobacco**

The tobacco business generated an income of Php1.00 billion in 1Q17, Php52 million or 5% more than the Php949 million generated in the first three months of 2016.

Equity in net earnings from the 49.6% stake in PMFTC, Inc. (PMFTC) amounted to Php1.03 billion, 12% more than the Php913 million in 1Q16.

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 16% year-on-year (y-o-y) in 1Q17, while PMFTC's shipment volume was 24% lower y-o-y. PMFTC's volume decline was due to the impact of price increases in 4Q16, and as our main competitor raised prices only two months later.

Premium Marlboro accounted for 49% of PMFTC's total volume in 1Q17, with sales volume of the brand the same as 1Q16. PMFTC's market share was estimated at 66.1% in 1Q17, from 73.7% in 1Q16.

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

PNB reported an income of Php1.27 billion for the first quarter of 2017, under the pooling method. This is Php1.30 billion or 51% lower than the Php2.57 billion reported for the first three months of 2016, which included a Php1.48 billion gain from the sale of Real and Other Properties Acquired (ROPA).

Net Interest Income grew by Php499 million or 11% to Php5.15 billion as loans and receivables were 19% higher year-on-year (y-o-y) to Php432 billion, while Net Interest Margin was slightly lower at 3.0% from 3.1%. Loans to Deposit Ratio (LDR) was at 72% as of end-March 2017, slightly higher than end-March 2016's 72%, but lower than end-2016's 73% as deposits grew at a slightly faster pace.

Net Service Fees and Commission Income declined by 16% to Php709 million from Php846 million, largely due to lower deposit-related fees.

Other Income dropped by 66% to Php1.10 billion from Php3.20 billion in 1Q16, as gains from the sale of ROPA declined to Php102 million. Trading and Foreign Exchange Gains were likewise 33% lower to Php501 million from Php748 million in the same periods.

Operating Expenses increased by Php128 million or 2% to Php5.30 billion. Provision for impairment and other losses in 1Q17 amounted to Php94 million, compared to Php105 million in 1Q16. The Bank's asset quality continued to improve as Net Non-Performing Loans (NPL) ratio was at 0.17%, from 0.26% as of March 2016, while NPL cover stood at 132% from 133% as of end-2016 and 128% as of end-March 2016.

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

TDI's bottom line in 1Q17 increased to Php207 million, more than double the Php82 million reported in 1Q16.

Revenues were Php1.14 billion or 37% higher at Php4.25 billion, largely due to higher liquor revenues. Revenues from liquor reached Php3.61 billion in 1Q17, Php822 million or 30% more than 1Q16 on the back of a 40% increase in volume. This likewise resulted to a higher market share, based on Nielsen's customer off-take, of 25% as of end-March 2017, compared to 23% as of end-2016 and 24% as of end-March 2016.

As most of TDI's sales are generated in the Visayas and Mindanao, the Company enjoys higher market shares in these areas. In the Visayas, our market share stood at 61% as of end-March

2017, compared to 59% as of end-2016 and 62% as of end-March 2016. In Mindanao, our market share stood at 65% compared to 62% and 61%, respectively, in the same periods.

Revenues from ethanol were flat y-o-y at Php545 million.

TDI's GPM remained flat at 16% in 1Q17 and 1Q16. The Company raised the prices of liquor 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 Php151 million for the first quarter of 2017, Php199 million or 57% lower than the Php350 million reported for 1Q16.

Revenues were at Php3.14 billion, Php171 million or 6% more than 1Q16. Higher revenues from bottled water, soymilk and packaging more than offset the drop from energy drinks. 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) was slightly lower at 35% from 37% as a result of product mix. Operating expenses were 47% higher than 1Q16 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. 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 portion of revenues at 36%. While it remains the market leader with a market share of over 70%, volume was 6% lower y-o-y due to the intensified competition in the carbonated beverage market.

Sales of our bottled water brands, Absolute and Summit, continued to grow, although volume growth was slightly lower at 3% as sales were particularly high in 1Q16 during the election season. We continue to have the second largest market share in this segment, at 26% as of end-March 2017. Water accounted for 26% of ABI's revenues.

We completed our soymilk plant in late 2016, and have started selling Vitamilk in returnable glass bottles in 1Q17. Our market share remains at over 80%.

The packaging business accounted for 22% of revenues in the first quarter of 2017. It supplies the glass bottle and other packaging requirements of TDI, ABI and also sells to other third parties.

In 1Q17, we booked an equitized loss of Php112 million for 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 earnings of Php75 million for 1Q17, 21% more than the Php62 million generated in the first quarter of 2016.

Total revenues decreased by 18% to Php535 million. Revenues from the sale of residential units were 40% lower at Php207 million as revenues were primarily from the percentage completion of previously sold units. Revenues from leasing operations, however, increased by 6% brought about by higher lease rates at the fully-leased out BPO office buildings.

Construction is in full swing on the projects that were started in 2016. These are the fifth BPO office tower at Eton Centris in Quezon City, the expansion of the retail space at Centris Walk, and Eton WestEnd Square, a mixed-use development along Pasong Tamo, Makati. These projects will increase Eton's gross leasable area for office and retail space by 57,000 square meters when completed, aside from providing additional residential units for sale or lease.

**LT GROUP, INC.  
AND SUBSIDIARIES**

**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Amounts in Thousands)

|  | <b>March 31,<br/>2017<br/>(Unaudited)</b> | <b>December 31,<br/>2016<br/>(Audited)</b> |
|--|---|--|
| <b>ASSETS</b>  |   |  |
| <b>Current Assets</b>                                      |   |  |
| Cash and cash equivalents                                  | <b>₱194,112,704</b>                       | ₱174,676,789                               |
| Financial assets at fair value through profit or loss      | <b>4,511,022</b>                          | 6,441,511                                  |
| Available for sale (AFS) investments                       | <b>4,909,385</b>                          | 8,473,221                                  |
| Loans and receivables                                      | <b>200,387,471</b>                        | 189,812,938                                |
| Due from related parties                                   | <b>1,839,623</b>                          | 1,922,467                                  |
| Inventories  | <b>13,847,472</b>                         | 12,849,799                                 |
| Other current assets                                       | <b>12,124,210</b>                         | 10,600,399                                 |
| <b>Total Current Assets</b>                                | <b>431,731,887</b>                        | 404,777,124                                |
| <b>Noncurrent Assets</b>                                   |   |  |
| Loans and receivables - net of current portion             | <b>243,728,368</b>                        | 248,621,351                                |
| AFS investments  | <b>69,620,124</b>                         | 60,128,678                                 |
| Held-to-maturity (HTM) investments                         | <b>24,433,827</b>                         | 24,102,594                                 |
| Investment in associates and a joint venture               | <b>16,912,487</b>                         | 16,817,351                                 |
| Property, plant and equipment:                             |   |  |
| At appraised values  | <b>36,132,481</b>                         | 36,104,048                                 |
| At cost  | <b>5,572,750</b>                          | 5,170,574                                  |
| Investment properties                                      | <b>28,038,742</b>                         | 28,217,373                                 |
| Deferred income tax assets                                 | <b>1,261,639</b>                          | 1,424,159                                  |
| Other noncurrent assets                                    | <b>4,260,297</b>                          | 3,727,772                                  |
| <b>Total Noncurrent Assets</b>                             | <b>429,960,715</b>                        | 424,313,900                                |
| <b>TOTAL ASSETS</b>  | <b>₱861,692,602</b>                       | ₱829,091,024                               |
| <b>LIABILITIES AND EQUITY</b>                              |   |  |
| <b>Current Liabilities</b>                                 |   |  |
| Short-term debts   | <b>₱1,400,000</b>                         | ₱1,750,000                                 |
| Deposit liabilities  | <b>548,274,941</b>                        | 515,554,099                                |
| Financial liabilities at fair value through profit or loss | <b>180,935</b>                            | 232,832                                    |
| Bills and acceptances payable                              | <b>36,429,508</b>                         | 25,068,268                                 |
| Accounts payable and accrued expenses                      | <b>23,873,041</b>                         | 17,291,277                                 |
| Income tax payable   | <b>573,025</b>                            | 282,025                                    |
| Due to related parties                                     | <b>56,842</b>                             | 57,054                                     |
| Current portion of long-term debts                         | <b>466,946</b>                            | 466,946                                    |
| Other current liabilities                                  | <b>17,844,023</b>                         | 17,364,001                                 |
| <b>Total Current Liabilities (Carried Forward)</b>         | <b>629,099,261</b>                        | 578,066,502                                |

|   | <b>March 31,<br/>2017<br/>(Unaudited)</b> | <b>December 31,<br/>2016<br/>(Audited)</b> |
|---|---|--|
| <b>Total Current Liabilities (Brought Forward)</b>            | <b>P629,099,261</b>                       | <b>P578,066,502</b>                        |
| <b>Noncurrent Liabilities</b>                                 |   |  |
| Deposit liabilities - net of current portion                  | <b>32,501,575</b>                         | 45,866,133                                 |
| Financial liabilities at fair value through profit or loss    | <b>210,171</b>                            | —  |
| Bills and acceptances payable                                 | <b>5,007,224</b>                          | 10,817,679                                 |
| Long-term debts - net of current portion                      | <b>4,986,498</b>                          | 5,101,801                                  |
| Accrued retirement benefits                                   | <b>3,779,780</b>                          | 3,899,342                                  |
| Deferred income tax liabilities                               | <b>1,297,687</b>                          | 1,323,121                                  |
| Other noncurrent liabilities                                  | <b>4,580,624</b>                          | 5,411,870                                  |
| <b>Total Noncurrent Liabilities</b>                           | <b>52,363,559</b>                         | <b>72,419,946</b>                          |
| <b>Total Liabilities</b>                                      | <b>681,462,820</b>                        | <b>650,486,448</b>                         |
| <b>Equity</b>   |   |  |
| Attributable to equity holders of the Company:                |   |  |
| Capital stock   | <b>10,821,389</b>                         | 10,821,389                                 |
| Capital in excess of par                                      | <b>35,906,231</b>                         | 35,906,231                                 |
| Preferred shares of subsidiaries issued to Parent Company     | <b>18,060,000</b>                         | 18,060,000                                 |
| Other equity reserves   | <b>804,095</b>                            | 804,095                                    |
| Other comprehensive income, net of deferred income tax effect | <b>2,121,272</b>                          | 1,878,006                                  |
| Retained earnings   | <b>69,199,153</b>                         | 68,640,783                                 |
| Shares of the Company held by subsidiaries                    | <b>(12,519)</b>                           | (12,519)                                   |
|   | <b>136,899,621</b>                        | 136,097,985                                |
| Non-controlling interests                                     | <b>43,330,161</b>                         | 42,506,591                                 |
| <b>Total Equity</b>   | <b>180,229,782</b>                        | <b>178,604,576</b>                         |
| <b>TOTAL LIABILITIES AND EQUITY</b>                           | <b>P861,692,602</b>                       | <b>P829,091,024</b>                        |

**LT GROUP, INC.  
AND SUBSIDIARIES**

**INTERIM CONSOLIDATED STATEMENTS OF INCOME**

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

|  | <b>Three Months Ended March 31</b> |                    |
|--|------------------------------------|--------------------|
|  | <b>2017</b>                        | <b>2016</b>        |
|  | <b>(Unaudited)</b>                 | <b>(Unaudited)</b> |
| <b>REVENUE</b>                                 |                                    |                    |
| Banking  | <b>₱7,503,442</b>                  | ₱7,155,363         |
| Beverage                                       | <b>2,864,169</b>                   | 2,709,666          |
| Distilled spirits                              | <b>4,224,574</b>                   | 3,089,085          |
| Property development                           | <b>535,096</b>                     | 654,403            |
|  | <b>15,127,281</b>                  | 13,608,517         |
| <b>COST OF SALES AND SERVICES</b>              | <b>7,092,620</b>                   | 5,810,574          |
| <b>GROSS INCOME</b>                            | <b>8,034,661</b>                   | 7,797,944          |
| <b>EQUITY IN NET EARNINGS OF ASSOCIATES</b>    | <b>997,892</b>                     | 1,006,838          |
|  | <b>9,032,553</b>                   | 8,804,781          |
| <b>OPERATING EXPENSES</b>                      |                                    |                    |
| Selling expenses                               | <b>695,719</b>                     | 499,152            |
| General and administrative expenses            | <b>5,959,475</b>                   | 5,761,426          |
|  | <b>6,655,194</b>                   | 6,260,578          |
| <b>OPERATING INCOME</b>                        | <b>2,377,359</b>                   | 2,544,203          |
| <b>OTHER INCOME (CHARGES)</b>                  |                                    |                    |
| Finance costs                                  | <b>(70,631)</b>                    | (90,376)           |
| Finance income                                 | <b>23,904</b>                      | 13,055             |
| Foreign exchange gains - net                   | <b>407,592</b>                     | 399,567            |
| Others - net                                   | <b>716,180</b>                     | 1,229,731          |
|  | <b>1,077,045</b>                   | 1,551,977          |
| <b>INCOME BEFORE INCOME TAX</b>                | <b>3,454,404</b>                   | 4,096,180          |
| <b>PROVISION FOR INCOME TAX</b>                |                                    |                    |
| Current  | <b>639,899</b>                     | 1,294,202          |
| Deferred                                       | <b>(7,228)</b>                     | (46,109)           |
|  | <b>632,671</b>                     | 1,248,093          |
| <b>NET INCOME FROM CONTINUING OPERATIONS</b>   | <b>2,821,733</b>                   | 2,848,087          |
| <b>NET INCOME FROM DISCONTINUED OPERATIONS</b> | <b>—</b>                           | (33,868)           |
| <b>NET INCOME</b>                              | <b>₱2,821,733</b>                  | ₱2,814,219         |
| <b>NET INCOME ATTRIBUTABLE TO:</b>             |                                    |                    |
| Equity holders of the Company                  | <b>₱2,245,057</b>                  | ₱2,228,613         |
| Non-controlling interests                      | <b>576,676</b>                     | 585,606            |
|  | <b>₱2,821,733</b>                  | ₱2,814,219         |
| <b>Basic/Diluted Earnings Per Share</b>        | <b>₱0.21</b>                       | ₱0.21              |