President's Report
Nine Months 2017

LT Group, Inc.'s (LTG) unaudited attributable net income for the first nine months of 2017 amounted to Php6.83 billion, 9% higher compared to the Php6.25 billion reported for 9M16.

The tobacco business accounted for 42% or Php2.87 billion of total attributable income. This was followed by Philippine National Bank (PNB) at Php2.59 billion or 38% of total. Asia Brewery, Inc. (ABI) contributed Php455 million or 7%, while Tanduay Distillers, Inc. added Php438 million or 6%. Eton Properties Philippines, Inc. (Eton) and our 30.9% stake in Victorias Milling Company, Inc. (VMC) each provided around 4% or Php246 million.

PNB's attributable income contribution to LTG of Php2.59 billion is 2% higher than its net contribution in 9M16. PNB's net income amounted to Php5.91 billion in 9M16, with LTG's share at Php3.26 billion. As part of PNB's income included a Php1.28 billion gain from the sale of property to Eton in 1Q16, LTG's share of the gain at Php725 million was eliminated. This brought PNB's net contribution to LTG to Php2.54 billion in 9M16.

LTG's balance sheet remains strong. As of end-September 2017, the parent company had a cash balance of Php2.0 billion. Debt-to-Equity Ratio was at 3.65:1 with the Bank, and at 0.16:1 without the Bank.

Tobacco

The tobacco business' income reached Php2.88 billion in 9M17, Php1.08 billion or 60% higher than the Php1.80 billion generated in 9M16.

Equity in net earnings from the 49.6% stake in PMFTC, Inc. (PMFTC) amounted to Php2.86 billion, 59% more than 9M16's Php1.80 billion.

The higher earnings were mainly attributed to the increase in selling prices starting November 2016, as well as the higher share of Marlboro in the sales volume mix. 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.

Premium Marlboro accounted for 48% of PMFTC's total volume in the first nine months of 2017, from 39% in 9M16. Sales volume of the brand was 4% higher year-on-year (y-o-y). PMFTC's market share was estimated at 68% in 3Q17, compared to 66% in the first half of 2017 but lower than the 71% in 3Q16.

The industry's total volume was estimated to have decreased by 10% year-on-year (y-o-y) for the first nine months of 2017, while PMFTC's shipment volume was 17% lower y-o-y. PMFTC's volume decline was due to the impact of the price increases in 4Q16, which made our products more expensive than competitors in the earlier part of the year. PMFTC's y-o-y volume decline in 3Q17 was at 11%, slower than the 24% decline reported in 1Q17 and 14% in 2Q17.

The Government's actions versus the illicit trade, which include smuggled and locally produced, has been a welcome development as this will level the playing field.

Philippine National Bank (PNB)

PNB's net income under the pooling method amounted to Php4.64 billion for the first nine months of 2017, 22% or Php1.27 billion lower than the Php5.91 billion generated in 9M16. Gain from the sale of Real and Other Properties Acquired (ROPA) in 9M17 was at Php518 million, substantially lower than the Php2.30 billion booked in 9M16.

Net Interest Income increased by 10% or Php1.53 billion to Php16.16 billion on the back of a 22% rise in loans and receivables to Php474 billion, while Net Interest Margin was slightly lower at 3.1% from 3.2%. Loans to Deposit Ratio (LDR) was at 76% as of end-September 2017, higher than end-September 2016's 71%. Deposits increased 13% y-o-y to Php611 billion.

Net Service Fees and Commission Income grew 18% to Php2.36 billion from Php2.00 billion due to higher deposit- and trade-related, arranger's, bancassurance and underwriting fees.

Other Income was 44% lower at Php3.88 billion from Php6.92 billion primarily due to lower gains from the sale of ROPA, while Trading and Foreign Exchange Gains declined 30% to Php1.61 billion from Php2.30 billion.

Operating Expenses was slightly lower at Php16.48 billion, primarily due to lower provisioning for probable credit losses at Php571 million from Php1.19 billon. Net Non-Performing Loans (NPL) ratio was at 0.1%, from 0.2% as of end-2016, while NPL cover stood at 137% from 133% as of end-2016.

Asia Brewery, Inc. (ABI)

ABI's net earnings was at Php455 million for 9M17, 49% lower than the Php895 million reported for 9M16.

Revenues were 12% higher y-o-y at Php10.11 billion from Php9.03 billion with the higher contribution from bottled water and soymilk, partly offset by the drop from packaging and 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) declined to 31% from 36% as a result of product mix, primarily with the start of operations of the soymilk Vitamilk plant earlier in the year. Operating expenses were 18% higher as more was spent on marketing expenses for energy drink Cobra and Vitamilk with the launch of the locally manufactured 200ml returnable glass bottle in 1Q17. ABI 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 share of revenues at 36% of total. It remains the market leader with a market share of over 70%, but volume was 4% lower y-o-y due to the stiff competition in the carbonated beverage market.

Our bottled water brands, Absolute and Summit, had a sales volume growth of 9% for 9M17. Notably, 3Q17 growth was at 14%, higher than 2Q17's 11% and 1Q17's 3% y-o-y growth. The lower annual growth in 1Q17 was due to the higher base of 1Q16, during the election season. Our market share is at 27%, the second largest in this segment. Water accounted for 25% of ABI's revenues.

With the completion of our plant in late 2016, we started selling Vitamilk soymilk in returnable glass bottles in 1Q17. Our market share remains at over 80%, as sales in this category continue to grow by double-digit, and contributed 10% of total revenues.

The packaging business accounted for 15% of revenues in 9M17. Revenues were 14% lower y-o-y as more capacity was dedicated for our own use, producing the returnable glass bottles of Vitamilk and Cobra. ABI supplies the glass bottle and other packaging requirements of TDI and ABI and also sells to third parties.

Tanduay Distillers, Inc. (TDI)

TDI's net income was at Php438 million for the first nine months of 2017, 35% or Php241 million lower than the Php679 reported in the same period in 2016.

Revenues amounted to Php12.39 billion, 14% more than the Php10.89 billion reported in 9M16, as revenues from liquor were 22% higher y-o-y at Php10.91 billion, as volume rose 18%.

Nationwide, our market share was at 26% as of September, higher than end-2016's 23%. But with most of TDI's sales generated in the Visayas and Mindanao areas, the Company enjoys a bigger share in these areas. In the Visayas, our market share was at 62% as of end-September 2017, compared to 59% as of end-2016. In Mindanao, our market share stood at 66% compared to 62% in December 2016.

Revenues from ethanol were 24% lower to Php1.44 billion from Php1.91 billion as volume dropped 25%.

GPM declined to 16% in 9M17 from 18%, largely due to lower margins for ethanol, brought about by lower selling prices and higher alcohol costs. GPM of liquor was relatively flat as the Company raised prices by Php24 per case in January 2017, to pass on the increase in excise taxes.

Eton Properties Philippines, Inc. (Eton)

Eton's net income for 9M17 amounted to Php246 million, slightly lower than 9M16's Php249 million. Revenues were 25% lower at Php1.66 billion with lower sales due to the change in strategy to focus on increasing its recurring income base. But revenues from leasing operations were 10% higher at Php1.03 billion with the opening of 2,100 square meters of additional retail space in Eton Tower Makati and higher lease rates. Eton's BPO office buildings continue to enjoy full occupancy.

In July 2017, Eton started land development at Eton City Square with an area of 3.7 hectares. This retail project will have 7,150 square meters of gross leasable area (GLA), and is targeted to be ready for lease by 4Q18. In August, Eton also broke ground on a community lifestyle development on a 3,064 square meter property along Ortigas Extension in San Juan City in Metro Manila. It will have a GLA of 1,300 square meters, and is targeted for completion in 1Q18. The 5,000 square meter expansion of Centris Walk in Eton Centris in Quezon City will be completed by end-2017 and is currently accepting tenants.

Meanwhile, construction of the fifth BPO office building at Eton Centris is in full swing, with a GLA of 37,000 square meters. Construction started in August 2016 and is expected to be completed by end of 2018. The 15,000 square meters of retail and office space at the mixed-use WestEnd Square in Pasong Tamo, Makati which broke ground in 2Q16 will be completed by end-2019. Eton currently has a leasing portfolio of 125,000 square meters of BPO office space and over 31,000 square meters of retail space.

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	**₱176,863,889**	₱174,676,789
Financial assets at fair value through profit or loss	**6,627,930**	6,441,511
Available-for-sale (AFS) investments	**6,302,035**	8,473,221
Loans and receivables	**212,888,020**	189,812,938
Due from related parties	**1,839,615**	1,922,467
Inventories	**14,127,296**	12,849,799
Other current assets	**14,173,029**	10,600,399
Total Current Assets	**432,821,814**	404,777,124
Noncurrent Assets		
Loans and receivables - net of current portion	**271,714,193**	248,621,351
AFS investments	**58,175,199**	60,128,678
Held-to-maturity (HTM) investments	**24,593,212**	24,102,594
Investment in associates and joint ventures	**16,960,877**	16,817,351
Property, plant and equipment:		
At appraised values	**36,110,810**	36,104,048
At cost	**6,438,340**	5,170,574
Investment properties	**28,269,505**	28,217,373
Deferred income tax assets	**1,318,460**	1,424,159
Other noncurrent assets	**4,092,901**	3,727,772
Total Noncurrent Assets	**447,673,497**	424,313,900
TOTAL ASSETS	**₱880,495,311**	₱829,091,024

LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debts	**₱1,450,000**	₱1,750,000
Deposit liabilities	**531,106,686**	515,554,099
Financial liabilities at fair value through profit or loss	**210,650**	232,832
Bills and acceptances payable	**22,948,061**	25,068,268
Accounts payable and accrued expenses	**25,507,533**	17,291,277
Income tax payable	**572,650**	282,025
Due to related parties	**106,842**	57,054
Current portion of long-term debts	**232,248**	466,946
Other current liabilities	**16,213,860**	17,364,001
Total Current Liabilities (Carried Forward)	**598,348,530**	578,066,502

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Total Current Liabilities (Brought Forward)	**₱598,348,530**	₱578,066,502
Noncurrent Liabilities		
Deposit liabilities - net of current portion	**72,571,980**	45,866,133
Bills and acceptances payable	**8,469,285**	10,817,679
Long-term debts - net of current portion	**1,476,141**	5,101,801
Accrued retirement benefits	**3,323,400**	3,899,342
Deferred income tax liabilities	**1,270,324**	1,323,121
Other noncurrent liabilities	**5,842,095**	5,411,870
Total Noncurrent Liabilities	**92,953,225**	72,419,946
Total Liabilities	**691,301,755**	650,486,448
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	**3,931,280**	1,878,006
Retained earnings	**74,302,312**	68,640,783
Shares of the Company held by subsidiaries	**(12,519)**	(12,519)
	143,812,788	136,097,985
Non-controlling interests	**45,380,768**	42,506,591
Total Equity	**189,193,556**	178,604,576
TOTAL LIABILITIES AND EQUITY	**₱880,495,311**	₱829,091,024

LT GROUP, INC.
AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Nine Months Ended September 30		For the Quarter Ending September 30	
	2017 (Unaudited)	2016 (Unaudited)	**2017 (Unaudited)**	2016 (Unaudited)
REVENUE				
Banking	**23,552,680**	₱21,619,429	**8,053,190**	₱7,331,469
Beverage	**9,559,111**	8,278,734	**3,132,797**	2,583,893
Distilled spirits	**12,355,138**	10,849,411	**4,103,101**	3,803,315
Property development	**1,658,027**	2,198,170	**547,822**	886,820
	47,124,956	42,945,744	**15,836,910**	14,605,497
COST OF SALES AND SERVICES	**22,040,010**	18,892,491	**7,098,895**	6,519,518
GROSS INCOME	**25,084,946**	24,053,253	**8,738,015**	8,085,979
EQUITY IN NET EARNINGS OF ASSOCIATES	**2,711,803**	1,916,480	**826,482**	407,412
	27,796,749	25,969,733	**9,564,497**	8,493,391
OPERATING EXPENSES				
Selling expenses	**1,938,441**	1,678,132	**648,588**	647,168
General and administrative expenses	**18,529,909**	18,152,337	**6,542,288**	6,478,227
	20,468,350	19,830,469	**7,190,876**	7,125,395
OPERATING INCOME	**7,328,399**	6,139,264	**2,373,621**	1,367,996
OTHER INCOME (CHARGES)				
Finance costs	**(124,985)**	(134,812)	**(36,258)**	(37,144)
Finance income	**131,842**	41,743	**78,957**	28,031
Foreign exchange gains - net	**1,075,216**	1,190,360	**326,595**	382,434
Others - net	**2,529,271**	3,478,708	**1,055,357**	752,481
	3,611,344	4,575,999	**1,424,651**	1,125,802
INCOME BEFORE INCOME TAX	**10,939,743**	10,715,263	**3,798,272**	2,493,798
PROVISION FOR INCOME TAX				
Current	**2,117,875**	2,495,671	**736,450**	134,090
Deferred	**(70,133)**	31,989	**(64,760)**	(27,505)
	2,047,742	2,527,660	**671,690**	106,585
NET INCOME FROM CONTINUING OPERATIONS	**8,892,001**	8,187,603	**3,126,582**	2,387,213
NET INCOME FROM DISCONTINUED OPERATIONS	–	157,269	–	(15,062)
NET INCOME	**8,892,001**	8,344,872	**3,126,582**	2,372,151
NET INCOME ATTRIBUTABLE TO:				
Equity holders of the Company	**6,829,142**	₱6,247,119	**2,300,105**	₱1,685,472
Non-controlling interests	**2,062,859**	2,097,753	**826,477**	686,679
	8,892,001	₱8,344,872	**3,126,582**	₱2,372,151
Basic/Diluted Earnings Per Share	**₱0.63**	₱0.58	**₱0.21**	₱0.16