



## **President's Report Nine Months 2018**

LT Group, Inc.'s (LTG) unaudited attributable net income for the first nine months of 2018 amounted to Php12.57 billion, 84% or Php5.74 billion more than the Php6.83 billion reported for 9M17.

The tobacco business contributed Php6.83 billion or 54% of total attributable income, followed by Philippine National Bank (PNB) for Php4.27 billion or 34%. Tanduay Distillers, Inc. (TDI) accounted for Php707 million or 6%. Eton Properties Philippines, Inc. (Eton) added Php314 million or 3% while Asia Brewery, Inc. (ABI) provided Php291 million or 2%. The 30.9% stake in Victorias Milling Company, Inc. (VMC) added Php115 million, or 1% of total.

LTG's balance sheet remains strong. As of the end of September 2018, the cash balance of the parent company stood at Php2.1 billion. Debt-to-Equity Ratio was at 3.81:1 with the Bank, and at 0.15:1 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. 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, this was increased to Php30 per pack by 2017, and under RA 10963 is currently at Php35 per pack. This has increased taxes to almost 3x to 13x in less than six 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 75 billion sticks in 2017, or a decrease of 31% over a five-year period. In the first nine months of 2018, the industry's volume is estimated to have further declined by 3% compared to 9M17, to 52.6 billion sticks. 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 continued to experience an annual decline in sales volume, with sales at 50.6 billion sticks in 2017, a 45% decline over a five-year period.

PMFTC is currently operating in a level playing field as the Government's actions versus the illicit trade, which includes smuggled and locally produced, continue. The level playing field 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 9M18 to 69.8%, compared to 66.9% in 9M17, and post a modest 1.1% growth in volume to 36.7 billion sticks from 36.3 billion sticks in the same period last year. PMFTC implemented higher selling prices in November 2017 for the mid and low-end brands and in January 2018 for premium Marlboro. LTG's equity in net earnings from its 49.6% stake in PMFTC amounted to Php6.7 billion for 9M18.

Fortune Tobacco Corporation, which is the holding company for LTG's stake in PMFTC, reported an income of Php6.86 billion.

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

PNB's net income under the pooling method was Php7.63 billion for the first nine months of 2018, 65% higher than 9M17's Php4.64 billion. The 2018 income included a net gain of Php3.0 billion from the sale of Real and Other Properties Acquired (ROPA), substantially higher than the gain of Php337 million in 9M17. Excluding the ROPA gain, the Bank's income was at Php4.65 billion, 8% higher than 9M17's Php4.30 billion.

Net Interest Income was 24% higher at Php20.05 billion from Php16.16 billion as loans and receivables grew by 16% year-on-year (y-o-y) to Php551 billion, and Net Interest Margin improved to 3.3% from 3.1%. Loans to Deposit Ratio (LDR) was at 78.1% as of September 2018 compared to 75.7% as of September 2017 as deposits increased at a slower pace than loans at 13% y-o-y to Php693 billion.

Net Service Fees and Commission Income increased by 6% to Php2.51 billion from Php2.36 billion due to higher credit, deposit and bancassurance fees. Trading and Foreign Exchange Gains declined by 13% to Php1.41 billion from Php1.61 billion.

Operating Expenses, excluding ROPA sale-related items, were 22% higher at Php20.01 billion from Php16.45 billion with the higher provisioning for probable credit losses of Php1.59 billion compared to Php571 million in 9M17. The Bank also booked higher documentary tax stamp expenses under the Tax Reform for Acceleration and Inclusion (TRAIN), as well as depreciation expenses from the new core banking system which the Bank migrated to in 3Q17.

Net Non-Performing Loans (NPL) ratio was at 0.4%, higher than September 2017's 0.1%, while NPL cover stood at 134% compared to 137% as of end-September 2017.

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

TDI's net income for 9M18 was at Php722million, 65% or Php284 million more than 9M17's Php438 million.

Total revenues were Php13.66 billion, 10% or Php1.27 billion higher than 9M17's Php12.39 billion. Revenues from liquor were 9% higher y-o-y to Php12.23 billion from Php11.18 billion with the 6% growth in volume, as well as higher selling prices to pass on the increase in excise taxes. Meanwhile, revenues from bioethanol were 18% higher at Php1.42 billion from Php1.20 billion on the back of a 21% increase in volume.

TDI's nationwide market share for distilled spirits was at 28.3% as of September 2018, higher than September 2017's 26.1% and 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 65.3% as of end-September2018, compared to 61.7% as of end-September 2017. In Mindanao, market share stood at 70.0% compared to 65.9% in the same periods.

GPM slightly 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 12% higher as more was spent on advertising and selling expenses.

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

Eton's net income for the first three quarters of 2018 was Php314 million, Php68 million or 28% more than the Php246 million in 9M17.

Revenues were 9% higher y-o-y to Php1.81 billion from Php1.66 billion as leasing revenues were 7% more at Php1.10 billion while sales from residential units increased by 12% to Php703 million.

Higher leasing revenues were from higher lease rates as well as the partial contribution from additional retail space from the 5,200 square meter expansion for Centris Walk within the Centris complex in Quezon City, Metro Manila, that was completed in December 2017.

The fifth BPO building in Centris topped off in 2017 and has 43,000 square meters of gross leasable area (GLA) that will be ready for occupancy within 2018.

In August 2017, Eton broke ground Eton Square Ortigas, a stand-alone pocket retail development in Greenhills, San Juan City, Metro Manila. The development is slated for completion by the end of 2018.

In Makati, the construction of eWestMall and eWestPod, the office and retail components of the lifestyle hub Eton WestEnd Square is ongoing. The mixed-use development has 15,000 square meters of combined retail and office space targeted for completion by 2019.

Eton currently has a leasing portfolio of 125,000 square meters of office space and over 37,000 square meters of commercial space.

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

ABI's earnings for 9M18 was at Php291 million, 36% lower than the Php455 million reported for 9M17.

Revenues were at Php10.97 billion, 9% higher than 9M17's Php10.11 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 1% lower y-o-y largely due to lower advertising expenses.

Cobra energy drink continues to account for the largest share of revenues and remains the market leader with a share of over 75%. However, volume dropped 17% 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 12% y-o-y. Our market share is at 26%, 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**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Amounts in Thousands)

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	<b>₱165,630,217</b>	₱174,024,418
Financial assets at fair value through profit or loss	<b>5,838,149</b>	6,518,419
Available-for-sale (AFS) investments	<b>9,228,453</b>	2,544,589
Loans and receivables	<b>229,564,791</b>	204,622,577
Due from related parties	<b>2,028,632</b>	2,028,625
Inventories	<b>12,863,526</b>	13,365,089
Other current assets	<b>12,269,677</b>	13,483,801
<b>Total Current Assets</b>	<b>437,423,445</b>	416,587,518
<b>Noncurrent Assets</b>		
Loans and receivables - net of current portion	<b>334,758,044</b>	307,622,788
AFS investments	<b>48,775,523</b>	70,664,823
Held-to-maturity (HTM) investments	<b>80,475,574</b>	26,732,182
Investment in associates and joint ventures	<b>19,692,281</b>	17,230,925
Property, plant and equipment:		
At appraised values	<b>36,178,024</b>	36,214,947
At cost	<b>7,555,423</b>	6,990,286
Investment properties	<b>28,916,112</b>	28,890,793
Deferred income tax assets	<b>1,447,615</b>	1,460,889
Other noncurrent assets	<b>4,316,657</b>	4,700,538
<b>Total Noncurrent Assets</b>	<b>562,115,253</b>	500,508,171
<b>TOTAL ASSETS</b>	<b>₱999,538,698</b>	₱917,095,689

**LIABILITIES AND EQUITY**

<b>Current Liabilities</b>		
Short-term debts	<b>₱1,950,000</b>	₱1,550,000
Deposit liabilities	<b>633,755,252</b>	588,394,301
Financial liabilities at fair value through profit or loss	<b>632,669</b>	343,522
Bills and acceptances payable	<b>33,171,658</b>	36,634,337
Accounts payable and accrued expenses	<b>23,927,641</b>	22,023,972
Income tax payable	<b>560,693</b>	1,113,799
Due to related parties	<b>106,849</b>	56,842
Current portion of long-term debts	—	114,681
Other current liabilities	<b>13,692,085</b>	15,166,369
<b>Total Current Liabilities (Carried Forward)</b>	<b>707,796,847</b>	665,397,823

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
<b>Total Current Liabilities (Brought Forward)</b>	<b>P707,796,847</b>	<b>P665,397,823</b>
<b>Noncurrent Liabilities</b>		
Deposit liabilities - net of current portion	47,918,057	39,286,226
Bills and acceptances payable	7,930,175	7,282,350
Long-term debts - net of current portion	19,058,289	1,475,466
Net retirement benefits liability	3,018,843	2,205,229
Deferred income tax liabilities	1,408,406	1,414,348
Other noncurrent liabilities	4,450,016	4,718,832
<b>Total Noncurrent Liabilities</b>	<b>83,783,786</b>	<b>56,382,451</b>
<b>Total Liabilities</b>	<b>791,580,633</b>	<b>721,780,274</b>
<b>Equity</b>		
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	3,164,207	4,299,674
Retained earnings	89,399,286	78,435,633
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	158,142,689	148,314,503
Non-controlling interests	49,815,376	47,000,912
<b>Total Equity</b>	<b>207,958,065</b>	<b>195,315,415</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P999,538,698</b>	<b>P917,095,689</b>

**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	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>REVENUE</b>				
Banking	P28,936,247	P23,552,680	P10,181,030	P8,053,190
Beverage	10,108,168	9,559,111	3,348,042	3,132,797
Distilled spirits	13,616,112	12,355,138	4,787,317	4,103,101
Property development	1,804,533	1,658,027	591,393	547,822
	54,465,060	47,124,956	18,907,782	15,836,910
<b>COST OF SALES AND SERVICES</b>	25,345,837	22,040,010	8,988,244	7,098,895
<b>GROSS INCOME</b>	29,119,223	25,084,946	9,919,538	8,738,015
<b>EQUITY IN NET EARNINGS OF ASSOCIATES</b>	6,225,514	2,711,803	1,763,611	826,482
	35,344,737	27,796,749	11,683,149	9,564,497
<b>OPERATING EXPENSES</b>				
Selling expenses	1,993,236	1,938,441	690,166	648,588
General and administrative expenses	22,505,269	18,529,909	7,191,009	6,542,288
	24,498,505	20,468,350	7,881,175	7,190,876
<b>OPERATING INCOME</b>	10,846,232	7,328,399	3,801,974	2,373,621
<b>OTHER INCOME (CHARGES)</b>				
Finance costs	(86,302)	(124,985)	(35,895)	(36,258)
Finance income	156,893	131,842	103,631	78,957
Foreign exchange gains - net	1,525,101	1,075,216	685,359	326,595
Others - net	6,931,064	2,529,271	777,025	1,055,357
	8,526,756	3,611,344	1,530,120	1,424,651
<b>INCOME BEFORE INCOME TAX</b>	19,372,988	10,939,743	5,332,094	3,798,272
<b>PROVISION FOR INCOME TAX</b>				
Current	3,386,468	2,117,875	749,783	736,450
Deferred	14,044	(70,133)	22,786	(64,760)
	3,400,512	2,047,742	772,569	671,690
<b>NET INCOME</b>	P15,972,476	P8,892,001	P4,559,525	P3,126,582
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Equity holders of the Company	P12,568,954	P6,829,142	P3,605,827	P2,300,105
Non-controlling interests	3,403,522	2,062,859	953,698	826,477
	P15,972,476	P8,892,001	P4,559,525	P3,126,582
<b>Basic/Diluted Earnings Per Share</b>	P1.16	P0.63	P0.33	P0.21