



President's Report First Nine Months of 2019

LT Group, Inc.'s (LTG) unaudited attributable net income for the first nine months of 2019 was Php14.72 billion, Php2.15 billion or 17% higher than the Php12.57 billion reported for 9M18.

The tobacco business accounted for Php9.57 billion or 65% of total attributable income. Philippine National Bank (PNB) added Php3.64 billion or 25%. Eton Properties Philippines, Inc. (Eton) contributed Php626 million or 4%. Tanduay Distillers, Inc. (TDI) accounted for Php509 million or 3% while Asia Brewery, Inc. (ABI) provided Php254 million or 2%. The 30.9% stake in Victorias Milling Company, Inc. (VMC) accounted for Php148 million or 1%.

LTG's balance sheet remains strong. Debt-to-Equity Ratio was at 4.27:1 with the Bank, and at 0.18:1 without the Bank.

In 3Q19, LTG redeemed Php8.52 billion of the Php18.06 billion preferred shares issued in 2013 and 2014 for the acquisition of PNB. LTG also participated in the Php12 billion stock rights offering of PNB, to the extent of its ownership, for Php7.178 billion. As of the end of September 2019, the cash balance of the parent company stood at Php905 million.

Tobacco

The tobacco business reported a net income of Php9.61 billion for the period January to September 2019, Php2.75 billion or 40% more than the Php6.86 billion reported in 9M18.

Equity in net earnings from LTG's 49.6% stake in PMFTC reached Php9.37 billion, 40% or Php2.70 billion more than 9M18's Php6.67 billion.

The Government continued its efforts against the illicit trade which includes smuggled and locally produced products. In 9M19, there were 96 enforcements with 47 machines seized and an estimated US\$17.7 million worth of illicit cigarettes confiscated. This is significantly higher than the 61 enforcements in 9M18, with US\$4.6 million worth of cigarettes confiscated.

On July 25, 2019, President Duterte signed Republic Act (RA) 11346 which increases further the excise tax on tobacco starting January 2020. It will increase from the current Php35 per pack to Php45 in 2020, increase by Php5 per pack annually from 2021 to 2023, then increase by 5% annually thereafter.

LTG is not against tax increases, but believes that the hikes should be moderate. Continual price increases to pass on higher excise taxes may result to further volume drops. 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. Excise taxes have substantially increased starting 2013, under RA 10351, then RA 10963 starting 2018, and RA 11346 starting 2020. 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 current excise tax of Php35 per pack is 3x to 13x more than the 2012 level.

PMFTC and its main competitor implemented price increases in late August and early September, respectively. Currently, the recommended retail price per stick of premium Marlboro is at Php6 (from Php5), mid-priced Fortune at Php5 (from Php4) and low-end Jackpot at Php4 (from Php3).

Philippine National Bank (PNB)

PNB's net income under the pooling method was Php6.52 billion for the first nine months of 2019, 15% or Php1.11 billion lower than Php7.63 billion reported for the same period in 2018. Both periods included gains from the sale of Real and Other Properties Acquired (ROPA), at Php314 million, net of taxes, in 9M19 and Php2.97 billion in 9M18. Excluding the ROPA gains, the Bank's core income was at Php6.21 billion in 9M19, 33% higher compared to 9M18's Php4.65 billion.

Net Interest Income was 17% higher at Php23.38 billion from Php20.00 billion as loans and receivables grew by 17% y-o-y to Php645 billion and Net Interest Margin was slightly lower at 3.1% from 3.3%. Loans and receivables increased by 17% to Php645 billion.

Net Service Fees and Commission Income grew 14% to Php2.86 billion from Php2.50 billion primarily due to higher deposit and credit card related fees.

Trading and Foreign Exchange Gains were 34% higher at Php1.87 billion from Php1.40 billion.

Operating Expenses, excluding ROPA sale-related items, were 12% higher at Php21.1 billion from Php18.74 billion. The increase in operating expenses was largely due to higher taxes and licenses, documentary tax stamps and gross receipts tax. Provisioning for probable credit losses was lower at Php1.43 billion compared to Php1.59 billion in 9M18.

Net Non-Performing Loans (NPL) ratio was at 0.5% as of September 2019, slightly higher than the September 2018 level of 0.4%. NPL cover stood at 134%, same as September 2018.

Eton Properties Philippines, Inc. (Eton)

Eton's net income for the first nine months of 2019 amounted to Php629 million, 100% higher than 9M18's Php314 million.

Total revenues were recorded at Php2.34 billion, 29% higher than 9M18's Php1.81 billion. Real estate sales reached Php1.10 billion, 56% higher than 9M18, driven by the increase in sales of its Ready-for-Occupancy (RFO) units in 8 Adriatico in Manila, 68 Roces in Quezon City, North Belton

Communities in Caloocan and Eton City in Sta. Rosa, Laguna. Leasing revenues grew 12% to Php1.24 billion from Php1.10 billion due to the escalation rates of existing leases as well as the start of operations of Eton Square Ortigas in San Juan City.

Eton continues to increase its retail portfolio with the opening of eWestMall, a boutique mall within mixed-use development Eton WestEnd Square in Makati City. The retail component has two floors with a total leasable area of 3,500 square meters. A few tenants already commenced operations, while more are expected to open by year-end. Eton WestEnd Square's office component, eWestpod also opened with all four floors fully leased out. Blakes Tower, the 36-storey office and residential building within the development was topped off earlier this year. Eton WestEnd Square has over 25,600 square meters of combined retail and office leasable space and over 13,900 square meters of residential leasable space.

Meanwhile, construction is on-going at the 4.3-hectare Eton City Square in Sta. Rosa, Laguna. It will offer 6,500 square meters of gross leasable area once completed. Several tenants are slated to open by year-end in the neighborhood retail and commercial center. Construction is also on track for NXTower I with 21,000 square meters of gross leasable area. The office building is located along Emerald Avenue and Ruby Road in Ortigas, Pasig City.

Eton currently has a leasing portfolio of around 181,000 square meters of office space and over 39,000 square meters of retail space.

Tanduay Distillers, Inc. (TDI)

TDI's net income for 9M19 was Php518 million, Php204 million or 28% lower than the Php722 million reported in 9M18.

Total revenues were Php13.83 billion, Php170 million or 1% higher than 9M18's Php13.66 billion. Revenues from liquor were Php11.95 billion, 2% lower compared to 9M18's Php12.23 billion with the 4% drop in volume, partially offset by the increase in selling prices by an average of Php14 per case. Meanwhile, revenues from bioethanol were 32% higher at Php1.88 billion from Php1.42 billion as volume increased by 18%.

As of end-September 2019, TDI's nationwide market share for distilled spirits was at 29.0%, higher than September 2018's 28.3%. In the Visayas and Mindanao regions where most of TDI's sales are generated, market share was at 64.7% and 72.6%, respectively, as of September 2019, compared to 64.4% and 72.4%, respectively, as of September 2018.

Gross Profit Margin (GPM) was slightly lower at 17% from 18%. Operating expenses were 7% higher at Php1.65 billion.

Asia Brewery, Inc. (ABI)

ABI's earnings for 9M19 was Php254 million, 13% or Php37 million lower than the Php291 million reported for 9M18.

Revenues were at Php12.01 billion, 9% or Php1.04 billion higher than 9M18's Php10.97 billion due to higher revenues from energy drinks, soymilk and bottled water.

Overall GPM was flat at 27%. Operating expenses were 9% higher at Php1.90 billion as the Company spent more on advertising and promotions.

Cobra energy drink continues to account for the largest share of revenues at 36% of total. It remains the market leader with a share of over 70%. Cobra was able to post a growth in volume in 9M19, a reversal from the drop in FY2018 due to the impact of the price increase to pass on the tax on sugary drinks. In 2018, ABI raised the selling price of Cobra by Php2 per 240ml returnable glass bottle to pass on the tax.

Our bottled water brands, Absolute and Summit, reported strong sales, supported by the additional capacity from the new plant in Pampanga that started commercial operations in May 2019. Our market share is at 25%, the second largest in this segment. Water accounted for 26% of revenues.

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. Soymilk contributed 13% of total revenues.

The packaging business' revenues were 6% lower in 9M19 compared to the same period in 2018 and accounted for 16% of revenues. Revenues were lower as more of the production capacity was earmarked for internal use for Cobra and Vitamilk bottles. 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, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	P212,540,518	P176,496,004
Financial assets at fair value through profit or loss	17,034,497	10,783,021
Financial assets at fair value through other comprehensive income	28,848,001	9,256,885
Financial assets at amortized cost	29,265,043	—
Loans and receivables	282,586,766	245,934,405
Inventories	13,426,794	13,108,204
Due from related parties	2,029,143	2,028,632
Other current assets	11,441,515	9,105,700
	597,172,277	466,712,851
Assets of disposal group classified as held for sale	8,296,716	8,238,623
Total Current Assets	605,468,993	474,951,474
Noncurrent Assets		
Loans and receivables - net of current portion	376,502,349	347,753,938
Financial assets at FVTOCI	111,139,785	48,094,583
Financial assets at amortized cost	75,630,696	99,772,711
Investment in associates and joint ventures	24,010,129	20,314,141
Property, plant and equipment:		
At appraised values	60,637,956	60,317,761
At cost	9,520,045	7,802,933
Investment properties	30,875,037	30,318,901
Deferred income tax assets	1,777,663	1,899,044
Other noncurrent assets	5,499,739	6,551,322
Total Noncurrent Assets	695,593,399	622,825,334
TOTAL ASSETS	P1,301,062,392	P1,097,776,808
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities	P767,563,662	P672,342,296
Financial liabilities at fair value through profit or loss	566,659	470,648
Bills and acceptances payable	84,113,558	60,549,245
Accounts payable and accrued expenses	26,419,704	22,516,482
Income tax payable	901,069	1,012,898
Short-term debts	5,750,000	2,050,000
Current portion of long-term debts	372,133	90,829
Due to related parties	71,654	80,199
Other current liabilities	12,735,648	8,616,177
	898,494,087	767,728,774
Liabilities of disposal group classified as held for sale	7,203,447	7,237,811
Total Current Liabilities (Carried Forward)	905,697,534	774,966,585

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Total Current Liabilities (Brought Forward)	₱905,697,534	₱774,966,585
Noncurrent Liabilities		
Deposit liabilities - net of current portion	47,271,723	47,219,123
Bills and acceptances payable	17,079,915	9,533,590
Long-term debts - net of current portion	70,194,569	18,555,324
Net retirement benefits liability	980,640	1,636,201
Deferred income tax liabilities	8,758,884	8,811,004
Other noncurrent liabilities	4,146,127	5,864,593
Total Noncurrent Liabilities	148,431,858	91,619,835
Total Liabilities	1,054,129,392	866,586,420
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
Redemption of preferred shares of subsidiaries issued to Parent Company	(8,521,000)	—
Other equity reserves	804,095	804,095
Reserves of disposal group classified as held for sale	(21,893)	(21,893)
Other comprehensive income, net of deferred income tax effect	17,795,438	15,410,482
Retained earnings	104,041,344	91,998,914
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	178,873,085	172,966,699
Non-controlling interests	68,059,915	58,223,689
Total Equity	246,933,000	231,190,388
TOTAL LIABILITIES AND EQUITY	₱1,301,062,392	₱1,097,776,808

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 Ended September 30	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
REVENUE				
Banking	P41,567,695	P28,889,378	P14,699,660	P10,164,999
Beverage	11,144,987	10,108,168	3,545,306	3,348,042
Distilled spirits	13,813,803	13,616,112	4,306,801	4,787,317
Property development	2,336,484	1,804,533	943,933	591,393
	68,862,969	54,418,191	23,495,700	18,891,751
COST OF SALES AND SERVICES	34,285,849	25,345,837	11,377,036	8,988,244
GROSS INCOME	34,577,120	29,072,354	12,118,664	9,903,507
EQUITY IN NET EARNINGS OF ASSOCIATES	8,897,081	6,225,514	3,507,750	1,763,611
	43,474,201	35,297,868	15,626,414	11,667,118
OPERATING EXPENSES				
Selling expenses	2,200,939	1,993,236	695,236	690,166
General and administrative expenses	23,411,377	21,240,011	8,157,783	6,898,543
	25,612,316	23,233,247	8,853,019	7,588,709
OPERATING INCOME	17,861,885	12,064,621	6,773,395	4,078,409
OTHER INCOME (CHARGES)				
Finance costs	(239,540)	(86,302)	(113,802)	(35,895)
Finance income	126,001	156,893	49,943	103,631
Foreign exchange gains - net	834,451	1,509,746	200,497	681,378
Others - net	2,000,614	5,984,929	797,241	477,953
	2,721,526	7,565,266	933,879	1,227,067
INCOME BEFORE INCOME TAX	20,583,411	19,629,887	7,707,274	5,305,476
PROVISION FOR INCOME TAX				
Current	3,006,297	3,375,896	1,110,656	746,154
Deferred	5,762	14,044	52,760	22,786
	3,012,059	3,389,940	1,163,416	768,940
NET INCOME FROM CONTINUING OPERATIONS	17,571,352	16,239,947	6,543,858	4,536,536
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	77,275	(267,471)	42,675	22,989
NET INCOME	P17,648,627	P15,972,476	P6,586,533	P4,559,525
NET INCOME ATTRIBUTABLE TO:				
Equity holders of the Company	P14,717,623	P12,568,954	P5,480,478	P3,605,827
Non-controlling interests	2,931,004	3,403,522	1,106,055	953,698
	P17,648,627	P15,972,476	P6,586,533	P4,559,525
Basic/Diluted Earnings Per Share	P1.36	P1.16	P0.51	P0.33