



President's Report Full Year 2017

LT Group, Inc.'s (LTG) unaudited attributable net income for full year 2017 amounted to Php10.83 billion, 15% more than the Php9.39 billion reported for 2016.

Philippine National Bank (PNB) contributed Php4.83 billion or 45% of total attributable income, followed by the tobacco business at Php4.39 billion or 40% of total. Tanduay Distillers, Inc. (TDI) added Php631 million or 6%, while Asia Brewery, Inc. (ABI) accounted for Php551 million or 5%. Eton Properties Philippines, Inc. (Eton) provided Php348 million or 3%, and our 30.9% stake in Victorias Milling Company, Inc. (VMC) contributed Php174 million or 2%.

PNB's attributable income contribution to LTG in 2017 of Php4.83 billion is 41% higher than its net contribution in 2016. PNB's net income amounted to Php7.38 billion in 2016 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 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 in 2016.

LTG's balance sheet remains strong. As of end-2017, the cash balance of the parent company stood at Php1.6 billion. Debt-to-Equity Ratio was at 3.70:1 with the Bank, and at 0.15:1 without the Bank.

Philippine National Bank (PNB)

PNB's net income under the pooling was Php8.56 billion in 2017, Php1.18 billion or 16% higher than 2016's Php7.38 billion. Gain from the sale of Real and Other Properties Acquired (ROPA) in 2017 was at Php4.16 billion, Php1.60 billion or 62% higher than the Php2.56 billion gain booked in 2016.

Net Interest Income increased by 13% or Php2.53 billion to Php22.07 billion on the back of a 17% growth in loans and receivables to Php502 billion, while Net Interest Margin was flat at 3.1%. Loans to Deposit Ratio (LDR) was at 76% as of December 2017, higher than end-2016's 73%. Deposits increased 13% y-o-y to Php638 billion.

Net Service Fees and Commission Income increased by 20% to Php3.20 billion from Php2.66 billion due to higher loan, remittance and deposit-related fees.

Other Income was 7% lower at Php8.62 billion from Php9.29 billion as Trading and Foreign Exchange Gains were 22% lower to Php2.24 billion from Php2.87 billion, and the absence of other one-offs in 2017.

Operating Expenses were relatively flat at Php23.01 billion from Php23.22 billion, primarily due to lower provisioning for probable credit losses at Php884 million from Php3.21 billion in 2016. Net Non-Performing Loans (NPL) ratio was at 0.3%, from 0.2% as of end-2016, while NPL cover stood at 131% from 133% as of end-2016.

Tobacco

Income from the tobacco business was Php4.40 billion in 2017, 70% higher than 2016's Php2.59 billion.

Equity in net earnings from the 49.6% stake in PMFTC, Inc. (PMFTC) reached Php4.37 billion, 69% more than the Php2.59 billion of 2016.

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 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 49% of PMFTC's total volume in 2017, from 40% in 2016. PMFTC's market share was estimated at 67.6% in 2017, lower compared to 71.3% in 2016.

The industry's total volume was estimated to have decreased by 5.6% or 4.4 billion sticks y-o-y to 74.9 billion sticks, largely due to excise tax driven price increases, tempered by trade loading towards the end of 2017, in anticipation of more price increases as the excise tax was further increased starting 2018. Meanwhile, PMFTC's volume was 10.6% or 6.0 billion sticks lower y-o-y to 50.6 billion sticks.

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

Tanduay Distillers, Inc. (TDI)

For FY2017, TDI's net income was at Php631 million, 31% or Php277 million lower than the Php908 million reported for 2016.

Revenues were Php16.79 billion, 12% higher than the Php15.01 billion in 2016, as revenues from liquor were 20% higher y-o-y at Php15.19 billion, as volume rose 15%.

Nationwide, our market share was at 24.8% as of December 2017, higher than end-2016's 22.6%. But with most of TDI's sales generated in the Visayas and Mindanao regions, the Company enjoys a bigger share in these areas. In the Visayas, our market share was at 60.5% as of end-2017, compared to 58.5% as of end-2016. In Mindanao, our market share stood at 64.8% compared to 61.8% in December 2016.

Revenues from ethanol were 31% lower at Php1.60 billion from Php2.33 billion as volume decreased by 21%.

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

Asia Brewery, Inc. (ABI)

ABI's net income for 2017 was at Php552 million, 69% lower than 2016's Php1.76 billion. The Company's income in 2016 included a Php594 million extraordinary income arising from the gain from the revaluation of the beer assets. Excluding the extraordinary income, ABI's 2016 core income would be at Php1.16 billion, and 2017's net income would be 52% or Php609 million lower.

Revenues were 17% higher y-o-y at Php13.89 billion from Php11.85 billion with the higher contribution from bottled water, soymilk and packaging partly offset by 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) declined to 31% from 34% as a result of product mix, primarily with the start of operations of the Vitamilk plant earlier in the year. Operating expenses were 9% 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 35% of total. It remains the market leader with a market share of over 70%, but volume was 3% 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 10% in 2017. 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 soymilk plant in late 2016, we started selling Vitamilk 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 16% of revenues, 4% higher y-o-y. ABI supplies the glass bottle and other packaging requirements of TDI and ABI and also sells to third parties.

Eton Properties Philippines, Inc. (Eton)

Eton's net income for FY2017 was Php348 million, Php42 million or 11% lower than FY2016's Php390 million. Revenues were 21% lower at Php2.23 billion with lower sales take up given the change in strategy to focus on increasing its recurring income base. But revenues from leasing operations were 9% higher y-o-y at Php1.39 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 had a take-up rate of 99% as of end-2017.

In July 2017, Eton started land development at Eton City Square with an area of 3.7 hectares. This retail project will have 6,500 square meters of gross leasable area (GLA), and is targeted to be ready for lease by 4Q18. In August, Eton also broke ground on Eton Square Ortigas, a community lifestyle development on a 3,064 square meter property along Ortigas Avenue in San Juan City, Metro Manila. It will have a GLA of 1,300 square meters, and is targeted for completion in 3Q18. The 5,200 square meter expansion of Centris Walk in Eton Centris in Quezon City was completed last December and several retail shops opened their stores before the end of the year.

Meanwhile, construction of the fifth BPO office building at Eton Centris is in full swing, with a GLA of 39,000 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 also be completed by end-2018. Eton currently has a leasing portfolio of 125,000 square meters of BPO office space and over 36,000 square meters of retail space.

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

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	₱174,024,418	₱174,676,789
Financial assets at fair value through profit or loss	6,518,419	6,441,511
Available-for-sale investments	2,544,589	8,473,221
Loans and receivables	204,622,577	189,812,938
Due from related parties	2,028,625	1,922,467
Inventories	13,365,089	12,849,799
Other current assets	13,483,801	10,600,399
Total Current Assets	416,587,518	404,777,124
Noncurrent Assets		
Loans and receivables - net of current portion	307,622,788	248,621,351
AFS investments	70,664,823	60,128,678
Held-to-maturity investments	26,732,182	24,102,594
Investments in associates and joint ventures	17,230,925	16,817,351
Property, plant and equipment:		
At appraised values	36,214,947	36,104,048
At cost	6,990,286	5,170,574
Investment properties	28,890,793	28,217,373
Deferred income tax assets - net	1,460,889	1,424,159
Other noncurrent assets	4,700,538	3,727,772
Total Noncurrent Assets	500,508,171	424,313,900
TOTAL ASSETS	₱917,095,689	₱829,091,024
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities	₱588,394,301	₱515,554,099
Financial liabilities at fair value through profit or loss	343,522	232,832
Bills and acceptances payable	36,634,337	25,068,268
Accounts payable and accrued expenses	22,023,972	17,291,277
Income tax payable	1,113,799	282,025
Short-term debts	1,550,000	1,750,000
Current portion of long-term debts	114,681	466,946
Due to related parties	56,842	57,054
Other current liabilities	15,166,369	17,364,001
Total Current Liabilities (Carried Forward)	665,397,823	578,066,502

	December 31	
	2017	2016
Total Current Liabilities (Brought Forward)	₱665,397,823	₱578,066,502
Noncurrent Liabilities		
Deposit liabilities - net of current portion	39,286,226	45,866,133
Bills and acceptances payable	7,282,350	10,817,679
Long-term debts - net of current portion	1,475,466	5,101,801
Net retirement benefits liability	2,205,229	3,899,342
Deferred income tax liabilities - net	1,414,348	1,323,121
Other noncurrent liabilities	4,718,832	5,411,870
Total Noncurrent Liabilities	56,382,451	72,419,946
Total Liabilities	721,780,274	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	4,299,674	1,878,006
Retained earnings	78,435,633	68,640,783
Shares of stock of the Company held by subsidiaries	(12,519)	(12,519)
	148,314,503	136,097,985
Non-controlling interests	47,000,912	42,506,591
Total Equity	195,315,415	178,604,576
TOTAL LIABILITIES AND EQUITY	₱917,095,689	₱829,091,024

LT GROUP, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

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

	Years Ended December 31		
	2017	2016	2015 (As re-presented)
REVENUES			
Banking	₱31,893,616	₱29,111,818	₱26,600,160
Beverage	12,948,796	10,932,326	10,386,308
Distilled spirits	16,704,933	14,904,343	12,002,266
Property development	2,233,063	2,851,514	2,484,453
	63,780,408	57,800,001	51,473,187
COST OF SALES AND SERVICES	29,679,810	26,126,881	22,002,882
GROSS INCOME	34,100,598	31,673,120	29,470,305
EQUITY IN NET EARNINGS OF ASSOCIATES	3,963,290	2,785,845	1,188,974
	38,063,888	34,458,965	30,659,279
OPERATING EXPENSES			
Selling expenses	2,692,425	2,351,522	2,202,441
General and administrative expenses	25,629,894	25,563,084	21,156,533
	28,322,319	27,914,606	23,358,974
OPERATING INCOME	9,741,569	6,544,359	7,300,305
OTHER INCOME (CHARGES) - Net			
Foreign exchange gains - net	1,701,302	1,535,217	1,322,400
Finance costs	(141,937)	(202,490)	(202,518)
Finance income	157,100	106,426	110,376
Others - net	6,619,677	4,952,142	3,686,974
	8,336,142	6,391,295	4,917,232
INCOME BEFORE INCOME TAX	18,077,711	12,935,654	12,217,537
PROVISION FOR INCOME TAX			
Current	3,613,116	2,535,861	2,490,527
Deferred	(116,061)	(361,393)	238,292
	3,497,055	2,174,468	2,728,819
NET INCOME FROM CONTINUING OPERATIONS	14,580,656	10,761,186	9,488,718
NET INCOME FROM DISCONTINUED OPERATIONS	-	1,327,970	7,936
NET INCOME	₱14,580,656	₱12,089,156	₱9,496,654

(Forward)

Years Ended December 31

	2017	2016	2015
		(As re-presented)	
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	₱10,830,773	₱9,390,407	₱6,599,035
Non-controlling interests	3,749,883	2,698,749	2,897,619
	₱14,580,656	₱12,089,156	₱9,496,654
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Basic/Diluted Earnings Per Share			
Attributable to Equity Holders of the Company	₱1.00	₱0.87	₱0.61
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Basic/Diluted Earnings Per Share			
Attributable to Equity Holders of the Company from Continuing Operations	₱1.00	₱0.86	₱0.58
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