



President's Report First Quarter 2018

LT Group, Inc.'s (LTG) unaudited attributable net income for the first quarter of 2018 reached Php3.63 billion, 61% or Php1.38 billion more than the Php2.25 billion reported for 1Q17.

The tobacco business contributed Php2.35 billion or 65% of total attributable income. Philippine National Bank (PNB) accounted for Php833 million or 23%, followed by Asia Brewery, Inc. (ABI) at Php149 million or 4%. Tanduay Distillers, Inc. (TDI) generated Php135 million or 4%, while Eton Properties Philippines, Inc. (Eton) provided Php97 million or 3%. Our 30.9% stake in Victorias Milling Company, Inc. (VMC) contributed Php59 million or 2%.

LTG's balance sheet remains strong. As of the end of March 2018, the cash balance of the parent company stood at Php1.5 billion. Debt-to-Equity Ratio was at 3.71:1 with the Bank, and at 0.16:1 without the Bank.

Tobacco

Income from the tobacco business was Php2.36 billion in 1Q18, 136% or Php1.36 billion higher than 1Q17's Php1.00 billion.

Equity in net earnings from the 49.6% stake in PMFTC, Inc. (PMFTC) amounted to Php2.29 billion, 123% or Php1.26 billion higher than 1Q17's Php1.03 billion.

The higher earnings were mainly attributed to the increase in selling prices of the mid and low-end brands in November 2017, and premium Marlboro in January 2018. Marlboro accounted for 47% of PMFTC's total volume in 1Q18, slightly lower than the 49% of 1Q17, due to frontloading in 4Q17 in anticipation of the price increase. PMFTC's market share was estimated at 70.5% in 1Q18, compared to 65.9% in 1Q17.

The industry's total volume was estimated to have decreased by 7.8% or 1.3 billion sticks year-on-year (y-o-y) to 15.3 billion sticks, largely due to excise tax driven price increases. The excise tax was further increased by Php2.50 per pack in January 2018, and will increase by another Php2.50 on July 1, bringing to Php5.00 per pack the total increase for 2018. Meanwhile, PMFTC's volume was 1.4% or 0.2 billion sticks lower y-o-y at 10.8 billion sticks.

PMFTC is currently operating in a level playing field as the Government's actions versus the illicit trade, which includes smuggled and locally produced, continues. The level playing field enables the Company to pass on additional taxes and no longer price our products at economically unsustainable levels. However, continual price increases may result in a further drop in volumes.

Philippine National Bank (PNB)

PNB's net income under the pooling method was Php1.50 billion for 1Q18, Php227 million or 18% higher than the Php1.27 billion reported in the first three months of 2017.

Net Interest Income was 25% higher at Php6.43 billion from Php5.15 billion as loans and receivables increased by 17% y-o-y to Php504 billion, and Net Interest Margin improved to 3.3% from 3.0%. Loans to Deposit Ratio (LDR) was at 76% as of March 2018 compared to 72% as of March 2017 as deposits increased at a slower pace than loans at 12% y-o-y to Php658 billion.

Net Service Fees and Commission Income grew by 20% to Php852 million from Php709 million due to higher loan-related and bancassurance fees.

Other Income declined by 13% to Php957 million from Php1.10 billion as Trading and Foreign Exchange Gains were substantially lower at Php47 million compared to 1Q17's Php501 million. Gain from the sale of Real and Other Properties Acquired (ROPA) was at Php271 million in 1Q18, higher than 1Q17's Php102 million.

Operating Expenses were 17% higher at Php6.21 billion from Php5.30 billion mainly due to the increase of documentary tax stamps under the Tax Reform for Acceleration and Inclusion (TRAIN). Provisioning for probable credit losses was lower at Php70 million compared to Php94 million in 1Q17. Net Non-Performing Loans (NPL) ratio was at 0.3%, from 0.2% as of March 2017, while NPL cover stood at 128% from 132% as of end-March 2017.

Asia Brewery, Inc. (ABI)

ABI's net earnings for 1Q18 amounted to Php149 million, Php2 million or 1% lower than the income reported for 1Q17.

Revenues were 8% higher y-o-y to Php3.40 billion from Php3.14 billion with the increase in revenues from energy drinks, bottled water, soymilk and packaging.

Overall Gross Profit Margin (GPM) declined to 30% from 35% as a result of product mix, as well as higher costs attributed to the depreciation of the Peso. Operating expenses were 17% lower y-o-y largely due to lower advertising expenses.

Cobra energy drink continues to account for the largest share of revenues at 35% of total. It remains the market leader with a share of over 70%, but volume dropped 18% 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 15% y-o-y. Our market share is at 27%, the second largest in this segment. Water accounted for 27% 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 10% of total revenues.

The packaging business' revenues were 10% higher y-o-y and accounted for 19% of revenues. 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 for 1Q18 was at Php135 million, 35% or Php72 million lower than 1Q17's Php207 million.

Total revenues were Php4.24 billion, relatively flat compared to 1Q17's Php4.25 billion. Revenues from liquor were 2% higher y-o-y to Php3.70 billion from Php3.62 billion despite the 1% volume drop as selling prices were raised to pass on the increase in excise taxes. Meanwhile, revenues from bioethanol were 13% lower y-o-y to Php547 million from Php629 million, with a similar drop in volume.

TDI's nationwide market share was at 26.1% as of March 2018, compared to 24.9% as of March 2017 and 24.8% as of December 2017. 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 65.4% as of end-March 2018, compared to 61.1% as of end-March 2017. In Mindanao, our market share stood at 68.9% compared to 65.3% in the same periods.

GPM slightly improved to 17% from 16% due to slightly higher GPM of liquor. The Company was able to increase prices to pass on the additional excise taxes, while alcohol costs were slightly lower. Operating expenses were 28% higher as more was spent on advertising and selling expenses.

Eton Properties Philippines, Inc. (Eton)

Eton's net income for 1Q18 was Php97 million, Php22 million or 29% more than 1Q17's Php75 million.

Revenues were 8% higher y-o-y to Php579 million from Php535 million as leasing revenues were 8% more at Php353 million while sales from residential units increased by 9% to Php226 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 that was completed in December 2017.

In 2017, Eton broke ground on strategically-located, stand-alone pocket retail developments serving dense communities and districts. These are targeted to be completed by the end of 2018. Eton Square Ortigas in Greenhills, San Juan City will have 1,300 square meters of gross leasable area (GLA) while Eton City Square in Laguna will have 6,500 square meters of GLA.

The fifth BPO building in Centris, Quezon City topped off in 2017. It has 39,000 square meters of GLA that will be ready for occupancy within this year.

In Makati, the construction of eWestMall and eWestPod, the office and retail components of the lifestyle hub Eton WestEnd Square are in full swing. The mixed-use development has 15,000 square meters of combined retail and office space targeted for completion also by the end of 2018.

Eton currently has a leasing portfolio of 125,000 square meters of office space and over 36,000 square meters of commercial space.

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Amounts in Thousands)

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	₱173,194,792	₱174,024,418
Financial assets at fair value through profit or loss	5,089,280	6,518,419
Available-for-sale (AFS) investments	13,662,952	2,544,589
Loans and receivables	209,959,886	204,622,577
Due from related parties	2,028,625	2,028,625
Inventories	13,342,932	13,365,089
Other current assets	12,891,841	13,483,801
Total Current Assets	430,170,308	416,587,518
Noncurrent Assets		
Loans and receivables - net of current portion	306,124,418	307,622,788
AFS investments	55,700,189	70,664,823
Held-to-maturity (HTM) investments	47,802,344	26,732,182
Investment in associates and joint ventures	17,790,732	17,230,925
Property, plant and equipment:		
At appraised values	36,102,059	36,214,947
At cost	7,246,274	6,990,286
Investment properties	29,849,786	28,890,793
Deferred income tax assets	1,459,265	1,460,889
Other noncurrent assets	4,670,766	4,700,538
Total Noncurrent Assets	506,745,833	500,508,171
TOTAL ASSETS	₱936,916,141	₱917,095,689
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debts	₱1,650,000	₱1,550,000
Deposit liabilities	607,308,306	588,394,301
Financial liabilities at fair value through profit or loss	478,335	343,522
Bills and acceptances payable	27,403,507	36,634,337
Accounts payable and accrued expenses	25,948,928	22,023,972
Income tax payable	749,694	1,113,799
Due to related parties	56,842	56,842
Current portion of long-term debts	—	114,681
Other current liabilities	15,094,332	15,166,369
Total Current Liabilities (Carried Forward)	678,689,944	665,397,823

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Total Current Liabilities (Brought Forward)	₱678,689,944	₱665,397,823
Noncurrent Liabilities		
Deposit liabilities - net of current portion	39,499,607	39,286,226
Bills and acceptances payable	7,478,675	7,282,350
Long-term debts - net of current portion	1,482,587	1,475,466
Net retirement benefits liability	2,155,167	2,205,229
Deferred income tax liabilities	1,562,620	1,414,348
Other noncurrent liabilities	6,963,617	4,718,832
Total Noncurrent Liabilities	59,142,273	56,382,451
Total Liabilities	737,832,217	721,780,274
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	5,447,580	4,299,674
Retained earnings	80,111,783	78,435,633
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	151,138,559	148,314,503
Non-controlling interests	47,945,365	47,000,912
Total Equity	199,083,924	195,315,415
TOTAL LIABILITIES AND EQUITY	₱936,916,141	₱917,095,689

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

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

	Three Months Ended March 31	
	2018	2017
	(Unaudited)	(Unaudited)
REVENUE		
Banking	₱9,232,549	₱7,503,442
Beverage	3,105,982	2,864,169
Distilled spirits	4,222,644	4,224,574
Property development	578,539	535,096
	17,139,714	15,127,281
COST OF SALES AND SERVICES	7,665,103	7,092,620
GROSS INCOME	9,474,611	8,034,661
EQUITY IN NET EARNINGS OF ASSOCIATES	2,168,211	997,892
	11,642,822	9,032,553
OPERATING EXPENSES		
Selling expenses	635,642	695,719
General and administrative expenses	6,940,149	5,959,475
	7,575,791	6,655,194
OPERATING INCOME	4,067,031	2,377,359
OTHER INCOME (CHARGES)		
Finance costs	(30,007)	(70,631)
Finance income	23,342	23,904
Foreign exchange gains - net	30,138	407,592
Others - net	989,042	716,180
	1,012,515	1,077,045
INCOME BEFORE INCOME TAX	5,079,546	3,454,404
PROVISION FOR INCOME TAX		
Current	751,776	639,899
Deferred	21,359	(7,228)
	773,135	632,671
NET INCOME	₱4,306,411	₱2,821,733
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	₱3,630,528	₱2,245,057
Non-controlling interests	675,883	576,676
	₱4,306,411	₱2,821,733
Basic/Diluted Earnings Per Share	₱0.34	₱0.21