



LT GROUP, INC.

President's Report Full Year 2019

LT Group, Inc.'s audited attributable net income for 2019 reached Php23.12 billion, Php6.93 billion or 43% higher than the Php16.19 billion reported for 2018.

The tobacco business accounted for Php15.50 billion or 67% of total attributable income. Philippine National Bank (PNB) contributed Php5.57 billion or 24%. Eton Properties Philippines, Inc. (Eton) added Php896 million or 4%. Tanduay Distillers, Inc. (TDI) accounted for Php667 million or 3% while Asia Brewery, Inc. (ABI) provided Php398 million or 2%. The 30.9% stake in Victorias Milling Company, Inc. (VMC) accounted for Php251 million or 1%.

LTG's balance sheet remains strong. Debt-to-Equity Ratio was at 3.98:1 with the Bank, and at 0.17:1 without the Bank.

In the second half of 2019, LTG redeemed Php9.52 billion of the Php18.06 billion preferred shares issued in 2013 and 2014 for the acquisition of PNB. In July, LTG 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 December 2019, the cash balance of the parent company stood at Php441 million.

Tobacco

The tobacco business reported a net income of Php15.56 billion in 2019, Php6.81 billion or 78% more than the Php8.75 billion reported in 2018.

Equity in net earnings from LTG's 49.6% stake in PMFTC was Php15.40 billion, Php6.93 billion or 82% more than 2018's Php8.46 billion. The higher income is attributed to the higher share of premium Marlboro as well as the price increases implemented in late August 2019. Volume declined by 3% in 2019.

The Government continued its efforts against the illicit trade which included smuggled and locally produced products. In 2019, there were 116 enforcements, 53% more than 2018's 76 enforcements, with 12 illegal factories raided (vs. 7 in 2018), and 47 machines seized with a capacity of producing 30 million sticks per day.

On July 25, 2019, President Duterte signed Republic Act (RA) 11346 which increased further the excise tax on tobacco starting January 2020. From Php35 per pack in 2019, it increased to Php45

per pack in 2020, increasing by Php5 per pack annually from 2021 to 2023, then increasing 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 in further volume drops. The industry's volume was estimated at 108.9 billion sticks in 2012 and declined by 35% to an estimated 70.5 billion sticks in 2019. The industry is estimated to have declined by 4% in 2019. 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 excise tax was at Php35 per pack in 2019. This has increased further to Php45 per pack starting 2020, or 3.75x to 16.5x the 2012 level.

PMFTC and its main competitor implemented price increases in late August and early September 2019, 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 Php9.94 billion for 2019, 2% or Php161 million more than the Php9.78 billion reported for 2018. Both periods included gains from the sale of Real and Other Properties Acquired (ROPA), at Php425 million, net of taxes, in 2019 and Php3.85 billion in 2018. Excluding the ROPA gains, the Bank's core income was at Php9.51 billion in 2019, 61% or Php3.59 billion higher compared to 2018's Php5.92 billion.

Net Interest Income was 20% higher at Php32.46 billion from Php27.07 billion as loans and receivables grew by 12% year-on-year (y-o-y) to Php658 billion, as well as an increase in its investment portfolio. Net Interest Margin was slightly higher at 3.3% from 3.2%.

Net Service Fees and Commission Income grew 20% to Php4.19 billion from Php3.49 billion primarily due to higher deposit and credit card related fees.

Trading and Foreign Exchange Gains were 98% higher at Php2.18 billion from Php1.10 billion.

Operating Expenses were 11% higher at Php29.63 billion from Php26.81 billion. The increase in operating expenses was largely due to higher provisioning, depreciation and amortization, documentary tax stamps and gross receipts tax. Provisioning for probable credit losses was at Php2.89 billion compared to Php1.74 billion in 2018.

Net Non-Performing Loans (NPL) ratio was at 0.7% as of December 2019, higher than the end-2018 level of 0.3%. NPL cover stood at 119%, from 157% in 2018.

Eton Properties Philippines, Inc. (Eton)

Eton's net income for 2019 was at Php900 million, 88% or Php421 million more than 2018's Php479 million. The higher net income is largely attributed to the improvement in the gross profit margin of real estate sales to 53% from 29%.

Total revenues were at Php3.13 billion, 2% lower than the Php3.20 billion booked in 2018. Real estate sales reached Php1.43 billion, 16% lower than 2018's Php1.70 billion. Leasing revenues increased 14% to Php1.71 billion from Php1.50 billion due to the escalation rates of existing leases as well as additional space that came on stream.

Eton continued to expand its leasing portfolio with the opening of Eton WestEnd Square in Makati City during the second quarter of 2019. Its retail component, eWestMall, has two floors of retail spaces with a total leasable area of approximately 3,600 square meters. The office component, eWestPod, has over 13,000 square meters of office space.

At the end of 2019, Eton Properties had a leasing portfolio of approximately 181,000 square meters of office space and over 43,500 square meters of retail space.

Construction continued at the 36-storey Blakes Tower in Makati City which will have 10,500 square meters of office space and 14,000 square meters of residential space. Other ongoing projects are the 4.3-hectare Eton City Square in Sta. Rosa, Laguna, with the first phase having 6,900 square meters of commercial space and NXTower I, an office building along Emerald Avenue and Ruby Road in Ortigas with 21,000 square meters of gross leasable area.

Tanduay Distillers, Inc. (TDI)

TDI's net income for 2019 was Php676 million, Php233 million or 26% lower than the Php909 million reported in 2018. The lower income is due to slightly lower margins from higher alcohol costs and higher interest expenses.

Total revenues were Php19.28 billion, Php1.14 billion or 6% more than 2018's Php18.14 billion. Revenues from liquor were Php16.75 billion, 3% higher than 2018's Php16.20 billion with the 2% increase in volume and an average Php14 per case increase in selling price. Revenues from bioethanol were 30% higher at Php2.53 billion from Php1.94 billion as volume increased by 18% and selling prices by 12% to Php58 per liter.

As of end-2019, TDI's nationwide market share for distilled spirits was at 27.8%, slightly lower than end-2018's 29.0%. In the Visayas and Mindanao regions where most of TDI's sales are generated, market share was at 64.2% and 73.1%, respectively, as of December 2019, compared to 64.7% and 72.6%, respectively, as of December 2018.

Gross Profit Margin (GPM) was slightly lower at 17% from 18%, due to higher alcohol costs. Operating expenses were 7% higher at Php2.22 billion.

Asia Brewery, Inc. (ABI)

ABI's earnings for 2019 was Php398 million, 5% or Php23 million lower than the Php421 million reported for 2018.

Revenues were at Php15.93 billion, 6% or Php835 million higher than 2018's Php15.10 billion due to higher revenues from energy drinks, bottled water and soymilk.

Overall GPM was flat at 27%. Operating expenses were 10% 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 72% for 2019. Cobra was able to post a growth in volume in 2019, 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 a double-digit sales volume growth of in 2019. Our market share was at 25%, the second largest in this segment. Water accounted for 26% of revenues. The new plant in Pampanga started operating in May 2019.

ABI started selling locally-produced Vitamilk in returnable glass bottles in 1Q17. In 2019, 43% of Vitamilk's volume was locally produced, and is expected to have a bigger share going forward. Our soymilk market share was 77% in 2019 and sales in this category continue to grow by double-digit. Soymilk contributed 12% of total revenues.

The packaging business' revenues were 2% lower y-o-y 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**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Amounts in Thousands)

	December 31	
	2019	2018 (As Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	P184,913,132	P176,973,765
Financial assets at fair value through profit or loss (FVTPL)	13,469,380	10,784,350
Financial assets at fair value through other comprehensive income (FVTOCI)	16,968,590	9,684,883
Financial assets at amortized cost	25,252,670	25,306,661
Loans and receivables	260,926,594	210,015,362
Inventories	12,196,871	13,108,204
Due from related parties	2,029,436	2,028,632
Other current assets	11,379,265	10,479,266
Total Current Assets	527,135,938	458,381,123
Noncurrent Assets		
Loans and receivables - net of current portion	411,253,754	388,646,568
Financial assets at FVTOCI	110,549,031	48,122,239
Financial assets at amortized cost	75,212,087	75,499,200
Investments in associates and joint ventures	27,254,278	20,314,141
Property, plant and equipment:		
At appraised values	59,811,911	60,317,761
At cost	12,087,216	7,817,427
Investment properties	32,631,441	30,318,901
Deferred income tax assets - net	2,386,671	1,925,224
Other noncurrent assets	7,508,226	6,434,224
Total Noncurrent Assets	738,694,615	639,395,685
TOTAL ASSETS	P1,265,830,553	P1,097,776,808

LIABILITIES AND EQUITY**Current Liabilities**

Deposit liabilities	P772,143,072	P672,342,296
Financial liabilities at FVTPL	245,619	470,648
Bills and acceptances payable	51,821,601	60,549,245
Accounts payable and accrued expenses	26,700,462	22,719,837
Short-term debts	5,150,000	2,050,000
Current portion of long-term debts	1,002,593	90,829
Income tax payable	690,518	1,012,898
Due to related parties	65,325	80,199
Other current liabilities	18,842,433	16,508,539
Total Current Liabilities (Carried Forward)	876,661,623	775,824,491

	December 31	
	2019	2018 (As Restated)
Total Current Liabilities (Brought Forward)	₱876,661,623	₱775,824,491
Noncurrent Liabilities		
Deposit liabilities - net of current portion	46,095,883	47,219,123
Bills and acceptances payable	4,141,689	9,533,590
Long-term debts - net of current portion	71,566,863	18,555,324
Net retirement benefits liability	1,699,743	1,638,138
Deferred income tax liabilities - net	8,510,128	8,816,457
Other noncurrent liabilities	3,147,052	4,999,297
Total Noncurrent Liabilities	135,161,358	90,761,929
Total Liabilities	1,011,822,981	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	8,538,837	18,060,000
Other equity reserves	1,024,653	804,095
Other comprehensive income, net of deferred income tax effect	18,038,316	15,388,589
Retained earnings	112,604,635	91,998,914
Shares of stock of the Company held by subsidiaries	(12,519)	(12,519)
	186,921,542	172,966,699
Non-controlling interests	67,086,030	58,223,689
Total Equity	254,007,572	231,190,388
TOTAL LIABILITIES AND EQUITY	₱1,265,830,553	₱1,097,776,808

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

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

	Years Ended December 31		
	2019	2018 (As Restated)	2017 (As Restated)
REVENUE			
Banking	₱56,615,631	₱40,243,028	₱32,124,835
Distilled spirits	19,261,735	18,062,573	16,704,933
Beverage	15,234,051	14,125,559	12,948,796
Property development	3,132,431	3,198,735	2,233,063
	94,243,848	75,629,895	64,011,627
COST OF GOODS SOLD AND SERVICES	46,802,568	35,965,402	29,679,810
GROSS INCOME	47,441,280	39,664,493	34,331,817
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	14,813,251	7,966,691	3,963,505
	62,254,531	47,631,184	38,295,322
OPERATING EXPENSES			
Selling expenses	3,011,424	2,700,387	2,692,425
General and administrative expenses	32,720,730	29,809,844	24,584,811
	35,732,154	32,510,231	27,277,236
OPERATING INCOME	26,522,377	15,120,953	11,018,086
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	1,049,980	1,102,583	1,701,302
Finance income	146,253	206,641	157,100
Finance costs	(450,841)	(145,457)	(141,937)
Others - net	3,995,302	9,066,702	5,343,160
	4,740,694	10,230,469	7,059,625
INCOME BEFORE INCOME TAX	31,263,071	25,351,422	18,077,711
PROVISION FOR (BENEFIT FROM) INCOME TAX			
Current	4,210,851	4,809,047	3,605,838
Deferred	(513,537)	(15,886)	(108,783)
	3,697,314	4,793,161	3,497,055
NET INCOME	₱27,565,757	₱20,558,261	₱14,580,656
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	₱23,117,524	₱16,194,778	₱10,830,773
Non-controlling interests	4,448,233	4,363,483	3,749,883
	₱27,565,757	₱20,558,261	₱14,580,656
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company	₱2.14	₱1.50	₱1.00