

LT GROUP, INC.
(formerly “TANDUAY HOLDINGS, INC.”)

MANAGEMENT REPORT

ITEM 1. BUSINESS

1.1. CORPORATE HISTORY

LT Group, Inc. (“LTG” or the “Company”), a holding company which maintains its principal office at the 11th Floor, Unit 3 Bench Tower, 30th St. Corner Rizal Drive Crescent Park West 5 Bonifacio Global City, Taguig City, was originally incorporated on 25 May 1937 as “The Manila Wine Merchants, Inc.”, a trading company. It listed with the Philippine Stock Exchange (“PSE”) sometime in 1947 and was granted an extension of its corporate life for another 50 years in 1987. In 1995, it changed its corporate name to “Asian Pacific Equity Corporation” and its primary purpose to that of a holding company.

In 1999, the Company acquired Twin Ace Holdings Corporation (now known as “Tanduay Distillers, Inc.” and hereafter referred to as “TDI”, a producer of distilled spirits) through a share swap with Tangent Holdings Corporation (“Tangent” or the “Parent Company”) - the swap resulted in Tangent increasing its ownership in LTG to 97.0%. The Company thereafter changed its corporate name to “Tanduay Holdings, Inc”.

In 2012, in preparation for the Company’s new role, it adopted the corporate name “LT Group, Inc.”. A series of restructuring activities followed in 2012 through 2013 whereby LTG expanded and diversified its investments to include the beverage, tobacco, property development, and banking businesses of Mr. Lucio C. Tan and his family and assignees (collectively referred to as the “Controlling Shareholders” or the “Tan Companies”), to wit:

The Company has interests in the following businesses:

- **Distilled Spirits**—The Company conducts its distilled spirits business through its 100%-owned subsidiary TDI. TDI is the third-largest distilled spirits producer in the Philippines according to Nielsen Philippines, with an approximate 28.8% share of the Philippine spirits market in 2019.
- **Beverages**— The Company owns 99.9% of Asia Brewery, Inc. (“ABI”), one of the Philippines’ leading producers of non-alcoholic beverages which includes energy drinks, bottled water, and soymilk. ABI conducts its alcoholic beverage business through a 50% stake in AB Heineken Philippines, Inc. (“ABHP”), which produces bear and alcopop.
- **Tobacco**— The Company owns 99.6% in Fortune Tobacco Corporation (“FTC”), which in turn owns 49.6% of PMFTC Inc. (“PMFTC”). PMFTC is the leading tobacco manufacturer and

distributor in the Philippines with a 70.5% market share in the year 2019.

- **Banking**— The Company conducts its banking business through Philippine National Bank (“PNB”), a universal bank currently listed in the Philippine Stock Exchange (“PSE”). The Corporation’s indirect ownership in PNB is approximately 56.47%.PNB is the Philippines’ fourth largest private commercial bank in terms of total assets.
- **Property Development**— The Company conducts its property development business through Paramount Landequities, Inc. and Saturn Holdings, Inc., with an effective indirect ownership of 99.6% in Eton Properties Philippines, Inc. (Eton). Eton has a diverse portfolio of property development projects in various areas throughout the Philippines, primarily in Metro Manila and surrounding areas, and access to the large land bank of the Lucio Tan Companies. Eton’s project portfolio mainly comprises residential real estate projects (including large-scale township projects). Eton also develops and leases out commercial properties to retail and BPO tenants.

1.2. DESCRIPTION OF SUBSIDIARIES

A. *Distilled Spirits*

Tanduay Distillers, Inc. (“TDI”)

TDI was incorporated in the Philippines in 1988 and is primarily engaged in the business of manufacturing, compounding, bottling, importing, exporting, buying, selling or otherwise dealing in, at wholesale and retail, such finished goods as rum, brandy, whiskey, gin and other liquor products, and all equipment, materials, supplies used in the manufacture of such finished goods.

The following are subsidiaries of TDI:

- **Asian Alcohol Corporation (AAC) – 95%**

AAC is a domestic corporation registered with the SEC in 1973. The company is primarily involved in the manufacture of refined and/or denatured alcohol, the production of fodder yeast, and in the sale of such liquids or products.

- **Absolut Distillers, Inc. (ADI) – 96%**

ADI was incorporated in the Philippines in 1990 to engage in, manufacturing, distilling, importing, exporting, buying, selling or otherwise deal in alcohol, molasses, bioethanol, biogas and biomass for renewable energy at wholesale and retail. ADI is also engaged in the generation of renewable energy from solar power for lighting and power purposes.

- **Tanduay Brands International, Inc. (TBI) – 100%**

TBI was incorporated in 2003 to handle the marketing of TDI's products. In 2016, LTG sold its 100% ownership interest in TBI to TDI. In 2017, TBI opened its first store "Tanduay" in Century Park Hotel in Manila.

B. Beverage

Asia Brewery, Inc. ("ABI")

ABI was incorporated in the Philippines in 1979. In 2012, ABI, in partnership with Corporacion Empresarial Pascual S. L. of Spain, formed ABI Pascual Holdings Pte. Ltd., a jointly controlled entity organized and domiciled in Singapore. Later that year, the joint venture established ABI Pascual Foods Incorporated (APFI), an operating company in the Philippines engaged in the sale and distribution of yogurt products in the country.

In 2016, ABI and Heineken International B.V. (HIBV) of the Netherlands partnered to form AB Heineken Philippines Inc., a jointly controlled corporation engaged in the manufacture and sale of alcoholic beverages, non-alcoholic beer, malt-based beverages and related products of the aforementioned beverages. Pursuant to the partnership, ABI transferred its alcoholic beverage business to ABHP. Brands now controlled by ABHP include ABI-developed brands, Beer na Beer, Colt 45 and Brew Kettle, and HIBV's Heineken and Tiger.

The following are the wholly owned subsidiaries of ABI:

- **Agua Vida Systems, Inc. ("AVSI")**

AVSI was incorporated in the Philippines in 1994 as a purified water distribution and refilling company for homes and offices.

- **Waterich Resources Corporation ("WRC")**

WRC, incorporated in the Philippines in 1997, performs manufacturing of *Absolute Pure Distilled Drinking Water* and *Summit Water* for ABI.

- **Packageworld, Inc. ("PWI")**

PWI, incorporated in the Philippines in 1998, manufactures corrugated cartons for wholesale.

- **Interbev Philippines, Inc. ("IPI")**

IPI was incorporated in the Philippines in 2003 for the production and distribution of *Cobra* and *energy drinks*.

- **AB Nutribev, Inc. ("ABNC")**

ABNC, incorporated in the Philippines in 2014, manufactures and sells dairy and soy milk-based beverages.

- **Asia Pacific Beverages Pte. Ltd. (“APBPL”)**

APBPL was incorporated in 2014 under the laws of Singapore as an investment holding company for business opportunities in the region. APBPL acquired 90% of Asia Pacific Beverages Myanmar Co. Ltd. (APBM) in April 2017. APBM is a company incorporated in the Republic of the Union of Myanmar engaged in the manufacture and sale of non-alcoholic ready-to-drink beverage products in Myanmar.

C. Tobacco

Fortune Tobacco Corporation (“FTC”)

FTC was incorporated in the Philippines in 1965 to engage in cigarette manufacturing, selling, importing and exporting. FTC was responsible for introducing some of the most successful local cigarette brands in the Philippines, including the *Fortune*, *Champion* and *Hope* menthol brands. Prior to the creation of PMFTC, FTC was the largest domestic tobacco business in the Philippines.

FTC currently has an effective 49.6% stake in PMFTC, the business combination between the Philippine operations of Philip Morris International and the operations of FTC. PMFTC now carries the FTC brands and Philip Morris’ Marlboro.

D. Banking

Philippine National Bank (“PNB”)

PNB was incorporated in the Philippines in 1916. It is the country’s first universal bank and the fourth largest private local commercial bank in terms of assets as of 31 December 2019. PNB celebrated its Centennial Year in 2016.

It provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle market, SME and retail customers, with PNB having the distinction of being one of the only five authorized Government depository banks in the Philippines. The current PNB is a result of the merger between PNB and Allied Banking Corp., which was completed in 2013.

The following companies are owned by PNB:

| | | Principal Place of Business/Country of Incorporation | Functional Currency | Percentage of Ownership | |
|---|----------------------|--|------------------------|----------------------------|----------|
| | Industry | | | Direct | Indirect |
| Subsidiaries | | | | | |
| PNB Savings Bank (PNBSB)* | Banking | Philippines | Php | 100.00 | — |
| PNB Capital and Investment Corporation (PNB Capital) | Investment | - do - | Php | 100.00 | — |
| PNB Forex, Inc. (PNB Forex) | FX trading | - do - | Php | 100.00 | — |
| PNB Holdings Corporation (PNB Holdings) | Investment | - do - | Php | 100.00 | — |
| PNB General Insurers Inc. (PNB Gen) | Insurance | - do - | Php | 65.75 | 34.25 |
| PNB Securities, Inc. (PNB Securities) | Securities Brokerage | - do - | Php | 100.00 | — |
| PNB Corporation – Guam | Remittance | USA | USD | 100.00 | — |
| PNB International Investments Corporation (PNB IIC) | Investment | - do - | USD | 100.00 | — |
| PNB Remittance Centers, Inc. (PNB RCI) ^(a) | Remittance | - do - | USD | — | 100.00 |
| PNB Remittance Co. (Nevada) ^(b) | Remittance | -do- | USD | — | 100.00 |
| PNB RCI Holding Co. Ltd. ^(b) | Holding Company | - do - | USD | — | 100.00 |
| Allied Bank Philippines (UK) Plc (ABUK)* | Banking | United Kingdom | GBP | 100.00 | — |
| PNB Europe PLC | Banking | - do - | GBP | 100.00 | — |
| PNB Remittance Co. (Canada) ^(c) | Remittance | Canada | CAD | — | 100.00 |
| PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF) | Remittance | Hong Kong | HKD | 100.00 | — |
| Allied Commercial Bank (ACB)* | Banking | People’s Republic of China | USD | 99.04 | — |
| PNB-IBJL Leasing and Finance Corporation (PILFC) | Leasing/Financing | Philippines | Php | 75.00 | — |
| PNB-IBJL Equipment Rentals Corporation | Rental | - do - | Php | — | 75.00 |
| Allied Leasing and Finance Corporation (ALFC) * | Rental | - do - | Php | 57.21 | — |
| Allied Banking Corporation (Hong Kong) Limited (ABCHKL)* | Banking | Hong Kong | HKD | 51.00 | — |
| ACR Nominees Limited * | Banking | - do - | HKD | — | 51.00 |
| Oceanic Holding (BVI) Ltd.* | Holding Company | British Virgin Islands | USD | 27.78 | — |
| Associate | | | | | |
| Allianz-PNB Life Insurance, Inc. (APLII) | Insurance | - do - | Php | 44.00 | — |

* *Subsidiaries acquired as a result of the merger with ABC*

(a) *Owned through PNB IIC*

(b) *Owned through PNB RCI*

(c) *Owned through PNB RCI Holding Co. Ltd.*

Bank Holding Companies

In 2013, LTG acquired indirect ownership in PNB by acquiring several companies with a total ownership interest in PNB of 59.83% (collectively referred to as “Bank Holding Companies”), to wit:

1. Allmark Holdings Corp.
2. Dunmore Development Corp.
3. Kenrock Holdings Corp.
4. Leadway Holdings, Inc.
5. Multiple Star Holdings Corp.
6. Pioneer Holdings & Equities, Inc.
7. Donfar Management Ltd.
8. Fast Return Enterprises Ltd.
9. Mavelstone International Ltd.
10. Uttermost Success Ltd.
11. Ivory Holdings, Inc.

12. Merit Holdings & Equities Corp.
13. True Success Profits Ltd.
14. Key Landmark Investments Ltd.
15. Fragile Touch Investments Ltd.
16. Caravan Holdings Corp.
17. Solar Holdings Corp.
18. All Seasons Realty Corp.
19. Dynaworld Holdings Inc.
20. Fil-Care Holdings Inc.
21. Kentwood Development Corp.
22. La Vida Development Corp.
23. Profound Holdings Inc.
24. Purple Crystal Holdings, Inc.
25. Safeway Holdings & Equities Inc.
26. Society Holdings Corp.
27. Total Holdings Corp.

As of 31 December 2019, LTG has majority ownership over the Bank Holding Companies with 56.47% ownership of PNB.

E. Property Development

Saturn Holdings, Inc. (“Saturn”)

Saturn Holdings, Inc. was incorporated in the Philippines in 1997 as a holding company.

Paramount Landequities, Inc. (“Paramount”)

Paramount, incorporated in the Philippines in 1988, is a real estate development company.

Eton Properties Philippines, Inc. (“Eton”)

Eton was incorporated and registered in the Philippines in 1971 under the name “Balabac Oil Exploration & Drilling Co., Inc.” to engage in oil exploration and mineral development projects in the Philippines. It became a holding company in 1996 and in 2007, changed its name to Eton Properties Philippines, Inc. simultaneous with converting itself into a real estate development company.

The following real estate companies are 100%-owned by Eton:

- **Belton Communities, Inc. (“BCI”)**

Belton Communities, incorporated in 2007, caters primarily to the middle-income market segment with well-located communities.

- **Eton City, Inc. (“ECI”)**

ECI, incorporated in 2008, is a realty and holding company.

- **FirstHomes, Inc. (“FHI”)**

FHI was incorporated in 2010 as a real estate development company.

- **Eton Properties Management Corporation (“EPMC”)**

EPMC, incorporated in 2011, is a realty management company. It began commercial operations in 2016.

ITEM 2. DIRECTORS AND OFFICERS

Please refer to pages 54 through 12-13 of the Information Statement.

ITEM 3. MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

3.1. RESULTS OF OPERATIONS

The following discussion and analysis of the Group’s financial condition and results of operations should be read in conjunction with the consolidated financial statements as at 31 March 2020 and 31 March 2019, December 2019, 2018, and 2017 included in this report.

31 March 2020 vs 31 March 2019

CONSOLIDATED RESULTS OF OPERATIONS

| (In millions) | 3M20 | 3M19 |
|---|---------|---------|
| Revenues | P25,222 | P21,911 |
| Cost of Sales | 11,043 | 10,778 |
| Equity in Net Earnings of Associates and Joint Ventures | 4,851 | 2,517 |
| Operating Expenses | 12,329 | 8,512 |
| Operating Income | 6,701 | 5,138 |
| Other income-net | 794 | 1,054 |
| Income Before Income Tax | 7,495 | 6,192 |
| Total Net Income | 6,842 | 5,304 |
| Net Income Attributable to Equity Holders of the Parent Company | 6,213 | 4,422 |

LT Group, Inc. (LTG) recorded a consolidated net income of P6.8 billion for the three months ended March 31, 2020, 28.9% higher than the P5.3 billion reported for the same period last year.

The consolidated net income attributable to equity holders of LTG was P6.21 billion for 1Q20, 40.5% more than 1Q19. This was on account of the better operating results of the tobacco and property development segments, which more than offset the lower net incomes of the banking, distilled spirits and beverage segments. The tobacco segment’s net income increased by P2.2 billion from P2.9 billion in 2019 to P5.0 billion in 2020. Property development segment’s net income was P169 million, 13.4% higher than the P149 million in 1Q19. The banking segment’s net income dipped 29.6% from

₱1.9 billion for the first quarter ended March 31, 2019 to ₱1.4 billion in the same period of 2020. Distilled spirits segment's net income was ₱199 million, 15.0% lower than the ₱234 million recognized for the period ended March 31, 2019. The beverage segment's net income of ₱74 million in 1Q20 was lower by 9.8% compared to the reported income of ₱82 million in the same period last year. Equity in net earnings from the 30.9% stake in VMC contributed ₱91 million.

Consolidated revenues amounted to ₱25.2 billion for the three months ended March 31, 2020, 15.0% higher than the ₱21.9 billion recognized in 2019 on account of the increased revenues in the banking, distilled spirits and beverage segments.

Cost of sales and services slightly increased by 2.4% from ₱10.8 billion for the three months ended March 31, 2019 to ₱11.0 billion in the same period in 2020, primarily attributable to higher excise taxes on goods sold by the distilled spirits segment.

Operating expenses amounted to ₱12.3 billion in 1Q20 from ₱8.5 billion in 1Q19 or an increase of 44.9%. This was as a result of increased general and administrative expenses by 50.3%, from ₱7.8 billion in 2019 to ₱11.7 billion in 2020 and is mainly due to the additional provisions for impairment and credit losses for the anticipated impact of the Corona Virus Disease 2019 (COVID-19) pandemic to the bank's loan portfolio. Selling expenses slightly decreased to ₱0.6 billion in 1Q20 from ₱0.7 billion in 1Q19 as fewer advertising and related expenses were incurred.

SEGMENT OPERATIONS

Tobacco

The tobacco segment's net income was ₱5.0 billion for the three months ended March 31, 2020, higher than the ₱2.9 billion of the same period last year on account of the increase in equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱2.7 billion last year to ₱5.0 billion in 2020.

Banking

The banking segment's net income was ₱1.4 billion for the three months ended March 31, 2020, 29.6% lower than the ₱1.9 billion recorded for the same period in 2019 as the bank recognized significant provisions for impairment, credit and other losses of ₱3.4 billion. There was a substantial improvement in the bank's net interest income and net gains from trading and investment securities.

Interest income from banking operations was at ₱12.6 billion in 2020, 13.0% higher than the ₱11.1 billion earned last year, mainly due to the expansion in interest from loans, deposits with banks and others and trading and investment securities. Interest expense was at ₱3.7 billion for the three months ended March 31, 2020, down 7.3% from ₱4.0 billion in same period of 2019 due to declines in the interest expense from deposit liabilities and other borrowings. This resulted to a net interest income of ₱8.9 billion, 24.5% higher year-on-year.

Net service fees and commission income were flat at ₱1.0 billion in 1Q20 and 1Q19.

Trading and investment securities and net foreign exchange gains were higher at ₱2.21 billion in 1Q20 compared to 1Q19's ₱857 million.

Operating expenses increased by 54.8% mainly due to additional provisions for impairment, credit and other losses amounting to ₱3.4 billion for 1Q20 in anticipation of the impact of the COVID-19 pandemic to the bank's loan portfolio compared to ₱346 million that was provided for 1Q19.

Distilled Spirits

The distilled spirits segment posted a net income of ₱199 million for the three months ended March 31, 2020, a 15.0% decrease from the net income of ₱234 million reported in the same period last year.

Net revenues were higher by 7.1% y-o-y to ₱5.1 billion in 1Q20 mainly due to higher pricing despite the decline in the sales volume of liquor and bioethanol.

Cost of sales increased by 9.4% to ₱4.3 billion in the current period as against ₱3.9 billion in the same period last year primarily due to higher excise taxes. Gross profit margin was at 15.5% in 1Q20 lower than the 17.3% in 1Q19.

Operating expenses were flat at ₱0.5 billion in 1Q20 and 1Q19.

Property Development

The property development segment reported a net income of ₱169 million for the first three months of 2020, 13.4% higher than the ₱149 million for the same period last year.

Rental revenue for the first three months of 2020 accounted for ₱470 million or 76.9% of revenues, representing a 17.5% growth over the same period in 2019, as lease contracts were renewed at higher rates for the BPO offices. On the other hand, real estate sales were 42.7% lower y-o-y to ₱141 million.

Operating expenses were higher by 14.2% from ₱211 million in 1Q19 to ₱241 million in 1Q20.

Beverage

The beverage segment's net income was lower by 9.8% to ₱74 million for the three months ended March 31, 2020 from ₱82 million in the same period last year. Net income was lower due to increase in equitized loss in a joint venture.

Revenues of the beverage segment were flat at ₱3.9 billion in 1Q20 and 1Q19. Overall gross profit margin improved to 28.5% from 27.9% as a result of favorable product mix and pricing.

Operating expenses decreased by 8.0% to ₱0.6 billion in 2020 from ₱0.7 billion in 2019 on account of lower advertising and promotional expenses.

2019 vs 2018

CONSOLIDATED RESULTS OF OPERATIONS

| (In millions) | 2019 | 2018 |
|---|---------|---------|
| Revenues | ₱94,244 | ₱75,630 |
| Cost of Sales | 46,803 | 35,965 |
| Equity in Net Earnings of Associates and Joint Ventures | 14,813 | 7,967 |
| Operating Expenses | 35,732 | 32,510 |
| Operating Income | 26,522 | 15,121 |
| Other income-net | 4,741 | 10,230 |
| Income Before Income Tax | 31,263 | 25,351 |
| Total Net Income | 27,566 | 20,558 |
| Net Income Attributable to Equity Holders of the Parent Company | 23,118 | 16,195 |

LT Group, Inc. (LTG) reported a consolidated net income attributable to equity holders of ₱23.1 billion for the year ended 31 December 2019, 42.7% higher than the ₱16.2 billion recorded for the same period last year. This was on account of the improvement in the operating results of the tobacco, banking and property development segments, which more than offset the lower net income of the distilled spirits and beverage segments. The tobacco segment's net income increased by ₱6.8 billion from ₱8.8 billion in 2018 to ₱15.6 billion in 2019. The banking segment's net income improved by 1.6% from ₱9.8 billion for 2018 to ₱9.9 billion in 2019 on account of the recorded increase in the bank's core income consisting primarily of net interest income and net service fees and commission. Property development segment's net income was ₱900 million, 87.9% higher than the ₱479 million in 2018. Distilled spirits segment's net income was ₱676 million, 25.6% less than the ₱909 million recognized for the period ended December 31, 2018. The beverage segment's net income decreased to ₱398 million in the current period from ₱421 million in 2018. Equitized earnings from the 30.9% owned VMC contributed ₱251 million in the current period compared to ₱247 million in the same period last year.

Consolidated revenues amounted to ₱94.2 billion for the year ended 31 December 2019, 24.6% more than the ₱75.6 billion recognized in 2018 as banking, beverage and distilled spirits increased.

Cost of sales and services increased by 30.1% from ₱36.0 billion for 2018 to ₱46.8 billion in 2019, primarily attributable to higher interest expense incurred in deposit liabilities and increased cost of sales of the distilled spirits and beverage segments due to higher volume and raw materials cost.

Operating expenses amounted to ₱35.7 billion in 2019 from ₱32.5 billion in 2018 or an increase of 9.9%. This was as a result of increased general and administrative expenses by 9.8%, from ₱29.8 billion in 2018 to ₱32.7 billion in 2019 and higher selling expenses by 11.5%.

SEGMENT OPERATIONS

Tobacco

The tobacco segment's net income was ₱15.6 billion for the year ended 31 December 2019, significantly higher than the ₱8.8 billion for the same period last year on account of the increase in equity in net earnings from PMFTC (49.6% owned associate) from ₱8.5 billion last year to ₱15.4 billion in 2019. PMFTC's income increased due to a favorable mix with premium Marlboro accounting for a higher portion of the sales volume and price increases implemented in late August 2019.

Banking

The banking segment's net income was ₱9.9 billion for the year ended 31 December 2019 higher than the ₱9.8 billion recorded for the same period in 2018.

Interest income from banking operations was at ₱50.6 billion in 2019, 40.3% higher than the ₱36.1 billion earned last year, mainly on account of the expansion in loans, interbank loans and trading and investment securities portfolios. Interest expense was at ₱18.2 billion for the period ended 31 December 2019, up 101.5% from ₱9.0 billion in same period of 2018 primarily due to growth in deposit liabilities and other borrowings resulting to a net interest income of ₱32.5 billion, 19.9% higher year-on-year.

Net service fees and commission income improved from the previous period's ₱3.5 billion to ₱4.2 billion in the current period driven by the growth in deposit and credit card related fees.

Trading and investment securities and net foreign exchange gains were higher at ₱2.2 billion in 2019 compared to 2018's ₱1.1 billion. On the other hand, miscellaneous income decreased by 62.8% to ₱3.2 billion from ₱8.6 billion, due to lower gain from the sale of ROPA.

Operating expenses increased by 10.5% as growth in revenues particularly in interest income and trading gains translated to higher business taxes and other related administrative expenses.

Property Development

The property development segment reported a net income of ₱900 million for the year 2019, 87.9% greater than the ₱479 million for the same period last year.

Leasing revenues in 2019 accounted for ₱1.7 billion or 54.5% of revenues, representing a 14.2% increase compared to 2018, as lease contracts were renewed at higher rates for the BPO offices as well as the additional retail space at Eton Square Ortigas that was completed in 2018. Real estate sales were 16.4% lower y-o-y to ₱1.4 billion, but gross profit margin improved to 53% from 29%.

Operating expenses were slightly lower at ₱919 million in 2019 compared to 2018's ₱947 million.

Distilled Spirits

The distilled spirits segment posted a net income of ₱676 million for the year ended 31 December 2019, lower than the net income of ₱909 million reported in the same period last year.

Net revenues were higher by 6.3% y-o-y to ₱19.3 billion in 2019 mainly due to the improvement in liquor and bioethanol revenues.

Cost of sales increased by 8.2% to ₱16.1 billion in the current period as against ₱14.8 billion in 2018 primarily due to higher volume and raw material costs. Gross profit margin was lower at 16.7% in the current period compared to 18.1% last year.

Operating expenses were higher at ₱2.2 billion in 2019 from ₱2.1 billion in 2018, due to higher advertising, repairs and maintenance and other administrative expenses.

Beverage

The beverage segment's net income was lower by 5.5% to ₱398 million for the year ended 31 December 2019 from ₱421 million in the same period last year.

Revenues of the beverage segment were higher by 5.5% to ₱15.9 billion in 2019 from ₱15.1 billion in 2018. This was driven by the growth in revenues in energy drinks, bottled water and soymilk. Overall gross profit margin was flat at 27%.

Operating expenses increased by 9.5% to ₱2.6 billion in 2019 from ₱2.4 billion in 2018 on account of higher advertising, personnel, outside services, selling materials and freight and handling expenses.

2018 vs 2017

CONSOLIDATED RESULTS OF OPERATIONS

| (In millions) | 2018 | 2017 |
|---|---------|---------|
| Revenues | ₱75,630 | ₱64,012 |
| Cost of Sales | 35,965 | 29,680 |
| Equity in Net Earnings of Associates and Joint Ventures | 7,967 | 3,964 |
| Operating Expenses | 32,510 | 27,277 |
| Operating Income | 15,121 | 11,018 |
| Other income-net | 10,230 | 7,060 |
| Income Before Income Tax | 25,351 | 18,078 |
| Total Net Income | 20,558 | 14,581 |
| Net Income Attributable to Equity Holders of the Parent Company | 16,195 | 10,831 |

LT Group, Inc. (LTG) reported a consolidated net income of ₱20.6 billion for the year ended 31 December 2018, 41% higher than the ₱14.6 billion reported in 2017.

The consolidated net income attributable to equity holders of LTG was ₱16.2 billion for the year 2018, 49.5% more than 2017. This was on account of the improvement in the operating results of the tobacco, banking, distilled spirits and property development segments, which more than offset the lower net income of the beverage segment. The tobacco segment's net income increased by 100%, from ₱4.4 billion in 2017 to ₱8.8 billion in 2018. The banking segment's net income was up by 14.3%, from ₱8.6 billion for the year 2017 to ₱9.8 billion in 2018. The distilled spirits segment's net income was ₱479 million, 37.6% higher than the ₱348 million in 2017. The beverage segment's net income of ₱421 million in 2018 was lower by 23.7% compared to the reported income of ₱552 million in 2017. Equity in net earnings from the 30.9% stake in VMC contributed ₱247 million.

Consolidated revenues amounted to ₱75.6 billion for the year ended 31 December 2018, 18.6% higher than the ₱63.7 billion recognized in 2017 on account of the increased revenues in the banking, distilled spirits, beverage and property development segments.

Cost of sales and services increased by 21.2% from ₱29.7 billion for the year ended 31 December 2017 to ₱36.0 billion in the same period in 2018, primarily attributable to higher interest expense on deposit liabilities and increased cost of sales of the beverage and distilled spirits segments mainly due to the sugar tax imposed starting 2018 and higher raw material costs.

Operating expenses amounted to ₱31.0 billion in 2018 from ₱27.1 billion in 2017 or an increase of 14.5%. This was a result of increased general and administrative expense by 16.1%, from ₱24.4 billion in 2017 to ₱28.3 billion in 2018 and increase of 0.3% in selling expenses.

SEGMENT OPERATIONS

Banking

The banking segment's net income was ₱9.8 billion for the year ended 31 December 2018, 14.3% higher than the ₱8.6 billion recorded for the year 2017.

Interest income from banking operations was at ₱36.0 billion in 2018, higher than the ₱27.6 billion earned in 2017 by 20.6%. This is mainly on account of higher interest income from loans, investment securities and interbank loans receivables, as well as the improvement of Net Interest Margin (NIM) to 3.2% from 3.1%. Interest expense was at ₱9.0 billion for the year ended 31 December 2018, up 62.3% from ₱5.6 billion in same period of 2017 resulting to a net interest income of ₱27.0 billion, 22.7% higher year-on-year.

Net service fees and commission income improved from the previous period's ₱3.2 billion to ₱3.5 billion in the current period due to higher deposit, credit, interchange and bancassurance fees income.

Miscellaneous income increased by 44.5% from ₱5.1 billion to ₱7.4 billion, due to higher gain from the sale of Real and Other Properties Acquired (ROPA). On the other hand, trading and net foreign exchange gains were lower at ₱1.1 billion in 2018 compared to 2017's ₱2.2 billion.

Operating expenses increased by 16.3%, primarily due to higher provisioning on loans, taxes, and licenses, depreciation, occupancy, personnel costs and miscellaneous expenses.

Beverage

The beverage segment's net income of ₱421 million for the year ended 31 December 2018 was lower by 23.7% against ₱552 million for the same period last year.

Revenues of the beverage segment were higher by 8.7% to ₱15.1 billion in 2018 from ₱13.9 billion in 2017. This was driven by the growth in revenues in packaging, energy drinks, bottled water and soymilk. Overall gross profit margin declined to 27.2% from 31.0% as a result of product mix, higher purchase price of raw materials, fuel and oil as well as the excise tax on sweetened beverages.

Operating expenses were flat at ₱2.4 billion for the years 2018 and 2017.

Distilled Spirits

The distilled spirits segment posted a net income of ₱909 million for the year ended 31 December 2018, a 44.1% increase from the net income of ₱631 million reported last year.

Net revenues of ₱18.1 billion in 2018 were higher by 8.0% year on year, mainly due to the improvement in sales of Tanduay Five Years rum, the Company's flagship product, and bioethanol revenues.

Cost of sales increased by 5.5% to ₱14.8 billion in the current period as against ₱14.1 billion in the same period last year, primarily due to higher volume, raw material costs and depreciation. Gross profit margin was at 18.1% in 2018, higher than the 16.2% in 2017.

Operating expenses were higher by ₱214 million at ₱2.1 billion in 2018, due to increased selling and administrative expenses.

Property Development

The property development segment reported a net income of ₱479 million for the year 2018, 37.6% higher than the ₱348 million for the same period last year.

Real estate sales of ₱1.7 billion were 101.7% higher year on year, and comprised 53.3% of revenues, representing a 7.7% growth over the same period in 2017, as lease contracts were renewed at higher rates for the BPO offices as well as the additional retail space completed in December 2017.

Operating expenses were higher by 29.5% from ₱732 million in 2017 to ₱948 million in 2018.

Tobacco

The tobacco segment's net income was ₱8.8 billion for the year ended 31 December 2018. This is significantly higher than the ₱4.4 billion for the same period last year on account of the increase in equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱8.5 billion last year to ₱4.4 billion in 2018.

2017 vs 2016

CONSOLIDATED RESULTS OF OPERATIONS

| (In millions) | 2017 | 2016 |
|---|---------|---------|
| Revenues | ₱63,780 | ₱57,800 |
| Cost of Sales | 29,680 | 26,127 |
| Equity in Net Earnings of Associates | 3,963 | 2,786 |
| Operating Expenses | 28,322 | 27,915 |
| Operating Income | 9,742 | 6,544 |
| Other income-net | 8,336 | 6,391 |
| Income Before Income Tax | 18,078 | 12,936 |
| Total Net Income | 14,581 | 12,089 |
| Net Income Attributable to Equity Holders of the Parent Company | 10,831 | 9,390 |

LT Group, Inc. (LTG) reported a consolidated net income of ₱14.6 billion for the year ended 31 December 2017, 20.6% higher than the ₱12.1 billion reported in the same period in 2016.

The consolidated net income attributable to equity holders of LTG was ₱10.8 billion for 2017, 15.3% more than the ₱9.4 billion in 2016. The banking segment's net income was higher by 15.9% from ₱7.4 billion for the year ended 31 December 2016 to ₱8.6 billion in 2017. LTG's share in the net income of the banking segment improved from ₱4.1 billion in 2016 to ₱4.8 billion in 2017. In 2016, LTG's share in net income of the banking segment included a ₱724 million elimination on the gain from sale of land by PNB to Eton. Including this elimination, the bank's net contribution to LTG in 2016 was ₱3.4 billion, and 2017's ₱4.68 billion, 41.3% higher year-on-year. The tobacco segment's net income increased by ₱1.8 billion, from ₱2.6 billion in 2016 to ₱4.4 billion in 2017. The distilled spirits segment's net income was ₱631 million, a decrease of 30.5% versus the 2016 income recorded in 2016. The beverage and property development segments' net income were ₱552 million and ₱348 million in 2017 were lower by 68.6% and 10.3%, respectively, compared to the incomes in the same period last year. Equity in net earnings from LTG's stake in VMC contributed ₱174 million for 2017. As of 31 December 2017, LTG's stake in VMC stood at 30.9%.

Consolidated revenues amounted to ₱63.8 billion for the year ended 31 December 2017, 10.4% better than the ₱57.8 billion recognized in 2016 on account of the higher revenues in the banking, distilled spirits and beverage segments.

Cost of sales and services increased by 13.6% from ₱26.1 billion in 2016 to ₱29.7 billion in the current year, primarily attributable to higher interest expense on deposit liabilities and increased cost of sales of the distilled spirits and beverage segments mainly due to higher excise taxes and raw material costs. The property development

segment reported a 39.8% decline in cost of sales as a result of lower booked sales from real estate development projects.

Operating expenses amounted to ₱28.3 billion in 2017 from ₱27.9 billion in 2016 or an increase of 1.5%. This was as a result of higher selling expenses, which amounted to ₱2.4 billion in 2016 as against ₱2.7 billion in 2017.

Other income increased by 30.4% primarily due to higher gain on sale of assets. Interest income and net foreign exchange gains were higher by 47.6% and 10.8%, respectively. Interest expense was lower by 29.9% due to loan settlements.

SEGMENT OPERATIONS

Banking

The banking segment's net income was ₱8.6 billion for the year ended 31 December 2017, higher by 15.9% compared to the ₱7.4 billion recorded for the same period in 2016.

Interest income from banking operations was at ₱27.6 billion in 2017, 13.4% higher than the ₱24.4 billion realized last year, mainly on account of higher interest income from loans and receivables, deposits with banks and others and interbank loans receivable.

Interest expense was at ₱5.6 billion for 2017, an increase of 15.5% from the ₱4.8 billion recorded in 2016 resulting to a net interest income of ₱22.1 billion, 12.9% higher year-on-year.

Net service fees and commission income exceeded the previous period's ₱2.7 billion to ₱3.2 billion in the current period, attributable to higher deposit and trade related fees, arranger's fees, bancassurance and other bank commission, underwriting and securities dealership transactions, as well as loan related and other fee income.

Miscellaneous income declined by 7.2% to ₱8.6 billion, due to lower mark-to market gains on trading and investment securities.

Beverage

The beverage segment's net income was ₱552 million for the year ended 31 December 2017, 68.5% lower than the ₱1.76 billion in the same period last year.

Revenues of the beverage segment were higher by 17.2%, from ₱11.9 billion in 2016 to ₱13.9 billion in 2017. This was driven by the continued growth in the revenues of Absolute and Summit bottled water and Vitamilk soymilk. However, gross profit margin dipped from 34% in 2016 to 31% in 2017, on account of the increase in cost of sales by 22.7% due to higher depreciation, labor costs, fuel and utilities expenses.

Likewise, operating expenses increased by 8.8%, from ₱2.2 billion in 2016 to ₱2.4 billion in 2017, on account of higher advertising and promotional expenses, salaries and wages, taxes and licenses and miscellaneous expenses.

Distilled Spirits

The distilled spirits segment posted a net income of ₱631 million for the year ended 31 December 2017, 30.5% lower than the ₱908 million reported in the same period last year due to lower bio-ethanol sale.

Net revenues were higher by 11.9%, from ₱15.0 billion in 2016 compared to ₱16.8 billion in 2017 due to higher volumes of liquor, especially the flagship product, Tanduay Five Years.

Cost of sales increased by 14.5% to ₱14.1 billion in the current period as against ₱12.3 billion in the same period last year primarily due to higher distilled spirits volumes sales, alcohol costs and increase in excise taxes. Consequently, gross profit margin was at 16.2% in 2017, lower than the 18.1% in 2016.

Operating expenses was at ₱1.9 billion in 2017, 22.7% higher than the ₱1.6 billion in 2016 on account of higher advertising, freight and handling, management and professional fees and other selling expenses.

Property Development

The property development segment reported a net income of ₱348 million for the year 2017, slightly lower than the ₱390 million for the same period last year.

Residential property sales were lower by 45.6% to ₱845 million for 2017. Rental revenues in 2017 accounted for ₱1.4 billion or 62.2% of revenues, representing an 8.6% growth over the same period in 2016, as the lease contracts were renewed at higher rates for the BPO offices.

Operating expenses were higher by 7.3% from ₱682 million in 2016 to ₱732 million in 2017, mainly on account of higher repairs and maintenance expense, depreciation and outside services fees.

Tobacco

The tobacco segment's net income was ₱4.4 billion for the year 2017, 70.3% higher than the ₱2.6 billion of the same period last year, on account of the increase in equity in net earnings from PMFTC from ₱2.6 billion last year to ₱4.4 billion in 2017.

3.2. FINANCIAL CONDITION

31 March 2020 vs. December 31, 2019

The Company's consolidated Total Assets as of March 31, 2020 and December 31, 2019 amounted to ₱1.2 trillion and ₱1.3 trillion, respectively. Current Assets increased by 8.7% or ₱45.8 billion and Noncurrent Assets were lower by ₱96.4 billion or 13.1%.

The consolidated Current Assets increased by 8.7% from ₱527.1 billion as of December 31, 2019 to ₱572.9 billion. Cash and Cash Equivalents increased level from ₱184.9

billion as of end-2019 to ₱201.2 billion as of March 31, 2020 on account of higher Due from Other banks, Interbank Loans Receivables and Securities Held Under Agreement to Resell of the banking segment. Financial Assets at Fair Value through Profit or Loss increased due to acquisitions during the year and increase in the fair values of the portfolio. Current portion of Loans and Receivables was greater than end-2019 level by 3.9% at ₱271.1 billion as the banking segment reclassified collectible loans in the current period. Financial Assets at Amortized Cost-current increased due to reclassification of currently maturing investments. Inventories as of March 31, 2020 amounted to ₱12.9 billion, 6.1% higher than end-2019 due to higher ending inventory levels of the distilled spirits segment. Other Current Assets amounted to ₱12.9 billion as of March 31, 2020, 13.4% increase from ₱11.4 billion as of December 31, 2019. Financial Assets at Fair Value through Other Comprehensive income decreased due to disposal of various securities, net of purchases.

The 13.1% decrease in consolidated Noncurrent Assets was mainly due to the movements in the Noncurrent portion of Loans and Receivables, Financial Assets at FVTOCI and Financial Assets at Amortized Cost. Noncurrent portion of Loans and Receivables were lower by ₱16.4 billion due to the net paydowns of loans and receivables and higher provision for impairment, credit and other losses. Financial Assets at FVTOCI and Financial Assets at Amortized Cost were lower by ₱70.3 billion and ₱10.8 billion, respectively on account of disposal of various investment securities, net of purchases made as of March 31, 2020. Deferred income tax assets (DTA) were higher by ₱0.6 billion, from ₱2.4 billion as of end-2019 to ₱3.0 billion as of March 31, 2020 as additional DTA on allowance for expected credit losses, for which the bank has the benefit of tax deductions against future taxable income only upon actual write-offs.

Consolidated Total Liabilities decreased by 4.6% to ₱965 billion as of March 31, 2020 from ₱1.0 trillion as of December 31, 2019. This was on account of the decrease in Total Current Liabilities by 6.7% from ₱876.7 billion in December 31, 2019 to ₱817.9 billion as of the end of the current period and increase in Noncurrent Liabilities of 9.0% from ₱135.2 billion to ₱147.3 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱741.3 billion as of March 31, 2020, 4.0% lower than end-2019 balance. Current portion of Bills and Acceptances Payable decreased by 41.3% due to settlement of interbank loans from the BSP and local banks. Other current liabilities decreased from ₱18.8 billion as of end-2019 to ₱14.2 billion in current period due to settlements made as of March 31, 2020. Short-term debts as of March 31, 2020 amounted to ₱2.8 billion, 45.8% lower than end-2019 on account of payments made by the parent company. Current portion of long-term debts outstanding of ₱1.0 billion as of December 31, 2019 decreased to ₱0.9 billion as of March 31, 2020 due to payments made by the property development segment. Income tax payable was higher by 69.2% versus the December 31, 2019 level due to the income tax provisions made in the current period.

The increase in the Noncurrent Liabilities was on account of the higher Bills and Acceptances Payable net of current portion by ₱10.8 billion as of March 31, 2020, as the bank reclassified some from current to noncurrent portion. Other Noncurrent liabilities increased by 95.3% to ₱6.1 billion as of March 31, 2020 from ₱3.1 billion due to various accruals in 2020.

LTG's consolidated Total Equity declined by 1.6% to ₱250.0 billion as of March 31, 2020, on account decrease in the other comprehensive income from the unrealized gain in fair value of investments and additional payment of Preferred shares of subsidiaries issued to Parent company amounting to ₱4.7 billion. This was partially offset by the increase in the retained earnings brought about by the income earned for the period ended March 31, 2020 of ₱6.2 billion.

2019

The Company's consolidated Total Assets as of 31 December 2019 and 31 December 2018 amounted to ₱1.3 trillion and ₱1.1 trillion, respectively. Current Assets increased by 15.0% or ₱68.8 billion and Noncurrent Assets were higher by ₱99.3 billion or 15.5%.

The increase in consolidated Current Assets by 15.0% from ₱458.4 billion as of 31 December 2018 to ₱527.1 billion was primarily due to higher Cash and Cash Equivalents level from ₱177.0 billion as of end-2018 to ₱184.9 billion as of 31 December 2019 on account of higher deposits received, Loans and Receivables – Current Portion of the banking segment. Current portion of Loans and Receivables was greater than end-2018 level by 24.2% at ₱260.9 billion as the banking segment was able to lend out more corporate loans in 2019.

Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI) and Financial Assets at Fair Value through Profit or Loss increased due to acquisitions during the year and favorable hike in the fair values of the various investment portfolio. Inventories as of 31 December 2019 amounted to ₱12.2 billion, 7.0% lower than end-2018 due to lower ending inventory levels of the property development and distilled spirits segments. Other Current Assets amounted to ₱11.4 billion as of 31 December 2019, 8.6% increase from ₱10.5 billion as of 31 December 2018.

The 15.5% increase in consolidated Noncurrent Assets was mainly due to the movements in the Noncurrent portion of Loans and Receivables and Financial Assets at FVTOCI. Noncurrent portion of Loans and Receivables were higher by ₱22.6 billion due to the growth in booked loans by the banking segment. Financial Assets at FVTOCI were higher by ₱62.4 billion on account of acquisitions of various investment securities made as of 31 December 2019.

Investments in associates and joint ventures increased by 34.2% on account of equitized earnings recorded for the year ended December 2019. Property, plant and equipment – at cost was higher by ₱4.3 billion due to various acquisitions during the year 2019 and recognition of Right of Use of Assets. Investment properties were higher by 7.6% due to various acquisitions during the year 2019. Deferred income tax assets were higher by 24.0% on account of adjustments on temporary tax differences recorded in 2019. Other noncurrent assets were higher by ₱1.1 billion, from ₱6.4 billion as of end-2018 to ₱7.5 billion as of 31 December 2019.

Consolidated Total Liabilities increased by 16.8% to ₱1.0 trillion as of 31 December 2019 from ₱866.6 billion as of 31 December 2018. This was on account of the increase in Total Current Liabilities by 13.0% from ₱775.8 billion in 31 December

2018 to ₱876.7 billion as of the end of the current period and increase in Noncurrent Liabilities of 48.9% from ₱90.8 billion to ₱135.2billion.

The current portion of the banking segment's Deposit Liabilities amounted to ₱772.1 billion as of 31 December 2019, 14.8% higher than end-2018 balance. Accounts Payable and Accrued Expenses increased to ₱26.7 billion or 17.5% higher than ₱22.7 billion as of 31 December 2018 due to the various accruals in 2019. Short-term debts as of 31 December 2019 amounted to ₱5.2 billion, 151.2% higher than end-2018 on account of availments by the beverage segment and parent company. The current portion of long-term debts outstanding of ₱91 million as of 31 December 2018 increased to ₱1.0 billion as of 31 December 2019 due to a reclassification from noncurrent to current for the nearly maturing debt and recognition of current portion of lease liability along with the recording of the right of use of asset account for the adoption of PFRS 16 - Leases.

Other current liabilities increased from 16.5 billion as of end-2018 to ₱18.8 billion in current period due to additional accrual of transactions during the year 2019. Current portion of Bills and Acceptances Payable decreased by 14.4% due to settlement of interbank loans from the BSP and local banks. The Current Financial Liabilities at Fair Value through Profit or Loss were lower by 47.8% to ₱246 million as of end-2019. Income tax payable was lower by 31.8% versus the 31 December 2018 level due to the income tax payments made in the current period. The current portion of Due To Related Parties decreased from ₱80 million to ₱65 million as payments were made in 2019.

The increase in the Noncurrent Liabilities was on account of the higher Long-Term debts net of current portion of the banking segment by ₱53.0 billion as of 31 December 2019, as the bank issued fixed-rate bonds and Euro Medium Term Notes (EMTN) partially offset by Noncurrent Bills and Acceptances Payable which decreased by ₱5.4billion. Other Noncurrent liabilities declined by 37.1% to ₱3.1 billion as of 31 December 2019 from ₱5.0 billion due to various settlements in 2019.

LTG's consolidated Total Equity grew 9.9% to ₱254.0 billion as of 31 December 2019, on account of the increase in Retained Earnings coming from the net earnings during the period and increase in the other comprehensive income from the unrealized gain in fair value of investments. The increase in the noncontrolling interests were relative to the increase in the other comprehensive income and issuance of stock rights by the banking segment. This was partially offset by the partial redemption of the Preferred shares of subsidiaries issued to Parent company amounting to ₱9.5 billion.

2018

The Company's consolidated Total Assets as of 31 December 2018 amounted to ₱1,097.8 billion, an increase of 19.7% from ₱917.1 billion as of 31 December 2017. This was mainly on account of the increase in Current Assets by 14.3% or ₱59.4 billion and increase in Noncurrent Assets of ₱121.3 billion or 24.2%.

The increase in consolidated Current Assets by 14.3% from ₱416.6 billion as of 31 December 2017 to ₱475.0 billion was primarily due to the higher Current Portion of Loans and Receivables on account of the increased booking of loans and higher Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI) –

formerly called Held To Maturity (HTM) Investments by the bank. Cash and Cash Equivalents were higher from ₱174.0 billion as of end-2017 to ₱176.5 billion as of 31 December 2018. Inventories and Other Current Assets declined by ₱0.26 billion and ₱3.4 billion, respectively, mainly due to lower inventory level of the property development segment, while for Other Current Assets, it declined because of the banking segments' lower levels of FXTN and miscellaneous assets. Assets of Disposal Group Classified as Held for Sale pertains to the banking segment's PNB General Insurance (PNB Gen) assets which will be exchanged for shares in Allied Bankers Insurance Corporation (ABIC), an affiliate.

The 24.2% increase in Total Noncurrent Assets was mainly due to the movements in the Noncurrent Financial Assets at Amortized Cost, Property, Plant and Equipment and Noncurrent Portion of Loans Receivables. Noncurrent Financial Assets at Amortized Cost were higher by 273.2% due to the bank's reclassification of Financial Assets at FVTOCI to HTM investments. Noncurrent Financial Assets at FVTOCI decreased by 31.9% to ₱48.1 billion from ₱70.7 billion. Noncurrent portion of Loans and Receivables were higher by ₱40.1 billion due to higher booking of loans by the bank. Property, plant and equipment (PPE) – at cost was higher by ₱0.8 billion due to various acquisitions during the year 2018, while PPE – at appraised was higher by ₱24.1 billion due to the banking segment's new appraisal of properties in 2018.

Investment in Associates and Joint Ventures was higher by ₱3.1 billion to ₱20.3 billion, due to higher equity earnings from PMFTC. Other noncurrent assets and Deferred income tax assets were higher by ₱0.8 billion and ₱0.4 billion, respectively compared to end-2017 balances.

Consolidated Total Liabilities increased by 19.1% to ₱859.4 billion as of 31 December 2018 from ₱721.8 billion as of December 31, 2017. This was on account of the increase in Total Current Liabilities by 16.5% from ₱665.4 billion in 31 December 2017 to ₱775.0 billion as of the end of the current period and increase in Noncurrent Liabilities of 62.5% from ₱56.4 billion to ₱91.6 billion.

The current portion of the banking segment's Deposit Liabilities amounted to ₱672.3 billion as of 31 December 2018 – 14.3% higher than 31 December 2017. Accounts Payable and Accrued Expenses increased to ₱22.5 billion or 2.2% higher than ₱22.0 billion as of 31 December 2017 due to the various accruals as of end-2018. Income tax payable is 9.1% versus the 31 December 2017 level due to the income tax payments made during the year 2018. Financial liabilities at Fair Value through ₱0.5 billion as of 31 December 2018, on account of the bank's higher derivative liabilities. Short-term debt was higher by 32.3% to ₱2.1 billion in the current period from ₱1.6 billion in 31 December 2017, due to the availment of a loan by the beverage segment. The current portion of Due to Related Parties increased to ₱0.1 billion on account of reclassifications made during the year. The current portion of Bills and Acceptances Payable increased by 65.3% mainly due to the higher currently maturing bills and acceptances payable by the banking segment. The current portion of long-term debts outstanding of ₱91 million as of 31 December 2018 was lower versus end-2017 due to payments made during the year. Other current liabilities decreased from ₱15.2 billion as of end-2017 to ₱8.6 billion in current period due to various settlements made during the year 2018. Liabilities of disposal group classified as held for sale pertains to the banking segment's PNB Gen Liabilities.

The increase in the Noncurrent Liabilities was on account of the issuance of bonds by the banking segment which increased the Long-Term Debts Noncurrent portion by ₱ 17.1 billion to ₱18.6 billion as of end-2018, and higher Noncurrent Bills and Acceptances Payable by ₱2.3 billion of the banking segment. Deposit Liabilities (noncurrent) of the banking segment increased from ₱39.3 billion as of 31 December, 2017 to ₱47.2 billion as of 31 December 2018. Accrued Retirement Benefits decreased by 25.8% or ₱0.6 billion. Other noncurrent liabilities increased by 24.3% to ₱5.9 billion as of 31 December 2018 from ₱4.7 billion due to various accruals and additional obligations incurred in 2018. Deferred income tax liabilities increased to ₱8.8 billion due to various tax temporary timing differences accrued in 2018.

LT Group's consolidated Total Equity grew 18.4% to ₱231.2 billion as of 31 December 2018, on account of the increase in Retained Earnings coming from the net earnings during the period and increase in Other Comprehensive Income of 257.9% due to the increase in revaluation surplus of the banking segment's properties.

2017

The Company's consolidated Total Assets as of 31 December 2017 amounted to ₱917.1 billion, an increase of 10.6% from ₱829.1 billion as of 31 December 2016. This was mainly on account of the increase in Current Assets by 2.9% or ₱11.8 billion and increase in Noncurrent Assets of ₱76.2 billion or 18.0%.

The increase in the consolidated Current Assets from ₱404.8 billion as of 31 December 2016 to ₱416.6 billion was mainly due to the increase in Current Loans and Receivables by ₱14.8 billion, a result of the bank's higher booking of loans in 2017. Inventories and Other Current Assets increased by 4.0% and 27.2%, respectively to ₱13.4 billion and ₱13.5 billion as of 31 December 2017, respectively. Due From Related Parties increased from ₱1.9 billion to ₱2.0 billion due to additional advances during the year. There was a 70.0% decrease in Current Available For Sale Investments due to the various disposals and reclassifications to noncurrent by the bank.

The 18.0% increase in Total Noncurrent Assets was mainly due to the movements in the Noncurrent Loans and Receivables, AFS investments, Held to Maturity Investments, Property, plant and equipment (PPE) and Other Noncurrent Assets. Noncurrent Loans and Receivables increased to ₱307.6 billion as of 31 December 2017, due to the bank's higher booking of loans for 2017. AFS investments and Held to Maturity Investments were higher by 17.5% and 10.9%, respectively, on account of the bank's additional investments and higher market values of its portfolios. PPE account increased to ₱43.2 billion in the current period from ₱41.3 billion in 31 December 2016, on account of the various acquisitions for the year ended 2017. Other Noncurrent Assets increased by 26.1% to ₱4.7 billion in 2017.

Consolidated Total Liabilities increased by 11.0% to ₱721.8 billion as of end-2017 from ₱650.5 billion as of end-2016. This was on account of the increase in Total Current Liabilities by 15.1% from ₱578.1 billion in 31 December 2016 to ₱665.4 billion as of the end of the current period offset by the decrease in Noncurrent Liabilities of 22.1% from ₱72.4 billion to ₱56.4 billion.

The current portion of the banking segment's Deposit Liabilities amounted to ₱588.4 billion as of 31 December 2017, 14.1% higher than 31 December 2016. The current portion of Bills and Acceptances Payable increased by 46.1%, mainly due to the reclassification of currently maturing bills and acceptances payable by the banking segment. Accounts Payable and Accrued Expenses amounted to ₱22.0 billion or 27.4% higher than ₱17.3 billion as of 31 December 2016 due to the various accruals of different segments in 2017. Income tax payable is higher by 294.9% versus the 31 December 2016 level. Financial liabilities at fair value through profit or loss was 47.5% higher than the December 2016 level due to higher derivative liabilities during the year. Short-term debt was lower by 11.4%, from ₱1.8 billion in 31 December 2016 to ₱1.6 billion in the current period, due to the payment of the beverage segment's loan. The current portion of long-term debt decreased by 75.4% to ₱114.7 million due to the payments made by the property development segment during the year. Other current liabilities decreased by 12.7% from ₱17.4 billion to ₱15.2 billion in the current period.

The decrease in the Noncurrent Liabilities was on account of lower Deposit Liabilities (noncurrent) of the banking segment from ₱45.9 billion as of 31 December 2016 to ₱39.3 billion as of 31 December 2017. Also, Noncurrent Bills and Acceptances Payable of the bank was lower by ₱3.5 billion, from ₱10.8 billion as of end-2016 to ₱7.3 billion in the current period. Long-term debt-net of current portion decreased by 71.1% due to the payment of the bank's subordinated debt in 2017. Accrued retirement benefits decreased by 43.4% due to the settlement and adjustments made during the year. Deferred Income Tax Liabilities increased by 6.9% due to accrual of temporary tax differences. Other Noncurrent Liabilities of the banking segment decreased by 12.8% or ₱693 million.

LTG's consolidated Total Equity grew 9.4% to ₱195.3 billion as of 31 December 2017, on account of the increase in Retained Earnings coming from the net earnings during the period and other comprehensive income.

3.3. KEY PERFORMANCE INDICATORS

LTG uses the following major performance measures. The analyses are based on comparisons and measurements on financial data of the current period against the same period of the previous year. The discussion on the computed key performance indicators can be found in the "Results of Operations" in the MD&A above.

31 March 2020 vs 31 March 2019

1.) Revenues

Revenues for the period ended March 31, 2020 amounted to ₱25.2 billion, 15.1% higher from last year's ₱21.9 billion.

2.) Net Income

Consolidated Net Income for the three months ended March 31, 2020 and 2019 amounted to ₱6.8 billion and ₱5.3 billion, respectively.

3.) Current Ratio

Current ratio was 0.60:1 as of December 31, 2019 and 0.70:1 as of March 31, 2020.

4.) Debt to Equity Ratio

Debt-to-equity ratio decreased from 3.98:1 in December 31, 2019 to 3.86:1 as of March 31, 2020.

5.) Earnings/ (Loss) Per Share

LTG's earnings per share attributable to holders of the parent company for the three months ended March 31, 2020 and 2019 were ₱0.57 and ₱0.41, respectively.

2019 vs 2018

1.) Gross Profit Ratio

Gross profit ratio in 2018 was 50.3% versus 52.4% in 2018.

2.) Return on Equity

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2019 amounted to ₱23.1 billion; higher by 42.7% from last year's ₱16.2 billion. Ratio of net income to equity is 12.4% in 2019 and 9.4% in 2018.

3.) Current Ratio

Current Ratio for 2019 is 0.60:1 while last year's was 0.59:1.

4.) Debt-to-equity ratio

Debt-to-equity ratio for 2019 is 3.98:1 as compared to last year's 3.75:1.

5.) Earnings per share

Earnings per share attributable to holders of the parent company for 2019 is ₱2.14 and ₱1.50 in 2018.

2018 vs 2017

1.) Gross Profit Ratio

Gross profit ratio in 2018 was 52.4% versus 53.4% in 2017.

2.) Return on Equity

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2018 amounted to ₱16.2 billion; higher by 49.5% from last year's ₱10.8 billion. Ratio of net income to equity is 9.4% in 2018 and 7.3% in 2017.

3.) Current Ratio

Current Ratio for 2018 is 0.61:1 while last year's was 0.62:1.

4.) **Debt-to-equity ratio**

Debt-to-equity ratio for 2018 is 3.75:1 as compared to last year's 3.70:1.

5.) **Earnings per share**

Earnings per share attributable to holders of the parent company for 2018 is ₱1.50 and ₱1.00 in 2017.

2017 vs 2016

1.) **Gross Profit Ratio**

Gross profit ratio in 2017 was 53.5% versus 54.8% in 2016.

2.) **Return on Equity**

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2017 amounted to ₱10.8 billion; higher by 15.3% from last year's ₱9.4 billion. Ratio of net income to equity is 7.3% in 2017 and 6.9% in 2016.

3.) **Current Ratio**

Current Ratio for 2017 is 0.63:1 while last year's was 0.70:1.

4.) **Debt-to-equity ratio**

Debt-to-equity ratio for 2017 is 3.70:1 as compared to last year's 3.64:1.

5.) **Earnings per share**

Earnings per share attributable to holders of the parent company for 2017 is ₱1.00 and ₱0.87 in 2016.

The manner by which LTG calculates the indicators above is as follows:

| | |
|----------------------|--|
| Gross profit ratio | = Gross profit/Net sales |
| Return on Equity | = Net Income Attributable to Equity Holders of the LTG/Stockholders equity |
| Current Ratio | = Current assets/Current liabilities |
| Debt-to-equity ratio | = Total liabilities/Total equity |
| Earnings per share | = Net income attributable to holders of the parent company/weighted average number of shares |

3.4. OTHER MATTERS

- (i) There are no other trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's increasing or decreasing liquidity in any material way. The Group is

not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company does not have any liquidity problems.

- (ii) There are no events that will trigger direct or contingent financial obligation that is material to LTG, including any default or acceleration of an obligation.
- (iii) There are no known material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of LTG with unconsolidated entities or other persons created during the reporting period.
- (iv) On-going and planned capital expenditure projects of the Group are as follows:

Distilled spirits

TDI will have various capital expenditure projects to improve its manufacturing facilities.

Asian Alcohol Corporation (AAC) is putting up a Bio-Ethanol facility, which is targeted to operate in 2020.

Beverage

To capitalize on the growing bottled water market, ABI continues to make investments in machinery and equipment to increase its manufacturing capacity for bottled water. In its sweetened beverage and soymilk businesses, ABI continuously makes capital investments to improve efficiencies in its production processes.

Apart from investments in the production process, ABI has also commenced re-fleeting its delivery trucks and upgrading its handling equipment to better control its repairs and maintenance costs and ensure safety in the transport of materials and products.

Investments in returnable containers were also made to replace bottles and crates used in production and to support the growth of the local production of Cobra, Vitamilk and Summit Water in returnable glass bottles.

International Bottled Water Association Membership

ABI's bottled water plant in Cabuyao has been a member of the International Bottled Water Association (IBWA) since it started its bottled water business in 1992. IBWA in reference to U.S. FDA regulations of the Code of Federal Regulations prescribes the Good Manufacturing Practices for Processing and Bottling of Bottled Drinking Water. This includes specific design and performance requirements for determining whether the facilities, methods, practices, and controls used in the processing, bottling, holding and shipping of bottled drinking water are in conformance with or are operated or administered in conformity with good manufacturing practices to assure that bottled drinking

water is safe and has been processed, bottled, held and transported under sanitary conditions.

ISO 9001:2015 Quality Management System Certification

ISO is a standard setting body that provides requirements, specifications, guidelines or characteristics that ensure that products and services are safe, reliable and of good quality. To be ISO 9001:2015 certified, an organization must demonstrate its ability to consistently provide products that meet customer and applicable statutory and regulatory requirements. ABI and Waterich's manufacturing facilities in Cabuyao were recertified in the first half of 2018. IPI's manufacturing facilities in Cabuyao, Pampanga, El Salvador and Davao are likewise ISO 9001:2015 certified. ISO 9001:2015 is an updated requirement for Quality Management System ISO 9001:2008.

- (v) LTG has no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenue or income from continuing operations.
- (vi) There are no significant elements of income or loss that did not arise from the Company's continuing operations.
- (vii) Causes for any material change from period to period include vertical and horizontal analyses of any material item;

Results of the Company's Horizontal (H) and Vertical (V) analyses showed the following material changes as of and for the years ended 31 December 2019 and 2018:

1. Financial assets at fair value through profit or loss – H, 25%
2. Financial assets at fair value through other comprehensive income (FVTOCI) - current – H, 75%
3. Loans and receivables-current – H, 24%
4. Inventories – H, (7%)
5. Other current assets – H, 9%
6. Loans and receivables-noncurrent – H, 6%
7. Financial assets at FVTOCI - noncurrent – H, 130%
8. Investment in associates and joint ventures – H, 34%
9. Property, plant and equipment – at cost – H, 55%
10. Investment properties – H, 8%
11. Deferred income tax assets – H, 24%
12. Other noncurrent assets- H, 17%
13. Deposit liabilities – current – H, 15%
14. Financial liabilities at fair value through profit or loss – current – H, (48%)
15. Bills and acceptances payable - current – H, (14%)
16. Short-term debts – H, 151%
17. Accounts payable and accrued expenses – H, 18%
18. Income tax payable – H, (32%)
19. Long-term debts-current – H, 1,004%)
20. Due to related parties-current – H, (19%)
21. Other current liabilities – H, 14%

22. Bills and acceptances payable - noncurrent – H, (57%)
23. Long-term debt – net of current portion – H, 286%
24. Accrued retirement benefits – H, (26%)
25. Other noncurrent liabilities- H, (37%)
26. Redemption of preferred shares – H, (100%)
27. Other comprehensive income – H, 19%
28. Retained earnings- H, 22%
29. Noncontrolling interests – H, 15%
30. Banking revenue – V, 7%; H, 41%
31. Beverage revenue – H, 8%
32. Distilled spirits revenue – H, 7%
33. Cost of sales – H, 30%
34. Equity in net earnings of associates and joint ventures– V, 5%; H, 86%
35. Selling expenses – H, 12%
36. General and administrative expenses – V, (5%); H, 10%
37. Finance costs – H, 210%
38. Finance income – H, (29%)
39. Others-net – V, (8%); H, (56%)
40. Provision for income tax – deferred – H, (12%)
41. Provision for income tax – current – H, 3133%
42. Net income- H, 34%
43. Net income attributable to parent – H, 43%

The causes for these material changes in the balance sheet and income statement accounts are all explained in the Management's Discussion and Analysis (MDA) – Results of Operations and Financial Condition above.

- (viii) There are no seasonal aspects that have a material effect on the financial condition or results of operations of LTG.

ITEM 4. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

4.1. MARKET INFORMATION

The principal market for the Company's common equity is the Philippine Stock Exchange.

STOCK PRICES

| | CLOSE | HIGH | LOW |
|-------------------------|--------------|-------------|------------|
| 2017 | | | |
| 1 st Quarter | 16.02 | 17.00 | 12.00 |
| 2 nd Quarter | 14.70 | 16.98 | 14.42 |
| 3 rd Quarter | 17.58 | 18.90 | 14.78 |
| 4 th Quarter | 18.74 | 19.70 | 16.98 |

2018

| | | | |
|-------------------------|-------|-------|-------|
| 1 st Quarter | 18.80 | 19.72 | 18.80 |
| 2 nd Quarter | 18.08 | 18.44 | 17.90 |
| 3 rd Quarter | 14.40 | 15.20 | 14.40 |
| 4 th Quarter | 15.50 | 15.56 | 15.26 |

2019

| | | | |
|-------------------------|-------|-------|-------|
| 1 st Quarter | 16.10 | 17.60 | 14.60 |
| 2 nd Quarter | 15.20 | 17.20 | 14.68 |
| 3 rd Quarter | 13.94 | 16.40 | 13.40 |
| 4 th Quarter | 11.98 | 14.40 | 11.00 |

2020

| | | | |
|-------------------------|------|------|------|
| 1 st Quarter | 8.30 | 8.30 | 6.00 |
|-------------------------|------|------|------|

4.2. HOLDERS

As of 30 April 2020, the Company has 373 shareholders owning 10,821,388,889 common shares. The top 20 stockholders as of 31 March 2020 are as follows:

| <u>Stockholders' Name</u> | <u>No. of Common Shares Held</u> | <u>% to Total</u> |
|--|--------------------------------------|-------------------|
| Tangent Holdings, Corp. | 8,046,318,193 | 74.3557 |
| PCD Nominee Corporation (Non-Filipino) | 1,305,155,244 | 12.0609 |
| PCD Nominee Corporation (Filipino) | 708,270,062 | 6.5451 |
| Dragon Castle Holdings Ltd. | 198,535,900 | 1.8347 |
| Hinner Resources Ltd. | 157,195,600 | 1.4526 |
| Advance Goal Ltd. | 152,812,600 | 1.4121 |
| Absolute Classic Ltd. | 95,811,000 | 0.8854 |
| Conqueror Vision Ltd. | 81,913,000 | 0.7570 |
| Conway Equities, Inc. | 35,000,000 | 0.3234 |
| Pan Asia Securities Corp. | 24,448,000 | 0.2259 |
| Goldlabel Equities Corp. | 5,039,800 | 0.0466 |
| All Seasons Realty Corp. | 4,974,794 | 0.0460 |
| Dragonstar Management Corp. | 1,773,900 | 0.0164 |
| Kentron Holdings & Equities Corp. | 569,800 | 0.0053 |
| Luys Securities Co., Inc. | 501,000 | 0.0046 |
| Mandarin Securities Corp. | 358,000 | 0.0033 |
| Atlas Agricultural & Mercantile & Dev. | 299,475 | 0.0028 |
| Honorio Poblador Jr. | 295,230 | 0.0027 |
| Donald J.D. Nye | 272,250 | 0.0025 |
| Alex M. Tiongco | 83,600 | 0.0008 |

* LTG has no preferred shares.

4.3. DIVIDENDS

a.) Dividend declaration

| Date Declared | Dividend Declared | Amount | Date Paid |
|---------------|-------------------|-----------------|---------------|
| 20 April 2019 | Regular Cash | ₱0.15 per share | 09 May 2019 |
| | Special Cash | ₱0.15 per share | |
| 13 March 2018 | Regular Cash | ₱0.15 per share | 11 April 2018 |
| | Special Cash | ₱0.05 per share | |
| 14 March 2017 | Regular Cash | ₱0.15 per share | 7 April 2017 |
| | Special Cash | ₱0.03 per share | |

b.) Restrictions that limit the ability to pay dividends on common equity or that are likely to happen in the future.

There are no restrictions that limit the Company's ability to pay dividends apart from the requirement of law that the Company should have unrestricted retained earnings. The corporate by laws provide that dividends may be declared *"out of the surplus profits when such profit shall, in the opinion of the Directors, warrant the same."*

4.4. RECENT SALES OF UNREGISTERED SECURITIES (FOR THE PAST THREE YEARS)

There are no recorded sales of unregistered securities during the past three years.

ITEM 5. INDEPENDENT PUBLIC ACCOUNTANTS AND EXTERNAL AUDIT FEES

Please see pages [13-14](#) through [14-15](#) of the Information Statement.

ITEM 6. CORPORATE GOVERNANCE

To ensure awareness and compliance, all incumbent directors and key officers of the Company attend a seminar annually on corporate governance conducted by an SEC accredited provider.

The Company continues to review and strengthen its policies to ensure that such policies are consistent with the leading practices on good corporate governance that are in the best interest of the Company and its stakeholders.

The Company undertakes to provide without charge to each shareholder, upon written request by the shareholder, a copy of the Company's Annual Report on SEC Form 17-A and SEC Form 17-Q. Please direct all such requests to the Corporate Secretary, Atty. Ma. Cecilia L. Pesayco, 2/F PNB Makati Center, 6754 Ayala Avenue, Makati City, Philippines.