



## **President's Report Full Year 2020**

LT Group, Inc.'s (LTG) unaudited attributable net income for 2020 amounted to Php21.02 billion, Php2.10 billion or 9.1% less than the Php23.12 billion reported for 2019.

The tobacco business accounted for Php16.83 billion or 80% of total attributable income. Philippine National Bank (PNB) added Php1.55 billion or 7%. Tanduay Distillers, Inc. (TDI) contributed Php1.10 billion or 5%. Eton Properties Philippines, Inc. (Eton) accounted for Php799 million or 4%, while Asia Brewery, Inc. (ABI) contributed Php583 million or 3%. The 30.9% stake in Victorias Milling Company, Inc. (VMC) accounted for Php264 million or 1%.

Aside from the regular cash dividend of Php0.15 per share that was paid in June, LTG paid three special cash dividends in 2020, Php0.28 per share in June, Php0.23 per share in September and Php0.15 per share in December. This brought the total dividends declared in 2020 to Php0.81 per share or Php8.76 billion, significantly higher than 2019's Php0.30 per share or total of Php3.25 billion. The 2020 dividends translate to a 37.9% pay-out rate compared to 20.0% in 2019.

On March 17, 2021, LTG's Board of Directors declared a regular dividend of Php0.15 per share and a special dividend of Php0.09 per share, for a total of Php2.60 billion, payable on April 13. This is equivalent to 12.4% of LTG's 2020 attributable net income.

In 2020, LTG redeemed the remaining Php8.539 billion preferred shares. In 2013 and 2014, Php18.06 billion worth of preferred shares were issued for the partial acquisition of PNB.

LTG's balance sheet remains strong. Debt-to-Equity Ratio was at 4.30:1 with the Bank, and at 0.16:1 without the Bank.

As of the end of December 2020, the cash balance of the parent company stood at Php649 million.

### **Tobacco**

The tobacco business had a net income of Php16.89 billion in 2020, Php1.33 billion or 9% more than the Php15.56 billion in 2019.

Equity in net earnings from LTG's 49.6% stake in PMFTC was Php17.1 billion, Php1.71 billion or 11% more than 2019's Php15.40 billion.

In 2020, PMFTC's shipment volume was 41.7 billion sticks, 16.2% lower than the previous year's 49.7 billion sticks. The drop in volume is attributed to continuous price increases, in end-August 2019 and early October 2020, coupled with the impact of the enhanced community quarantine (ECQ) implemented in Luzon starting March 17 and in other select cities thereafter up to end-May 2020, as well as the reinstatement of the Modified ECQ in NCR and select provinces for two weeks in August 2020.

*Marlboro* accounted for 62% of volume in 2020 reflecting up-trading resulting from a narrowed price gap with *Fortune*, compared to 56% of total volume in 2019. Based on Nielsen estimates, PMFTC's market share was at 67.3% in 2020, lower than 2019's 70.74%.

The industry's volume was estimated at 62.1 billion sticks in 2020, 12.0% lower than 2019's 70.4 billion sticks.

The Government continued its efforts against the illicit trade which included smuggled and locally produced products. In 2020, there were 171 enforcements, compared to 114 in 2019. A total of 161 machines were seized from illegal factories, double the 82 machines seized in 2019. These machines can form 24 lines, with each line estimated to produce as much as 3 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, and will increase by Php5 per pack annually from 2021 to 2023, then increasing by 5% annually thereafter.

In early October 2020, PMFTC implemented price increases across all brands at Php1 per stick. Currently, the recommended retail price per stick of premium *Marlboro* is at Php7 (from Php6), mid-priced *Fortune* at Php6 (from Php5) and low-end *Jackpot* at Php5 (from Php4). Prior to this increase, the previous one was in late August 2019. Subsequently in early November, PMFTC's main competitor raised prices and the recommended retail prices of their brands are at par with PMFTC's products.

### **Philippine National Bank (PNB)**

PNB's net income under the pooling method was Php2.76 billion in 2020, Php7.18 billion or 72% lower than 2019. The lower net income was primarily due to the Php16.9 billion provision for credit losses that the bank booked in 2020, 5.84x higher than 2019's Php2.9 billion, largely due to the ongoing COVID-19 pandemic that has resulted in a downturn in the economy.

Net Interest Income was 11% higher at Php35.82 billion from Php32.37 despite the 8.8% decline in loans and receivables to Php600 billion from Php658 billion, as interest expense declined by 39% or Php7.03 billion to Php11.13 billion. Interest expense on deposits declined by almost half despite an 7.7% growth in deposits to Php890 billion as the bulk of the incremental deposits was

from low-cost funds, plus the reduction in high-cost deposits with the maturity of Php7.0 billion Long-Term Negotiable Certificates of Time Deposit (LTNCDs).

Net Service Fees and Commission Income were lower by 11% to Php3.70 billion. Trading and Foreign Exchange Gains and other income were 42% higher at Php6.03 billion.

Operating Expenses were Php44.66 billion, 57% or Php16.15 billion higher largely due to the increase in provisioning.

Net Non-Performing Loans (NPL) ratio was at 6.9% as of December 2020, higher than the 0.7% as of end-2019. NPL cover stood at 43%, from 119% as of end-2019.

### **Tanduay Distillers, Inc. (TDI)**

TDI's net income for 2020 was Php1.12 billion, Php442 million or 65% higher than 2019's Php676 million.

The higher income is largely due to the 16% increase in the volume of liquor sales and a 34% decrease in selling and marketing expenses from PHP1.56 billion to Php1.03 billion.

Total revenues were Php25.03 billion, Php5.75 billion or 30% more than the Php19.28 billion in 2019. Liquor prices were higher as an average Php160 per case price increase was implemented in January to pass on the higher excise taxes. Revenues from liquor were Php21.37 billion, 33% higher than 2019's Php16.02 billion. Revenues from bioethanol were 24% lower at Php1.92 billion from Php2.54 billion due to the 29% drop in volume, as well as the 3% decline in average selling prices. Rectified alcohol contributed the balance of revenues at Php1.65 billion, from Php627 million in 2019.

As of end-2020, TDI's nationwide market share for distilled spirits was at 22.5%, compared to end-2019's 27.8%. In the Visayas and Mindanao regions where most of TDI's sales are generated, market share was at 62.2% and 78.9%, respectively, as of December 2020, compared to 64.2% and 77.6%, respectively, as of December 2019.

Gross Profit Margin (GPM) was lower at 15% from 17%, due to higher alcohol costs. Operating expenses were 19% lower at Php1.80 billion due to lower selling and marketing expenses.

TDI booked Php268 million in probable losses from an excise tax case that it has filed with the courts. This is for a request for a refund for overpayment of excise taxes in 2013 and 2014. This is part of Other Charges.

### **Eton Properties Philippines, Inc. (Eton)**

Eton's net income for 2020 was Php802 million, 11% or Php98 million lower than 2019's Php900 million. The lower net income is attributed to the decline in residential unit sales.

Total revenues were at Php2.40 billion, 23% lower than the Php3.13 billion of 2019. Real estate sales amounted to Php642 million, 55% lower than 2019's Php1.43 billion. Leasing revenues were 3% higher at Php1.76 billion as Eton was largely able to maintain occupancy rates and lease rates over the year as well as additional space that came on stream.

Additions to the leasing portfolio came from Eton WestEnd Square in Makati City during 2Q19. 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. Five Cyberpod Centris in Quezon City with close to 43,000 square meters came on stream starting 3Q19.

At the end of 2020, Eton Properties had a leasing portfolio of approximately 181,000 square meters of office space and over 45,000 square meters of retail space.

Projects in the pipeline include 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. Others 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.

#### **Asia Brewery, Inc. (ABI)**

ABI's net income in 2020 was Php591 million, 48% or Php193 million higher than 2019's Php398 million. The higher income is largely due to the absence of any losses in 2020 from the AB Heineken joint venture as the partnership transitions starting 2021 to the engagement of ABI to brew and distribute Heineken® and Tiger® beers in the Philippines.

ABI's products suffered volume declines as a result of the ECQ from mid-March to end-May, and the reinstatement of MECQ for two weeks in August in Metro Manila and other provinces affected sales in sari-sari and convenience stores as well as in supermarkets. With the majority of people working from home, on the go sales in convenience stores as well as in supermarkets were adversely affected.

Cobra energy drink continues to account for the largest share of revenues at 42% of total. It remains the market leader with a share of 70% in 2020. Our bottled water brands, Absolute and Summit, continue to have the second largest share in this segment at 25%. Bottled water accounted for 23% of revenues. Soymilk Vitamilk's market share was at 75% in 2020. Soymilk accounted for 12% of revenues.

The packaging business' revenues were 11% lower due to lower demand from third parties. ABI supplies the glass bottle and other packaging requirements of TDI and ABI and also sells to third parties. Packaging accounted for 17% of revenues in 2020.

## LT GROUP, INC. AND SUBSIDIARIES

### UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Amounts in Thousands)

|  | December 31           |                       |
|--|-----------------------|-----------------------|
|  | 2020                  | 2019                  |
| <b>ASSETS</b>  |                       |                       |
| <b>Current Assets</b>  |                       |                       |
| Cash and cash equivalents  | ₱304,061,222          | ₱184,913,132          |
| Financial assets at fair value through profit or loss (FVTPL)              | 23,858,324            | 13,469,380            |
| Financial assets at fair value through other comprehensive income (FVTOCI) | 59,680,618            | 16,968,590            |
| Financial assets at amortized cost   | 40,216,142            | 25,252,670            |
| Loans and receivables  | 223,006,163           | 260,926,594           |
| Inventories  | 13,175,605            | 12,196,871            |
| Due from related parties   | 1,954,502             | 2,029,436             |
| Other current assets   | 10,908,904            | 11,379,265            |
|  | 676,861,480           | 527,135,938           |
| Assets of disposal group classified as held for sale                       | 7,945,945             | —                     |
| <b>Total Current Assets</b>  | <b>684,807,425</b>    | <b>527,135,938</b>    |
| <b>Noncurrent Assets</b>   |                       |                       |
| Loans and receivables - net of current portion                             | 393,592,324           | 411,253,754           |
| Financial assets at FVTOCI   | 76,644,306            | 110,549,031           |
| Financial assets at amortized cost   | 55,019,851            | 75,212,087            |
| Investments in associates and joint ventures                               | 23,777,783            | 27,254,278            |
| Property, plant and equipment:   |                       |                       |
| At appraised values  | 59,918,473            | 59,811,911            |
| At cost  | 11,586,799            | 12,087,216            |
| Investment properties  | 32,837,375            | 32,631,441            |
| Deferred income tax assets – net   | 8,889,031             | 2,386,671             |
| Other noncurrent assets  | 6,049,087             | 7,508,226             |
| <b>Total Noncurrent Assets</b>   | <b>668,315,029</b>    | <b>738,694,615</b>    |
| <b>TOTAL ASSETS</b>  | <b>₱1,353,122,454</b> | <b>₱1,265,830,553</b> |
| <b>LIABILITIES AND EQUITY</b>  |                       |                       |
| <b>Current Liabilities</b>   |                       |                       |
| Deposit liabilities  | ₱822,131,355          | ₱772,143,072          |
| Financial liabilities at FVTPL   | 701,239               | 245,619               |
| Bills and acceptances payable  | 72,978,082            | 51,821,601            |
| Accounts payable and accrued expenses                                      | 20,849,044            | 26,700,462            |
| Short-term debts   | 4,740,000             | 5,150,000             |
| Current portion of long-term debts   | 14,527,082            | 1,002,593             |
| Income tax payable   | 1,008,067             | 690,518               |
| Due to related parties   | 65,325                | 65,325                |
| Other current liabilities  | 10,180,106            | 18,842,433            |
|  | 947,180,300           | 867,661,623           |
| Liabilities of disposal group classified as held for sale                  | 6,353,964             | —                     |
| <b>Total Current Liabilities (Carried Forward)</b>                         | <b>953,534,264</b>    | <b>876,661,623</b>    |

|   | <b>December 31</b>    |                       |
|---|-----------------------|-----------------------|
|   | <b>2020</b>           | <b>2019</b>           |
| <b>Total Current Liabilities (Brought Forward)</b>            | <b>P953,534,264</b>   | <b>P876,661,623</b>   |
| <b>Noncurrent Liabilities</b>                                 |                       |                       |
| Deposit liabilities - net of current portion                  | <b>58,380,208</b>     | 46,095,883            |
| Bills and acceptances payable                                 | <b>14,181,368</b>     | 4,141,689             |
| Long-term debts - net of current portion                      | <b>55,215,562</b>     | 71,566,863            |
| Net retirement benefits liability                             | <b>2,418,637</b>      | 1,699,743             |
| Deferred income tax liabilities - net                         | <b>8,327,412</b>      | 8,510,128             |
| Other noncurrent liabilities                                  | <b>5,526,724</b>      | 3,147,053             |
| <b>Total Noncurrent Liabilities</b>                           | <b>144,049,911</b>    | <b>135,161,359</b>    |
| <b>Total Liabilities</b>                                      | <b>1,097,584,175</b>  | <b>1,011,822,982</b>  |
| <b>Equity</b>   |                       |                       |
| Attributable to equity holders of the Company:                |                       |                       |
| Capital stock   | <b>10,821,389</b>     | 10,821,389            |
| Capital in excess of par                                      | <b>35,906,231</b>     | 35,906,231            |
| Preferred shares of subsidiaries issued to Parent Company     | <b>—</b>              | 8,538,837             |
| Other comprehensive income, net of deferred income tax effect | <b>15,056,237</b>     | 18,038,315            |
| Other equity reserves   | <b>(1,969,754)</b>    | 1,024,653             |
| Retained earnings   | <b>125,612,353</b>    | 112,604,635           |
| Shares of stock of the Company held by subsidiaries           | <b>(12,519)</b>       | (12,519)              |
|   | <b>185,413,937</b>    | 186,921,541           |
| Non-controlling interests                                     | <b>70,124,342</b>     | 67,086,030            |
| <b>Total Equity</b>   | <b>255,538,279</b>    | <b>254,007,571</b>    |
| <b>TOTAL LIABILITIES AND EQUITY</b>                           | <b>P1,353,122,454</b> | <b>P1,265,830,553</b> |

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

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

|  | <b>Years Ended December 31</b> |                              |                              |
|--|--------------------------------|------------------------------|------------------------------|
|  | <b>2020</b>                    | <b>2019</b><br>(As Restated) | <b>2018</b><br>(As Restated) |
| <b>REVENUE</b>   |                                |                              |                              |
| Banking  | <b>₱54,800,902</b>             | ₱56,522,642                  | ₱40,172,558                  |
| Distilled spirits  | <b>25,000,110</b>              | 19,261,735                   | 18,062,573                   |
| Beverage   | <b>12,227,532</b>              | 15,234,051                   | 14,125,559                   |
| Property development   | <b>2,399,390</b>               | 3,132,431                    | 3,198,735                    |
|  | <b>94,427,934</b>              | 94,150,859                   | 75,559,425                   |
| <b>COST OF GOODS SOLD AND SERVICES</b>                         | <b>42,858,864</b>              | 46,802,440                   | 35,965,402                   |
| <b>GROSS INCOME</b>  | <b>51,569,070</b>              | 47,348,419                   | 39,594,023                   |
| <b>EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES</b> | <b>17,614,907</b>              | 14,813,251                   | 7,966,691                    |
|  | <b>69,183,977</b>              | 62,161,670                   | 47,560,714                   |
| <b>OPERATING EXPENSES</b>                                      |                                |                              |                              |
| Selling expenses   | <b>2,051,114</b>               | 3,011,424                    | 2,700,387                    |
| General and administrative expenses                            | <b>47,897,268</b>              | 31,596,421                   | 28,302,277                   |
|  | <b>49,948,382</b>              | 34,607,845                   | 31,002,664                   |
| <b>OPERATING INCOME</b>  | <b>19,235,595</b>              | 27,553,825                   | 16,558,050                   |
| <b>OTHER INCOME (CHARGES)</b>                                  |                                |                              |                              |
| Foreign exchange gains - net                                   | <b>747,095</b>                 | 1,049,965                    | 1,090,891                    |
| Finance income   | <b>42,421</b>                  | 146,253                      | 206,641                      |
| Finance costs  | <b>(341,467)</b>               | (450,841)                    | (145,457)                    |
| Others - net   | <b>1,902,969</b>               | 2,843,597                    | 7,837,908                    |
|  | <b>2,351,018</b>               | 3,588,974                    | 8,989,983                    |
| <b>INCOME BEFORE INCOME TAX</b>                                | <b>21,586,613</b>              | 31,142,799                   | 25,548,033                   |
| <b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>                 |                                |                              |                              |
| Current  | <b>5,976,621</b>               | 4,192,172                    | 4,785,686                    |
| Deferred   | <b>(6,648,541)</b>             | (513,537)                    | (15,886)                     |
|  | <b>(671,920)</b>               | 3,678,635                    | 4,769,800                    |
| <b>NET INCOME FROM CONTINUING OPERATIONS</b>                   | <b>22,258,533</b>              | 27,464,164                   | 20,778,233                   |
| <b>NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS</b>          | <b>67,583</b>                  | 101,593                      | (219,972)                    |
| <b>NET INCOME</b>  | <b>₱22,326,116</b>             | ₱27,565,757                  | ₱20,558,261                  |

(Forward)

|  | <b>Years Ended December 31</b> |                       |                       |
|--|--------------------------------|-----------------------|-----------------------|
|  | <b>2020</b>                    | 2019<br>(As Restated) | 2018<br>(As Restated) |
| <b>NET INCOME ATTRIBUTABLE TO:</b>   |                                |                       |                       |
| Equity holders of the Company  | <b>₱21,021,996</b>             | ₱23,117,524           | ₱16,194,778           |
| Non-controlling interests  | <b>1,304,120</b>               | 4,448,233             | 4,363,483             |
|  | <b>₱22,326,116</b>             | ₱27,565,757           | ₱20,558,261           |
| <b>Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company</b>                            |                                |                       |                       |
|  | <b>₱1.94</b>                   | ₱2.14                 | ₱1.50                 |
| <b>Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company from Continuing Operations</b> |                                |                       |                       |
|  | <b>₱1.94</b>                   | ₱2.13                 | ₱1.51                 |