



President's Report First Half 2021

LT Group, Inc.'s (LTG) attributable net income in the first half of 2021 amounted to Php3.73 billion, Php6.30 billion or 62.8% lower than the Php10.03 billion reported for the same period in 2020. The lower income is mainly due to the bank's higher provision for credit losses in 1H21.

The tobacco business accounted for Php8.97 billion of total attributable income. Tanduay Distillers, Inc. (TDI) added Php602 million. Asia Brewery, Inc. (ABI) contributed Php343 million while Eton Properties Philippines, Inc. (Eton) accounted for Php287 million. The 30.9% stake in Victorias Milling Company, Inc. (VMC) added Php169 million. Net expenses and other income at the parent level amounted to Php185 million. Philippine National Bank (PNB) had a negative net contribution of Php6.46 billion after eliminating the gain of Php33.60 billion.

In June, LTG declared a Php0.24 per share special cash dividend or a total of Php2.60 billion and was paid in July. This brought total cash dividends declared in 2021 to Php0.48 per share or Php5.19 billion. This is equivalent to 24.7% of LTG's 2020 attributable net income.

LTG's balance sheet remains strong. Debt-to-Equity Ratio was at 3.96:1 with the Bank, and at 0.17:1 without the Bank as of end-June 2021.

As of the end of June 2021, the cash balance of the parent company stood at Php802 million.

Philippine National Bank (PNB)

PNB's net income under the pooling method was Php22.20 billion in the first half of 2021, Php20.76 billion higher than the Php1.44 billion reported in 1H20. This included the Php33.60 billion gain that the bank booked from transferring real estate assets into PNB Holdings Corporation (PHC), wherein 51% was subsequently declared as a property dividend.

Net Interest Income was 3% lower at Php16.85 billion from Php17.44 billion as loans and receivables were relatively flat at Php618 billion as of June 2021 from Php603 billion as of June 2020, while Net Interest Margin declined to 3.2% from 3.4%.

Net Service Fees and Commission Income were 45% higher at Php2.45 billion from Php1.69 billion. Trading and Foreign Exchange Gains were 57% lower at Php1.58 billion from Php3.69 billion. Other Income rose to Php34.44 billion from Php626 million from the gain on the transfer of real estate assets to PHC.

Operating Expenses were Php32.33 billion, 49% or Php10.66 billion higher as the bank booked Php19.0 billion in provisions for credit losses in 1H21, compared to Php8.43 billion in 1H20.

Net Non-Performing Loans (NPL) ratio was at 5.7% as of June 2021, higher than the 3.0% as of June 2020. NPL cover stood at 60.3%, compared to 73.4% as of end-June 2020.

Tobacco

The tobacco business had a net income of Php9.01 billion in 1H21, Php793 million or 10% more than 1H20's Php8.21 billion.

Equity in net earnings from LTG's 49.6% stake in PMFTC was Php9.06 billion, Php818 million or 10% higher than 1H20's Php8.25 billion.

In the first semester of 2021, PMFTC's shipment volume was 16.7 billion sticks, 18.5% lower than 1H20's 20.5 billion sticks. The drop in volume is attributed to continuous price increases to pass on higher excise taxes, the last of which was in October 2020. The enhanced community quarantine (ECQ) implemented in the National Capital Region and surrounding areas starting March 27, 2021 likewise impacted on volumes. The adverse effect on consumers' purchasing power led some to trade down to the more popular competitor's low-end brand, which PMFTC is trying to counter with the launch of Chesterfield in 1Q21.

Marlboro accounted for 68% of volume in 1H21 reflecting up-trading resulting from a narrowed price gap with *Fortune*, compared to 59% of total volume in 1H20. Based on Nielsen estimates, PMFTC's market share was at 62.3% in 1H21, lower than 1H20's 69.6%.

The industry's volume was estimated at 26.8 billion sticks in 1H21, 9% lower than 1H20's 29.5 billion sticks.

The Government continued its efforts against the illicit trade which included smuggled and locally produced products. In 1H21, there were 98 enforcements, compared to 68 in 1H20.

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 Php50 in 2021. It will increase by Php5 per pack annually in 2022 and 2023, then increase 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.

Tanduay Distillers, Inc. (TDI)

TDI's net income for the first half of 2021 was Php605 million, Php62 million or 11% higher than 1H20's Php543 million.

The higher income is due to the 13% increase in the volume of liquor sales and 55% growth in the volume of bioethanol.

Total revenues were Php11.66 billion, Php1.65 billion or 16% more than 1H20's Php10.01 billion. TDI implemented an average Php48 per case increase in 1Q21 to pass on the increase in excise taxes. Revenues from liquor were Php9.72 billion, 18% higher than 1H20's Php8.22 billion. Revenues from bioethanol were also higher by 45% to Php1.33 billion from Php919 million. Rectified alcohol contributed the balance of revenues at Php611 million, from Php877 million in 1H20

As of end-June 2021, TDI's nationwide market share for distilled spirits was at 26.9%, compared to June 2020's 24.1%. In the Visayas and Mindanao regions where most of TDI's sales are generated, market share was at 68.2% and 79.5%, respectively, as of June 2021, compared to 62.4% and 72.0%, respectively, as of June 2020.

Gross Profit Margin (GPM) was lower at 15% from 16%, due to higher alcohol costs. Operating expenses were 19% higher at Php971 million due to higher advertising and marketing costs.

Asia Brewery, Inc. (ABI)

ABI's net income for the first six months of 2021 was Php343 million, a significant improvement from the Php40 million reported in 1H20. The higher income is largely due to the absence of any losses 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.

Revenues were at Php6.83 billion, 1% higher than 1H20's Php6.74 billion. The volume of bottled water and Vitamilk soymilk were lower, partially offset by the higher volume of Cobra Energy Drink. ABI's on-the-go sales at convenience stores continue to be adversely affected by the various forms of lockdown imposed since March 2020.

Overall GPM improved to 27% from 26% due to sales mix. Operating expenses were 15% higher at Php1.29 billion from Php1.12 billion due to higher marketing and selling expenses.

Cobra energy drink remains the market leader with a share of 65% in 1H21. Cobra's volume was 15% higher y-o-y.

Our bottled water brands, Absolute and Summit, continue to have the second largest share in this segment at 23%. Volume declined 20% y-o-y.

Soymilk Vitamilk's market share was at 70% in 1H21, but volume was 22% lower.

The packaging business' revenues were 3% lower due to lower demand from third parties. ABI supplies the glass bottle and other packaging requirements of TDI and ABI. It also sells to third parties. Packaging accounted for 15% of revenues.

Eton Properties Philippines, Inc. (Eton)

Eton's net income for 1H21 was Php288 million, 29% or Php116 million lower than the Php404 million reported for the same period last year. The lower net income is attributed to the decline in residential unit sales.

Total revenues were at Php928 million, 22% lower than 1H20's Php1.20 billion. Real estate sales amounted to Php68 million from Php298 million. Leasing revenues were 4% lower at Php860 million from Php898 million due to slightly lower occupancy rates.

Projects in the pipeline include Blakes Tower, a 36-storey office and residential building in Makati City which will have 11,400 square meters of office space and 14,000 square meters of residential space once completed. Also, Eton City Square 1, the 4.3-hectare neighborhood retail and commercial center in Sta. Rosa, Laguna will add 7,200 square meters of gross leasable area to Eton's commercial leasing portfolio in phase 1.

Eton currently has a leasing portfolio of around 181,000 square meters of office space and over 45,000 square meters of retail space.

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEETS (Amounts in Thousands)

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	P191,566,783	P304,061,222
Financial assets at fair value through profit or loss	23,866,632	23,858,324
Financial assets at fair value through other comprehensive income (FVTOCI)	51,716,997	59,680,618
Financial assets at amortized cost	40,078,415	40,216,142
Loans and receivables	237,055,561	223,006,163
Inventories	15,191,310	13,175,605
Due from related parties	1,956,192	1,954,502
Other current assets	11,691,593	10,908,904
Assets of disposal group classified as held for sale	—	7,945,945
Total Current Assets	573,123,483	684,807,425
Noncurrent Assets		
Loans and receivables-net of current portion	396,310,323	393,592,324
Financial assets at FVTOCI	59,762,954	76,644,306
Financial assets at amortized cost	47,730,457	55,019,851
Investment in associates and joint ventures	23,874,806	23,777,783
Property, plant and equipment:		
At appraised values	59,279,201	59,918,473
At cost	14,258,328	11,586,799
Investment properties	33,342,626	32,837,375
Deferred income tax assets	9,605,036	8,889,031
Other noncurrent assets	5,493,330	6,049,087
Total Noncurrent Assets	649,657,061	668,315,029
TOTAL ASSETS	P1,222,780,544	P1,353,122,454
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities	P770,018,919	P822,131,355
Financial liabilities at fair value through profit or loss	817,293	701,239
Bills and acceptances payable	44,803,623	72,978,082
Accounts payable and accrued expenses	22,008,893	20,849,044
Short-term debts	3,990,000	4,740,000
Current portion of long-term debts	1,067,213	14,527,082
Income tax payable	1,026,770	1,008,067
Due to related parties	65,325	65,325
Other current liabilities	9,735,294	10,180,106
Liabilities of disposal group classified as held for sale	—	6,353,964
Total Current Liabilities (Carried Forward)	853,533,330	953,534,264

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Total Current Liabilities (Brought Forward)	P853,533,330	P953,534,264
Noncurrent Liabilities		
Deposit liabilities - net of current portion	44,622,659	58,380,208
Bills and acceptances payable	2,126,464	14,181,368
Long-term debts - net of current portion	58,514,007	55,215,562
Net retirement benefits liabilities	2,436,069	2,418,637
Deferred income tax liabilities	8,236,558	8,327,412
Other noncurrent liabilities	6,565,052	5,526,724
Total Noncurrent Liabilities	122,500,809	144,049,911
Total Liabilities	976,034,139	1,097,584,175
Equity		
Attributable to equity holders of the Company:		
Capital stock	10,821,389	10,821,389
Capital in excess of par	35,906,231	35,906,231
Other comprehensive income, net of deferred income tax effect	9,465,199	15,056,237
Other equity reserves	(2,058,370)	(2,058,370)
Reserves of disposal group classified as held for sale	—	88,616
Retained earnings	124,518,686	125,612,353
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	178,640,616	185,413,937
Non-controlling interests	68,105,789	70,124,342
Total Equity	246,746,405	255,538,279
TOTAL LIABILITIES AND EQUITY	P1,222,780,544	P1,353,122,454

LT GROUP, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Six Months Ended June 30		For the Quarter Ended June 30	
	2021 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2020 (Unaudited)
REVENUE				
Banking	₱24,988,364	₱29,711,441	₱12,153,647	₱13,885,005
Beverage	6,459,661	6,315,797	3,260,154	2,591,681
Distilled spirits	11,631,660	9,981,905	6,052,639	4,950,453
Property development	1,061,049	1,196,323	581,504	585,265
	44,140,734	47,205,466	22,047,944	22,012,404
COST OF SALES AND SERVICES	19,695,467	20,714,826	10,094,409	9,672,187
GROSS INCOME	24,445,267	26,490,640	11,953,535	12,340,217
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	9,395,318	8,071,909	4,148,679	3,220,787
	33,840,585	34,562,549	16,102,214	15,561,004
OPERATING EXPENSES				
Selling expenses	1,197,223	944,665	624,433	361,185
General and administrative expenses	33,835,726	23,271,352	24,118,376	11,807,283
	35,032,949	24,216,017	24,742,809	12,168,468
OPERATING INCOME (LOSS)	(1,192,364)	10,346,532	(8,640,595)	3,392,536
OTHER INCOME (CHARGES)				
Finance costs	(176,661)	(202,763)	(89,487)	(102,133)
Finance income	24,923	31,855	15,151	27,899
Foreign exchange gains - net	339,851	520,679	191,799	367,409
Others - net	1,041,086	893,175	553,478	434,255
	1,229,199	1,242,946	670,941	727,430
INCOME (LOSS) BEFORE INCOME TAX	36,835	11,589,478	(7,969,654)	4,119,966
PROVISION FOR (BENEFIT FROM) INCOME TAX				
Current	1,995,615	2,780,995	1,039,885	1,477,487
Deferred	(811,513)	(1,853,520)	(562,886)	(1,197,175)
	1,184,102	927,475	476,999	280,312
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	(1,147,267)	10,662,003	(8,446,653)	3,839,654
NET INCOME FROM DISCONTINUED OPERATIONS	20,616	50,556	—	30,456
NET INCOME (LOSS)	(₱1,126,651)	₱10,712,559	(₱8,446,653)	₱3,870,110
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Equity holders of the Company	₱3,729,872	₱10,027,227	(₱2,756,647)	₱3,814,665
Non-controlling interests	(4,856,523)	685,332	(5,690,006)	55,445
	(₱1,126,651)	₱10,712,559	(₱8,446,653)	₱3,870,110
Basic/Diluted Earnings (Loss) Per Share	₱0.34	₱0.93	(₱0.25)	₱0.35