



LT GROUP, INC.

President's Report Full Year 2021

LT Group, Inc. (LTG) posted an attributable unaudited net income of Php20.25 billion for the full year of 2021, 3.7% lower than the Php21.02 billion reported in 2020.

The tobacco business accounted for Php17.43 billion or 86% of LTG's total attributable income. Tanduay Distillers, Inc. (TDI) added Php1.24 billion, 6% of total. Eton Properties Philippines, Inc. (Eton) contributed Php548 million or 3% while Asia Brewery, Inc. (ABI) accounted for Php475 million or 2%. The 30.9% stake in Victorias Milling Company, Inc. (VMC) added Php258 million or 1% of total. Philippine National Bank (PNB) had a net contribution of Php308 million or 2% of total after eliminating the gain of Php33.44 billion from the transfer of real estate assets. Net expenses at the parent level amounted to Php14 million.

In November, LTG declared a Php0.60 per share special cash dividend or a total of Php6.49 billion and was paid in December. This brought total cash dividends declared in 2021 to Php1.08 per share or Php11.69 billion. This is equivalent to 55.6% of LTG's 2020 attributable net income.

LTG's balance sheet remains strong. Debt-to-Equity Ratio was at 3.98:1 with the Bank, and at 0.15:1 without the Bank as of end-December 2021.

As of the end-2021, the cash balance of the parent company stood at Php420 million.

Philippine National Bank (PNB)

PNB's net income under the pooling method was Php34.02 billion for 2021. This included the Php33.44 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% or Php977 million lower at Php34.84 billion from Php35.82 billion as loans and receivables were relatively flat at Php607 billion from Php600 billion while Net Interest Margin declined to 3.1% from 3.3%.

Net Service Fees and Commission Income were at Php5.30 billion, 43% higher than the previous year's Php3.70 billion. The Bank had lower Trading and Foreign Exchange Gains at Php1.48 billion, Php2.7 billion lower than 2020's Php4.26 billion. Other Income rose to Php35.39 billion from Php1.53 billion due to the gain on the transfer of real estate assets to PHC.

Operating Expenses were 18% lower at Php36.69 billion as PNB booked Php10.73 billion in provisions for credit losses in 2021, compared to Php16.88 billion in 2020.

Net Non-Performing Loans (NPL) ratio was at 4.8% as of December 2021, lower than the 6.9% as of end-2020. NPL cover stood at 54.1%, compared to 42.5% in the same period.

Tobacco

The tobacco business had a net income of Php17.50 billion in 2021, Php610 million or 4% more than 2020's Php16.89 billion.

Equity in net earnings from LTG's 49.6% stake in PMFTC was Php17.60 billion, Php494 million or 3% higher than the previous year's Php17.11 billion.

PMFTC's shipment volume in 2021 was 34.4 billion sticks, 17.6% lower than 2020's 41.7 billion sticks. The drop in volume is attributed to the price increase in October 2020, coupled with the downtrading to cheaper products driven by the economic impact of COVID-19. 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. The enhanced community quarantine (ECQ) implemented in the National Capital Region and surrounding areas starting March 27, 2021 likewise impacted volumes.

Marlboro accounted for 70% of volume in 2021 compared to 62% of in 2020, but lower at 24.0 billion sticks from 25.7 billion sticks. Based on Nielsen estimates, PMFTC's market share was at 62.0% in 2021, 5.2 share points lower than 2020's 67.2%.

The industry's volume was estimated at 55.4 billion sticks in 2021, 10.8% lower than 2020's 62.1 billion sticks.

The Government continued its efforts against the illicit trade, including smuggled and locally produced products. In 2021, there were 194 enforcements, compared to 171 in 2020.

On July 25, 2019, President Duterte signed Republic Act (RA) 11346 which further increased the excise tax on tobacco starting January 2020. From Php35 per pack in 2019, it increased to Php45 per pack in 2020 and to Php50 in 2021. It further increased to Php55 in 2022 and by another Php5 in 2023, then by 5% annually thereafter.

There were no price increases in 2021, after the early October 2020 increase where PMFTC implemented a Php1 per stick increase across all brands, which the competitor subsequently matched in early November 2020. For the whole of 2021, the recommended retail price per stick of premium *Marlboro* was at Php7, mid-priced *Fortune* at Php6 and low-end *Jackpot* at Php5.

Tanduay Distillers, Inc. (TDI)

TDI's net income for 2021 was Php1.24 billion, Php124 million or 11% higher than 2020's Php1.12 billion.

Total revenues were Php26.71 billion, Php1.68 billion or 7% more than 2020's Php25.03 billion. Liquor volume was 1% lower than the previous year at 23.69 million cases. TDI implemented an average Php48 per case increase in 1Q21 to pass on the increase in excise taxes. Revenues from liquor were Php22.34 billion, 5% higher than 2020's Php21.37 billion. Revenues from bioethanol were higher by 84% to Php3.54 billion from Php1.92 billion as volume was 93% higher, partially offset by lower prices. Denatured and rectified alcohol contributed the balance of revenues at Php0.83 billion, from Php1.74 billion in 2020.

As of the end of 2021, TDI's nationwide market share for distilled spirits was at 26.6%, compared to end-2020's 22.5%. In the Visayas and Mindanao regions where most of TDI's sales are generated, market share was at 66.9% and 74.3%, respectively, as of December 2021, compared to 62.2% and 78.9%, respectively, as of December 2020.

Gross Profit Margin (GPM) was lower at 12% from 15%, due to higher alcohol costs. Operating expenses were 15% lower at Php1.53 billion from Php1.80 billion due to lower advertising and marketing costs.

Eton Properties Philippines, Inc. (Eton)

Eton reported a net income of Php550 million in 2021, 31% lower than the Php802 million reported for the previous year.

Total revenues were at Php1.75 billion, 27% lower than 2020's Php2.40 billion. Real estate sales amounted to Php137 million from Php642 million. Leasing revenues were 8% lower at Php1.61 billion from Php1.76 million due to lower occupancy rates.

Projects in the pipeline include Eton City Square 1, the 4.3-hectare neighborhood retail and commercial center in Sta. Rosa, Laguna which will add 7,000 square meters of net leasable area to Eton's commercial leasing portfolio in phase 1. Another project is phase 2 of WestEnd Square in Makati which will have 23,000 square meters of net leasable area.

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

Asia Brewery, Inc. (ABI)

ABI's net income for 2021 was Php475 million, 20% lower than 2020's Php591 million.

Revenues were at Php13.92 billion, 5% higher than 2020's Php13.28 billion, largely due to the recognition of revenues from alcoholic beverages. 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 lockdowns imposed since March 2020.

Overall GPM was lower at 23% from 26% due to the sales mix. Operating expenses were 4% higher at Php2.43 billion from Php2.32 billion due to higher marketing and selling expenses.

Cobra energy drink continues to account for the largest share of revenues. It remains the market leader with a share of 64% in 2021. Cobra's volume was 8% higher y-o-y.

Our bottled water brands, Absolute and Summit, continue to have the second largest share in this segment at 22%. Volume declined 8% y-o-y.

Soymilk Vitamilk's market share was at 69% in 2021, but volume was 17% lower.

The packaging business' revenues were 8% lower in 2021. ABI supplies the glass bottle and other packaging requirements of TDI and ABI and also sells to third parties.

LT GROUP, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Amounts in Thousands)

	December 31	
	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents	P265,139,174	P304,061,222
Financial assets at fair value through profit or loss (FVTPL)	11,205,269	23,858,324
Financial assets at fair value through other comprehensive income (FVTOCI)	75,800,753	59,680,618
Financial assets at amortized cost	45,931,953	40,216,142
Loans and receivables	216,143,944	223,006,163
Inventories	14,286,523	13,175,605
Due from related parties	7,685,534	1,954,502
Other current assets	10,298,762	10,908,904
	646,491,912	676,861,480
Assets of disposal group classified as held for sale	—	7,945,945
Total Current Assets	646,491,912	684,807,425
Noncurrent Assets		
Loans and receivables - net of current portion	407,515,357	393,592,324
Financial assets at FVTOCI	71,468,657	76,644,306
Financial assets at amortized cost	43,523,890	55,019,851
Investments in associates and joint ventures	22,208,309	23,777,783
Property, plant and equipment:		
At appraised values	60,468,871	59,918,473
At cost	13,642,782	11,586,799
Investment properties	34,447,353	32,837,375
Deferred income tax assets - net	6,291,847	8,889,031
Other noncurrent assets	5,777,386	6,049,087
Total Noncurrent Assets	665,344,452	668,315,029
TOTAL ASSETS	P1,311,836,364	P1,353,122,454

LIABILITIES AND EQUITY**Current Liabilities**

Deposit liabilities	P842,061,358	P822,131,355
Financial liabilities at FVTPL	891,531	701,239
Bills and acceptances payable	49,780,354	72,978,082
Accounts payable and accrued expenses	18,115,661	20,849,044
Short-term debts	3,940,000	4,740,000
Current portion of long-term debts	3,597,299	14,527,082
Income tax payable	381,539	1,008,067
Due to related parties	65,325	65,325
Other current liabilities	9,381,064	10,180,106
	928,214,131	947,180,300
Liabilities of disposal group classified as held for sale	—	6,353,964
Total Current Liabilities (Carried Forward)	928,214,131	953,534,264

	December 31	
	2021	2020
Total Current Liabilities (Brought Forward)	P928,214,131	P953,534,264
Noncurrent Liabilities		
Deposit liabilities - net of current portion	38,508,755	58,380,208
Bills and acceptances payable	3,173,443	14,181,368
Long-term debts - net of current portion	59,046,035	55,215,562
Net retirement benefits liability	1,817,657	2,418,637
Deferred income tax liabilities - net	8,499,173	8,327,412
Other noncurrent liabilities	9,040,491	5,526,724
Total Noncurrent Liabilities	120,085,554	144,049,911
Total Liabilities	1,048,299,685	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	14,410,914	15,056,237
Other equity reserves	(5,959,881)	(2,058,370)
Reserves of disposal group classified as held for sale	—	88,616
Retained earnings	134,905,274	125,612,353
Shares of stock of the Company held by subsidiaries	(12,519)	(12,519)
	190,071,408	185,413,937
Non-controlling interests	73,465,271	70,124,342
Total Equity	263,536,679	255,538,279
TOTAL LIABILITIES AND EQUITY	P1,311,836,364	P1,353,122,454

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

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

	Years Ended December 31		
	2021	2020	2019
REVENUE			
Banking	P49,319,441	P54,800,902	P56,522,642
Distilled spirits	26,648,772	25,000,110	19,261,735
Beverage	13,173,729	12,227,532	15,234,051
Property development	2,031,373	2,399,390	3,132,431
	91,173,315	94,427,934	94,150,859
COST OF GOODS SOLD AND SERVICES	42,957,014	42,858,864	46,802,440
GROSS INCOME	48,216,301	51,569,070	47,348,419
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	18,021,180	17,614,907	14,813,251
	66,237,481	69,183,977	62,161,670
OPERATING EXPENSES			
Selling expenses	1,905,020	2,051,114	3,011,424
General and administrative expenses	40,321,877	47,897,268	31,596,421
		49,948,382	34,607,845
OPERATING INCOME	24,010,584	19,235,595	27,553,825
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	816,015	747,095	1,049,965
Finance costs	(364,873)	(341,467)	(450,841)
Finance income	41,663	42,421	146,253
Others - net	2,758,831	1,902,969	2,843,597
	3,251,636	2,351,018	3,588,974
INCOME BEFORE INCOME TAX	27,262,220	21,586,613	31,142,799
PROVISION FOR (BENEFIT FROM) INCOME TAX			
Current	4,112,063	5,976,621	4,192,172
Deferred	2,309,683	(6,648,541)	(513,537)
	6,421,746	(671,920)	3,678,635
NET INCOME FROM CONTINUING OPERATIONS	20,840,474	22,258,533	27,464,164
NET INCOME FROM DISCONTINUED OPERATIONS	20,615	67,583	101,593
NET INCOME	P20,861,089	P22,326,116	P27,565,757

	Years Ended December 31		
	2021	2020	2019
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	P20,246,467	P21,021,996	P23,117,524
Non-controlling interests	614,622	1,304,120	4,448,233
	P20,861,089	P22,326,116	P27,565,757
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company			
	P1.87	P1.94	P2.14
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company from Continuing Operations			
	P1.87	P1.94	P2.13