



President's Report

First Half 2016

LT Group, Inc. (LTG) reported an unaudited attributable net income of Php4.56 billion for the first half of 2016, 28% more than the Php3.57 billion generated in the same period in 2015.

For the period, Philippine National Bank (PNB)'s net income under the pooling amounted to Php4.42 billion, with LTG's share at Php2.46 billion. As part of PNB's income included a Php1.3 billion gain from the sale of property to Eton Properties Philippines, Inc. (Eton) in 1Q16, LTG's share of the gain at Php725 million was eliminated. This brought PNB's net contribution to LTG to Php1.73 billion, or 38% of LTG's attributable income. In 1H15, PNB's attributable income contribution to LTG was at Php2.16 billion, from the Php2.26 billion share in PNB's income less LTG's share in the gain from the sale of a property to Eton of Php109 million.

The tobacco business contributed Php1.45 billion or 32% of total, followed by Asia Brewery, Inc. (ABI) at Php720 million or 16%. Tanduay Distillers, Inc. (TDI) added Php444 million or 10%, while Eton accounted for Php132 million or 3%. Equity in net earnings from Victorias Milling Company, Inc. (VMC) amounted to Php96 million, or 2% of total.

In May, LTG paid a cash dividend of Php0.15 per share, or a total of Php1.62 billion. This is equivalent to a 25% pay-out rate.

Our balance sheet remains strong. As of end-June 2016, the parent company's cash balance was at Php2.7 billion. Debt-to-Equity Ratio was at 3.47:1 with the Bank, and at 0.15:1 without the Bank.

Philippine National Bank (PNB)

PNB reported a net income of Php4.42 billion for the first semester of 2016, under the pooling method, 8% higher than 1H15's Php4.10 billion.

Net Interest Income grew 13% to Php9.53 billion on the back of a 15% year-on-year (y-o-y) growth in Loans and Receivables, as well as a slight improvement in Net Interest Margin to 3.1% from 3.0% in the previous period. Loan to Deposit Ratio (LDR) stood at 72%, from 74% as of end-June 2015 and at the end of 2015, as deposits grew at a faster pace of 17% y-o-y compared to loans.

Net Service Fees and Commission Income were lower by 13% y-o-y to Php1.44 billion from Php1.66 billion brought about by lower deposit-related fees.

Meanwhile, Other Income grew by 70% to Php5.46 billion from Php3.20 billion, with higher Trading and Foreign Exchange Gains, and income from the sale of Real and Other Properties Acquired (ROPA), and the 51% stake in the life insurance business to Allianz.

In 1H16, PNB sold Php810 million (book value) worth of ROPA and booked a gain of Php2.09 billion. ROPA sold included a lot sold to Eton in 1Q16 for Php1.9 billion and booked a gain of Php1.3 billion. With the continued sale, PNB's ROPA stood at Php10.67 billion as of end-June 2016 compared to Php17.2 billion as of end-June 2015 and Php11.8 billion as of end-2015.

Operating Expenses increased by 23% to Php10.57 billion from Php8.60 billion in 1H15, which included a reversal of a previously booked probable loss of Php974 million from the National Steel Corporation case. Without the reversal, 1H16 Operating Expenses would be 10% higher y-o-y, largely on the back of higher personnel costs and credit provisions. The Bank's Net Non-Performing Loans (NPL) ratio stood at 0.19% while NPL cover stood at over 131% as of end-June 2016, from 125% as of end-2015.

Tobacco

The tobacco business had a net income of Php1.46 billion for January to June 2016, from Php425 million in the first half of 2015.

Equity in net earnings from the 49.6% stake in PMFTC, Inc. (PMFTC) reached Php1.40 billion for the first six months of 2016, significantly higher than the Php420 million reported in 1H15.

The increase was mainly attributed to the change in mix of PMFTC's sales, with Marlboro accounting for 38% of total volume, compared to 26% in the previous period, and 22% in FY2014. The volume of premium Marlboro was 32% higher y-o-y, as customers continued to trade up with the narrowing of price gaps.

PMFTC's shipment volume was 10% lower y-o-y, slightly better than the industry's 11% decrease. The decrease in volume was due to the impact of price increases, notably in the fourth quarter of 2015. While volume was lower, PMFTC was able to slightly improve its market share to almost 74% in 2Q16 from around 73% in 2Q15.

Asia Brewery, Inc. (ABI)

ABI's income reached Php721 million for 1H16, 38% higher than 1H15's Php524 million.

While revenues increased 9% y-o-y to Php7.76 billion from Php7.10 billion, there was a more significant growth in net income as gross profit margin (GPM) improved to 30% from 27% with

the higher contribution of higher margin products bottled water and alcopop. Operating expenses rose by 9% largely due to higher advertising expenses.

Energy drink Cobra continues to account for the largest portion of revenues at 33%. It remains the market leader with a share of over 70% as of June 2016. Cobra's volume improved in the second quarter, reversing the 1% y-o-y drop in the first quarter, on the back of intensified advertising. Volume for 1H16 was flat y-o-y in the midst of stiff competition in the carbonated beverage market.

Absolute and Summit, our bottled water brands, continued to enjoy strong sales, with volume increasing 20% y-o-y, due to the exceptionally hot summer and some impact from election-related spending. The expansion in our Laguna plant was completed in June, and we are currently undergoing commission testing. We are a co-leader in this segment, with a market share of 27% as of June 2016. Water accounted for 21% of total revenues.

Our beer volume improved in 2H16, reversing the downtrend since 2014. Volume was 2% higher y-o-y for the 1H16. Beer accounted for 17% of ABI's revenues in 1H16. In late May, we signed a joint venture agreement with Heineken for the beer business.

Tanduay Ice, our alcopop brand, maintains its over 70% market share. Volume was weaker in the April to June quarter, but managed to post a 9% growth for the first half of 2016.

Vitamilk, the soymilk brand under an exclusive distributorship agreement with Green Spot, continues to post robust sales growth and enjoy a market share of over 80%. We have recently completed the construction of our plant, and have started commissioning runs. We are targeting to commercially produce the beverage by the fourth quarter of 2016.

The packaging business accounted for 17% of revenues for the first semester of 2016. ABI supplies the glass bottle requirements of its beverage business, as well as those of TDI and other third parties.

Tanduay Distillers, Inc. (TDI)

TDI reported a 148% growth in net profits to Php444 million in the first six months of 2016, from Php179 million a year ago.

Revenues grew by 25% to Php7.08 billion from Php5.65 billion, due to the start of the contribution of bioethanol sales in 2016. Revenues from liquor were 3% higher y-o-y to Php5.82 billion, from Php5.65 billion.

In 2016, TDI started selling bioethanol to fuel companies. This amounted to Php1.26 billion in revenues for the first half of 2016. TDI has two distilleries, Absolute Distillers, Inc. (ADI) and Asian Alcohol Corporation (AAC). These distilleries supply some of the alcohol requirements of TDI, aside from selling bioethanol.

Meanwhile, the sales volume of liquor improved in the second quarter of 2016, reversing the 17% y-o-y drop in 1Q16, and ending with a 1% growth for the first half of 2016. In 1Q16, liquor sales, especially in the Visayas region, were adversely affected by higher withdrawals in 4Q15 and some impact from the effects of the El Niño that affected agriculture-related incomes. Our market share based on Nielsen's customer off-take volume has remained steady in the past two quarters at 24%. We continue to have a bigger share of the market in the Visayas and Mindanao areas, at 61% and 60%, respectively, as of June 2016.

Overall GPM dropped to 18% from 19% a year ago, due to lower margins for liquor. Higher prices of alcohol were not passed on by the price increase in December 2015 that primarily covered the increase in excise tax starting January 1, 2016.

Eton Properties Philippines, Inc. (Eton)

Eton generated a net income of Php133 million for the first half of 2016, 18% higher than 1H15's Php113 million.

Revenues grew by 5% to Php1.31 billion from Php1.25 billion due to the 18% increase in leasing revenues brought about by higher lease rates of its BPO office buildings. Eton's BPO office buildings, with a gross leasable area of about 124,000 square meters remain fully leased out. Meanwhile, revenues from the sale of residential units were 5% lower y-o-y as revenues were largely from the percentage of completion of previously sold units.

To increase its leasing portfolio, Eton broke ground on the fifth BPO office tower at Eton Centris in Quezon City in August. It will have a gross leasable area (GLA) of around 37,000 square meters and is expected to take two years to complete.

Also within Eton Centris, the expansion of Centris Walk is scheduled to start within 3Q16, and be completed next year. The 5,000 square meter expansion will complement the existing 15,000 square meters of retail space at Centris Walk and Centris Station.

In end-May, Eton also broke ground on Eton WestEnd Square, a mixed-use development along Pasong Tamo, Makati. It will have about 15,000 square meters of GLA for retail and office use, as well as a 44-storey residential component. The office and retail components are targeted to be completed in 2019.

Meanwhile, in early 2016, LTG entered into a joint venture agreement with Ayala Land, Inc. to develop a 35-hectare township project along Circumferential Road 5 (C-5), which spans portions of Pasig City and Quezon City. Work on the master plan is ongoing, and this project will provide Eton with opportunities to further increase its product offerings.

LT GROUP, INC.**(A Subsidiary of Tangent Holdings Corporation)****AND SUBSIDIARIES****INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS****(Amounts in Thousands)**

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	P164,984,461	P137,556,341
Financial assets at fair value through profit or loss	5,150,888	9,663,734
Available for sale (AFS) investments	6,631,897	2,915,170
Loans and receivables	154,584,719	172,140,625
Due from related parties	1,594,997	1,593,034
Inventories	14,859,539	14,024,047
Other current assets	9,623,044	8,841,923
	357,429,545	346,734,874
Assets of disposal group classified as held for sale	–	23,526,757
Total Current Assets	357,429,545	370,261,631
Noncurrent Assets		
Loans and receivables - net of current portion	248,048,816	206,782,709
AFS investments	69,366,455	66,649,517
Held-to-maturity (HTM) investments	23,253,680	23,096,473
Investment in associates and a joint venture	13,953,435	11,761,290
Property, plant and equipment:		
At appraised values	39,719,466	39,538,145
At cost	5,610,799	5,299,731
Investment properties	21,746,579	22,231,525
Deferred income tax assets	569,574	551,237
Other noncurrent assets	3,260,089	3,380,244
Total Noncurrent Assets	425,528,893	379,290,871
TOTAL ASSETS	P782,958,438	P749,552,502
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities	P500,145,810	P436,362,854
Financial liabilities at fair value through profit or loss	482,805	126,075
Bills and acceptances payable	18,609,545	5,836,839
Short-term and long-term debts - current	1,868,630	1,876,015
Accounts payable and accrued expenses	17,761,744	17,079,820
Income tax payable	555,198	294,581
Due to related parties	41,839	46,770
Other current liabilities	16,318,343	13,249,643
	555,783,914	474,872,597
Liabilities of disposal group classified as held for sale	–	21,452,621
Total Current Liabilities (Carried Forward)	555,783,914	496,325,218

(Forward)

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	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Total Current Liabilities (Brought Forward)	P555,783,914	P496,325,218
Noncurrent Liabilities		
Deposit liabilities - net of current portion	25,912,603	39,793,338
Financial liabilities at fair value through profit or loss	104,982	9,118
Bills and acceptances payable	12,563,966	19,915,383
Long-term debts - net of current portion	3,922,676	10,706,431
Accrued retirement benefits	3,791,406	3,900,926
Deferred income tax liabilities	1,149,283	1,182,976
Other noncurrent liabilities	4,413,554	7,961,017
Total Noncurrent Liabilities	51,858,470	83,469,189
Total Liabilities	607,642,384	579,794,407
Equity		
Attributable to equity holders of the Company:		
Capital stock	10,821,389	10,821,389
Capital in excess of par	35,906,231	35,906,231
Preferred shares of subsidiaries issued to Parent Company	18,060,000	18,060,000
Other equity reserves	804,095	804,095
Reserves of disposal group classified as held for sale	—	335,000
Other comprehensive income, net of deferred income tax effect	3,510,035	3,116,572
Retained earnings	63,320,817	59,855,195
Shares of the Company held by subsidiaries	(12,519)	(22,464)
	132,410,048	128,876,018
Non-controlling interests	42,906,006	40,882,077
Total Equity	175,316,054	169,758,095
TOTAL LIABILITIES AND EQUITY	P782,958,438	P749,552,502

LT GROUP, INC.
(A Subsidiary of Tangent Holdings Corporation)
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)
FOR THE SIX MONTHS AND QUARTER ENDED JUNE 30, 2016 AND 2015

	Six Months Ended June 30		For the Quarter Ending June 30	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE				
Banking	P14,287,960	P12,773,690	P7,132,597	P6,584,028
Beverage	7,250,728	6,565,929	3,814,232	3,360,702
Distilled spirits	7,046,095	5,588,386	3,957,010	2,612,571
Property development	1,311,350	1,248,537	656,947	604,081
	29,896,133	26,176,542	15,560,786	13,161,382
COST OF SALES	13,908,080	12,057,629	7,386,873	5,967,372
GROSS INCOME	15,988,053	14,118,913	8,173,913	7,194,010
EQUITY IN NET EARNINGS OF ASSOCIATES	1,496,240	591,785	487,727	84,596
	17,484,293	14,710,698	8,661,640	7,278,606
OPERATING EXPENSES				
Selling expenses	1,303,157	1,209,994	679,383	580,139
General and administrative expenses	11,727,793	9,820,420	5,933,916	4,727,310
	13,030,950	11,030,414	6,613,299	5,307,449
OPERATING INCOME	4,453,343	3,680,284	2,048,341	1,971,157
OTHER INCOME (CHARGES)				
Finance costs	(97,668)	(115,345)	(7,292)	(39,582)
Finance income	13,704	47,996	649	34,400
Foreign exchange gains	807,926	575,825	408,359	285,240
Others – net	2,741,685	2,152,950	1,512,541	1,473,491
	3,465,647	2,661,426	1,914,257	1,753,549
INCOME BEFORE INCOME TAX	7,918,990	6,341,710	3,962,598	3,724,706
PROVISION FOR INCOME TAX				
Current	2,279,545	1,255,400	1,024,909	775,083
Deferred	50,787	(45,411)	99,266	(147,610)
	2,330,332	1,209,989	1,124,175	627,473
NET INCOME FROM CONTINUING OPERATIONS	5,588,658	5,131,721	2,838,423	3,097,233
NET INCOME FROM DISCONTINUED OPERATIONS	384,064	201,110	320,080	96,600
NET INCOME	P5,972,722	P5,332,831	P3,158,503	P3,193,833
Net Income Attributable To:				
Equity holders of the parent company	P4,561,648	P3,572,843	P2,333,035	P1,986,170
Non-controlling interests	1,411,074	1,759,988	825,468	1,207,663
	P5,972,722	P5,332,831	P3,158,503	P3,193,833
Basic/Diluted Earnings Per Share	P0.42	P0.33	P0.22	P0.18