



President's Report

First Half 2015

LT Group, Inc.'s (LTG) unaudited attributable net income for the first half of 2015 reached Php3.573 billion, 65% more than the Php2.160 billion reported in the same period in 2014.

Philippine National Bank (PNB) posted an income of Php4.104 billion under the pooling method, with LTG's share at Php2.264 million. Part of the PNB's income included a Php193 million gain from the sale of a property to Eton Properties Philippines, Inc. (Eton). LTG's share of the gain, at Php109 million was eliminated from LTG's attributable net income from PNB, bringing PNB's contribution to LTG in 1H15 to Php2.155 billion. In 1H14, PNB's attributable income contribution to LTG was at Php1.031 billion, from the Php1.787 billion share in PNB's income, less LTG's share in the gain from the sale of Victorias Milling Company (VMC) shares of Php756 million (as LTG purchased the VMC shares from PNB).

PNB's attributable income contribution to LTG of Php2.155 billion accounted for 60% of total. Asia Brewery, Inc. (ABI) contributed Php523 million or 15% of total, followed by the tobacco business at Php423 million or 12%. Tanduay Distillers, Inc. (TDI) accounted for Php179 million or 5%, while Eton added Php113 million or 3%. Equity in net earnings from the 20.17% stake in VMC provided Php172 million or 5% of total.

LTG's balance sheet remained strong, with the parent company's cash balance at Php3.6 billion as of the end of June 2015. Debt-to-Equity Ratio was at 3.29:1 as of end-June 2015 with the bank, and at 0.13:1 without the bank.

In June, LTG paid a cash dividend of Php0.15 per share or a total of Php1.623 billion. This is equivalent to 37% of the previous year's attributable income.

Philippine National Bank (PNB)

PNB reported a net income of Php4.104 billion for the first six months of 2015, under the pooling method. This is 32% higher than the Php3.120 billion posted in 1H14.

Interest Income was 4% higher y-o-y at Php10.669 billion from Php10.239 billion, on the back of a 23% growth in Gross Loans to Php316 billion as of end-June 2015 from Php257 billion as of end-June 2014. Net Interest Margin was steady at 3.1%, resulting to a Net Interest Income of Php8.652 billion for 1H15 (+4% y-o-y) from Php8.283 billion in 1H14.

Service Fee Income grew by 18% y-o-y to Php1.976 billion from Php1.675 billion due to higher fees earned by PNB Capital and bancassurance fees. Service Fee Expense was 21% higher at Php471 million, with Net Service Fees and Commission Income settling at Php1.505 billion, 17% more than 1H14.

Trading and Foreign Exchange Gains dropped by Php1.013 billion to Php949 million from Php1.962 billion as 1H14 included a Php730 million gain from the sale of VMC shares to LTG.

Other Income reached Php2.194 billion or Php339 million higher as the Bank booked a gain of Php617 million from the sale of Php1.8 billion (book value) worth of ROPAs during the period, including Php1 billion of Heritage Park memorial lots, and Php410 million from the sale of a lot to Eton. In 1H15, the Bank also booked Php758 million from insurance claims. In 1H14, Other Income included a Php325 million gain from the sale of Php309 million worth (book value) of ROPAs, and Php608 million from the sale of VMC convertible notes to LTG.

Operating Expenses were 10% lower at Php8.386 billion from Php9.332 billion the previous year as the Bank reversed a previously booked probable loss of Php974 million from the National Steel Corporation case. Without the reversal, Operating Expenses would have amounted to Php9.360 billion, relatively flat y-o-y.

Asia Brewery, Inc. (ABI)

ABI's income for the first semester of 2015 amounted to Php524 million, 17% lower than the Php629 million reported for January to June 2014.

Revenues were 1% lower at Php7.1 billion from Php7.184 billion, while GPM was slightly lower at 27% from 28%, partly due to incentives given to wholesalers and retailers. Operating expenses were higher by 4% y-o-y primarily due to higher depreciation of returnable containers.

Cobra, our carbonated energy drink, continued to account for the biggest share of revenues at 36%. Volume for 1H15 was 2% lower y-o-y, but our market share was slightly higher at close to 75% as of end-June 2015 from around 72% as of end-2014. This category of the beverage industry has contracted slightly and has limited our ability to capture more of the beverage market. This is because major players in the carbonated soft drinks market continue their price war, with the sodas of three major brands selling at Php6 to 7 per bottle, from as high as Php9 previously for an 8 oz. returnable glass bottle, attracting more price conscious consumers.

Bottled water, under the Absolute and Summit brands, accounted for 19% of revenues. Our volume grew by 5% y-o-y, despite intense competition from low-priced brands.

Beer revenues are about 10% lower, on the back of a similar decline in volume. For Tanduay Ice, volumes and revenues were also lower, but to a lesser degree, and remains the leading brand in the alcopop category with around 90% market share.

Vitamilk, our soymilk drink under an exclusive distribution agreement with Green Spot of Thailand, remains the country's leading soymilk brand. Sales volume continues to grow, and Vitamilk now accounts for 7% of ABI's total revenues.

The packaging business accounted for 15% of total revenues in 1H15. Sales volume of commercial bottles grew by 35% y-o-y with the start of operations of the second furnace in the second half of 2014 and increased orders from customers. ABI supplies the glass bottle requirements of its beverage business, Tanduay and other third parties.

Tobacco

The tobacco business posted a net income of Php425 million in 1H15, 40% lower than the Php713 million reported for 1H14.

Equity in net earnings from the 49.6% stake in PMFTC amounted to Php420 million, lower than the Php687 million equity in net earnings in 1H14.

The illicit trade continues to adversely affect the profitability of the cigarette business. This enables our main competitor to price cigarettes lower than what is economically sustainable. Although there was a price increase in end-January of this year for the super-low segment, these cigarettes are still priced at a level that does not contribute to the bottom line, when paying the correct taxes.

In end-January 2015, our main competitor raised the truck price of its super-low cigarettes by Php6 per pack to Php28, with a recommended retail price of Php1.75 to Php2.00 per stick. We also raised the price of our Jackpot brand to match their prices.

The end-January 2015 price increase has narrowed the price gaps between the different segments. The premium Marlboro's recommended retail price is Php3 per stick, while the mid and low priced Fortune variants are at Php2.00 per stick. The super-low brands are selling at Php1.75 to Php2.00 per stick.

The Government's Internal Revenue Stamps Integrated System (IRSIS) required all local manufacturers to affix numbered stamps on each pack of cigarettes starting December 1, 2014. Effective March 1, 2015, all locally manufactured cigarettes in the market are supposed to have the said stamps. We have seen an increase in the tax declared volume of our main competitor since the implementation of the tax stamps, but it is still at a level which enables the competitor to price its cigarettes at this relatively low level. PMFTC will continue to work with the government in informing wholesalers and retailers to purchase only cigarettes that have the proper tax stamps.

In 1H15, PMFTC's shipment volume reached 32.6 billion sticks. While this is 2.3% lower than 1H14's 33.4 billion sticks, there was a favorable change in the mix. Marlboro's volume reached

8.4 billion sticks, 15% more than 1H14's volume of 7.3 billion sticks, and accounted for 26% of total volume, from 22% in the same period last year. It was the low and super-low brands that had the decline in volume of 12%, at 11.3 billion sticks for 1H15 from 12.8 billion sticks last year, mainly due to the average 27% increase in the recommended retail price of this segment since October of 2014. Moreover, in April, PMFTC launched the Marlboro CROSSOVER campaign to up trade customers.

Smoking prevalence has remained relatively flat, still at 50%, but adult daily consumption has declined to an average of 12.2 sticks per day, steady in the first and second quarters of 2015, but lower than the 13.2 sticks per day in 1H14. The decline in consumption is attributed to the lower consumption in the low and super-low segments, as shown by the decline in volume in PMFTC's brands. PMFTC's market share, based on customer off-take, has remained steady at around 73% in 2Q15.

Tanduay Distillers, Inc. (TDI)

TDI's unaudited net income amounted to Php179 million for the first six months of 2015, a turnaround from the loss of Php172 million for the same period last year.

Revenues were slightly higher by 2% to Php5.651 billion, while sales volume was slightly lower at 7.84 million cases from 8.01 million cases. TDI had two recent price increases, in October 2014 by an average of Php12 per case, and in mid-January 2015 at Php28 per case. The most recent price increase was partly to cover another excise tax increase for distilled spirits in 2015. The price increase resulted in a slight improvement in GPM to 19% in 1H15, from 17% in 1H14.

Operating expenses were 13% lower y-o-y at Php767 million, largely on lower marketing expenses. Coupled with the interest savings from the payment of the Php5 billion bond in mid-February 2015, TDI swung to a profit in the first half of 2015.

According to Nielsen, TDI's market share stood at 25.2% as of the end of June 2015, relatively steady compared to the 24.5% as of end-March 2015, and 24.2% as of end-June 2014.

TDI launched its latest product offering in mid-July, Tanduay Select, a 60 proof rum. It is currently available in the Visayas-Mindanao area, and will soon be sold in Metro Manila and the rest of Luzon.

Eton Properties Philippines, Inc. (Eton)

Eton's income for the first semester of 2015 amounted to Php114 million, an improvement over the Php38 million reported in 1H14.

Revenues from the sale of residential units were 19% higher than the year ago level at Php713 million from Php597 million, with the higher percentage of completion of previously sold units.

In May, Eton started selling units in projects that it previously launched. Prior to this, Eton halted sales activities for about two years to revisit its projects' master plans to optimize values.

Meanwhile, leasing revenues were almost double at Php535 million from Php274 million with the higher contribution of the twin-tower Centris Cyberpod Three and higher lease rates for renewed or new contracts in other office buildings. Eton currently has about 124,000 square meters of leasable BPO office space in five buildings that are fully leased out as of the end of June 2015.

Plans for new BPO office buildings include the fifth tower at Eton Centris in Quezon City with about 60,000 square meters and another on the recently acquired property from PNB in Ortigas Center with 40,000 square meters. These projects are expected to break ground in late 2015 and mid-2016, respectively, and will take two and half to three years to construct.

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	P126,524,947	P147,275,490
Financial assets at fair value through profit or loss	22,332,787	22,811,921
Available for sale (AFS) investments	6,297,987	3,774,286
Loans and receivables	142,509,856	143,653,521
Due from related parties	1,594,613	1,797,390
Inventories	12,985,729	12,936,865
Other current assets	8,493,393	7,886,609
Total Current Assets	320,739,312	340,136,082
Noncurrent Assets		
Loans and receivables - net of current portion	211,283,777	187,438,860
AFS investments	74,760,626	60,039,059
Held-to-maturity (HTM) investments	23,793,279	22,895,493
Investments in associates and a joint venture	12,020,384	12,297,509
Property, plant and equipment:		
At appraised values	40,150,432	38,470,525
At cost	2,591,955	3,975,397
Investment properties	25,566,668	27,197,933
Deferred income tax assets	786,581	717,218
Other noncurrent assets	3,444,278	3,665,132
Total Noncurrent Assets	394,397,980	356,697,126
TOTAL ASSETS	P715,137,292	P696,833,208
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities	P425,312,024	P411,391,378
Financial liabilities at fair value through profit or loss	12,431,498	10,837,220
Bills and acceptances payable	10,564,375	6,640,221
Short-term and long-term debts - current	1,670,358	5,806,123
Accounts payable and accrued expenses	14,809,220	16,120,561
Income tax payable	141,346	326,282
Current portion of due to related parties	42,888	49,859
Other current liabilities	17,237,433	17,974,819
Total Current Liabilities (Carried Forward)	482,209,142	469,146,463
(Forward)		

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Total Current Liabilities (Brought Forward)	₱482,209,142	₱469,146,463
Noncurrent Liabilities		
Deposit liabilities - net of current portion	22,692,841	23,468,731
Financial liabilities at fair value through profit or loss	33,119	24,805
Bills and acceptances payable	14,125,684	12,409,837
Long-term debts - net of current portion	10,928,166	11,291,321
Accrued retirement benefits	3,877,518	3,776,261
Deferred income tax liabilities	1,315,386	1,355,247
Other noncurrent liabilities	13,337,206	12,638,349
Total Noncurrent Liabilities	66,309,920	64,964,551
Total Liabilities	548,519,062	534,111,014
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	790,136	790,136
Other comprehensive income, net of deferred income tax effect	4,181,574	4,582,667
Retained earnings	56,680,282	54,079,986
Shares of the Company held by subsidiaries	(12,518)	(12,518)
	126,427,094	124,227,891
Non-controlling interests	40,191,136	38,494,303
Total Equity	166,618,230	162,722,194
TOTAL LIABILITIES AND EQUITY	₱715,137,292	₱696,833,208

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, 2015 AND 2014

	Six Months Ended June 30		For the Quarter Ending June 30	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE				
Banking	₱13,015,566	₱12,379,177	₱6,715,005	₱5,989,882
Beverage	6,565,929	6,490,068	3,360,702	3,479,911
Distilled spirits	5,588,385	5,544,328	2,612,570	2,596,057
Property development	1,248,537	870,788	604,081	331,646
	26,418,417	25,284,361	13,292,358	12,397,496
COST OF SALES	12,211,806	12,029,492	6,044,449	5,932,370
GROSS INCOME	14,206,611	13,254,869	7,247,909	6,465,126
EQUITY IN NET EARNINGS OF ASSOCIATES	591,785	704,968	84,596	224,492
	14,798,396	13,959,837	7,332,505	6,689,618
OPERATING EXPENSES				
Selling expenses	1,209,994	1,334,608	580,139	684,983
General and administrative expenses	9,607,814	11,200,800	4,070,457	5,911,151
	10,817,808	12,535,408	4,650,596	6,596,134
OPERATING INCOME	3,980,588	1,424,429	2,681,909	93,484
OTHER INCOME (CHARGES)				
Finance costs	(115,345)	(229,619)	(39,582)	(122,675)
Finance income	47,996	32,629	34,400	11,783
Foreign exchange gains	580,181	759,486	287,753	343,363
Others - net	2,069,361	2,256,467	866,831	1,084,201
	2,582,193	2,818,963	1,149,402	1,316,672
INCOME BEFORE INCOME TAX	6,562,781	4,243,392	3,831,311	1,410,156
PROVISION FOR INCOME TAX				
Current	1,275,361	1,318,859	666,773	712,919
Deferred	(45,411)	(37,212)	(29,294)	(43,475)
	1,229,950	1,281,647	637,479	669,444
NET INCOME	₱5,332,831	₱2,961,745	₱3,193,832	₱740,712
Net Income Attributable To:				
Equity holders of the parent company	₱3,572,843	₱2,160,154	₱1,986,169	₱548,453
Non-controlling interests	1,759,988	801,591	1,207,663	192,259
	₱5,332,831	₱2,961,745	₱3,193,832	₱740,712
Basic/Diluted Earnings Per Share	₱0.33	₱0.20	₱0.18	₱0.05