



President's Report

For First Half 2014

LT Group, Inc. (LTG) reported an attributable net income of Php2.16 billion in the first half of 2014, compared to Php6.95 billion for the same period in 2013, as challenges continue to weigh down on its various businesses.

LTG's share in Philippine National Bank's (PNB) Php3.12 billion net income, under the pooling method, amounted to Php1.79 billion. Part of the PNB's income in 2Q14 included a Php1.34 billion gain from the sale of Victorias Milling Company (VMC), with the effective share of LTG from its 56.47% stake at Php756 million. As LTG purchased the 161.98 million VMC shares in April, its share from the sale of the VMC shares should be eliminated from LTG's attributable net income from PNB.

PNB's attributable net income contribution to LTG amounted to Php1.031 billion or 48% of total attributable net income. The tobacco business provided Php710 million or 33% of total attributable net income, followed by Asia Brewery, Inc. (ABI) with Php628 million or 29%. Eton Properties accounted for Php38 million or 2%. Tanduay Distillers, Inc. (TDI) realized a loss of Php172 million.

LTG also recognized Php18 million in Equity in Net Earnings from its stake in VMC which stood at 17.5% of common shares. Inclusive of the convertible notes of VMC that LTG purchased, LTG's effective stake in VMC is at 23.5%.

In May, LTG paid dividends to common shareholders amounting to Php1.7 billion or Php0.16 per share, equivalent to a 20% pay-out of 2013's attributable net income.

LTG's balance sheet remained strong, with the parent company's cash balance at Php12 billion as of the end of June 2014. Debt-to-Equity Ratio was at 3.33:1 as of end-June 2014 with the bank, and at 0.20:1 without the bank.

Philippine National Bank (PNB)

PNB reported a profit of Php3.12 billion in 1H14, 48% lower than 1H13's Php6.03 billion. This is largely due to higher trading gains last year. In 1H13, PNB booked Php7.97bn in trading gains, substantially higher than the Php1.96 billion realized in 1H14.

In the first half of 2014, Interest Income generated reached Php10.24 billion, 7% more than 1H13, largely due to higher income from deposits with banks/others (SDA). Loans were also higher at Php271 billion as of end-June 2014 from Php258 billion as of end-2013. Consumer loans posted a 17% ytd increase to Php32 billion from Php27 billion.

On the other hand, Interest Expense was Php1.13 billion or 37% lower than 1H13 largely due to lower funding costs with the redemption of the Bank's more expensive subordinated debt. As a result, Net Interest Income was 28% higher y-o-y at Php8.28 billion, while Net Interest Margin improved to 3.3% from 2.7% a year ago.

Net Service Fee Income was relatively flat at Php1.28 billion.

PNB had a Stock Rights Offering in mid-February 2014 that raised a total of Php11.6 billion. Ten billion pesos of the proceeds will be used to recapitalize PNB Savings Bank, which will be used to grow the bank's consumer loan business. PNB Savings Bank is targeting to open over 20 branches this year.

LTG subscribed to the Offering to the extent of its beneficial ownership. Pending the approval of the increase in authorized capital (to issue additional shares) of PNB, Php9.2 billion of the proceeds are temporarily booked under Deposit for Future Stock Subscription, under Liabilities.

Tobacco

LTG's income from the tobacco business amounted to Php710 million for the first half of 2014, 73% lower than the Php2.61 billion reported in 1H13.

Fortune Tobacco Corporation (FTC), LTG's holding company for the tobacco business, reported a net income of Php713 million, Php1.9 billion or 73% lower than 1H13's Php2.62 billion. FTC's income includes Php180 million from the sale of a 2,000 square meter lot along Gil Puyat Avenue in Bel-Air Village, Makati to a third party, in the first quarter of 2014.

LTG's equity in net earnings from its 49.6% stake in PMFTC amounted to Php687 million, Php1.56 billion or 69% lower than 1H13's Php2.25 billion. PMFTC continues to be adversely affected by the illicit trade in cigarettes.

There was another round of increase in the excise tax starting January 1, 2014. These rates apply to cigarettes that are withdrawn from the factories this year. In the upper tier, which covers the premium brands like Marlboro, the excise tax increased by Php2/pack of 20 sticks to Php27 from Php25. There was a larger increase in the tax of the lower tier at Php5/pack to Php17 from Php12.

PMFTC's shipment volume in 2Q14 improved to 17.2 billion sticks from 16.2 billion sticks in 1Q14. This brought 1H14 volume to 33.4 billion sticks, slightly higher than the 32.6 billion sticks in 1H13.

The share of the super-low segment has somehow stabilized and accounted for 39% of the total industry's volume as of May 2014. This is lower from the peak of 47% in 3Q13.

In this super-low segment, Mighty continues to sell *Marvels* at Php1.25 per stick or a truck price of Php18.30 per pack. This is below cost as this does not even cover the excise tax of Php17/pack and VAT of Php1.96/pack, or a total of Php18.96/pack for taxes alone. Until *Marvels* goes to the correct price point, Philip Morris International (PMI) has disclosed that we are obliged to maintain some presence in this segment. And for our brand *Jackpot*, we have to subsidize the excise tax. The "Mighty" brand is likewise sold at below cost, at a truck price of Php23 per pack, with excise tax at Php17 and VAT at Php2.46, leaving only Php3.54 to cover production and distribution costs.

Based on Nielsen estimates on customer offtake, we have been able to stabilize our market share at the over 70% level, from the fourth quarter of 2013. Since the implementation of higher excise taxes in 2013, our market share declined from over 90% due to the availability of cheaper cigarettes that are priced at below cost when paying full taxes.

The Bureau of Customs (BoC) closed Mighty's customs bonded warehouse (CBW) in mid-January 2014, and imposed an initial re-assessment of duties and taxes amounting to Php853 million for the CBW in February. The BoC recently assessed another Php216 million on Mighty, and continues to review Mighty's importations over the past three years. The Government is expected to implement tax stamps soon, and release the Implementing Rules and Regulations (IRRs), which will require manufacturers to purchase and paste numbered stamps on each pack of cigarettes.

LTG, PMFTC and PMI will continue to work closely with the Philippine Government to try to stop the illicit trade of cigarettes. Other measures that would help stem the illicit trade include the 24/7 monitoring of all factories as well as a third party audit for all cigarette manufacturers.

Asia Brewery, Inc. (ABI)

ABI's net income for the first six months of 2014 reached Php629 million, 30% more than the Php483 million reported in the same period in 2013. Revenues were 5% higher y-o-y, boosted by our water and energy drink brands. GPM was slightly lower at 28% from 29% due to higher raw material costs, but the 12% decline in operating expenses, largely due to lower selling and marketing expenses, further enhanced the growth in net income.

Cobra, our carbonated energy drink, continues to account for the biggest share of revenues at close to 38% and have a market share of over 70%. There was a growth in Cobra's volume in the second quarter of 2014, from the slight decline posted in 1Q14.

Our water brands, Absolute and Summit, remain market leaders, and sales volume continues to increase in the high single digit range for the first half of the year. Tanduay Ice's volume

improved in 2Q14 over 1Q14, but sales volume continues to be affected by the intense competition in the beer market as this product competes with light beers. The re-launch of Colt 45 in June and intensified marketing efforts helped increase beer sales over the quarter, but sales revenues are still 10% lower y-o-y in 1H14.

Vitamilk, our soymilk drink under an exclusive distribution agreement with Green Spot of Thailand, continues to be the country's leading soymilk brand. Sales volume has been increasing monthly, and has almost doubled from the year-ago level. Construction of our soymilk plant is ongoing, and we are targeting to start manufacturing the soymilk within 2015.

Eton Properties

Eton's net income amounted to Php38 million for the first half of 2014, substantially lower than the Php204 million reported for the first half of 2013. Note, however, that Eton's net income settled at Php105 million for the whole of 2013.

Revenues from the sale of residential units reached Php597 million, 69% lower than the Php1.91 billion reported in 1H13. Revenues were largely from the construction completion of previously sold units as the company did not launch any new projects. There was also a halt in the construction of One Centris Place and First Homes Makati to give way to design improvements and enhancements.

Leasing revenues were 10% higher at Php274 million from Php249 million in 1H13 with the start of the contribution of Centris Cyberpod Three at Eton Centris, in Quezon City, Metro Manila.

In January 2014, Eton started turning over the BPO office spaces in Centris Cyberpod Three, a two-tower BPO office building with a gross leasable area of over 60,000 square meters. As of the end of June 2014, around 87% of the north and south towers have been taken-up.

Leasing revenues are expected to further increase as more tenants start commercial operations in Centris Cyberpod Three. The company also expects higher lease rates from new or renewed lease contracts in other buildings. Around 80% of Eton's current portfolio is up for renewal in the second half of 2014 and 2015. These contracts currently have lease rates at slightly over Php400 per square meter per month, lower than the average of Php550 per square meter per month that the company has been able to get for Centris Cyberpod Three.

Eton currently has 122,700 square meters of office space and 20,700 square meters of retail space in its portfolio. The Company plans to increase its leasing portfolio by constructing more BPO office buildings.

Tanduay Distillers, Inc. (TDI)

TDI's reported a net loss of Php172 million for the first half of 2014, a reversal from an income of Php43 million in the same period in 2013.

Revenues reached Php5.56 billion, 14% more than 1H13's Php4.88 billion, on the back of a 17% increase in sales volume to 8.0 million cases. Our flagship product, Tanduay Five Years, accounted for 73% of total volume and grew by 33% y-o-y as more customers shifted from the lower-alcohol Tanduay Light. For the newly-launched Compañero brandy blend, we have sold close to 400K cases for 1H14 as we penetrate more of the Metro Manila area, backed by an intensified advertising campaign.

However, GPM dropped to 17% in 1H14 from 21% in 1H13 due to discounts given to wholesalers, as well as higher costs of alcohol and other raw materials, and the acquisition of new bottles. Operating Expenses likewise increased with higher selling and marketing expenses, while the company absorbed freight costs that were previously passed on to customers, resulting to a loss for the period.

According to Nielsen, TDI's overall market share slightly improved to 25.6% as of end-June 2014 from 23.8% as of end-March 2014 and 23.3% as of the end of 2013. This shows that TDI's market share has stabilized, from the continuous drop since 2011. TDI continues to have the largest share of the Visayas-Mindanao market, at 59.2% as of end-June 2014, slightly higher than end-2013's 58.3%. Our market share in Metro Manila and the rest of Luzon is still below 5%.

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	₱171,670,781	₱188,319,662
Financial assets at fair value through profit or loss	16,154,631	12,556,152
Available for sale (AFS) investments	2,058,163	2,926,104
Held-to-maturity (HTM) investments	116,841	—
Loans and receivables	120,087,310	83,185,666
Due from related parties	2,731,783	2,710,185
Inventories	12,082,271	10,279,959
Other current assets	7,114,519	5,627,293
Total Current Assets	332,016,299	305,605,021
Noncurrent Assets		
Loans and receivables - net of current portion	173,764,528	204,749,366
AFS investments	62,956,533	78,029,572
Held-to-maturity (HTM) investments	21,120,914	—
Investment in associates and a joint venture	13,151,746	13,664,449
Property, plant and equipment:		
At appraised values	38,382,738	37,834,527
At cost	4,191,903	4,846,852
Investment properties	26,631,751	26,187,597
Net retirement plan assets	234,655	243,793
Deferred income tax assets	465,089	2,681,327
Other noncurrent assets	3,705,412	4,607,718
Total Noncurrent Assets	344,605,269	372,845,201
TOTAL ASSETS	₱676,621,568	₱678,450,222
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities	₱412,801,224	₱415,690,524
Financial liabilities at fair value through profit or loss	8,792,739	192,195
Bills and acceptances payable	8,903,579	11,423,153
Short-term debts	300,000	300,000
Accounts payable and accrued expenses	10,499,905	13,360,700
Income tax payable	294,096	164,045
Current portion of long-term debts	5,478,285	1,009,915
Current portion of due to related parties	1,209,894	8,036,519
Other current liabilities	25,201,729	33,077,731
Total Current Liabilities (Carried Forward)	473,481,451	483,254,782

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Total Current Liabilities (Brought Forward)	₱473,481,451	₱483,254,782
Noncurrent Liabilities		
Deposit liabilities - net of current portion	17,428,250	10,451,554
Financial liabilities at fair value through profit or loss	10,803	7,882,700
Bills and acceptances payable	1,540,665	1,748,844
Long-term debts - net of current portion	11,683,467	16,879,755
Accrued retirement benefits	3,158,945	4,346,262
Deferred income tax liabilities	1,343,501	1,815,777
Other noncurrent liabilities	11,843,568	2,299,948
Total Noncurrent Liabilities	47,009,199	45,424,840
Total Liabilities	520,490,650	528,679,622
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
Deposits for future stock subscription	4,610,265	6,048,534
Preferred shares of subsidiaries issued to Parent Company	13,452,000	7,405,000
Other comprehensive income, net of deferred income tax effect	4,620,461	6,070,799
Other equity reserves	790,136	790,136
Retained earnings	51,258,652	50,505,944
Shares of the Company held by subsidiaries	(12,518)	(12,518)
	121,446,616	117,535,515
Non-controlling interests	34,684,302	32,235,085
Total Equity	156,130,918	149,770,600
TOTAL LIABILITIES AND EQUITY	₱676,621,568	₱678,450,222

LT GROUP, INC.**(a Subsidiary of Tangent Holdings Corporation)****AND SUBSIDIARIES****UNAUDITED 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, 2014 AND 2013**

	Six Months Ended June 30		For the Quarter Ending June 30	
	2014	2013	2014	2013
REVENUE				
Banking	₱12,379,177	₱18,506,831	₱5,989,882	₱8,081,723
Beverage	6,506,748	6,365,105	3,487,468	3,315,459
Distilled spirits	5,561,010	4,882,726	2,603,616	1,864,041
Property development	870,788	2,154,174	331,646	994,340
Tobacco	—	157,209	—	—
	25,317,723	32,066,045	12,412,612	14,255,563
COST OF SALES	12,062,854	13,300,731	5,942,180	6,129,096
GROSS INCOME	13,254,869	18,765,314	6,470,432	8,126,467
EQUITY IN NET EARNINGS OF ASSOCIATES	704,968	2,249,559	224,492	682,843
	13,959,837	21,014,873	6,694,924	8,809,310
OPERATING EXPENSES				
Selling expenses	1,334,608	1,389,056	684,201	648,800
General and administrative expenses	11,200,800	11,195,800	5,885,511	5,301,093
	12,535,408	12,584,856	6,569,712	5,949,893
OPERATING INCOME	1,424,429	8,430,017	125,212	2,859,417
OTHER INCOME (CHARGES)				
Finance costs	(229,619)	(243,598)	(122,675)	(113,928)
Finance income	32,629	109,502	11,783	82,184
Foreign exchange gains	759,486	704,125	343,363	598,046
Others – net	2,256,467	2,380,925	1,052,472	1,061,525
	2,818,963	2,950,954	1,284,943	1,627,827
INCOME BEFORE INCOME TAX	4,243,392	11,380,971	1,410,155	4,487,244
PROVISION FOR INCOME TAX				
Current	1,318,859	1,808,017	712,919	834,886
Deferred	(37,212)	(40,755)	(43,475)	(60,019)
	1,281,647	1,767,262	669,444	774,867
NET INCOME	₱2,961,745	₱9,613,709	₱740,711	₱3,712,377
Net Income Attributable To:				
Equity holders of the parent company	₱2,160,154	₱6,950,679	₱548,451	₱2,814,609
Non-controlling interests	801,591	2,663,030	192,260	897,768
	₱2,961,745	₱9,613,709	₱740,711	₱3,712,377
Basic/Diluted Earnings Per Share	₱0.20	₱0.64		