LT GROUP, INC.

President's Report

For Full Year 2013

LT Group, Inc. (LTG) reported an unaudited attributable net income of Php8.669 billion, 15.4% higher than the Php7.513 billion generated in the same period in 2012. On a pro-forma basis, 2013's Php8.669 billion attributable net income is 32.0% lower year-on-year (y-o-y) compared to Php12.757 billion in 2012. The difference between the actual and 2012 pro-forma income is the inclusion of LTG's stake in PNB.

The tobacco business contributed Php3.921 billion or 45% of total, followed by Philippine National Bank (PNB) at Php3.435 billion or 40% of total. Asia Brewery, Inc. (ABI) accounted for Php1.042 billion or 12%, while Tanduay Distillers, Inc. (TDI) added Php185 million. Eton Properties and Other Charges from Business Combination accounted for the balance.

LTG's balance sheet remained strong, with the parent company's cash balance at Php27.630 billion as of the end of 2013. Debt-to-Equity Ratio was at 3.53:1 as of end-2013, with the bank, and at 0.28:1 without the bank.

Tobacco

LTG's income from the tobacco business amounted to Php3.937 billion in 2013, 43.0% lower than the Php6.909 billion reported in 2012.

LTG's equity in net earnings from PMFTC reached Php3.704 billion in 2013, 43.0% lower than the Php6.499 billion realized in 2012. Meanwhile, LTG's income from its tobacco subsidiary, Fortune Tobacco Corporation (FTC), was boosted by a Php355 million from a tax refund in 2Q13.

PMFTC's sales volume reached 68.5 billion sticks in 2013, 26% lower than the 92.8 billion sticks sold in 2012, resulting in a drop in average market share to 79.3% from 90.7%, respectively, according to Nielsen estimates. By the fourth quarter of 2013, PMFTC's market share had dropped to 72.3%.

2013 was a challenging year for the tobacco business as the excise tax in the upper tier doubled to Php25 per pack from Php12, while the excise tax in the lower tier quadrupled to Php12 per pack from the Php2.71.

This was exacerbated by the illicit trade from a competitor, Mighty Corporation, who kept the price of low-end cigarettes at an economically unsustainable level of Php1 per stick or a truck price of Php14.70 per pack. The Php12 excise tax plus the Php1.58 VAT leaves only Php1.12/pack to cover the cost of production and distribution, which is unrealistic, when paying full taxes.

As a result, many consumers down-traded to the more affordable Php1/stick super-low priced cigarettes. The industry share of super low priced cigarettes, including PMFTC's bands, increased to 41% in 4Q13 from only 15% in 2012.

Philip Morris International (PMI) disclosed that it started lowering prices at the end of 1Q13, and started to move up prices and reduced pricing support of the lowest-priced brands towards the end of 3Q13, as it was tactically balancing volume and profitability.

Mighty has since raised its prices to Php1.25 per stick (in mid-November 2013) and subsequently to Php1.50 per stick (in mid-January 2014) for its major brand, but kept another brand, Marvels, at an unreasonably low price of Php1.25 per stick, or a truck price of Php18.30 per pack, which is below the cost of excise tax plus VAT of Php19.10 per pack starting 2014. Marvels is estimated to account for 30% of Mighty's portfolio and 6%-7% share of total market volume.

It remains to be seen whether Mighty will raise the price of Marvels. PMI disclosed that "until Marvels goes to the right price point and price gaps, we are also obliged to maintain some presence in the segment. For our brand Jackpot, we have to subsidize the excise tax."

There are some positive developments towards stemming the illicit trade. In late January 2014, the Bureau of Customs (BoC) ordered the closure of Mighty's customs bonded warehouse which is allegedly used to bring in tax-free raw materials to manufacture cigarettes for export. Furthermore, the Government is expected to implement fiscal stamps in 2Q14, which will require manufacturers to purchase and paste numbered stamps on each pack of cigarettes.

Meanwhile, the Congressional Oversight Committee (composed of members of the Senate and House of Representatives) on the Comprehensive Tax Reform Program has started hearings and has requested the Department of Finance (DoF) and the agencies under it, the BoC and Bureau of Internal Revenue (BIR) to provide information on sales, importations and excise tax payments of tobacco companies, to verify Nielsen reports that cigarette consumption did not go down despite the reported tax-paid industry sales volume decline of 16% in 2013.

Moreover, two Congressmen have written letters to US Embassy officials in Manila requesting US lawmakers for information on the importation volume and value of Mighty Corporation from US-based suppliers of tobacco and acetate tow.

LTG, PMFTC and PMI will continue to work closely with the Philippine Government to try to stop the illicit trade of cigarettes.

Philippine National Bank (PNB)

LTG acquired a stake in PNB in February 2013. From 45.5%, LTG increased its beneficial ownership to 56.47% by the end of 2013.

PNB's unaudited 2013 income reached Php6.235 billion, a 4.4% decline y-o-y, largely due to the Php875 million loss booked 4Q13 arising from the impact of Typhoon Yolanda (international name Haiyan) to the general insurance business.

Interest Income was 6.8% lower at Php19.398 billion despite the 12.3% y-o-y growth in loans to Php274.280 billion as of December 2013, as the low-interest rate regime resulted in a contraction of Net Interest Margin (NIM) to 2.8% from 3.3% in 2012.

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. LTG subscribed to the Offering to the extent of its beneficial ownership.

To lighten its balance sheet, PNB plans to sell a substantial portion of its Php20 billion in ROPAs (Real and Other Properties Acquired) in 2014, up to 2015.

Asia Brewery, Inc. (ABI)

ABI's net income in 2013 rose 32.5% y-o-y to Php1.043 billion from Php787 million in 2012. The income for 2013 includes a Php291 million gain from the sale of a one-hectare lot in Pasong Tamo, Makati to Eton (Belton Place project). Excluding this gain, core income was at Php752 million, 4.4% lower y-o-y. Revenues were flat at Php13.4 billion, as the volume of some products were adversely affected by the price war among the more popular cola brands, as well as the increase in excise taxes for beer.

Cobra, our carbonated energy drink, suffered a 6% drop in sales volume, which was more than offset by the 10% increase in selling prices. ABI's water brands, Absolute and Summit, remain market leaders, with sales volume increasing 19% y-o-y. Tanduay Ice's volume declined by 44% y-o-y, as sales of the product were also affected by the intensified competition in the beer market.

The increase in selling prices of ABI's products enabled ABI to maintain its overall GPM at 27%, while operating expenses only increased by a minimal 2%.

ABI currently has the broadest portfolio of beverage products in the Philippines, and has sustained its growth by introducing its own products (Cobra, Tanduay Ice, Absolute and Summit) or by forming strategic partnerships with well-known brands. ABI's partnership with Grupo Leche Pascual of Spain introduced long-life pasteurized yogurt in the Philippines in 4Q12 under the Creamy Delight brand, and is suitable for nationwide distribution, especially to the "sari-sari" stores (small neighborhood retail stores) as it does not require refrigeration. In 2013, ABI, started to manufacture under licensing agreements, ready to drink Nestea (2Q13) of Nestle and Sunkist carbonated softdrinks (4Q13).

Vitamilk, ABI's soymilk drink under an exclusive distribution agreement with Green Spot of Thailand, is the country's leading soymilk brand, with around 60% market share. With sales volume reaching over one million cases in 2013, ABI is putting up its own plant to manufacture the soymilk in the Philippines, and expects commercial operations in 2015.

ABI will expand further to other types of beverages, both alcoholic and non-alcoholic, and take advantage of its nationwide distribution network which reaches over 500,000 points of sale.

Tanduay Distillers, Inc. (TDI)

TDI's net income in 2013 amounted to Php185 million, 81.9% lower than the Php1.021 billion reported in 2012. The 2013 bottom line is inclusive of one-time expenses amounting to Php105 million arising from closure of the old plant in Quiapo, Manila. Excluding the extraordinary expenses, core income dropped by 71.6% to Php290 million.

Revenues of TDI reached Php10.540 billion, 18.6% lower than 2012's Php12.950 billion, brought about by a 29% drop in sales volume to 14.6 million cases due to the adverse effect of higher excise taxes and stiff competition. TDI was able to increase selling prices by an average of 15%, but higher alcohol prices likewise caused GPM to slightly decline to 21% from 23%.

According to Nielsen, TDI's overall market share dropped to 23% as of the end of 2013, from 26% in December 2012. TDI continued to have the largest share of the Visayas-Mindanao market at 58% as of end-2013.

The Visayas-Mindanao area is the traditional market for TDI's products, and accounts for 95% of TDI's sales volume, with Metro Manila and the rest of Luzon only accounting for 5% of total volume. TDI only accounts for less than 5% of the total market in Metro Manila and the rest of Luzon. The planned launch of new products, targeted for the younger generation, should increase TDI's market share in Metro Manila and the rest of Luzon, and would have a significant impact in TDI's overall market share.

In mid-November 2013, TDI launched Compañero brandy blend in Metro Manila, and is expected to compete with other brandy blends in the market. With its more superior taste, this brandy is targeted to appeal to a wider range of consumers. By the end of 2013, approximately a hundred thousand cases of Compañero had been sold, and is targeted to reach a million cases in 2014.

In August of 2013, TDI launched a premium product, Tanduay Asian Rum, in Florida and Connecticut in the United States, with at least 4 more states targeted for 2014. Tanduay Asian Rum comes in two variants, white and gold, which won the Best in Class Award in the Gold Rum Category by the International Rum Expert Panel in the 2013 Miami Rum Renaissance Festival. The product will soon be offered in selected shops in the Philippines. The Asian Rum is expected to further enhance the image of the "Tanduay" brand.

TDI is also intensifying its media campaign to gain market share. This month, TDI unveiled a television ad featuring Tanduay 5 year-old rum, with the intention of making the image of TDI's flagship product more hip and appealing.

Eton Properties

Eton's net income for 2013 reached Php105 million, 123.4% more than the Php47 million reported in 2012, on the back of a 36.2% increase in revenues to Php3.657 billion from Php2.686 billion, largely due to the completion of ongoing residential projects. Revenues from real estate development amounted to Php3.208 billion or 88% of total revenues, while rental income contributed Php449 million or 12%.

In January 2014, Eton started turning over the BPO office spaces in Three Cyberpod Centris at Eton Centris, in Quezon City, Metro Manila. This is the third BPO office building at Eton Centris with a gross leasable area of over 61,000 square meters. Inclusive of Three Cyberpod, Eton currently has 122,700 square meters of office space and 33,500 square meters of retail space in its portfolio. The Company plans to increase its leasing portfolio, and account for half of revenues in the future.

LT GROUP, INC.
AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

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

	Years Ended December 31		
	2013	2012 (As restated)	2012 (As previously reported)
REVENUE			
Banking	**₱28,855,871**	₱32,040,683	₱–
Beverage	**12,663,942**	12,188,007	12,188,007
Distilled spirits	**10,539,843**	12,767,679	12,719,679
Tobacco	**151,722**	2,974,897	2,974,897
Property development	**3,656,950**	2,685,795	2,685,795
	55,868,328	62,657,061	30,568,378
COST OF SALES	**26,098,334**	30,439,722	22,728,862
GROSS INCOME	**29,769,994**	32,217,339	7,839,516
EQUITY IN NET EARNINGS OF AN ASSOCIATE AND A JOINT VENTURE	**3,704,117**	6,498,972	6,498,972
	33,474,111	38,716,311	14,338,488
OPERATING EXPENSES			
Selling expenses	**2,777,546**	2,716,718	2,731,566
General and administrative expenses	**21,680,411**	23,187,958	2,144,172
	24,457,957	25,904,676	4,875,738
OPERATING INCOME	**9,016,154**	12,811,635	9,462,750
OTHER INCOME (CHARGES)			
Finance costs	**(480,892)**	(548,187)	(605,199)
Finance income	**139,093**	158,244	203,430
Foreign exchange gains (losses)	**1,260,899**	824,036	(108,053)
Others – net	**3,648,641**	4,991,087	724,353
	4,567,741	5,425,180	214,531
INCOME BEFORE INCOME TAX	**13,583,895**	18,236,815	9,677,281
PROVISION FOR INCOME TAX			
Current	**2,509,506**	2,645,035	1,158,598
Deferred	**(400,675)**	46,015	(221,407)
	2,108,831	2,691,050	937,191
NET INCOME	**₱11,475,064**	₱15,545,765	₱8,740,090
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱8,669,242**	₱12,756,727	₱7,513,430
Non-controlling interests	**2,805,822**	2,789,038	1,226,660
	₱11,475,064	₱15,545,765	₱8,740,090
Basic/Diluted Earnings Per Share	**₱0.80**	₱1.18	₱0.85