LT GROUP, INC.

President's Report

For Full Year 2014

LT Group, Inc.'s (LTG) unaudited attributable net income for 2014 reached Php4.224 billion, compared to Php8.669 billion in 2013, with the continuing difficult operating environment of its tobacco business.

Philippine National Bank (PNB) posted an unaudited income of Php5.62 billion under the pooling method, with LTG's share at Php3.11 billion. Part of the PNB's income in 2Q14 included a Php1.34 billion gain from the sale of Victorias Milling Company (VMC) shares, 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 was eliminated from LTG's attributable net income from PNB.

PNB's unaudited attributable income contribution to LTG amounted to Php2.36 billion or 56% of total. Asia Brewery, Inc. (ABI) accounted for Php1.12 billion or 27%, followed by Eton Properties at Php119 million or 3%. Tanduay Distillers, Inc. (TDI) and the tobacco business each provided 2% at Php101 million and Php99 million, respectively. The balance was largely from the Php335 million gain on the purchase of Victorias Milling Company (VMC) shares, and Php45 million from LTG's share in VMC's income. LTG's stake in VMC stood at 20.17% as of end-2014.

LTG's balance sheet remained strong, with the parent company's cash balance at Php8.1 billion as of the end of 2014. Debt-to-Equity Ratio was at 3.36:1 as of year-end with the bank, and at 0.18:1 without the bank.

Philippine National Bank (PNB)

PNB reported an unaudited net income of Php5.62 billion in 2014, under the pooling method, 10% lower than 2013's Php6.24 billion. This is largely due to higher trading gains in 2013 which amounted to Php7.16 billion, compared to 2014's Php2.64 billion.

For FY2014, Net Interest Income reached Php16.92 billion, 19% higher than 2013. While Interest Income from loans and receivables rose by 6%, the Bank was able to lower its interest costs with the redemption of the Bank's more expensive subordinated debt. As a result, Interest Expense was 24% lower at Php3.89 billion. This improved Net Interest Margin to 3.2% from 2.8% a year ago.

Loans and Receivables were 15% higher year-on-year (y-o-y) at Php316 billion.

Meanwhile, Net Service Fees and Income settled at Php2.46 billion, slightly lower than the previous year.

The Bank's asset quality continued to improve with the net NPL ratio at 0.92% as of end-2014, from 1.39% as of end-2013. Moreover, the Bank has been disposing of its acquired asset portfolio and booked Php1.50 billion in gains from the sale of ROPAs in 2014.

Asia Brewery, Inc. (ABI)

ABI reported an unaudited net income of Php1.12 billion in 2014, 8% more than 2013's Php1.04 billion. However, 2013 included a Php291 million gain from the sale of a Makati property to Eton (Belton Place project). Excluding this extraordinary gain, 2013's income would have settled at Php752 million, and 2014's income, on a core basis, would be 49% higher y-o-y.

Revenues were 7% higher y-o-y, due to the growth of our water, energy drink and soymilk brands. The slightly higher GPM at 29% from 27%, coupled with the 5% decline in operating expenses, largely due to more selective selling and marketing expenses, pushed the growth in net income.

Cobra, our carbonated energy drink, continues to account for close to 40% of revenues and have a market share of over 70%. Cobra's volume was flat y-o-y.

Our water brands, Absolute and Summit, remain market leaders with close to 30% market share as of end-2014. Sales volume grew 9% in 2014. We are currently expanding our capacity in the Cabuyao, Laguna plant by 40% as it is currently operating at full capacity. We are implementing a light-weighting project for the PET bottles, which is targeted for completion by mid-2015.

Beer revenues are down by single digit, as the re-launch of Colt 45 in June and intensified marketing efforts helped temper the volume decline. The intense competition in the beer market continues to adversely affect Tanduay Ice's volume as this product competes with light beers. However, Tanduay Ice's market share remains at over 90%.

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, with our 2014 volume double the previous year. Construction of our soymilk plant is ongoing, and we expect to start producing the product locally in mid-2016.

Eton Properties Philippines, Inc. (Eton)

Eton's unaudited net income settled at Php120 million in 2014, 14% higher than the Php105 million reported in 2013.

Revenues from the sale of residential units reached Php1.54 billion, 52% lower than the Php3.21 billion reported in 2013. The Company has halted sales activities for about two years to revisit its projects' master plans to optimize values. Eton plans to restart selling residential projects within 2015.

On the other hand, leasing revenues reached Php740 million, 65% more than 2013's Php449 million with the start of the contribution of the 60,000 square meter twin-tower Centris Cyberpod Three at Eton Centris, in Quezon City, Metro Manila. Eton started turning over to tenants the office spaces in the buildings in 2014, and had an average take-up rate of 97% as of end-2014. All of Eton's other BPO office spaces are fully leased out.

The growth in leasing revenues for 2015 will come from the full-year contribution of Centris Cyberpod Three, as well as higher lease rates from new or renewed lease contracts in other buildings. At start of 2014, the weighted average lease rate for the BPO office buildings was around Php450 per square meter per month, lower than the average of Php600 per square meter per month that the Company was able to get for Centris Cyberpod Three. Eton has been able to charge higher rates closer to Php600 for lease renewals and has brought the weighted average lease rate to Php550 per square meter per month, as of the end of 2014.

Eton currently has about 150,000 square meters of office and retail space in its portfolio. The Company plans to increase this by constructing more BPO office buildings.

Tanduay Distillers, Inc. (TDI)

TDI reported an unaudited net income of Php101 million for 2014, 45% lower than 2013's Php185 million. The Company posted a turnaround in the second half of the year, from the loss of Php172 million in the first half of 2014.

Revenues increased 14% y-o-y to Php12.02 billion, on the back of a 17% increase in sales volume to 17.0 million cases. Our flagship product, Tanduay Five Years, had a volume growth of 18% and accounted for 72% of total volume. Total volume in 4Q14 grew at a slower pace of 8% y-o-y, as 3Q14's volume was partially boosted by frontloading ahead of the price increase implemented in October.

Tanduay Light's volume was 30% lower than a year ago, as customers shifted back to the 40% alcohol Tanduay Five Years. For our Compañero brandy blend, around one million cases were sold in 2014, as we continue to try to penetrate more of the Metro Manila area.

GPM dropped to 18% in 2014 from 21% in 2013 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 increased by 6% y-o-y due to overall higher selling and marketing expenses, mostly in the first half of the year. But, from a loss of Php172 million in 1H14, the Company managed to swing back to profitability in the second half of the year due to higher sales volume, higher prices starting October, and reduced advertising and promotion expenses in the second half of the year.

According to restated Nielsen figures, TDI's overall market share slightly improved to 22.0% as of end-December 2014 from 21.8% as of 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 56.5% as of end-2014, same as end-2013. Our market share in Metro Manila and the rest of Luzon is still below 5%.

In mid-January 2015, TDI implemented another price increase, of Php28/case, to pass on the increase in the excise tax, effective January 1, 2015. This is higher than the Php12/case increase in October 2014.

Tobacco

LTG's income from the tobacco business amounted to Php99 million in 2014, from Php3.92 billion in 2013. Aside from equity in net earnings from its 49.6% stake in PMFTC, Fortune Tobacco Corporation's (FTC) income includes a one-time gain of Php180 million from the sale of a lot in 1Q14, as well as an expense of Php312 million from the de-recognition of deferred tax assets in 4Q14.

LTG's equity in net earnings from PMFTC amounted to Php466 million, Php3.24 billion or 87% lower than 2013's Php3.70 billion. PMFTC continues to be adversely affected by the illicit trade in cigarettes. In 4Q14, LTG realized a Php54 million loss from its stake in PMFTC, lower than the Php167 million loss reported in 3Q14.

PMFTC's shipment volume reached 68.4 billion sticks in 2014, 0.1 billion sticks or 0.2% lower than 2013's 68.5 billion sticks. PMFTC estimates that our market share has remained steady at slightly above 70% over the past five quarters, based on customer offtake. 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 share of the super-low segment has stabilized at around 32% to 34% of the total industry's volume in the second half 2014. While still higher than the 17% share of this segment in 4Q12, before the Excise Tax Law was implemented in 2013, it is substantially lower than the peak of 47% in 3Q13.

In the super-low segment, Mighty kept the *Marvels* brand at Php1.25 per stick or a truck price of Php18.30 per pack for most of 2014. 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. The *Mighty* brand was sold at Php1.50 per stick, or a truck price of Php23 per pack.

We matched the prices of Mighty for its low and super-low brands in 2014, until we raised prices in end-October. PMFTC raised the recommended retail selling price (RRSP) of its low-end brands by Php6 per pack and the super-low brands by Php3 to Php5 per pack, with a similar increase in the truck price. This increased the RRSP per stick of the low-end brands to Php2.00 from the previous Php1.50 per stick, while the super-low brands increased to Php1.50 per stick from Php1.25. Mighty followed by increasing prices in end-November, but by slightly lower amounts.

In end-January 2015, Mighty raised the price of both *Mighty* and *Marvels* to Php1.75 to Php2.00 per stick, and the truck price to Php28 per pack. The Php6/pack increase for *Marvels* is higher than the Php4/pack increase in excise taxes to Php21/pack, effective January 1, 2015.

Philip Morris International (PMI) disclosed that "we have recently witnessed significant positive price movements at the lower end of the market. We believe that the introduction of tax stamps will further improve the competitive environment in a market where cigarette consumption remained resilient last year at around 100 billion units. These developments augur well for profitability to improve over the mid-term and we remain bullish on the prospects for this market."

The government started implementing the Internal Revenue Stamps Integrated System (IRSIS). From December 1, 2014, all local manufacturers were required to affix numbered stamps on each pack of cigarettes. Although the BIR's Revenue Regulation 9-2014 states that effective March 1, 2015, all locally manufactured cigarettes in the market should have the said stamps, we believe that it may be by the middle of 2015 before we can see the full effects of the tax stamps, both in terms of compliance and impact on the illicit trade.

We also believe that other measures are needed to substantially reduce the illicit trade of cigarettes. These measures include the installation of CCTV cameras for the 24/7 monitoring of all factories as well as a third-party audit for all cigarette manufacturers.

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

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Years Ended December 31		
	2014	2013	2012 (As Restated)
REVENUE			
Banking	**₱24,633,861**	₱28,855,871	₱32,040,683
Beverage	**13,322,189**	12,701,784	12,188,007
Property development	**2,278,600**	3,656,950	2,685,795
Distilled spirits	**11,919,130**	10,425,603	12,767,679
Tobacco	**-**	151,722	2,974,897
	52,153,780	55,791,930	62,657,061
COST OF SALES AND SERVICES	**25,067,883**	26,021,935	30,439,722
GROSS INCOME	**27,085,897**	29,769,995	32,217,339
EQUITY IN NET EARNINGS OF ASSOCIATES	**845,441**	3,704,117	6,498,972
	27,931,338	33,474,112	38,716,311
OPERATING EXPENSES			
Selling expenses	**2,747,040**	2,776,946	2,716,118
General and administrative expenses	**22,079,831**	21,681,011	23,187,897
	24,826,871	24,457,957	25,904,015
OPERATING INCOME	**3,104,467**	9,016,155	12,812,296
OTHER INCOME (CHARGES)			
Finance costs	**(456,215)**	(480,892)	(548,187)
Finance income	**117,800**	139,093	158,244
Foreign exchange gains - net	**1,343,813**	1,260,899	824,036
Others - net	**5,074,384**	3,648,639	4,991,086
	6,079,782	4,567,739	5,425,179
INCOME BEFORE INCOME TAX	**9,184,249**	13,583,894	18,237,475
PROVISION FOR INCOME TAX			
Current	**2,950,435**	2,509,506	2,645,034
Deferred	**79,453**	(400,676)	46,214
	3,029,888	2,108,830	2,691,248
NET INCOME	**₱6,154,361**	₱11,475,064	₱15,546,227
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱4,224,416**	₱8,669,220	₱12,757,189
Non-controlling interests	**1,929,945**	2,805,844	2,789,038
	₱6,154,361	₱11,475,064	₱15,546,227
Basic/Diluted Earnings Per Share	**₱0.39**	₱0.85	₱1.44