



President's Report

For First Quarter 2014

LT Group, Inc. (LTG) reported an attributable net income of Php1.61 billion in the first quarter of 2014, compared to Php4.14 billion of 1Q13, amidst a challenging environment.

Philippine National Bank (PNB) contributed Php748 million or 46% of total attributable net income, followed by the tobacco business at Php576 million or 36% of total. Asia Brewery, Inc. (ABI) accounted for Php263 million or 16%, while Eton Properties added Php29 million. Tanduay Distillers, Inc. (TDI) realized a loss of Php11 million while Other Income accounted for the balance of Php8 million.

LTG's balance sheet remained strong, with the parent company's cash balance at Php17 billion as of the end of March 2014. Debt-to-Equity Ratio was at 3.45:1 as of end-March 2014, with the bank, and at 0.27:1 without the bank.

Philippine National Bank (PNB)

PNB reported a profit of Php1.35 billion in 1Q14, 65% lower than 1Q13's Php3.85 billion. This is largely due to lower trading gains this year. In 1Q13, PNB booked Php4.7bn in trading gains, substantially higher than the Php582 million realized in 1Q14.

Interest Income generated in 1Q14 reached Php5.4 billion, Php400 million or 8% more than 1Q13, largely due to higher income from deposits with banks/others (SDA). On the other hand, Interest Expense was Php1.017 billion or 40% lower than the same period last year largely due to lower funding costs with the redemption of the Bank's more expensive subordinated debt. As a result, Net Interest Income was 33% higher y-o-y at Php4.4 billion, while Net Interest Margin improved to 3.4% from 2.7% a year ago.

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 Php576 million in 1Q14, 63% lower than the Php1.56 billion reported in 1Q13.

Fortune Tobacco Corporation (FTC), LTG's holding company for the tobacco business, reported a net income of Php578 million, Php983 million or 63% lower than the Php1.561 billion generated in 1Q13. 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.

LTG's equity in net earnings from its 49.6% stake in PMFTC reached Php480 million, Php1.09 billion or 69% lower than 1Q13's Php1.57 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.

There was a rebound in PMFTC's sales volume in 1Q14 to 16.2 billion sticks, 20% higher than 1Q13. However, the super-low segment now accounts for 37% of the total industry's volume, from 23% in 1Q13. In this segment, Mighty sells *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 Php2.50/pack, or a total of Php19.50/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. PMFTC had reached over 50% share of the super low segment in 1Q14.

Based on Nielsen estimates on customer offtake, we have been able to stabilize our market share at the over 70% level, in 1Q14 from 4Q13. Since the implementation of higher excise taxes in 2013, we saw our market share decline from over 90% due to the availability of cheaper cigarettes that are priced at below cost when paying full taxes.

Recent developments on the illicit trade include the closure of Mighty's customs bonded warehouse (CBW) in mid-January 2014, as well as the initial re-assessment of duties and taxes amounting to Php853 million for the CBW in February which Mighty paid. The Government is expected to implement fiscal stamps in the middle of this year, which will require manufacturers to purchase and paste numbered stamps on each pack of cigarettes.

The Congressional Oversight Committee (composed of members of the Senate and House of Representatives) on the Comprehensive Tax Reform Program started hearings in April 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, and to verify Nielsen reports that cigarette consumption did not go down despite the reported tax-paid industry sales volume decline of 16% in 2013. Hearings are expected to resume in late May or June.

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 in 1Q14 of Php263 million was 15% more than the Php229 million reported in 1Q13. While revenues were flat at Php3.37 billion, and GPM slightly lower at 28% from 32%, the 19% drop in operating expenses, largely due to lower selling and marketing expenses, enabled the company to post a growth in net income.

Cobra, our carbonated energy drink, continues to account for the biggest share of revenues at close to 40% and have a market share of over 70%. While there was a slight drop in volume, revenues were slightly higher with the increase in selling prices.

Our water brands, Absolute and Summit, remain market leaders, with sales volume increasing in the high single digit range. Despite Tanduay Ice's volume decline, it remains the market leader with over a 90% share. Sales of alcopops are also affected by the continued intense competition in the beer market as this product competes with light beers. Meanwhile, beer volumes are down by over 10% y-o-y. We recently re-launched Colt 45 and are intensifying the marketing efforts for our alcoholic beverages.

Vitamilk, ABI's soymilk drink under an exclusive distribution agreement with Green Spot of Thailand, is the country's leading soymilk brand, and continues to post high double-digit growth. We are putting up our own plant to manufacture the soymilk in the Philippines, and expect commercial operations in 2015.

Eton Properties

Eton reported a net income of Php29 million in 1Q14, 74% lower than 1Q13's Php109 million.

Revenues from the sale of residential units reached Php408 million, 60% lower than the Php1.02 billion reported a year ago. This was partly because the construction of One Centris Place and First Homes Makati were put on hold to give way to design improvements and enhancements.

Leasing revenues were slightly lower at Php131 million from Php138 million in 1Q13, but are expected to increase when commercial operations of Three Cyberpod Centris begin.

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 and has a gross leasable area of over 61,000 square meters, of which around 70% has been taken-up. Inclusive of Three Cyberpod, 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 Php11 million for the first three months of 2014, a reversal from an income of Php7 million in 1Q13.

Revenues of TDI reached Php2.96 billion, 2% lower than 1Q13's Php3.02 billion in 1Q13. Sales volume was relatively flat at 4.3 million cases. Our flagship product, Tanduay Five Years, had an over 20% increase in volume, but our other products suffered declines. Since the start of the year, sales of Compañero have been steadily increasing as we penetrated more of the Metro Manila area, backed by an intensified advertising campaign.

However, GPM dropped to 17% in 1Q14 from 22% in 1Q13, due to higher costs of alcohol and other raw materials, as well as the acquisition of new bottles. Coupled with higher selling and marketing expenses, TDI ended the quarter with a loss.

According to Nielsen, TDI's overall market share slightly improved to 23.8% as of end-March 2014 from 23.3% as of the end of 2013. This shows that our market share has stabilized versus the 3%age point drop for the whole of 2013. We continue to have the largest share of the Visayas-Mindanao market, at 59.1% as of end-March 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 CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	P185,339,551	P188,319,662
Financial assets at fair value through profit or loss	14,328,160	12,556,152
Available for sale (AFS) investments	1,797,844	2,926,104
Loans and receivables	139,296,201	83,185,666
Due from related parties	2,716,767	2,710,185
Inventories	11,779,606	10,279,959
Other current assets	7,223,511	5,627,293
Total Current Assets	362,481,640	305,605,021
Noncurrent Assets		
Loans and receivables - net of current portion	146,596,351	204,749,366
AFS investments	62,916,624	78,029,572
Held-to-maturity (HTM) investments	21,489,426	—
Investment in an associate and a joint venture	13,262,435	13,664,449
Property, plant and equipment:		
At appraised values	37,682,115	37,834,527
At cost	4,951,069	4,846,852
Investment properties	27,225,089	26,187,597
Net retirement plan assets	233,599	243,793
Deferred income tax assets	1,294,925	2,681,327
Other noncurrent assets	2,291,689	4,607,718
Total Noncurrent Assets	317,943,322	372,845,201
TOTAL ASSETS	P680,424,962	P678,450,222
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liability	P420,630,931	P415,690,524
Financial liabilities at fair value through profit or loss	8,353,817	192,195
Bills and acceptances payable	4,725,757	11,423,153
Short-term debts	300,000	300,000
Accounts payable and accrued expenses	11,521,322	13,360,700
Income tax payable	213,566	164,045
Current portion of long-term debts	5,452,808	1,009,915
Current portion of due to related parties	5,989,899	8,036,519
Other current liabilities	34,575,884	33,077,731
Total Current Liabilities (Carried Forward)	491,763,984	483,254,782

	March 31, 2014	December 31, 2013
Total Current Liabilities (Brought Forward)	₱491,763,984	₱483,254,782
Noncurrent Liabilities		
Deposit liabilities - net of current portion	14,202,965	10,451,554
Financial liabilities at fair value through profit or loss	–	7,882,700
Bills and acceptances payable	1,757,067	1,748,844
Long-term debts - net of current portion	11,819,119	16,879,755
Accrued retirement benefits	3,013,965	4,346,262
Deferred income tax liabilities	1,517,785	1,815,777
Other noncurrent liabilities	3,396,292	2,299,948
Total Noncurrent Liabilities	35,707,193	45,424,840
Total Liabilities	527,471,177	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	–	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	5,138,044	6,070,799
Other equity reserves	790,136	790,136
Retained earnings	52,280,917	50,505,944
Shares of the Company held by subsidiaries	(12,518)	(12,518)
	118,376,199	117,535,515
Non-controlling interests	34,577,586	32,235,085
Total Equity	152,953,785	149,770,600
TOTAL LIABILITIES AND EQUITY	₱680,424,962	₱678,450,222

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)****FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013**

	2014 (Three Months) (Unaudited)	2013 (Three Months) (Unaudited)
REVENUE		
Banking	₱6,389,295	₱10,425,108
Beverage	3,019,280	3,049,646
Distilled spirits	2,957,394	3,018,685
Tobacco	–	157,209
Property development	539,142	1,159,834
	12,905,111	17,810,482
COST OF SALES AND SERVICES	6,120,674	7,171,635
GROSS INCOME	6,784,437	10,638,847
EQUITY IN NET EARNINGS OF AN ASSOCIATE	480,476	1,566,716
	7,264,913	12,205,563
OPERATING EXPENSES		
Selling expenses	650,407	740,256
General and administrative expenses	5,315,289	5,894,707
	5,965,696	6,634,963
OPERATING INCOME	1,299,217	5,570,600
OTHER INCOME (CHARGES)		
Finance costs	(106,944)	(129,670)
Finance income	20,846	27,318
Foreign exchange gains - net	416,123	106,079
Others - net	1,203,995	1,319,400
	1,534,020	1,323,127
INCOME BEFORE INCOME TAX	2,833,237	6,893,727
PROVISION FOR INCOME TAX		
Current	605,940	973,131
Deferred	6,263	19,264
	612,203	992,395
NET INCOME	₱2,221,034	₱5,901,332
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	₱1,611,703	₱4,136,070
Non-controlling interests	609,331	1,765,262
	₱2,221,034	₱5,901,332
Basic/Diluted Earnings Per Share	₱0.15	₱0.46