



President's Report

For First Nine Months of 2014

LT Group, Inc. (LTG) reported an attributable net income of Php2.50 billion in the first nine months of 2014, compared to Php7.63 billion for the same period in 2013, amidst the difficult operating environment of its various businesses.

LTG's share in Philippine National Bank's (PNB) Php3.72 billion net income, under the pooling method, amounted to Php2.05 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 Php1.29 billion or 52% of total. Asia Brewery, Inc. (ABI) contributed Php796 million or 32%, followed by the tobacco business at Php462 million or 19% of total. Eton Properties accounted for Php65 million or 3%. Tanduay Distillers, Inc. (TDI) posted an Php83 million loss.

LTG's balance sheet remained strong, with the parent company's cash balance at Php10 billion as of the end of September 2014. Debt-to-Equity Ratio was at 3.31:1 as of end-September 2014 with the bank, and at 0.19:1 without the bank.

Philippine National Bank (PNB)

PNB reported a profit of Php3.72 billion for the period January to September 2014, 46% lower than 9M13's Php6.82 billion. This is largely due to higher trading gains last year. In 9M13, PNB booked Php7.6bn in trading gains, substantially higher than the Php1.2 billion realized in 9M14.

In 9M14, Net Interest Income reached Php12.27 billion, 21% more than 9M13. This was boosted by higher income from loans and receivables, as well as lower costs with the redemption of the Bank's more expensive subordinated debt.

Loans were also higher at Php295 billion as of end-September 2014, 14% more than the end-2013 level of from Php258 billion. Consumer loans posted a 14% ytd increase to Php32 billion from Php28 billion.

On the other hand, Interest Expense was Php2.93 billion or 29% lower than 9M13 largely due to lower funding costs. As a result, Net Interest Margin improved to 3.2% from 2.7% a year ago.

Net Service Fee Income was 2% higher y-o-y at Php1.86 billion.

The bank's asset quality continued to improve with the NPL ratio at 0.99% as of end-September 2014 from 1.1% a year ago. Moreover, the ratio of ROPA to total assets stood at 3.45% from 4.61% as the bank has been disposing of its acquired asset portfolio.

Asia Brewery, Inc. (ABI),

ABI's net income for the first nine months of 2014 reached Php797 million, 27% higher than 9M13's Php626 million. Revenues were 9% higher y-o-y, primarily due to the growth of our water and energy drink brands. GPM was slightly lower at 27% from 30% due to higher raw material costs, but the 9% 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 40% and has a market share of over 70%. Cobra's volume for 9M14 was slightly lower y-o-y.

Our water brands, Absolute and Summit, remain market leaders, and sales volume grew by double digit for the first nine months of 2014. As the water lines in our Cabuyao, Laguna plant are currently operating at close to full capacity, we are adding another line which will expand capacity by 40%. We are also in the midst of a light-weighting project for the PET bottles of our water, which is targeted for completion in the first half of 2015.

Tanduay Ice's volume continues to be affected by the intense competition in the beer market as this product competes with light beers, but we continue to maintain our market share of over 90%. Beer revenues are down by single digit for 9M14, as a price increase coupled with the re-launch of Colt 45 in June and intensified marketing efforts helped temper the decline.

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 is targeted to be completed in the fourth quarter of 2015.

Tobacco

LTG's income from the tobacco business amounted to Php462 million for the period January to September 2014, 84% lower than the Php2.79 billion reported for the same period in 2013. Fortune Tobacco Corporation's (FTC) income includes Php180 million from the sale of a lot in 1Q14.

LTG's equity in net earnings from its 49.6% stake in PMFTC amounted to Php520 million, Php2.04 billion or 80% lower than 9M13's Php2.56 billion. PMFTC continues to be adversely affected by the illicit trade in cigarettes. In 3Q14, LTG realized a Php167 million loss from its stake in PMFTC, compared to equitized earnings of Php308 million in 3Q13.

PMFTC's shipment volume in 3Q14 slightly improved to 17.5 billion sticks from 17.2 billion sticks in 2Q14 and 16.2 billion sticks in 1Q14, bringing 9M14 volume to 50.9 billion sticks, 1% more than 9M13's 50.4 billion sticks.

The share of the super-low segment has stabilized and accounted for 34% of the total industry's volume as of August 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 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.

On October 27, 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.

Based on Nielsen estimates on customer offtake, we have been able to stabilize our market share at just over the 70% level for the past four quarters, from October 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, followed by another Php216 million in August, bringing the total assessment to over Php1 billion. As the assessment only covers 2013 imports, the BoC continues to review Mighty's importations for the past three years.

In October, the Senate Tax Study and Research Office (STSRO) reported to the Joint Congressional Oversight Committee on Comprehensive Tax Reform Program, evidence that shed light on Mighty's ability to sell its products at below tax or below cost which include using imported materials for export but diverting these to the domestic market without paying duties and taxes, as well as undervaluing the cost of tobacco and filter materials to evade customs duties. The company declared that 99% of its importations of tobacco and acetate tow are for export, yet admitted that only 1.5% of its total production is exported.

Meanwhile, the Government's Internal Revenue Stamps Integrated System (IRSIS) is facing delays due to technical issues with the production of the stamps. The Bureau of Internal Revenue (BIR) has issued another amendment to its Revenue Regulations. The latest amendment, dated October 31, 2014, moves the implementation to December 1, 2014 wherein all local manufacturers are required to affix numbered stamps on each pack of cigarettes. It further states that effective March 1, 2015, all locally manufactured cigarettes in the market should have the said stamps.

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 installation of CCTV cameras for the 24/7 monitoring of all factories as well as a third-party audit for all cigarette manufacturers.

Various business groups, including the American Chamber of Commerce and the Japanese Chamber of Commerce and Industry of the Philippines, have joined the call for third-party monitoring of tax compliance by all cigarette manufacturers.

Eton Properties

Eton's net income amounted to Php65 million for January to September 2014, substantially lower than the Php196 million reported for the same period in 2013.

Revenues from the sale of residential units reached Php724 million, 73% lower than the Php2.70 billion reported in 9M13. Revenues were largely from the construction completion of previously sold units as the company did not launch any new projects.

Leasing revenues reached Php470 million, 24% more than the Php378 million in 9M13 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, which currently has an average take-up rate of 87%. The average take-up rate of Eton's office buildings was at 94% as of end-September 2014.

Growth in leasing revenues is expected as more tenants start commercial operations in Centris Cyberpod Three. Moreover, higher lease rates from new or renewed lease contracts in other buildings will also contribute to the growth of revenues. Currently, the average lease rate for the BPO office buildings is at around Php450 per square meter per month, lower than the average of Php580 per square meter per month that the company has been able to get for Centris Cyberpod Three. The majority of these leases has been renewed at around Php600 per square meter per month.

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 a net income of Php89 million in the third quarter of 2014, a turnaround from the loss of Php172 million in the first half of 2014, bringing the 9M14 loss to Php83 million. In 9M13, TDI reported a net income of Php77 million.

Revenues reached Php8.76 billion, 16% more than 9M13's Php7.56 billion, on the back of a 20% increase in sales volume to 12.6 million cases. Our flagship product, Tanduay Five Years, accounted for 73% of total volume and grew by 30% y-o-y. Sales in 3Q14 were partially boosted by frontloading ahead of the price increase implemented by TDI in October. Moreover, some customers shifted from the lower-alcohol, Tanduay Light, to the 40% alcohol drink.

For the newly-launched Compañero brandy blend, we have sold over 500 thousand cases for 9M14 as we penetrate more of the Metro Manila area, backed by an intensified advertising campaign.

However, GPM dropped to 17% in 9M14 from 21% in 9M13 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, resulting to a loss for the period.

According to restated Nielsen figures, TDI's overall market share slightly improved to 24.2% as of end-September from 21.8% 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 57.9% as of end-September 2014, slightly higher than end-2013's 56.5%. 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)

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	₱154,313,440	₱188,319,662
Financial assets at fair value through profit or loss	16,360,182	12,556,152
Available for sale (AFS) investments	1,830,207	2,926,104
Held-to-maturity (HTM) investments	101,355	—
Loans and receivables	123,078,715	83,185,666
Due from related parties	2,696,660	2,710,185
Inventories	13,051,296	10,279,959
Other current assets	6,127,892	5,627,293
Total Current Assets	317,559,747	305,605,021
Noncurrent Assets		
Loans and receivables - net of current portion	196,475,198	204,749,366
AFS investments	58,698,066	78,029,572
Held-to-maturity (HTM) investments	22,910,840	—
Investment in associates and a joint venture	12,195,968	13,664,449
Property, plant and equipment:		
At appraised values	37,534,515	37,834,527
At cost	3,957,391	4,846,852
Investment properties	27,640,611	26,187,597
Net retirement plan assets	236,601	243,793
Deferred income tax assets	1,564,042	2,681,327
Other noncurrent assets	2,617,638	4,607,718
Total Noncurrent Assets	363,830,870	372,845,201
TOTAL ASSETS	₱681,390,617	₱678,450,222
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities	₱404,498,164	₱415,690,524
Financial liabilities at fair value through profit or loss	10,158,194	192,195
Bills and acceptances payable	10,480,061	11,423,153
Short-term debts	300,000	300,000
Accounts payable and accrued expenses	6,552,441	13,360,700
Income tax payable	654,613	164,045
Current portion of long-term debts	5,461,341	1,009,915
Current portion of due to related parties	1,173,247	8,036,519
Other current liabilities	23,006,611	33,077,731
Total Current Liabilities (Carried Forward)	462,284,672	483,254,782

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Total Current Liabilities (Brought Forward)	₱462,284,672	₱483,254,782
Noncurrent Liabilities		
Deposit liabilities - net of current portion	16,967,038	10,451,554
Financial liabilities at fair value through profit or loss	30,423	7,882,700
Bills and acceptances payable	12,250,058	1,748,844
Long-term debts - net of current portion	11,486,647	16,879,755
Accrued retirement benefits	3,162,434	4,346,262
Deferred income tax liabilities	1,380,563	1,815,777
Other noncurrent liabilities	15,664,498	2,299,948
Total Noncurrent Liabilities	60,941,661	45,424,840
Total Liabilities	523,226,333	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	2,888,791	6,048,534
Preferred shares of subsidiaries issued to Parent Company	15,172,000	7,405,000
Other comprehensive income, net of deferred income tax effect	4,179,308	6,070,799
Other equity reserves	790,136	790,136
Retained earnings	51,831,445	50,505,944
Shares of the Company held by subsidiaries	(12,518)	(12,518)
	121,576,782	117,535,515
Non-controlling interests	36,587,502	32,235,085
Total Equity	158,164,284	149,770,600
TOTAL LIABILITIES AND EQUITY	₱681,390,617	₱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 NINE MONTHS AND QUARTER ENDED SEPTEMBER 30, 2014 AND 2013

	Nine Months Ended September 30		For the Quarter Ended September 30	
	2014	2013	2014	2013
REVENUE				
Banking	₱18,091,683	₱23,491,554	₱5,712,506	₱4,984,723
Beverage	9,762,138	9,115,772	3,255,390	2,750,667
Distilled spirits	8,710,916	7,533,935	3,149,906	2,651,209
Property development	1,194,376	3,081,488	323,588	927,314
Tobacco	—	151,722	—	(5,487)
	37,759,113	43,374,471	12,441,390	11,308,426
COST OF SALES	18,300,212	19,339,195	6,237,358	6,038,464
GROSS INCOME	19,458,901	24,035,276	6,204,032	5,269,962
EQUITY IN NET EARNINGS OF ASSOCIATES	488,442	2,557,923	(216,526)	308,364
	19,947,343	26,593,199	5,987,506	5,578,326
OPERATING EXPENSES				
Selling expenses	2,023,190	2,150,588	688,582	761,532
General and administrative expenses	16,647,123	16,025,104	5,446,323	4,829,304
	18,670,313	18,175,692	6,134,905	5,590,836
OPERATING INCOME	1,277,030	8,417,507	(147,399)	(12,510)
OTHER INCOME (CHARGES)				
Finance costs	(353,899)	(360,044)	(124,280)	(116,446)
Finance income	68,241	175,449	35,612	65,947
Foreign exchange gains	1,028,669	579,949	269,183	(124,176)
Others – net	3,317,722	3,784,128	1,061,255	1,403,203
	4,060,733	4,179,482	1,241,770	1,228,528
INCOME BEFORE INCOME TAX	5,337,763	12,596,989	1,094,371	1,216,018
PROVISION FOR INCOME TAX				
Current	1,842,921	1,925,271	524,062	117,254
Deferred	(86,782)	90,998	(49,570)	131,753
	1,756,139	2,016,269	474,492	249,007
NET INCOME	3,581,624	₱10,580,720	₱619,879	₱967,011
Net Income Attributable To:				
Equity holders of the parent company	₱2,496,045	₱7,626,862	₱335,891	₱676,183
Non-controlling interests	1,085,579	2,953,858	283,988	290,828
	₱3,581,624	₱10,580,720	₱619,879	₱967,011
Basic/Diluted Earnings Per Share	₱0.23	₱0.70		