

# FY2016 3Q Earnings Presentation





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This material has been produced to provide investors with various information in order for them to get more understanding about KT&G based on the objective facts as best as we can. However, the numbers and guidance in this material may be subject to change and the company does not guarantee the correctness and completeness.



## **Chapter 1. Consolidated Results**

**- Sales/Profit**

# 1-1. FY16 3Q Consolidated Results Summary



**3Q and 9M Consolidated sales achieved 1 tril, 220.2 bil. won and 3 tril, 399.6 bil. won**

- 3Q consolidated sales increased 7.6% yoy : KT&G 7.3%↑, KGC 21.9%↑ yoy
- 9M consolidated sales increased 2.9% yoy : KT&G 2.4%↑, KGC 21.4%↑ yoy

## □ 3Q Consolidated Sales

(Unit : bil. KRW)

	YOY		
	3Q FY16	3Q FY15	Change
KT&G	753.8	702.8	7.3%
KGC	345.4	283.3	21.9%
Others	120.9	148.3	△18.4%
<b>Total</b>	<b>1,220.2</b>	<b>1,134.4</b>	<b>7.6%</b>

## □ 9M Consolidated Sales

(Unit : bil. KRW)

	YOY		
	9M FY16	9M FY15	Change
KT&G	2,200.6	2,148.9	2.4%
KGC	894.6	737.0	21.4%
Others	304.5	417.3	△27.0%
<b>Total</b>	<b>3,399.6</b>	<b>3,303.2</b>	<b>2.9%</b>

• Sales of KT&G and KGC are the amounts before eliminating internal transactions.

• Others and adjusted amounts are the figures after adjusting or eliminating internal transactions among other subsidiaries sales.

# 1-2. FY16 3Q Consolidated Profit/Loss Summary



**3Q Consolidated OP and NI recorded 426.3 bil. won and 249.9 bil. won**

- 3Q consolidated OP increased 15.1% yoy : KT&G 10.4%↑, KGC 29.5%↑ yoy
- 3Q consolidated NI decreased 16.9% yoy : KT&G 28.0%↓, KGC 21.3%↑ yoy

## □ 3Q Consolidated Profit/Loss

(Unit : bil. KRW)

		YOY		
		3Q FY16	3Q FY15	Change
O P	KT&G	349.3	316.4	10.4%
	KGC	68.6	53.0	29.5%
	Others	8.5	1.2	596.6%
Total		426.3	370.5	15.1%
N I	KT&G	208.0	288.9	Δ28.0%
	KGC	50.7	41.8	21.3%
	Others	Δ8.8	Δ30.1	-
Total		249.9	300.6	Δ16.9%

## □ 9M Consolidated Profit/Loss

(Unit : bil. KRW)

		YOY		
		9M FY16	9M FY15	Change
O P	KT&G	999.4	967.0	3.3%
	KGC	172.6	132.5	30.3%
	Others	Δ6.8	2.5	-
Total		1,165.2	1,102.1	5.7%
N I	KT&G	738.0	813.3	Δ9.3%
	KGC	129.2	101.1	27.8%
	Others	Δ47.0	Δ44.4	-
Total		820.2	870.0	Δ5.7%

- Figures of KT&G and KGC are the amounts before eliminating internal transactions.
- Others and adjusted amounts are the figures after adjusting or eliminating internal transactions among other subsidiaries sales.



## Chapter 2. KT&G Separate Results

## 2-1. FY16 3Q KT&G Results Summary



### 3Q Sales & OP increased 7.3% and 10.4% yoy each

- 3Q Sales increased 7.3% yoy to 753.8 bil. won
  - Domestic cigarette 4.8%↑, Export Cigarette 4.6%↑, Others(Real Estate etc.) 50.0%↑
- 3Q OP rose 10.4% to 349.3 bil. won and NI dropped 28.0% to 208.0 bil. won

#### □ 3Q Consolidated Profit/Loss

(Unit : bil. KRW)

	3Q FY16	3Q FY15	Change
Net Sales	753.8	702.8	7.3%
- Domestic	498.3	475.4	4.8%
- Export	196.8	188.2	4.6%
- Others (Real Estate etc.)	58.8	39.2	50.0%
Operating Profit	349.3	316.4	10.4%
Net Income	208.0	288.9	△28.0%

#### □ 9M Consolidated Profit/Loss

(Unit : bil. KRW)

	9MFY16	9M FY15	Change
Net Sales	2,200.6	2,148.9	2.4%
- Domestic	1,390.1	1,493.3	△6.9%
- Export	622.7	505.9	23.1%
- Others (Real Estate etc.)	187.8	149.7	25.5%
Operating Profit	999.4	967.0	3.3%
Net Income	738.0	813.3	△9.3%

## 2-2. Domestic Cigarette

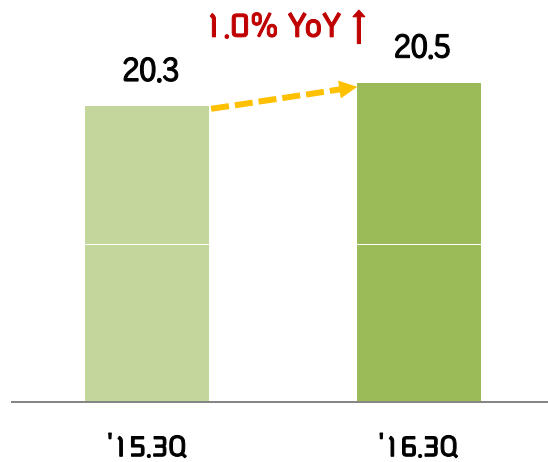


**Total market volume and KT&G volume in 3Q rose 1.0% and 1.7% yoy each**

- 16 3Q Total Market Volume: 20.5 bil. sticks, rose by 0.2 bil. sticks yoy
- 16 3Q KT&G Volume : 12.2 bil. sticks, rose by 0.2 bil. sticks yoy
- KT&G M/S : 59.6%, increased 0.4%p yoy (up 0.3%p qoq)

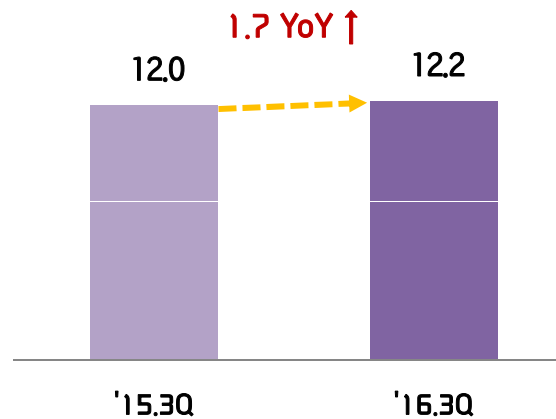
□ Total Market Volume

(Unit : bil. sticks)



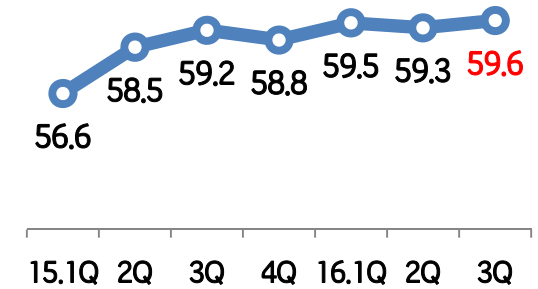
□ KT&G volume

(Unit : bil. sticks)



□ KT&G M/S Trend

(Unit : %)





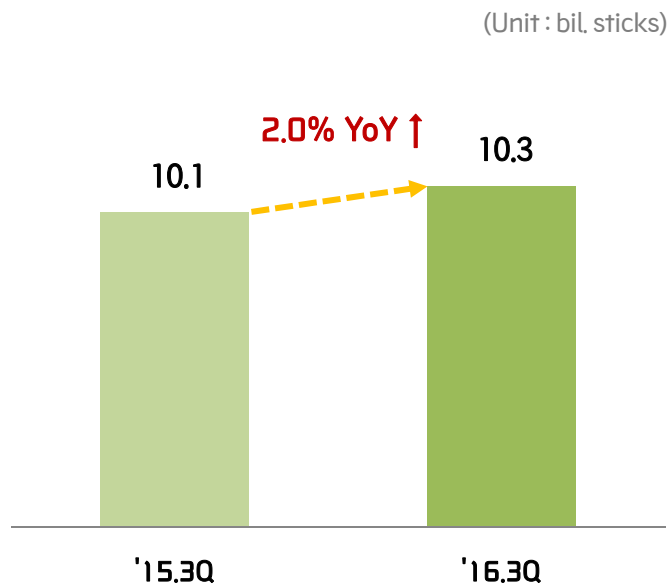
## 2-3. Overseas Cigarette (Export)



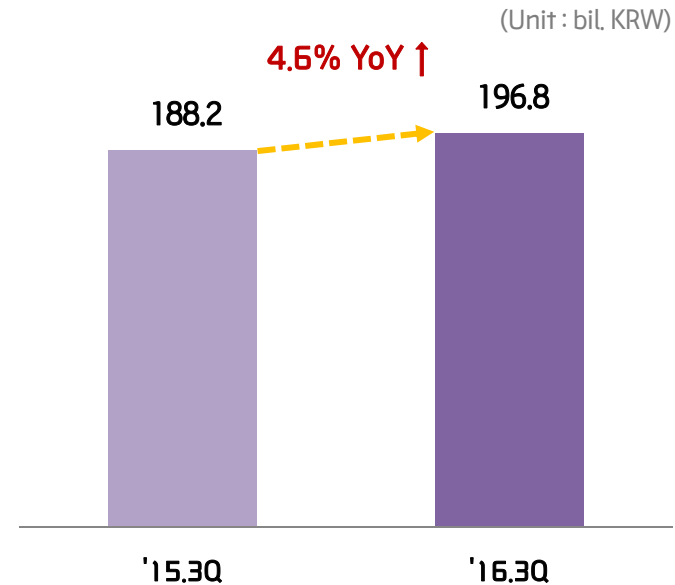
3Q Export volume and sales rose 2.0% and 4.6% yoy each

- Volume rose 2.0% yoy ('15. 3Q 10.1 bil. sticks → '16. 3Q 10.3 bil. sticks)
- Sales rose 4.6% yoy ('15. 3Q 188.2 bil. won → '16. 3Q 196.8 bil. won)

□ Export Cigarette Volume



□ Export Cigarette Sales



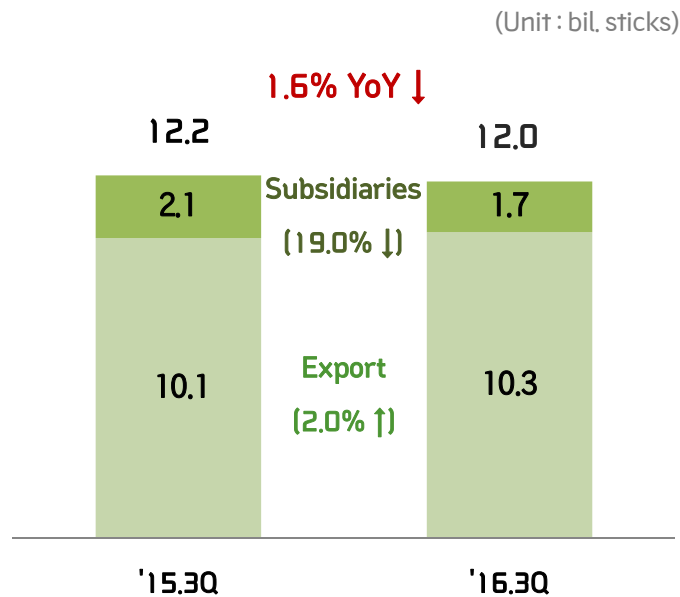
## 2-3. Overseas Cigarette (Export +Subsidiaries)



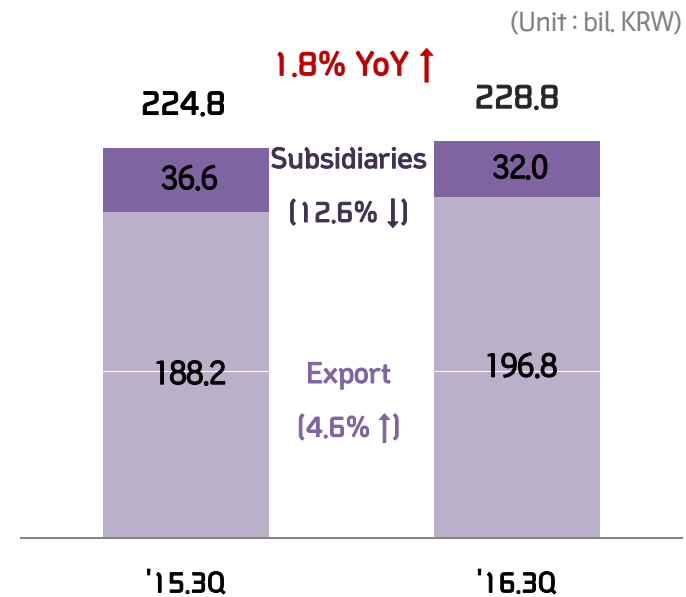
**3Q Overseas volume decreased 1.6% yoy and sales increased 1.8% yoy**

- 3Q Overseas volume, 12.0 bil. sticks (down 1.6% yoy) : Export 2.0%↑, Subsidiaries 19.0%↓
- 3Q Overseas sales, 228.8 bil. won (up 1.8% yoy) : Export 4.6%↑, Subsidiaries 12.6%↓

□ Overseas Cigarette Volume



□ Overseas Cigarette Sales

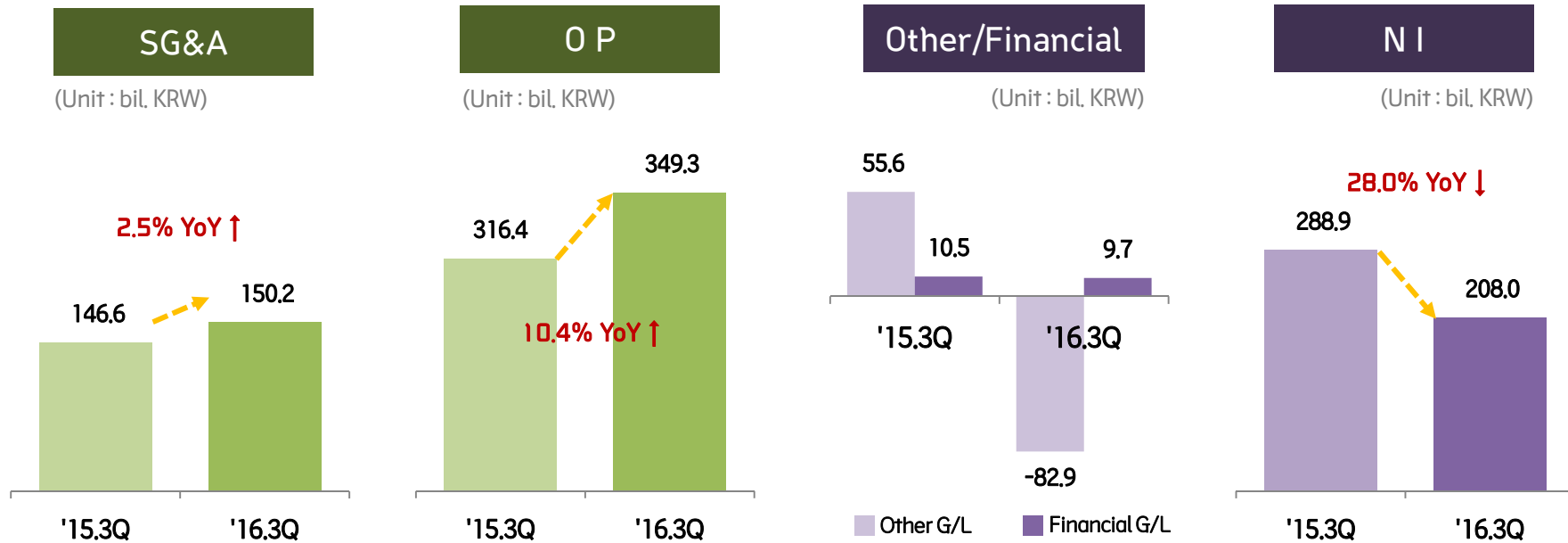


\* Subsidiaries : Russia, Turkey, Iran, Indonesia

## 2-4. Profitability Analysis



FY16 3Q OP grew 10.4% and NI dropped 28.0% yoy each



- SG&A Ratio : '15. 3Q 20.9% → '16. 3Q 19.9% (1.0%p↓)
- OP Margin : '15. 3Q 45.0% → '16. 3Q 46.3% (1.3%p↑)

- NI Margin : '15. 3Q 41.1% → '16. 3Q 27.6% (13.5%p↓)
- Other gain decreased (Net FX Loss 117.2 bil. won↓)



## **Chapter 3. KGC Separate Results**

# 3-1. FY16 3Q KGC Results Summary



**3Q Sales & OP increased 21.9% and 29.5% yoy each**

- 3Q Sales achieved 345.4 bil. won, up 21.9% yoy (Domestic 28.1% ↑, Export 41.4% ↓)
- 3Q OP rose 29.5% yoy to 68.6 bil. won and NI grew 21.3% yoy to 50.7 bil. won

## □ 3Q Sales & Profit

(Unit : bil. KRW)

	3Q FY16	3Q FY15	Change
Net Sales	345.4	283.3	21.9%
- Domestic	330.9	258.4	28.1%
- Export	14.6	24.9	△41.4%
Operating Profit	68.6	53.0	29.5%
Net Income	50.7	41.8	21.3%

## □ 9M Sales & Profit

(Unit : bil. KRW)

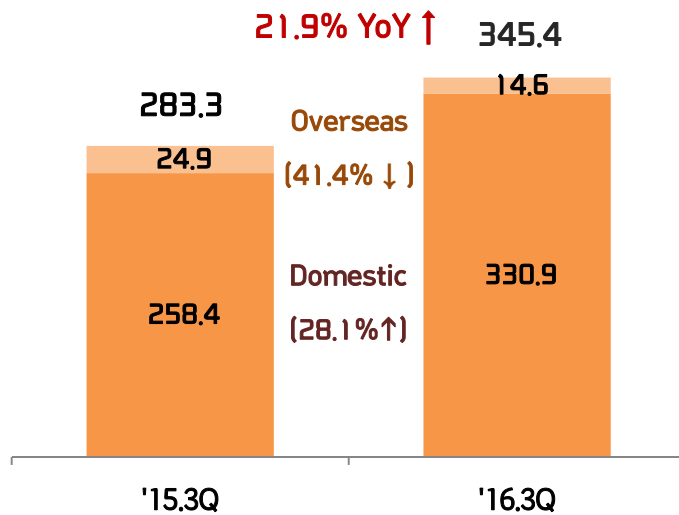
	9MFY16	9MFY15	Change
Net Sales	894.6	737.0	21.4%
- Domestic	856.2	668.9	28.0%
- Export	38.4	68.1	△43.6%
Operating Profit	172.6	132.5	30.3%
Net Income	129.2	101.1	27.8%

## 3-2. Sales Analysis

3Q Domestic sales grew 28.1% yoy through growth of overall channels

□ Sales by Regions

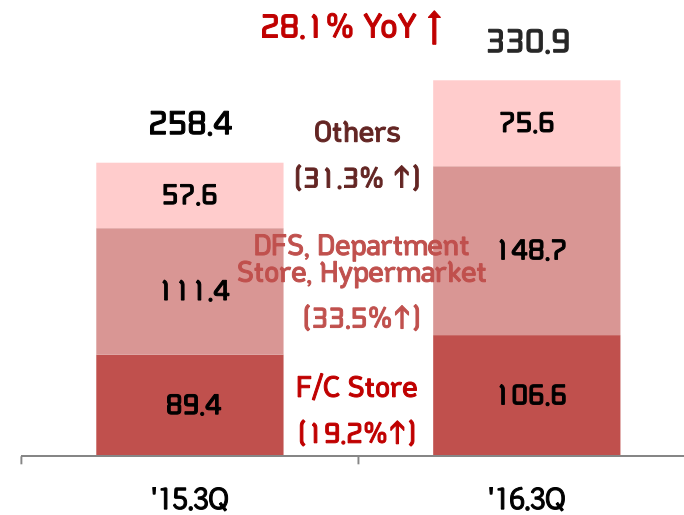
(Unit : bil. KRW)



- Domestic sales in 3Q rose 28.1% yoy
- Overseas sales in 3Q fell 41.4% yoy

□ Domestic Sales by Channels

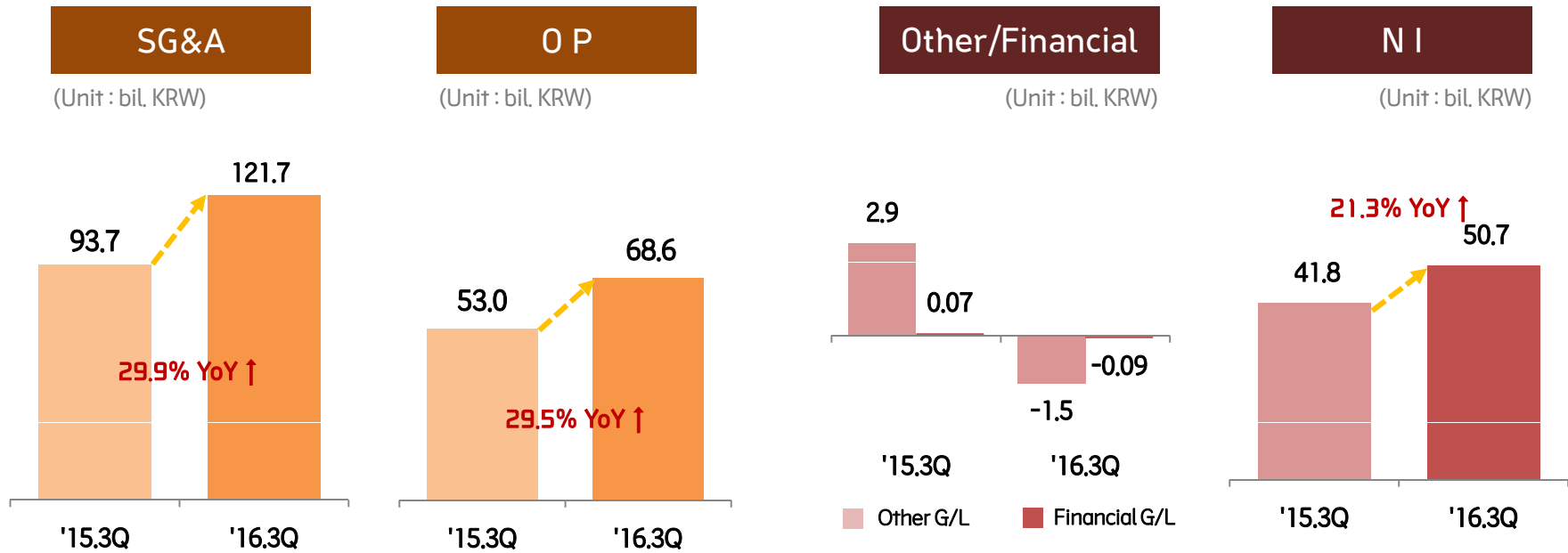
(Unit : bil. KRW)



- F/C store grew 19.2% yoy
- DFS, Department Store, Hypermarket grew 33.5% yoy
- Others grew 31.3% yoy (Homeshopping, on-line etc.)

# 3-3. Profitability Analysis

**3Q OP and NI increased 29.5% and 21.3% yoy respectively**



- SG&A Ratio : '15. 3Q 33.1% → '16. 3Q 35.2% (2.1%p↑)
- OP Margin : 15. 3Q 18.7% → `16. 3Q 19.9% (1.2%p ↑)
- Sales improvement of high value-added products

- NI Margin : `15. 3Q 14.7% → `16. 3Q 14.7%
- Other gain decreased (Net FX Loss 1.59 bil. won↓)



## **Chapter 4. Appendix**

- Consolidated F/S**
- Separate F/S**



# 4-1. Consolidated Financial Statement



## □ Summarized Statement of Financial Position

(bil. KRW)	FY14	FY15	'16. 3Q
Non-Current Assets	3,010.1	3,102.5	3,151.1
-Property Plant Equipment	1,753.4	1,789.8	1,665.7
-Investment Properties	168.0	164.5	261.3
-Equity Accounted Investments	57.9	51.5	38.4
-Available-For-Sale Financial Assets	325.8	364.7	381.7
Current Assets	4,408.2	5,564.2	5,667.0
-Inventories	1,982.5	2,119.1	1,942.6
-Cash and Cash Equivalents	416.4	546.2	668.2
-Other Financial Assets	668.4	1,136.9	1,113.6
-Account Receivables and Others	989.8	1,217.9	1,386.5
-Prepaid Cig. Taxes and Others	260.8	447.8	439.5
Assets Held For Sale	0.4	6.7	26.3
<b>Total Assets</b>	<b>7,418.7</b>	<b>8,673.4</b>	<b>8,844.4</b>
Non-Current Liabilities	<b>586.0</b>	<b>526.2</b>	<b>586.2</b>
Current Liabilities	1,124.6	1,871.7	1,554.9
-Account Payables and Others	503.9	606.4	652.6
-Short Term Borrowings	141.9	206.4	75.0
<b>Total Liabilities</b>	<b>1,710.6</b>	<b>2,397.9</b>	<b>2,141.1</b>
Capital Stock	955.0	955.0	955.0
Treasury Stock	-339.1	-337.1	-331.8
Gain on Reissuance of Treasury Stock	492.0	494.6	505.2
Other Capital Surplus	-4.6	-9.9	-2.1
Reserves	3,426.4	3,704.3	4,274.1
Retained Earnings	1,100.9	1,402.0	1,225.4
<b>Total Equities</b>	<b>5,708.1</b>	<b>6,275.5</b>	<b>6,703.2</b>
<b>Total Liabilities and Equities</b>	<b>7,418.7</b>	<b>8,673.4</b>	<b>8,844.4</b>

## □ Summarized Statement of Comprehensive Income

(bil. KRW)	FY14	FY15	'15. 3Q	'16. 3Q
<b>Net Sales</b>	<b>4,112.9</b>	<b>4,169.8</b>	<b>1,134.4</b>	<b>1,220.2</b>
COGS	1,840.8	1,630.6	476.6	477.2
Gross Profit	2,272.0	2,539.2	657.7	743.0
SG&A	1,100.2	1,173.3	287.2	316.6
<b>Operating Profit</b>	<b>1,171.9</b>	<b>1,365.9</b>	<b>370.5</b>	<b>426.3</b>
Other Income & Expense	-61.3	-41.4	38.4	-83.3
Financial Gain(Loss)	44.1	74.8	7.1	8.5
Share of Profit(Loss) of Associates	3.2	15.1	4.4	0.6
<b>Pre-tax Income</b>	<b>1,157.9</b>	<b>1,414.4</b>	<b>420.4</b>	<b>352.1</b>
Income Tax	344.1	382.2	119.8	102.2
<b>Net Income</b>	<b>813.8</b>	<b>1,032.2</b>	<b>300.6</b>	<b>249.9</b>
Other Comprehensive Income	-68.4	-30.8	-7.9	-3.4
<b>Comprehensive Income</b>	<b>745.4</b>	<b>1,001.4</b>	<b>292.7</b>	<b>246.5</b>

## 4-2. Separate Financial Statement (KT&G)



### □ Summarized Statement of Financial Position

(bil. KRW)	FY14	FY15	'16. 3Q
Non-Current Assets	3,311.6	3,469.0	3,543.3
-Property Plant Equipment	1,279.7	1,309.6	1,190.5
-Investment Properties	140.1	136.8	254.9
-Investment in Subsidiaries	1,081.8	1,124.4	1,153.4
-Available-For-Sale Financial Assets	303.4	340.1	356.7
Current Assets	2,982.9	3,978.7	4,021.9
-Inventories	910.4	889.0	824.1
-Cash and Cash Equivalents	321.6	444.4	467.3
-Other Financial Assets	640.0	1,092.0	1,070.0
-Account Receivables and Others	824.9	1,074.9	1,172.6
-Prepaid Cig., Taxes and Others	260.8	447.8	439.5
Assets Held for Sale	0.4	1.5	0
<b>Total Assets</b>	<b>6,294.9</b>	<b>7,449.2</b>	<b>7,565.2</b>
Non-Current Liabilities	167.1	123.0	132.7
Current Liabilities	786.1	1,429.8	1,208.1
-Account Payables and Others	347.2	433.8	434.8
-Short Term Borrowings	5.6	5.0	4.4
<b>Total Liabilities</b>	<b>953.2</b>	<b>1,552.7</b>	<b>1,340.9</b>
Capital Stock	955.0	955.0	955.0
Treasury Stock	-339.1	-337.1	-331.8
Gain on Reissuance of Treasury Stock	492.0	494.6	505.2
Other Capital Surplus	3.6	3.6	3.6
Reserves	3,493.8	3,784.5	4,354.4
Retained Earnings	736.5	995.9	738.0
<b>Total Equities</b>	<b>5,341.7</b>	<b>5,896.5</b>	<b>6,224.3</b>
<b>Total Liabilities and Equities</b>	<b>6,294.9</b>	<b>7,449.2</b>	<b>7,565.2</b>

### □ Summarized Statement of Comprehensive Income

(bil. KRW)	FY14	FY15	'15. 3Q	'16. 3Q
<b>Net Sales</b>	<b>2,742.6</b>	<b>2,821.7</b>	<b>702.8</b>	<b>753.8</b>
-Cigarettes	2,500.0	2,607.7	663.6	695.0
-Real Estate	160.3	142.8	19.9	32.4
-Others	82.2	71.2	19.3	26.4
COGS	1,063.8	946.6	239.8	254.4
-Cigarettes	914.4	813.6	218.4	220.5
-Real Estate	96.1	84.9	8.7	18.3
-Others	53.4	48.1	12.7	15.6
<b>Gross Profit</b>	<b>1,678.8</b>	<b>1,875.0</b>	<b>463.0</b>	<b>499.5</b>
SG&A	624.2	637.7	146.6	150.2
<b>Operating Profit</b>	<b>1,054.6</b>	<b>1,237.3</b>	<b>316.4</b>	<b>349.3</b>
Other Income & Expense	-85.4	1.1	55.6	-82.9
-Other Income	71.9	104.5	61.6	7.0
FX related Gain	46.0	66.9	55.4	1.8
Others	25.9	37.5	6.2	5.2
-Other Expense	157.3	103.4	6.0	89.8
FX related Loss	13.9	12.9	1.5	65.0
Others	143.4	90.4	4.5	24.8
Financial Gain(Loss)	76.3	81.0	10.5	9.7
<b>Pre-tax Income</b>	<b>1,045.5</b>	<b>1,319.4</b>	<b>382.5</b>	<b>276.1</b>
-Income Tax	298.4	331.5	93.6	68.1
<b>Net Income</b>	<b>747.1</b>	<b>987.9</b>	<b>288.9</b>	<b>208.0</b>
<b>Comprehensive Income</b>	<b>712.2</b>	<b>978.2</b>	<b>288.8</b>	<b>214.9</b>

## 4-3. Separate Financial Statement (KGC)



### □ Summarized Statement of Financial Position

(bil. KRW)	FY14	FY15	'16 3Q
Non-Current Assets	543.1	521.8	624.0
-Tangible Assets	261.1	291.1	285.5
-Intangible Assets	10.4	9.2	9.6
-Others	271.6	221.5	328.9
Current Assets	1,094.3	1,240.1	1,255.5
-Inventories	892.6	1,059.4	936.9
-Cash and Cash Equivalents	4.5	3.4	61.1
-Others	197.2	177.2	257.5
<b>Total Assets</b>	<b>1,637.4</b>	<b>1,761.9</b>	<b>1,879.4</b>
Non-Current Liabilities	63.2	77.1	96.6
Current Liabilities	179.7	222.5	190.9
-Short Term Borrowings	102.9	141.0	42.4
-Others	76.8	81.4	148.5
<b>Total Liabilities</b>	<b>242.9</b>	<b>299.6</b>	<b>287.5</b>
Capital Stock	69.1	69.1	69.1
Capital Surplus	93.9	93.9	93.9
Reserves	1,143.4	1,233.1	1,299.8
Retained Earnings	88.0	66.3	129.2
Other Comprehensive Income	0	0	0
<b>Total Equities</b>	<b>1,394.5</b>	<b>1,462.4</b>	<b>1,592.0</b>
<b>Total Liabilities and Equities</b>	<b>1,637.4</b>	<b>1,761.9</b>	<b>1,879.4</b>

### □ Summarized Statement of Comprehensive Income

(bil. KRW)	FY14	FY15	'15. 3Q	'16. 3Q
<b>Sales</b>	<b>812.8</b>	<b>917.8</b>	<b>283.3</b>	<b>345.4</b>
- Red Ginseng Roots	123.8	104.3	23.6	22.7
- Red Ginseng Products	687.6	811.8	259.3	322.0
(Ratio)	(84.6)	(88.4)	(91.5)	(93.2)
- Others	1.4	1.7	0.4	0.7
COGS	401.7	438.6	136.7	155.2
<b>Gross Profit</b>	<b>411.1</b>	<b>479.2</b>	<b>146.6</b>	<b>190.3</b>
SG&A	281.0	345.8	93.7	121.7
<b>Operating Profit</b>	<b>130.1</b>	<b>133.4</b>	<b>53.0</b>	<b>68.6</b>
Other Income & Expense	-3.2	-26.8	2.9	-1.5
- Other Income	8.0	7.4	3.6	0.6
- Other Expense	11.2	34.2	0.7	2.0
Financial Gain(Loss)	0.5	-0.9	0.07	-0.09
<b>Pre-tax Income</b>	<b>127.4</b>	<b>105.7</b>	<b>55.9</b>	<b>67.0</b>
- Income Tax	34.2	36.4	14.2	16.4
<b>Net Income</b>	<b>93.2</b>	<b>69.3</b>	<b>41.8</b>	<b>50.7</b>
<b>Comprehensive Income</b>	<b>85.7</b>	<b>67.9</b>	<b>40.4</b>	<b>52.1</b>



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