

KT&G Investor Relations 2017

**FY2017 1Q**

**Earnings Presentation**





# Contents

**Chapter 1. Consolidated Results**

**Chapter 2. KT&G Separate Results**

**Chapter 3. KGC Separate Results**

**Chapter 4. Appendix**

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. FY17 1Q Consolidated Results Summary



**1Q Consolidated Sales, OP, NI recorded 1 tril. 178.7 bil., 395.5 bil., 235.2 bil. won**

- 1Q Consolidated Sales increased by 8.0% yoy : KT&G 3.5% ↑, KGC 15.6% ↑ yoy
- 1Q OP increased by 0.6% / NI dropped by 17.4% yoy each

## □ Consolidated Sales/Profit

(Unit : bil. KRW)

	1Q FY17	1Q FY16	Change
<b>Net Sales</b>	<b>1,178.7</b>	<b>1,091.3</b>	<b>8.0%</b>
- KT&G	726.0	701.2	3.5%
- KGC	341.8	295.6	15.6%
- Others and Adjustment	110.9	94.5	17.4%
<b>Operating Profit</b>	<b>395.5</b>	<b>393.0</b>	<b>0.6%</b>
<b>Net Income</b>	<b>235.2</b>	<b>284.7</b>	<b>△17.4%</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.



## Chapter 2. KT&G Separate Results

## 2-1. FY17 1Q KT&G Results Summary



**FY17 1Q Sales increased by 3.5% and OP dropped by 2.3% yoy each**

- 1Q Sales recorded 726.0 bil. won (up by 3.5% yoy)
  - Domestic Cigarette 0.5%↑, Export Cigarette 1.9%↑, Others(Real Estate etc.) 40.7%↑
- 1Q OP and NI dropped by 2.3% and 0.2% yoy to 319.9 bil. won, 253.2 bil. won each

### □ Sales/Profit

(Unit : bil. KRW)

	1Q FY17	1Q FY16	Change
Net Sales	726.0	701.2	3.5%
- Domestic	426.2	424.0	0.5%
- Export	236.6	232.2	1.9%
- Others(Real Estate etc.)	63.2	45.0	40.7%
Operating Profit	319.9	327.4	△2.3%
Net Income	253.2	253.8	△0.2%

## 2-2. Domestic Cigarette

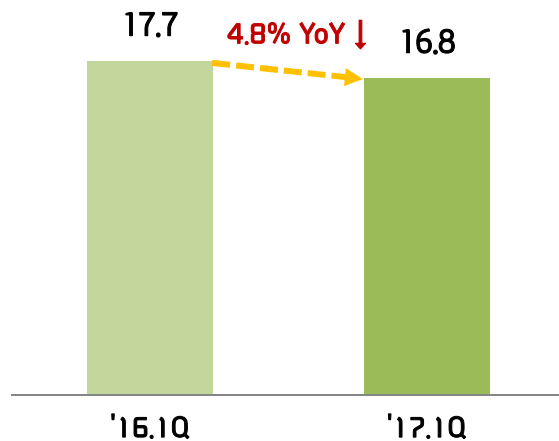


**Total market volume and KT&G volume in 1Q dropped by 4.8%, 2.2% yoy respectively**

- 1Q Total Market Volume: decreased from 17.7 bil. sticks to 16.8 bil. sticks
- 1Q KT&G Volume : decreased from 10.5 bil. sticks to 10.3 bil. sticks
- KT&G Market share : 61.2% (up by 1.7%p yoy and up by 2.7%p qoq)

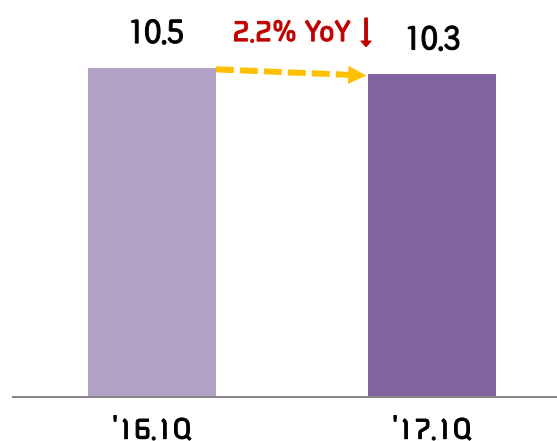
□ Total Market Volume

(Unit : bil. sticks)



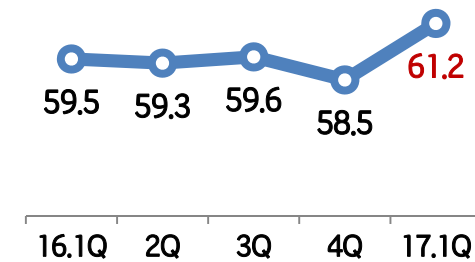
□ KT&G Volume

(Unit : bil. sticks)



□ KT&G M/S Trend

(Unit : %)



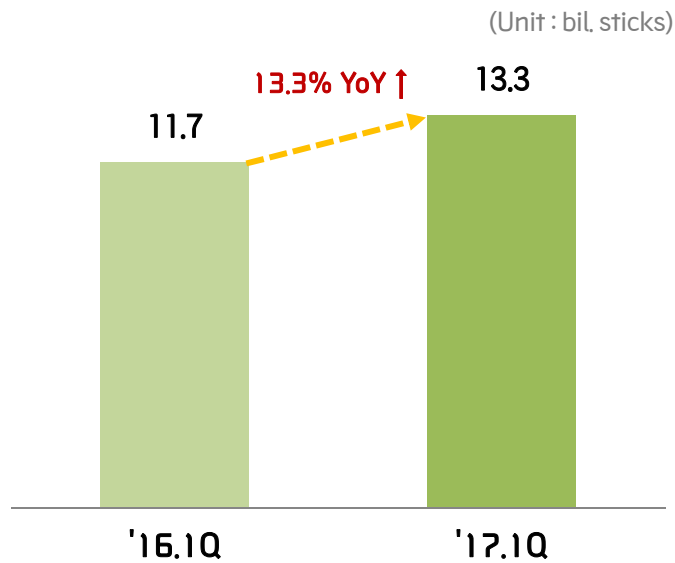
## 2-3. Overseas Cigarette (Export)



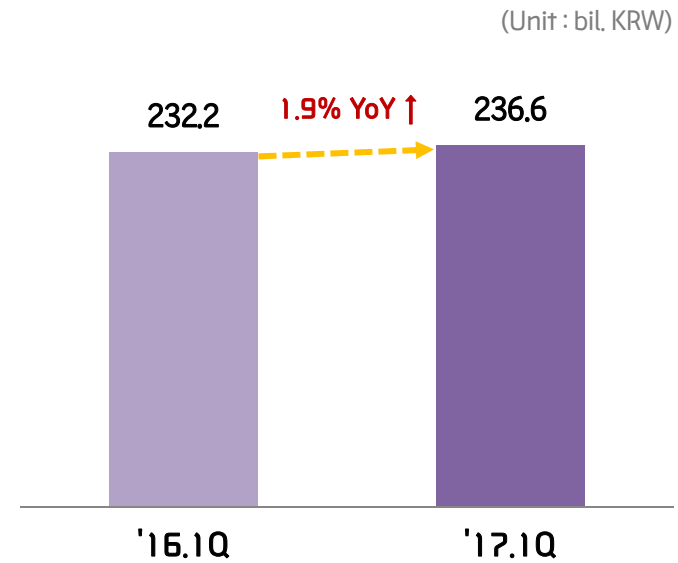
1Q Export volume and sales rose by 13.3% and 1.9% yoy respectively

- Volume rose by 13.3% yoy ('16. 1Q 11.7 bil. sticks → '17. 1Q 13.3 bil. sticks)
- Sales rose by 1.9% yoy ('16. 1Q 232.2 bil. won → '17. 1Q 236.6 bil. won)

□ Export Cigarette Volume



□ Export Cigarette Sales

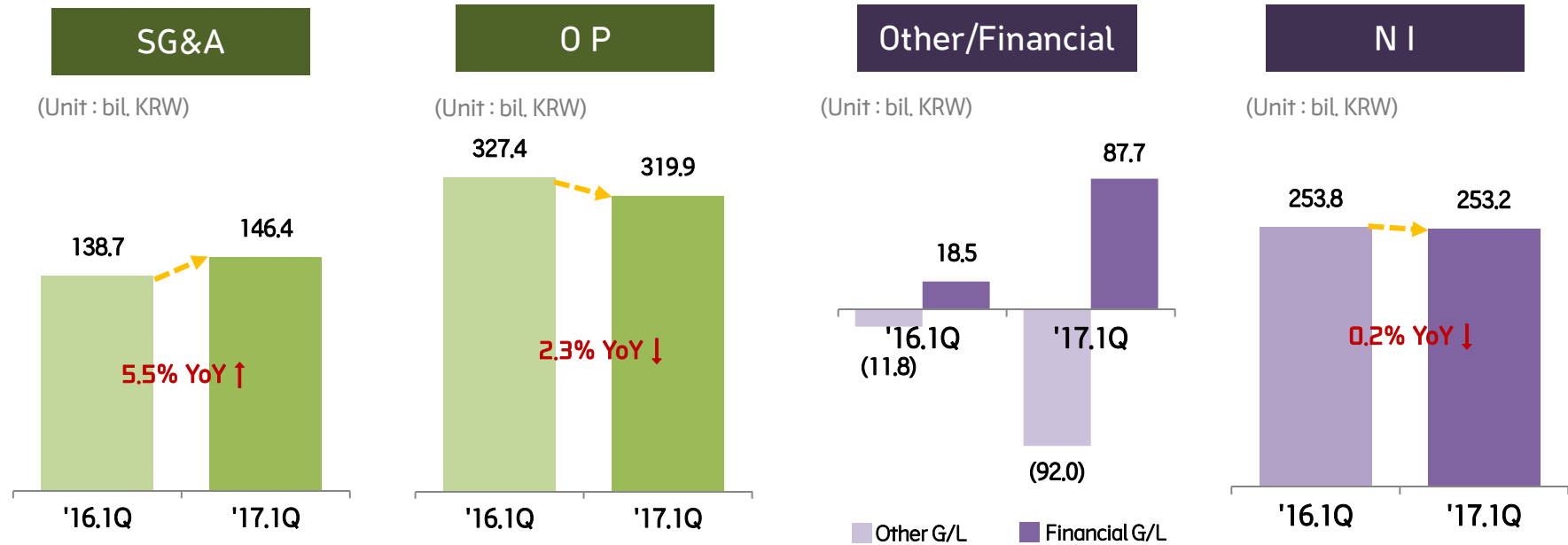




## 2-4. Profitability Analysis



**FY17 1Q OP and NI dropped by 2.3%, 0.2% yoy respectively**



- SG&A Ratio : `16. 1Q 19.8% → `17. 1Q 20.2% (0.4%p↑)
- OP Margin : `16. 1Q 46.7% → `17. 1Q 44.1% (2.6%p↓)

- NI Margin : `16. 1Q 36.2% → `17. 1Q 34.9% (1.3%p↓)
  - Net other gain reduction (Net FX Loss 69.6 bil. won ↑)
  - Net financial gain increase (Dividend income 67.3 bil. won ↑)



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

## 3-1. FY17 1Q KGC Results Summary



**1Q Sales and OP increased 15.6% and 14.9% yoy respectively**

- 1Q Sales recorded 341.8 bil. won, up 15.6% yoy (Domestic 12.8%↑, Export 86.8%↑)
- 1Q OP recorded 79.2 bil. won, up 14.9% yoy

### □ 1Q Sales & Profit

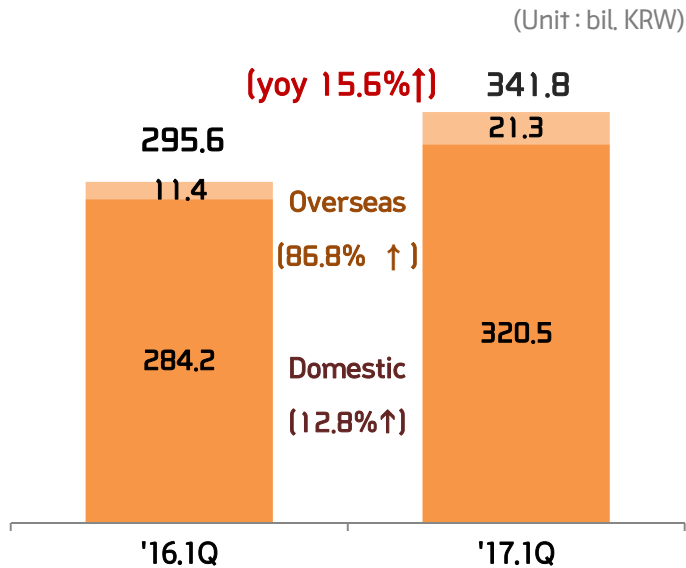
(Unit : bil. KRW)

	1Q FY17	1Q FY16	Change
<b>Net Sales</b>	341.8	295.6	15.6%
- Domestic	320.5	284.2	12.8%
- Export	21.3	11.4	86.8%
<b>Operating Profit</b>	79.2	68.9	14.9%
<b>Net Income</b>	58.3	51.7	12.8%

## 3-2. Sales Analysis

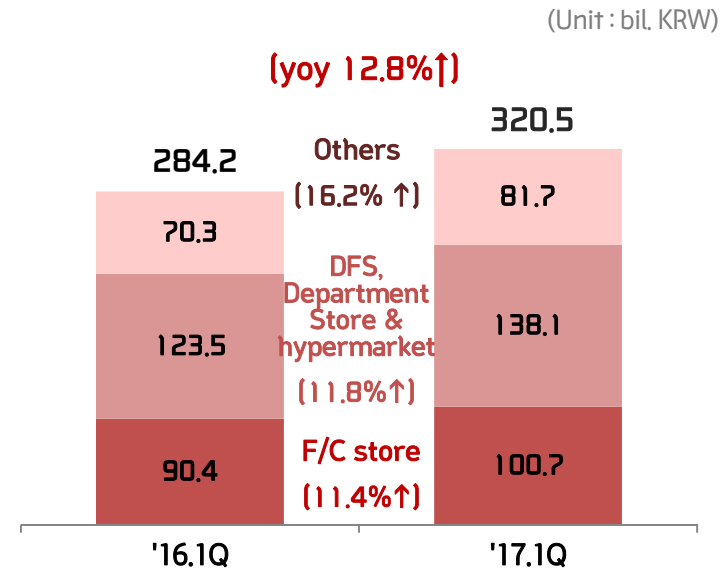
### 1Q Domestic and Overseas sales grew through overall channels

#### □ Sales by Regions



- Domestic sales in 1Q rose by 12.8% yoy
- Overseas sales in 1Q rose by 86.8% yoy

#### □ Domestic Sales by Channels

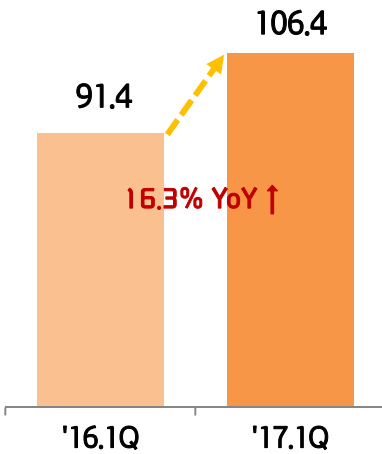


- Overall channels showed growth
  - F/C store increased by 11.4% yoy
  - DFS, Department Store & etc grew 11.8% yoy
  - Others increased by 16.2% yoy

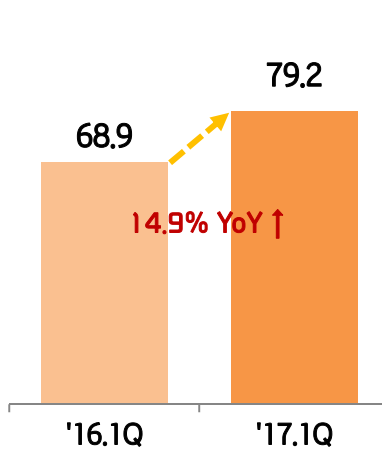
# 3-3. Profitability Analysis

1Q OP grew up 14.9% yoy

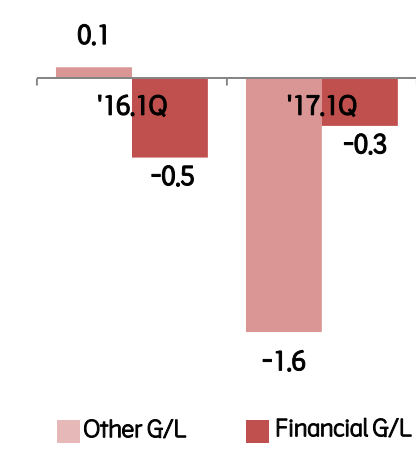
**SG&A**  
(Unit : bil. KRW)



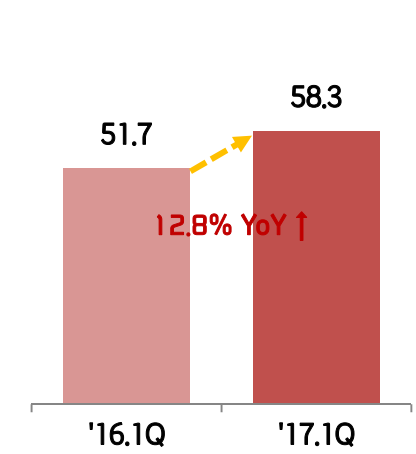
**OP**  
(Unit : bil. KRW)



**Other/Financial**  
(Unit : bil. KRW)



**NI**  
(Unit : bil. KRW)



- SG&A Ratio : `16. 1Q 30.9% → `17. 1Q 31.1% (0.2%p↑)
- OP Margin : `16. 1Q 23.3% → `17. 1Q 23.2% (0.1%p↓)

- NI Margin : `16. 1Q 17.5% → `17. 1Q 17.0% (0.5%p↓)
- Net Other gain decreased due to Net FX loss



## **Chapter 4. Appendix**

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

# 4- 1. Consolidated Financial Statement



## □ Summarized Statement of Financial Position

(bil. KRW)	FY15	FY16	`17. 1Q
Non-Current Assets	3,102.5	3,191.9	3,278.4
-Property Plant Equipment	1,789.8	1,601.9	1,647.1
-Investment Properties	164.5	341.6	339.2
-Equity Accounted Investments	51.5	56.5	57.6
-Available-For-Sale Financial Assets	364.7	385.1	391.8
Current Assets	5,564.2	6,594.3	5,971.0
-Inventories	2,119.1	2,265.4	2,121.3
-Cash and Cash Equivalents	546.2	850.8	1,119.7
-Other Financial Assets	1,136.9	1,657.3	839.8
-Account Receivables and Others	1,217.9	1,283.6	1,323.1
-Prepaid Cig. Taxes and Others	447.8	439.4	438.5
Assets Held For Sale	6.7	26.3	26.3
<b>Total Assets</b>	<b>8,673.4</b>	<b>9,812.6</b>	<b>9,275.7</b>
Non-Current Liabilities	<b>526.2</b>	<b>540.9</b>	<b>557.0</b>
Current Liabilities	1,871.7	2,153.4	1,865.6
-Account Payables and Others	606.4	622.2	1,137.0
-Short Term Borrowings	206.4	136.6	39.0
<b>Total Liabilities</b>	<b>2,397.9</b>	<b>2,694.3</b>	<b>2,422.6</b>
Capital Stock	955.0	955.0	955.0
Treasury Stock	-337.1	-328.2	-328.2
Gain on Reissuance of Treasury Stock	494.6	513.8	513.8
Other Capital Surplus	-9.9	-3.4	-29.7
Reserves	3,704.3	4,296.5	4,907.5
Retained Earnings	1,402.0	1,612.0	777.5
<b>Total Equities</b>	<b>6,275.5</b>	<b>7,118.3</b>	<b>6,853.1</b>
<b>Total Liabilities and Equities</b>	<b>8,673.4</b>	<b>9,812.6</b>	<b>9,275.7</b>

## □ Summarized Statement of Comprehensive Income

(bil. KRW)	FY15	FY16	`16. 1Q	`17. 1Q
<b>Net Sales</b>	<b>4,169.8</b>	<b>4,503.3</b>	<b>1,091.3</b>	<b>1,178.7</b>
COGS	1,630.6	1,796.7	424.1	478.1
Gross Profit	2,539.2	2,706.6	667.3	700.6
SG&A	1,173.3	1,236.5	274.3	305.1
<b>Operating Profit</b>	<b>1,365.9</b>	<b>1,470.1</b>	<b>393.0</b>	<b>395.5</b>
Other Income & Expense	-41.1	-63.1	-16.9	-85.6
Financial Gain(Loss)	74.8	52.6	16.0	20.4
Share of Profit(Loss) of Associates	15.1	2.1	0.5	1.5
<b>Pre-tax Income</b>	<b>1,414.4</b>	<b>1,587.8</b>	<b>392.6</b>	<b>331.8</b>
Income Tax	382.2	361.8	107.8	96.6
<b>Net Income</b>	<b>1,032.2</b>	<b>1,226.0</b>	<b>284.7</b>	<b>235.2</b>
Other Comprehensive Income	-30.8	0.5	12.3	-0.6
<b>Comprehensive Income</b>	<b>1,001.4</b>	<b>1,226.6</b>	<b>297.0</b>	<b>234.6</b>

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



### □ Summarized Statement of Financial Position

(bil. KRW)	FY15	FY16	'17. 1Q
Non-Current Assets	3,469.0	3,635.9	3,805.3
-Property Plant Equipment	1,309.6	1,117.3	1,169.7
-Investment Properties	136.8	335.2	332.9
-Investment in Subsidiaries	1,124.4	1,154.9	1,225.5
-Available-For-Sale Financial Assets	340.1	364.3	370.9
Current Assets	3,978.7	4,833.0	4,320.6
-Inventories	889.0	914.7	867.4
-Cash and Cash Equivalents	444.4	688.7	948.8
-Other Financial Assets	1,092.0	1,620.0	810.0
-Account Receivables and Others	1,074.9	1,140.6	1,235.8
-Prepaid Cig., Taxes and Others	447.8	439.4	438.5
Assets Held for Sale	1.5	0	0
<b>Total Assets</b>	<b>7,449.2</b>	<b>8,468.8</b>	<b>8,125.9</b>
Non-Current Liabilities	123.0	127.6	148.2
Current Liabilities	1,429.8	1,762.3	1,595.6
-Account Payables and Others	433.8	436.3	941.2
-Short Term Borrowings	5.0	3.9	3.4
<b>Total Liabilities</b>	<b>1,552.7</b>	<b>1,889.9</b>	<b>1,743.8</b>
Capital Stock	955.0	955.0	955.0
Treasury Stock	-337.1	-328.2	-328.2
Gain on Reissuance of Treasury Stock	494.6	513.8	513.8
Other Capital Surplus	3.6	3.6	3.6
Reserves	3,784.5	4,366.3	4,985.2
Retained Earnings	995.9	1,068.5	252.7
<b>Total Equities</b>	<b>5,896.5</b>	<b>6,578.9</b>	<b>6,382.1</b>
<b>Total Liabilities and Equities</b>	<b>7,449.2</b>	<b>8,468.8</b>	<b>8,125.9</b>

### □ Summarized Statement of Comprehensive Income

(bil. KRW)	FY15	FY16	'16. 1Q	'17. 1Q
<b>Net Sales</b>	<b>2,821.7</b>	<b>2,968.2</b>	<b>701.2</b>	<b>726.0</b>
-Cigarettes	2,607.7	2,670.3	656.3	662.8
-Real Estate	142.8	184.7	20.0	33.3
-Others	71.2	113.1	25.0	29.9
COGS	946.6	1,048.1	235.1	259.7
-Cigarettes	813.6	861.3	212.7	221.7
-Real Estate	84.9	118.4	8.1	19.2
-Others	48.1	68.4	14.3	18.8
<b>Gross Profit</b>	<b>1,875.0</b>	<b>1,920.1</b>	<b>466.1</b>	<b>466.3</b>
SG&A	637.7	615.0	138.7	146.4
<b>Operating Profit</b>	<b>1,237.3</b>	<b>1,305.1</b>	<b>327.4</b>	<b>319.9</b>
Other Income & Expense	1.1	34.7	-11.8	-92.0
-Other Income	104.5	126.6	18.6	9.7
FX related Gain	66.9	64.6	9.5	3.8
Others	37.5	62.0	9.1	5.9
-Other Expense	103.4	91.8	30.4	101.7
FX related Loss	12.9	29.7	26.7	90.6
Others	90.4	62.1	3.7	11.1
Financial Gain(Loss)	81.0	60.6	18.5	87.7
<b>Pre-tax Income</b>	<b>1,319.4</b>	<b>1,400.4</b>	<b>334.0</b>	<b>315.6</b>
-Income Tax	331.5	313.0	80.2	62.4
<b>Net Income</b>	<b>987.9</b>	<b>1,087.3</b>	<b>253.8</b>	<b>253.2</b>
<b>Comprehensive Income</b>	<b>978.2</b>	<b>1,082.7</b>	<b>258.0</b>	<b>257.7</b>



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



### □ Summarized Statement of Financial Position

(bil. KRW)	FY15	FY16	'17. 1Q
Non-Current Assets	521.8	548.3	540.3
-Tangible Assets	291.1	286.5	284.4
-Intangible Assets	9.2	11.2	11.4
-Others	221.5	250.6	244.5
Current Assets	1,240.1	1,319.6	1,301.4
-Inventories	1,059.4	1,146.3	1,061.2
-Cash and Cash Equivalents	3.4	9.5	26.7
-Others	177.2	163.8	213.5
<b>Total Assets</b>	<b>1,761.9</b>	<b>1,867.9</b>	<b>1,841.7</b>
Non-Current Liabilities	77.1	82.2	85.4
Current Liabilities	222.5	228.7	206.9
-Short Term Borrowings	141.0	112.2	18.2
-Others	81.4	116.5	188.7
<b>Total Liabilities</b>	<b>299.6</b>	<b>311.0</b>	<b>292.3</b>
Capital Stock	69.1	70.1	70.1
Capital Surplus	93.9	111.6	111.6
Reserves	1,233.1	1,296.6	1,309.5
Retained Earnings	66.3	78.6	58.2
Other Comprehensive Income	0	0	0
<b>Total Equities</b>	<b>1,462.4</b>	<b>1,556.9</b>	<b>1,549.4</b>
<b>Total Liabilities and Equities</b>	<b>1,761.9</b>	<b>1,867.9</b>	<b>1,841.7</b>

### □ Summarized Statement of Comprehensive Income

(bil. KRW)	FY15	FY16	'16. 1Q	'17. 1Q
<b>Sales</b>	<b>917.8</b>	<b>1,107.6</b>	<b>295.6</b>	<b>341.8</b>
- Red Ginseng Roots	104.3	76.3	20.5	28.4
- Red Ginseng Products	811.8	1,028.6	274.3	312.3
(Ratio)	(88.4)	(92.9)	(92.8)	(91.4)
- Others	1.7	2.7	0.8	1.1
COGS	438.6	509.3	135.3	156.3
<b>Gross Profit</b>	<b>479.2</b>	<b>598.3</b>	<b>160.3</b>	<b>185.5</b>
SG&A	345.8	423.4	91.4	106.4
<b>Operating Profit</b>	<b>133.4</b>	<b>174.9</b>	<b>68.9</b>	<b>79.2</b>
Other Income & Expense	-26.8	-42.0	0.1	-1.6
- Other Income	7.4	5.7	1.7	1.2
- Other Expense	34.2	47.7	1.6	2.7
Financial Gain(Loss)	-0.9	-1.0	-0.5	-0.3
<b>Pre-tax Income</b>	<b>105.7</b>	<b>131.9</b>	<b>68.4</b>	<b>77.3</b>
- Income Tax	36.4	46.7	16.7	19.0
<b>Net Income</b>	<b>69.3</b>	<b>85.2</b>	<b>51.7</b>	<b>58.3</b>
<b>Comprehensive Income</b>	<b>67.9</b>	<b>75.9</b>	<b>53.3</b>	<b>58.2</b>



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