

FY2017 4Q

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. FY17 4Q Consolidated Results Summary



4Q Consolidated Sales, OP, NI recorded 1 tril. 47.9 bil., 222.5 bil., 346.4 bil. won

- 4Q Consolidated Sales dropped by 5.1% yoy : KT&G 11.0%↓, KGC 11.1%↑ yoy
- 4Q OP dropped by 26.9% / NI dropped by 14.5% yoy each

□ 4Q Consolidated Sales/Profit

(Unit : bil. KRW)

	4Q FY17	4Q FY16	Change
Net Sales	1,047.9	1,103.6	Δ5.1%
- KT&G	683.3	767.6	Δ11.0%
- KGC	236.7	213.1	11.1%
- Others and Adjustment	127.8	123.0	3.9%
Operating Profit	222.5	304.5	Δ26.9%
Net Income	346.4	405.3	Δ14.5%

□ 12M Consolidated Sales/Profit

(Unit : bil. KRW)

	12M FY17	12M FY16	Change
Net Sales	4,667.2	4,503.3	3.6%
- KT&G	3,000.1	2,968.2	1.1%
- KGC	1,200.0	1,107.6	8.3%
- Others and Adjustment	467.1	427.5	9.3%
Operating Profit	1,426.1	1,469.6	Δ3.0%
Net Income	1,164.2	1,225.5	Δ5.0%

- 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 4Q KT&G Results Summary



FY17 4Q Sales dropped by 11.0% and OP dropped by 20.4% yoy each

- 4Q Sales recorded 683.3 bil. won (dropped by 11.0% yoy)
 - Domestic Cigarette 11.9%↓, Export Cigarette 0.6%↓, Others(Real Estate etc.) 26.9%↓
- 4Q OP decreased 20.4% yoy to 243.4 bil. won and NI decreased 45.9% yoy to 188.8 bil. won

□ 4Q Consolidated Profit/Loss

(Unit : bil. KRW)

	4Q FY17	4Q FY16	Change
Net Sales	683.3	767.6	Δ11.0%
- Domestic	395.9	449.3	Δ11.9%
- Export	207.0	208.3	Δ0.6%
- Others (Real Estate etc.)	80.5	110.1	Δ26.9%
Operating Profit	243.4	305.7	Δ20.4%
Net Income	188.8	349.3	Δ45.9%

□ 12M Consolidated Profit/Loss

(Unit : bil. KRW)

	12M FY17	12M FY16	Change
Net Sales	3,000.1	2,968.2	1.1%
- Domestic	1,793.8	1,839.4	Δ2.5%
- Export	878.5	830.9	5.7%
- Others (Real Estate etc.)	327.8	297.9	10.0%
Operating Profit	1,244.8	1,305.1	Δ4.6%
Net Income	974.9	1,087.3	Δ10.3%

2-2. Domestic Cigarette

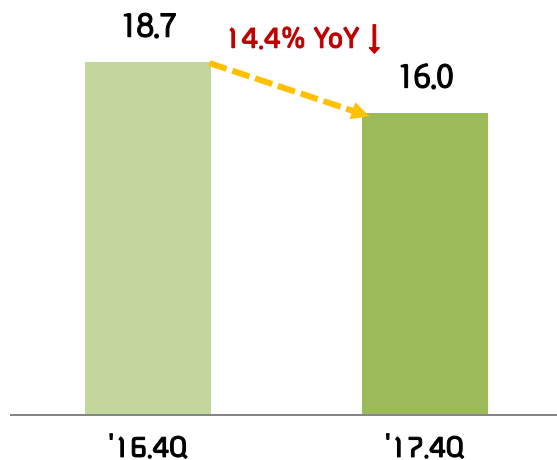


Total market volume and KT&G volume in 4Q dropped by 14.4%, 12.8% yoy respectively

- 17 4Q Total Market Volume : 16.0 bil. sticks, dropped by 2.7 bil. sticks yoy
- 17 4Q KT&G Volume : 9.5 bil. sticks, dropped by 1.5 bil. sticks yoy
- KT&G M/S : 59.6%, increased 1.1%p yoy (down 1.9%p qoq)

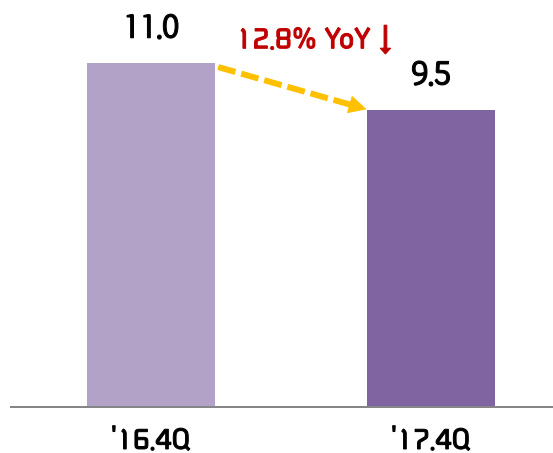
□ Total Market Volume

(Unit : bil. sticks)



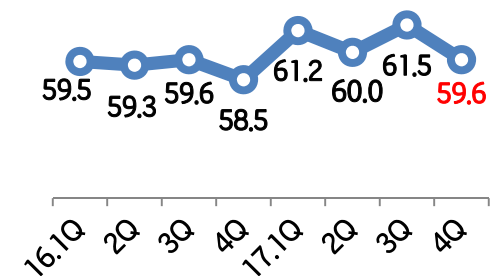
□ KT&G Volume

(Unit : bil. sticks)



□ KT&G M/S Trend

(Unit : %)



2-3. Overseas Cigarette (Export)

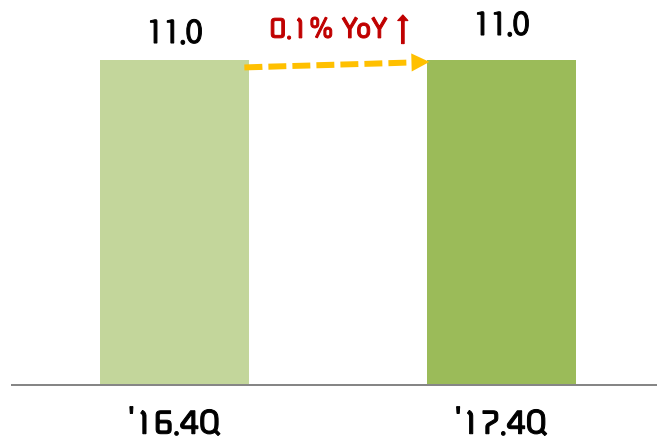


4Q Export volume and sales increased 0.1% and rose by 0.6% yoy respectively

- Volume rose by 0.1% yoy ('16. 4Q 11.0 bil. sticks → '17. 4Q 11.0 bil. sticks)
- Sales dropped by 0.6% yoy ('16. 4Q 208.3 bil. won → '17. 4Q 207.0 bil. won)

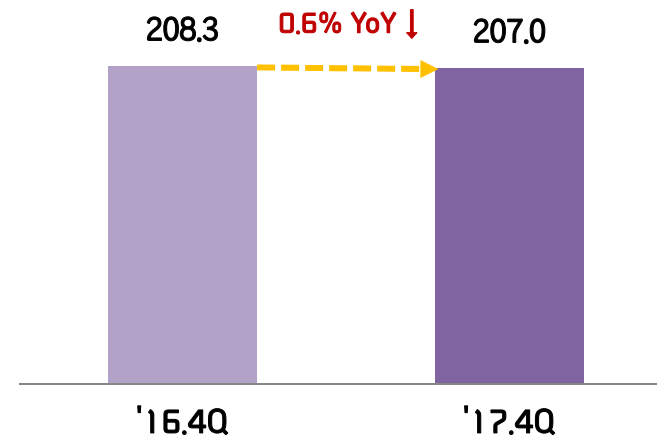
□ Export Cigarette Volume

(Unit : bil. sticks)



□ Export Cigarette Sales

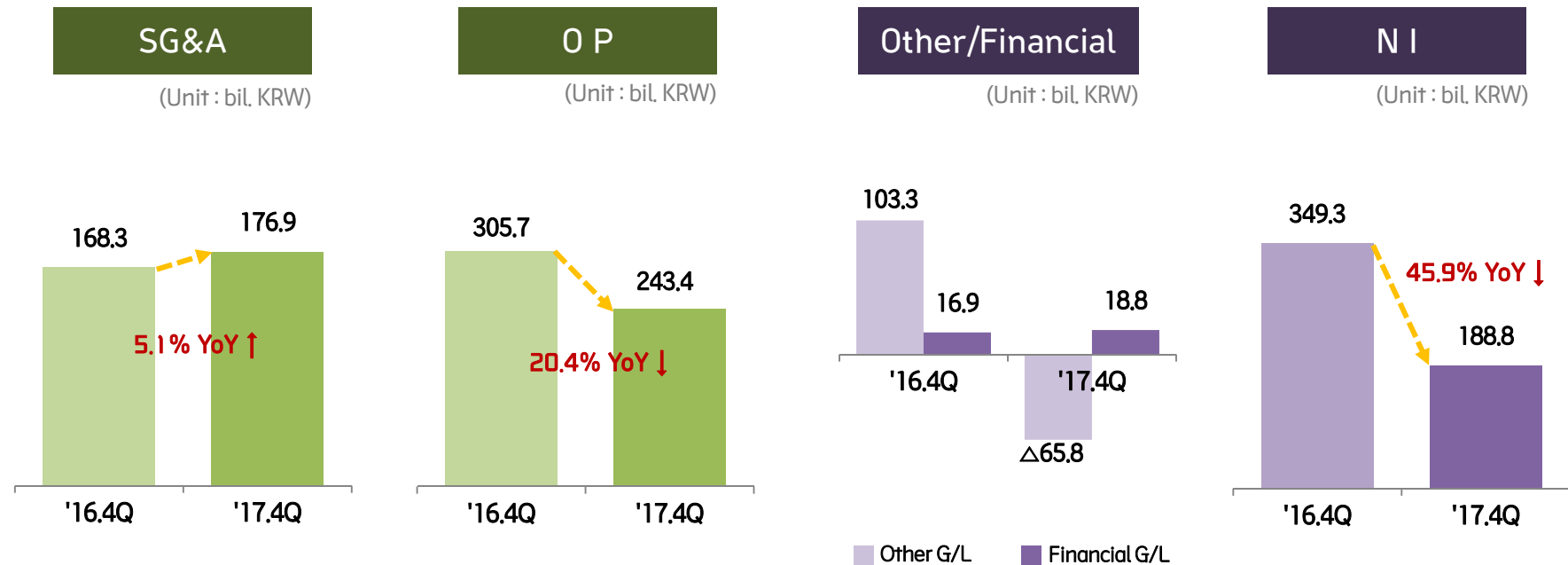
(Unit : bil. KRW)



2-4. Profitability Analysis



FY17 4Q OP dropped by 20.4% yoy and NI dropped by 45.9% yoy



- SG&A Ratio : `16. 4Q 21.9% → `17. 4Q 25.9% (4.0%p ↑)
- OP Margin : `16. 4Q 39.8% → `17. 4Q 35.6% (4.2%p ↓)

- NI Margin : `16. 4Q 45.5% → `17. 4Q 27.6% (17.9%p ↓)
- Net FX loss increased 177.7 bil. won ↑



Chapter 3. KGC Separate Results

3-1. FY17 4Q KGC Results Summary



4Q Sales increased by 1.1% yoy

- 4Q Sales recorded 236.7 bil. won, up by 11.1% yoy (Domestic 5.7% ↑, Export 68.5% ↑)
- 4Q OP recorded Δ 9.4 bil. won

□ 4Q Sales & Profit

(Unit : bil. KRW)

	4Q FY17	4Q FY16	Change
Net Sales	236.7	213.1	11.1%
- Domestic	205.7	194.6	5.7%
- Export	31.0	18.4	68.5%
Operating Profit	Δ 9.4	2.3	-
Net Income	Δ 23.1	Δ 44.0	-

□ 12M Sales & Profit

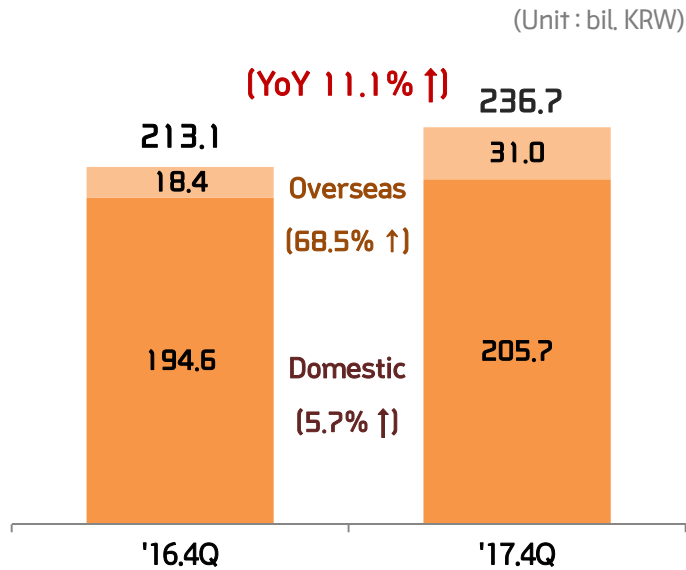
(Unit : bil. KRW)

	12M FY17	12M FY16	Change
Net Sales	1,200.0	1,107.6	8.3%
- Domestic	1,113.8	1,050.8	6.0%
- Export	86.2	56.8	51.8%
Operating Profit	185.4	174.9	6.0%
Net Income	125.4	85.2	47.2%

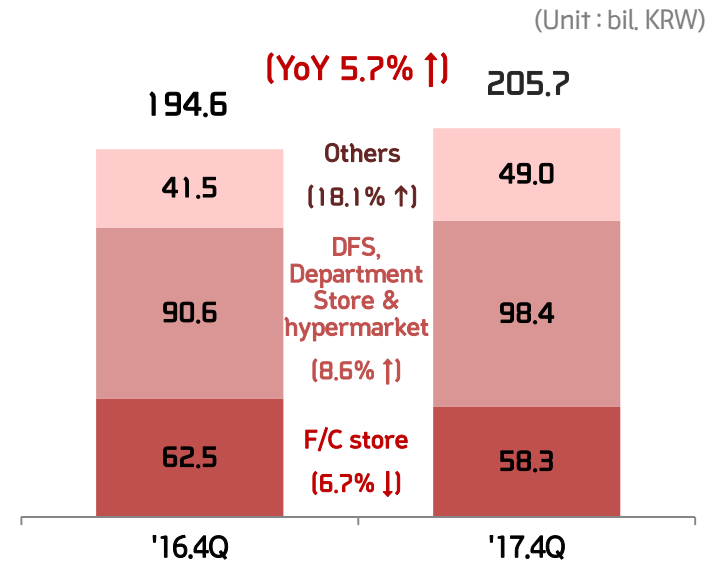
3-2. Sales Analysis

4Q Domestic sales and Overseas sales grew

□ Sales by Regions



□ Domestic Sales by Channels



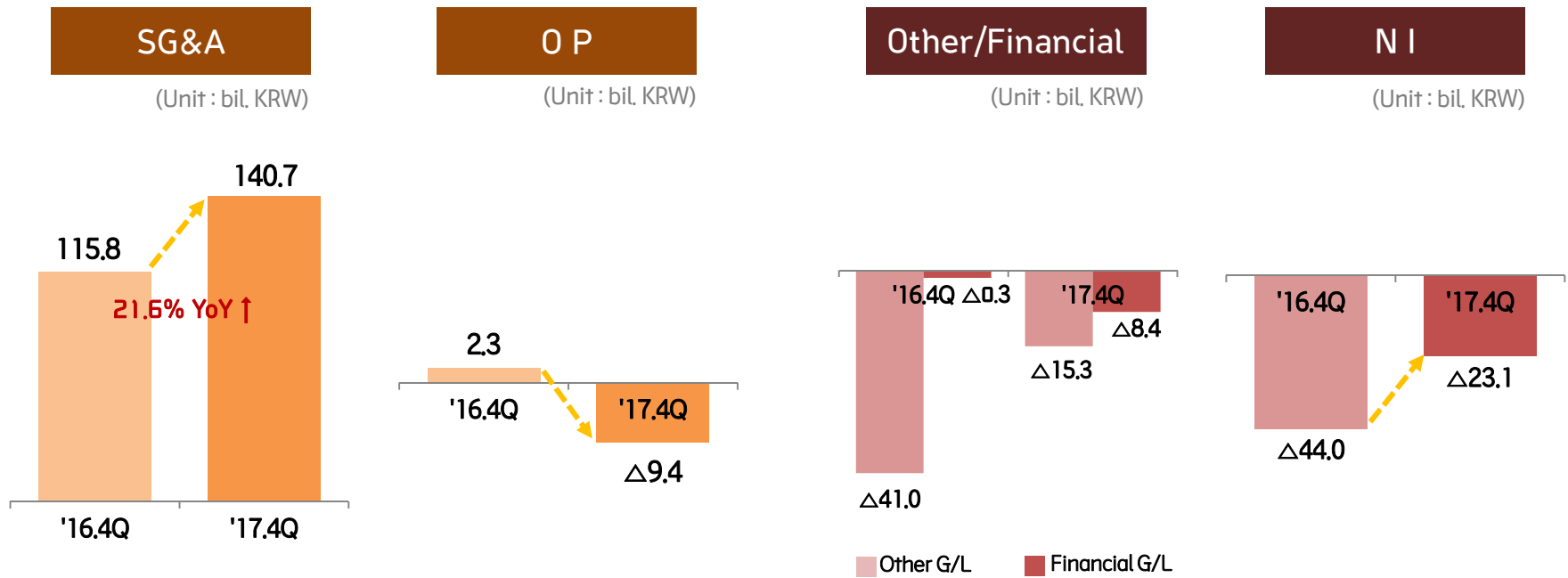
- Domestic sales in 4Q increased by 5.7% yoy
- Overseas sales in 4Q increased by 68.5% yoy

- Overall channels showed growth except F/C store
 - F/C store decreased by 6.7% yoy
 - DFS, Department Store & Hypermarket grew 8.6% yoy
 - Others grew 18.1% yoy (Homeshopping, on-line etc.)

• F/C Store: Franchise Store Channel
 • Others : home shopping, on-line store and beverage, etc.

3-3. Profitability Analysis

4Q OP decreased yoy



- OP Margin : `16. 4Q 1.1% → `17. 4Q Δ4.0% (5.1%p ↓)
- SG&A Ratio : `16. 4Q 54.3% → `17. 4Q 59.5% (5.2%p ↑)

- NI Margin : `16. 4Q Δ20.7% → `17. 4Q Δ 9.7%
- Net FX loss and Impairment losses on investment in subsidiaries



Chapter 4. FY2018

Business Target

4. FY2018 Business Target



FY2018 Business Target for sales : KT&G 2 tril. 959.5 bil. won, KGC 1 tril. 260.0 bil. won



(Unit : bil. KRW)

	FY2017	FY2018 Target	Change
Net Sales	3,000.1	2,959.5	△1.4%
- Domestic	1,793.8	1,731.2	△3.5%
- Export	878.5	901.0	2.6%
- Others (Real Estate etc.)	327.8	327.3	△0.2%
Operating Profit	1,244.8	1,188.8	△4.5%



(Unit : bil. KRW)

	FY2017	FY2018 Target	Change
Net Sales	1,200.0	1,260.0	5.0%
- Domestic	1,113.6	1,143.0	2.6%
- Export	86.4	117.0	35.4%
Operating Profit	185.4	185.0	△0.2%

※ KT&G Separate Business Target



Chapter 5. Appendix

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

5-1. Consolidated Financial Statement



□ Summarized Statement of Financial Position

(bil. KRW)	FY15	FY16	FY17
Non-Current Assets	3,102.5	3,196.6	3,390.5
-Property Plant Equipment	1,789.8	1,606.5	1,757.0
-Investment Properties	164.5	341.6	331.0
-Equity Accounted Investments	51.5	56.5	51.0
-Available-For-Sale Financial Assets	364.7	385.1	471.8
Current Assets	5,564.2	6,594.3	6,585.4
-Inventories	2,119.1	2,265.4	2,317.5
-Cash and Cash Equivalents	546.2	850.8	1,230.2
-Other Financial Assets	1,136.9	1,657.3	1,563.9
-Account Receivables and Others	1,217.9	1,283.6	1,126.9
-Prepaid Cig. Taxes and Others	447.8	439.4	261.5
Assets Held For Sale	6.7	21.2	0
Total Assets	8,673.4	9,812.1	9,975.9
Non-Current Liabilities	526.2	540.9	343.1
Current Liabilities	1,871.7	2,153.4	1,803.0
-Account Payables and Others	606.4	622.2	523.3
-Short Term Borrowings	206.4	136.6	174.7
Total Liabilities	2,397.9	2,694.3	2,146.1
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	4,927.3
Retained Earnings	1,402.0	1,611.5	1,733.9
Total Equities	6,275.5	7,117.8	7,829.8
Total Liabilities and Equities	8,673.4	9,812.1	9,975.9

□ Summarized Statement of Comprehensive Income

(bil. KRW)	FY15	FY16	`16. 4Q	`17. 4Q
Net Sales	4,169.8	4,503.3	1,103.6	1,047.9
COGS	1,630.6	1,796.7	455.6	451.3
Gross Profit	2,539.2	2,706.6	648.0	596.6
SG&A	1,173.3	1,236.5	343.6	374.1
Operating Profit	1,365.9	1,470.1	304.5	222.5
Other Income & Expense	-41.4	-63.1	140.1	-51.2
Financial Gain(Loss)	74.8	52.6	14.8	14.7
Share of Profit(Loss) of Associates	15.1	2.1	0.2	0.4
Pre-tax Income	1,414.4	1,587.8	459.6	186.4
Income Tax	382.2	361.8	54.3	-160.0
Net Income	1,032.2	1,226.0	405.3	346.4
Other Comprehensive Income	-30.8	0.5	-1.4	15.9
Comprehensive Income	1,001.4	1,226.6	403.9	362.3

5-2. Separate Financial Statement (KT&G)



□ Summarized Statement of Financial Position

(bil. KRW)	FY15	FY16	FY17
Non-Current Assets	3,469.0	3,635.9	3,936.4
-Property Plant Equipment	1,309.6	1,117.3	1,267.8
-Investment Properties	136.8	335.2	325.4
-Investment in Subsidiaries	1,124.4	1,154.9	1,208.2
-Available-For-Sale Financial Assets	340.1	364.3	454.1
Current Assets	3,978.7	4,833.0	4,738.6
-Inventories	889.0	914.7	872.1
-Cash and Cash Equivalents	444.4	688.7	1,104.8
-Other Financial Assets	1,092.0	1,620.0	1,530.0
-Account Receivables and Others	1,074.9	1,140.6	950.7
-Prepaid Cig., Taxes and Others	447.8	439.4	255.8
Assets Held for Sale	1.5	0	0
Total Assets	7,449.2	8,468.8	8,675.0
Non-Current Liabilities	123.0	127.6	80.4
Current Liabilities	1,429.8	1,762.3	1,451.0
-Account Payables and Others	433.8	436.3	386.6
-Short Term Borrowings	5.0	3.9	2.0
Total Liabilities	1,552.7	1,889.9	1,531.4
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	5,009.3
Retained Earnings	995.9	1,068.5	990.1
Total Equities	5,896.5	6,578.9	7,143.6
Total Liabilities and Equities	7,449.2	8,468.8	8,675.0

□ Summarized Statement of Comprehensive Income

(bil. KRW)	FY15	FY16	'16. 4Q	'17. 4Q
Net Sales	2,821.7	2,968.2	767.6	683.3
-Cigarettes	2,607.7	2,670.3	657.5	602.8
-Real Estate	142.8	184.7	78.1	50.0
-Others	71.2	113.1	32.0	30.5
COGS	946.6	1,048.1	293.6	263.1
-Cigarettes	813.6	861.3	217.6	208.1
-Real Estate	84.9	118.4	56.3	34.2
-Others	48.1	68.4	19.8	20.7
Gross Profit	1,875.0	1,920.1	474.0	420.3
SG&A	637.7	615.0	168.3	176.9
Operating Profit	1,237.3	1,305.1	305.7	243.4
Other Income & Expense	1.1	34.7	103.3	-65.8
-Other Income	104.5	126.6	140.7	90.8
FX related Gain	67.0	64.6	110.2	2.1
Others	37.5	62.0	30.5	88.7
-Other Expense	103.4	91.8	37.4	156.6
FX related Loss	12.9	29.7	6.1	75.8
Others	90.4	62.1	31.3	80.8
Financial Gain(Loss)	81.0	60.6	16.9	18.8
Pre-tax Income	1,319.4	1,400.4	426.0	196.4
Income Tax	331.5	313.0	76.6	7.5
Net Income	987.9	1,087.3	349.3	188.8
Comprehensive Income	978.2	1,082.7	342.4	203.9

5-3. Separate Financial Statement (KGC)



□ Summarized Statement of Financial Position

(bil. KRW)	FY15	FY16	FY17
Non-Current Assets	521.8	548.3	520.3
-Tangible Assets	291.1	286.5	296.1
-Intangible Assets	9.2	11.2	13.1
-Others	221.5	250.6	211.1
Current Assets	1,240.1	1,319.6	1,435.4
-Inventories	1,059.4	1,146.3	1,250.8
-Cash and Cash Equivalents	3.4	9.5	7.6
-Others	177.2	163.8	177.0
Total Assets	1,761.9	1,867.9	1,955.6
Non-Current Liabilities	77.1	82.2	77.0
Current Liabilities	222.5	228.7	248.0
-Short Term Borrowings	141.0	112.2	150.4
-Others	81.4	116.5	97.6
Total Liabilities	299.6	311.0	325.0
Capital Stock	69.1	70.1	70.1
Capital Surplus	93.9	111.6	111.6
Reserves	1,233.1	1,296.6	1,313.0
Retained Earnings	66.3	78.6	136.0
Other Comprehensive Income	0	0	0
Total Equities	1,462.4	1,556.9	1,630.6
Total Liabilities and Equities	1,761.9	1,867.9	1,955.6

□ Summarized Statement of Comprehensive Income

(bil. KRW)	FY15	FY16	`16. 4Q	`17. 4Q
Sales	917.8	1,107.6	213.0	236.7
- Red Ginseng Roots	104.3	76.3	14.8	14.8
- Red Ginseng Products	811.8	1,028.6	197.5	221.1
(Ratio)	(88.5)	(92.9)	(92.7)	(93.4)
- Others	1.7	2.7	0.7	0.9
COGS	438.6	509.3	95.0	105.4
Gross Profit	479.2	598.3	118.1	131.4
SG&A	345.8	423.4	115.8	140.7
Operating Profit	133.4	174.9	2.3	-9.4
Other Income & Expense	-26.8	-42.0	-41.0	-15.3
- Other Income	7.4	5.7	2.4	0.8
- Other Expense	34.2	47.7	43.4	16.1
Financial Gain(Loss)	-0.9	-1.0	-0.3	-8.4
Pre-tax Income	105.7	131.9	-39.0	-33.1
- Income Tax	36.4	46.7	5.1	-10.0
Net Income	69.3	85.2	-44.0	-23.1
Comprehensive Income	67.9	75.9	-53.7	-6.5



20F, KT&G Tower, 416,
Yeongdong-daero, Gangnam-gu, Seoul
www.ktng.com