

**FY2018 2Q**

**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. FY18 2Q Consolidated Results Summary



**FY18 2Q Consolidated Sales, OP, NI recorded 1 tril. 119.7 bil., 323.0 bil., 265.1 bil. won**

- 2Q Consolidated Sales decreased by 3.6% yoy : KT&G 12.0%↓, KGC 14.8%↑ yoy
- 2Q OP decreased by 16.4% / NI dropped by 3.5% yoy each

## □ 2Q Consolidated Sales/Profit

(Unit : bil. KRW)

	2Q FY18	2Q FY17	Change
<b>Net Sales</b>	<b>1,119.7</b>	1,161.7	Δ3.6%
- KT&G	705.5	801.3	Δ12.0%
- KGC	291.7	254.2	14.8%
- Others and Adjustment	122.5	106.2	15.3%
<b>Operating Profit</b>	<b>323.0</b>	386.3	Δ16.4%
<b>Net Income</b>	<b>265.1</b>	274.6	Δ3.5%

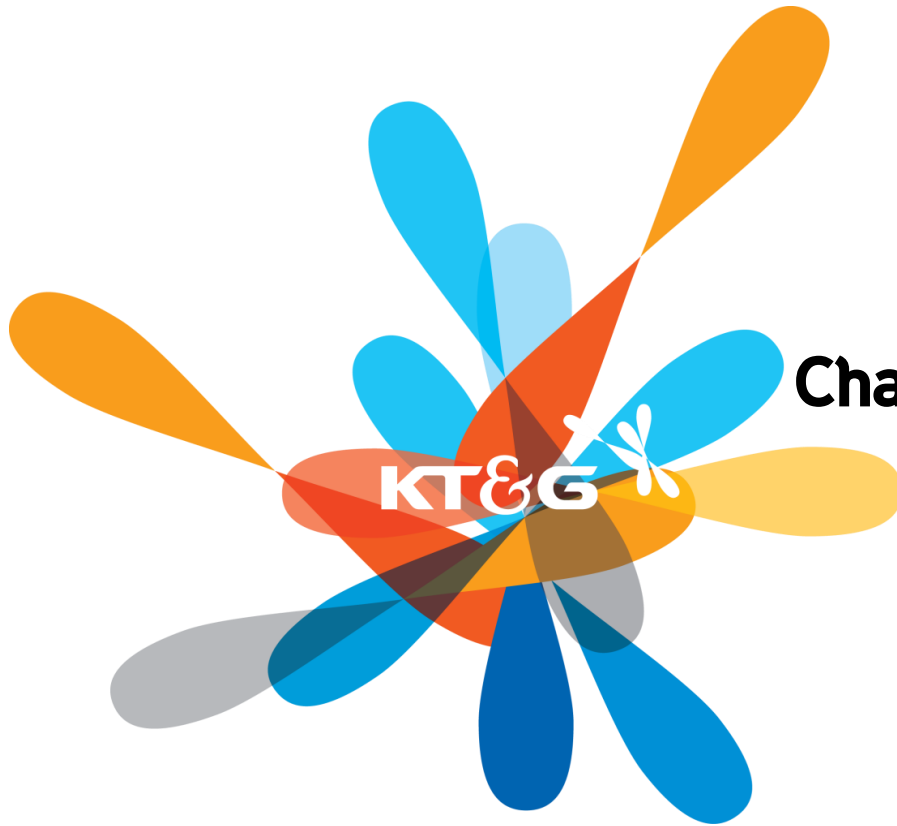
## □ 1H Consolidated Sales/Profit

(Unit : bil. KRW)

	1H FY18	1H FY17	Change
<b>Net Sales</b>	<b>2,187.3</b>	2,340.4	Δ6.5%
- KT&G	1,277.8	1,527.2	Δ16.3%
- KGC	685.1	596.0	14.9%
- Others and Adjustment	224.4	217.2	3.3%
<b>Operating Profit</b>	<b>634.3</b>	781.7	Δ18.9%
<b>Net Income</b>	<b>514.5</b>	509.6	1.0%

• 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. FY18 2Q KT&G Results Summary



**FY18 2Q Sales decreased by 12.0% and OP decreased by 19.6% yoy each**

- 2Q Sales recorded 705.5 bil. won (down by 12.0% yoy)
  - Domestic Cigarette 2.6%↑, Export Cigarette 19.5% ↓, Others(Real Estate etc.) 58.5% ↓
- 2Q OP dropped 19.6% yoy to 275.7 bil. won and NI dropped 4.1% yoy to 252.6 bil. won

### □ 2Q Sales & Profit

(Unit : bil. KRW)

	2Q FY18	2Q FY17	Change
Net Sales	705.5	801.3	△12.0%
- Domestic	476.5	464.6	2.6%
- Export	184.2	228.8	△19.5%
- Others (Real Estate etc.)	44.8	107.9	△58.5%
Operating Profit	275.7	343.1	△19.6%
Net Income	252.6	263.4	△4.1%

### □ 1H Sales & Profit

(Unit : bil. KRW)

	1H FY18	1H FY17	Change
Net Sales	1,277.8	1,527.2	△16.3%
- Domestic	881.5	890.7	△1.0%
- Export	316.5	465.4	△32.0%
- Others (Real Estate etc.)	79.8	171.1	△53.4%
Operating Profit	489.0	663.0	△26.2%
Net Income	509.5	516.6	△1.4%

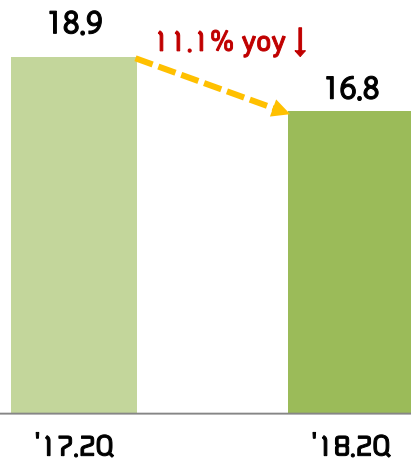
## 2-2. Domestic Cigarette

Total market volume and KT&G volume in FY18 2Q dropped by 11.1%, 8.0% yoy respectively

- 2Q Total Market Volume: decreased from 18.9 bil. sticks to 16.8 bil. sticks
- 2Q KT&G Volume : decreased from 11.3 bil. sticks to 10.4 bil. sticks
- KT&G Combustible Cigarette Market Share : 61.9% up by 1.9%p yoy

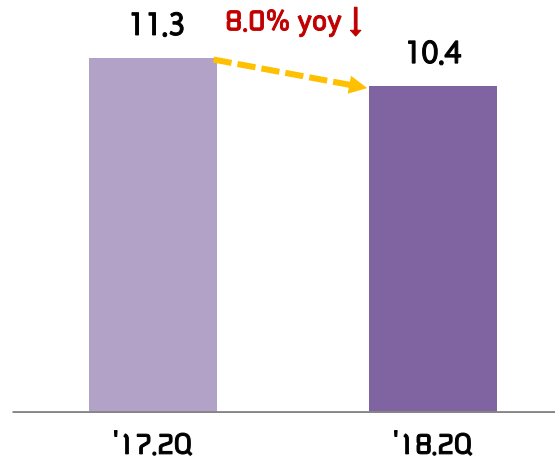
□ Total Market Volume

(Unit : bil. sticks)



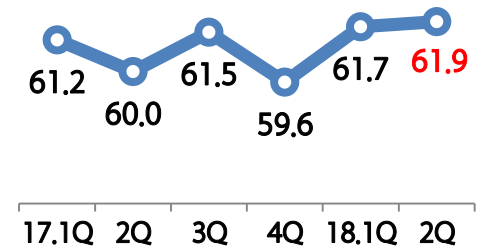
□ KT&G Volume

(Unit : bil. sticks)



□ KT&G M/S Trend

(Unit : %)



## 2-3. Export Cigarette (KT&G Separate)

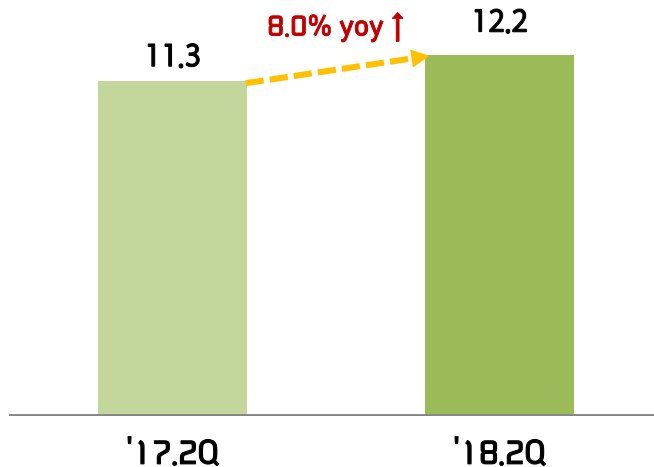


FY18 2Q Export volume and sales increased by 8.0% and by decreased by 19.5% yoy respectively

- Export volume : Volume rose 0.9 bil. sticks(8.0%) yoy
- Export sales : Sales dropped 44.7bil. won(19.5%) yoy

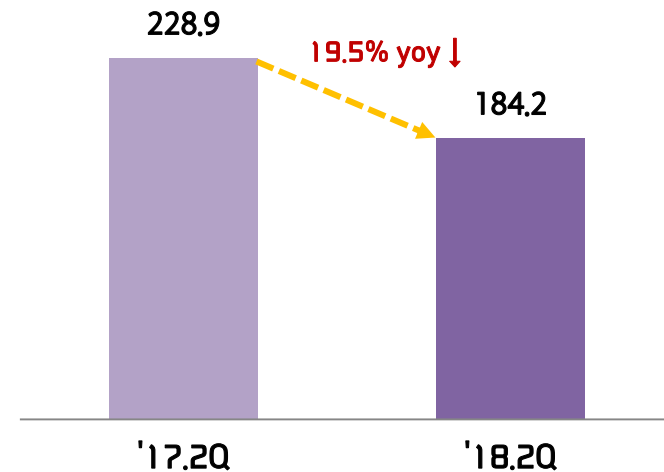
### □ Export Cigarette Volume

(Unit : bil. sticks)



### □ Export Cigarette Sales

(Unit : bil. won)



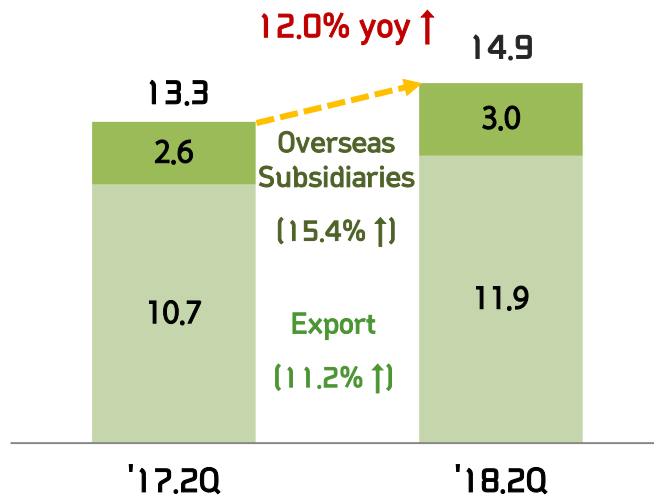


## 2-3. Overseas Cigarette (KT&G Consolidated)



**FY18 2Q Export (Overseas subsidiaries included) volume and sales rose 12.0% and dropped 8.6% yoy respectively**

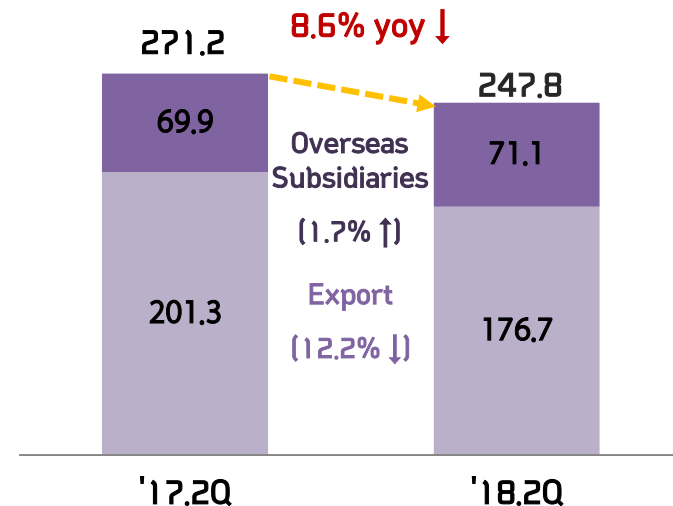
□ Overseas Cigarette Volume (Unit : bil. sticks)



※ Overseas subsidiaries : Russia, Turkey, Iran, Indonesia and USA

※ Export Volume and Sales do not include USA exports

□ Overseas Cigarette Sales (Unit : bil. sticks)

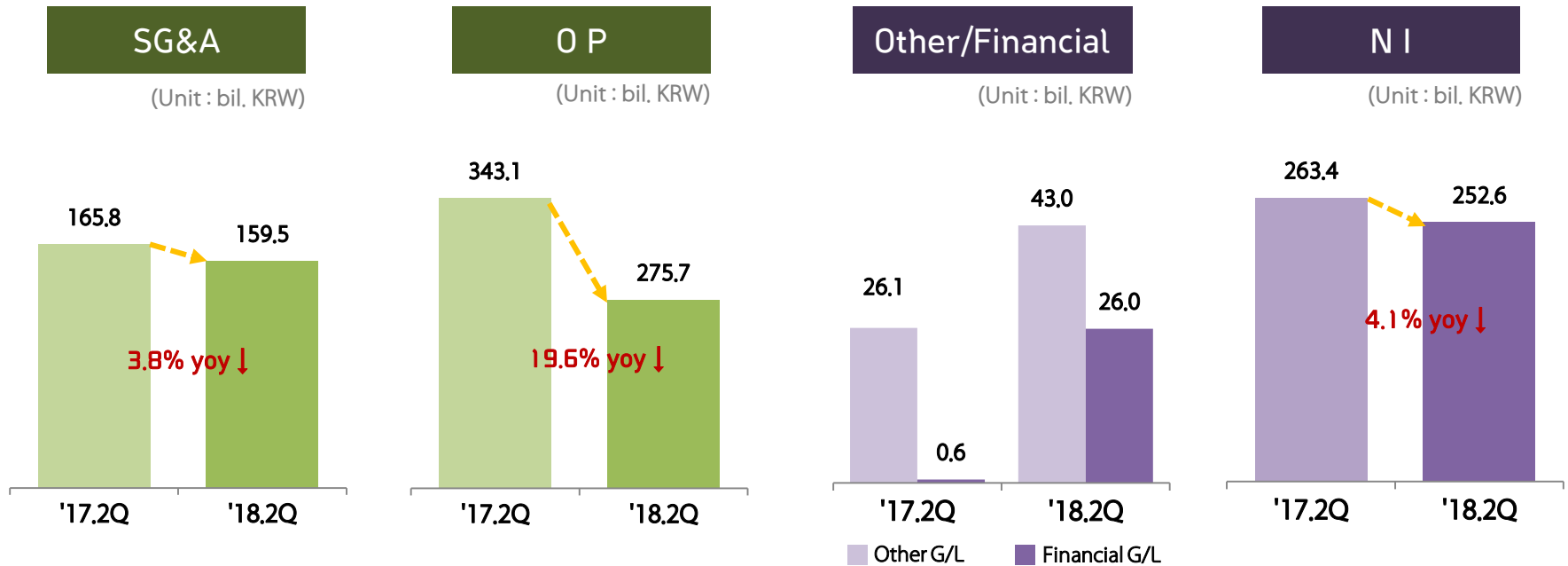


- Overseas cigarette volume : 2Q rose 1.6 bil. sticks
  - Export rose 11.2% yoy
  - Overseas subsidiaries rose 15.4% yoy

- Overseas cigarette sales : 2Q dropped 23.4 bil. won
  - Export dropped 12.2% yoy
  - Overseas subsidiaries rose 1.7% yoy

## 2-4. Profitability Analysis

FY18 2Q OP dropped by 19.6% yoy and NI dropped 4.1% yoy



- SG&A Ratio : `17. 2Q 20.7% → `18. 2Q 22.6% (1.9%p↑)
- OP Margin : `17. 2Q 42.8% → `18. 2Q 39.1% (3.7%p ↓)

- NI Margin : `17. 2Q 32.9% → `18. 2Q 35.8% (2.9%p↑)
- Other income and expenses : Net FX gain increased 32.4 ↑ bil. won
- Financial income (cost) : Sales of FVPL 19.1 ↑ bil. won



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

# 3-1. FY18 2Q KGC Results Summary

**FY18 2Q Sales and OP increased 14.7% and 5.1% yoy respectively**

- 2Q Sales recorded 291.7 bil. won, up by 14.7% yoy (Domestic 11.1% ↑, Export 78.5% ↑)
- 2Q OP recorded 40.6 bil. won, up by 5.1% yoy

## □ 2Q Sales & Profit

(Unit : bil. KRW)

	2Q FY18	2Q FY17	Change
<b>Net Sales</b>	<b>291.7</b>	254.2	<b>14.7%</b>
- Domestic	<b>267.4</b>	240.6	<b>11.1%</b>
- Export	<b>24.3</b>	13.6	<b>78.5%</b>
<b>Operating Profit</b>	<b>40.6</b>	38.6	<b>5.1%</b>
<b>Net Income</b>	<b>29.8</b>	37.1	<b>△19.7%</b>

## □ 1H Sales & Profit

(Unit : bil. KRW)

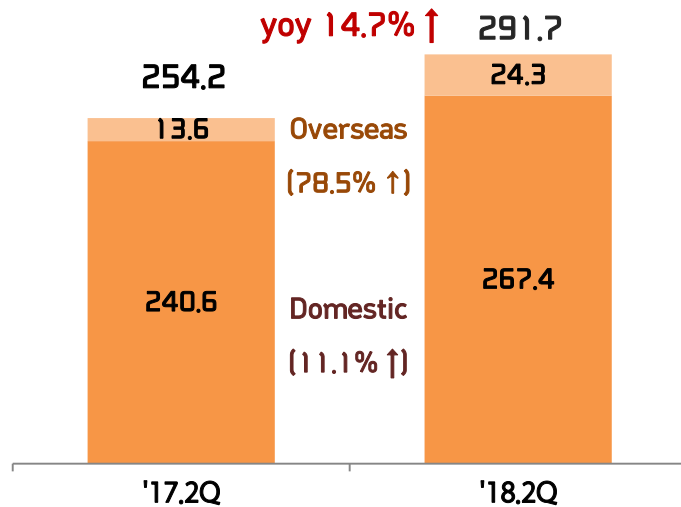
	1H FY18	1H FY17	Change
<b>Net Sales</b>	<b>685.1</b>	596.0	<b>14.9%</b>
- Domestic	<b>629.3</b>	561.1	<b>12.2%</b>
- Export	<b>55.8</b>	34.9	<b>59.9%</b>
<b>Operating Profit</b>	<b>132.5</b>	117.8	<b>12.5%</b>
<b>Net Income</b>	<b>98.6</b>	95.4	<b>3.4%</b>

## 3-2. Sales Analysis

**FY18 2Q Domestic and Overseas sales increase.**  
**Domestic Department Stores/DFS/Home shopping channels showed increased**

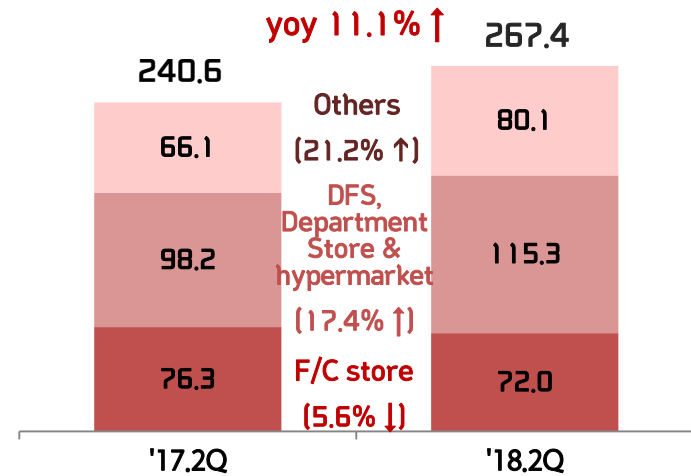
### □ Sales by Regions

(Unit : bil. KRW)



### □ Domestic Sales by Channels

(Unit : bil. KRW)

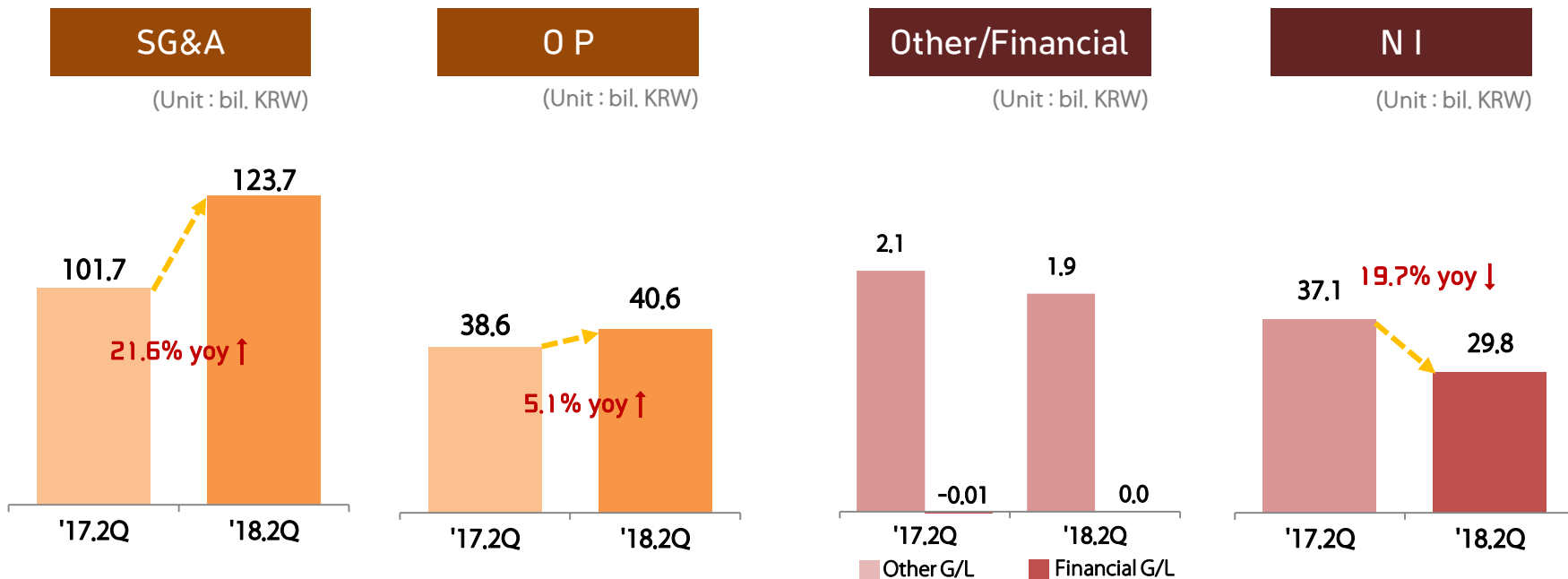


- Domestic sales in 2Q increased by 11.1% yoy
- Overseas sales in 2Q increase by 78.5% yoy

- Domestic channels showed increase
  - DFS, Department Store & etc increased 17.4% yoy
  - F/C store decreased by 5.6% yoy
  - Others increased by 21.2% yoy

# 3-3. Profitability Analysis

**FY18 2Q OP increased 5.1% yoy and NI decreased 19.7% yoy**



- SG&A Ratio : `17. 2Q 40.0% → `18. 2Q 42.4% (2.4%p ↑)
- OP Margin : `17. 2Q 15.2% → `18. 2Q 13.9% (1.3%p ↓)

- NI Margin : `17. 2Q 14.6% → `18. 2Q 10.2% (4.4%p ↓)
- Increase in corporate tax (9.2 bil KRW)



## **Chapter 4. Appendix**

- Consolidated F/S**
- (KT&G) Separate F/S**
- (KGC) Separate F/S**

# 4-1. Consolidated Statements of Financial Position



## □ Consolidated Statements of Financial Position

(in billions of KRW)	FY16	FY17	'18. 2Q
<b>Total Current Assets</b>	<b>6,594</b>	<b>6,585</b>	<b>6,509</b>
- Cash and cash equivalents	851	1,230	750
- Current other financial assets	1,657	1,564	183
- Current FVPL	-	-	1,963
- Trade and other receivables	1,284	1,127	1,031
- Inventories	2,265	2,317	2,209
- Refund assets	-	-	1
- Prepaid tobacco excise and other taxes	439	262	242
- Advance payments	69	59	91
- Prepaid expenses	27	26	38
- Current available-for-sale financial assets	2	-	-
- Financial derivatives	-	-	-
<b>Total Non-Current Assets</b>	<b>3,197</b>	<b>3,391</b>	<b>3,613</b>
- Other financial assets	-	6	6
- Long-term deposits in MSA Escrow Fund	504	510	578
- Long-Term FVPL	-	-	195
- Long-Term FVOCI	-	-	269
- Long-term trade and other receivables	70	64	64
- Available-for-sale financial assets	385	472	-
- Equity accounted investments	56	51	51
- Property, plant and equipment	1,606	1,757	1,693
- Intangible assets	105	85	85
- Investment property	342	331	518
- Refund assets	-	-	-
- Advance payments	87	70	94
- Prepaid expenses	6	6	8
- Deferred income tax assets	36	39	51
<b>Assets Held For Sale</b>	<b>21</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>9,812</b>	<b>9,976</b>	<b>10,122</b>

(in billions of KRW)	FY16	FY17	'18. 2Q
<b>Total Current Liabilities</b>	<b>2,153</b>	<b>1,803</b>	<b>1,988</b>
- Short-term borrowings	137	175	43
- Current portion of long-term borrowings	10	4	16
- Trade and other payables	622	523	650
- Advance receipts	10	7	26
- Current provision	-	3	13
- Current derivative liabilities	-	-	5
- Income tax payable	210	175	195
- Tobacco excise and other taxes payable	1,164	916	1,084
<b>Total Non-Current Liabilities</b>	<b>541</b>	<b>343</b>	<b>374</b>
- Long-term borrowings	116	101	101
- Long-term trade and other payables	15	34	44
- Long-term advance receipts	10	11	5
- Net defined benefit liability	124	76	99
- Provision	5	13	5
- Deferred income tax liabilities	271	108	120
<b>Total Liabilities</b>	<b>2,694</b>	<b>2,146</b>	<b>2,362</b>
<b>Total Equity</b>			
Ordinary shares	955	955	955
Other capital surplus	(3)	(30)	(30)
Treasury shares	(328)	(328)	(328)
Gain on sales of treasury shares	514	514	514
Reserves	4,296	4,927	5,354
Retained earnings	1,611	1,734	1,238
Equity attributable to owners of the parent	7,045	7,772	7,703
Non-controlling interests	73	58	57
<b>Total Equity</b>	<b>7,118</b>	<b>7,830</b>	<b>7,760</b>
<b>Total Equity and Liabilities</b>	<b>9,812</b>	<b>9,976</b>	<b>10,122</b>



## 4-2. (KT&G) Separate Statements of Financial Position



### □ Separate Statements of Financial Position

(in billions of KRW)	FY16	FY17	'18. 2Q
<b>Total Current Assets</b>	<b>4,833</b>	<b>4,739</b>	<b>4,617</b>
- Cash and cash equivalents	689	1,105	626
- Current other financial assets	1,620	1,530	140
- Current FVPL	-	-	1,963
- Current derivative asset	-	-	-
- Current available-for-sale financial assets	2	-	-
- Trade and other receivables	1,141	951	781
- Inventories	915	872	861
- Prepaid tobacco excise and other taxes	439	255	217
- Advance payments	22	20	24
- Prepaid expenses	5	4	5
<b>Total Non-Current Assets</b>	<b>3,636</b>	<b>3,936</b>	<b>4,174</b>
- Other financial assets	-	6	6
- Long-term deposits in MSA Escrow Fund	504	510	578
- Available-for-sale financial assets	364	454	-
- Long-Term FVOCI	-	-	249
- Long-Term FVPL	-	-	195
- Investments in associates and JV	58	52	52
- Investments in subsidiaries	1,155	1,208	1,208
- Property, plant and equipment	1,117	1,268	1,215
- Intangible assets	29	27	30
- Investment property	335	325	513
- Long-term trade and other receivables	68	81	121
- Long-term prepaid expenses	6	5	8
<b>Total Assets</b>	<b>8,469</b>	<b>8,675</b>	<b>8,791</b>

(in billions of KRW)	FY16	FY17	'18. 2Q
<b>Total Current Liabilities</b>	<b>1,762</b>	<b>1,451</b>	<b>1,656</b>
- Short-term borrowings	4	2	2
- Trade and other payables	436	387	428
- Advance receipts	1	2	16
- Income tax payable	174	146	159
- Tobacco excise and other taxes payable	1,147	914	1,042
- Refund liability	-	-	4
- Current derivative liabilities	-	-	5
<b>Total Non-Current Liabilities</b>	<b>127</b>	<b>80</b>	<b>71</b>
- Long-term trade and other payables	7	22	32
- Long-term advance receipts	-	1	1
- Net defined benefit liability	47	19	34
- Deferred income tax liabilities	73	35	2
- Refund liability	-	3	2
<b>Total Liabilities</b>	<b>1,889</b>	<b>1,531</b>	<b>1,727</b>
Ordinary shares	955	955	955
Other capital surplus	4	4	4
Treasury shares	(328)	(328)	(328)
Gain on sales of treasury shares	514	514	514
Reserves	4,366	5,009	5,443
Retained earnings	1,069	990	477
<b>Total Equity</b>	<b>6,580</b>	<b>7,144</b>	<b>7,065</b>
<b>Total Equity and Liabilities</b>	<b>8,469</b>	<b>8,675</b>	<b>8,791</b>

## 4-3. Statement of Comprehensive Income



### □ Consolidated Statement of Comprehensive Income

(in billions of KRW)	FY16	FY17	`17.2Q	`18.2Q
<b>Net Sales</b>	<b>4,503</b>	<b>4,667</b>	<b>1,162</b>	<b>1,120</b>
COGS	1,797	1,909	462	463
<b>Gross Profit</b>	<b>2,707</b>	<b>2,758</b>	<b>700</b>	<b>657</b>
SG&A	1,237	1,332	314	334
<b>Operating Profit</b>	<b>1,470</b>	<b>1,426</b>	<b>386</b>	<b>323</b>
Other Income & Expense	63	(128)	5	30
Net financial income	53	42	(1)	25
Share of gain of associates and JV	2	6	4	1
<b>Pre-tax Income</b>	<b>1,587</b>	<b>1,346</b>	<b>394</b>	<b>378</b>
Income Tax	362	181	120	113
<b>Net Income</b>	<b>1,226</b>	<b>1,164</b>	<b>275</b>	<b>265</b>
Other Comprehensive Income	1	47	25	(5)
<b>Comprehensive Income</b>	<b>1,226</b>	<b>1,212</b>	<b>300</b>	<b>260</b>

### □ (KT&G) Separate Statement of Comprehensive Income

(in billions of KRW)	FY16	FY17	`17.2Q	`18.2Q
<b>Sales</b>	<b>2,968</b>	<b>3,000</b>	<b>801</b>	<b>706</b>
- Cigarettes	2,670	2,672	693	661
- Real estate	185	190	66	24
- Others	113	138	42	21
<b>Cost of Sales</b>	<b>1,048</b>	<b>1,099</b>	<b>292</b>	<b>271</b>
- Cigarettes	861	884	219	246
- Real estate	118	123	45	8
- Others	68	92	29	17
<b>Gross Profit</b>	<b>1,920</b>	<b>1,902</b>	<b>509</b>	<b>435</b>
SG&A	615	657	166	159
<b>Operating Profit</b>	<b>1,305</b>	<b>1,245</b>	<b>343</b>	<b>276</b>
Other Income and Expenses	35	(123)	26	43
- Other Income	127	119	49	65
FX related gain	65	10	40	57
Derivative related gain	-	-	-	2
Others	62	109	9	6
- Other expenses	92	242	23	22
FX related expenses	30	139	16	1
Derivative related loss	-	-	-	15
Others	62	103	7	6
Net finance income	61	118	1	26
<b>Profit Before Income Tax</b>	<b>1,400</b>	<b>1,239</b>	<b>370</b>	<b>345</b>
Income tax expense	313	264	106	92
<b>Net Income</b>	<b>1,087</b>	<b>975</b>	<b>263</b>	<b>253</b>
<b>Total Comprehensive Income</b>	<b>1,083</b>	<b>1,019</b>	<b>286</b>	<b>245</b>

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



### □ Summarized Statement of Financial Position

(bil. KRW)	FY16	FY17	'18.2Q
<b>Non-Current Assets</b>	<b>548.3</b>	<b>520.3</b>	<b>541.6</b>
-Tangible Assets	286.5	296.1	291.4
-Intangible Assets	11.2	13.1	13.2
-Others	250.6	211.1	237.0
<b>Current Assets</b>	<b>1,319.6</b>	<b>1,435.3</b>	<b>1,354.0</b>
-Inventories	1,146.3	1,250.8	1,109.1
-Cash and Cash Equivalents	9.5	7.6	18.9
-Others	163.8	176.9	225.9
<b>Total Assets</b>	<b>1,867.9</b>	<b>1,955.6</b>	<b>1,895.6</b>
Non-Current Liabilities	82.2	77.0	75.4
Current Liabilities	228.7	248.0	148.6
-Short Term Borrowings	112.2	150.4	32.2
-Others	116.5	97.6	116.4
<b>Total Liabilities</b>	<b>311.0</b>	<b>325.0</b>	<b>224.1</b>
Capital Stock	70.1	70.1	70.1
Capital Surplus	111.6	111.5	111.5
Reserves	1,296.6	1,313.0	1,385.7
Retained Earnings	78.6	136.0	104.2
Other Comprehensive Income	0	0	0
<b>Total Equities</b>	<b>1,556.9</b>	<b>1,630.6</b>	<b>1,671.5</b>
<b>Total Liabilities and Equities</b>	<b>1,867.9</b>	<b>1,955.6</b>	<b>1,895.6</b>

### □ Summarized Statement of Comprehensive Income

(bil. KRW)	FY16	FY17	'17.2Q	'18.2Q
<b>Sales</b>	<b>1,107.6</b>	<b>1,200.0</b>	<b>254.2</b>	<b>291.7</b>
- Red Ginseng Roots	76.3	81.6	18.1	24.2
- Red Ginseng Products	1,028.6	1,114.2	235.2	265.8
(Ratio)	(92.9)	(92.8)	(92.5)	(91.1)
- Others	2.7	4.2	1.0	1.7
<b>Cost of Sales</b>	<b>509.3</b>	<b>541.7</b>	<b>113.9</b>	<b>127.5</b>
<b>Gross Profit</b>	<b>598.3</b>	<b>658.3</b>	<b>140.3</b>	<b>164.2</b>
SG&A	423.4	472.9	101.7	123.7
<b>Operating Profit</b>	<b>174.9</b>	<b>185.4</b>	<b>38.6</b>	<b>40.6</b>
Other Income & Expense	(42.0)	(14.5)	2.1	1.9
- Other Income	5.7	4.7	1.9	2.0
- Other Expense	47.7	19.2	(0.1)	0.1
Financial Gain(Loss)	(1.0)	(8.8)	(0.01)	0.0
<b>Pre-tax Income</b>	<b>131.9</b>	<b>162.2</b>	<b>40.7</b>	<b>42.5</b>
- Income Tax	46.7	36.8	3.6	12.7
<b>Net Income</b>	<b>85.2</b>	<b>125.4</b>	<b>37.1</b>	<b>29.8</b>
<b>Comprehensive Income</b>	<b>75.9</b>	<b>139.4</b>	<b>37.1</b>	<b>30.3</b>



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