

Investor Relations 2019



# 2019 First-Quarter 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 maybe subject to change and the company does not guarantee the correctness and completeness.



## **Chapter 1. Consolidated Results**

**- Sales/Profit**

# 1. FY19 1Q Consolidated Results Summary



**1Q Consolidated Sales, OP, NI recorded 1 tril. 185bil., 351.1 bil., 276bil. won**

- 1Q Consolidated Sales increased by 11.0% yoy : KT&G 15.1% ↑, KGC 1.4% ↑
- 1Q OP and NI increased by 12.8% and 10.7% yoy each

## □ 1Q Consolidated Sales/Profit

(Unit : bil. KRW)

	1Q FY19	1Q FY18	Change
<b>Net Sales</b>	<b>1,185.0</b>	<b>1,067.6</b>	<b>11.0%</b>
- KT&G	658.7	572.3	15.1%
- KGC	398.7	393.4	1.4%
- Others and Adjustment	127.6	101.9	25.2%
<b>Operating Profit</b>	<b>351.1</b>	<b>311.4</b>	<b>12.8%</b>
<b>Net Income</b>	<b>276.0</b>	<b>249.4</b>	<b>10.7%</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. FY19 1Q KT&G Results Summary



### FY19 1Q Sales and OP increased by 15.1% and 18.5% yoy each

- 1Q Sales recorded 658.7 bil. won (increased by 15.1% yoy)
  - Domestic Cigarette 10.5%↑, Export Cigarette 0.7%↓, Others(Real Estate etc.) 128.4% ↑
- 1Q OP increased 18.5% yoy to 252.7 bil. won, NI decreased 16.7% yoy to 214.1 bil. won

#### □ 1Q Consolidated Profit/Loss

(Unit : bil. KRW)

	1Q FY19	1Q FY18	Change
<b>Net Sales</b>	<b>658.7</b>	<b>572.3</b>	<b>15.1%</b>
- Domestic Cigarette	447.6	405.1	10.5%
- Export Cigarette	131.4	132.3	△0.7%
- Others(Real Estate etc.)	79.7	34.9	128.4%
<b>Operating Profit</b>	<b>252.7</b>	<b>213.3</b>	<b>18.5%</b>
<b>Net Income</b>	<b>214.1</b>	<b>256.9</b>	<b>△16.7%</b>

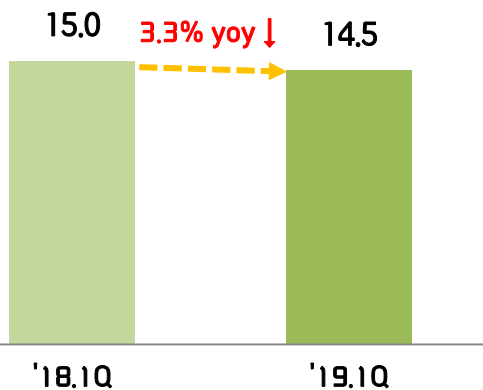
## 2-2. Domestic Cigarette (Combustible)

**Total market and KT&G volume in 1Q dropped by 3.3%, 1.1% yoy respectively**

- 1Q Total Market Volume: decreased from 15.0 bil. sticks to 14.5 bil. sticks
- 1Q KT&G Volume : decreased from 9.2 bil. sticks to 9.1 bil. sticks
- KT&G M/S : 63.1%, increased 1.4%p yoy (up 1.2%p qoq)

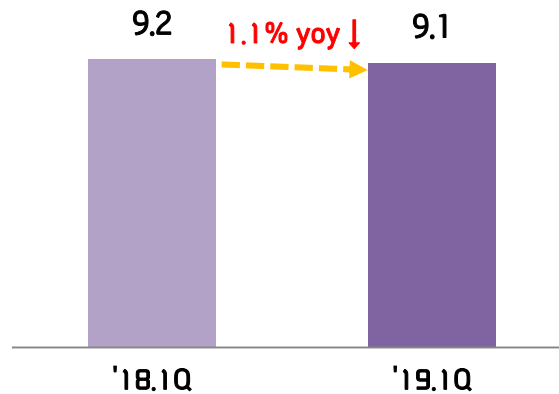
□ Total Market Volume

(unit : bil. sticks)



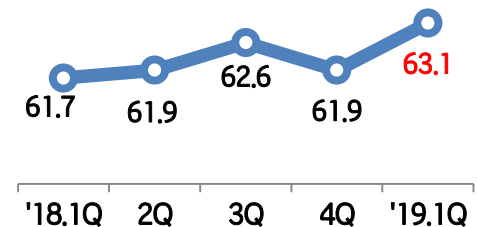
□ KT&G Volume

(unit : bil. sticks)



□ KT&G M/S Trend

(Unit : %)



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

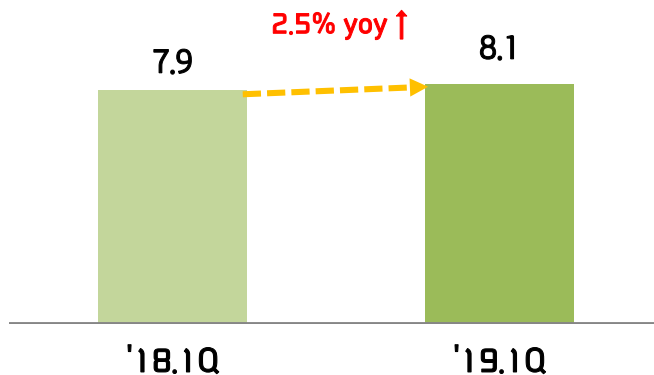


1Q Export volume increased by 2.5% and sales dropped by 0.7% yoy

- Export volume : Volume increased 0.2 bil. sticks yoy (2.5%↑)
- Export sales : Sales dropped 0.9 bil. won yoy (0.7%↓)

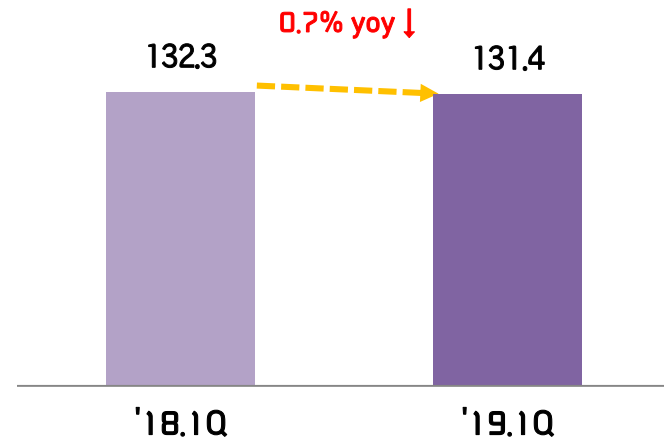
### □ Export Volume

(Unit : bil. sticks)



### □ Export Sales

(Unit : bil. sticks)



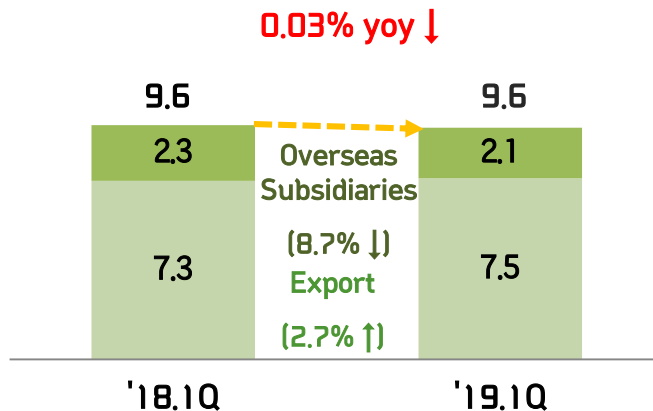


## 2-3. Overseas Cigarette (KT&G Consolidated)



**1 Q Export (Overseas subsidiaries included) volume dropped by 0.03% and sales increased by 7.9% yoy**

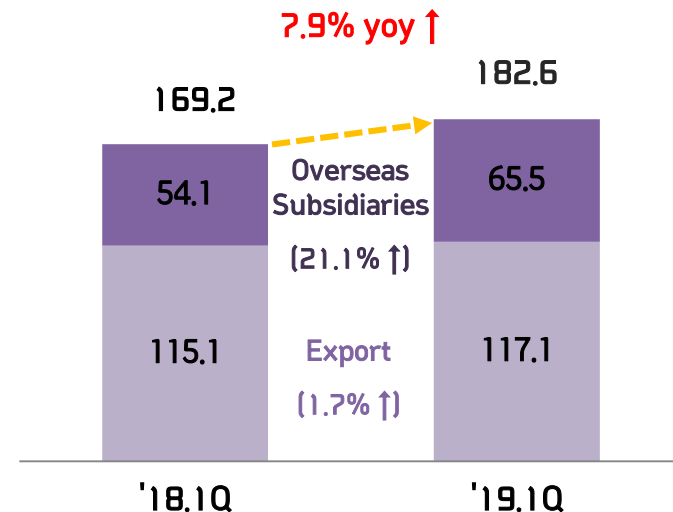
□ Overseas Cigarette Volume (Unit : bil. sticks)



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

※ Export Volume and Sales do not include USA exports

□ Overseas Cigarette Sales (Unit : bil. sticks)

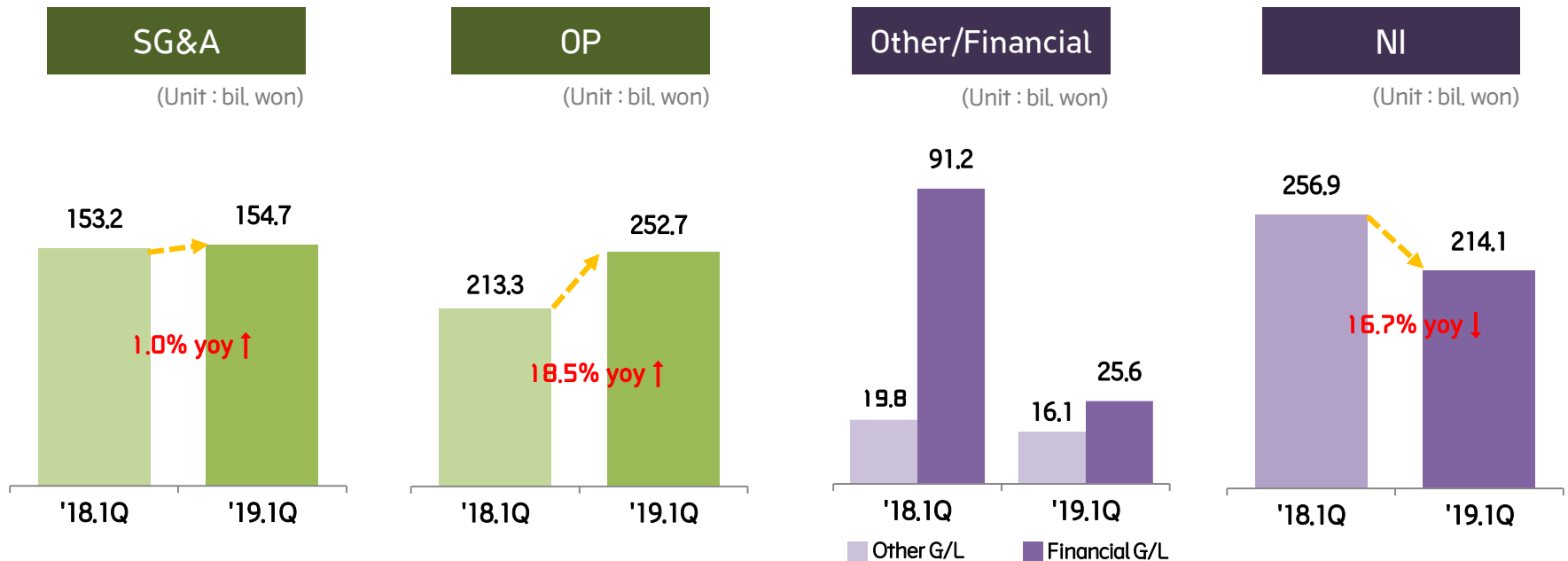


- Overseas cigarette volume : 1Q dropped 3 mil. sticks
  - Export increased 2.7% yoy
  - Overseas subsidiaries decreased 8.7% yoy

- Overseas cigarette sales : 1Q rose 13.4 bil. won
  - Export increased 1.7% yoy
  - Overseas subsidiaries increased 21.1% yoy

## 2-4. Profitability Analysis

**FY19 1Q OP rose by 18.5% yoy and NI dropped by 16.7% yoy**



- SG&A Ratio : `18. 1Q 26.8% → `19. 1Q 23.5% (3.3%p ↓)
- OP Margin : `18. 1Q 37.3% → `19. 1Q 38.4% (1.1%p ↑)

- NI Margin : `18. 1Q 44.9% → `19. 1Q 32.5% (12.4%p ↓)
- `18 1Q : Receipt of 58 bil. won dividend payment from KGC



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

# 3-1. FY19 1Q KGC Results Summary

## 1Q Sales increased 1.4% and OP decreased 0.8% yoy

- 1Q Sales recorded 398.7 bil. won, up by 1.4% yoy (Domestic 0.8% ↑, Export 7.3% ↑)
- 1Q OP recorded 91.2 bil. won down by 0.8% yoy

### □ 1Q Sales & Profit

(Unit : bil. won)

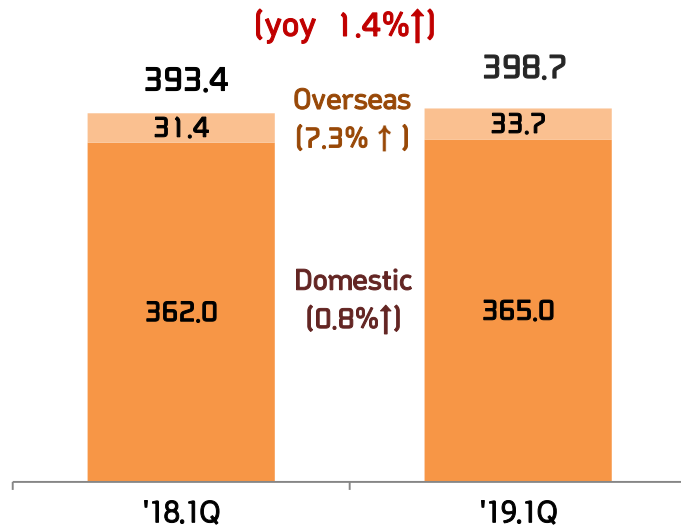
	1Q FY19	1Q FY18	Change
Net Sales	398.7	393.4	1.4%
- Domestic	365.0	362.0	0.8%
- Export	33.7	31.4	7.3%
Operating Profit	91.2	91.9	-0.8%
Net Income	69.3	68.8	0.7%

# 3-2. Sales Analysis

## 1 Q Domestic and export sales increase

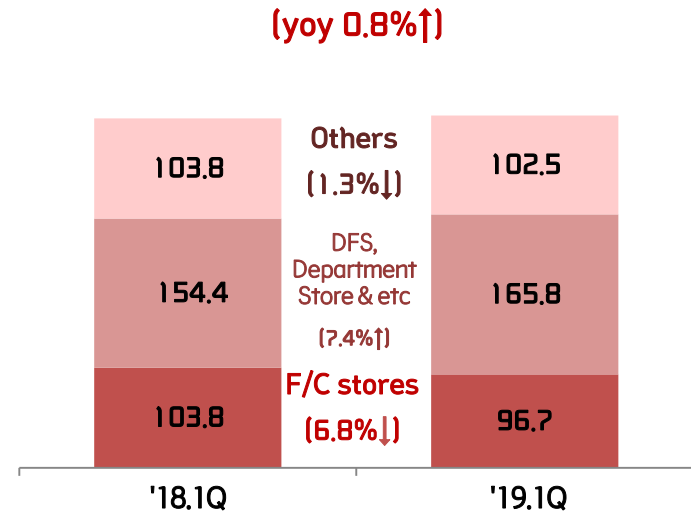
### □ Sales by Regions

(Unit : bil. won)



### □ Domestic Sales by Channels

(Unit : bil. won)



- Domestic sales recorded 365 bil. won (0.8% yoy ↑)
- Overseas sales recorded 33.7 bil. won (7.3% yoy ↑)

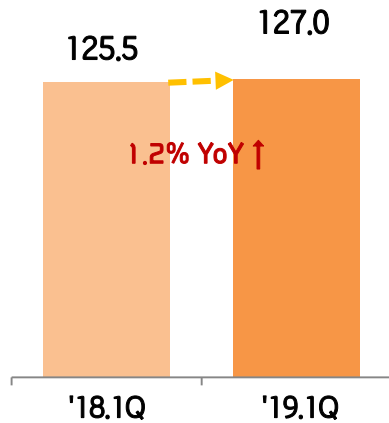
- DFS, Department Store & etc channel showed increased
  - F/C store decreased 6.8% yoy
  - DFS, Department Store & etc. increased 7.4% yoy
  - Others(Home Shopping/Online) decreased by 1.3% yoy

# 3-3. Profitability Analysis

1Q OP decreased 0.8% yoy

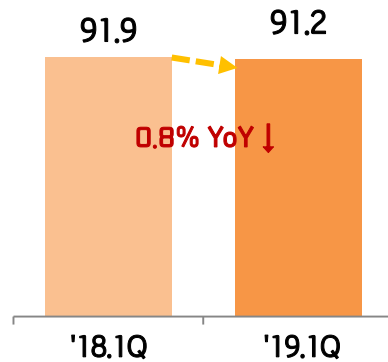
SG&A

(Unit : bil. KRW)



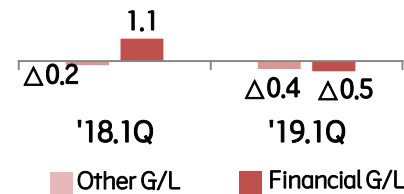
OP

(Unit : bil. KRW)



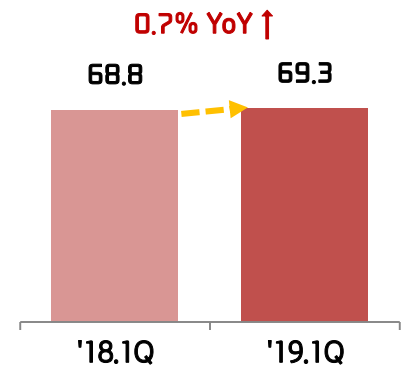
Other/Financial

(Unit : bil. KRW)



NI

(Unit : bil. KRW)



- OP Margin : '18.1Q 23.4% → '19.1Q 22.9% (0.5%p ↓)
- SG&A Ratio: '18.1Q 31.9% → '19.1Q 31.9% (-)

- NI Margin : '18.1Q 17.5% → '19.1Q 17.4% (0.1%p ↓)



## **Chapter 4. Appendix**

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

※ The results above are still under audit by the outside auditors and may be subject to change. This file will be update upon the disclosure of the annual report (May 15th)

# 4- 1. Consolidated Statements of Financial Position



## □ Consolidated Statements of Financial Position

Accounts (Unit : hundred mil. KRW)	March 31, 2019	December 31, 2018
<b>Current assets</b>	<b>69,305</b>	<b>64,134</b>
Cash and cash equivalents	13,510	9,330
Current other financial assets	2,169	5,846
Current fair value through profit or loss	16,544	11,397
Trade and other receivables	10,450	9,759
Financial derivatives	-	12
Inventories	23,862	24,613
Refund asset	29	24
Accrued tobacco excise and other taxes	1,634	2,322
Advance payments	768	542
Prepaid expenses	297	246
Assets to be sold	42	42
<b>Non-current assets</b>	<b>38,485</b>	<b>37,417</b>
Other long-term financial assets	23	86
Long-term deposits in MSA Escrow Fund	6,502	6,155
Fair value through profit or loss	2,090	2,107
Fair value through other comprehensive income or loss	2,612	2,496
Long-term trade and other receivables	593	629
Investments in associates and joint ventures	841	840
Property, plant and equipment	18,275	18,188
Intangible assets	668	720
Investment property	5,196	4,950
Refund asset	2	2
Long-term advance payments	698	714
Long-term prepaid expenses	64	79
Deferred income tax assets	447	452
Right-of-use assets	474	-
<b>Total assets</b>	<b>107,790</b>	<b>101,551</b>

Accounts (Unit : hundred mil. KRW)	March 31, 2019	December 31, 2018
<b>Current liabilities</b>	<b>24,106</b>	<b>16,407</b>
Short-term borrowings	420	1,299
Current portion of long-term borrowings	51	50
Trade and other payables	10,775	5,605
Advance receipts	1,284	1,715
Current provision	163	151
Derivative liabilities	39	5
Income tax payable	2,885	2,008
Tobacco excise and other taxes payable	8,312	5,574
Current lease liabilities	179	-
<b>Non-current liabilities</b>	<b>4,385</b>	<b>3,813</b>
Long-term borrowings	925	935
Long-term trade and other receipts	498	532
Long-term advance receipts	58	56
Net defined benefit liability	1,091	962
Provision	49	38
Deferred income tax liabilities	1,515	1,256
Non-controlling interests liabilities	34	34
Long-term lease liabilities	215	-
<b>Total liabilities</b>	<b>28,491</b>	<b>20,220</b>
Ordinary shares	9,550	9,550
Other capital surplus	-297	-297
Treasury shares	-3,282	-3,282
Gain on sales of treasury shares	5,138	5,138
Reserve	56,680	53,556
Retained earnings	10,964	16,128
Non-controlling interests	546	538
<b>Total equity</b>	<b>79,299</b>	<b>81,331</b>
<b>Total liabilities and equity</b>	<b>107,790</b>	<b>101,551</b>



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



### □ Separate Statements of Financial Position

Accounts (Unit : hundred mil. KRW)	March 31, 2019	December 31, 2018
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	11,062	7,481
Current other financial assets	1,963	5,700
Current fair value through profit or loss	16,544	11,397
Financial derivative	-	12
Accrued tobacco excise and other taxes	1,259	2,182
Trade and other receivables	7,997	7,309
Inventories	9,477	9,547
Advance payments	205	184
Prepaid expenses	98	92
Refund and assets	6	4
Assets to be sold	339	278
<b>Total current assets</b>	<b>48,950</b>	<b>44,186</b>
<b>Non-current assets</b>		
Other long-term financial assets	6	69
Long-term deposits in MSA Escrow Fund	6,502	6,155
Available-for-sale financial assets	-	-
Fair value through other comprehensive income or loss	2,413	2,305
Fair value through profit or loss	2,090	2,107
Investments in associates and joint ventures	774	774
Investments in subsidiaries	11,788	11,854
Property, plant and equipment	12,049	12,009
Intangible assets	323	313
Investment property	6,313	6,067
Long-term trade and other receivables	1,179	1,193
Long-term advance payments	95	95
Long-term prepaid expenses	60	73
Deferred income tax assets	-	98
Right-of-use assets	170	-
<b>Total non-current assets</b>	<b>43,764</b>	<b>43,113</b>
<b>Total assets</b>	<b>92,713</b>	<b>87,299</b>

Accounts (Unit : hundred mil. KRW)	March 31, 2019	December 31, 2018
<b>Equity and liabilities</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short-term borrowings	12	12
Trade and other payables	8,945	3,981
Advance receipts	1,195	1,616
Income tax payable	2,377	1,693
Tobacco excise and other taxes payable	8,247	5,519
Refund liabilities and provisions	64	65
Derivative liabilities	39	5
Current lease liabilities	60	-
<b>Total current liabilities</b>	<b>20,939</b>	<b>12,890</b>
<b>Non-current liabilities</b>		
Long-term trade and other receipts	372	392
Long-term advance receipts	6	7
Net defined benefit liability	429	348
Deferred income tax liabilities	32	-
Refund liabilities (non-current)	16	10
Long-term lease liabilities	103	-
<b>Total non-current liabilities</b>	<b>959</b>	<b>757</b>
<b>Total liabilities</b>	<b>21,897</b>	<b>13,647</b>
<b>Equity</b>		
Ordinary shares	9,550	9,550
Other capital surplus	36	36
Treasury shares	-3,282	-3,282
Gain on sale of treasury shares	5,138	5,138
Reserve	57,238	54,300
Retained earnings	2,136	7,910
<b>Total equity</b>	<b>70,816</b>	<b>73,652</b>
<b>Total equity and liabilities</b>	<b>92,713</b>	<b>87,299</b>

## 4-3. Statement of Comprehensive Income



### □ Consolidated Statement of Comprehensive Income

Accounts (Unit : hundred mil. KRW)	March 31, 2019	March 31, 2018
<b>Sales</b>	11,850	10,676
<b>Cost of sales</b>	4,954	4,335
<b>Gross profit</b>	6,896	6,341
Selling, general and administrative expenses	3,384	3,228
<b>Operating profit</b>	3,511	3,114
Other income and expenses	146	156
Other income	347	359
Other expenses	201	203
Net finance income	250	329
Finance income	333	356
Cost of finance	83	27
<b>Net associates and joint ventures income</b>	1	-1
Share of gain of associates and joint ventures	3,908	3,598
Share of loss of associates and joint ventures	1,148	1,104
<b>Profit before income tax</b>	2,760	2,494
Income tax expense	2,752	2,489
<b>Net Income</b>	8	5
Net income attributable to owners of the parent company	259	-178
Net income attributable to non-controlling Interests	3,019	2,316
Other comprehensive income after income tax	3,011	2,311
<b>Profit</b>	8	5
Profit attributable to owners of the parent company	11,850	10,676
Profit attributable to non-controlling interests	4,954	4,335

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

Accounts (Unit : hundred mil. KRW)	March 31, 2019	March 31, 2018
<b>Sales</b>	6,587	5,723
Manufacture of tobacco	5,790	5,374
Real estate	639	140
Exports of leaf tobacco and others	158	210
<b>Cost of sales</b>	2,513	2,058
Manufacture of tobacco	2,146	1,863
Real estate	245	26
Exports of leaf tobacco and others	122	169
<b>Gross profit</b>	4,074	3,665
Selling, general and administrative expenses	1,547	1,532
<b>Operating profit</b>	2,527	2,133
Other income	302	307
Other expenses	141	109
Finance income	319	927
Finance costs	63	16
<b>Profit before income tax</b>	2,943	3,243
Income Tax expense	802	673
<b>Profit for the period</b>	2,141	2,569
<b>Total comprehensive income for the period</b>	2,214	2,492

## 4-4. Statements of Cash Flows



### □ Consolidated Statement of Cash Flows

Accounts (Unit : hundred mil. KRW)	March 31, 2019	March 31, 2018
<b>Net cash provided by operating activities</b>	<b>7,176</b>	<b>3,615</b>
Cash generated from operations	7,209	3,830
Income tax paid	(33)	(215)
<b>Net cash provided by investing activities</b>	<b>(2,072)</b>	<b>(3,680)</b>
Interest received	121	23
Dividends received	57	25
Proceeds from sale of property, plant and equipment	0	9
Proceeds from sale of intangible assets	1	0
Disposal of fair value through profit or loss	(5,026)	66
Disposal of fair value through other comprehensive income or loss	(9)	(4)
Collection of loans	29	36
Withdrawal of guarantee deposits	8	96
Acquisition of property, plant and equipment	(328)	(594)
Acquisition of intangible assets	(15)	(19)
Acquisition of Investment Property	(301)	-
Acquisition of assets to be sold	(61)	-
Increase in loans	(43)	(0)
Payments of guarantee deposits	(5)	(142)
Payments of long-term deposits in MSA Escrow Fund	(235)	(152)
Changes in other financial assets, net	3,734	(3,023)
<b>Net cash used in financing activities</b>	<b>(954)</b>	<b>(1,238)</b>
Proceeds from borrowings	994	1,682
Increase in deposits received	0	19
Interest paid	(16)	(8)
Payments of borrowings	(1,879)	(2,887)
Decrease in deposits received	(1)	(44)
Payment of lease liabilities	(52)	-
<b>Net increase in cash and cash equivalents</b>	<b>4,150</b>	<b>(1,304)</b>
<b>Cash and cash equivalents at January 1</b>	<b>9,330</b>	<b>7,151</b>
<b>Effect of exchange rate fluctuation on cash held</b>	<b>30</b>	<b>(0)</b>
<b>Cash and cash equivalents at March 31</b>	<b>13,510</b>	<b>5,847</b>

### □ (KT&G) Separate Statement of Cash Flows

Accounts (Unit : hundred mil. KRW)	March 31, 2019	March 31, 2018
<b>Net cash provided by operating activities</b>	<b>5,575</b>	<b>1,985</b>
Cash generated from operations	5,589	2,001
Income tax paid	(15)	(16)
<b>Net cash provided by investing activities</b>	<b>(1,985)</b>	<b>(3,560)</b>
Interest received	54	22
Dividends received	57	25
Proceeds from sale of property, plant and equipment	3	9
Proceeds from sale of intangible assets	1	0
Collection of loans	29	34
Withdrawal of guarantee deposits	0	86
Acquisition of property, plant and equipment	(255)	(503)
Acquisition of intangible assets	(11)	(15)
Acquisition of Investment Property	(301)	-
Acquisition of assets to be sold	(61)	-
Increase in loans	(35)	-
Payments of guarantee deposits	-	(96)
Payments of long-term deposits in MSA Escrow Fund	(235)	(152)
Disposal of fair value through profit or loss	(5,026)	66
Changes in other financial assets, net	3,794	(3,036)
<b>Net cash used in financing activities</b>	<b>(16)</b>	<b>(6)</b>
Payment of lease liabilities	(16)	-
Increase in deposits received	-	16
Decrease in deposits received	-	(22)
<b>Net increase in cash and cash equivalents</b>	<b>3,574</b>	<b>(1,580)</b>
<b>Cash and cash equivalents at January 1</b>	<b>7,481</b>	<b>5,898</b>
<b>Effect of exchange rate fluctuation on cash held</b>	<b>6</b>	<b>3</b>
<b>Cash and cash equivalents at March 31</b>	<b>11,062</b>	<b>4,321</b>

## 4-5. (KGC) Separate Financial Statement



### □ Summarized Statement of Financial Position

(bil KRW)	FY17	FY18	'19.1Q
Non-Current Assets	520.3	509.3	514.4
- Property Plant Equipment	296.1	294.9	289.5
- Intangible Assets	13.1	15.4	15.6
- Others	211.1	199.0	209.3
Current Assets	1,435.3	1,497.8	1,496.8
- Inventories	1,250.8	1,311.1	1,221.9
- Cash and Cash Equivalents	7.6	2.0	65.4
- Others	176.9	184.7	209.5
<b>Total Assets</b>	<b>1,955.6</b>	<b>2,007.1</b>	<b>2,011.2</b>
Non-Current Liabilities	69.1	66.8	76.1
Current Liabilities	255.9	229.5	155.0
- Short Term Borrowings	150.4	106.5	10.9
- Others	105.5	123.0	144.1
<b>Total Liabilities</b>	<b>325.0</b>	<b>296.3</b>	<b>231.1</b>
Capital Stock	70.1	70.1	70.1
Capital Surplus	111.6	111.6	111.5
Reserves	1,313.0	1,385.0	1,529.2
Retained Earnings	136.0	144.1	69.3
<b>Total Equities</b>	<b>1,630.7</b>	<b>1,710.8</b>	<b>1,780.1</b>
<b>Total Liabilities and Equities</b>	<b>1,955.7</b>	<b>2,007.1</b>	<b>2,011.2</b>

### □ Summarized Statement of Comprehensive Income

(bil KRW)	FY17	FY18	'18.1Q	'19.1Q
<b>Net Sales</b>	<b>1,200.0</b>	<b>1,328.3</b>	<b>393.4</b>	<b>398.7</b>
- Red Ginseng Roots	81.6	93.0	29.8	31.8
- Red Ginseng Products	1,116.2	1,233.1	363.0	366.3
(Ratio)	(93.0)	(92.8)	(92.3)	(91.9)
- Others	2.2	2.2	0.6	0.6
COGS	541.7	594.6	176.0	180.5
<b>Gross Profit</b>	<b>658.3</b>	<b>733.7</b>	<b>217.4</b>	<b>218.2</b>
SG&A	472.9	528.9	125.5	127.0
<b>Operating Profit</b>	<b>185.4</b>	<b>204.8</b>	<b>91.9</b>	<b>91.2</b>
Other Income & Expense	-14.5	-11.7	-0.2	1.1
- Other Income	4.7	4.6	1.2	1.4
- Other Expenses	19.2	16.3	1.4	0.3
Financial Gain(Loss)	-8.8	-2.2	-0.4	-0.5
<b>Pre-tax Income</b>	<b>162.2</b>	<b>190.9</b>	<b>91.3</b>	<b>91.8</b>
- Income Tax	36.8	48.9	22.5	22.5
<b>Net Income</b>	<b>125.4</b>	<b>142.0</b>	<b>68.8</b>	<b>69.3</b>
<b>Comprehensive Income</b>	<b>139.4</b>	<b>138.2</b>	<b>68.6</b>	<b>69.2</b>



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