

KT&G  Investor Relations 2017

FY2017 2Q

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 2Q Consolidated Results Summary



2Q Consolidated Sales, OP, NI recorded 1 tril. 161.7 bil., 386.5 bil., 274.7 bil. won

- 2Q Consolidated Sales increased by 6.8% yoy : KT&G 7.5%↑, KGC 0.3%↑ yoy
- 2Q OP increased by 11.7% / NI dropped by 3.8% yoy each

□ 2Q Consolidated Sales/Profit

(Unit : bil. KRW)

	2Q FY17	2Q FY16	Change
Net Sales	1,161.7	1,088.1	6.8%
- KT&G	801.3	745.5	7.5%
- KGC	254.2	253.5	0.3%
- Others and Adjustment	106.2	89.1	19.2%
Operating Profit	386.5	345.9	11.7%
Net Income	274.7	285.6	△3.8%

□ 1H Consolidated Sales/Profit

(Unit : bil. KRW)

	1H FY17	1H FY16	Change
Net Sales	2,340.4	2,179.4	7.4%
- KT&G	1,527.2	1,446.7	5.6%
- KGC	596.0	549.1	8.5%
- Others and Adjustment	217.2	183.6	18.3%
Operating Profit	781.9	738.8	5.8%
Net Income	509.9	570.3	△10.6%

- 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 2Q KT&G Results Summary



FY17 2Q Sales increased by 7.5% and OP increased by 6.3% yoy each

- 2Q Sales recorded 801.3 bil. won (up by 7.5% yoy)
 - Domestic Cigarette 0.7%↓, Export Cigarette 18.1%↑, Others(Real Estate etc.) 28.4%↑
- 2Q OP rose 6.3% yoy to 343.1 bil. won and NI dropped 4.6% yoy to 263.4 bil. won

□ 2Q Consolidated Profit/Loss

(Unit : bil. KRW)

	2Q FY17	2Q FY16	Change
Net Sales	801.3	745.5	7.5%
- Domestic	464.6	467.8	Δ0.7%
- Export	228.8	193.7	18.1%
- Others (Real Estate etc.)	107.9	84.0	28.4%
Operating Profit	343.1	322.7	6.3%
Net Income	263.4	276.2	Δ4.6%

□ 1H Consolidated Profit/Loss

(Unit : bil. KRW)

	1H FY17	1H FY16	Change
Net Sales	1,527.2	1,446.7	5.6%
- Domestic	890.7	891.8	Δ0.1%
- Export	465.4	425.9	9.3%
- Others (Real Estate etc.)	171.1	129.0	32.6%
Operating Profit	663.0	650.1	2.0%
Net Income	516.6	530.0	Δ2.5%

2-2. Domestic Cigarette

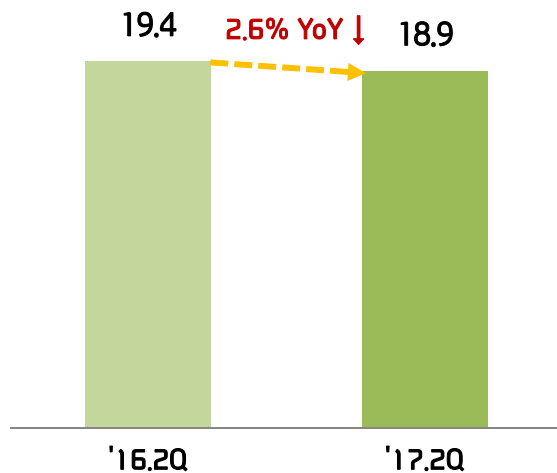


Total market volume and KT&G volume in 2Q dropped by 2.6%, 1.4% yoy respectively

- 2Q Total Market Volume: decreased from 19.4 bil. sticks to 18.9 bil. sticks
- 2Q KT&G Volume : decreased from 11.5 bil. sticks to 11.3 bil. sticks
- KT&G Market share : 60.0% up by 0.7%p yoy

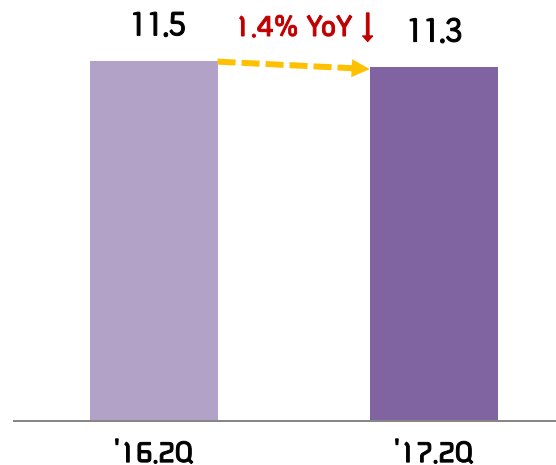
□ Total Market Volume

(Unit : bil. sticks)



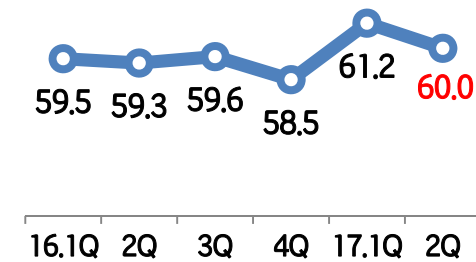
□ KT&G Volume

(Unit : bil. sticks)



□ KT&G M/S Trend

(Unit : %)



2-3. Overseas Cigarette (Export)

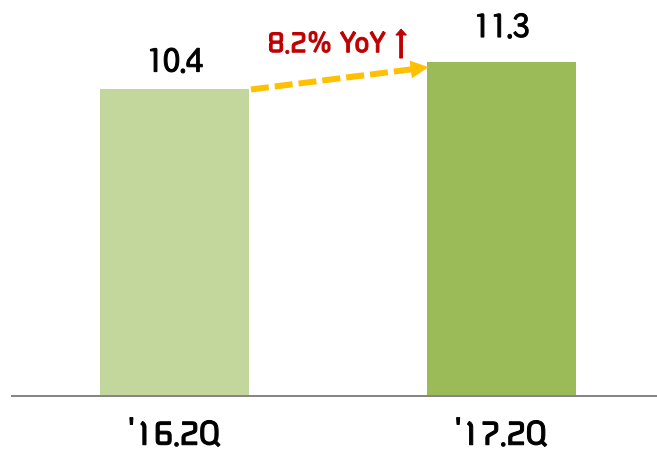


2Q Export volume and sales rose by 8.2% and 18.1% yoy respectively

- Volume rose by 8.2% yoy ('16. 2Q 10.4 bil. sticks → '17. 2Q 11.3 bil. sticks)
- Sales rose by 18.1% yoy ('16. 2Q 193.7 bil. won → '17. 2Q 228.8 bil. won)

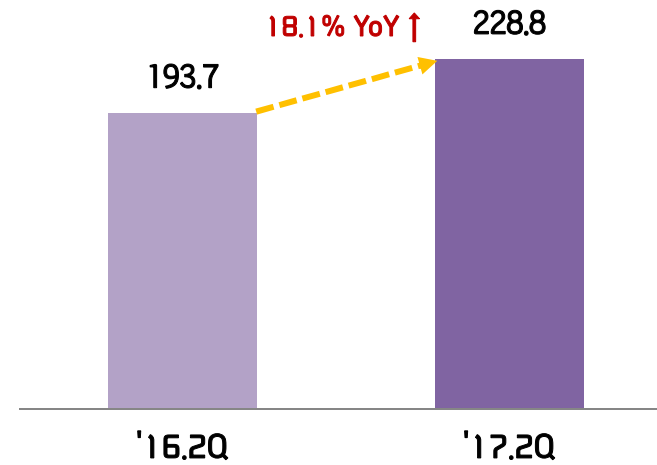
□ Export Cigarette Volume

(Unit : bil. sticks)



□ Export Cigarette Sales

(Unit : bil. KRW)



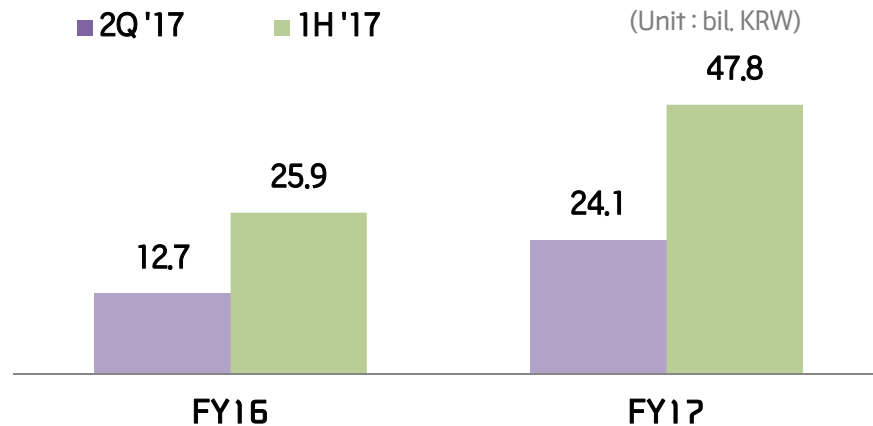
2-4. Overseas Cigarette (Indonesia)



FY17 1H sales in Indonesia increased by 84.5% yoy with development of local customized brand

□ Cigarette Sales in Indonesia

(after eliminating internal transactions.)



※ Regional sales numbers are not confirmed by external audit

※ Performance of Separate Subsidiaries

(before eliminating internal transactions.)

	2Q FY17	2Q FY16	Change	1H FY17	1H FY16	Change
MMM	12.8	2.3	10.5	23.5	4.9	18.6
Trisakti	12.4	8.7	3.7	23.1	18.6	4.5
KT&G-I	12.0	4.0	8.0	21.2	7.3	13.9

□ Main Brand in Indonesia

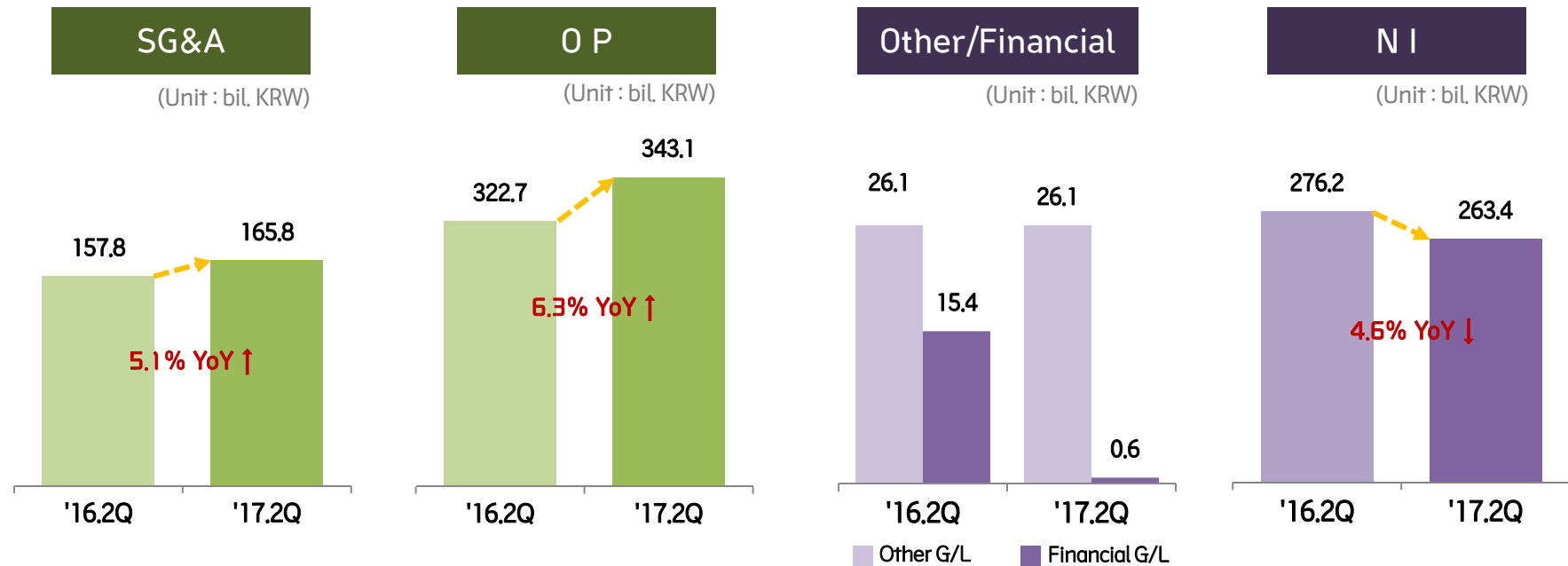


- Bring up leading brand for Indonesia's sales growth
 - Develop a capsule brand with a variety of flavors for 'Kretek' cigarette
 - Super-slim(CHANGE), Slim(BERRY POP, SHUFFLE POP)

2-5. Profitability Analysis



FY17 2Q OP rose by 6.3% yoy and NI dropped 4.6% yoy



- SG&A Ratio : `16. 2Q 21.2% → `17. 2Q 20.7% (0.5%p ↓)
- OP Margin : `16. 2Q 43.3% → `17. 2Q 42.8% (0.5%p ↓)

- NI Margin : `16. 2Q 37.1% → `17. 2Q 32.9% (4.2%p ↓)
- Net financial loss increase
(Available for sale impairment losses 14.6 bil. won ↑)



Chapter 3. KGC Separate Results

3-1. FY17 2Q KGC Results Summary



2Q Sales and OP increased 0.3% and 10.1% yoy respectively

- 2Q Sales recorded 254.2 bil. won, up by 0.3% yoy (Domestic 0.2% ↓, Export 9.7% ↑)
- 2Q OP recorded 38.6 bil. won, up by 10.1% yoy

□ 2Q Sales & Profit

(Unit : bil. KRW)

	2Q FY17	2Q FY16	Change
Net Sales	254.2	253.5	0.3%
- Domestic	240.6	241.1	△0.2%
- Export	13.6	12.4	9.7%
Operating Profit	38.6	35.1	10.1%
Net Income	37.1	26.9	37.9%

□ 1H Sales & Profit

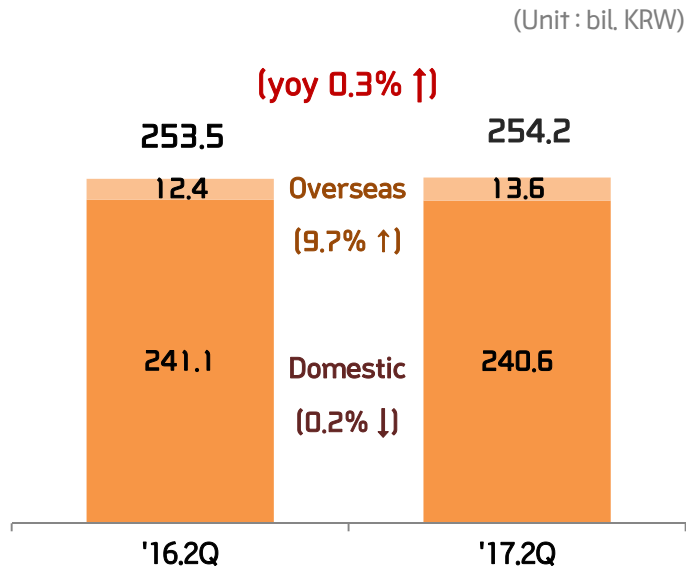
(Unit : bil. KRW)

	1H FY17	1H FY16	Change
Net Sales	596.0	549.1	8.5%
- Domestic	561.1	525.3	6.8%
- Export	34.9	23.8	46.6%
Operating Profit	117.8	104.0	13.3%
Net Income	95.4	78.6	21.4%

3-2. Sales Analysis

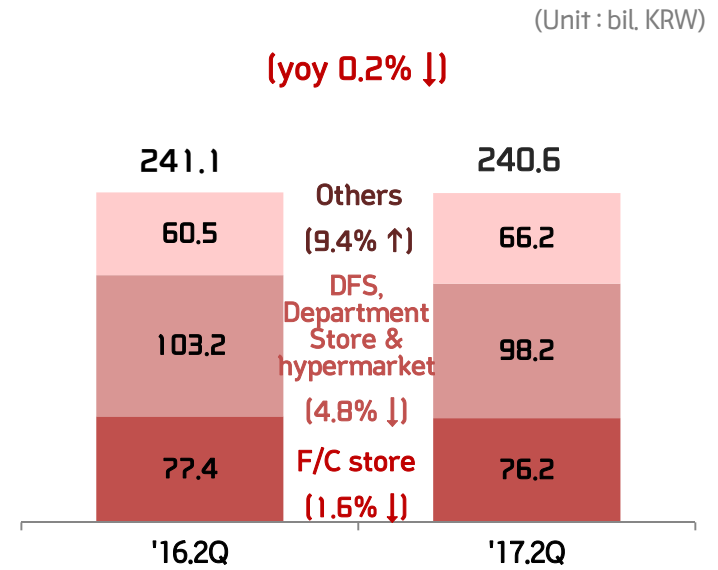
2Q Domestic sales decreased and Overseas sales grew

□ Sales by Regions



- Domestic sales in 2Q decreased by 0.2% yoy
- Overseas sales in 2Q rose by 9.7% yoy

□ Domestic Sales by Channels

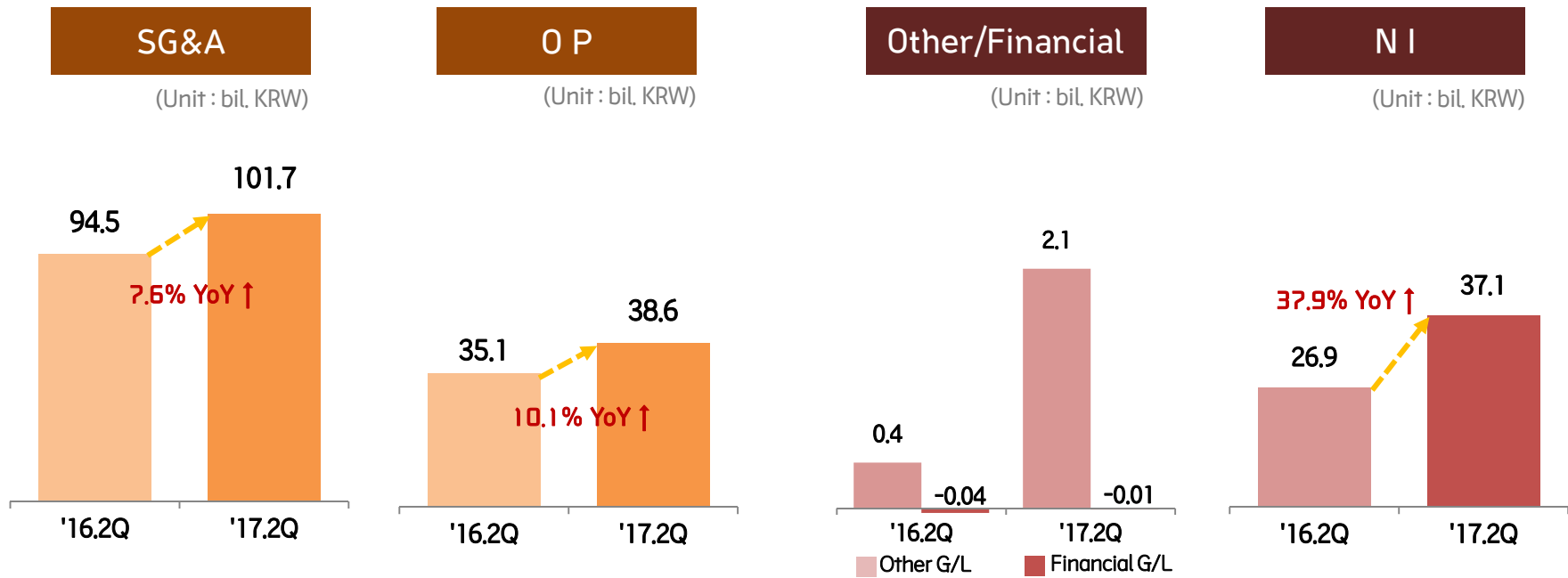


- Domestic channels showed decrease
 - F/C store decreased by 1.6% yoy
 - DFS, Department Store & etc decreased 4.8% yoy
 - Others increased by 9.4% yoy

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

3-3. Profitability Analysis

2Q OP grew up 10.1% yoy



- SG&A Ratio : `16. 2Q 37.3% → `17. 2Q 40.0% (2.7%p ↑)
- OP Margin : `16. 2Q 13.8% → `17. 2Q 15.2% (1.4%p ↑)

- NI Margin : `16. 2Q 10.6% → `17. 2Q 14.6% (4.0%p ↑)
- Some corporate tax refund, etc



Chapter 4. Appendix

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

4- 1. Consolidated Financial Statement



□ Summarized Statement of Financial Position

(bil. KRW)	FY15	FY16	`17. 2Q
Non-Current Assets	3,102.5	3,191.9	3,291.9
-Property Plant Equipment	1,789.8	1,601.9	1,646.9
-Investment Properties	164.5	341.6	337.5
-Equity Accounted Investments	51.5	56.5	60.0
-Available-For-Sale Financial Assets	364.7	385.1	424.5
Current Assets	5,564.2	6,594.3	5,845.8
-Inventories	2,119.1	2,265.4	2,036.8
-Cash and Cash Equivalents	546.2	850.8	998.8
-Other Financial Assets	1,136.9	1,657.3	952.4
-Account Receivables and Others	1,217.9	1,283.6	1,298.3
-Prepaid Cig. Taxes and Others	447.8	439.4	403.4
Assets Held For Sale	6.7	26.3	26.3
Total Assets	8,673.4	9,812.6	9,164.0
Non-Current Liabilities	526.2	540.9	576.2
Current Liabilities	1,871.7	2,153.4	1,435.1
-Account Payables and Others	606.4	622.2	588.1
-Short Term Borrowings	206.4	136.6	58.5
Total Liabilities	2,397.9	2,694.3	2,011.2
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	4,932.5
Retained Earnings	1,402.0	1,612.0	1,051.7
Total Equities	6,275.5	7,118.3	7,152.8
Total Liabilities and Equities	8,673.4	9,812.6	9,164.0

□ Summarized Statement of Comprehensive Income

(bil. KRW)	FY15	FY16	`16. 2Q	`17. 2Q
Net Sales	4,169.8	4,503.3	1,088.1	1,161.7
COGS	1,630.6	1,796.7	439.8	461.8
Gross Profit	2,539.2	2,706.6	648.3	699.9
SG&A	1,173.3	1,236.5	302.5	313.4
Operating Profit	1,365.9	1,470.1	345.9	386.5
Other Income & Expense	-41.1	-63.1	23.2	5.3
Financial Gain(Loss)	74.8	52.6	13.2	-1.2
Share of Profit(Loss) of Associates	15.1	2.1	0.8	3.6
Pre-tax Income	1,414.4	1,587.8	383.1	394.2
Income Tax	382.2	361.8	97.5	119.5
Net Income	1,032.2	1,226.0	285.6	274.7
Other Comprehensive Income	-30.8	0.5	-7.0	24.9
Comprehensive Income	1,001.4	1,226.6	278.6	299.6

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



□ Summarized Statement of Financial Position

(bil. KRW)	FY15	FY16	`17. 2Q
Non-Current Assets	3,469.0	3,635.9	3,849.3
-Property Plant Equipment	1,309.6	1,117.3	1,165.1
-Investment Properties	136.8	335.2	330.5
-Investment in Subsidiaries	1,124.4	1,154.9	1,272.9
-Available-For-Sale Financial Assets	340.1	364.3	403.6
Current Assets	3,978.7	4,833.0	4,126.4
-Inventories	889.0	914.7	807.8
-Cash and Cash Equivalents	444.4	688.7	840.5
-Other Financial Assets	1,092.0	1,620.0	920.0
-Account Receivables and Others	1,074.9	1,140.6	1,108.6
-Prepaid Cig., Taxes and Others	447.8	439.4	403.4
Assets Held for Sale	1.5	0	0
Total Assets	7,449.2	8,468.8	7,975.7
Non-Current Liabilities	123.0	127.6	148.6
Current Liabilities	1,429.8	1,762.3	1,158.6
-Account Payables and Others	433.8	436.3	419.1
-Short Term Borrowings	5.0	3.9	2.7
Total Liabilities	1,552.7	1,889.9	1,307.2
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	5,008.2
Retained Earnings	995.9	1,068.5	516.2
Total Equities	5,896.5	6,578.9	6,668.5
Total Liabilities and Equities	7,449.2	8,468.8	7,975.7

□ Summarized Statement of Comprehensive Income

(bil. KRW)	FY15	FY16	`16. 2Q	`17. 2Q
Net Sales	2,821.7	2,968.2	745.5	801.3
-Cigarettes	2,607.7	2,670.3	661.5	693.4
-Real Estate	142.8	184.7	54.3	65.5
-Others	71.2	113.1	29.7	42.3
COGS	946.6	1,048.1	265.0	292.5
-Cigarettes	813.6	861.3	210.5	219.2
-Real Estate	84.9	118.4	35.8	44.6
-Others	48.1	68.4	18.7	28.6
Gross Profit	1,875.0	1,920.1	480.5	508.8
SG&A	637.7	615.0	157.8	165.7
Operating Profit	1,237.3	1,305.1	322.7	343.1
Other Income & Expense	1.1	34.7	26.1	26.1
-Other Income	104.5	126.6	33.8	49.0
FX related Gain	67.0	64.6	16.6	39.7
Others	37.5	62.0	17.2	9.3
-Other Expense	103.4	91.8	7.7	22.9
FX related Loss	12.9	29.7	5.2	15.8
Others	90.4	62.1	2.5	7.1
Financial Gain(Loss)	81.0	60.6	15.4	0.6
Pre-tax Income	1,319.4	1,400.4	364.3	369.8
Income Tax	331.5	313.0	88.1	106.4
Net Income	987.9	1,087.3	276.2	263.4
Comprehensive Income	978.2	1,082.7	267.3	286.4

4-3. Separate Financial Statement (KGC)



□ Summarized Statement of Financial Position

(bil. KRW)	FY15	FY16	`17. 2Q
Non-Current Assets	521.8	548.3	555.5
-Tangible Assets	291.1	286.5	287.7
-Intangible Assets	9.2	11.2	11.4
-Others	221.5	250.6	256.4
Current Assets	1,240.1	1,319.6	1,253.1
-Inventories	1,059.4	1,146.3	1,009.2
-Cash and Cash Equivalents	3.4	9.5	25.8
-Others	177.2	163.8	218.1
Total Assets	1,761.9	1,867.9	1,808.6
Non-Current Liabilities	77.1	82.2	93.5
Current Liabilities	222.5	228.7	128.6
-Short Term Borrowings	141.0	112.2	36.5
-Others	81.4	116.5	92.1
Total Liabilities	299.6	311.0	222.1
Capital Stock	69.1	70.1	70.1
Capital Surplus	93.9	111.6	111.6
Reserves	1,233.1	1,296.6	1,309.7
Retained Earnings	66.3	78.6	95.2
Other Comprehensive Income	0	0	0
Total Equities	1,462.4	1,556.9	1,586.5
Total Liabilities and Equities	1,761.9	1,867.9	1,808.6

□ Summarized Statement of Comprehensive Income

(bil. KRW)	FY15	FY16	`16. 2Q	`17. 2Q
Sales	917.8	1,107.6	253.5	254.2
- Red Ginseng Roots	104.3	76.3	18.3	18.1
- Red Ginseng Products	811.8	1,028.6	233.0	231.7
(Ratio)	(88.5)	(92.9)	(91.9)	(91.1)
- Others	1.7	2.7	2.3	4.4
COGS	438.6	509.3	123.9	113.9
Gross Profit	479.2	598.3	129.6	140.3
SG&A	345.8	423.4	94.5	101.7
Operating Profit	133.4	174.9	35.1	38.6
Other Income & Expense	-26.8	-42.0	0.4	2.1
- Other Income	7.4	5.7	1.0	1.9
- Other Expense	34.2	47.7	0.6	-0.2
Financial Gain(Loss)	-0.9	-1.0	-0.04	-0.01
Pre-tax Income	105.7	131.9	35.4	40.7
- Income Tax	36.4	46.7	8.5	3.6
Net Income	69.3	85.2	26.9	37.1
Comprehensive Income	67.9	75.9	24.2	37.1



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