KT\&G* Investor Relations 2018

## FY201820

## Earnings Presentation





# Chapter 1. Consolidated Results 

\author{

- Sales/Profit
}


## I. FY18 2Q Consolidated Results Summary

## FY18 2 Q 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 I2.0\% 1 , KGC $14.8 \% \uparrow$ yoy
- 2Q OP decreased by $16.4 \% / \mathrm{NI}$ dropped by $3.5 \%$ yoy each
$\square$ 2Q Consolidated Sales/Profit

|  | 2Q FY18 | 2Q FY17 | Change |
| :--- | ---: | ---: | ---: |
| Net Sales | $1,119.7$ | $1,161.7$ | $\Delta 3.6 \%$ |
| - KT\&G | 705.5 | 801.3 | $\Delta 12.0 \%$ |
| - KGC | 291.7 | 254.2 | $14.8 \%$ |
| - Others and <br> Adjustment | 122.5 | 106.2 | $15.3 \%$ |
| Operating Profit | 323.0 | 386.3 | $\Delta 16.4 \%$ |
| Net Income | 265.1 | 274.6 | $\Delta 3.5 \%$ |

[^0]$\square 1 \mathrm{H}$ Consolidated Sales/Profit
(Unit : bil. KRW)

|  | 1H FY18 | 1H FY17 | Change |
| :--- | ---: | ---: | ---: |
| Net Sales | $2,187.3$ | $2,340.4$ | $\Delta 6.5 \%$ |
| - KT\&G | $1,277.8$ | $1,527.2$ | $\Delta 16.3 \%$ |
| - KGC | 685.1 | 596.0 | $14.9 \%$ |
| - Others and <br> Adjustment | 224.4 | 217.2 | $3.3 \%$ |
| Operating Profit | 634.3 | 781.7 | $\Delta 18.9 \%$ |
| Net Income | 514.5 | 509.6 | $1.0 \%$ |



## 2-1. FY18 2Q KT\&G Results Summary

## FY18 2Q Sales decreased by $12.0 \%$ and OP decreased by $19.6 \%$ yoy each

- 20 Sales recorded 305.5 bil. won (down by $12.0 \%$ yoy)
- Domestic Cigarette 2.6\% $\uparrow$, Export Cigarette 19.5\% $\downarrow$, Others(Real Estate etc.) 58.5\% $\downarrow$
- 2Q OP dropped $19.6 \%$ yoy to 275.? bil. won and NI dropped $4.1 \%$ yoy to 252.6 bil. won
$\square$ 2Q Sales \& Profit

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

$\square 1$ H Sales \& Profit
(Unit : bil. KRW)

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

## 2-2. Domestic Cigarette

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

- 20 Total Market Volume: decreased from 18.9 bil. sticks to 16.8 bil. sticks
- 20 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
$\square$ Total Market Volume
(Unit : bil. sticks)

$\square K T \& G$ Volume
(Unit : bil. sticks)

$\square K T \& G M / S$ 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\%) yoyExport Cigarette Volume
(Unit : bil. sticks)
$\square$ Export Cigarette Sales
(Unit : bil. sticks)



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

## FY1B 2Q Export (Overseas subsidiaries included) volume and sales rose $12.0 \%$ and dropped $8.6 \%$ yoy respectively

$\square$ 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 volume : 2 Q rose 1.6 bil. sticks
- Export rose 11.2\% yoy
- Overseas subsidiaries rose $15.4 \%$ yoyOverseas Cigarette Sales
(Unit : bil. sticks)

- 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


(Unit : bil. KRW)


(Unit : bil. KRW)


(Unit : bil. KRW)


- NI Margin : $17.2 Q 32.9 \% \rightarrow ` 18.2 Q 35.8 \%(2.9 \% p \uparrow)$
- Other income and expenses : Net FX gain increased $32.4 \uparrow$ bil. won
- Financial income (cost) : Sales of FVPL $19.1 \uparrow$ bil. won



## 3-1. FY18 2Q KGC Results Summary

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

- 20 Sales recorded 291.2 bil. won, up by 14.7\% yoy (Domestic $11.1 \%$, Export $78.5 \%$ 个)
- 2Q OP recorded 40.6 bil. won, up by 5.1 \% yoy

| $\square$ 2Q Sales \& Profit | $\square 1 \mathrm{H}$ Sales \& Profit |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | (Unit: bil. KRW) |  |  |  | (Unit : bil. KRW) |  |  |
|  | 2Q FY18 | 2Q FY17 | Change |  | 1 FFY 18 | $1 \mathrm{HFY}^{\prime} 7$ | Change |
| Net Sales | 291.7 | 254.2 | 14.7\% | Net Sales | 685.1 | 596.0 | 14.9\% |
| - Domestic | 267.4 | 240.6 | 11.1\% | - Domestic | 629.3 | 561.1 | 12.2\% |
| - Export | 24.3 | 13.6 | 78.5\% | - Export | 55.8 | 34.9 | 59.9\% |
| Operating Profit | 40.6 | 38.6 | 5.1\% | Operating Profit | 132.5 | 117.8 | 12.5\% |
| Net Income | 29.8 | 37.1 | $\Delta 19.7 \%$ | Net Income | 98.6 | 95.4 | 3.4\% |

## 3-2. Sales Analysis

## FYIB 2 Q Domestic and Overseas sales increase. <br> Domestic Department Stores/DFS/Home shopping channels showed increased

$\square$ Sales by Regions
(Unit : bil. KRW)


- Domestic sales in 2Q increased by 11.1\% yoy
- Overseas sales in 2Q increase by 78.5\% yoy
$\square$ Domestic Sales by Channels
(Unit : bil. KRW)

- 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


(Unit : bil. KRW)


- SG\&A Ratio: `\(17.2 \mathrm{Q} 40.0 \% \rightarrow\)` $18.2 \mathrm{Q} 42.4 \%$ (2.4\%p $\uparrow$ )
- OP Margin:`17. 2Q 15.2\% \(\rightarrow\) `18. 2Q 13.9\% (1.3\%p $\downarrow$ )

(Unit : bil. KRW)



- NI Margin: ${ }^{`} 17.2 \mathrm{Q} 14.6 \% \rightarrow ` 18.2 \mathrm{Q} 10.2 \%(4.4 \% \mathrm{p} \downarrow)$ - Increase in corporate tax ( 9.2 bil KRW)


## Chapter 4. Appendix

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


## 4-I. Consolidated Statements of Financial Position

## $\square$ Consolidated Statements of Financial Position

| (in billions of KRW) | FY16 | FY17 | '18.2Q |
| :---: | :---: | :---: | :---: |
| Total Current Assets | 6,594 | 6,585 | 6,509 |
| - 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 | - | - |  |
| Total Non-Current Assets | 3,197 | 3,391 | 3,613 |
| - 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 |
| Assets Held For Sale | 21 | - |  |
| Total Assets | 9,812 | 9,976 | 10,122 |

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

KTEG

## Separate Statements of Financial Position

| (in billions of KRW) | FY16 | FY17 | '18.2Q |
| :---: | :---: | :---: | :---: |
| Total Current Assets | 4,833 | 4,739 | 4,617 |
| - 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 |
| Total Non-Current Assets | 3,636 | 3,936 | 4,174 |
| - 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 |
| Total Assets | 8,469 | 8,675 | 8,791 |


| (in billions of KRW) | FY16 | FY17 | '18.2Q |
| :---: | :---: | :---: | :---: |
| Total Current Liabilities | 1,762 | 1,451 | 1,656 |
| - 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 |
| Total Non-Current Liabilities | 127 | 80 | 71 |
| - 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 |
| Total Liabilities | 1,889 | 1,531 | 1,727 |
| 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 |
| Total Equity | 6,580 | 7,144 | 7,065 |
| Total Equity and Liabilities | 8,469 | 8,675 | 8,791 |

## 4-3. Statement of Comprehensive Income

## KTEG

$\square$ Consolidated Statement of Comprehensive Income

| (in billions of KRW) | FY16 | FY17 | ${fa7e768d1-b817-4e62-889b-dddc86b96412} 18.2 \mathrm{Q}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| Net Sales | 4,503 | 4,667 | 1,162 | 1,120 |
| COGS | 1,797 | 1,909 | 462 | 463 |
| Gross Profit | 2,707 | 2,758 | 700 | 657 |
| SG\&A | 1,237 | 1,332 | 314 | 334 |
| Operating Profit | 1,470 | 1,426 | 386 | 323 |
| 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 |
| Pre-tax Income | 1,587 | 1,346 | 394 | 378 |
| Income Tax | 362 | 181 | 120 | 113 |
| Net Income | 1,226 | 1,164 | 275 | 265 |
| Other Comprehensive Income | 1 | 47 | 25 | (5) |
| Comprehensive Income | 1,226 | 1,212 | 300 | 260 |

$\square($ (KT\&G) Separate Statement of Comprehensive Income

| (in billions of KRW) | FY16 | FY17 | ${f9c452483-0fff-4ac7-b56e-3266eee871a4} 18.2 \mathrm{Q}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| Sales | 2,968 | 3,000 | 801 | 706 |
| - Cigarettes | 2,670 | 2,672 | 693 | 661 |
| - Real estate | 185 | 190 | 66 | 24 |
| - Others | 113 | 138 | 42 | 21 |
| Cost of Sales | 1,048 | 1,099 | 292 | 271 |
| - Cigarettes | 861 | 884 | 219 | 246 |
| - Real estate | 118 | 123 | 45 | 8 |
| - Others | 68 | 92 | 29 | 17 |
| Gross Profit | 1,920 | 1,902 | 509 | 435 |
| SG\&A | 615 | 657 | 166 | 159 |
| Operating Profit | 1,305 | 1,245 | 343 | 276 |
| 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 |
| Profit Before Income Tax | 1,400 | 1,239 | 370 | 345 |
| Income tax expense | 313 | 264 | 106 | 92 |
| Net Income | 1,087 | 975 | 263 | 253 |
| Total Comprehensive Income | 1,083 | 1,019 | 286 | 245 |

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

## KTEG

$\square$ Summarized Statement of Financial Position

| (bil. KRW) | FY16 | FY17 | '18.2Q |
| :---: | :---: | :---: | :---: |
| Non-Current Assets | 548.3 | 520.3 | 541.6 |
| -Tangible Assets | 286.5 | 296.1 | 291.4 |
| -Intangible Assets | 11.2 | 13.1 | 13.2 |
| -Others | 250.6 | 211.1 | 237.0 |
| Current Assets | 1,319.6 | 1,435.3 | 1,354.0 |
| -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 |
| Total Assets | 1,867.9 | 1,955.6 | 1,895.6 |
| 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 |
| Total Liabilities | 311.0 | 325.0 | 224.1 |
| 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 |
| Total Equities | 1,556.9 | 1,630.6 | 1,671.5 |
| Total Liabilities and Equities | 1,867.9 | 1,955.6 | 1,895.6 |

$\square$ Summarized Statement of Comprehensive Income

| (bil. KRW) | FY16 | FY17 | $` 17.2 \mathrm{Q}$ | '18.2Q |
| :---: | :---: | :---: | :---: | :---: |
| Sales | 1,107,6 | 1,200.0 | 254.2 | 291.7 |
| - 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 |
| Cost of Sales | 509.3 | 541.7 | 113.9 | 127.5 |
| Gross Profit | 598.3 | 658.3 | 140.3 | 164.2 |
| SG\&A | 423.4 | 472.9 | 101.7 | 123.7 |
| Operating Profit | 174.9 | 185.4 | 38.6 | 40.6 |
| 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 |
| Pre-tax Income | 131.9 | 162.2 | 40.7 | 42.5 |
| - Income Tax | 46.7 | 36.8 | 3.6 | 12.7 |
| Net Income | 85.2 | 125.4 | 37.1 | 29.8 |
| Comprehensive Income | 75.9 | 139.4 | 37.1 | 30.3 |


[^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.

