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# KT&G FY2023 Fourth Quarter & Full Year Results

2024. 2. 7 | Investor Relations

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# Disclaimer

This presentation is prepared and provided for the convenience of investors and shareholders prior to the completion of the external audit. Therefore certain contents are subject to change during the auditing process.

The financial information in this presentation is based on K-IFRS standards.

This presentation and related discussions contain certain forward looking statements related to expected future business, financial performance and/or the industry forecasts which are uncertain.

Therefore, the recipients of this presentation shall be aware of that the forward looking statements set forth herein may not correspond to the actual results.

# KEY TAKEAWAYS

## **3 Core Businesses grew by 1.1 % in revenue and 6.4% in operating profit**

3 core businesses now account for 56.4% of total revenue, with stronger-than-revenue profit growth supported by efforts to improve profitability

## **Global Cigarettes grew by 7.7% in volume and 12.8% in revenue**

Record-high revenue made possible by volume growth from stronger performance in direct business and new markets along with pricing in key regions

## **Global NGP grew by 43.0% in stick volume and 44.9% in operating profit**

Continued robust growth in sticks sales within launched markets contributing to further profit enhancement

## **Global HFF revenue grew by 18.4% with share of global operations rising to 24.2%**

Revenue grew by 47.6% in China, a key priority target market, driving the growth in total global HFF revenues

## **2024 Outlook : growth of more than 10% in revenue and 6% in operating profit**

While cost headwinds are expected to persist for the time being, 3 core businesses to drive top and bottom line growth

1. 2023 Performance Highlights

# Consolidated Results (4Q)

## Revenue (KRW bn)

**KRW 1.45 trn**

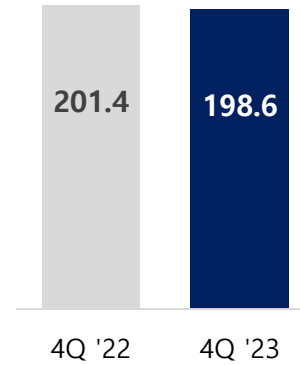
YoY +3.2%



## Operating Profit (KRW bn)

**KRW 198.6 bn**

YoY -1.4%



## Net Income

**KRW 117.1 bn**

turnaround

## EPS

**KRW 1,105**

turnaround

## EBITDA / EBITDA Margin

**KRW 260.3 bn / 17.9%**

YoY -0.6%

YoY -0.7%p

1. 2023 Performance Highlights

# Consolidated Results (FY)

## Revenue (KRW bn)

**KRW 5.87 trn**

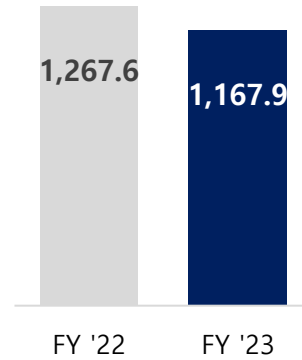
YoY +0.4%



## Operating Profit (KRW bn)

**KRW 1.17 trn**

YoY -7.9%



## Net Income

**KRW 926.6 bn**

YoY -7.8%

## EPS

**KRW 7,866**

YoY -7.3%

## EBITDA / EBITDA Margin

**KRW 1,409 bn / 24.0%**

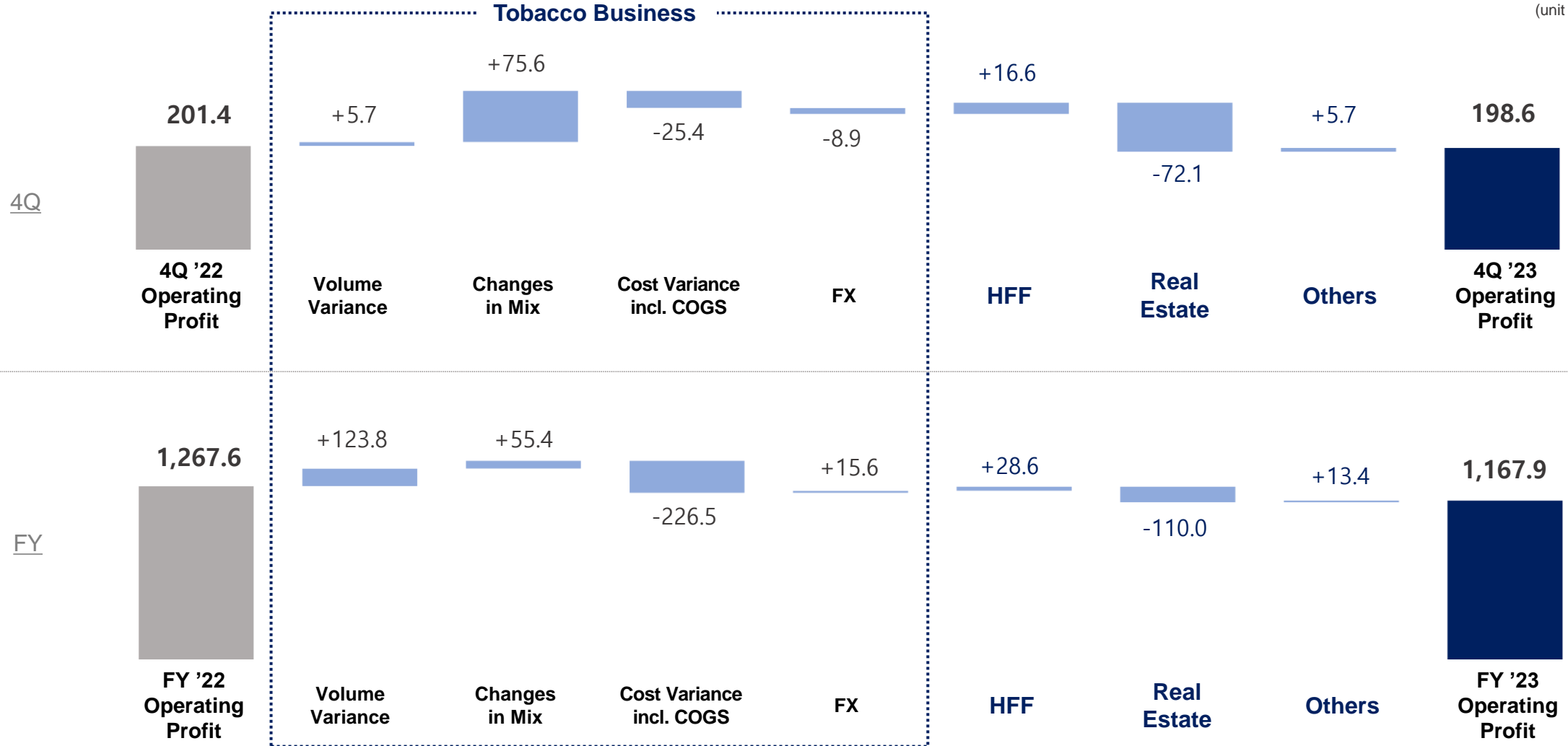
YoY -5.6%

YoY -1.5%p

1. 2023 Performance Highlights

# Movement in Earnings

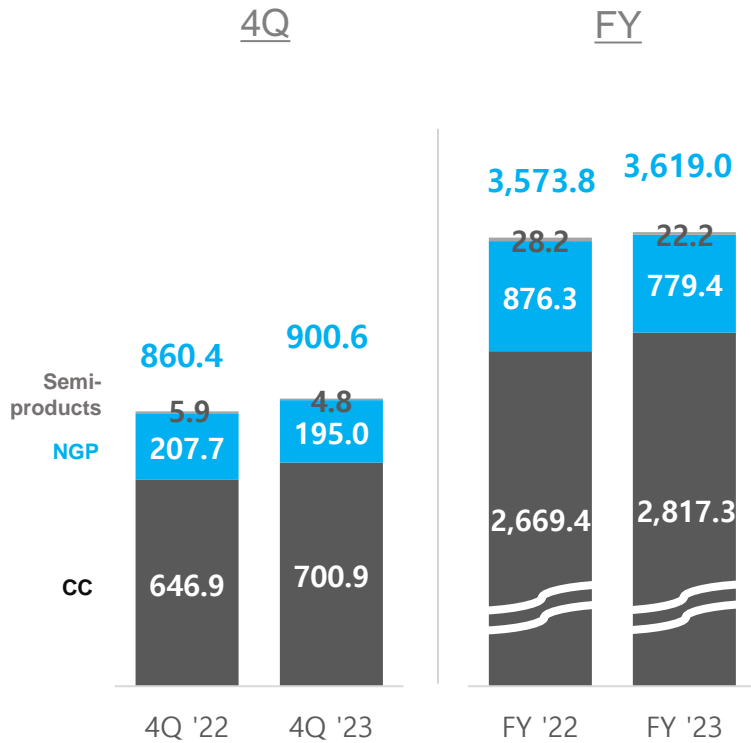
(unit : KRW bn)



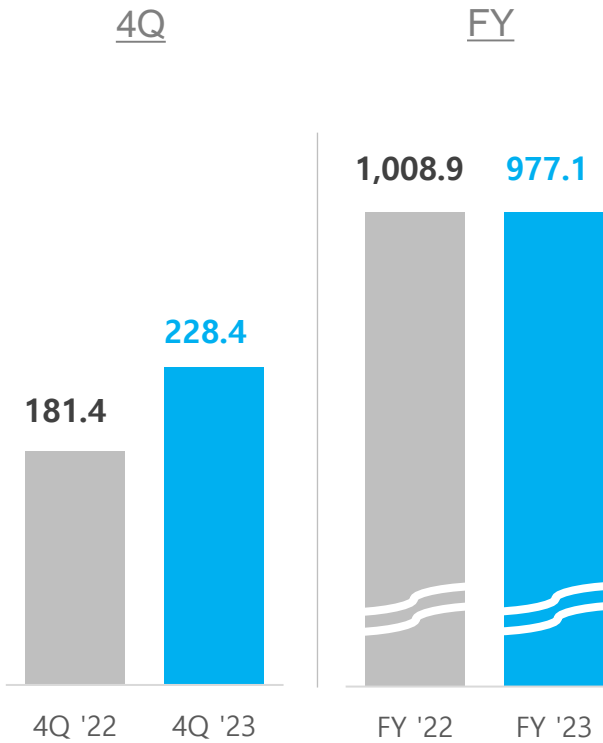
## 2. Performance by Business

# Tobacco

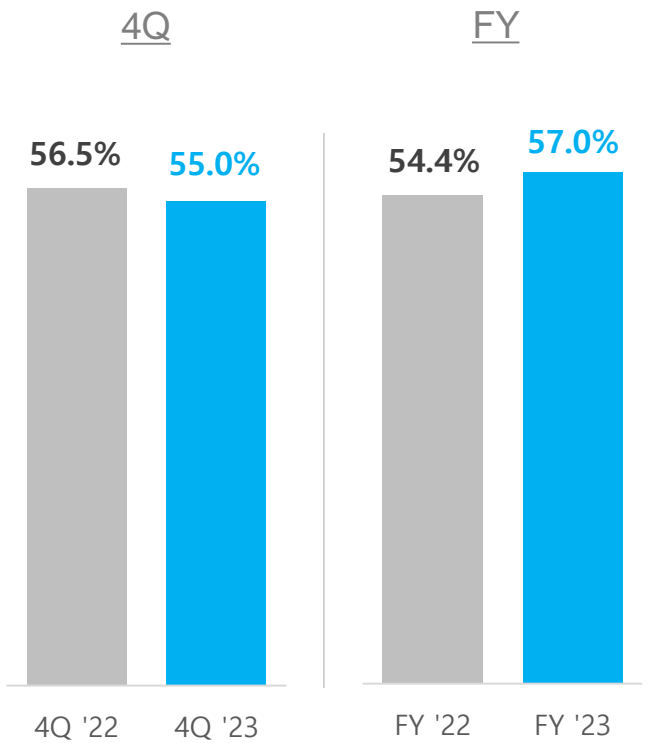
### Revenue (KRW bn)



### Operating Profit (KRW bn)



### Share of Global Sales (volume)

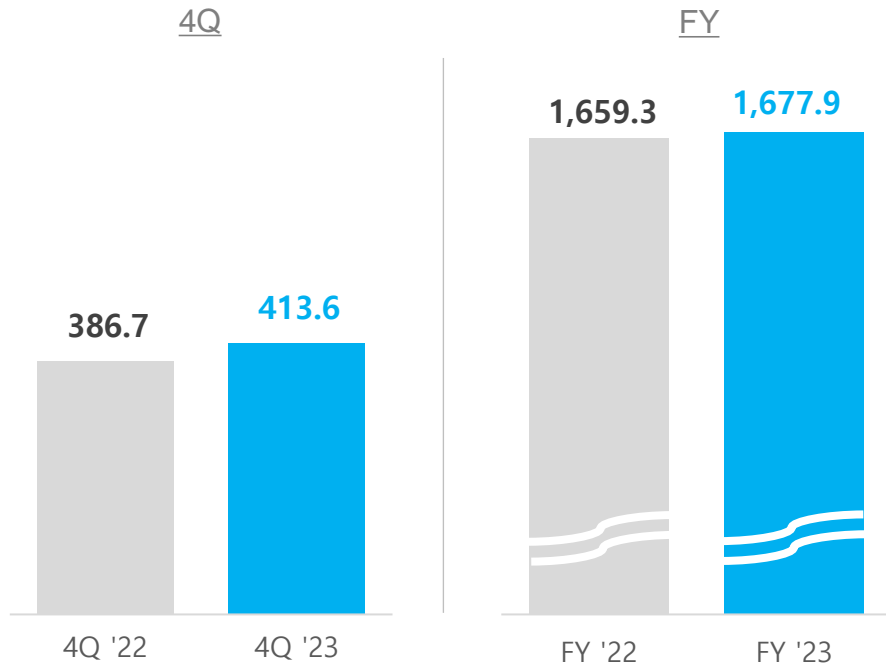


## 2. Performance by Business

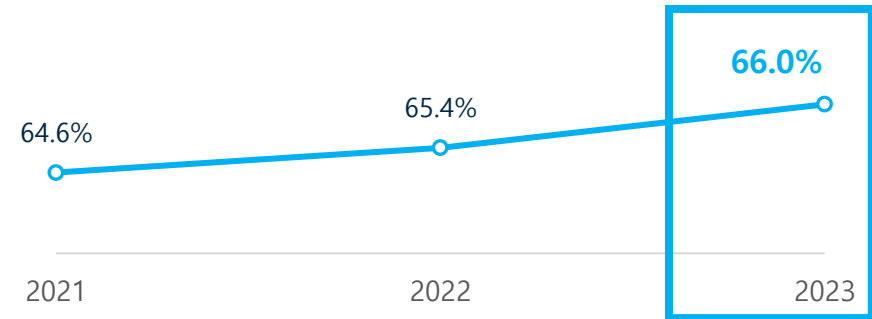
# Tobacco\_Domestic CC

- Despite **lower market volume** due to conversion to NGP, **SoM continues to grow** supported by new product launches catering to consumer needs
- Revenue grew** harnessed by **increased ASP** thanks to **growth in high-margin DFS sales**

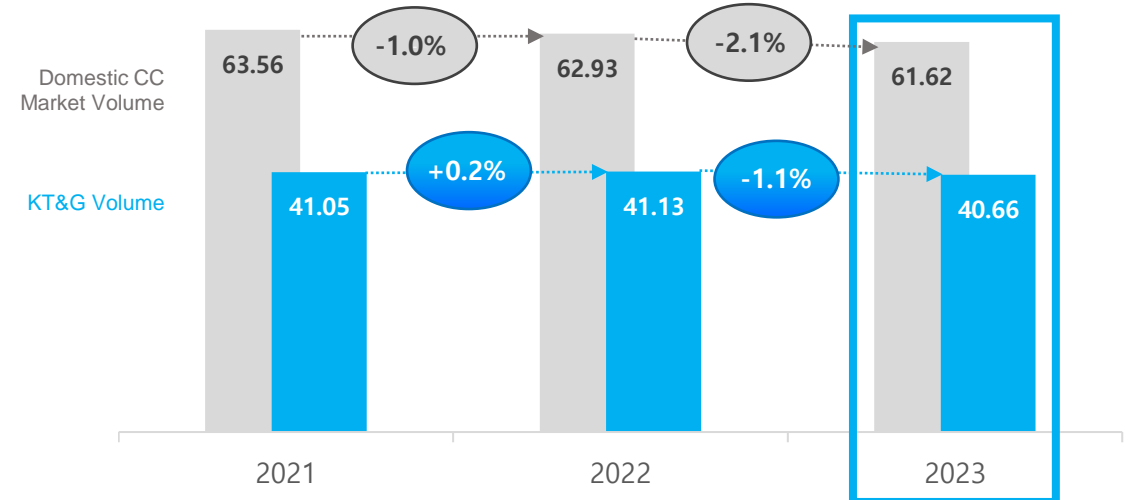
Revenue (KRW bn)



KT&G SoM<sup>1)</sup>



Total Market Volume / KT&G Volume<sup>1)</sup> (bn sticks)



1) Source : Korea Tobacco Association data based on shipment volumes to general store, centralized logistics, specialized channels, etc.

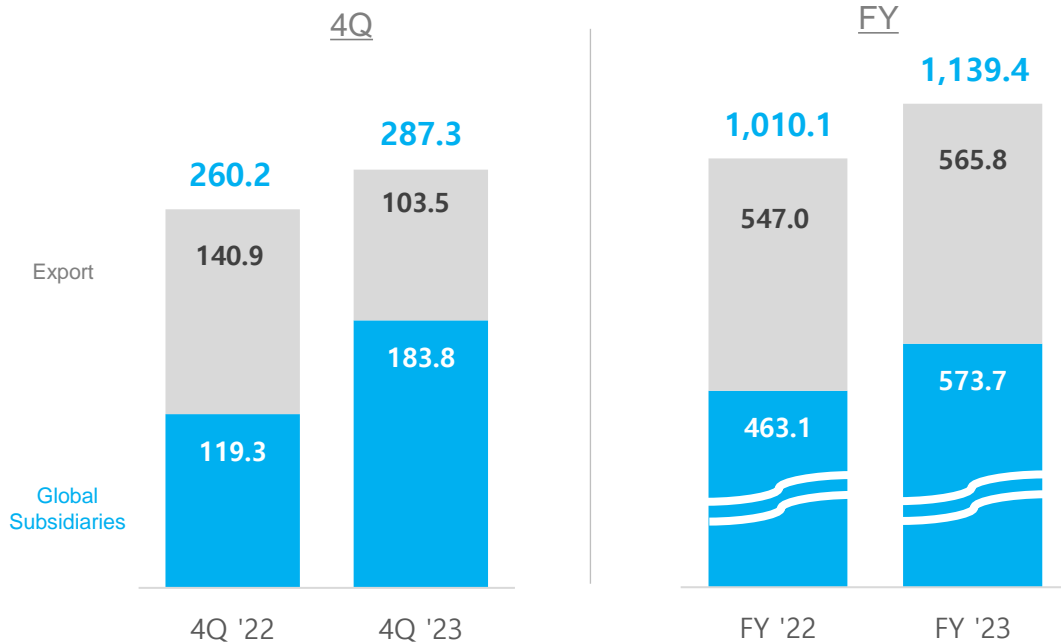


## 2. Performance by Business

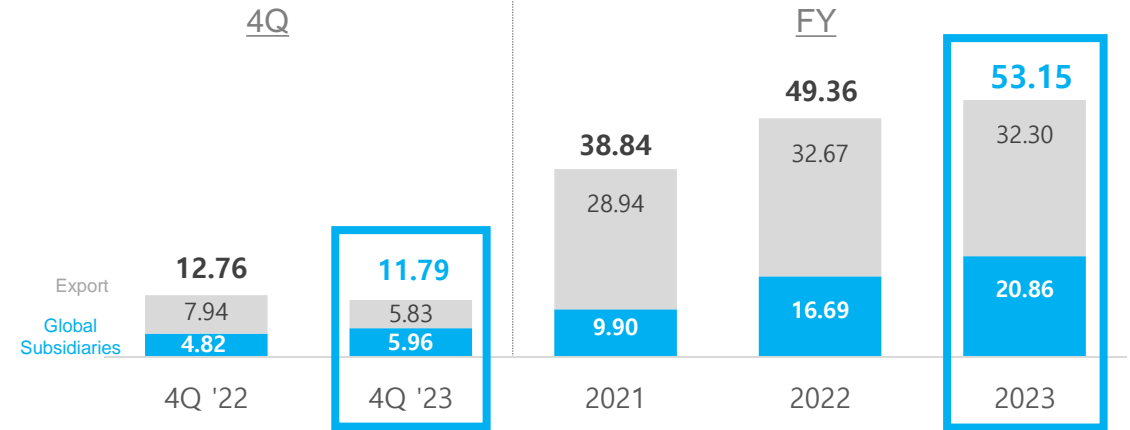
# Tobacco\_Global CC

- Annual volumes grew versus previous year (+7.7%) through higher revenues in subsidiaries with direct business including Indonesia and nurturing new markets (e.g. Africa and Latin America)
- Record-high revenues driven by stronger volumes and pricing in key regions

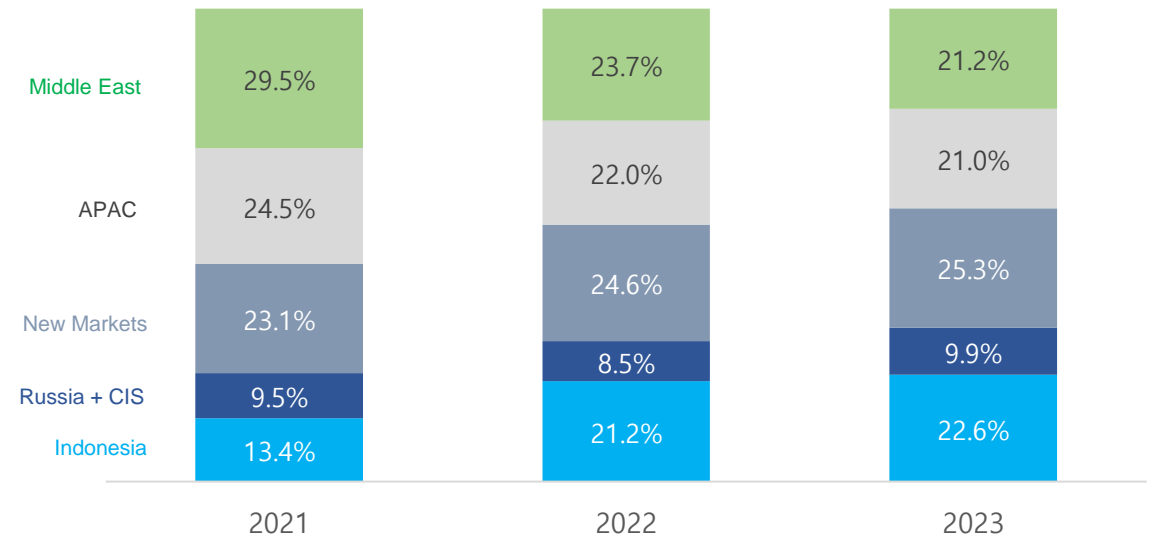
### Revenue (KRW bn)



### Volume (bn sticks)



### Volume Share per Region (%)

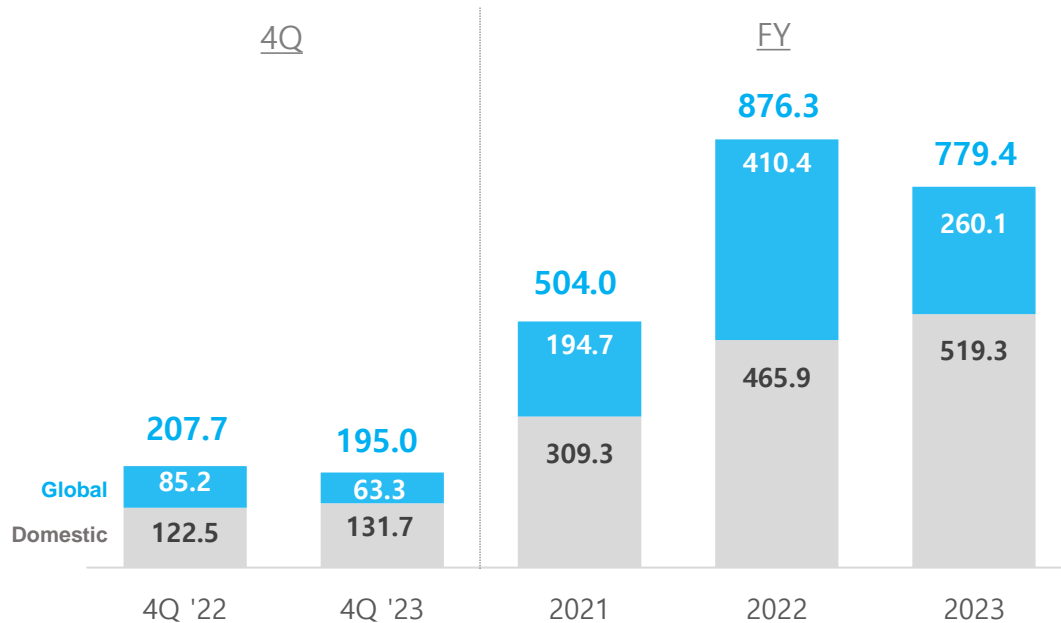


## 2. Performance by Business

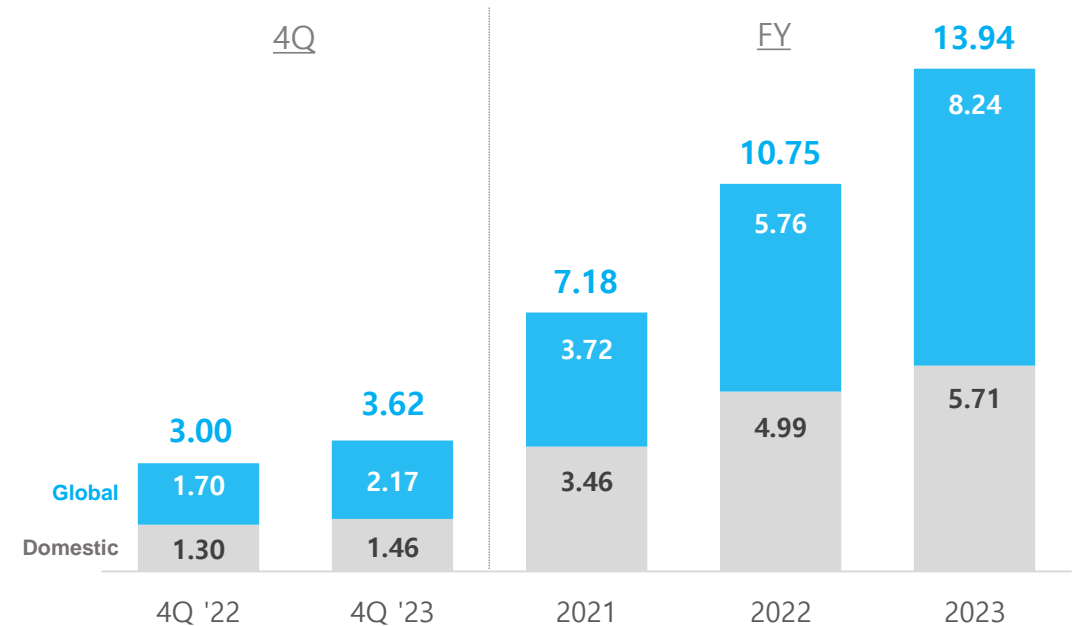
# Tobacco\_NGP (Next Generation Products)

- Sustained revenue growth in Korea supported by **a growing market and new product launches** despite intensified competition
- Weaker revenue versus previous year due to **unfavorable comparison from advanced device sales amid global supply disruption** despite **robust growth in stick volume**
- Stick volumes, representing business growth potential and profitability, continued to grow both domestically and internationally

Revenue (KRW bn)



Stick Volume (bn sticks)

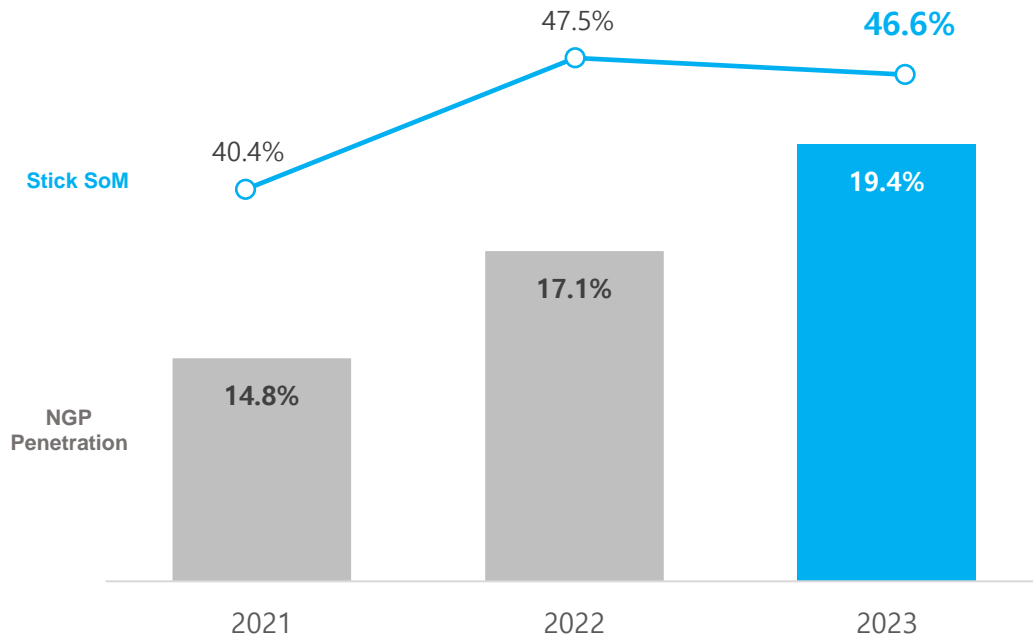


## 2. Performance by Business

# Tobacco\_NGP (Next Generation Products)

### Domestic Operation

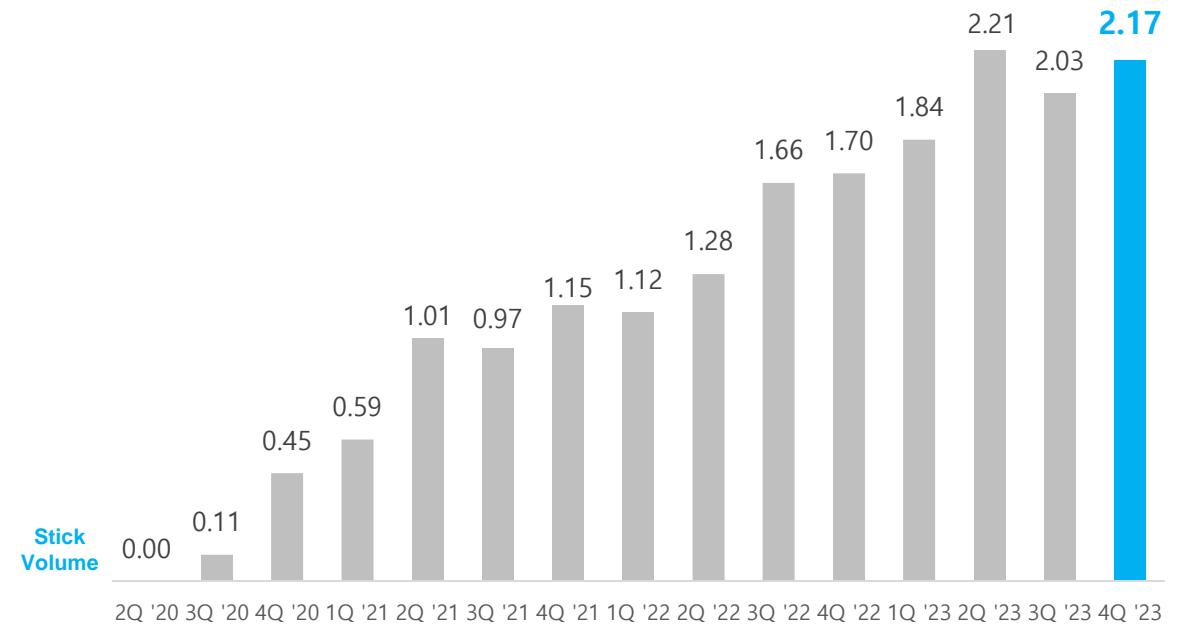
- Market continues to grow as more consumers convert to NGP and variety of new products are introduced (device & sticks)
- Maintained market-leading position with stronger competitiveness from nationwide launch of lil Hybrid 3.0 despite aggressive promotions by competitors



1) CVS offtake data

### Global Operation (bn sticks)

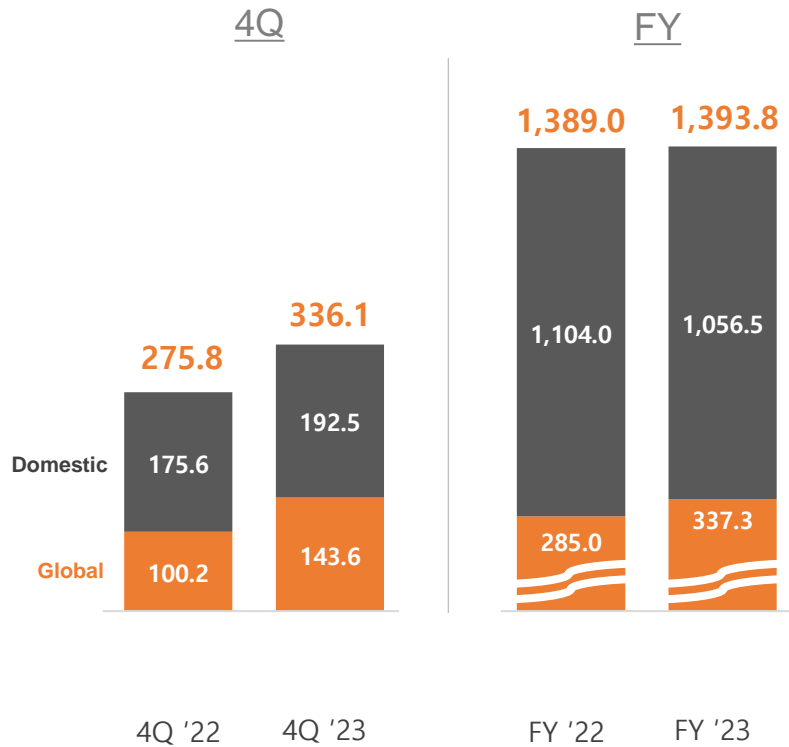
- Volume growth continues to outpace global NGP market with further penetration and higher sales in launched markets



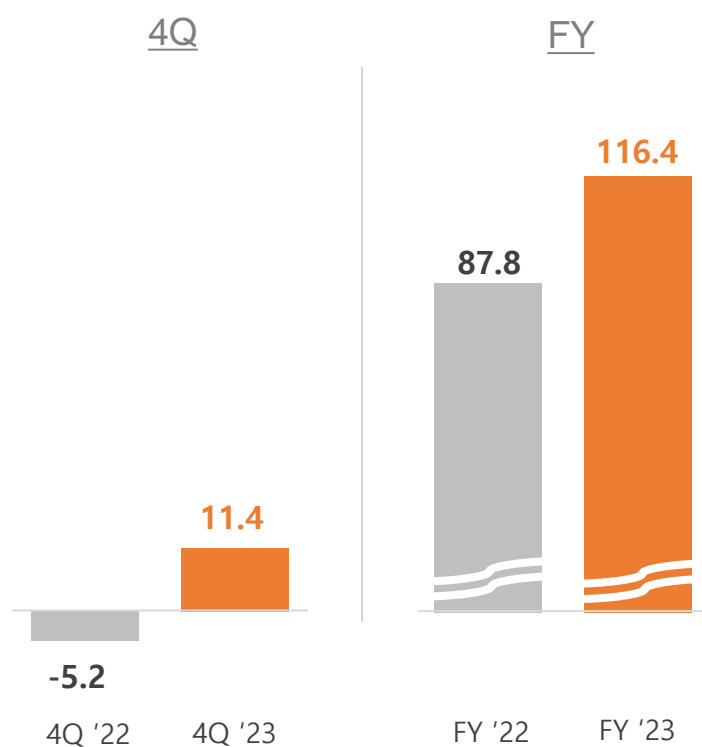
## 2. Performance by Business

# Health-Functional Food

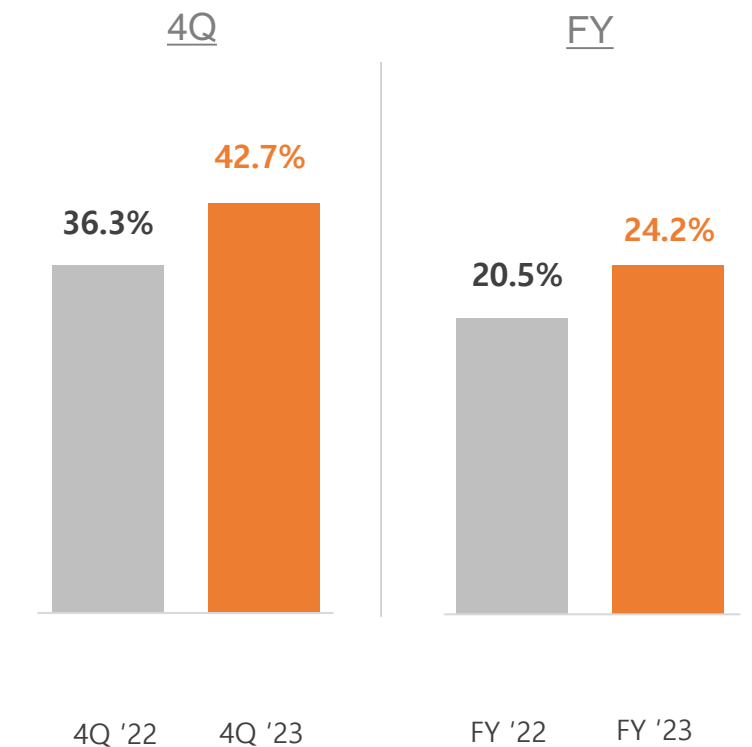
Revenue (KRW bn)



Operating Profit (KRW bn)



Share of Global Sales (revenue)

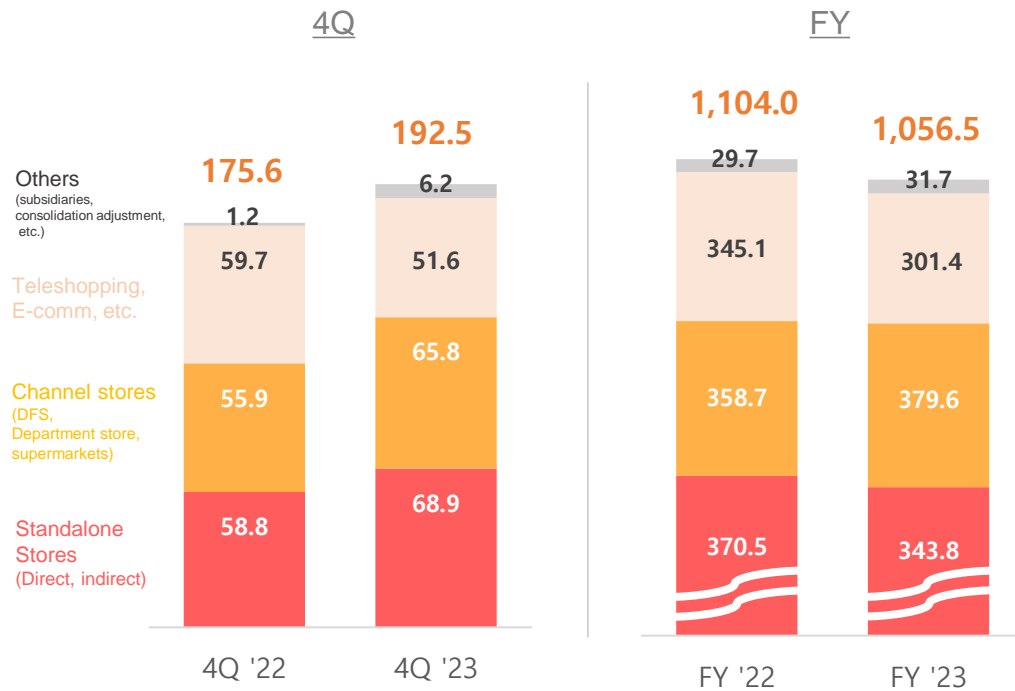


## 2. Performance by Business

# Health-Functional Food

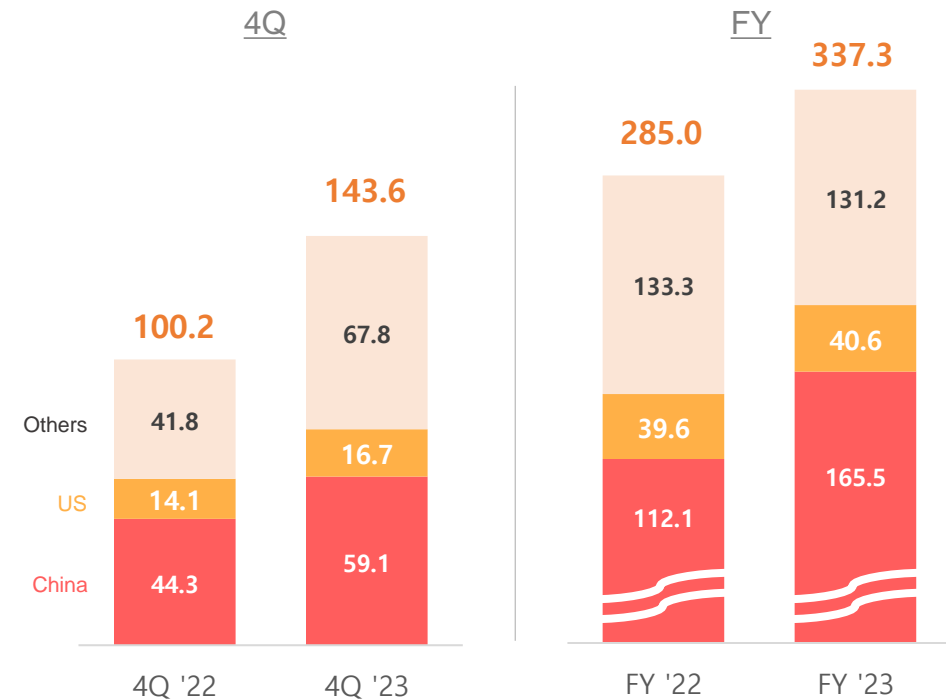
### Domestic Revenue by Channel (KRW bn)

- **(4Q) Stronger revenues in standalone stores and recovery in DFS sales**
- **(FY) Impact from subdued consumption and reduced market, despite higher revenue from DFS**



### Global Revenue by Market (KRW bn)

- **(4Q) Higher revenues via holiday promotions** for Chinese Black Friday and US Thanksgiving
- **(FY) Surge in revenue as emphasis on online-based marketing drove robust growth in China**

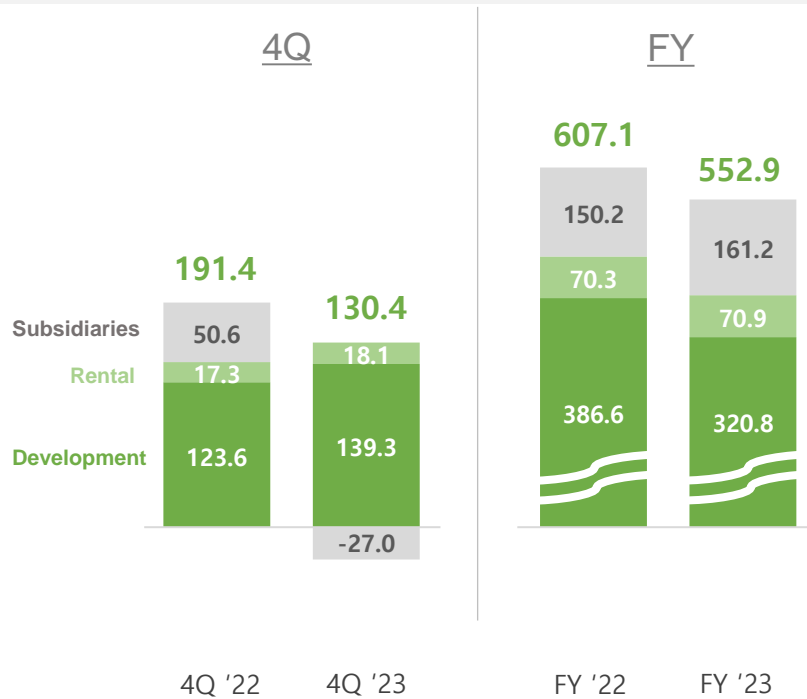


## 2. Performance by Business

# Real Estate

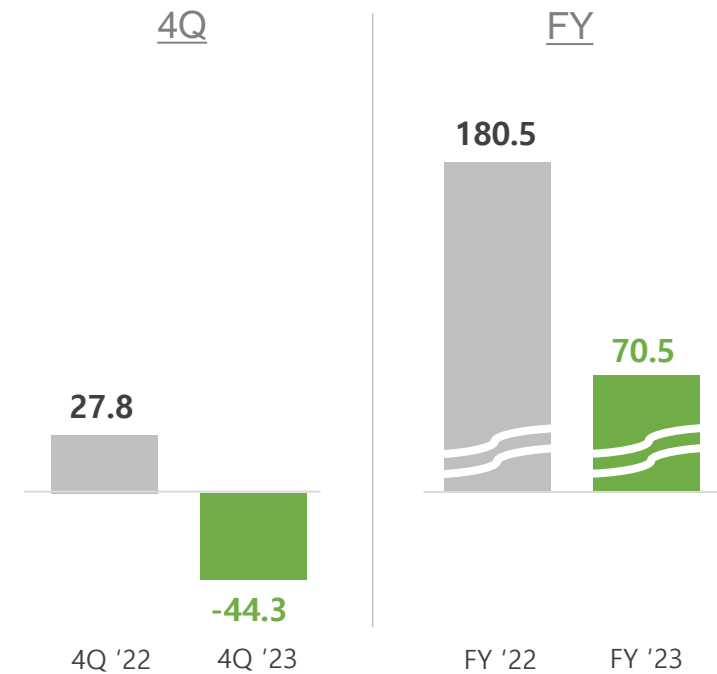
### Revenue (KRW bn)

- **(4Q)** Partial reduction of revenue from DNC Deok-eun, a consolidated subsidiary, more than offset increased revenue recognized from legacy properties in Greater Seoul
- **(FY)** Impact from **completion of Suwon and GwaCheon development projects**



### Operating Profit (KRW bn)

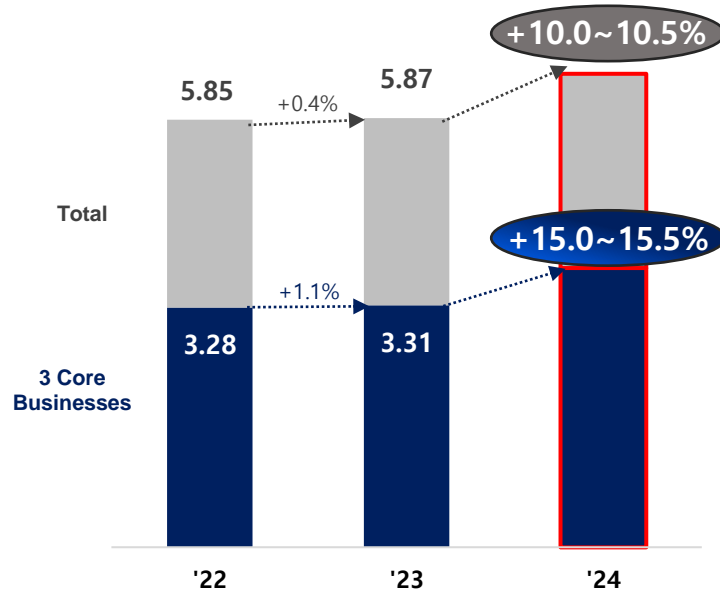
- **(4Q)** **Temporary impact from infrastructure construction costs** due to completion of Suwon project
- **(FY)** Costs recognized from new development projects from H1, and impact from **completion of Suwon and Gwacheon development projects**



### 3. 2024 Guidance

# Annual Outlook

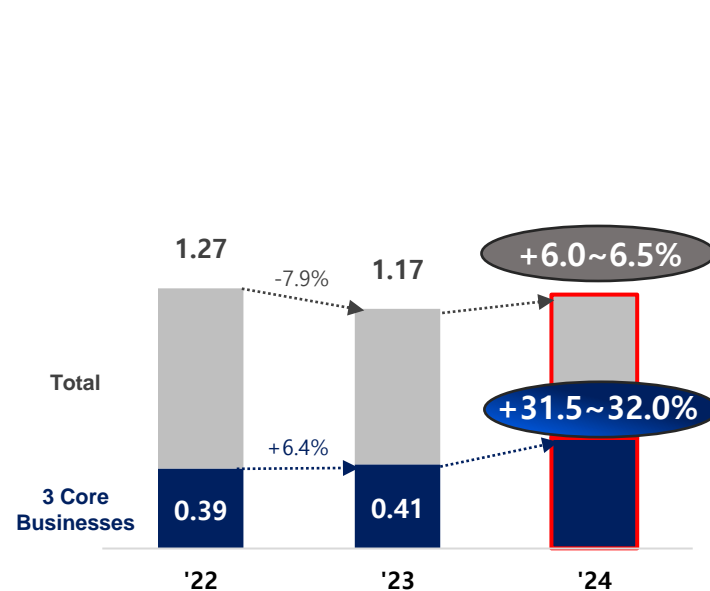
## Consolidated Revenue (KRW trn)



### Downside factors in 2024

- Continued cost headwinds
- Intensifying market competition
- Subdued consumer sentiment and purchasing power

## Consolidated Operating Profit (KRW trn)



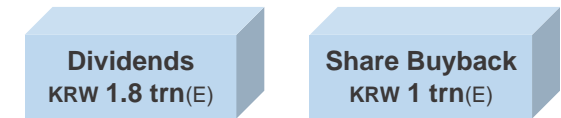
### Upside factors in 2024

- Sophistication of cost management system
- Potential for stronger penetration into global market
- Higher global ASP

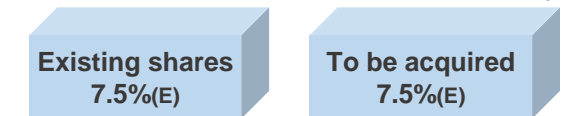
## Shareholder Returns

### Shareholder Return Plan ('24 ~ '26)

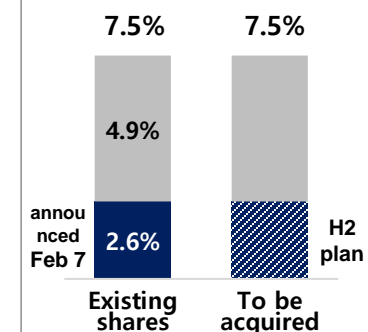
- Cash return KRW 2.8 trn(E)



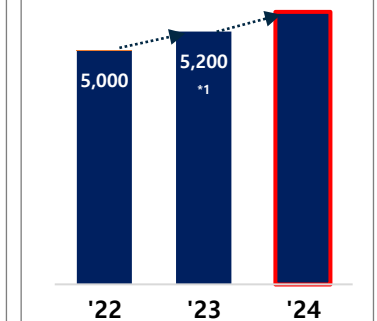
- Share cancellation 15%(E) (of current outstanding shares)



### Share Cancellation Progress



### Dividend per Share (KRW)



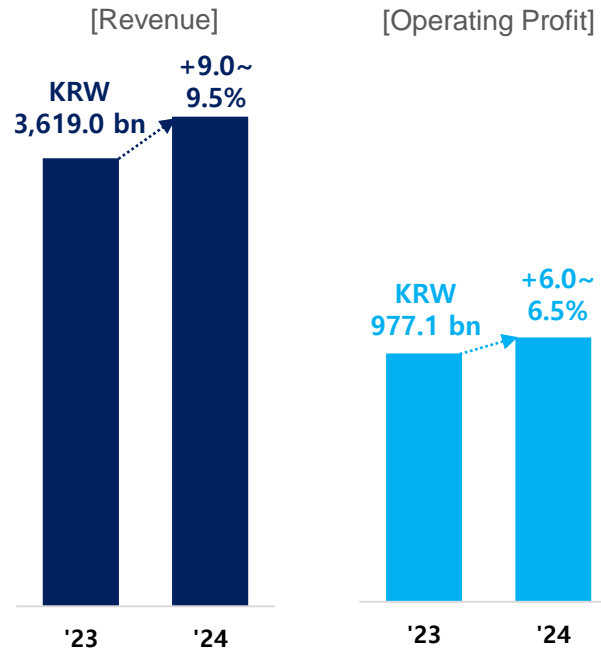
\*1 : Includes interim dividend of KRW 1,200, Final dividend for FY23 subject to approval at AGM

### 3. 2024 Guidance

# Business Outlook

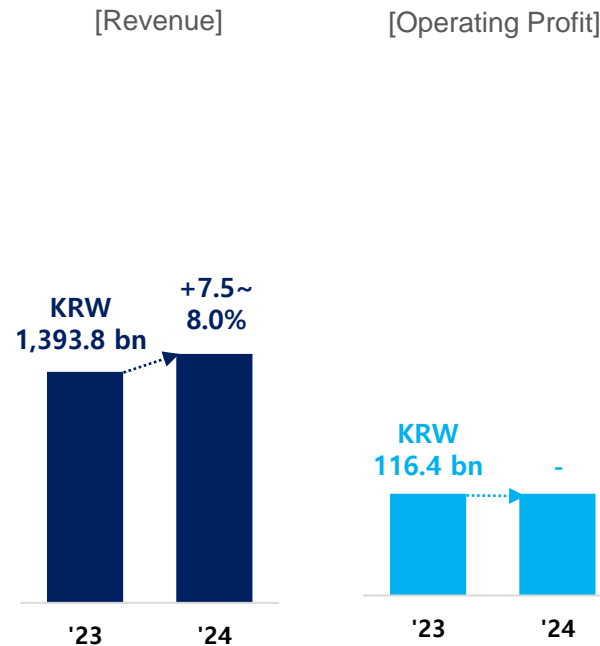
## Tobacco

- **(Domestic CC)** Market Volume - 4.5 ~ - 5.0%  
KT&G Volume - 3.5 ~ - 4.0%
- **(Global CC)** Revenue +23.5% ~ +24.0% ↑
- **(Domestic NGP)** Penetration Rates +2.5%p ↑  
Share of Market +1.0%p ↑
- **(Global NGP)** Stick Volume +35% ~ 40% ↑



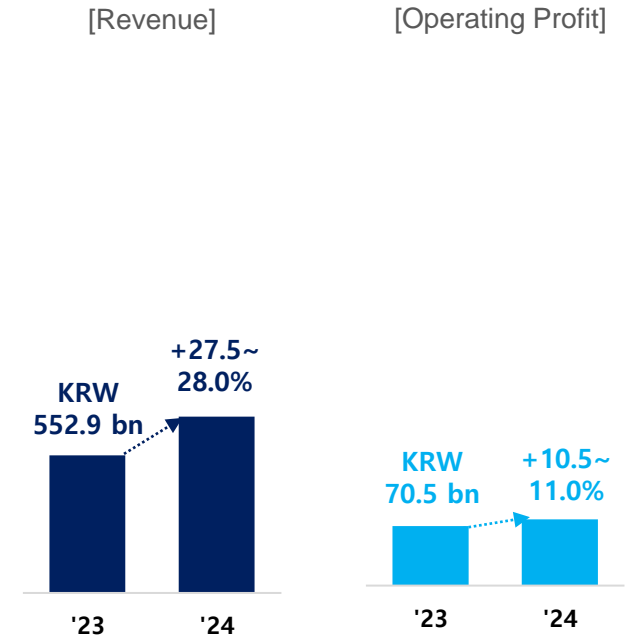
## Health-Functional Food

- Strengthen domestic HFF brand and channel competitiveness to improve profitability
- Increase marketing investment to expand global distribution coverage



## Real Estate

- Aggressive engagement in new development projects to maximize revenue growth
- Higher revenue projected from development of legacy properties in Greater Seoul





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# Q&A

# Appendix. Income Status by Business Segment

(units : KRW bn, sticks bn)		4Q '22	FY '22	1Q '23	2Q '23	3Q '23	4Q '23	FY '23
Tobacco	<b>Volume</b>	<b>25.54</b>	<b>101.24</b>	<b>26.06</b>	<b>27.16</b>	<b>29.12</b>	<b>25.40</b>	<b>107.74</b>
	NGP	3.00	10.75	3.22	3.63	3.48	3.62	13.94
	Domestic	1.30	4.99	1.38	1.42	1.45	1.46	5.71
	Global	1.70	5.76	1.84	2.21	2.03	2.17	8.24
	CC	22.60	90.49	22.85	23.54	25.64	21.78	93.81
	Domestic	9.84	41.13	9.48	10.37	10.82	9.99	40.66
	Global	12.76	49.36	13.37	13.17	14.82	11.79	53.15
	<b>Revenue</b>	<b>860.4</b>	<b>3,573.8</b>	<b>857.6</b>	<b>888.1</b>	<b>972.7</b>	<b>900.6</b>	<b>3,619.0</b>
	NGP	207.7	876.3	199.6	190.0	194.8	195.0	779.4
	Domestic	122.5	465.9	127.9	123.8	135.9	131.7	519.3
	Global	85.2	410.4	71.7	66.2	58.9	63.3	260.1
	CC	646.9	2,669.4	654.8	692.1	769.7	700.9	2,817.3
	Domestic	386.7	1,659.3	389.7	426.6	448.1	413.6	1,677.9
	Global	260.2	1,010.1	265.1	265.5	321.6	287.3	1,139.4
Semi-products	5.8	28.2	3.2	6.0	8.2	4.8	22.2	
<b>Operating Profit</b>	<b>181.4</b>	<b>1,008.9</b>	<b>236.6</b>	<b>242.6</b>	<b>269.4</b>	<b>228.4</b>	<b>977.1</b>	
OP Margin	21.1%	28.2%	27.6%	27.3%	27.7%	25.4%	27.0%	
Health-Functional Food	<b>Revenue</b>	<b>275.8</b>	<b>1,389.0</b>	<b>384.1</b>	<b>260.8</b>	<b>412.8</b>	<b>336.1</b>	<b>1,393.8</b>
	Domestic	175.7	1,104.0	320.2	193.9	349.9	192.5	1,056.5
	Global	100.1	285.0	63.9	66.9	62.9	143.6	337.3
	<b>Operating Profit</b>	<b>-5.2</b>	<b>87.8</b>	<b>55.0</b>	<b>- 10.7</b>	<b>60.7</b>	<b>11.4</b>	<b>116.4</b>
OP Margin	-	6.3%	14.3%	- 4.1%	14.7%	3.4%	8.4%	
Real Estate	<b>Revenue</b>	<b>191.5</b>	<b>490.3</b>	<b>83.9</b>	<b>113.7</b>	<b>224.9</b>	<b>130.4</b>	<b>552.9</b>
	Development	123.6	320.8	36.8	44.4	100.4	139.3	320.8
	Rental Properties	17.3	169.5	18.2	17.6	17.0	18.1	70.9
	Subsidiaries	50.6	0	28.9	51.7	107.5	- 27.0	161.2
	<b>Operating Profit</b>	<b>27.8</b>	<b>180.5</b>	<b>24.2</b>	<b>14.2</b>	<b>76.3</b>	<b>- 44.3</b>	<b>70.5</b>
OP Margin	14.5%	36.8%	28.8%	12.5%	33.9%	-	12.7%	
Others	<b>Revenue</b>	<b>79.0</b>	<b>281.5</b>	<b>70.1</b>	<b>73.4</b>	<b>79.1</b>	<b>84.1</b>	<b>306.7</b>
	Pharmaceutical	59.5	218.1	54.0	57.0	59.1	63.8	233.9
	Cosmetics	19.5	63.4	16.1	16.4	20.0	20.3	72.8
	<b>Operating Profit</b>	<b>- 2.7</b>	<b>- 9.5</b>	<b>0.7</b>	<b>0</b>	<b>0.3</b>	<b>3.0</b>	<b>3.9</b>
OP Margin	-	-	1.0%	-	0.4%	3.6%	1.3%	

# Appendix. KT&G Condensed Balance Sheet

※ The results below are still under audit by the outside auditors and may be subject to change.

## Consolidated

(unit : KRW bn)	FY '23	FY '22
<b>Current assets<sup>(a)</sup></b>	<b>6,416.5</b>	<b>6,509.6</b>
Cash <sup>(*)</sup>	1,669.0	1,995.2
Trade and other receivables	1,507.8	1,528.5
Inventories	2,762.3	2,575.8
Others	477.4	410.1
<b>Non-current assets</b>	<b>6,356.5</b>	<b>5,792.1</b>
Property, plant, and equipment	2,096.5	1,837.0
Investment property	1,018.4	1,071.5
Others	3,241.6	2,883.6
<b>Total assets</b>	<b>12,773.0</b>	<b>12,301.7</b>
Current liabilities <sup>(b)</sup>	2,668.6	2,527.3
Non-current liabilities	805.1	415.8
<b>Total liabilities<sup>(c)</sup></b>	<b>3,473.7</b>	<b>2,943.1</b>
<b>Total equity<sup>(d)</sup></b>	<b>9,299.3</b>	<b>9,358.6</b>
Current ratio <sup>(a/b)</sup>	240.4%	257.6%
Debt-to-equity ratio <sup>(c/d)</sup>	37.4%	31.4%

## Standalone

(unit : KRW bn)	FY '23	FY '22
<b>Current assets<sup>(a)</sup></b>	<b>3,553.9</b>	<b>4,096.5</b>
Cash <sup>(*)</sup>	655.7	1,471.1
Trade and other receivables	1,435.5	1,299.9
Inventories	1,220.9	1,123.0
Others	241.8	202.5
<b>Non-current assets</b>	<b>6,821.8</b>	<b>6,060.4</b>
Property, plant, and equipment	1,282.1	1,177.8
Investment property	992.5	1,029.2
Others	4,547.2	3,853.4
<b>Total assets</b>	<b>10,375.7</b>	<b>10,156.9</b>
Current liabilities <sup>(b)</sup>	2,153.9	2,037.7
Non-current liabilities	377.2	65.6
<b>Total liabilities<sup>(c)</sup></b>	<b>2,531.1</b>	<b>2,103.3</b>
<b>Total equity<sup>(d)</sup></b>	<b>7,844.6</b>	<b>8,053.6</b>
Current ratio <sup>(a/b)</sup>	165.0%	201.0%
Debt-to-equity ratio <sup>(c/d)</sup>	32.3%	26.1%

(\*) Cash and cash equivalents, current other financial assets, current fair value through profit or loss

# Appendix. KT&G Condensed Income Statement

※ The results below are still under audit by the outside auditors and may be subject to change.

## Consolidated <sup>1)</sup>

(units KRW bn)	FY '23	FY '22
<b>Revenue</b>	<b>5,872.4</b>	<b>5,851.4</b>
Cost of goods sold	3,056.2	2,891.2
<b>Gross profit</b>	<b>2,816.2</b>	<b>2,960.2</b>
Selling, general and administrative expense	1,648.3	1,692.6
<b>Operating profit</b>	<b>1,167.9</b>	<b>1,267.6</b>
Other income/expenses	7.6	69.0
Financial gain/loss	71.1	43.9
Net income from continuing operations	933.7	1,013.9
Net income from discontinued operations	(7.2)	(8.6)
<b>Net income</b>	<b>926.6</b>	<b>1,005.3</b>
<b>Gross profit margin</b>	<b>48.0%</b>	<b>50.6%</b>
<b>Operating profit margin</b>	<b>19.9%</b>	<b>21.7%</b>
<b>Net income margin</b>	<b>15.8%</b>	<b>17.2%</b>

## Standalone

(units KRW bn)	FY '23	FY '22
<b>Revenue</b>	<b>3,590.2</b>	<b>3,694.4</b>
Cost of goods sold	1,883.4	1,776.4
<b>Gross profit</b>	<b>1,706.8</b>	<b>1,918.0</b>
Selling, general and administrative expense	773.5	797.7
<b>Operating profit</b>	<b>933.3</b>	<b>1,120.3</b>
Other income/expenses	8.7	98.8
Financial gain/loss	136.6	96.9
<b>Net income</b>	<b>816.9</b>	<b>958.0</b>
<b>Gross profit margin</b>	<b>47.5%</b>	<b>51.9%</b>
<b>Operating profit margin</b>	<b>26.0%</b>	<b>30.3%</b>
<b>Net income margin</b>	<b>22.8%</b>	<b>25.9%</b>

1) Due to the temporary suspension of US cigarette sales in '21. 4Q, the financial items of the US cigarette business (US subsidiary) has been segregated from net income from continuing operations and reclassified as a separate account of 'net income from discontinued operations' for comparison with previous income statement.

# Appendix. KT&G Condensed Cash Flow

※ The results below are still under audit by the outside auditors and may be subject to change.

## Consolidated

(units KRW bn)	FY '23	FY '22
<b>Cash and cash equivalents at Jan. 1</b>	<b>1,401.0</b>	<b>946.6</b>
<b>Cash flows from operating activities</b>	<b>1,264.4</b>	<b>887.9</b>
Cash generated from operations	1,646.1	1,310.3
Income tax paid	(381.7)	(422.4)
<b>Cash flows from investing activities</b>	<b>(1,081.1)</b>	<b>547.5</b>
Acquisition of property, plant and equipment	(471.5)	(241.4)
<b>Cash flows from financing activities</b>	<b>(545.7)</b>	<b>(931.8)</b>
Net increase in cash and cash equivalents	(362.4)	503.6
<b>Changes in consolidation scope etc.</b>	<b>-</b>	<b>-</b>
<b>Effect of exchange rate fluctuation</b>	<b>(6.6)</b>	<b>(49.2)</b>
<b>Cash and cash equivalents at Dec. 31</b>	<b>1,032.0</b>	<b>1,401.0</b>

## Standalone

(units KRW bn)	FY '23	FY '22
<b>Cash and cash equivalents at Jan. 1</b>	<b>939.5</b>	<b>590.6</b>
<b>Cash flows from operating activities</b>	<b>966.7</b>	<b>822.5</b>
Cash generated from operations	1,289.6	1,197.7
Income tax paid	(322.9)	(375.2)
<b>Cash flows from investing activities</b>	<b>(955.8)</b>	<b>470.4</b>
Acquisition of property, plant and equipment	(259.7)	(128.9)
<b>Cash flows from financing activities</b>	<b>(738.2)</b>	<b>(941.3)</b>
Net increase in cash and cash equivalents	(727.3)	351.5
<b>Effect of exchange rate fluctuation</b>	<b>(1.8)</b>	<b>(2.7)</b>
<b>Cash and cash equivalents at Dec. 31</b>	<b>210.4</b>	<b>939.5</b>

# Appendix. KGC Condensed Financial Statement (standalone)

※ The results below are still under audit by the outside auditors and may be subject to change.

## Balance Sheet

(units KRW bn)	FY '23	FY '22
<b>Current assets</b>	<b>1,687.0</b>	<b>1,625.9</b>
Inventories	1,119.5	1,161.9
Cash and cash equivalents	177.2	177.3
Others	390.3	286.7
<b>Non-current assets</b>	<b>836.8</b>	<b>801.2</b>
Property, plant and equipment	355.3	324.3
Intangible assets	26.2	26.9
Others	455.3	450.0
<b>Total assets</b>	<b>2,523.8</b>	<b>2,427.1</b>
Current liabilities	137.5	135.7
Non-current liabilities	90.0	69.1
<b>Total liabilities</b>	<b>227.5</b>	<b>204.8</b>
<b>Total equity</b>	<b>2,296.3</b>	<b>2,222.3</b>

## Income Statement

(units KRW bn)	FY '23	FY '22
<b>Revenue</b>	<b>1,223.4</b>	<b>1,306.0</b>
Cost of goods sold	613.1	656.2
<b>Gross profit</b>	<b>610.3</b>	<b>649.8</b>
SG&A	530.3	562.3
<b>Operating profit</b>	<b>80.0</b>	<b>87.5</b>
Other income/expense	1.6	0
Financial gain/loss	13.4	9.3
<b>Net income</b>	<b>80.6</b>	<b>74.8</b>

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**Thank you**