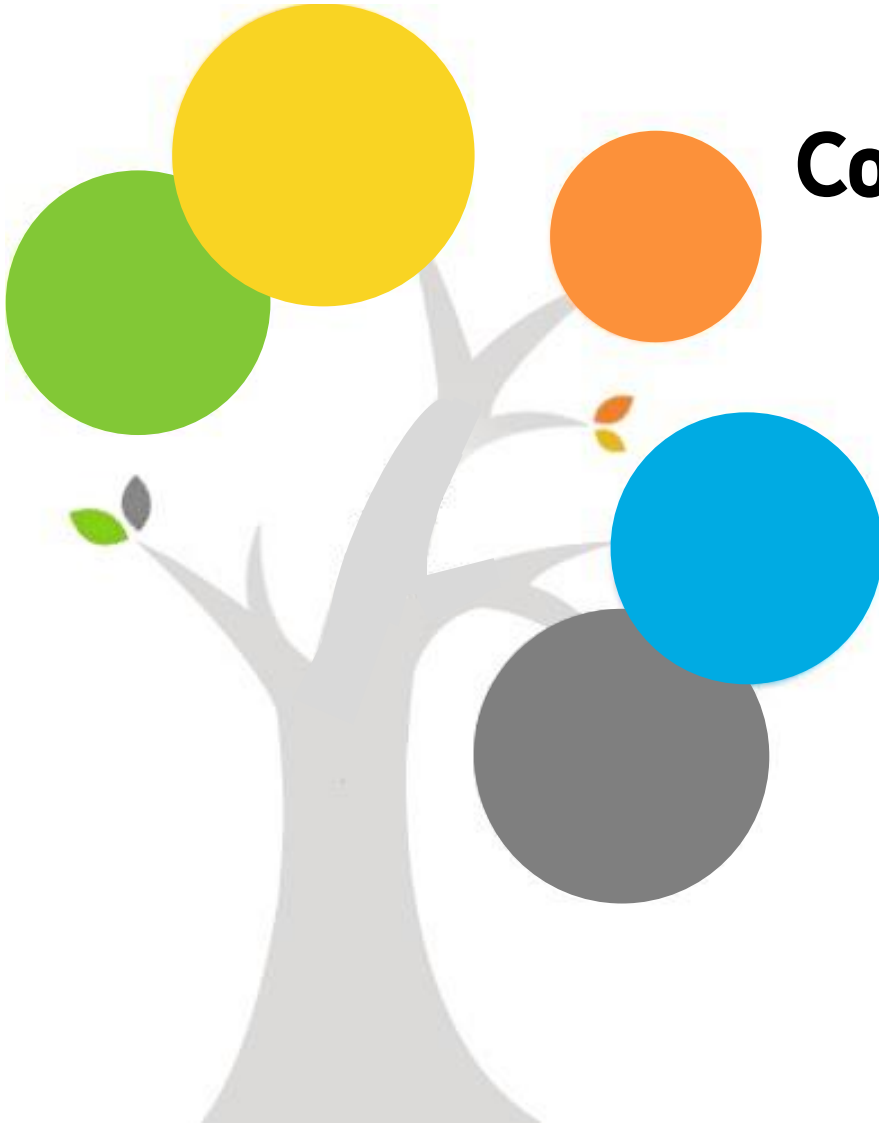


Investor Relations 2014

FY2014 2Q

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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/Loss**

1-1. FY14 2Q Consolidated Sales Summary



2Q and 1H Consolidated Sales recorded 992.3 bil. and 1,956.0 bil. won each

- 2Q Consolidated Sales increased 8.5% yoy : KT&G 11.6%↑, KGC 3.8%↑ yoy
- 1H Consolidated Sales increased 8.0% yoy : KT&G 10.2%↑, KGC 3.0%↑ yoy

2Q Consolidated Sales

(bil. KRW)

	YOY		
	2Q FY14	2Q FY13	Change
KT&G	671.3	601.3	11.6%
KGC	187.8	181.0	3.8%
Others	133.1	132.3	0.7%
Total	992.3	914.5	8.5%

- Sales of KT&G and KGC are the amounts before eliminating internal transactions.
- Others and adjusted amounts are the figures after eliminating internal transactions among Yungjin Pharm., KT&G overseas subsidiaries, Somang Cosmetics and etc.

1H Consolidated Sales

(bil. KRW)

	YOY		
	1H FY14	1H FY13	Change
KT&G	1,302.5	1,182.0	10.2%
KGC	394.4	382.9	3.0%
Others	259.1	245.7	5.4%
Total	1,956.0	1,810.6	8.0%

- Sales of KT&G and KGC are the amounts before eliminating internal transactions.
- Others and adjusted amounts are the figures after eliminating internal transactions among Yungjin Pharm., KT&G overseas subsidiaries, Somang Cosmetics and etc.

1-2. FY14 2Q Consolidated Profit/Loss Summary



2Q and 1H Consolidated OP recorded 286.3 bil. and 546.4 bil. won each

- 2Q Consolidated OP rose 15.1% yoy : KT&G 13.6%↑, KGC 7.8%↑ yoy
- 2Q Consolidated NI fell 4.3% yoy : KT&G 11.5%↓, KGC 13.7%↑ yoy

2Q Consolidated Profit/Loss

(bil. KRW)

		YOY		
		2Q FY14	2Q FY13	Change
O P	KT&G	258.4	227.5	13.6%
	KGC	32.2	29.9	7.8%
	Others	-4.4	-8.7	-
Total		286.3	248.7	15.1%
N I	KT&G	175.4	198.3	-11.5%
	KGC	21.9	19.2	13.7%
	Others	-12.9	-24.8	-
Total		184.3	192.7	-4.3%
CI		176.2	181.0	-2.7%

- OP and NI of KT&G and KGC are the amounts before eliminating internal transactions.
- Others and adjusted amounts are the figures after eliminating internal transactions among Yungjin Pharm., KT&G overseas subsidiaries, Somang Cosmetics and etc.

1H Consolidated Profit/Loss

(bil. KRW)

		YOY		
		1H FY14	1H FY13	Change
O P	KT&G	486.0	452.6	7.4%
	KGC	68.5	67.8	1.0%
	Others	-8.1	-22.9	-
Total		546.4	497.5	9.8%
N I	KT&G	362.9	391.0	-7.2%
	KGC	45.4	50.7	-10.5%
	Others	-35.8	-50.7	-
Total		372.5	391.0	-4.7%
CI		364.7	394.4	-7.5%

- OP and NI of KT&G and KGC are the amounts before eliminating internal transactions.
- Others and adjusted amounts are the figures after eliminating internal transactions among Yungjin Pharm., KT&G overseas subsidiaries, Somang Cosmetics and etc.



Chapter 2. KT&G Separate Results

2-1. FY14 2Q KT&G Results Summary



2Q Sales and OP went up 11.6% and 13.6% yoy each

- 2Q Sales recorded 671.3 bil. won, up 11.6% yoy
 - Domestic Cigarette 4.6%↑, Export Cigarette 20.9%↑, Others(Real Estate etc.) 77.4%↑
- 2Q OP rose 13.6% yoy to 258.4 bil. won

2Q Sales & Profit

(Unit : bil. KRW)

	2Q FY14	2Q FY13	Change
Net Sales	671.3	601.3	11.6%
- Domestic	488.3	466.9	4.6%
- Export	118.6	98.1	20.9%
- Others(Real Estate etc.)	64.4	36.3	77.4%
Operating Profit	258.4	227.5	13.6%
Net Income	175.4	198.3	-11.5%
Comprehensive Income	172.8	184.5	-6.4%

1H Sales & Profit

(Unit : bil. KRW)

	1H FY14	1H FY13	Change
Net Sales	1,302.5	1,182.0	10.2%
- Domestic	916.1	917.0	-0.1%
- Export	267.8	196.8	36.1%
- Others(Real Estate etc.)	118.6	68.2	73.9%
Operating Profit	486.0	452.6	7.4%
Net Income	362.9	391.0	-7.2%
Comprehensive Income	366.8	386.0	-5.0%

2-2. Domestic Cigarette(1)

2Q Total market volume and KT&G volume rose 1.7%, 2.7% yoy respectively

- Total Market Volume : '13.2Q 22.0 bil. sticks → '14.2Q 22.4 bil. sticks
- KT&G Volume : '13.2Q 13.5 bil. sticks → '14.2Q 13.9 bil. sticks
- KT&G 2Q Market Share recorded 62.0% : '13.2Q 61.4% → '14.2Q 62.0%(up 60bp)

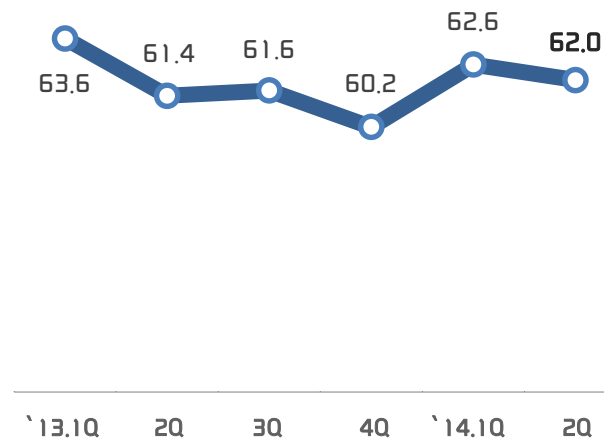
Quarterly Total Market Volume/KT&G Volume

(Unit : bil. sticks)



Quarterly M/S Trend

(Unit : %)



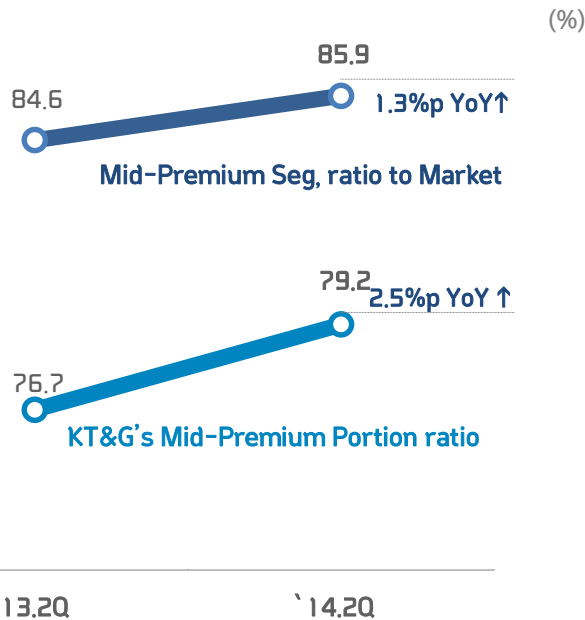
2-2. Domestic Cigarette (2)



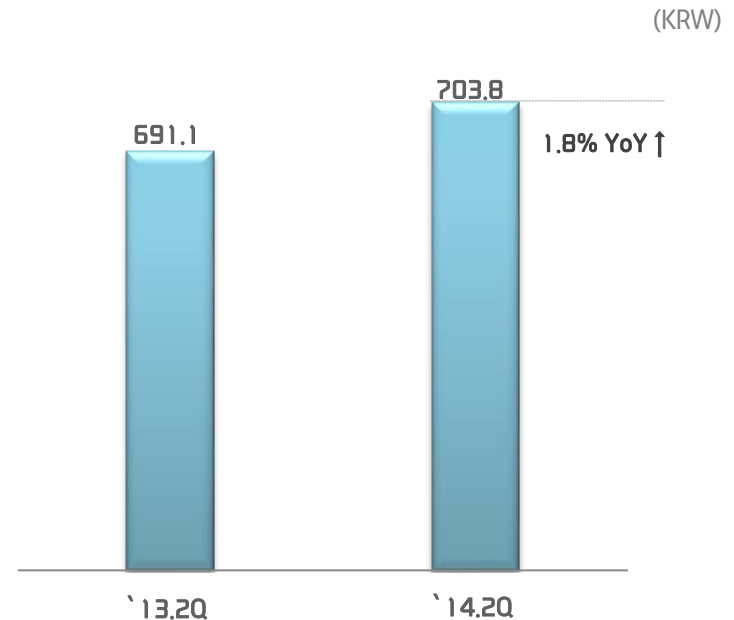
Both mid-premium portion and net ASP continued to grow

- Mid and Premium segments continued to expand : Total Market 130bp↑, KT&G 250bp↑
- Net ASP/Pack rose 1.8% yoy : '13 2Q 691.1 won → '14 2Q 703.8 won

Mid-Premium Market



Net ASP/Pack



* Mid-Premium : Retail Price Basis(2,500 KRW/Pack and Higher)

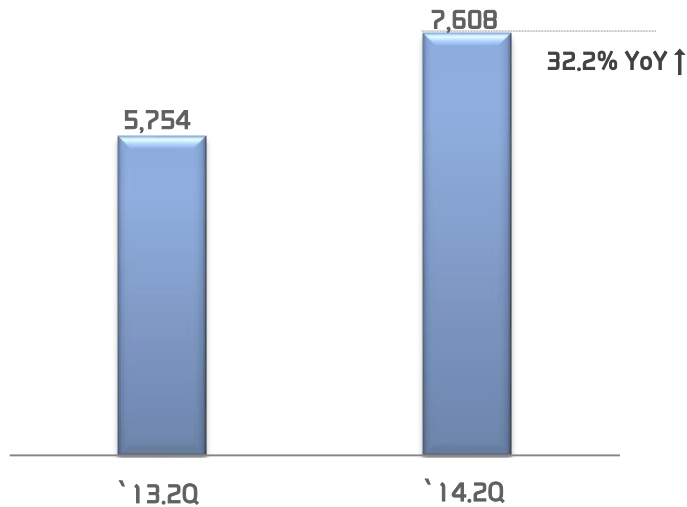
2-3. Overseas Tobacco (Export)

2Q Export volume and sales went up 32.2% and 20.9% yoy each

- Export volume achieved 7.6 bil. sticks : Main Market recovery and New Market growth
- Export sales recorded 118.6 bil. won : KRW ASP diluted due to KRW appreciation, etc

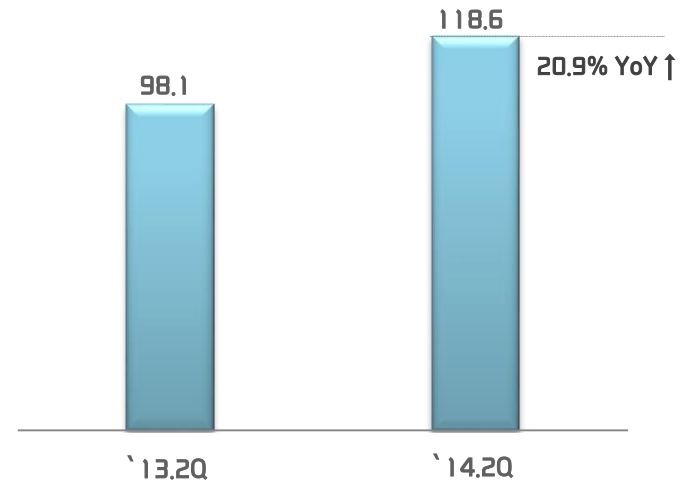
Export Volume

(mil. sticks)



Export Sales

(bil. KRW)



2-3. Overseas Tobacco (Export +Subsidiaries)

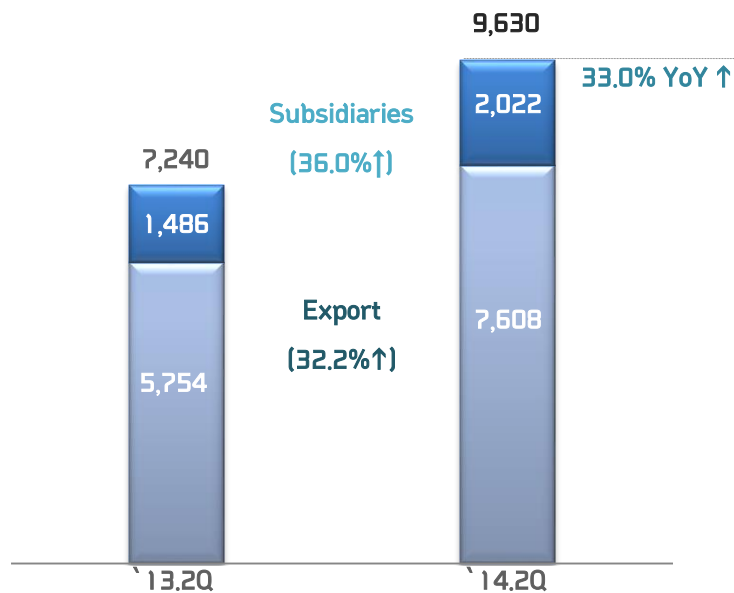


2Q Overseas volume and Sales increased 33.0% and 22.5% yoy each

- Overseas volume recorded 9.6 bil. sticks : Export and Subsidiaries increased 32.2%, 36.0% yoy
- Overseas Sales reached to 155.8 bil. won : Export and Subsidiaries increased 20.9%, 28.2% yoy

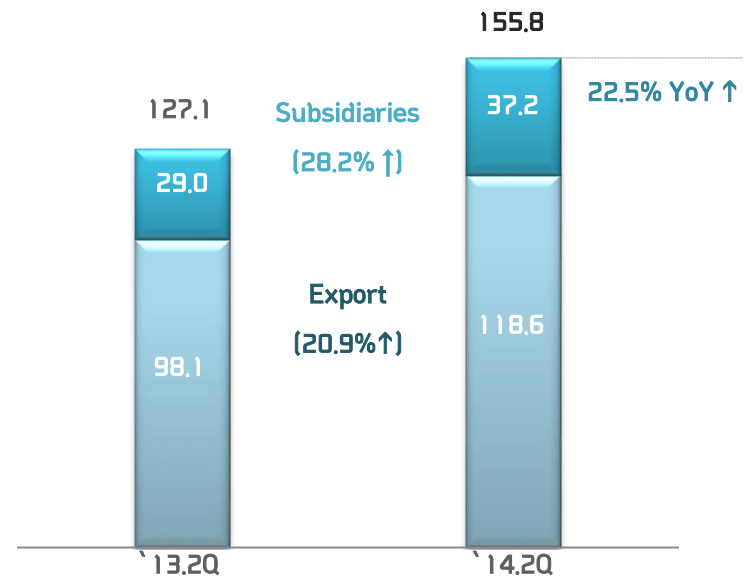
Overseas Volume

(mil. sticks)



Overseas Sales

(bil. KRW)



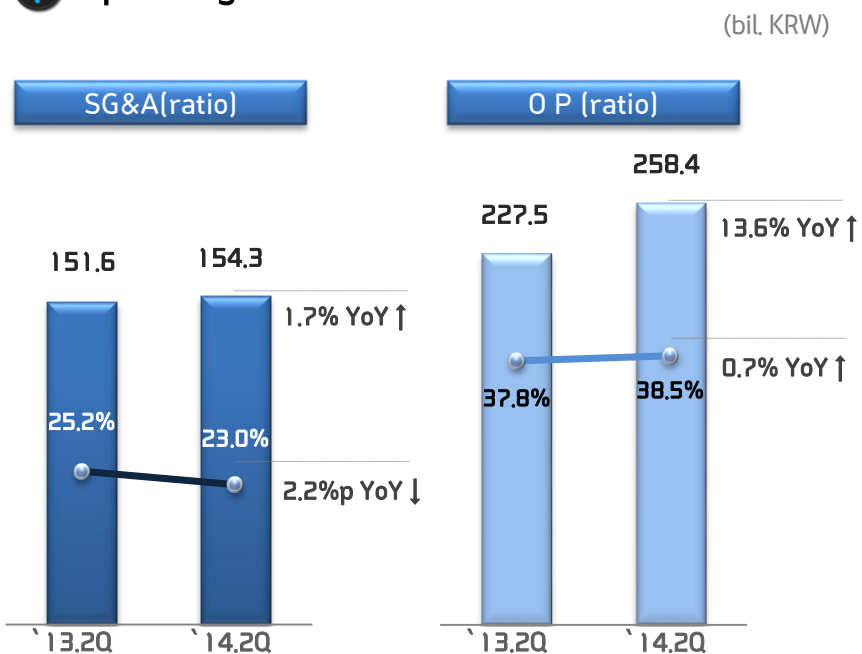
* Subsidiaries : Russia, Turkey, Iran, Indonesia

2-4. Profit/Loss

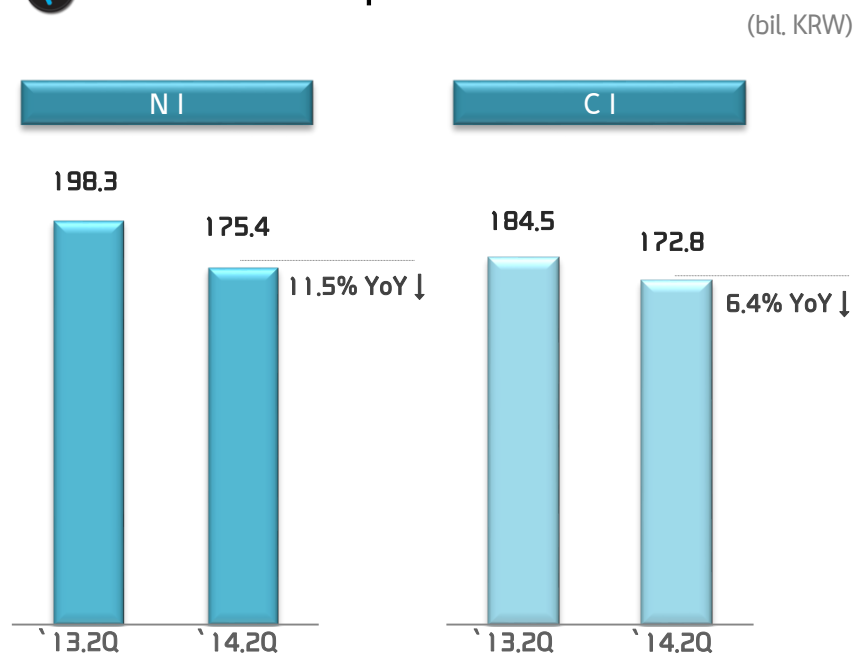
2Q OP went up 13.6% yoy while NI went down 11.5% yoy

- OP recorded 258.4 bil. won, up 13.6% : SG&A Ratio 220bp↓
- NI recorded 175.4 bil. won, down 11.5% : Other income reduced and other loss rose
 - FX related gain reduced by 24.0 bil. won, FX related loss rose by 42.6 bil. won

Operating Profit



Net Income/ Comprehensive Income





Chapter 3. KGC Separate Results

3-1. FY14 2Q KGC Results Summary

2Q Sales and OP grew 3.8% and 7.8% yoy respectively

- 2Q sales recorded 187.8 bil. won, up 3.8% yoy (Domestic 4.2%↑, Export 0.7%↑)
- 2Q OP increased 7.8% yoy to 32.2 bil. won

2Q Sales & Profit

(bil. KRW)

	2Q FY14	2Q FY13	Change
Sales	187.8	181.0	3.8%
- Domestic	165.2	158.5	4.2%
- Export	22.6	22.4	0.7%
Operating Profit	32.2	29.9	7.8%
Net Income	21.9	19.2	13.7%
Comprehensive Income	21.8	19.3	13.4%

1H Sales & Profit

(bil. KRW)

	1H FY14	1H FY13	Change
Sales	394.4	382.9	3.0%
- Domestic	352.9	341.2	3.4%
- Export	41.5	41.7	-0.4%
Operating Profit	68.5	67.8	1.0%
Net Income	45.4	50.7	-10.4%
Comprehensive Income	45.3	50.7	-10.7%

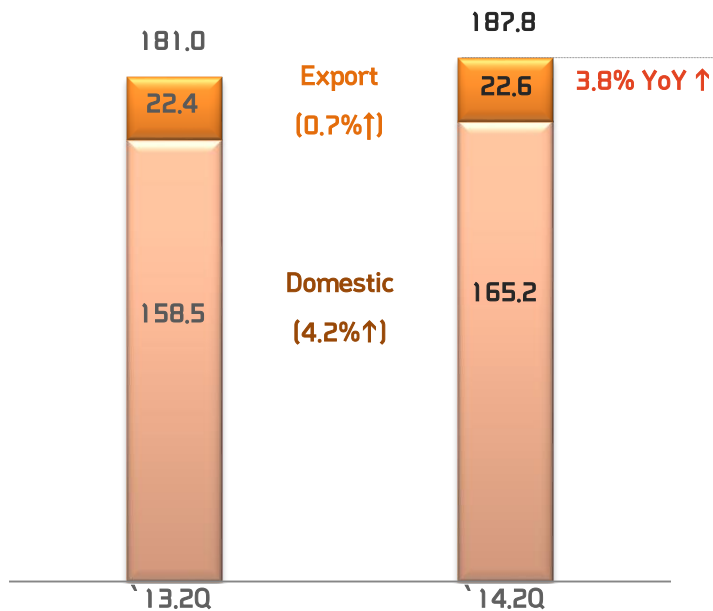
3-2. Sales Analysis

2Q domestic sales improvement and red ginseng roots sales enhancement

- Domestic sale rose 4.2% to 165.2 bil. won, Export sales rose 0.7% yoy to 22.6 bil. won
- Processed product sales rose 2.1% to 154.5 bil. won, Red ginseng root sales rose 12.1% to 32.9 bil. won

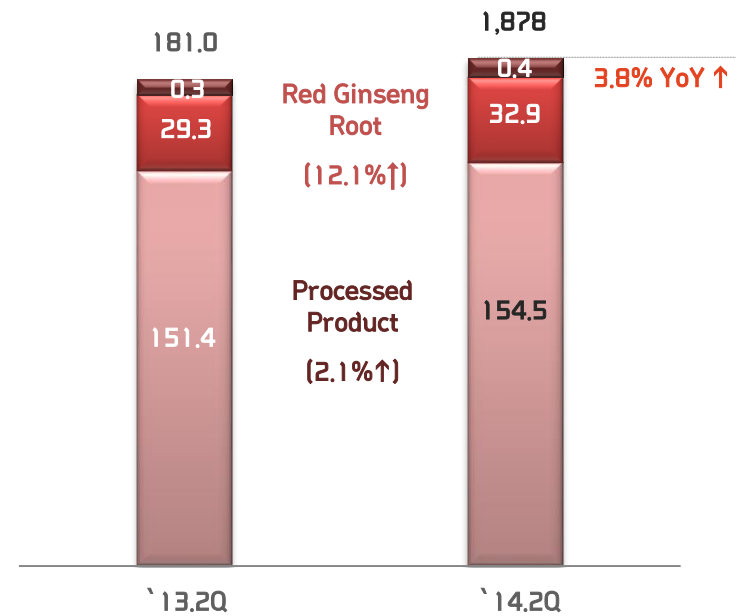
Sales by Region

(Unit : bil. KRW)



Sales by Product Type

(Unit : bil. KRW)



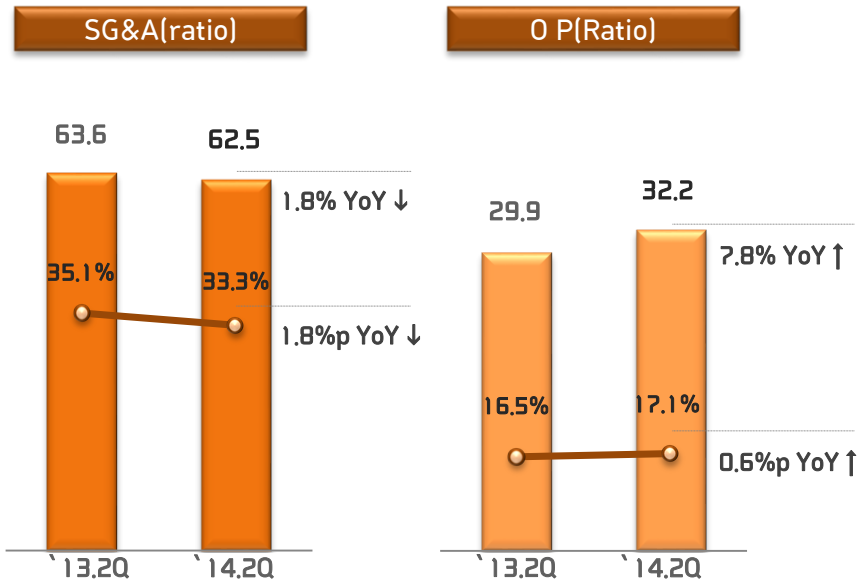
3-3. Profitability Analysis

Both 2Q OP and NI increased 7.8% and 13.7% yoy each

- OP rose 7.8% yoy to 32.2bil. won : SG&A Ratio 180bp↓
- NI rose 13.7% yoy to 21.9 bil. won, CI rose 13.4% yoy to 21.8 bil. won

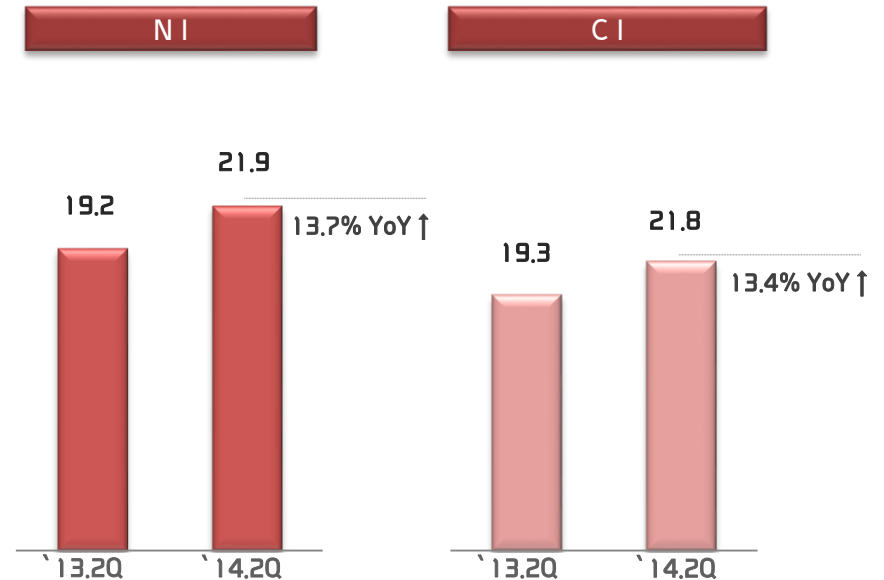
Operating Profit

(Unit : bil. KRW)



Net Income/Comprehensive Income

(Unit : bil. KRW)





Chapter 4. Appendix

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

4-1. Consolidated Financial Statement



Summarized Statement of Financial Position

(bil. won)	FY12	FY13	'14. 2Q
Non-Current Assets	2,838.2	2,886.4	2,919.2
-Property Plant Equipment	1,631.4	1,622.3	1,621.8
-Account Receivables and Others	121.8	108.9	103.6
-Investment Properties	182.0	174.0	170.9
-Equity Accounted Investments	55.8	58.1	58.1
-Available-For-Sale Financial Assets	263.9	296.6	321.0
Current Assets	3,957.0	4,188.4	4,086.5
-Inventories	1,706.8	1,893.9	1,710.7
-Cash and Cash Equivalents	372.3	347.9	383.7
-Other Financial Assets	649.2	684.1	664.3
-Account Receivables and Others	883.8	915.6	921.6
-Prepaid Cig. Taxes and Others	257.2	262.8	253.0
Assets Held For Sale	0.8	0.2	0.0
Total Assets	6,796.0	7,075.0	7,005.7
Non-Current Liabilities	503.8	527.2	562.0
Current Liabilities	1,097.7	1,182.2	1,116.4
-Account Payables and Others	410.2	542.9	492.9
-Short Term Borrowings	91.9	96.2	52.3
Total Liabilities	1,601.5	1,709.5	1,678.4
Capital Stock	955.0	955.0	955.0
Treasury Stock	-339.1	-339.1	-339.1
Gain on Reissuance of Treasury Stock	492.0	492.0	492.0
Other Capital Surplus	-4.6	-4.6	-4.6
Reserves	3,011.1	3,368.8	3,466.3
Retained Earnings	976.4	802.8	673.6
Equity Attributable to Equity Holders of the Parent Company	5,090.9	5,275.0	5,243.3
Non-Controlling Interest	103.5	90.5	84.0
Total Equities	5,194.4	5,365.5	5,327.3
Total Liabilities and Equities	6,796.0	7,075.0	7,005.7

Summarized Statement of Comprehensive Income

(bil. won)	FY12	FY13	'13. 2Q	'14. 2Q
Net Sales	3,984.7	3,821.7	914.5	992.3
COGS	1,740.8	1,688.6	401.1	443.0
Gross Profit	2,243.9	2,133.1	513.5	549.3
SG&A	1,207.9	1,119.7	264.8	263.0
Operating Profit	1,035.9	1,013.3	248.7	286.3
Other Income & Expense	-48.0	-148.7	14.2	-45.3
Financial Gain(Loss)	32.5	15.7	2.7	8.2
Share of Profit(Loss) of Associates	2.0	1.6	0.6	0.9
Pre-tax Income	1,022.4	881.9	266.1	250.1
Income Tax	297.3	322.6	73.5	65.7
Net Income	725.1	559.3	192.7	184.3
Other Comprehensive Income	-29.8	12.8	-11.7	-8.2
Comprehensive Income	695.3	572.1	181.0	176.2

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



Summarized Statement of Financial Position

(bil. won)	FY12	FY13	'14. 2Q
Non-Current Assets	3,155.9	3,232.1	3,271.4
-Property Plant Equipment	1,163.2	1,182.8	1,177.1
-Account Receivables and Others	146.2	134.5	122.7
-Investment Properties	153.9	146.0	143.0
-Investment in Subsidiaries	1,178.6	1,166.5	1,175.6
-Available-For-Sale Financial Assets	263.5	296.4	320.9
Current Assets	2,761.2	2,850.2	2,764.0
-Inventories	872.8	939.7	864.5
-Cash and Cash Equivalents	266.7	245.8	227.8
-Other Financial Assets	620.0	660.0	610.0
-Account Receivables and Others	726.4	721.5	766.2
-Prepaid Cig., Taxes and Others	254.6	262.8	253.0
Assets Held for Sale	0.8	0.0	0.0
Total Assets	5,917.9	6,082.3	6,035.4
Non-Current Liabilities	179.4	146.0	155.6
Current Liabilities	835.2	903.8	883.6
-Account Payables and Others	266.8	402.4	358.5
-Short Term Borrowings	5.5	4.9	4.4
Total Liabilities	1,014.6	1,049.9	1,039.1
Capital Stock	955.0	955.0	955.0
Treasury Stock	-339.1	-339.1	-339.1
Gain on Reissuance of Treasury Stock	492.0	492.0	492.0
Other Capital Surplus	3.6	3.6	3.6
Reserves	3,039.0	3,411.1	3,519.9
Retained Earnings	752.8	509.8	364.9
Total Equities	4,903.3	5,032.4	4,996.3
Total Liabilities and Equities	5,917.9	6,082.3	6,035.4

Summarized Statement of Comprehensive Income

(bil. won)	FY12	FY13	'13. 2Q	'14. 2Q
Net Sales	2,637.6	2,510.6	601.3	671.3
-Cigarettes	2,523.9	2,342.2	565.0	606.9
-Real Estate	43.5	109.2	19.8	42.8
-Others	70.2	59.2	16.5	21.6
COGS	982.1	936.1	222.1	258.6
-Cigarettes	926.0	841.4	203.0	217.4
-Real Estate	7.3	57.3	8.8	26.3
-Others	48.8	37.3	10.3	14.9
Gross Profit	1,655.5	1,574.6	379.2	412.7
SG&A	682.8	651.1	151.6	154.3
Operating Profit	972.7	923.5	227.5	258.4
Other Income & Expense	1.6	-198.4	27.6	-39.6
-Other Income	92.7	47.9	33.8	7.4
FX Translation and Transaction Gain	5.7	13.2	25.3	1.3
Others	87.0	34.7	8.5	6.1
-Other Expense	91.0	246.4	6.1	47.0
FX Translation and Transaction Loss	57.2	40.9	1.8	44.4
Others	33.8	205.5	4.3	2.6
Financial Gain(Loss)	44.2	31.7	6.4	11.5
Pre-tax Income	1,018.5	756.8	261.6	230.3
-Income Tax	250.0	255.5	63.3	54.9
Net Income	768.4	501.3	198.3	175.4
Comprehensive Income	751.6	532.0	184.5	172.8

4-2. Separate Financial Statement (KGC)



Summarized Statement of Financial Position

(bil. won)	FY12	FY13	'14.2Q
Non-Current Assets	462.4	436.4	454.4
-Tangible Assets	215.4	206.4	219.6
-Intangible Assets	13.6	11.9	11.0
-Others	233.4	218.1	223.7
Current Assets	820.9	978.6	981.1
-Inventories	635.1	772.7	661.2
-Cash and Cash Equivalents	9.5	5.7	67.2
-Others	176.3	200.2	252.7
Total Assets	1,283.3	1,415.0	1,435.5
Non-Current Liabilities	30.6	45.2	60.3
Current Liabilities	96.4	124.4	84.5
-Short Term Borrowings	50.2	60.0	15.1
-Others	46.2	64.4	69.3
Total Liabilities	127.0	169.6	144.8
Capital Stock	66.3	66.3	66.3
Capital Surplus	33.4	33.4	33.4
Reserves	957.0	1,056.5	1,145.8
Retained Earnings	99.6	89.2	45.3
Other Comprehensive Income	0.0	0.0	0.0
Total Equities	1,156.2	1,245.5	1,290.7
Total Liabilities and Equities	1,283.3	1,415.0	1,435.5

Summarized Statement of Comprehensive Income

(bil. won)	FY12	FY13	'13.2Q	'14.2Q
Sales	831.9	784.8	181.0	187.8
- Red Ginseng Roots	121.3	122.1	29.3	32.9
- Red Ginseng Products	708.2	661.0	151.4	154.5
(Ratio)	(85.1)	(84.2)	(83.6)	(82.3)
- Others	2.4	1.7	0.3	0.4
COGS	412.7	390.9	87.5	93.1
Gross Profit	419.2	393.9	93.5	94.7
SG&A	286.1	268.9	63.6	62.5
Operating Profit	133.1	125.0	29.9	32.2
Other Income & Expense	-4.2	-7.5	-4.8	-3.2
- Other Income	9.2	7.6	3.2	0.8
- Other Expense	13.4	15.1	8.0	4.0
Financial Gain(Loss)	2.4	0.6	0.4	0.2
Pre-tax Income	131.4	118.1	25.5	29.3
- Income Tax	31.6	28.8	6.2	7.4
Net Income	99.7	89.3	19.2	21.9
Comprehensive Income	99.6	89.2	19.3	21.8



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