INVESTOR RELATIONS 2012

FY2012 1Q 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 may be subject to change and the company does not guarantee the correctness and completeness.

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Chapter 1. Consolidated Results

- Sales
- Profit/Loss

1. Consolidated Results

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1Q Consolidated sales recorded 961.6 bil. won and OP recorded 258.1 bil. won

Consolidated Sales

(bil. won)	1Q FY12	1Q FY11	YOY	
			Amt.	%
KT&G	583.4	537.0	46.4	8.6% ↑
KGC	250.3	231.7	18.6	8.0% ↑
Others & Adjusted Amt.	127.9	55.7	72.2	129.6% ↑
Total	961.6	824.4	137.2	16.6% ↑

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

Consolidated Profit

(bil. won)		1Q FY12	1Q FY11	YOY	
				Amt.	%
OP	KT&G	219.0	189.3	29.7	15.7% ↑
	KGC	59.9	59.8	0.1	0.2% ↑
	Others & Adjusted Amt.	-20.8	0.3	-21.1	-
Total		258.1	249.4	8.7	3.5% ↑
NI	KT&G	176.2	199.2	-23.0	11.6% ↓
	KGC	45.4	43.3	2.1	4.9% ↑
	Others & Adjusted Amt.	-35.3	-59.3	24.0	-
Total		186.3	183.1	3.2	1.7% ↑
CI		213.6	172.0	41.6	24.1% ↑

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

- **Consolidated sales went up 16.6% yoy**
  - KT&G sales, up 8.6% yoy
  - KGC sales, up 8.0% yoy

- **OP increased 3.5% yoy to 258.1 bil. won**
  - OP : KT&G 15.7% ↑, KGC 0.2% ↑ yoy each
  - NI : KT&G 11.6% ↓, KGC 4.9% ↑ yoy each

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Chapter 2. Separate Results

- KT&G
- KGC

2-1-1. KT&G - FY12 1Q Results Summary

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1Q Sales and OP increased 8.6%, 15.7% yoy each

(bil. sticks/bil. won)	YOY		YOY	
	'12. 1Q	'11. 1Q	Amt.	Change
Net Sales	583.4	537.0	46.4	8.6% ↑
Operating Expense	148.0	146.5	1.5	1.1% ↑
Operating Profit	219.0	189.3	29.7	15.7% ↑
Net Income	176.2	199.2	-23.0	11.6% ↓
Comprehensive Income	196.4	185.6	10.8	5.9% ↑

- Sales increased 8.6% to 583.4 bil. won yoy
  - Sales Amount : Domestic cigarette 10.6% ↑, Export cigarette 2.7% ↑

- OP increased 15.7% to 219.0 bil. won yoy
- NI decreased 11.6% to 176.2 bil. won yoy
  - Net financial gain decreased due to dividend income decline

2-1-2. Sales Analysis - Domestic I

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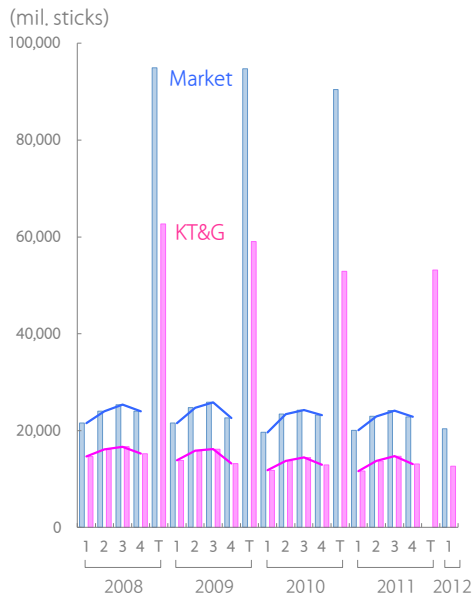
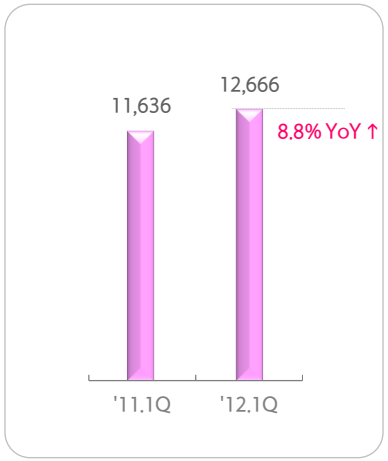
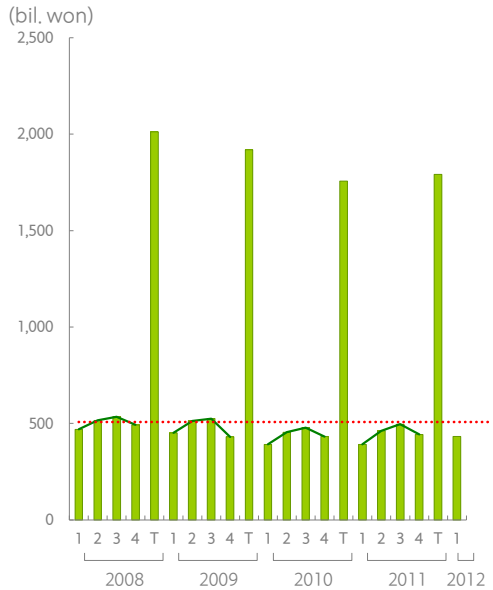
1Q Sales volume and amount grew 8.8%, 10.6% yoy each

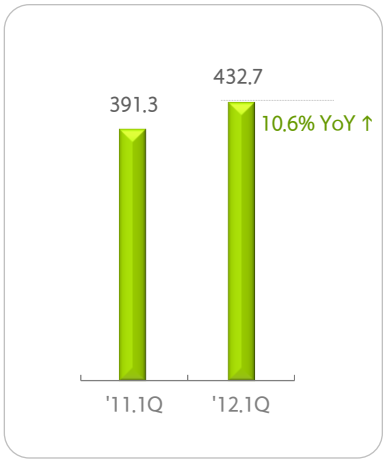
Quarterly Sales Volume Trend





Quarterly Sales Amount Trend





- **Total market volume : 1.6% up, KT&G sales volume : 8.8% up**
  - Total Market : '11.1Q 20.1 bil. sticks → '12.1Q 20.4 bil. sticks (1.6% ↑)
  - KT&G Sales Volume : '11.1Q '11.6 bil. sticks → '12.1Q 12.7 bil. sticks (8.8% ↑)

- **Sales reached to 432.7 bil. won, up 10.6% yoy**
  - Sales Volume : 8.8% ↑, Net ASP : 1.6% ↑
- **Domestic M/S increased hugely**
  - '11.1Q 58.0% → '11.4Q 57.3% → '12.1Q 62.1% (vs. '11.4Q 4.8%p ↑)

2-1-2. Sales Analysis - Domestic II

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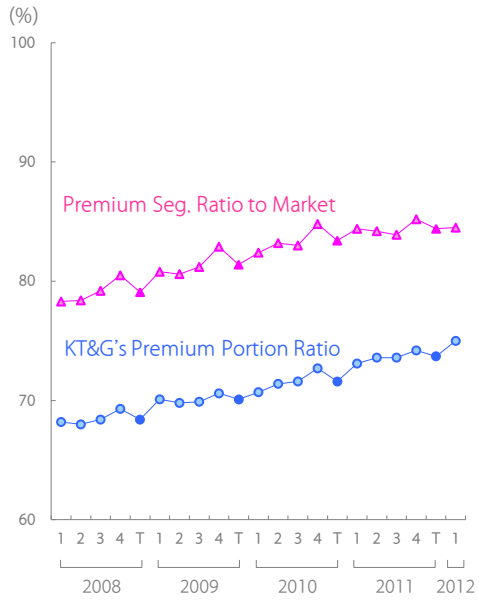
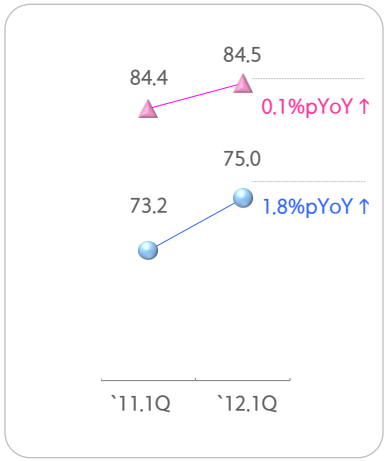
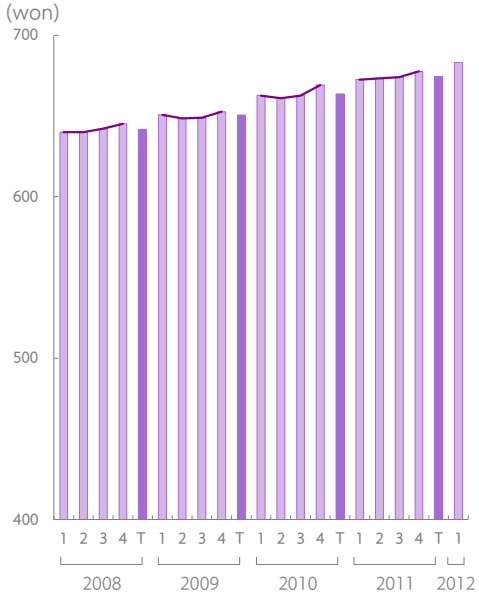
Premium portion and net ASP continued to grow

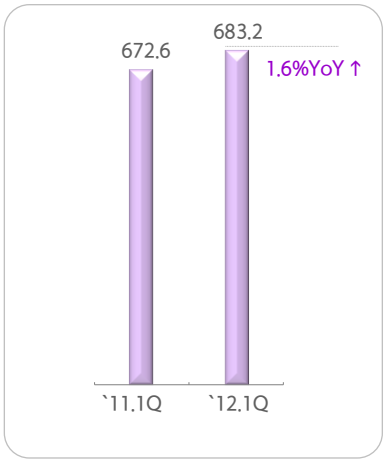
Premium Market Trend





Net ASP Trend





- **Premium portion continued to grow yoy**
  - Total Market : 0.1%p up yoy
  - KT&G : 1.8%p yoy

- **Net ASP grew continuously**
  - Net ASP recorded 683.2 won, up 1.6% yoy
  - Net ASP Trend : '11.1Q 672.6 → '11. 4Q 677.6 → '12.1Q 683.2

2-1-3. Sales Analysis - Overseas I (Export)

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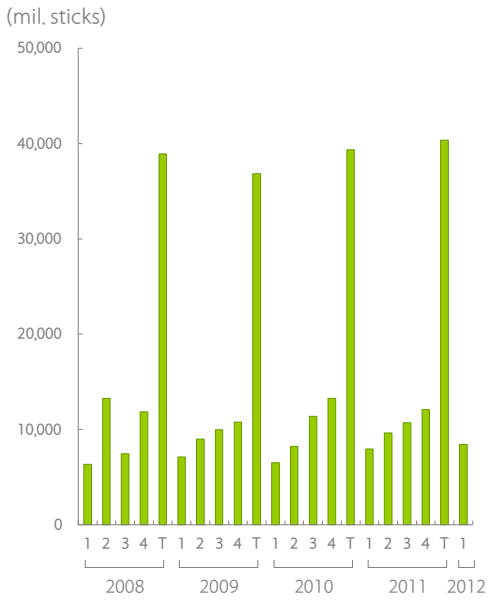
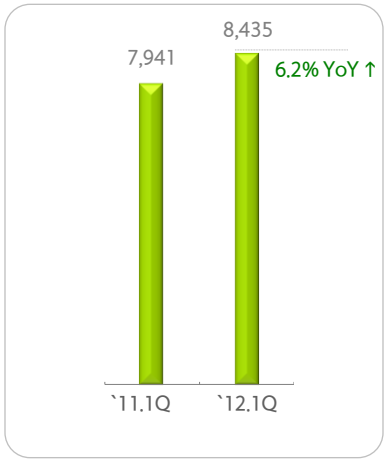
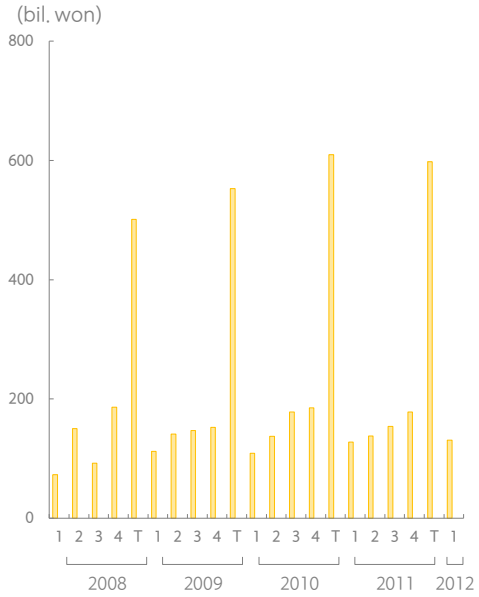
1Q Export volume and amount increased 6.2% , 2.7% yoy respectively

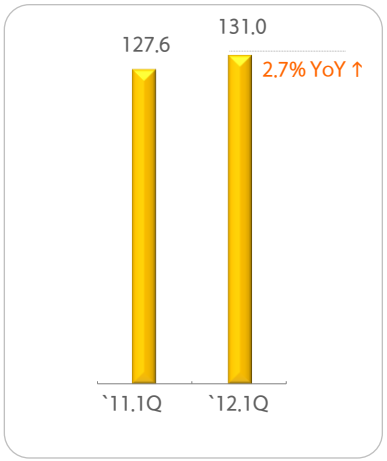
Export Volume Trend





Export Sales Amount Trend





- **Export volume increased yoy**
  - Sold 8.4 bil. sticks, up 6.2% yoy
    - Main Markets : 5.3% ↓, New Market(except M.E./CIS/Russia) 55.7% ↑

- **Export sales amount showed slight increase yoy**
  - Export sales amount grew 2.7% yoy to 131.0 bil. won
  - Sales amount growth rate was slightly lower than volume growth rate due to export ASP decline

2-1-3. Sales Analysis - Overseas II (Subsidiaries + Export)

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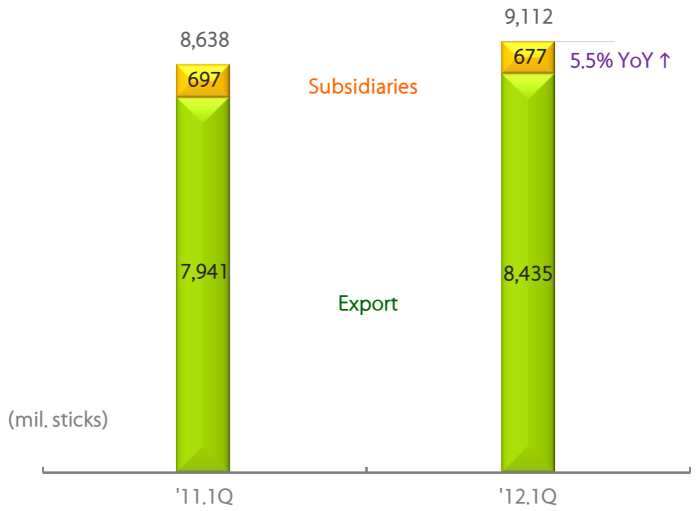
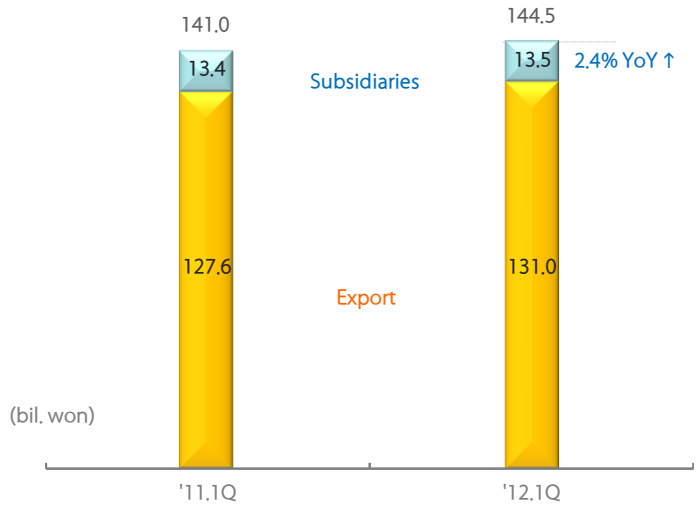
Total overseas sales volume and amount grew by 5.5% and 2.4% yoy each

Overseas Sales Volume



Overseas Sales Amount



- **Total sales volume rose 5.5% to 9.11bil. sticks**
  - Subsidiaries' volume : '11.1Q 697 mil. sticks → '12.1Q 677 mil. sticks (2.9% ↓)
    - KT&G Rus. decreased 50 mil. sticks

- **Sales amount increased 2.4% to 144.5 bil. won**
  - Subsidiaries sales : '11.1Q 13.4 bil. won → '12.1Q 13.5 bil. won (0.2% ↑)

* Overseas subsidiaries include subsidiaries in Russia, Turkey and Iran

2-1-4. Profitability Analysis I

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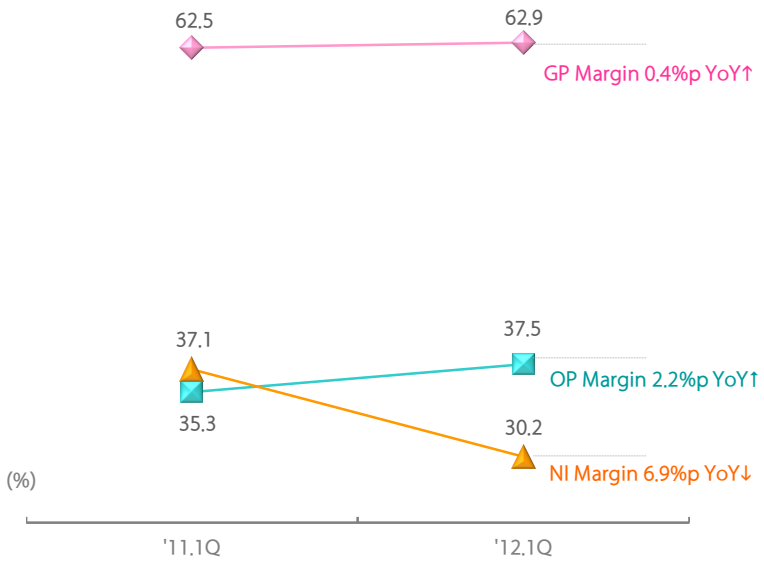
1Q GP and OP rose 9.3% and15.7% yoy

Key Profit Change

(bil. won)	1Q FY12	1Q FY11	Change	
			Amt.	%
Gross Profit	367.0	335.8	31.2	9.3% ↑
Operating Expense (SG&A) (Other Income/Expense)	148.0 (144.6) (-3.4)	146.5 (138.5) (-7.9)	1.5 (6.1) (4.5)	1.1% ↑ (4.4%↑) (-)
Operating Profit	219.0	189.3	29.7	15.7% ↑
Net Profit	176.2	199.2	-23.0	11.6% ↓
Comprehensive Income	196.4	185.6	10.8	5.9% ↑

Key Profitability Ratio Change



- **Both GP and OP highly jumped up yoy**
  - Both COGs Ratio and SG&A Ratio decreased

- **OP margin improved, NI margin decreased yoy**
  - OP margin : 37.5%(up 2.2%p) yoy
  - NI margin : 30.2%(down 6.9%p) yoy

2-1-4. Profitability Analysis II

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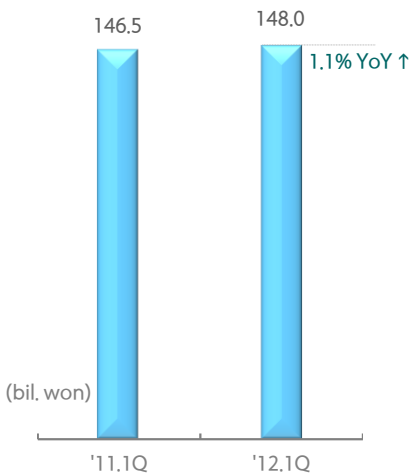
1Q NI achieved 176.2 bil. won, down 11.6% yoy

Operating Expense & Operating Profit

< Operating Expense >



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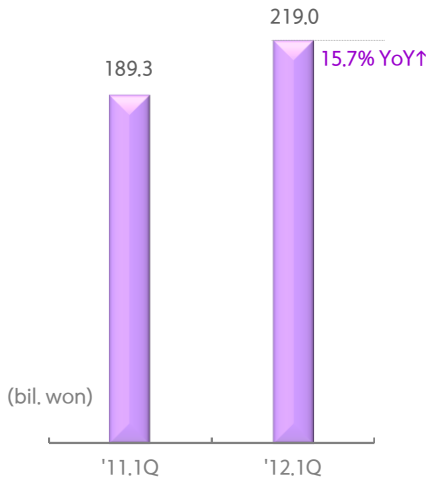
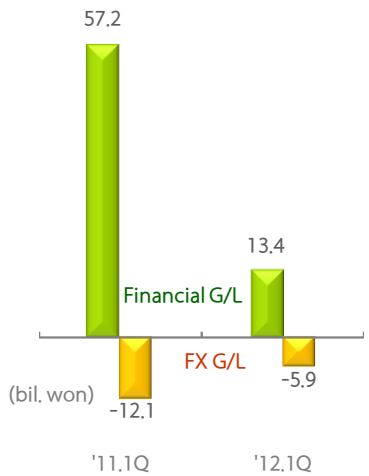


* Operating Expense = SG&A + Other Expense - Other Income

Financial Gain/Loss & Net Income

< Financial/FX Gain & Loss>



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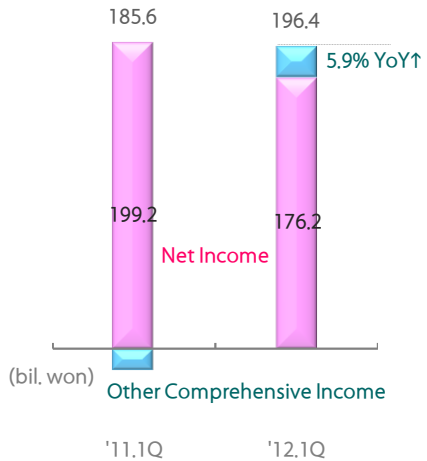


- **OP increased 15.7% yoy**
  - COGs Ratio : '11.1Q 37.5% → '12.1Q 37.1%(0.4%p↓)
  - SG&A Ratio : '11.1Q 25.8% → '12.1Q 24.8%(1.0%p↓)

- **Net income decreased 11.6% yoy**
  - NI : '11.1Q 199.2 bil. won → '12.1Q 176.2 bil. won (11.6%↓)
    - Net financial gain decreased 43.9 bil. won
  - CI : up 5.9% yoy to 196.4 bil. won

2-2-1. KGC - FY12 1Q Business Result Summary

KGC

Sales and OP increased 8.0%, 0.2% yoy respectively

(bil. Won)	YOY		YOY	
	'12. 1Q	'11. 1Q	Amt.	Change
Sales	250.3	231.7	18.6	8.0% ↑
Gross Profit	124.9	124.5	0.4	0.3% ↑
Operating Expense	65.0	64.7	0.3	0.4% ↑
Operating Profit	59.9	59.8	0.1	0.2% ↑
Net Income	45.4	43.3	2.1	4.9% ↑
Comprehensive Income	45.3	43.2	2.1	4.9% ↑

- Sales increased 8.0% yoy to 250.3 bil. won
  - Domestic sales : 11.5%↑ yoy, Overseas sales : 10.1%↓ yoy

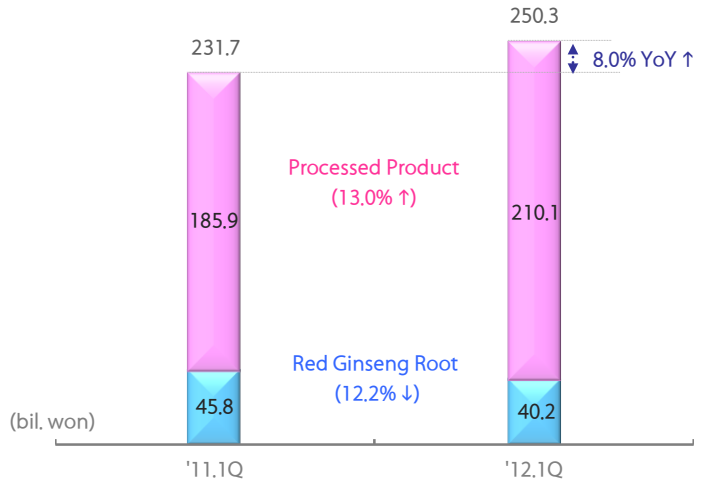
- OP increased 0.2% yoy to 59.9 bil. won
  - COGs increased due to raw material cost hike
- NI increased 4.8% yoy to 45.4 bil. won

2-2-2. Sales Analysis

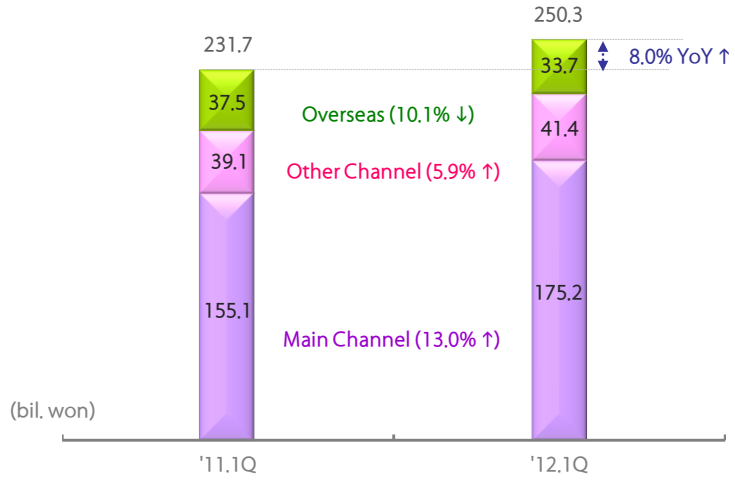
KGC

Sales increased to 250.3 bil. won, up 8.0% yoy

Sales



Sales by Distribution Channel



- Domestic sales for high value added processed product increased
  - '11.1Q (185.9 bil.) vs. '12.1Q (210.1 bil.) 13.0% ↑
- Red Ginseng Root sales in China decreased temporally to manage appropriate inventory level
  - Root: '11.1Q (45.8 bil.) vs. '12.1Q (40.2 bil.) 12.2% ↓

- Domestic : Sales increased through focusing on channels such as big marts and online shopping mall
  - Main Channel : '11.1Q (155.1 bil.) vs. '12.1Q (175.2 bil.) 13.0% ↑
  - Other Channel : '11.1Q (39.1 bil.) vs. '12.1Q (41.4 bil.) 5.9% ↑
- Overseas : Sales decreased to manage proper inventories for overseas subsidiaries
  - '11.1Q (37.5 bil.) vs. '12.1Q (33.7 bil.) 10.1% ↓

2-2-3. Profit Analysis

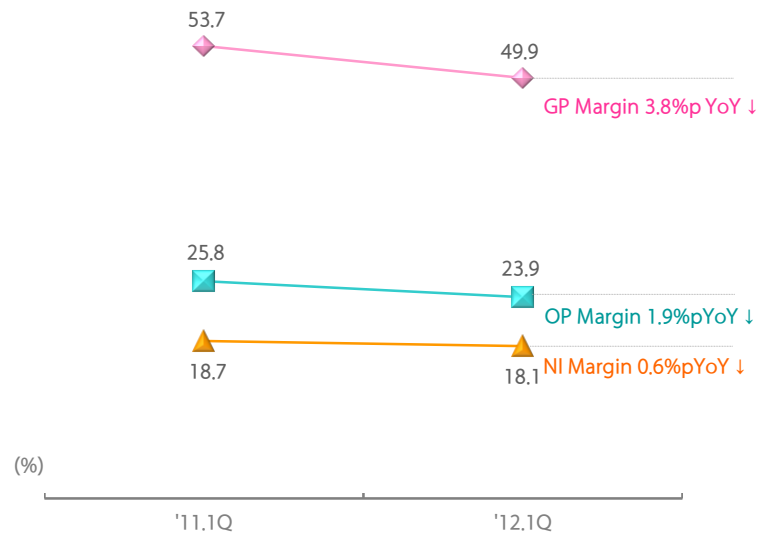
KGC

1Q GP recorded 124.9 bil. won, up 0.3% yoy

Key Profit Change

(bil. won)	1Q FY12	1Q FY11	Change(Amt.)	Change
Gross Profit	124.9	124.5	0.4	0.3% ↑
Operating Expense (SG&A) (Other Income/Expense)	65.0 (65.0) (-)	64.7 (64.7) (-)	0.3 (0.3) (-)	0.5% ↑ (0.5% ↑) (-)
Operating Profit	59.9	59.8	0.1	0.2% ↑
Net Income	45.4	43.3	2.1	4.9% ↑
Comprehensive Income	45.3	43.2	1.2	4.9% ↑

Key Profit Ratio Change



- **Both OP and NI increased yoy**
  - SG&A expense ratio to sales decreased due to effective marketing cost execution

- **Profitability went down slightly yoy**
  - OP Margin : '11.1Q (25.8%) vs.'12.1Q (23.9%) 1.9%p ↓
  - NI Margin : '11.1Q (18.7%) vs.'12.1Q (18.1%) 0.6%p ↓

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Chapter 3. Appendix

- Consolidated F/S
- Separate F/S
  - KT&G
  - KGC

3-1-1. Consolidated Financial Statement

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Summarized Statement of Financial Position

(bil. won)	FY10	FY11	FY12.1Q
Non-Current Assets	2,415.1	2,761.0	2,779.8
-Property Plant Equipment	1,510.8	1,584.3	1,575.6
-Account Receivables and Others	114.5	134.1	128.7
-Investment Properties	121.5	188.4	181.9
-Available-For-Sale Financial Assets	314.2	247.4	275.4
Current Assets	3,362.0	3,515.4	3,731.3
-Inventories	1,497.0	1,572.3	1,480.6
-Cash and Cash Equivalents	981.3	807.7	852.4
-Account Receivables and Others	626.4	833.3	872.5
-Prepaid Cig. Taxes and Others	177.0	201.9	222.4
Total Assets	**5,777.1**	**6,276.4**	**6,511.1**
Non-Current Liabilities	253.4	392.1	452.9
Current Liabilities	925.3	999.2	1,357.8
-Short Term Borrowings	66.5	82.8	79.0
-Account Payables and Others	301.2	422.7	405.7
Total Liabilities	**1,178.7**	**1,391.3**	**1,810.6**
Capital Stock	955.0	955.0	955.0
Treasury Stock	△216.8	△343.5	△343.5
Other Capital Surplus	5.3	5.3	9.5
Gain on Reissuance of Treasury Stock	482.1	485.9	485.9
Reserves	2,179.2	2,663.3	3,049.8
Retained Earnings	1,151.4	1,022.3	451.4
Non-Current Interest	42.1	96.8	92.4
Total Equities	**4,598.3**	**4,885.1**	**4,700.5**
Total Liabilities	**5,777.1**	**6,276.4**	**6,511.1**

Summarized Statement of Comprehensive Income

(bil. won)	FY10	FY11					FY12
		1Q	2Q	3Q	4Q	Total	1Q
Net Sales	**3,461.4**	**824.4**	**898.6**	**1,045.9**	**954.1**	**3,723.0**	**961.6**
COGS	1,446.7	346.8	380.4	453.9	426.5	1,607.6	430.0
Gross Profit	2,014.7	477.6	518.2	592.0	527.6	2,115.4	531.5
Operating Expense	874.6	228.2	236.7	217.1	312.6	994.7	273.4
Operating Profit	**1,140.1**	**249.4**	**281.4**	**374.9**	**214.9**	**1,120.6**	**258.1**
-Financial Gain(Loss)	265.9	7.8	9.6	14.9	6.7	39.1	8.8
-Share of Profit(Loss) of Associates	△0.3	0.1	0.5	0.3	0.3	1.3	1.1
Pre-tax Income	**1,405.7**	**257.4**	**291.6**	**390.1**	**222.0**	**1,161.1**	**268.1**
-Income Tax	374.9	74.2	76.3	108.4	85.3	344.1	81.8
Net Income	**1,030.8**	**183.1**	**215.3**	**281.8**	**136.7**	**816.9**	**186.3**
-Other Comprehensive Income	△125.0	△11.1	△2.5	△25.6	△40.2	△79.4	27.3
Comprehensive Income	**905.8**	**172.0**	**212.8**	**256.2**	**96.6**	**737.6**	**213.6**

3-2-1. Separate Financial Statement - KT&G

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Summarized Statement of Financial Position

(bil. won)	FY10	FY11	FY12.1Q
Non-Current Assets	2,721.1	3,036.3	3,037.6
-Property Plant Equipment	1,196.1	1,163.4	1,147.9
-Account Receivables and Others	84.6	199.0	166.7
-Investment Properties	98.1	165.1	158.6
-Investment in Subsidiaries	840.1	1,054.8	1,067.8
-Available-For-Sale Financial Assets	313.9	247.0	275.1
Current Assets	2,532.6	2,381.2	2,558.7
-Inventories	990.3	904.1	877.3
-Cash and Cash Equivalents	829.0	639.1	615.4
-Account Receivables and Others	527.8	625.8	709.8
-Prepaid Cig,. Taxes and Others	177.0	198.2	218.6
Total Assets	**5,253.8**	**5,417.5**	**5,596.3**
Non-Current Liabilities	145.5	169.6	183.4
Current Liabilities	770.6	704.4	1,075.4
-Short Term Borrowings	8.6	7.0	6.1
-Account Payables and Others	238.6	249.0	251.9
Total Liabilities	**916.1**	**874.0**	**1,258.8**
Capital Stock	955.0	955.0	955.0
Treasury Stock	△216.8	△343.5	△343.5
Other Capital Surplus	3.6	3.6	3.6
Gain on Reissuance of Treasury Stock	482.1	485.9	485.9
Reserves	2,184.7	2,678.8	3,058.1
Retained Earnings	929.1	763.7	178.4
Total Equities	**4,337.7**	**4,543.5**	**4,337.5**
Total Liabilities and Equities	**5,253.8**	**5,417.5**	**5,596.3**

Summarized Statement of Comprehensive Income

(bil. won)	FY10	FY11					FY12
		1Q	2Q	3Q	4Q	Total	1Q
Net Sales	**2,499.9**	**537.0**	**623.6**	**671.6**	**658.6**	**2,490.8**	**583.4**
-Cigarettes	2,366.2	518.9	599.9	649.9	621.5	2,390.1	563.7
-Real Estate	100.5	6.1	7.1	8.4	19.5	41.2	9.6
-Others	33.2	12.0	16.6	13.3	17.6	59.5	10.2
COGS	1,002.2	201.3	241.2	259.3	265.3	967.0	216.3
-Cigarettes	925.8	191.9	227.9	249.5	242.1	911.4	207.7
-Real Estate	56.4	1.0	1.2	1.2	11.4	14.7	1.5
-Others	19.9	8.3	12.1	8.6	11.8	40.8	7.1
Gross Profit	1,497.7	335.8	382.5	412.3	393.3	1,523.9	367.0
Operating Expense	572.7	146.5	155.3	108.9	179.9	590.6	148.0
-SG&A	640.6	138.5	145.1	156.8	185.5	625.9	144.6
-Other Income	130.2	9.2	4.9	60.7	63.1	97.5	7.9
FX Translation and Transaction Gain	15.1	1.0	1.5	57.0	15.5	34.5	2.1
Others	115.1	8.2	3.4	3.8	47.7	63.0	5.9
-Other Expense	62.3	17.1	15.2	12.8	57.6	62.2	11.4
FX Translation and Transaction Loss	22.5	13.1	13.0	7.6	26.0	19.2	8.0
Others	39.8	4.0	2.1	5.2	31.6	43.0	3.4
Operating Profit	**925.0**	**189.3**	**227.1**	**303.4**	**213.4**	**933.2**	**219.0**
-Financial Gain(Loss)	295.1	57.2	9.7	14.7	7.6	89.2	13.4
Pre-tax Income	**1,220.1**	**246.5**	**236.8**	**318.0**	**221.0**	**1,022.4**	**232.4**
-Income Tax	289.0	47.3	57.8	77.5	63.8	246.5	56.2
Net Income	**931.1**	**199.2**	**179.0**	**240.5**	**157.2**	**775.9**	**176.2**
Comprehensive Income	**815.9**	**185.6**	**179.2**	**218.6**	**128.3**	**711.7**	**196.4**

3-2-2. Separate Financial Statement - KGC

KGC

Summarized Statement of Financial Position

(bil. won)	FY10	FY11	FY12.1Q
Non-Current Assets	343.2	420.1	415.0
-Tangible Assets	129.1	190.3	189.9
-Intangible Assets	11.0	13.4	13.2
-Account Receivables and Others	203.1	216.4	211.9
Current Assets	685.2	728.0	798.7
-Inventories	434.8	479.3	409.5
-Account Receivables and Others	160.8	209.7	292.1
-Cash and Cash Equivalents	89.6	39.0	117.4
Total Assets	**1,028.4**	**1,148.1**	**1,213.7**
Non-Current Liabilities	12.7	22.6	24.8
-Account Payable and Others	12.7	22.6	24.8
Current Liabilities	102.0	108.0	126.0
-Accrued Liabilities and Others	67.6	28.5	20.0
-Account Payables and Others	34.4	79.5	106.0
Total Liabilities	**114.7**	**130.6**	**150.8**
Capital Stock	64.9	64.9	64.9
Reserves	674.8	803.2	957.0
Retained Earnings and Others	174.0	149.4	41.0
Total Equities	**913.7**	**1,017.5**	**1,062.9**
Total Liabilities and Equities	**1,028.4**	**1,148.1**	**1,213.7**

Summarized Statement of Comprehensive Income

(bil. Won)	FY10	FY11					FY12
		1Q	2Q	3Q	4Q	Total	1Q
Sales	**842.8**	**231.7**	**233.9**	**286.2**	**188.3**	**940.1**	**250.3**
Red Ginseng Roots	123.4	45.8	52.3	50.1	18.8	167.0	40.2
Red Ginseng Products	714.5	185.2	181.7	235.2	168.9	769.5	205.5
(Ratio)	(84.8)	(79.9)	(77.7)	(82.2)	(88.9)	(81.9)	(82.1)
Others	4.9	0.7	0.0	0.8	2.1	3.6	4.6
COGS	382.2	107.2	114.8	137.6	101.0	460.6	125.4
Gross Profit	460.6	124.5	119.1	148.5	87.3	479.5	124.9
Operating Expense	232.7	64.7	61.9	69.7	76.8	273.2	65.0
SG&A	232.1	64.7	62.2	74.6	76.9	278.4	65.0
Other Income	7.2	1.6	2.4	5.8	1.4	11.1	1.9
Other Expense	7.8	1.7	2.0	0.9	1.3	5.9	1.9
Operating Profit	**227.9**	**59.8**	**57.2**	**78.8**	**10.5**	**206.3**	**59.9**
Financial Gain(Loss)	3.8	0.9	0.8	1.0	0.5	3.2	0.2
Pre-tax Income	**231.7**	**60.7**	**58.0**	**79.8**	**11.0**	**209.5**	**60.1**
Income Tax	56.1	17.4	14.2	20.3	1.3	53.1	14.7
Net Income	**175.6**	**43.3**	**43.8**	**59.6**	**9.7**	**156.4**	**45.4**
Comprehensive Income	**173.9**	**43.2**	**43.8**	**59.5**	**7.4**	**153.9**	**45.3**

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