

FY2016 2Q 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.



Chapter 1. Consolidated Results

- Sales/Profit

1-1. FY16 2Q Consolidated Results Summary



2Q and 1H Consolidated Sales recorded 1 tril. 88.1 bil. won, and 2 tril. 179.4 bil. won

- 2Q consolidated sales increased by 5.4% yoy : KT&G 10.2%↑, KGC 18.1%↑ yoy
- 1H consolidated sales increased by 0.5% yoy : KT&G 0.04%↑, KGC 21.0%↑ yoy

□ 2Q Consolidated Sales

(Unit : bil. KRW)

	YOY		
	2Q FY16	2Q FY15	Change
KT&G	745.5	676.3	10.2%
KGC	253.5	214.7	18.1%
Others	89.1	140.9	△36.8%
Total	1,088.1	1,031.9	5.4%

□ 1H Consolidated Sales

(Unit : bil. KRW)

	YOY		
	1H FY16	1H FY15	Change
KT&G	1,446.7	1,446.1	0.04%
KGC	549.1	453.7	21.0%
Others	183.6	269.0	△31.8%
Total	2,179.4	2,168.8	0.5%

- 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.

1-2. FY16 2Q Consolidated Profit/Loss Summary



2Q Consolidated OP and NI achieved 353.8 bil. won, and 291.6 bil. won respectively

- 2Q Consolidated OP increased by 14.5% yoy : KT&G 22.2% ↑, KGC 12.1% ↑
- 2Q Consolidated NI increased by 11.9% yoy : KT&G 22.7% ↑, KGC 3.7% ↓

□ 2Q Consolidated Profit/Loss

(Unit : bil. KRW)

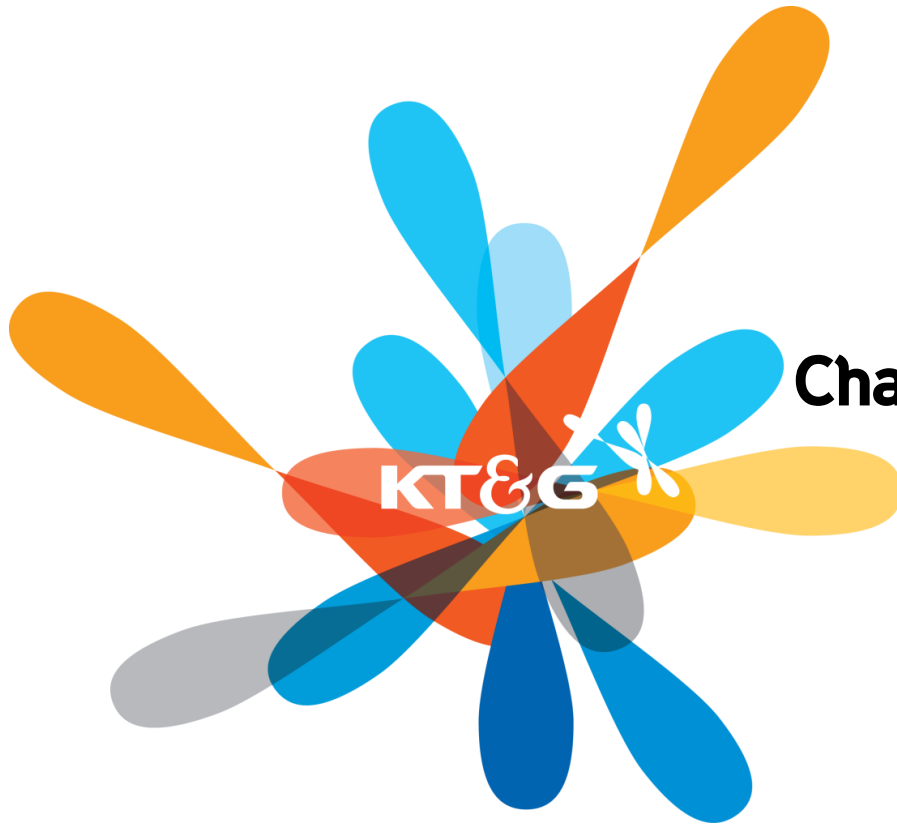
		YOY		
		2Q FY16	2Q FY15	Change
O P	KT&G	330.7	270.7	22.2%
	KGC	35.1	31.3	12.1%
	Others	-12.0	6.9	-
Total		353.8	309.0	14.5%
N I	KT&G	282.3	230.0	22.7%
	KGC	26.9	27.9	△3.7%
	Others	-17.6	2.8	-
Total		291.6	260.7	11.9%

□ 1H Consolidated Profit/Loss

(Unit : bil. KRW)

		YOY		
		1H FY16	1H FY15	Change
O P	KT&G	658.0	650.7	1.1%
	KGC	104.0	79.5	30.8%
	Others	-15.2	1.3	-
Total		746.8	731.5	2.1%
N I	KT&G	536.0	524.4	2.2%
	KGC	78.6	59.4	32.3%
	Others	-38.3	-14.3	-
Total		576.3	569.5	1.2%

- 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. FY16 2Q KT&G Results Summary



2Q Sales and OP increased by 10.2% and 22.2% yoy respectively

- 2Q Sales increased by 10.2% yoy to 745.5 bil. won
 - Domestic cigarette 4.3%↑, Export Cigarette 6.6%↑, Others(Real Estate etc.) 83.1%↑
- 2Q OP and NI rose by 22.2% and 22.7% yoy to 330.7 bil. won, 282.3 bil. won each

□ 2Q Sales & Profit

(Unit : bil. KRW)

	2Q FY16	2Q FY15	Change
Net Sales	745.5	676.3	10.2%
- Domestic	467.8	448.6	4.3%
- Export	193.7	181.7	6.6%
- Others(Real Estate etc.)	84.0	45.9	83.1%
Operating Profit	330.7	270.7	22.2%
Net Income	282.3	230.0	22.7%

□ 1H Sales & Profit

(Unit : bil. KRW)

	1HFY16	1HFY15	Change
Net Sales	1,446.7	1,446.1	0.0%
- Domestic	891.8	1,017.9	△12.4%
- Export	425.9	317.7	34.1%
- Others(Real Estate etc.)	129.0	110.5	16.7%
Operating Profit	658.0	650.7	1.1%
Net Income	536.0	524.4	2.2%

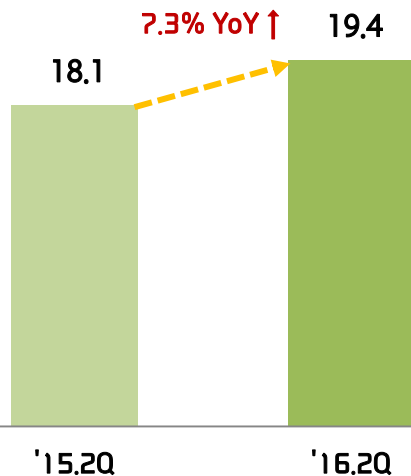
2-2. Domestic Cigarette

Total market volume and KT&G volume in 2Q rose by 7.3%, 8.7% yoy respectively

- FY16 2Q Total Market Volume : 19.4bil. sticks, up 1.3bil. sticks yoy
- FY16 2Q KT&G Volume : 11.5bil. sticks, up 0.9bil. sticks yoy
- KT&G M/S : 59.3%, up 0.8%p yoy and down 0.2%p qoq

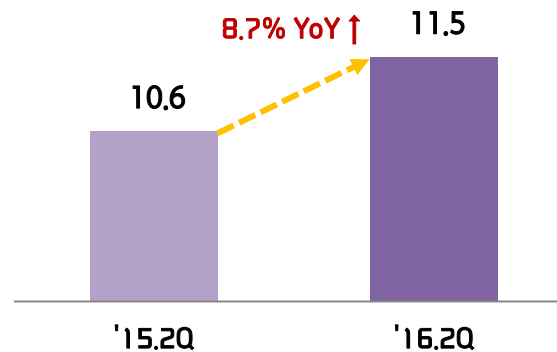
□ Total Market Volume

(Unit : bil. sticks)



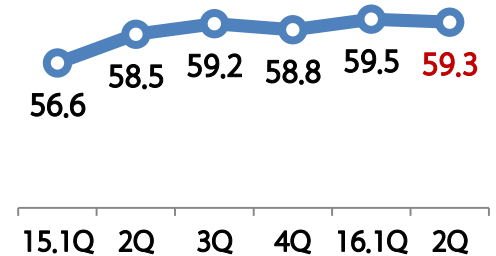
□ KT&G volume

(Unit : bil. sticks)



□ KT&G M/S Trend

(Unit : %)



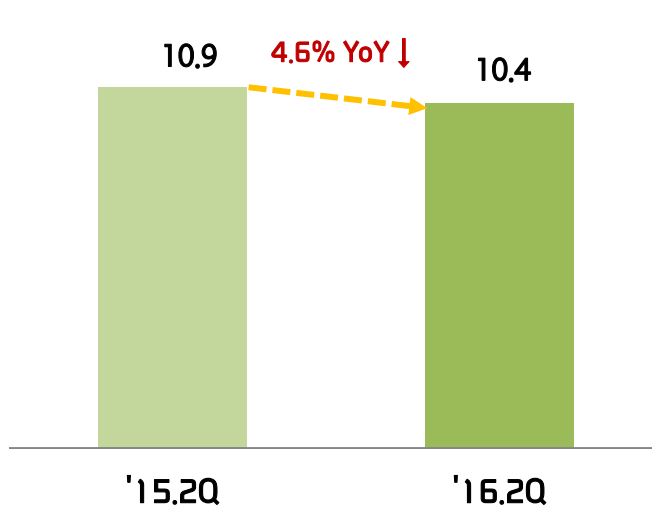
2-3. Overseas Cigarette (Export)

2Q Export volume dropped by 4.6% and sales rose by 6.6% yoy

- Volume dropped by 4.6% yoy ('15. 2Q 10.9bil. sticks → '16. 2Q 10.4bil. sticks)
- Sales rose by 6.6% yoy ('15. 2Q 181.7bil. won → '16. 2Q 193.7bil. won)

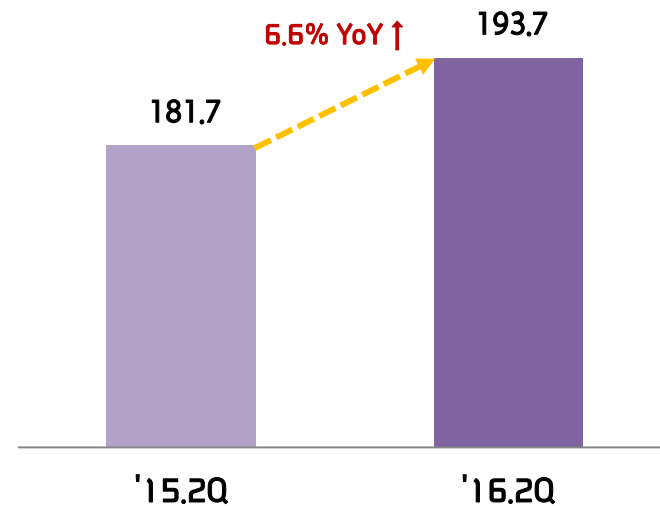
□ Export Cigarette Volume

(Unit : bil. sticks)



□ Export Cigarette Sales

(Unit : bil. KRW)

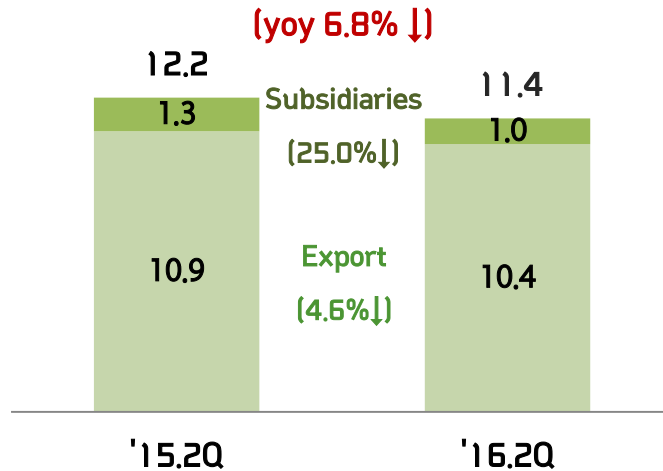


2-3. Overseas Cigarette (Export +Subsidiaries)

2Q Overseas volume dropped by 6.8%, and sales rose by 1.7% yoy

□ Overseas Cigarette Volume

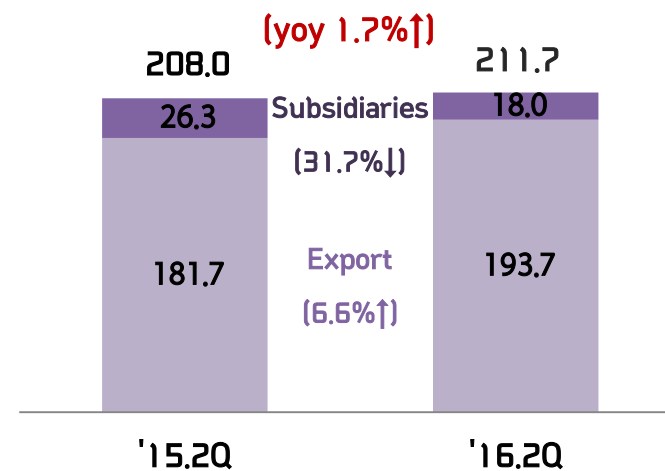
(Unit : bil. sticks)



* Subsidiaries : Russia, Turkey, Iran, Indonesia (KT&G-I, Trisakti, MMM)

□ Overseas Cigarette Sales

(Unit : bil. KRW)



- Overseas Volume : '16. 2Q 11.4bil. sticks (6.8% ↓)
- Export : 4.6% ↓, Subsidiaries : 25.0% ↓

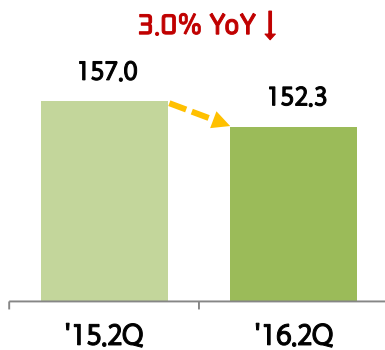
- Overseas Sales : '16. 2Q 211.7bil. won (1.7% ↑)
- Export : 6.6% ↑, Subsidiaries : 31.7% ↓

2-4. Profitability Analysis

FY16 2Q OP and NI increased by 22.2% and 22.7% yoy respectively

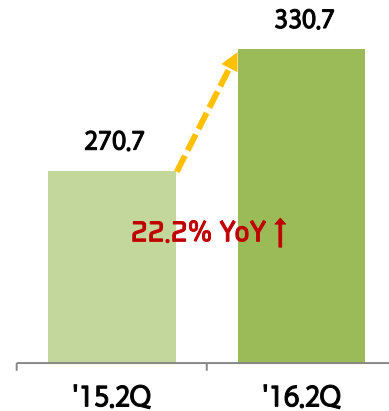
SG&A

(Unit : bil. KRW)



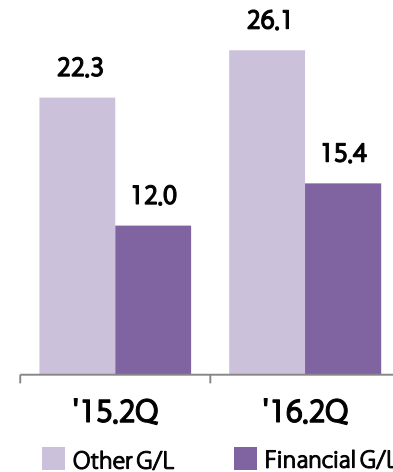
OP

(Unit : bil. KRW)



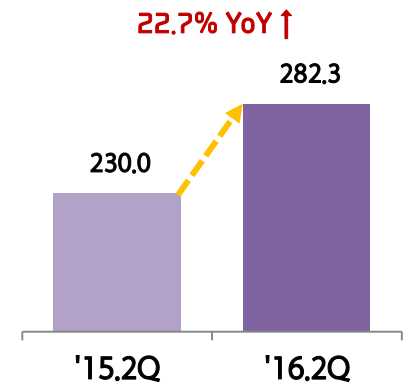
Other/Financial

(Unit : bil. KRW)



NI

(Unit : bil. KRW)



- OP Margin : '15. 2Q 40.0% → '16. 2Q 44.4% (4.4%p↑)
- SG&A Ratio : '15. 2Q 23.2% → '16. 2Q 20.4% (2.8%p↓)

- NI Margin : '15. 2Q 34.0% → '16. 2Q 37.9% (3.9%p↑)
 - Net other gain increase (Disposition of tangible assets ↑)
 - Net financial gain increase (Dividend, interest income, etc.)



Chapter 3. KGC Separate Results

3-1. FY16 2Q KGC Results Summary

2Q Sales and OP rose by 18.1%, 12.1% yoy respectively

- 2Q Sales recorded 253.5bil. won, up 18.1% yoy (Domestic 27.0%↑, Export 50.0%↓)
- 2Q OP rose by 12.1% yoy to 35.1bil. won, NI dropped by 3.7% yoy to 26.9bil. won

□ 2Q Sales & Profit

(Unit : bil. KRW)

	2Q FY16	2Q FY15	Change
Net Sales	253.5	214.7	18.1%
- Domestic	241.1	189.9	27.0%
- Export	12.4	24.8	△50.0%
Operating Profit	35.1	31.3	12.1%
Net Income	26.9	27.9	△3.7%

□ 1H Sales & Profit

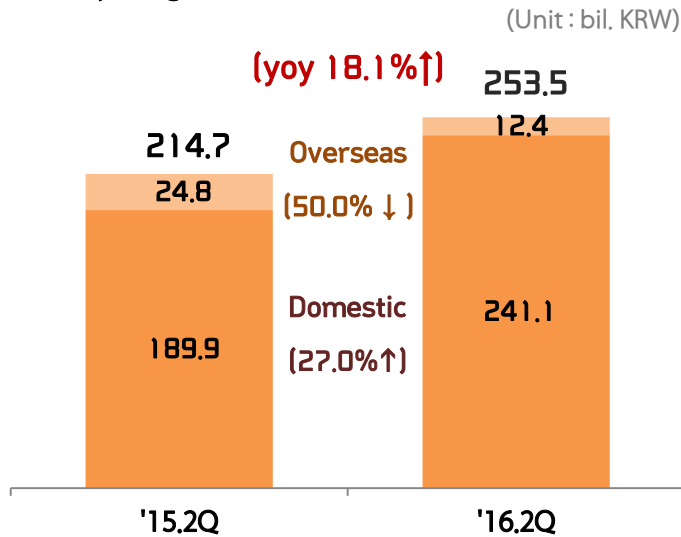
(Unit : bil. KRW)

	1HFY16	1HFY15	Change
Net Sales	549.1	453.7	21.0%
- Domestic	525.3	410.5	28.0%
- Export	23.8	43.2	△44.9%
Operating Profit	104.0	79.5	30.8%
Net Income	78.6	59.4	32.3%

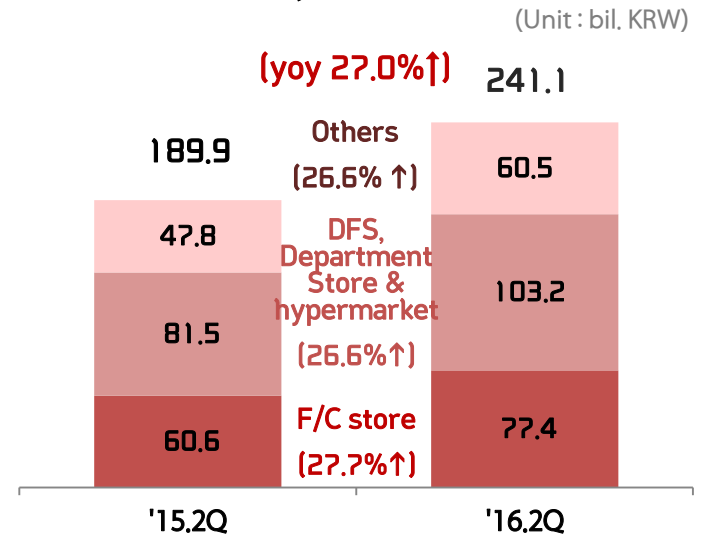
3-2. Sales Analysis

2Q Domestic sales grew through overall channels

□ Sales by Regions



□ Domestic Sales by Channels

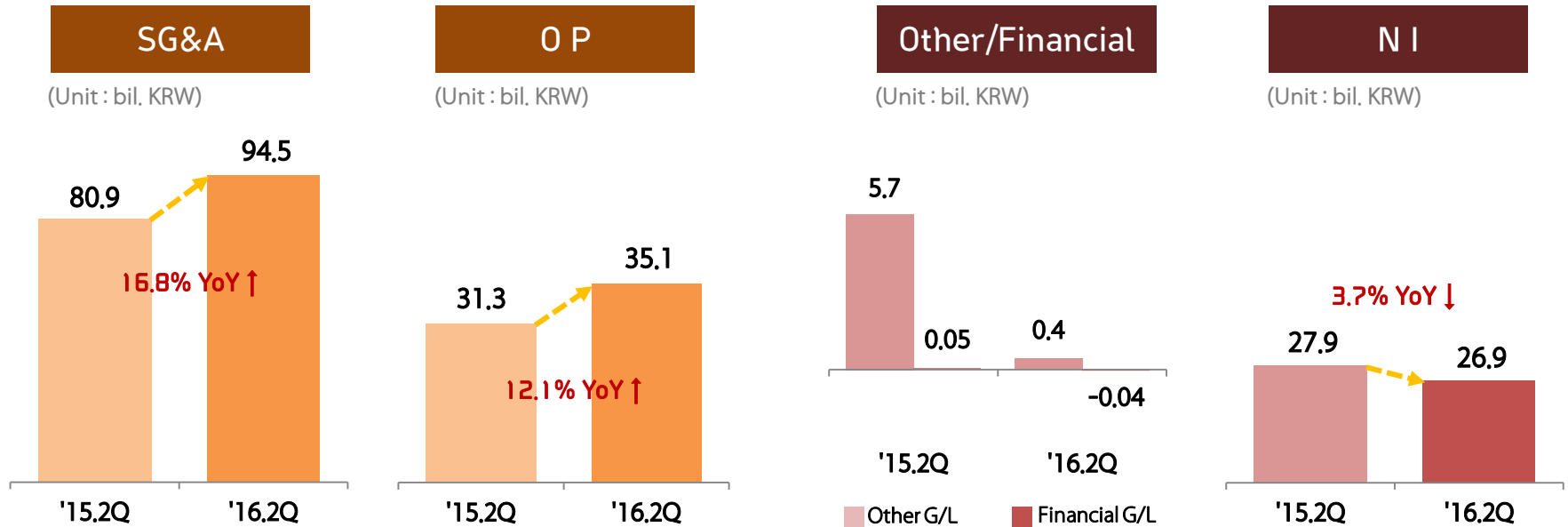


- Domestic sales rose, but overseas dropped
 - Domestic sales in 2Q rose by 27.0% yoy
 - Overseas sales in 2Q dropped by 50.0% yoy

- Overall channels showed growth
 - F/C store increased by 27.7% yoy
 - DFS, Department Store & hypermarket grew 26.6% yoy
 - Others increased by 26.6% yoy

3-3. Profitability Analysis

2Q OP rose by 12.1% yoy, NI dropped by 3.7% yoy respectively



- OP Margin : '15. 2Q 14.6% → '16. 2Q 13.8% (0.8%p ↓)
 - Due to moving Wonju factory facilities, ratio of cost sales increased yoy
- SG&A Ratio : '15. 2Q 37.7% → '16. 2Q 37.3% (0.4%p ↓)

- NI Margin : '15. 2Q 13.0% → '16. 2Q 10.6% (2.4%p ↓)
 - Net other gain decreased by 5.3 bil. won
 - Net financial gain decreased by 0.09 bil. won



Chapter 4. Appendix

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

4-1. Consolidated Financial Statement



□ Summarized Statement of Financial Position

(bil. KRW)	FY14	FY15	'16. 2Q
Non-Current Assets	3,010.1	3,102.5	3,137.0
-Property Plant Equipment	1,753.4	1,789.8	1,668.6
-Investment Properties	168.0	164.5	284.2
-Equity Accounted Investments	57.9	51.5	38.2
-Available-For-Sale Financial Assets	325.8	364.7	355.7
Current Assets	4,408.2	5,564.2	5,483.6
-Inventories	1,982.5	2,119.1	1,970.6
-Cash and Cash Equivalents	416.4	546.2	635.4
-Other Financial Assets	668.4	1,136.9	969.8
-Account Receivables and Others	989.8	1,217.9	1,273.9
-Prepaid Cig. Taxes and Others	260.8	447.8	480.7
Assets Held For Sale	0.4	6.7	5.2
Total Assets	7,418.7	8,673.4	8,625.8
Non-Current Liabilities	586.0	526.2	558.7
Current Liabilities	1,124.6	1,871.7	1,622.3
-Account Payables and Others	982.7	606.4	597.6
-Short Term Borrowings	141.9	206.4	102.2
Total Liabilities	1,710.6	2,397.9	2,181.0
Capital Stock	955.0	955.0	955.0
Treasury Stock	-339.1	-337.1	-331.8
Gain on Reissuance of Treasury Stock	492.0	494.6	505.2
Other Capital Surplus	-4.6	-9.9	-10.1
Reserves	3,426.4	3,704.3	4,277.1
Retained Earnings	1,100.9	1,402.0	981.2
Total Equities	5,708.1	6,275.5	6,444.7
Total Liabilities and Equities	7,418.7	8,673.4	8,625.8

□ Summarized Statement of Comprehensive Income

(bil. KRW)	FY14	FY15	'15. 2Q	'16. 2Q
Net Sales	4,112.9	4,169.8	1,031.9	1,088.1
COGS	1,840.8	1,630.6	449.9	437.3
Gross Profit	2,272.0	2,539.2	582.0	650.8
SG&A	1,100.2	1,173.3	273.1	297.0
Operating Profit	1,171.9	1,365.9	309.0	353.8
Other Income & Expense	-61.3	-41.4	23.3	23.2
Financial Gain(Loss)	44.1	16.0	20.0	13.2
Share of Profit(Loss) of Associates	3.2	0.5	2.1	0.8
Pre-tax Income	1,157.9	392.6	354.4	391.0
Income Tax	344.1	107.8	93.7	99.4
Net Income	813.8	284.7	260.7	291.6
Other Comprehensive Income	-68.4	12.3	0.9	-7.0
Comprehensive Income	745.4	297.0	261.6	284.6

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



□ Summarized Statement of Financial Position

(bil. KRW)	FY14	FY15	'16. 2Q
Non-Current Assets	3,311.6	3,469.0	3,528.3
-Property Plant Equipment	1,279.7	1,309.6	1,190.0
-Investment Properties	140.1	136.8	256.6
-Investment in Subsidiaries	1,081.8	1,124.4	1,153.4
-Available-For-Sale Financial Assets	303.4	340.1	332.6
Current Assets	2,982.9	3,978.7	3,899.2
-Inventories	910.4	889.0	849.5
-Cash and Cash Equivalents	321.6	444.4	442.9
-Other Financial Assets	640.0	1,092.0	920.0
-Account Receivables and Others	824.9	1,074.9	1,154.3
-Prepaid Cig., Taxes and Others	260.8	447.8	480.7
Assets Held for Sale	0	1.5	0
Total Assets	6,294.9	7,449.2	7,427.5
Non-Current Liabilities	167.1	123.0	128.0
Current Liabilities	786.1	1,429.8	1,284.1
-Account Payables and Others	347.2	433.8	428.0
-Short Term Borrowings	5.6	5.0	4.5
Total Liabilities	1,128.7	1,552.7	1,412.1
Capital Stock	955.0	955.0	955.0
Treasury Stock	-339.1	-337.1	-331.8
Gain on Reissuance of Treasury Stock	492.0	494.6	505.2
Other Capital Surplus	3.6	3.6	3.6
Reserves	3,493.8	3,784.5	4,347.5
Retained Earnings	736.5	995.9	536.0
Total Equities	5,341.7	5,896.5	6,015.4
Total Liabilities and Equities	6,294.9	7,449.2	7,427.5

□ Summarized Statement of Comprehensive Income

(bil. KRW)	FY14	FY15	'15. 2Q	'16. 2Q
Net Sales	2,742.6	2,821.7	676.3	745.5
-Cigarettes	2,500.0	2,607.7	630.4	661.5
-Real Estate	160.3	142.8	27.5	54.3
-Others	82.2	71.2	18.4	29.7
COGS	1,063.8	946.6	248.5	262.5
-Cigarettes	914.4	813.6	223.1	208.0
-Real Estate	96.1	84.9	13.6	35.8
-Others	53.4	48.1	11.8	18.7
Gross Profit	1,678.8	1,875.0	427.7	483.0
SG&A	624.2	637.7	157.0	152.3
Operating Profit	1,054.6	1,237.3	270.7	330.7
Other Income & Expense	-85.4	1.1	22.3	26.1
-Other Income	71.9	104.5	29.2	33.8
FX related Gain	46.0	66.9	19.2	16.6
Others	25.9	37.5	10.0	17.2
-Other Expense	157.3	103.4	7.0	7.7
FX related Loss	13.9	12.9	2.8	5.2
Others	143.4	90.4	4.2	2.5
Financial Gain(Loss)	76.3	81.0	12.0	15.4
Pre-tax Income	1,045.5	1,319.4	305.0	372.2
-Income Tax	298.4	331.5	75.0	90.0
Net Income	747.1	987.9	230.0	282.3
Comprehensive Income	712.2	978.2	228.5	273.3

4-3. Separate Financial Statement (KGC)

□ Summarized Statement of Financial Position

(bil. KRW)	FY14	FY15	'16 2Q
Non-Current Assets	543.1	521.8	600.9
-Tangible Assets	261.1	291.1	284.8
-Intangible Assets	10.4	9.2	8.3
-Others	271.6	221.5	307.8
Current Assets	1,094.3	1,240.1	1,168.6
-Inventories	892.6	1,059.4	929.7
-Cash and Cash Equivalents	4.5	3.4	21.8
-Others	197.2	177.2	217.0
Total Assets	1,637.4	1,761.9	1,769.5
Non-Current Liabilities	63.2	77.1	92.7
Current Liabilities	179.7	222.5	136.9
-Short Term Borrowings	102.9	141.0	43.0
-Others	76.8	81.4	94.0
Total Liabilities	242.9	299.6	229.6
Capital Stock	69.1	69.1	69.1
Capital Surplus	93.9	93.9	93.9
Reserves	1,143.4	1,233.1	1,298.4
Retained Earnings	88.0	66.3	78.5
Other Comprehensive Income	0	0	0
Total Equities	1,394.5	1,462.4	1,539.9
Total Liabilities and Equities	1,637.4	1,761.9	1,769.5

□ Summarized Statement of Comprehensive Income

(bil. KRW)	FY14	FY15	'15. 2Q	'16. 2Q
Sales	812.8	917.8	214.7	253.5
- Red Ginseng Roots	123.8	104.3	33.1	18.3
- Red Ginseng Products	687.6	811.8	179.2	233.0
(Ratio)	(84.6)	(88.4)	(83.5)	(91.9)
- Others	1.4	1.7	2.4	2.3
COGS	401.7	438.6	102.5	123.9
Gross Profit	411.1	479.2	112.3	129.6
SG&A	281.0	345.8	80.9	94.5
Operating Profit	130.1	133.4	31.3	35.1
Other Income & Expense	-3.2	-26.8	5.7	0.4
- Other Income	8.0	7.4	1.7	1.0
- Other Expense	11.2	34.2	-4.0	0.6
Financial Gain(Loss)	0.5	-0.9	0.05	-0.04
Pre-tax Income	127.4	105.7	37.1	35.4
- Income Tax	34.2	36.4	9.2	8.5
Net Income	93.2	69.3	27.9	26.9
Comprehensive Income	85.7	67.9	26.7	24.2