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# KT&G FY2023 Second Quarter Results

2023. 8. 3 | 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

## **Global NGP Stick Volume Grew by 72.7%, Continuing to Enhance Profitability**

Sustained expansion of consumer base in launched markets led to more robust growth in stick sales

Higher share of sticks within the mix enables outlook for further improvements in profitability

## **Global CC Export Grew by 6.0% in Revenue and 42.6% in Operating Profit**

Engaged in profitability enhancement through pricing in major regions including ME, Africa, Latin America and Russia

Accelerated blitzscaling via a dual-track approach of i) pricing and higher share of premium segment in existing markets, and ii) expanded penetration into new markets with mid-to-low segment products

## **Global HFF Revenue Grew by 31.4%, with Share of Global Operation Reaching 25.7%**

132.2% revenue growth in China, a top priority target market, drove increase in overall global HFF revenue

Focus to remain on global revenue growth with continued aggressive penetration into China

## **Earnings to Gradually Rebound H–H Supported by Growth in the 3 Core Businesses, despite lasting impact from COGS inflation and shrinking profit due to completion of Suwon Project**

1. 2Q 2023 Performance Highlights

# Consolidated Results

## Revenue

**KRW 1.34trn**

YoY -5.7%

(units KRW bn)

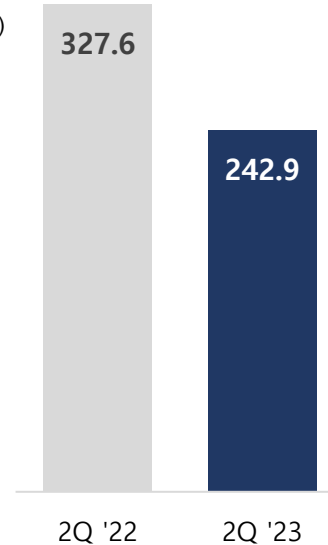


## Operating Profit

**KRW 242.9bn**

YoY -25.9%

(units KRW bn)



## Net Income

**KRW 199.0bn**

YoY -41.3%

## Earnings per Share

**KRW 1,702**

YoY -39.9%

## EBITDA / EBITDA Margin

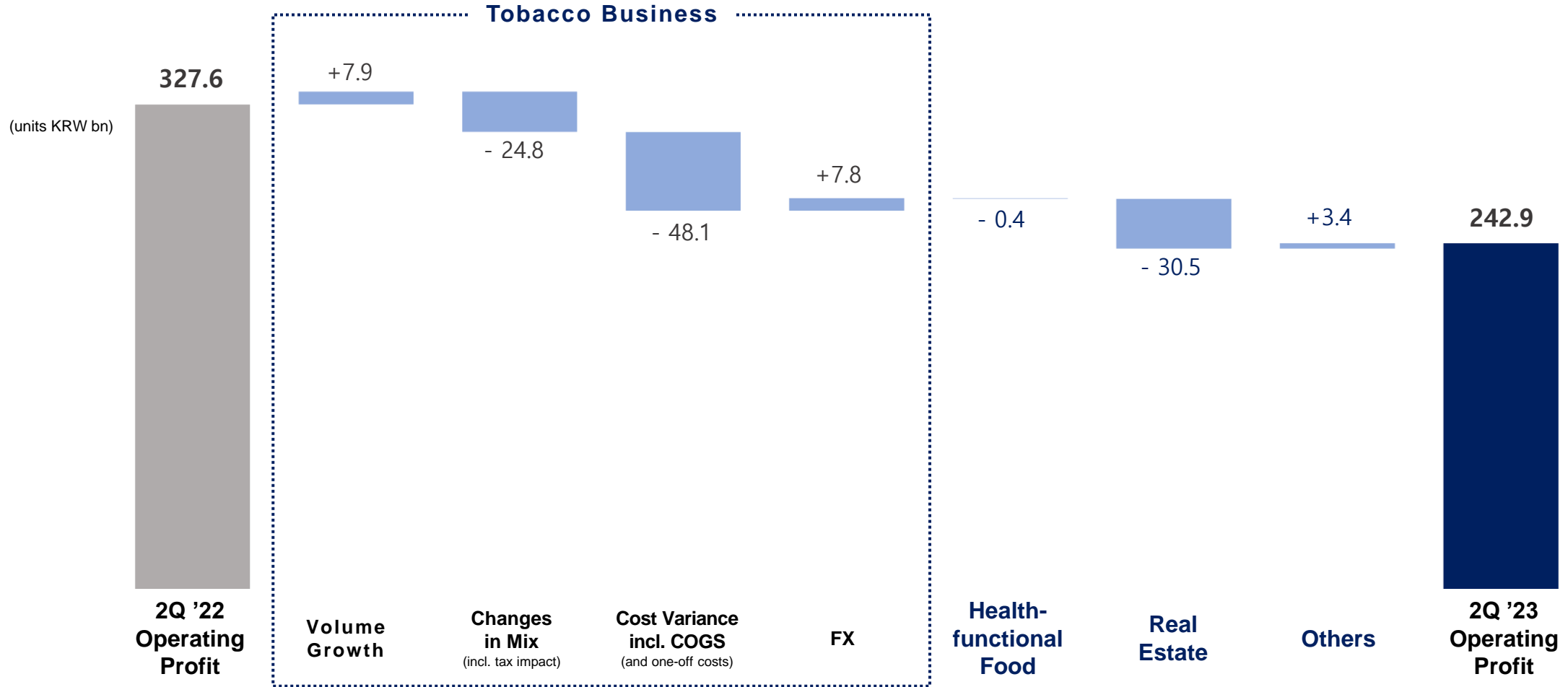
**KRW 302.4bn / 22.6%**

YoY -21.2%

YoY -4.4%p

1. 2Q 2023 Performance Highlights

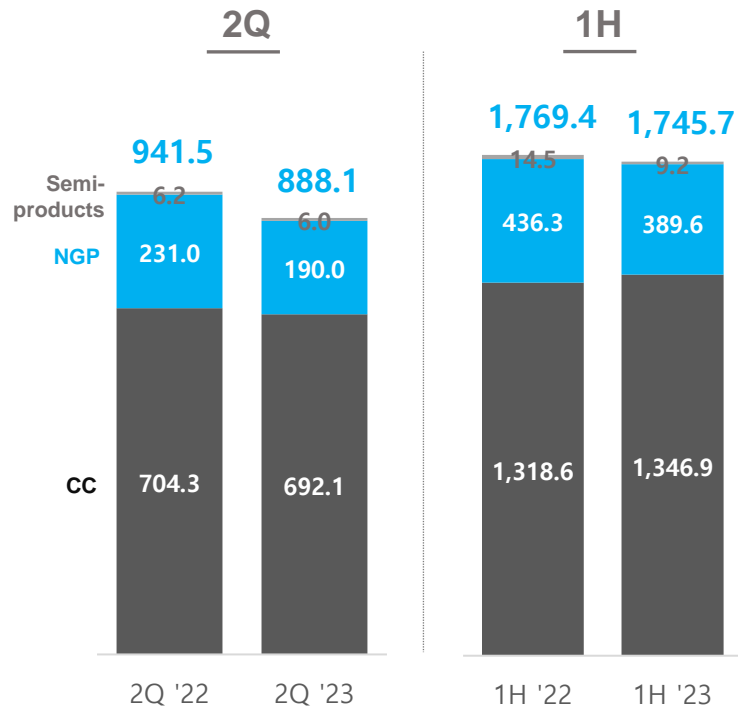
# Movement in Operating Profit



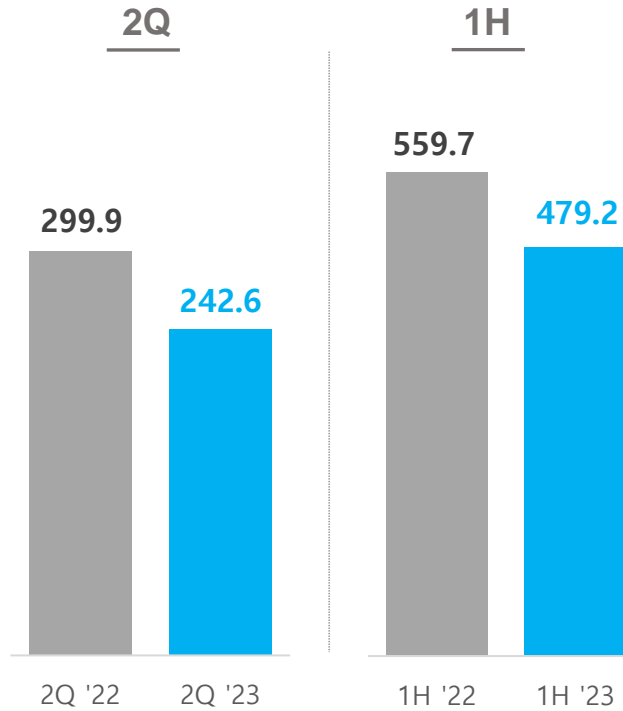
## 2. Performance by Business

# Tobacco Business

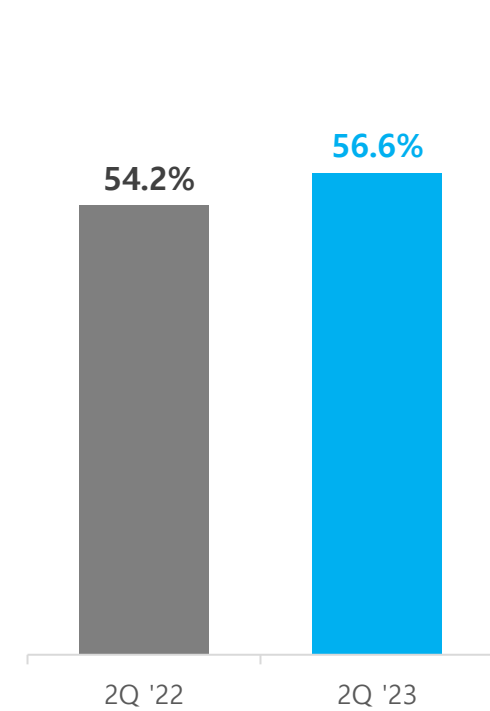
Revenue (KRW bn)



Operating Profit (KRW bn)



Share of Global Operation (volume)

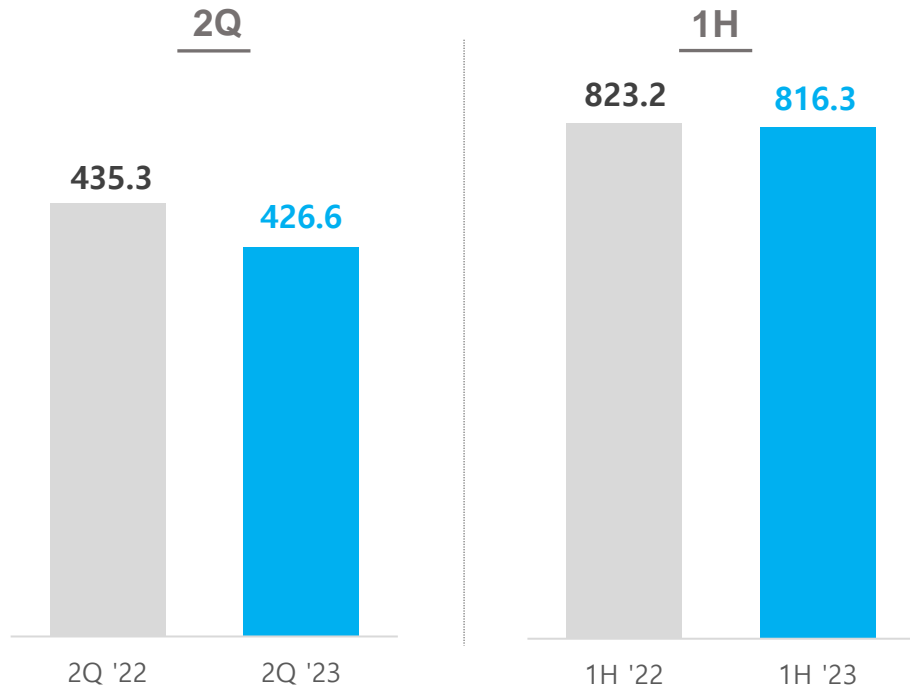


## 2. Performance by Business

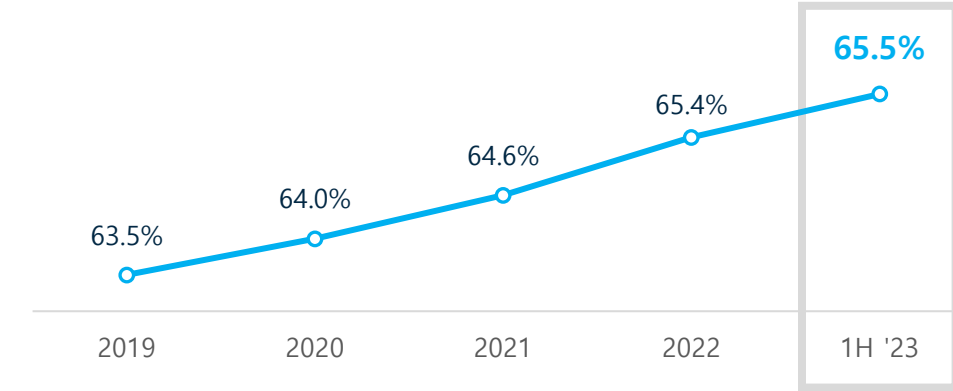
# Tobacco\_Domestic CC

- Slightly reduced revenue year-over-year(-2.0%) due to volume drop (YoY -3.1%) impacted by **further contraction of total market volume (YoY -2.9%)**
- Partial impact from one-off events including temporary suspension and voluntary recall** of certain products in Q2

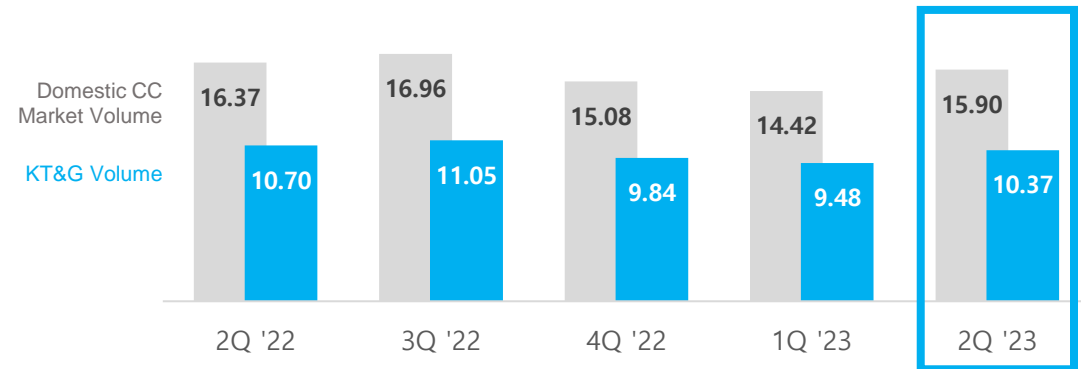
Revenue (KRW bn)



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



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



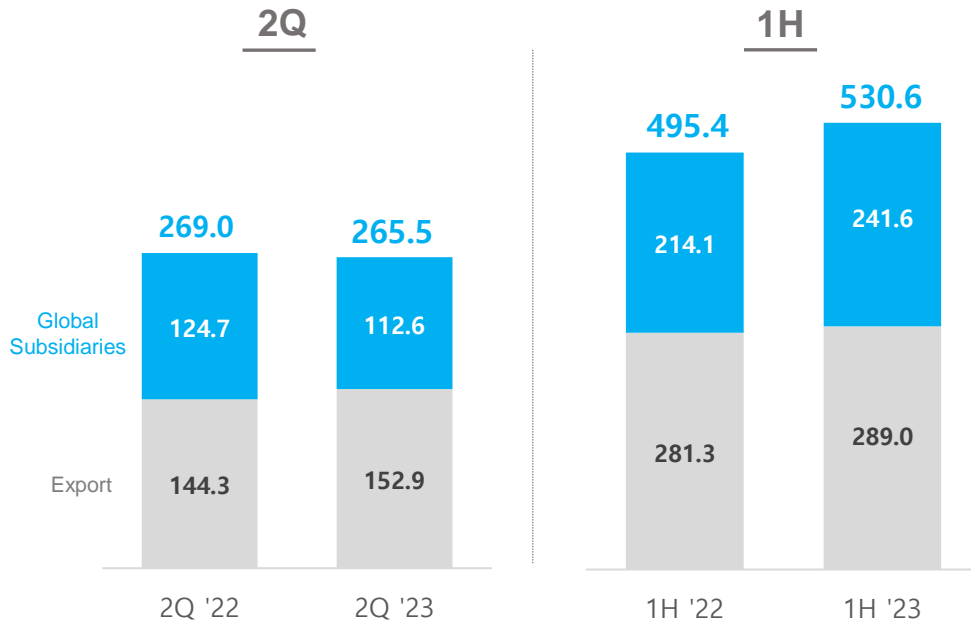
1) Source : Korea Tobacco Association data based on shipment volumes to general store, centralized logistics, specialized channels, etc.

## 2. Performance by Business

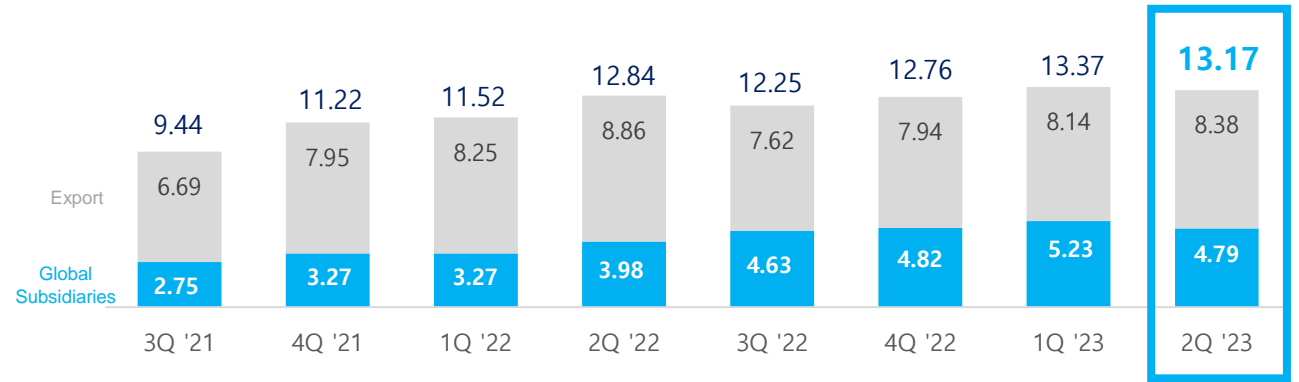
# Tobacco\_Global CC

- (Export) Decline in quarter volumes (YoY-5.4%) due to **impact from shipment delays in regions including APAC and ME** / Revenue grew driven by pricing (YoY+5.9%)
- (Subsidiaries) Continued **volume growth** (YoY+20.4%) driven by Russia and Türkiye / Revenues down (by YoY-9.7%) due to unfavorable comparison caused by dramatic tax hikes in **Indonesia mainly due to volumes surpassing threshold for maximum tax**

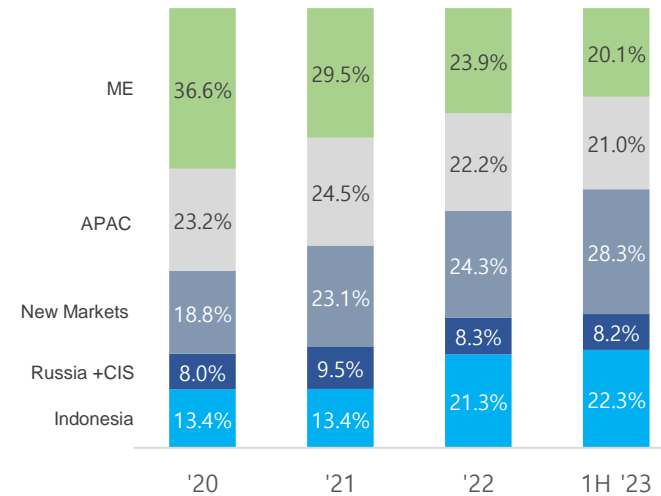
Revenue (KRW bn)



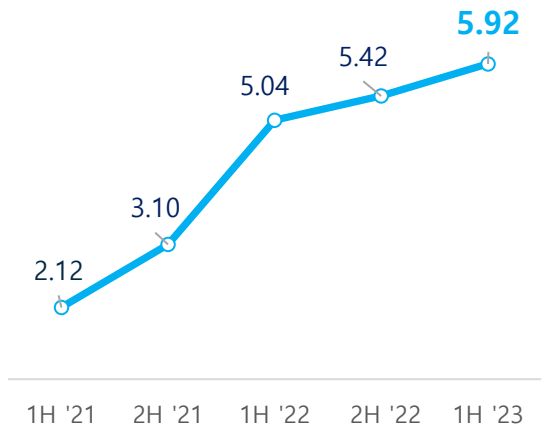
Volume (bn sticks)



Volume Share per Region (%)



Indonesia Volume (bn sticks)



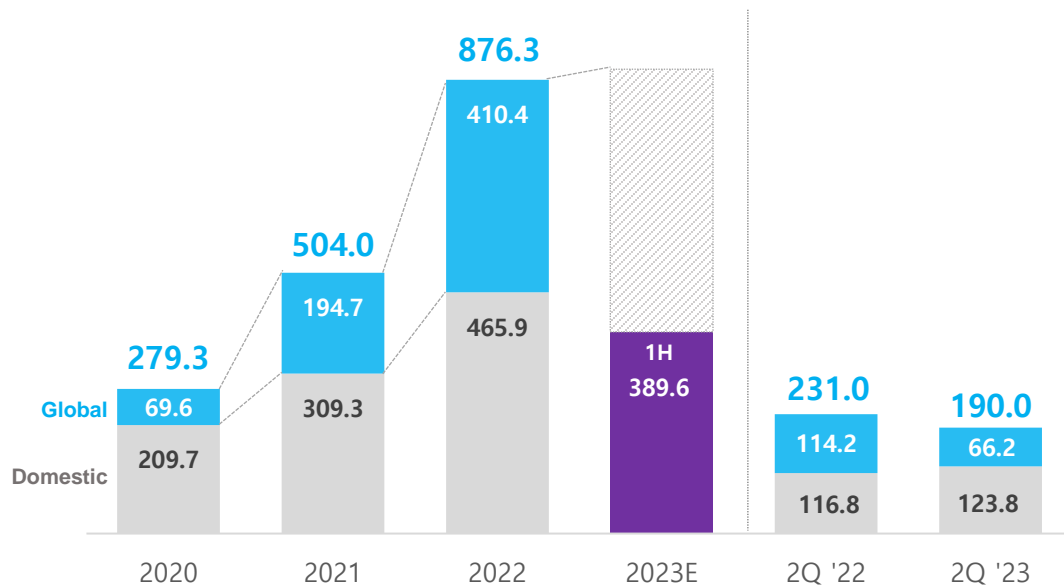


## 2. Performance by Business

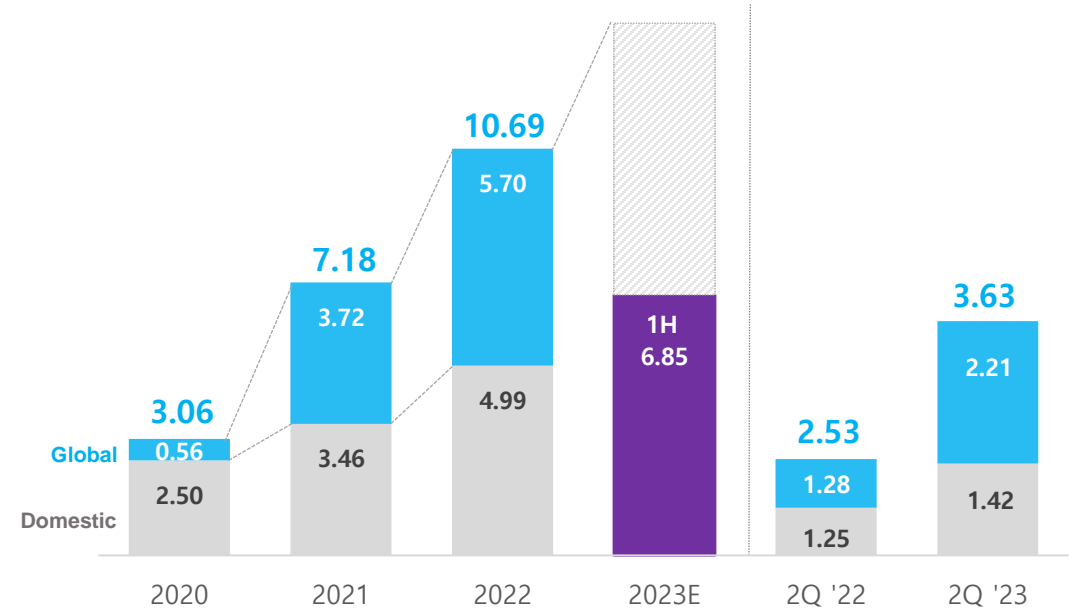
# Tobacco\_NGP (Next Generation Products)

- Domestic and global NGP, our core growth drivers, **sustained significant growth in stick volume** (YoY 43.5%)
- Revenue declined year-over-year (-17.7%) with lower global NGP revenue due to unfavorable comparison against the **high basis of preemptive device export volumes** amid the global supply disruption in the previous year

Revenue (KRW bn)



Stick Volume (bn sticks)

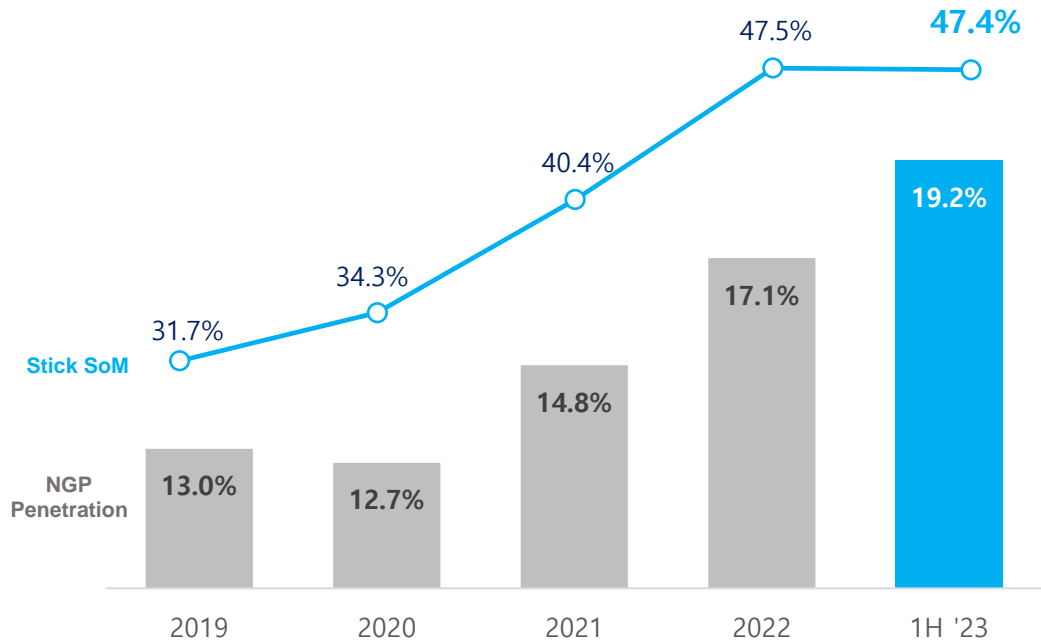


## 2. Performance by Business

# Tobacco\_NGP (Next Generation Products)

### Domestic Operation

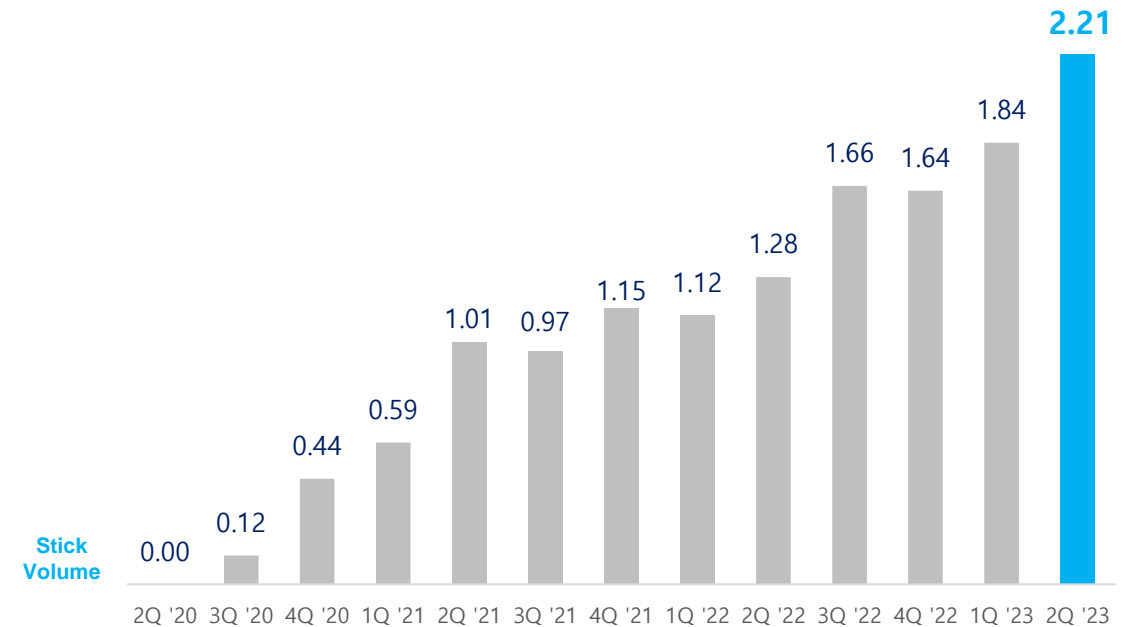
- **Intensified penetration** of the category with higher demand for NGP
- **Maintained market leadership despite stronger competition in the market** with new products launched by competitors



1) CVS offtake data

### Global Operation (bn sticks)

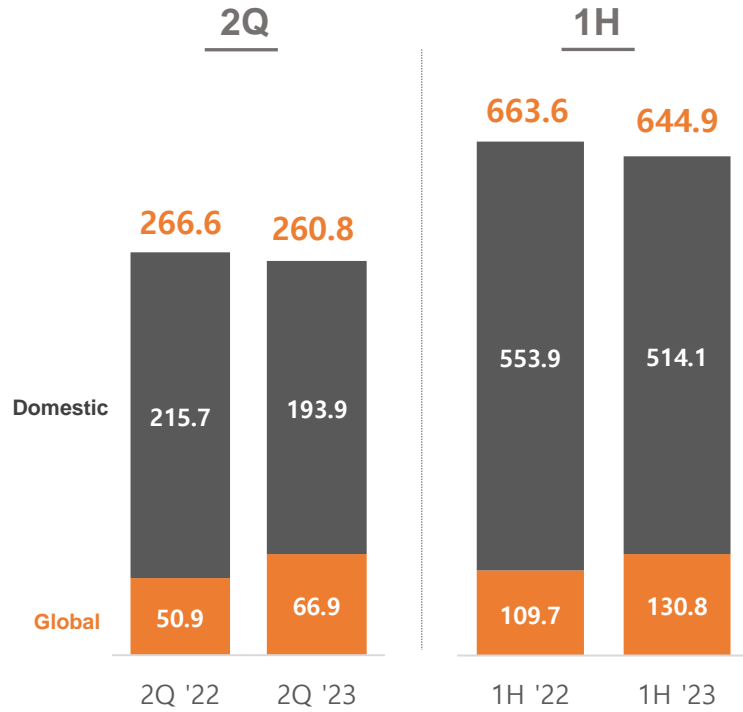
- **Continued robust growth in stick volume** (YoY +72.7%) with expanded consumer base in existing markets



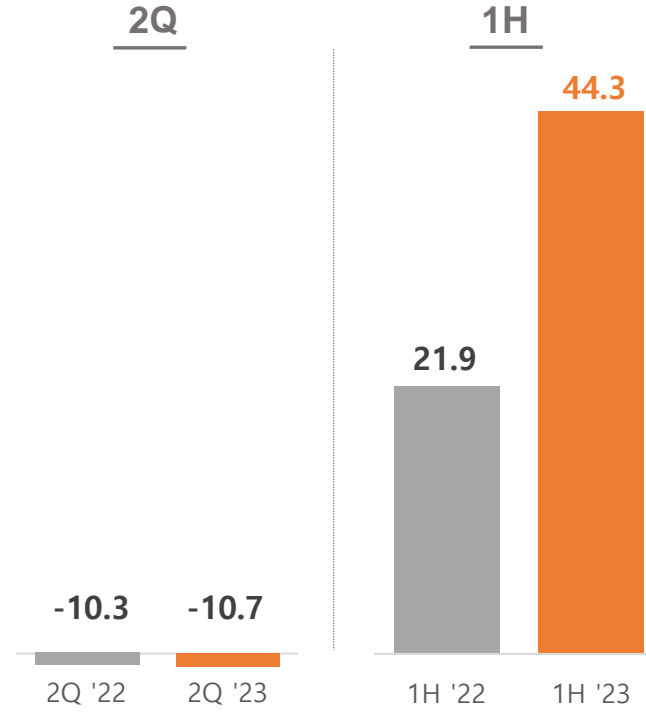
## 2. Performance by Business

# Health-Functional Food

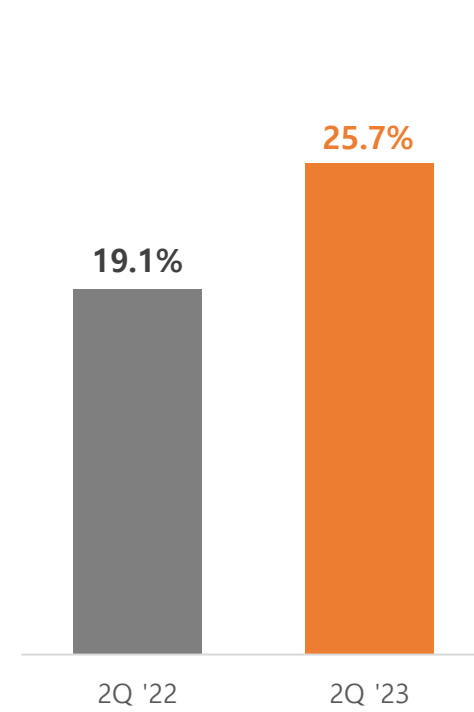
Revenue (KRW bn)



Operating profit (KRW bn)



Share of Global Operation (revenue)

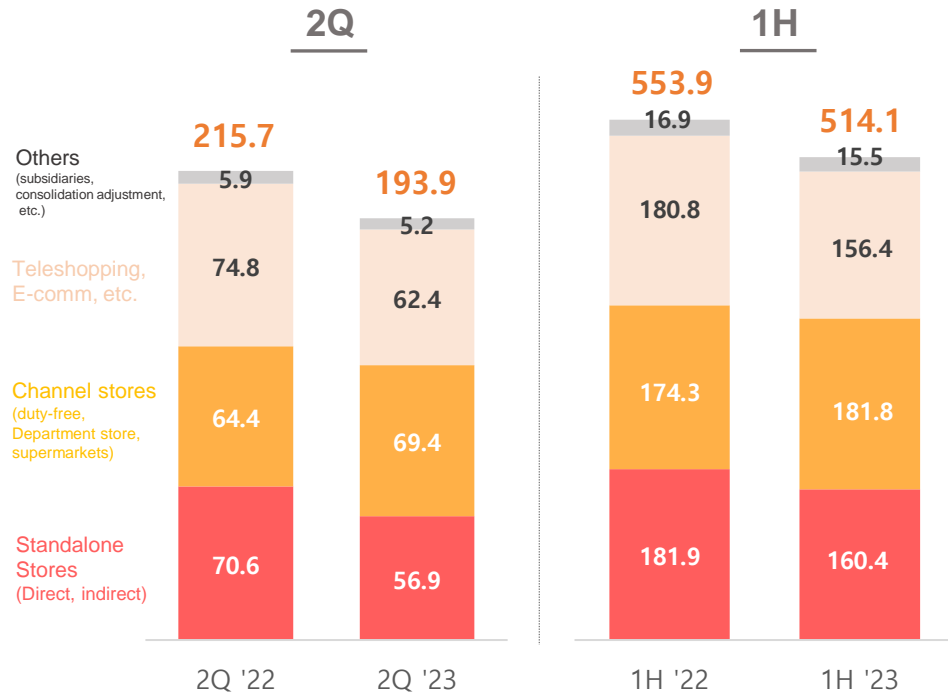


## 2. Performance by Business

# Health-Functional Food

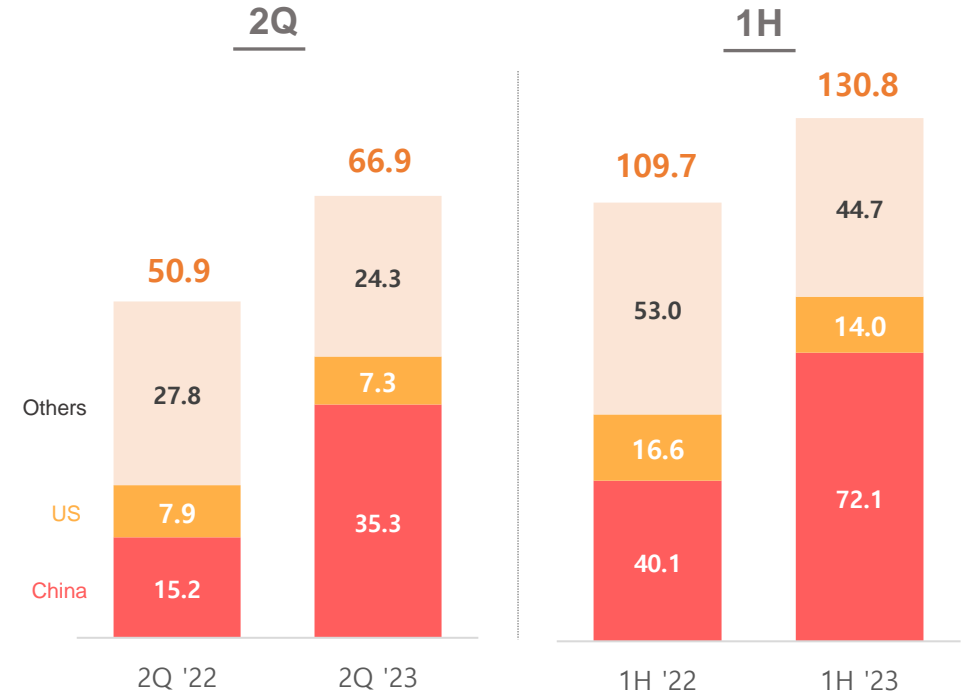
### Domestic Revenue by Channel (KRW bn)

- Partial rebound in air travel led to **accelerated recovery of duty-free revenue (YoY +90.8%) driven by airport duty-free stores**
- Underperformance largely in standalone stores due to **subdued consumer sentiment and health-functional food demand** impacted by inflation
- Slowing growth in online channels** due to COVID waning and **teleshopping revenues reduced strategically** to improve profitability



### Global Revenue by Market (KRW bn)

- Continued on an upward trend (YoY +31.4%)** led by **significant growth in China (YoY +132%)** with **expanded penetration especially in online channels** supported by robust performance during the Chinese 618 festival

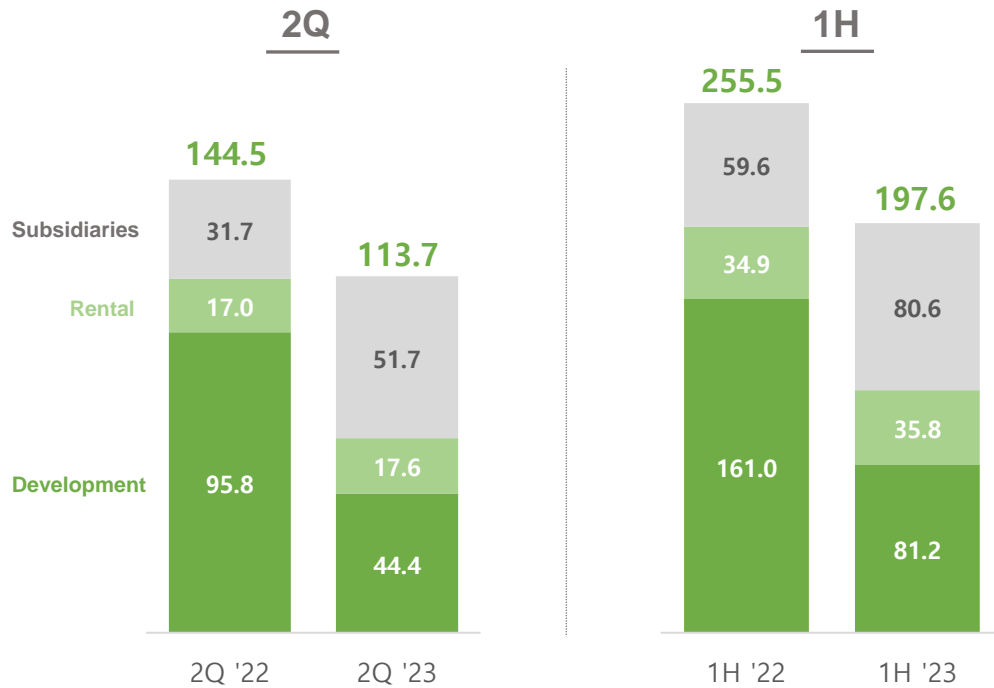


## 2. Performance by Business

# Real Estate

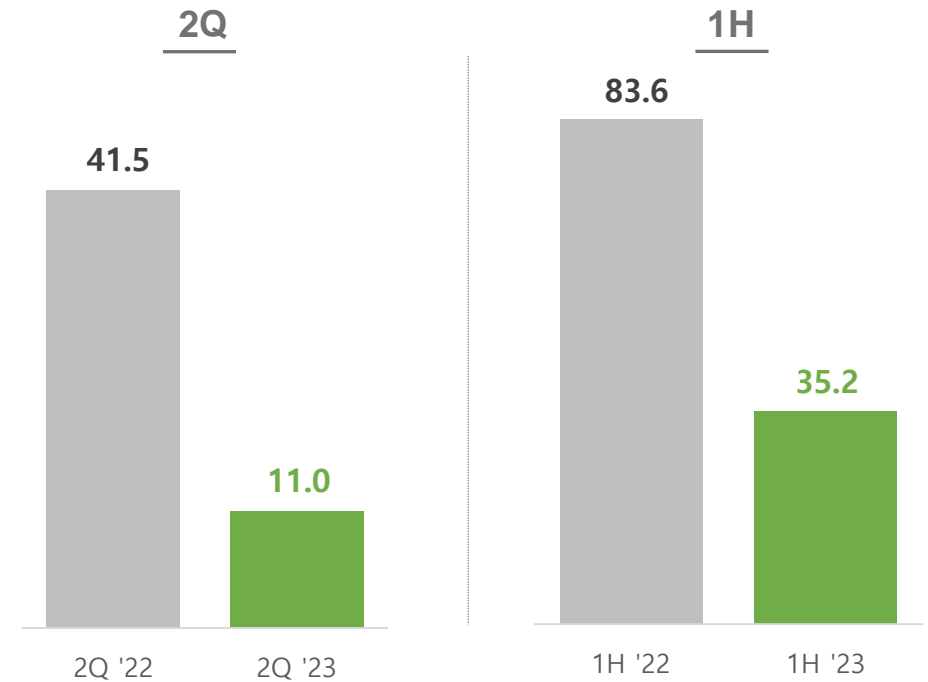
### Revenue (KRW bn)

- Subsidiaries' top line grew (YoY 63.1%) with revenues recognized from new businesses including the DNC Deok-eun project
- Overall revenue declined (YoY -2.3%) due to reduced size of development projects impacted by imminent completion of the Suwon project (in Q3)



### Operating Profit (KRW bn)

- Further reduction in recognized profits due to imminent completion of the Suwon project and the full completion of Gwacheon Sangsang PFV (in May) as well as costs recognized from new development businesses led to larger decline in operating profit (YoY -73.5%)



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# Q&A

# Appendix. Income Status by Business Segment

| (units KRW bn)         |                          | 2Q '22       | 3Q '22       | 4Q '22       | 1Q '23       | 2Q '23       |
|------------------------|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Tobacco                | <b>Revenue</b>           | <b>941.5</b> | <b>943.9</b> | <b>860.4</b> | <b>857.6</b> | <b>888.1</b> |
|                        | NGP                      | 231.0        | 232.2        | 207.7        | 199.6        | 190.0        |
|                        | Domestic                 | 116.8        | 120.8        | 122.5        | 127.9        | 123.8        |
|                        | Global                   | 114.2        | 111.4        | 85.2         | 71.7         | 66.2         |
|                        | CC                       | 704.3        | 704.0        | 646.9        | 654.8        | 692.1        |
|                        | Domestic                 | 435.3        | 449.4        | 386.7        | 389.7        | 426.6        |
|                        | Global                   | 269.0        | 254.6        | 260.2        | 265.1        | 265.5        |
|                        | Semi-products            | 6.2          | 7.7          | 5.8          | 3.2          | 6.0          |
|                        | <b>Operating Profit</b>  | <b>299.9</b> | <b>267.8</b> | <b>181.4</b> | <b>236.6</b> | <b>242.6</b> |
| OP Margin              | 31.9%                    | 28.4%        | 21.1%        | 27.6%        | 27.3%        |              |
| Health-Functional Food | <b>Revenue</b>           | <b>266.6</b> | <b>449.5</b> | <b>275.8</b> | <b>384.1</b> | <b>260.8</b> |
|                        | Domestic                 | 215.7        | 374.4        | 175.7        | 320.2        | 193.9        |
|                        | Global                   | 50.9         | 75.1         | 100.1        | 63.9         | 66.9         |
|                        | <b>Operating Profit</b>  | <b>-10.3</b> | <b>71.0</b>  | <b>-5.2</b>  | <b>55.0</b>  | <b>-10.7</b> |
|                        | OP Margin                | -            | 15.8%        | -            | 14.3%        | -            |
| Real Estate            | <b>Revenue</b>           | <b>144.5</b> | <b>160.3</b> | <b>191.5</b> | <b>83.9</b>  | <b>113.7</b> |
|                        | <b>Development</b>       | 95.8         | 102.0        | 123.6        | 36.8         | 44.4         |
|                        | <b>Rental Properties</b> | 17.0         | 18.1         | 17.3         | 18.2         | 17.6         |
|                        | <b>Subsidiaries</b>      | 31.7         | 40.2         | 50.6         | 28.9         | 51.7         |
|                        | <b>Operating Profit</b>  | <b>41.5</b>  | <b>69.1</b>  | <b>27.8</b>  | <b>24.2</b>  | <b>11.0</b>  |
|                        | OP Margin                | 28.7%        | 43.1%        | 14.5%        | 28.8%        | 9.7%         |
| Others                 | <b>Revenue</b>           | <b>64.9</b>  | <b>70.8</b>  | <b>79.0</b>  | <b>70.1</b>  | <b>73.4</b>  |
|                        | Pharmaceutical           | 52.1         | 54.3         | 59.5         | 54.0         | 57.0         |
|                        | Cosmetics                | 12.8         | 16.5         | 19.5         | 16.1         | 16.4         |
|                        | <b>Operating Profit</b>  | <b>-3.4</b>  | <b>-2.3</b>  | <b>-2.7</b>  | <b>0.7</b>   | <b>0</b>     |
|                        | OP Margin                | -            | -            | -            | 1%           | -            |

# Appendix. KT&G Condensed Balance Sheet

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

## Consolidated

| (units KRW bn)                         | 2Q '23          | 4Q '22          |
|--|-----------------|-----------------|
| <b>Current assets<sup>(a)</sup></b>    | <b>6,226.4</b>  | <b>6,509.6</b>  |
| Cash <sup>(*)</sup>                    | 1,336.2         | 1,995.2         |
| Trade and other receivables            | 1,715.3         | 1,528.5         |
| Inventories                            | 2,562.6         | 2,575.8         |
| Others                                 | 612.3           | 410.1           |
| <b>Non-current assets</b>              | <b>5,902.0</b>  | <b>5,792.1</b>  |
| Property, plant, and equipment         | 1,878.0         | 1,837.0         |
| Investment property                    | 1,014.5         | 1,071.5         |
| Others                                 | 3,009.5         | 2,883.6         |
| <b>Total assets</b>                    | <b>12,128.4</b> | <b>12,301.7</b> |
| Current liabilities <sup>(b)</sup>     | 2,421.5         | 2,527.3         |
| Non-current liabilities                | 419.0           | 415.8           |
| <b>Total liabilities<sup>(c)</sup></b> | <b>2,840.5</b>  | <b>2,943.1</b>  |
| <b>Total equity<sup>(d)</sup></b>      | <b>9,287.9</b>  | <b>9,358.6</b>  |
| Current ratio <sup>(a/b)</sup>         | 257.1%          | 257.6%          |
| Debt ratio <sup>(c/d)</sup>            | 30.6%           | 31.4%           |

## Standalone

| (units KRW bn)                         | 2Q '23         | 4Q '22          |
|--|----------------|-----------------|
| <b>Current assets<sup>(a)</sup></b>    | <b>3,486.4</b> | <b>4,096.5</b>  |
| Cash <sup>(*)</sup>                    | 666.4          | 1,471.2         |
| Trade and other receivables            | 1,382.1        | 1,299.9         |
| Inventories                            | 1,163.2        | 1,123.0         |
| Others                                 | 274.7          | 202.4           |
| <b>Non-current Assets</b>              | <b>6,220.7</b> | <b>6,060.4</b>  |
| Property, plant, and equipment         | 1,171.8        | 1,177.8         |
| Investment property                    | 989.5          | 1,029.2         |
| Others                                 | 4,059.4        | 3,853.4         |
| <b>Total assets</b>                    | <b>9,707.1</b> | <b>10,156.9</b> |
| Current liabilities <sup>(b)</sup>     | 1,725.4        | 2,037.7         |
| Non-current liabilities                | 68.6           | 65.6            |
| <b>Total liabilities<sup>(c)</sup></b> | <b>1,794.0</b> | <b>2,103.3</b>  |
| <b>Total equity<sup>(d)</sup></b>      | <b>7,913.1</b> | <b>8,053.6</b>  |
| Current ratio <sup>(a/b)</sup>         | 202.1%         | 201.0%          |
| Debt ratio <sup>(c/d)</sup>            | 22.7%          | 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)                              | 2Q '23         | 2Q '22         |
|---|----------------|----------------|
| <b>Revenue</b>                              | <b>1,336.0</b> | <b>1,417.5</b> |
| Cost of goods sold                          | 688.3          | 691.2          |
| <b>Gross profit</b>                         | <b>647.7</b>   | <b>726.3</b>   |
| Selling, general and administrative expense | 404.8          | 398.7          |
| <b>Operating profit</b>                     | <b>242.9</b>   | <b>327.6</b>   |
| Other income/expenses                       | (4.2)          | 146.9          |
| Financial gain/loss                         | 35.0           | 4.7            |
| Net income from continuing operations       | 200.3          | 340.3          |
| Net income from discontinued operations     | (1.3)          | (1.4)          |
| <b>Net income</b>                           | <b>199.0</b>   | <b>338.8</b>   |
| <b>Gross profit margin</b>                  | <b>48.5%</b>   | <b>51.2%</b>   |
| <b>Operating profit margin</b>              | <b>18.2%</b>   | <b>23.1%</b>   |
| <b>Net income margin</b>                    | <b>14.9%</b>   | <b>23.9%</b>   |

## Standalone

| (units KRW bn)                              | 2Q '23       | 2Q '22       |
|---|--------------|--------------|
| <b>Revenue</b>                              | <b>882.6</b> | <b>966.3</b> |
| Cost of goods sold                          | 433.5        | 449.5        |
| <b>Gross profit</b>                         | <b>449.1</b> | <b>516.8</b> |
| Selling, general and administrative expense | 205.3        | 204.1        |
| <b>Operating profit</b>                     | <b>243.8</b> | <b>312.7</b> |
| Other income/expenses                       | (5.2)        | 153.4        |
| Financial gain/loss                         | 36.9         | 12.0         |
| <b>Net income</b>                           | <b>201.9</b> | <b>350.5</b> |
| <b>Gross profit margin</b>                  | <b>50.9%</b> | <b>53.5%</b> |
| <b>Operating profit margin</b>              | <b>27.6%</b> | <b>32.4%</b> |
| <b>Net income margin</b>                    | <b>22.9%</b> | <b>36.3%</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)                               | 2Q '23         | 2Q '22         |
|--|----------------|----------------|
| <b>Cash and cash equivalents at Apr, 1</b>   | <b>1,401.0</b> | <b>946.6</b>   |
| <b>Cash flows from operating activities</b>  | <b>131.0</b>   | <b>641.9</b>   |
| Cash generated from operations               | 358.3          | 862.6          |
| Income tax paid                              | (227.3)        | (220.7)        |
| <b>Cash flows from investing activities</b>  | <b>(103.5)</b> | <b>134.2</b>   |
| Acquisition of property, plant and equipment | (242.7)        | (59.9)         |
| <b>Cash flows from financing activities</b>  | <b>(576.4)</b> | <b>(575.9)</b> |
| Net increase in cash and cash equivalents    | (548.9)        | 200.2          |
| <b>Changes in consolidation scope etc.</b>   | <b>21.1</b>    | -              |
| <b>Effect of exchange rate fluctuation</b>   | <b>15.8</b>    | <b>30.3</b>    |
| <b>Cash and cash equivalents at Jun, 30</b>  | <b>889.0</b>   | <b>1,177.1</b> |

## Standalone

| (units KRW bn)                               | 2Q '23         | 2Q '22         |
|--|----------------|----------------|
| <b>Cash and cash equivalents at Apr, 1</b>   | <b>939.5</b>   | <b>590.6</b>   |
| <b>Cash flows from operating activities</b>  | <b>92.0</b>    | <b>464.7</b>   |
| Cash generated from operations               | 293.8          | 651.2          |
| Income tax paid                              | (201.8)        | (186.4)        |
| <b>Cash flows from investing activities</b>  | <b>(85.6)</b>  | <b>287.9</b>   |
| Acquisition of property, plant and equipment | (119.3)        | (34.5)         |
| <b>Cash flows from financing activities</b>  | <b>(586.1)</b> | <b>(580.1)</b> |
| Net increase in cash and cash equivalents    | (579.6)        | 172.5          |
| <b>Effect of exchange rate fluctuation</b>   | <b>1.6</b>     | <b>4.1</b>     |
| <b>Cash and cash equivalents at Jun, 30</b>  | <b>361.4</b>   | <b>767.2</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)                | 2Q '23         | 4Q '22         |
|-------------------------------|----------------|----------------|
| <b>Current assets</b>         | <b>1,575.3</b> | <b>1,655.2</b> |
| Inventories                   | 1,024.8        | 1,066.8        |
| Cash and cash equivalents     | 289.9          | 337.5          |
| Others                        | 260.6          | 250.9          |
| <b>Non-current assets</b>     | <b>878.2</b>   | <b>801.6</b>   |
| Property, plant and equipment | 350.5          | 326.6          |
| Intangible assets             | 25.5           | 26.2           |
| Others                        | 502.2          | 448.8          |
| <b>Total assets</b>           | <b>2,453.5</b> | <b>2,456.8</b> |
| Current liabilities           | 125.6          | 116.5          |
| Non-current liabilities       | 56.9           | 70.2           |
| <b>Total liabilities</b>      | <b>182.5</b>   | <b>186.7</b>   |
| <b>Total equity</b>           | <b>2,271.0</b> | <b>2,270.1</b> |

## Income Statement

| (units KRW bn)          | 2Q '23        | 2Q '22       |
|-------------------------|---------------|--------------|
| <b>Revenue</b>          | <b>232.6</b>  | <b>246.4</b> |
| Cost of goods sold      | 117.5         | 124.3        |
| <b>Gross profit</b>     | <b>115.1</b>  | <b>122.1</b> |
| SG&A                    | 126.6         | 119.1        |
| <b>Operating profit</b> | <b>(11.5)</b> | <b>3.0</b>   |
| Other income/expense    | 0.1           | 3.3          |
| Financial gain/loss     | 3.9           | 1.9          |
| <b>Net income</b>       | <b>(4.0)</b>  | <b>5.5</b>   |

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**Thank you**