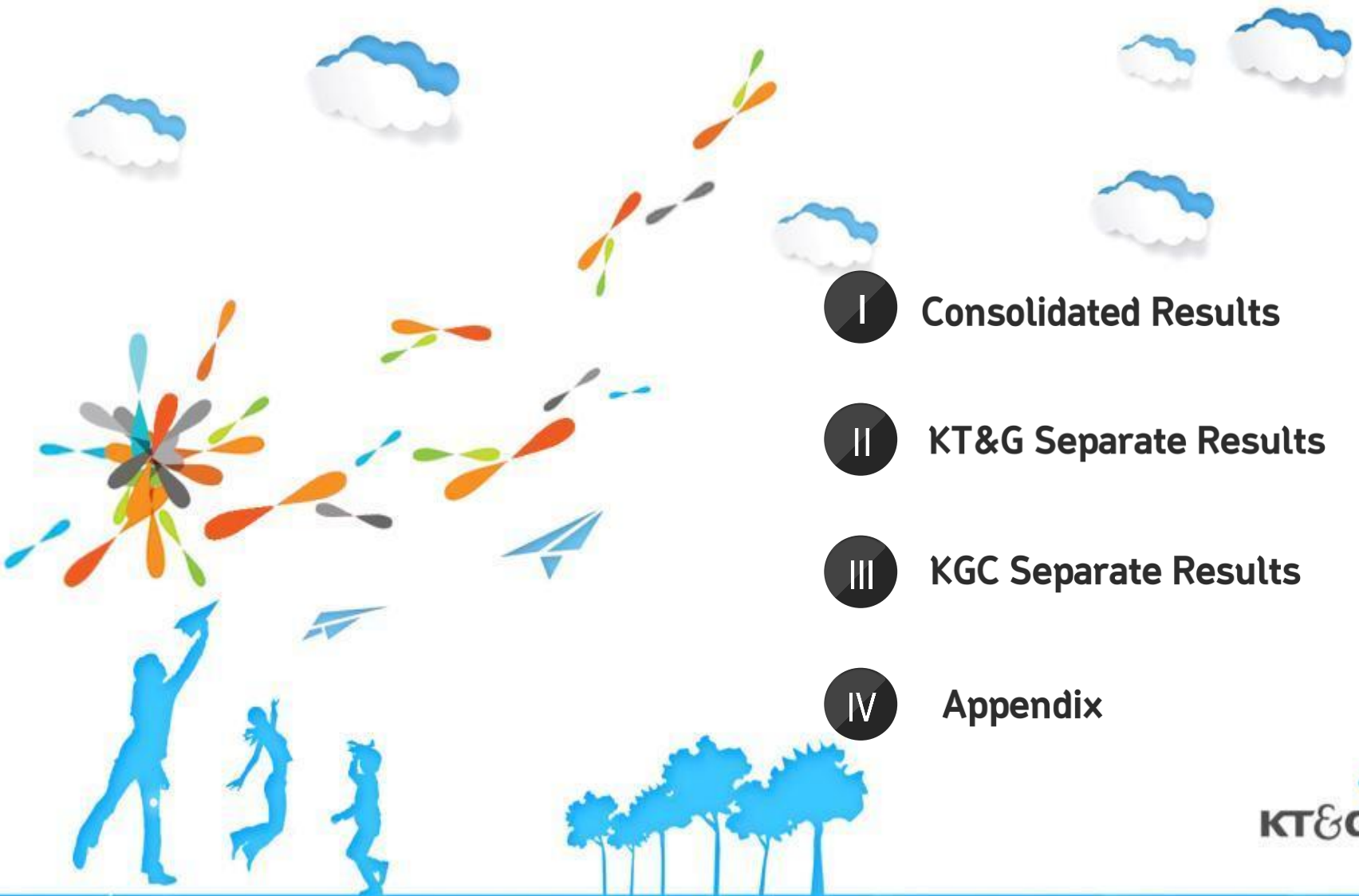


Investor Relations 2019

2019 Second-Quarter Earnings Presentation



- I Consolidated Results**
- II KT&G Separate Results**
- III KGC Separate Results**
- IV Appendix**





Chapter 1. Consolidated Results

- Sales/Profit

1. FY19 2Q Consolidated Results Summary



2Q Consolidated Sales, OP, NI recorded 1 tril. 255.9bil., 406.5bil., 325.5bil. won

- 2Q Consolidated Sales increased by 12.2% yoy : KT&G 15.2% ↑, KGC 5.0% ↑
- 2Q OP and NI increased by 25.9% and 22.8% yoy each

□ 2Q Consolidated Sales/Profit

(Unit : bil. won)

| | 2Q FY19 | 2Q FY18 | Change |
|-------------------------|----------------|----------------|--------------|
| Net Sales | 1,255.9 | 1,119.7 | 12.2% |
| - KT&G | 812.6 | 705.5 | 15.2% |
| - KGC | 306.3 | 291.7 | 5.0% |
| - Others and Adjustment | 137.0 | 122.5 | 11.8% |
| Operating Profit | 406.5 | 323.0 | 25.9% |
| Net Income | 325.5 | 265.1 | 22.8% |

- 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. FY19 2Q KT&G Results Summary



FY19 2Q Sales and OP increased by 15.2% and 23.3% yoy each

- 2Q Sales recorded 812.6 bil. won (increased by 15.2% yoy)
 - Domestic Cigarette 2.5%↑, Export Cigarette 2.3%↑, Others(Real Estate etc.) 202.9% ↑
- 2Q OP increased 23.3% yoy to 339.9 bil. won, NI increased 13.3% yoy to 286.2 bil. won

□ 2Q Consolidated Profit/Loss

(Unit : bil. won)

| | 2Q FY19 | 2Q FY18 | Change |
|----------------------------|--------------|--------------|--------------|
| Net Sales | 812.6 | 705.5 | 15.2% |
| - Domestic Cigarette | 488.5 | 476.5 | 2.5% |
| - Export Cigarette | 188.4 | 184.2 | 2.3% |
| - Others(Real Estate etc.) | 135.7 | 44.8 | 202.9% |
| Operating Profit | 339.9 | 275.7 | 23.3% |
| Net Income | 286.2 | 252.6 | 13.3% |

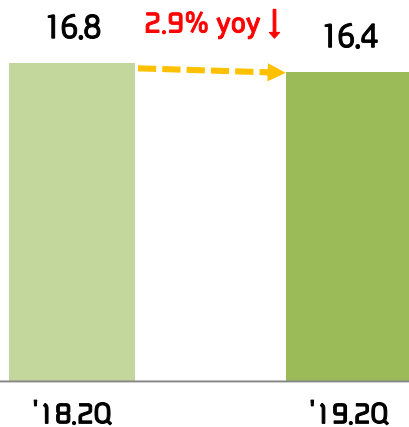
2-2. Domestic Cigarette (Combustible)

Total market and KT&G volume in 2Q dropped by 2.9%, 1.5% yoy respectively

- 2Q Total Market Volume: decreased from 16.8 bil. sticks to 16.4 bil. sticks
- 2Q KT&G Volume : decreased from 10.4 bil. sticks to 10.3 bil. sticks
- KT&G M/S : 62.8%, increased 0.9%p yoy (dropped 0.3%p qoq)

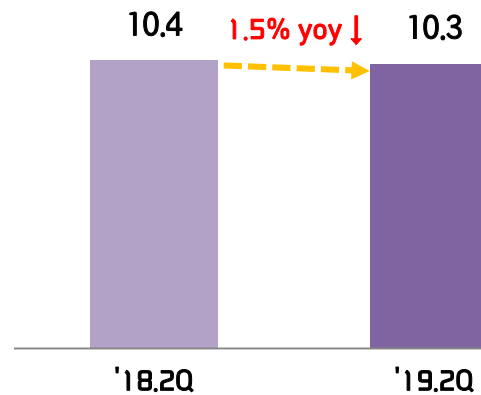
□ Total Market Volume

(unit : bil. sticks)



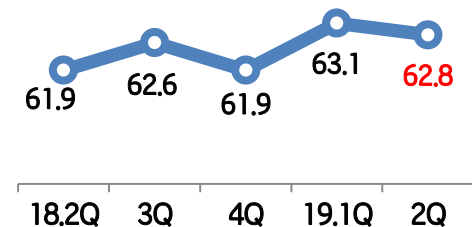
□ KT&G Volume

(unit : bil. sticks)



□ KT&G M/S Trend

(Unit : %)



2-3. Overseas Cigarette (KT&G Separate)

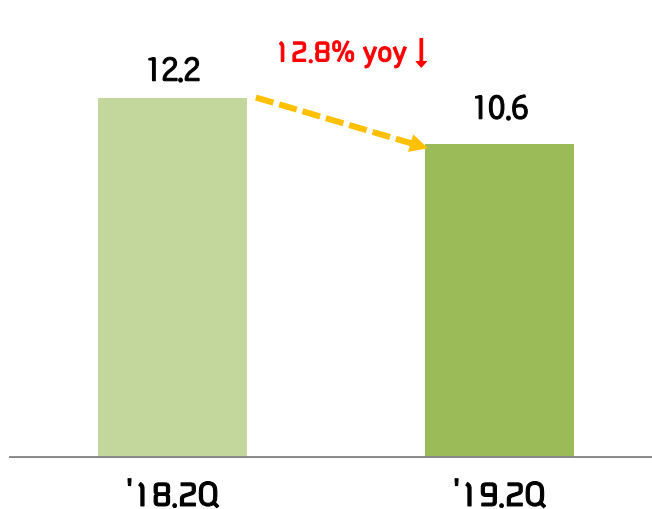


2Q Export volume decreased by 12.8% and sales increased by 2.3% yoy

- Export volume : Volume decreased 1.6 bil. sticks yoy (12.8%↓)
- Export sales : Sales increased 4.2 bil. won yoy (2.3%↑)

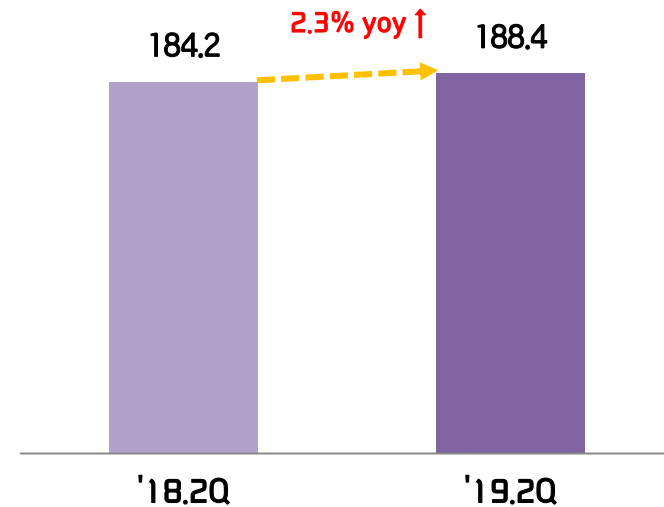
□ Export Volume

(Unit : bil. sticks)



□ Export Sales

(Unit : bil. won)

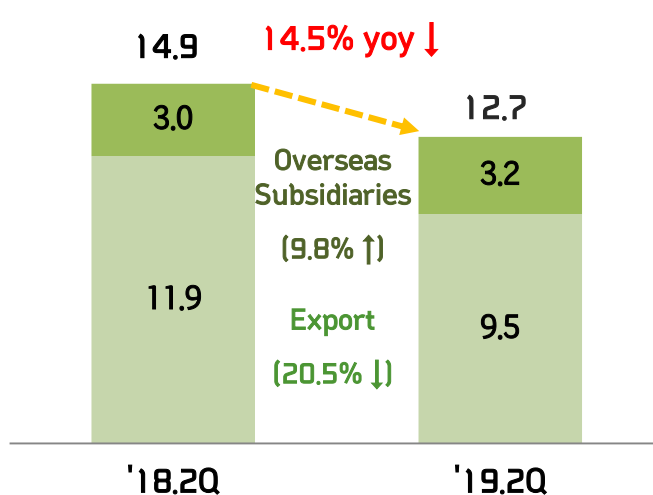


2-3. Overseas Cigarette (KT&G Consolidated)

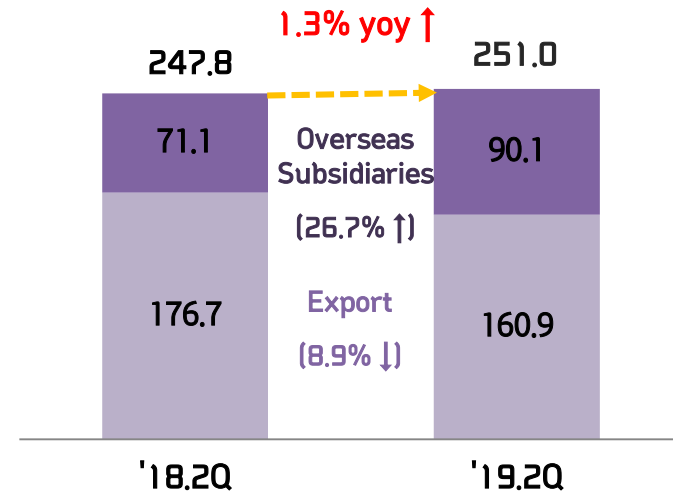


2Q Export (Overseas subsidiaries included) volume dropped by 14.5% and sales increased by 1.3% yoy

□ Overseas Cigarette Volume (Unit : bil. sticks)



□ Overseas Cigarette Sales (Unit : bil. won)



※ Overseas subsidiaries : Russia, Turkey, Iran, Indonesia and USA

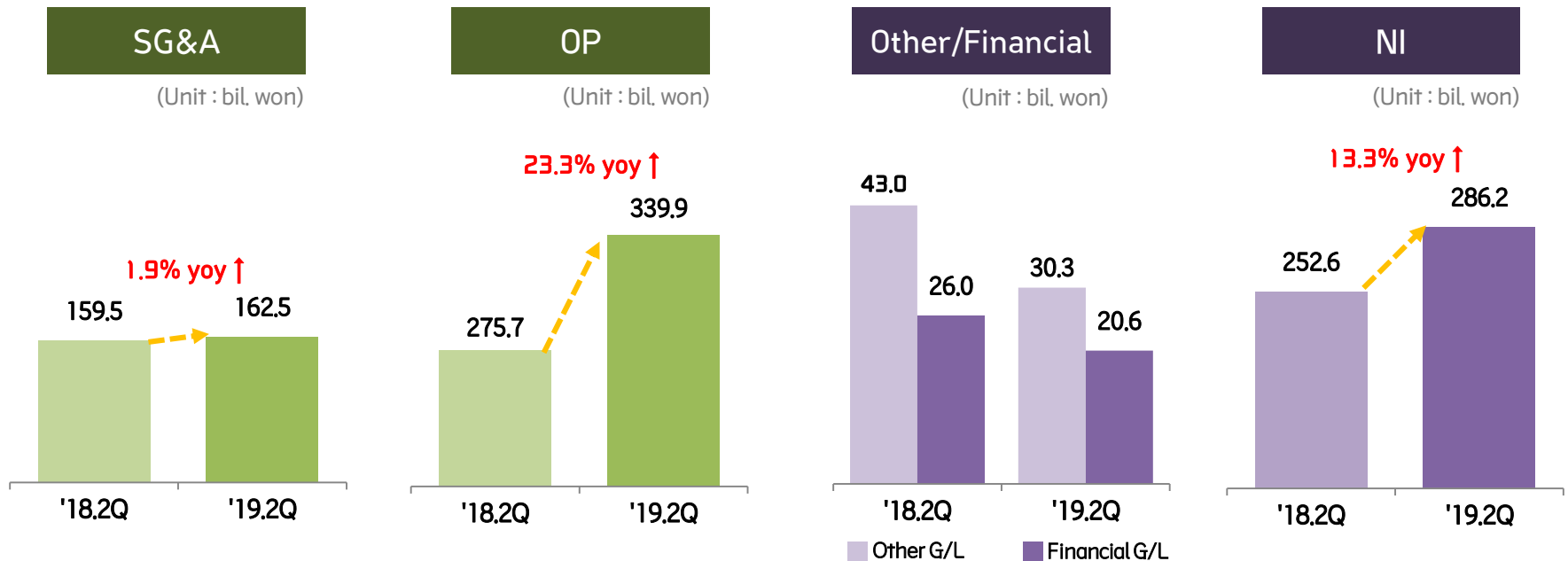
※ Export Volume and Sales do not include USA exports

- Overseas cigarette volume : 2Q dropped 2.2 bil. sticks
 - Export decreased 20.5% yoy
 - Overseas subsidiaries increased 9.8% yoy

- Overseas cigarette sales : 2Q rose 3.2 bil. won
 - Export decreased 8.9% yoy
 - Overseas subsidiaries increased 26.7% yoy

2-4. Profitability Analysis

FY19 2Q OP and NI rose by 23.3% and 13.3% yoy each



- SG&A Ratio : `18. 2Q 22.6% → `19. 2Q 20.0% (2.6%p ↓)
- OP Margin : `18. 2Q 39.1% → `19. 2Q 41.8% (2.7%p ↑)

- NI Margin : `18. 2Q 35.8% → `19. 2Q 35.2% (0.6%p ↓)
 - Other income and expenses
 - Net FX profit decreased
 - Financial income(cost)
 - Financial asset related gain decreased



Chapter 3. KGC Separate Results

3-1. FY19 2Q KGC Results Summary

2Q Sales and OP increased 5.0% and 7.6% yoy each

- 2Q Sales recorded 306.3 bil. won, up by 5.0% yoy (Domestic 3.5% ↑, Export 21.3% ↑)
- 2Q OP recorded 43.7 bil. won up by 7.6% yoy

□ 2Q Sales & Profit

(Unit : bil. won)

| | 2Q FY19 | 2Q FY18 | Change |
|------------------|---------|---------|--------|
| Net Sales | 306.3 | 291.7 | 5.0% |
| - Domestic | 276.7 | 267.3 | 3.5% |
| - Export | 29.6 | 24.4 | 21.3% |
| Operating Profit | 43.7 | 40.6 | 7.6% |
| Net Income | 31.3 | 29.8 | 5.0% |

□ 1H Sales & Profit

(Unit : bil. won)

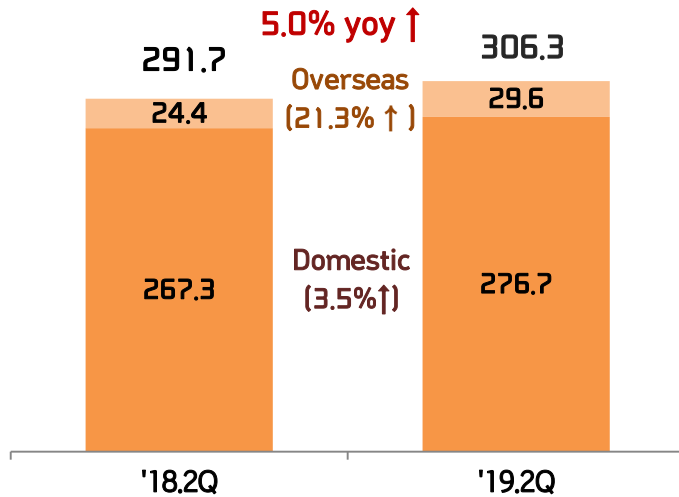
| | 1H FY19 | 1H FY18 | Change |
|------------------|---------|---------|--------|
| Net Sales | 705.0 | 685.1 | 2.9% |
| - Domestic | 641.7 | 629.3 | 2.0% |
| - Export | 63.3 | 55.8 | 13.4% |
| Operating Profit | 134.9 | 132.5 | 1.8% |
| Net Income | 100.6 | 98.6 | 2.0% |

3-2. Sales Analysis

2Q Domestic and export sales increase and All Channels improved

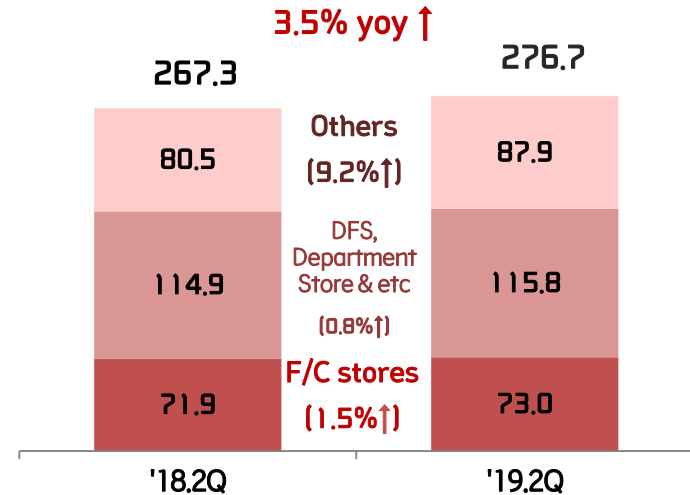
□ Sales by Regions

(Unit : bil. won)



□ Domestic Sales by Channels

(Unit : bil. won)

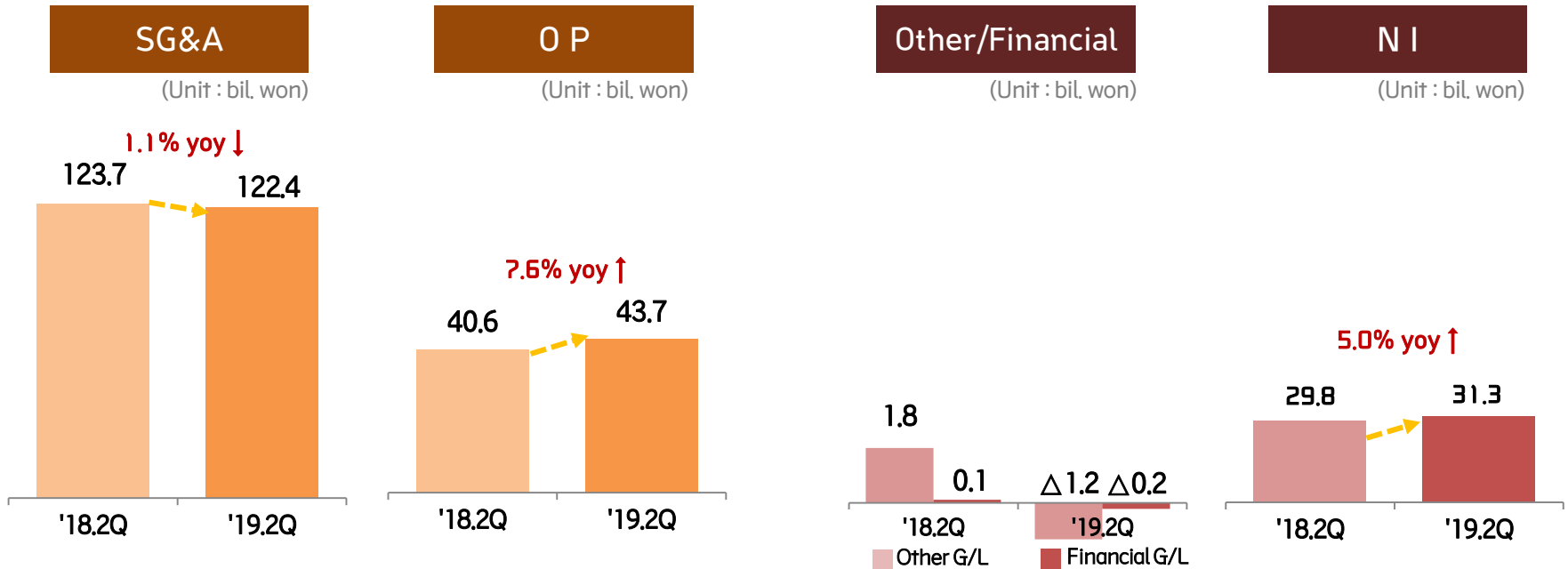


- Domestic sales recorded 276.7 bil. won (3.5% yoy↑)
- Overseas sales recorded 29.6 bil. won (21.3% yoy ↑)

- All of channels showed increased
 - F/C store increased 1.5% yoy
 - DFS, Department Store & etc. increased 0.8% yoy
 - Others(Home Shopping/Online) increased by 9.2% yoy

3-3. Profitability Analysis

2Q OP and NI increased 7.6% and 5.0% yoy, respectively



- SG&A Ratio : '18.2Q 42.4% → '19.2Q 40.0% (2.4%p ↓)
- OP Margin : '18.2Q 13.9% → '19.2Q 14.3% (0.4%p ↑)

- NI Margin : '18.2Q 10.2% → '19.2Q 10.2%
- Income Tax Expense decreased 1.7 bil. won



Chapter 4. Appendix

- Consolidated F/S**
- (KT&G) Separate F/S**
- (KGC) Separate F/S**

※ The results above are still under audit by the outside auditors and may be subject to change. This file will be update upon the disclosure of the annual report (August 14th)

4- 1. Consolidated Statements of Financial Position



□ Consolidated Statements of Financial Position

| Accounts (Unit : hundred mil. KRW) | June 30, 2019 | December 31, 2018 |
|---|------------------|----------------------|
| Current assets | 68,930 | 64,134 |
| Cash and cash equivalents | 11,383 | 9,330 |
| Current other financial assets | 3,559 | 5,846 |
| Current fair value through profit or loss | 16,260 | 11,397 |
| Trade and other receivables | 10,976 | 9,759 |
| Financial derivatives | 11 | 12 |
| Inventories | 23,514 | 24,613 |
| Refund asset | 37 | 24 |
| Accrued tobacco excise and other taxes | 1,723 | 2,322 |
| Advance payments | 1,058 | 542 |
| Prepaid expenses | 362 | 246 |
| Assets to be sold | 46 | 42 |
| Non-current assets | 39,813 | 37,417 |
| Other long-term financial assets | 23 | 86 |
| Long-term deposits in MSA Escrow Fund | 6,867 | 6,155 |
| Fair value through profit or loss | 2,267 | 2,107 |
| Fair value through other comprehensive income or loss | 2,688 | 2,496 |
| Long-term trade and other receivables | 625 | 629 |
| Investments in associates and joint ventures | 602 | 840 |
| Property, plant and equipment | 17,925 | 18,188 |
| Intangible assets | 794 | 720 |
| Investment property | 5,839 | 4,950 |
| Refund asset | 2 | 2 |
| Long-term advance payments | 961 | 714 |
| Long-term prepaid expenses | 69 | 79 |
| Deferred income tax assets | 658 | 452 |
| Right-of-use assets | 495 | - |
| Total assets | 108,743 | 101,551 |

| Accounts (Unit : hundred mil. KRW) | June 30, 2019 | December 31, 2018 |
|---|------------------|----------------------|
| Current liabilities | 21,490 | 16,407 |
| Short-term borrowings | 487 | 1,299 |
| Current portion of long-term borrowings | 160 | 50 |
| Trade and other payables | 6,167 | 5,605 |
| Current lease liabilities | 180 | - |
| Derivative liabilities | 10 | 5 |
| Advance receipts | 1,441 | 1,715 |
| Current provision | 229 | 151 |
| Income tax payable | 2,257 | 2,008 |
| Tobacco excise and other taxes payable | 10,558 | 5,574 |
| Non-current liabilities | 4,667 | 3,813 |
| Long-term borrowings | 928 | 935 |
| Long-term trade and other receipts | 510 | 532 |
| Long-term lease liabilities | 232 | - |
| Long-term advance receipts | 59 | 56 |
| Net defined benefit liability | 1,367 | 962 |
| Provision | 63 | 38 |
| Deferred income tax liabilities | 1,474 | 1,256 |
| Non-controlling interests liabilities | 34 | 34 |
| Total liabilities | 26,157 | 20,220 |
| Ordinary shares | 9,550 | 9,550 |
| Other capital surplus | (296) | (297) |
| Treasury shares | (3,282) | (3,282) |
| Gain on sales of treasury shares | 5,138 | 5,138 |
| Reserve | 56,865 | 53,556 |
| Retained earnings | 14,052 | 16,128 |
| Total equity | 82,586 | 81,331 |
| Total liabilities and equity | 108,743 | 101,551 |

4-2. (KT&G) Separate Statements of Financial Position



□ Separate Statements of Financial Position

| Accounts (Unit : hundred mil. KRW) | June 30, 2019 | December 31, 2018 |
|---|------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 9,153 | 7,481 |
| Current other financial assets | 2,963 | 5,700 |
| Current fair value through profit or loss | 16,260 | 11,397 |
| Financial derivative | 11 | 12 |
| Accrued tobacco excise and other taxes | 1,311 | 2,182 |
| Trade and other receivables | 8,631 | 7,309 |
| Inventories | 9,282 | 9,547 |
| Advance payments | 463 | 184 |
| Prepaid expenses | 103 | 92 |
| Refund and assets | 12 | 4 |
| Assets to be sold | 46 | 278 |
| Total current assets | 48,235 | 44,186 |
| Non-current assets | | |
| Other long-term financial assets | 6 | 69 |
| Long-term deposits in MSA Escrow Fund | 6,867 | 6,155 |
| Fair value through other comprehensive income or loss | 2,498 | 2,305 |
| Fair value through profit or loss | 2,267 | 2,107 |
| Investments in associates and joint ventures | 618 | 774 |
| Investments in subsidiaries | 11,725 | 11,854 |
| Property, plant and equipment | 11,701 | 12,009 |
| Intangible assets | 397 | 313 |
| Investment property | 7,000 | 6,067 |
| Long-term trade and other receivables | 1,186 | 1,193 |
| Long-term advance payments | 95 | 95 |
| Long-term prepaid expenses | 65 | 73 |
| Deferred income tax assets | 194 | 98 |
| Right-of-use assets | 167 | - |
| Total non-current assets | 44,786 | 43,113 |
| Total assets | 93,021 | 87,299 |

| Accounts (Unit : hundred mil. KRW) | June 30, 2019 | December 31, 2018 |
|--|------------------|----------------------|
| Equity and liabilities | | |
| Liabilities | | |
| Current liabilities | | |
| Short-term borrowings | 11 | 12 |
| Trade and other payables | 4,410 | 3,981 |
| Derivative liabilities | 10 | 5 |
| Advance receipts | 1,376 | 1,616 |
| Refund liabilities and provisions | 116 | 65 |
| Current lease liabilities | 65 | - |
| Income tax payable | 1,905 | 1,693 |
| Tobacco excise and other taxes payable | 10,278 | 5,519 |
| Total current liabilities | 18,172 | 12,890 |
| Non-current liabilities | | |
| Long-term trade and other receipts | 433 | 392 |
| Long-term advance receipts | 18 | 7 |
| Net defined benefit liability | 659 | 348 |
| Refund liabilities (non-current) | 36 | 10 |
| Long-term lease liabilities | 93 | - |
| Total non-current liabilities | 1,238 | 757 |
| Total liabilities | 19,410 | 13,647 |
| Equity | | |
| Ordinary shares | 9,550 | 9,550 |
| Other capital surplus | 36 | 36 |
| Treasury shares | (3,282) | (3,282) |
| Gain on sale of treasury shares | 5,138 | 5,138 |
| Reserve | 57,299 | 54,300 |
| Retained earnings | 4,870 | 7,910 |
| Total equity | 73,611 | 73,652 |
| Total equity and liabilities | 93,021 | 87,299 |

4-3. Statement of Comprehensive Income



□ Consolidated Statement of Comprehensive Income

| Accounts (Unit : hundred mil. KRW) | June 30, 2019 | June 30, 2018 |
|---|------------------|------------------|
| Sales | 12,559 | 11,197 |
| Cost of sales | 5,057 | 4,625 |
| Gross profit | 7,501 | 6,572 |
| Selling, general and administrative expenses | 3,436 | 3,342 |
| Operating profit | 4,065 | 3,230 |
| Other income and expenses | 211 | 292 |
| Other income | 484 | 660 |
| Other expenses | 273 | 368 |
| Net finance income | 177 | 253 |
| Finance income | 222 | 256 |
| Cost of finance | 45 | 3 |
| Net associates and joint ventures income | 24 | 10 |
| Share of gain of associates and joint ventures | 35 | 11 |
| Share of loss of associates and joint ventures | 11 | 1 |
| Profit before income tax | 4,477 | 3,785 |
| Income tax expense | 1,222 | 1,134 |
| Net Income | 3,255 | 2,651 |
| Net income attributable to owners of the parent company | 3,239 | 2,666 |
| Net income attributable to non-controlling Interests | 16 | (15) |
| Other comprehensive income after income tax | 41 | (48) |
| Profit | 3,296 | 2,603 |
| Profit attributable to owners of the parent company | 3,279 | 2,617 |
| Profit attributable to non-controlling interests | 17 | (14) |

□ (KT&G) Separate Statement of Comprehensive Income

| Accounts (Unit : hundred mil. KRW) | June 30, 2019 | June 30, 2018 |
|--|------------------|------------------|
| Sales | 8,126 | 7,055 |
| Manufacture of tobacco | 6,777 | 6,607 |
| Real estate | 1,150 | 244 |
| Exports of leaf tobacco and others | 199 | 205 |
| Cost of sales | 3,102 | 2,703 |
| Manufacture of tobacco | 2,493 | 2,461 |
| Real estate | 462 | 76 |
| Exports of leaf tobacco and others | 147 | 166 |
| Gross profit | 5,024 | 4,352 |
| Selling, general and administrative expenses | 1,625 | 1,595 |
| Operating profit | 3,399 | 2,757 |
| Other income | 515 | 646 |
| Other expenses | 212 | 216 |
| Finance income | 226 | 267 |
| Finance costs | 21 | 6 |
| Profit before income tax | 3,908 | 3,448 |
| Income Tax expense | 1,046 | 922 |
| Profit for the period | 2,862 | 2,526 |
| Total comprehensive income for the period | 2,795 | 2,451 |

4-4. Statements of Cash Flows



□ Consolidated Statement of Cash Flows

| Accounts (Unit : hundred mil. KRW) | June 30, 2019 | June 30, 2018 |
|---|------------------|------------------|
| Net cash provided by operating activities | 11,836 | 9,178 |
| Cash generated from operations | 13,930 | 10,986 |
| Income tax paid | (2,094) | (1,809) |
| Net cash provided by investing activities | (4,007) | (7,753) |
| Interest received | 113 | 56 |
| Dividends received | 156 | 70 |
| Proceeds from sale of property, plant and equipment | 32 | 53 |
| Proceeds from sale of intangible assets | 1 | 4 |
| Disposal of related company investment shares | 247 | - |
| Disposal of fair value through profit or loss | (4,837) | (4) |
| Disposal of fair value through other comprehensive income or loss | (9) | 3 |
| Collection of loans | 71 | 86 |
| Withdrawal of guarantee deposits | 11 | 129 |
| Acquisition of property, plant and equipment | (1,182) | (2,013) |
| Acquisition of intangible assets | (49) | (37) |
| Acquisition of Investment Property | (388) | - |
| Increase in loans | (56) | (1) |
| Payments of guarantee deposits | (6) | (172) |
| Payments of long-term deposits in MSA Escrow Fund | (487) | (329) |
| Changes in other financial assets, net | 2,378 | (5,598) |
| Net cash used in financing activities | (5,865) | (6,267) |
| Proceeds from borrowings | 1,453 | 3,086 |
| Increase in deposits received | 1 | 36 |
| Interest paid | (10) | (11) |
| Payments of borrowings | (2,148) | (4,288) |
| Decrease in deposits received | (3) | (39) |
| Payment of lease liabilities | (108) | - |
| Payment of dividends | (5,051) | (5,051) |
| Net increase in cash and cash equivalents | 1,964 | (4,842) |
| Cash and cash equivalents at January 1 | 9,330 | 7,151 |
| Effect of exchange rate fluctuation on cash held | 89 | 39 |
| Cash and cash equivalents at March 31 | 11,383 | 2,348 |

□ (KT&G) Separate Statement of Cash Flows

| Accounts (Unit : hundred mil. KRW) | June 30, 2019 | June 30, 2018 |
|---|------------------|------------------|
| Net cash provided by operating activities | 9,783 | 7,071 |
| Cash generated from operations | 11,517 | 8,554 |
| Income tax paid | (1,734) | (1,483) |
| Net cash provided by investing activities | (3,017) | (6,859) |
| Interest received | 100 | 57 |
| Dividends received | 154 | 649 |
| Disposal of fair value through other comprehensive income or loss | - | 12 |
| Proceeds from sale of property, plant and equipment | 43 | 53 |
| Proceeds from sale of intangible assets | 1 | 4 |
| Disposal of assets to be sold | 300 | - |
| Disposal of related company investment shares | 247 | - |
| Collection of loans | 70 | 84 |
| Withdrawal of guarantee deposits | 1 | 93 |
| Acquisition of property, plant and equipment | (925) | (1,811) |
| Acquisition of intangible assets | (25) | (29) |
| Acquisition of Investment Property | (388) | - |
| Acquisition of assets to be sold | (64) | - |
| Increase in loans | (35) | - |
| Payments of guarantee deposits | - | (130) |
| Payments of long-term deposits in MSA Escrow Fund | (487) | (329) |
| Disposal of fair value through profit or loss | (4,808) | (22) |
| Changes in other financial assets, net | 2,800 | (5,489) |
| Net cash used in financing activities | (5,087) | (5,024) |
| Payment of lease liabilities | (36) | - |
| Increase in deposits received | - | 52 |
| Decrease in deposits received | - | (26) |
| Payment of dividends | (5,051) | (5,051) |
| Net increase in cash and cash equivalents | 1,679 | (4,812) |
| Cash and cash equivalents at January 1 | 7,481 | 5,898 |
| Effect of exchange rate fluctuation on cash held | (7) | 20 |
| Cash and cash equivalents at March 31 | 9,153 | 1,105 |

4-5. (KGC) Separate Financial Statement



□ Summarized Statement of Financial Position

| (bil. KRW) | FY17 | FY18 | '19.2Q |
|---------------------------------------|----------------|----------------|----------------|
| Non-Current Assets | 520.3 | 509.3 | 590.4 |
| - Property Plant Equipment | 296.1 | 294.9 | 284.9 |
| - Intangible Assets | 13.1 | 15.4 | 20.9 |
| - Others | 211.1 | 199.0 | 284.6 |
| Current Assets | 1,435.3 | 1,497.8 | 1,500.3 |
| - Inventories | 1,250.8 | 1,311.1 | 1,168.8 |
| - Cash and Cash Equivalents | 7.6 | 2.0 | 84.6 |
| - Others | 176.9 | 184.7 | 246.9 |
| Total Assets | 1,955.6 | 2,007.1 | 2,090.7 |
| Non-Current Liabilities | 69.1 | 66.8 | 78.8 |
| Current Liabilities | 255.9 | 229.5 | 155.2 |
| - Short Term Borrowings | 150.4 | 106.5 | 28.3 |
| - Others | 105.5 | 123.0 | 126.9 |
| Total Liabilities | 325.0 | 296.3 | 234.0 |
| Capital Stock | 70.1 | 70.1 | 71.9 |
| Capital Surplus | 111.6 | 111.6 | 155.7 |
| Reserves | 1,313.0 | 1,385.0 | 1,528.5 |
| Retained Earnings | 136.0 | 144.1 | 100.6 |
| Total Equities | 1,630.7 | 1,710.8 | 1,856.7 |
| Total Liabilities and Equities | 1,955.7 | 2,007.1 | 2,090.7 |

□ Summarized Statement of Comprehensive Income

| (bil. KRW) | FY17 | FY18 | '18.2Q | '19.2Q |
|-----------------------------|----------------|----------------|--------------|--------------|
| Net Sales | 1,200.0 | 1,328.3 | 291.7 | 306.3 |
| - Red Ginseng Roots | 81.6 | 93.0 | 24.3 | 21.8 |
| - Red Ginseng Products | 1,116.2 | 1,233.1 | 266.9 | 283.8 |
| (Ratio) | (93.0) | (92.8) | (91.5) | (92.7) |
| - Others | 2.2 | 2.2 | 0.5 | 0.7 |
| COGS | 541.7 | 594.6 | 127.4 | 140.2 |
| Gross Profit | 658.3 | 733.7 | 164.3 | 166.1 |
| SG&A | 472.9 | 528.9 | 123.7 | 122.4 |
| Operating Profit | 185.4 | 204.8 | 40.6 | 43.7 |
| Other Income & Expense | (14.5) | (11.7) | 1.8 | (1.2) |
| - Other Income | 4.7 | 4.6 | 1.9 | 1.6 |
| - Other Expenses | 19.2 | 16.3 | 0.1 | 2.8 |
| Financial Gain(Loss) | (8.8) | (2.2) | 0.1 | (0.2) |
| Pre-tax Income | 162.2 | 190.9 | 42.5 | 42.3 |
| - Income Tax | 36.8 | 48.9 | 12.7 | 11.0 |
| Net Income | 125.4 | 142.0 | 29.8 | 31.3 |
| Comprehensive Income | 139.4 | 138.2 | 30.3 | 30.7 |



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