KT&G 2020
4Q and Annual Earnings Release

2021. 2. 4 | Investor Relations

Disclaimer

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The financial information in this presentation is based on K-IFRS standards.

This presentation and related discussion 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.

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1. Consolidated Results

(Unit : bil KRW)	4Q 20	4Q 19	YoY	FY 20	FY 19	YoY
Sales	**1,341.0**	**1,198.2**	**11.9%**	**5,301.6**	**4,963.2**	**6.8%**
KT&G[1)]	960.0	747.9	28.4%	3,438.1	2,942.6	16.8%
KGC[1)]	242.5	272.1	-10.9%	1,333.6	1,403.7	-5.0%
Others and adjustments[2)]	138.5	178.2	-22.3%	529.9	616.9	-14.1%
Operating Profit	**338.0**	**249.9**	**35.3%**	**1,482.4**	**1,379.6**	**7.5%**
Net Income	**307.7**	**116.8**	**163.4%**	**1,173.1**	**1,037.2**	**13.1%**

1) Sales of KT&G and KGC are the amounts before eliminating internal transactions
2) Others and adjustments are the figures after adjusting or eliminating internal transactions among other subsidiaries sales

☐ (Sales) 4Q 1,341 bil KRW YoY +11.9% / FY 5,301.6 bil KRW YoY +6.8%

- Increase driven by growth of KT&G overall business and overseas cigarette subsidiaries, achieving <u>the highest annual sales ever</u>

☐ (OP) 4Q 338 bil KRW YoY +35.3% / FY 1,482.4 bil KRW YoY +7.5%

- OP growth rate exceeded sales growth rate, recording <u>the highest annual operating profit ever</u>

☐ (NI) 4Q 307.7 bil KRW YoY +163.4% / FY 1,173.1 bil KRW YoY +13.1%

- Net income growth thanks to KT&G other income and financial income increase

2. KT&G Performance ① Overview

(Unit : bil KRW)	4Q 20	4Q 19	YoY	FY 20	FY 19	YoY
Sales	**960.0**	**747.9**	**28.4%**	**3,438.1**	**2,942.6**	**16.8%**
Domestic	445.5	459.6	-3.1%	1,881.9	1,909.8	-1.5%
Export[1)]	233.5	101.6	129.8%	808.8	535.3	51.1%
Real Estate and Others	281.0	186.7	50.5%	747.4	497.5	50.2%
SG&A	**160.1**	**191.2**	**-16.3%**	**687.6**	**675.9**	**1.7%**
Operating Profit	**368.1**	**257.1**	**43.2%**	**1,341.4**	**1,134.6**	**18.2%**
Net Income	**298.1**	**140.6**	**112.0%**	**1,075.1**	**891.4**	**20.6%**

1) Export : Separate result standard, prior to the consolidation removal of US subsidiary sales

☐ (Sales) 4Q 960 bil KRW YoY +28.4% / FY 3,438.1 bil KRW YoY +16.8%

- Strong sales on the back of resilient export to main market and real-estate growth, achieving the highest annual sales ever

☐ (OP) 4Q 368.1 bil KRW YoY +43.2% / FY 1,341.4 bil KRW YoY +18.2%

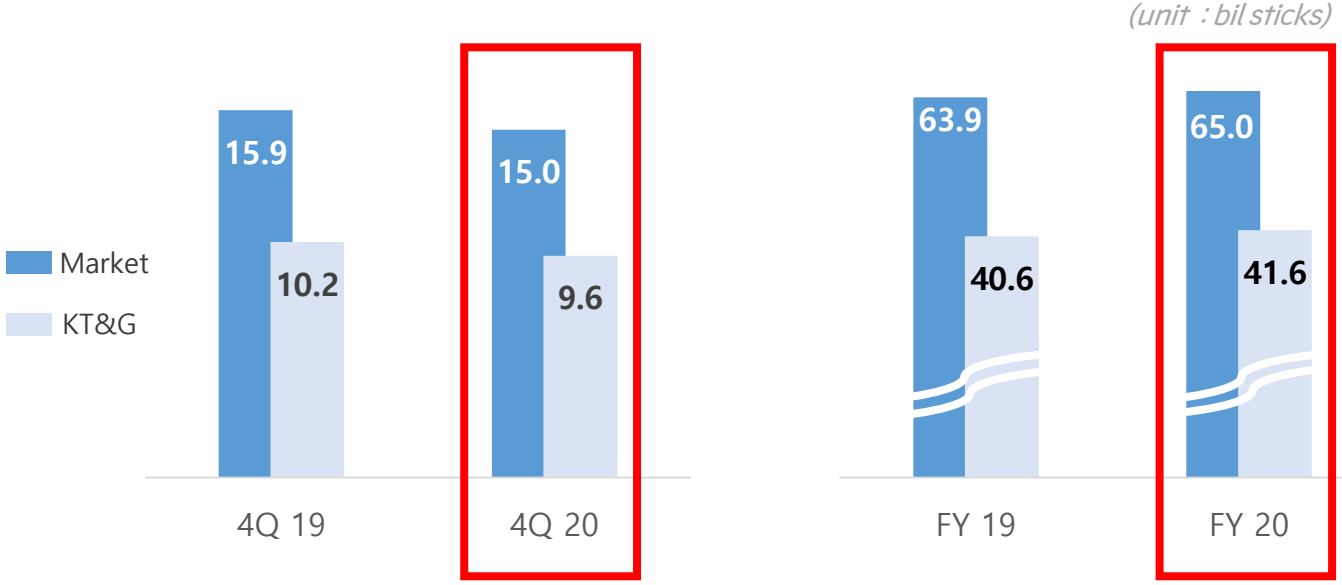
- Solid OP due to strengthened profitability of main market export and real estate business scale growth, recording the highest annual operating profit ever

☐ (NI) 4Q 298.1 bil KRW YoY +112% / FY 1,075.1 bil KRW YoY +20.6%

- Net income growth thanks to other income(gain on disposal of assets held for sales 150 bil KRW↑) and financial income(gain on disposal of long-term deposits in MSA escrow fund 29 bil KRW ↑) increase

2. KT&G Performance ② Domestic Combustible Cigarette

[Market/KT&G Volume]



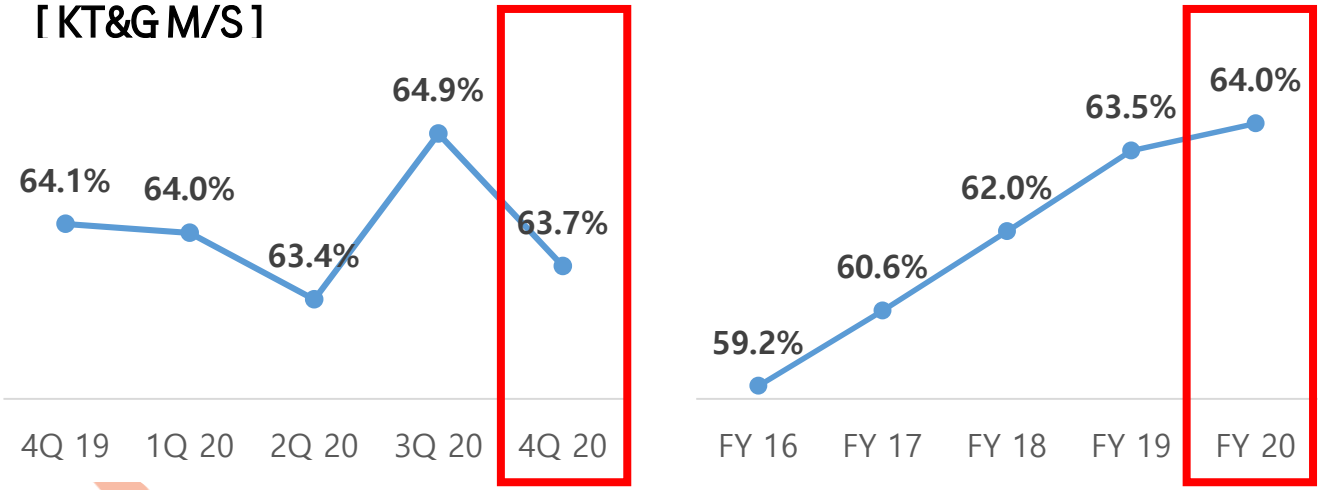
☐ (4Q) Market Volume 15 bil sticks YoY -5.7% / KT&G Volume 9.6 bil sticks YoY -5.9%

- Decrease due to seasonal effect and demand shift to HNB products

☐ (FY) Market Volume 65 bil sticks YoY +1.7% / KT&G Volume 41.6 bil sticks YoY +2.5%

- Volume growth due to inflow from liquid-type cigarette market and overseas travel restrictions caused by COVID19

[KT&G M/S]



☐ (4Q) 63.7% YoY -0.4%p

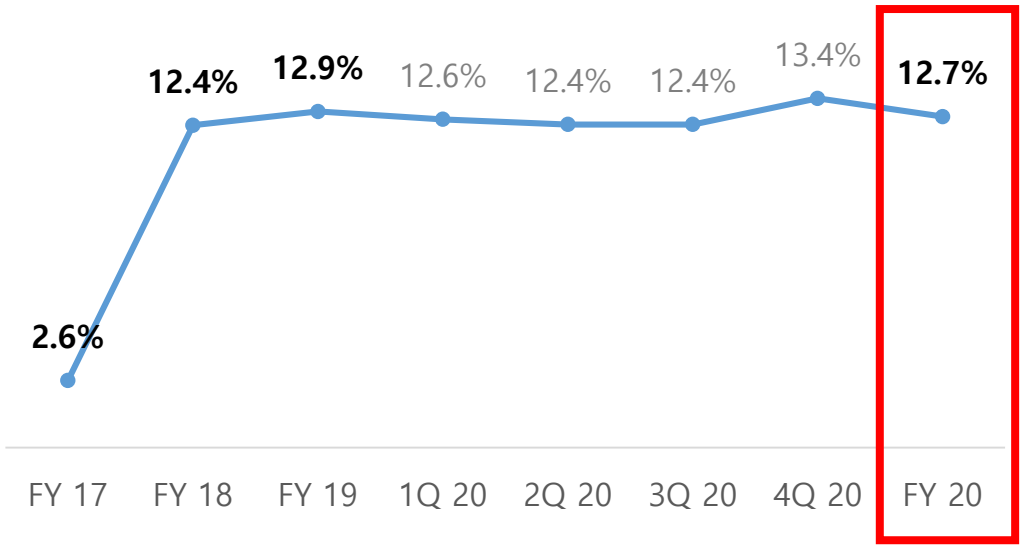
- Affected by Korean Thanksgiving(Chuseok) holiday pre-sale order in 3Q

☐ (FY) 64% YoY +0.5%p

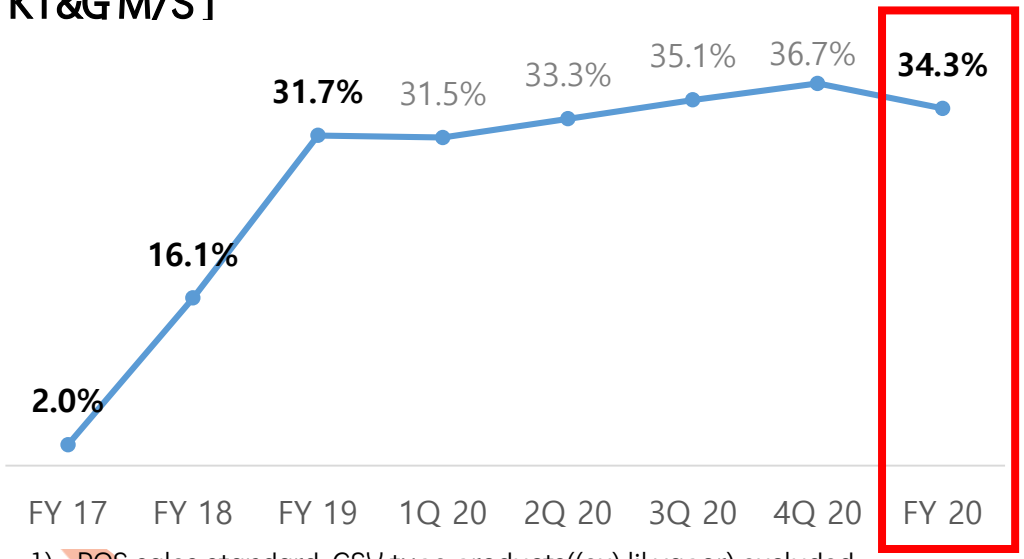
- Continued increase thanks to successful 'less smell/low stimulus' and 'super slim' products

2. KT&G Performance ③ Domestic HNB[1)]

[Domestic HNB Market Penetration]



[KT&G M/S]



☐ (4Q) 13.4% YoY +1.9%p

- Rebound on the back of reduced outdoor activity(COVID19 effect) and growth of KT&G exclusive platform, 'lil hybrid'

☐ (FY) 12.7% YoY -0.2%p

- HNB market size remained stable due to increased combustible cigarette demand, however in the mid-long term increased health perspectives and preference for less smell products expect to lead gradual growth of penetration

☐ (4Q) 36.7% YoY +5.6%p

- Continued M/S growth on the back of 「MIIX」 products, exclusive for 'lil hybrid'

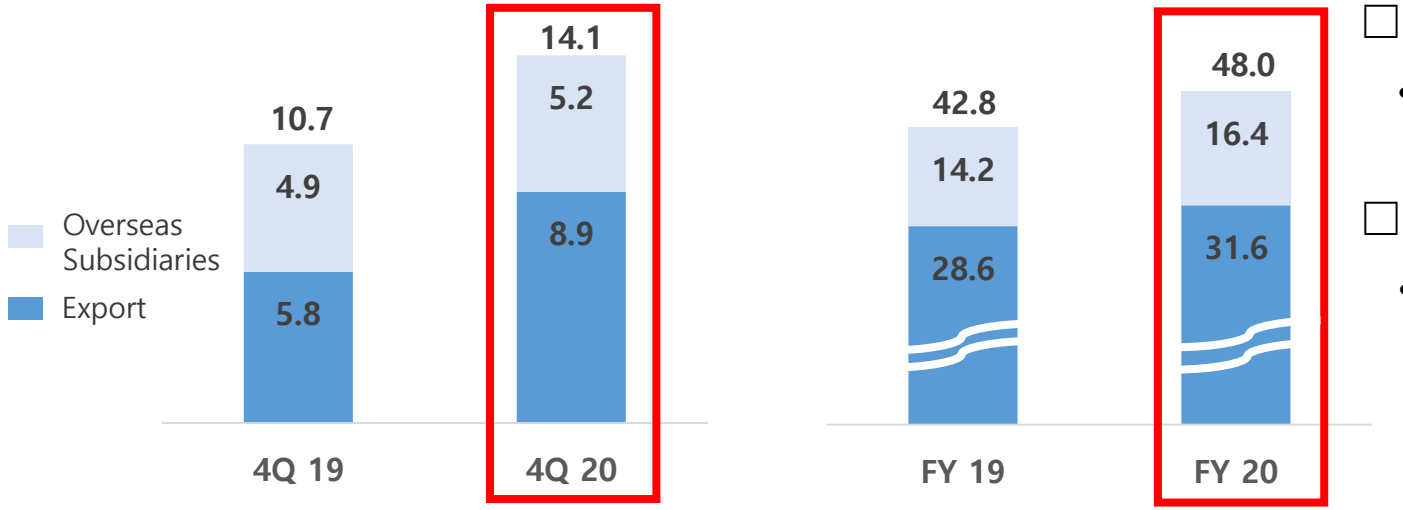
☐ (FY) 34.3% YoY +2.6%p

- Strong improvement supported by diversified stick portfolio('19.1Q 11 sku→'20.4Q 17 sku) and lil hybrid M/S growth after nationwide coverage expansion

1) POS sales standard, CSV type products((ex) lil vapor) excluded

2. KT&G Performance ④ Overseas Cigarette (Export[1] and Overseas Subsidiaires[2])

[Volume]



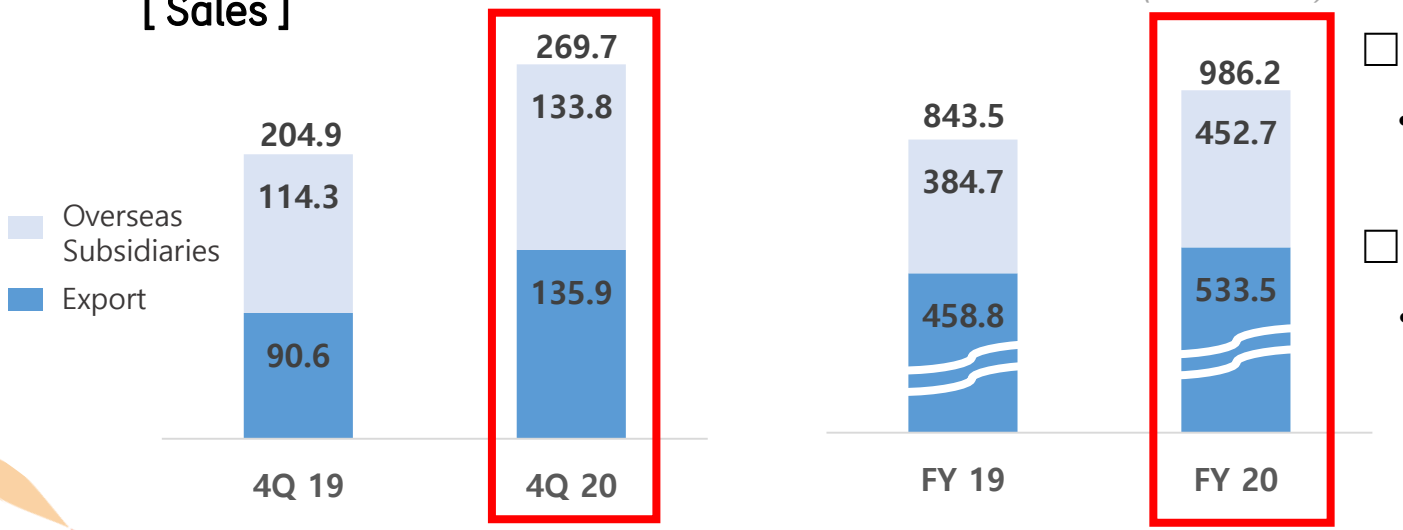
☐ (4Q) 14.1bil sticks YoY +31.8%

- Increase on the back of main market export

☐ (FY) 48 bil sticks YoY +12.1%

- Growth thanks to main market new distributorship agreement and sharp growth of KT&G USA sales volume

[Sales]



☐ (4Q) 269.7 bil KRW YoY +31.6%

- Growth thanks to increase in high priced main market export

☐ (FY) 986.2 bil KRW YoY +16.9%

- Despite COVID19, increase on the back of volume growth in high ASP regions such as main market and USA

1) Export : KT&G US results excluded
2) Overseas subsidiaries : Indonesia, US, Russia, Turkey, Iran subsidiaries

3. KGC Performance ① Overview

(unit : bil KRW)	4Q 20	4Q 19	YoY	FY 20	FY 19	YoY
Sales	**242.5**	**272.1**	**-10.9%**	**1,333.6**	**1,403.7**	**-5.0%**
Domestic	189.9	238.1	-20.2%	1,185.7	1,270.4	-6.7%
Export	52.6	34.0	54.7%	147.9	133.3	11.0%
SG&A	**132.5**	**152.2**	**-12.9%**	**544.3**	**549.8**	**-1.0%**
Operating Profit	**(14.6)**	**(9.1)**	**-**	**158.0**	**205.9**	**-23.3%**
Net Income	**(14.5)**	**(14.3)**	**-**	**109.7**	**147.7**	**-25.7%**

☐ (Sales) 4Q 242.5 bil KRW YoY -10.9% / FY 1,333.6 bil KRW YoY -5%

- Export sales increase in spite of prolonged COVID19

☐ (OP) 4Q -14.6 bil KRW / FY158 bil KRW YoY -23.3%

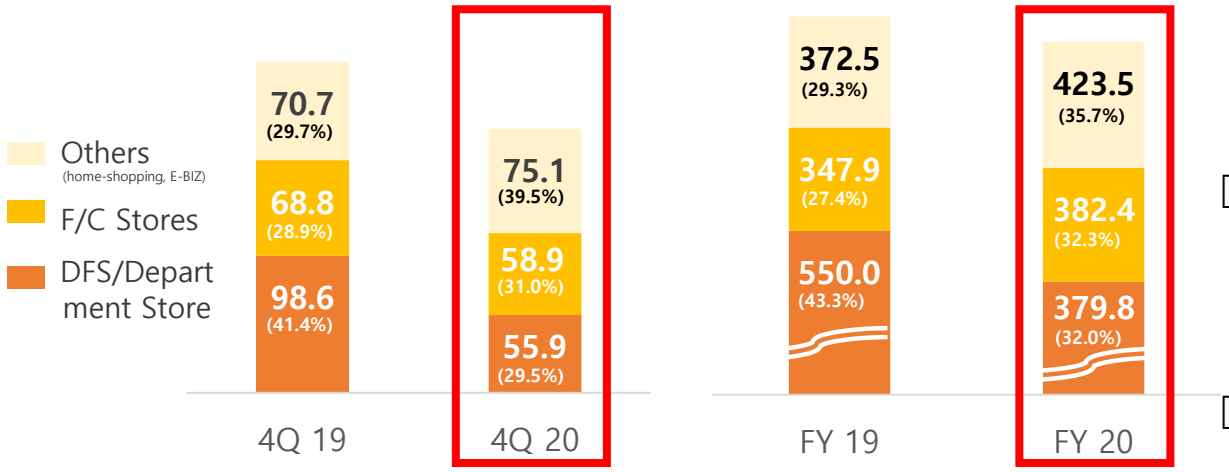
- OP decline mainly due to DFS underperformance caused by pandemic and increase in COGS ratio

☐ (NI) 4Q -14.5 bil KRW / FY 109.7 bil KRW YoY -25.7%

3. KGC Performance ② Domestic Sales Analysis

[Sales by Channel]

(unit : bil KRW)



☐ (DFS/Department Store) 4Q 55.9 bil KRW YoY -43.3% / FY 379.8 bil KRW YoY -30.9%

- Decrease mainly due to prolonged COVID19

☐ (F/C Stores) 4Q 58.9 bil KRW YoY -14.4% / FY 382.4 bil KRW YoY +9.9%

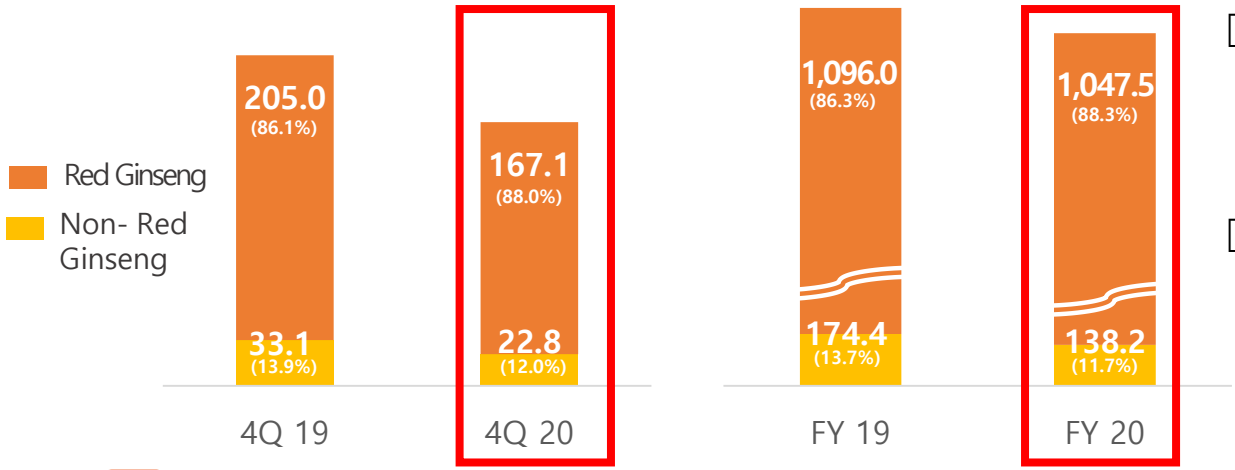
- 4Q sales decreased due to late lunar new year in 2021, however annual sales increased thanks to sales strategy diversification

☐ (Others) 4Q 75.1bil KRW YoY +6.2% / FY 423.5 bil KRW YoY +13.7%

- YoY growth on the back of growing preference of non contact channels

[Sales by Product Type]

(unit : bil KRW)



☐ (Red Ginseng) 4Q 167.1 bil KRW YoY -18.5% / FY 1,047.5 bil KRW YoY -4.4%

☐ (Non- Red Ginseng) 4Q 22.8 bil KRW YoY -31.1% / FY 138.2 bil KRW YoY -20.8%

4. 2021 Business Target ① KT&G

◆ (Separate) Sales 3,462.7 bil KRW / OP 1,164.6 bil KRW

	Domestic Combustible Cigarette	Overseas Combustible Cigarette (Export and Overseas Subsidiaries)	Real Estate
Guidance	✔ (Volume) 41 bil sticks (※ Total Market volume assumption 64 bil sticks) ✔ (M/S) 64.1%	✔ (Volume) 55.3 bil sticks ✔ (Sales) 1,155.7 bil KRW	✔ (Sales) 646.3 bil KRW ✔ (Project Suwon) 568.6 bil KRW
Key Strategy	✔ Expansion of 'low stimulus/less smell' category products + ✔ Launch of new specialized super slim products + ✔ Profitability securement through improvement of portfolio mix	✔ Active entry into new markets to cover more than 200 countries worldwide + ✔ Improvement on profitability and establishment of well-balanced business portfolio through expansions of 'Overseas Subsidiaries/Local Production' business model	✔ Sustainable value creation and business model consolidation through improving competitiveness in development, operation, rental and investment + ✔ Continued sales creation through preemptive land purchase and development

4. 2021 Business Target ② KGC

◆ (Separate) Sales 1,420 bil KRW / OP 173.4 bil KRW

	Domestic	Export
Guidance	(Sales) 1,240 bil KRW	(Sales) 180 bil KRW
Key Strategy	(Product) Elaboration of Red-Ginseng product portfolio, promotion of 'New Mega Hit-Products', and product development for 'New Consumption Generation' + (Channel Distribution) Competitiveness enhancement through on-line business expansion and proactive distribution channel advancement + (Investment) Investment in health functional food, cosmetic and other new business for sustainable business foundation	Business model innovation specific by each country based on thorough market research + Increasing global market penetration through development of localized products and execution of 'Premium & Immunity' brand strategy + Proactively respond to distribution system changes through on-line platform innovation and direct purchase network expansion(China and USA markets)

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

5. Appendix ① KT&G Condensed Balance Sheet

[Consolidated]

Accounts (unit: hundred mil. KRW)	FY 20	FY 19
Current Asset[a]	**67,470**	**64,172**
Cash and cash equivalents, Etc[*]	25,753	25,285
Trade and other receivables	12,121	10,234
Inventories	25,351	24,472
Non-current assets	**47,270**	**43,352**
Property, plant, and equipment	17,207	17,537
Investment property	10,302	8,853
Total assets	**114,740**	**107,524**
Current liabilities[b]	19,886	16,001
Non-current liabilities	3,592	4,127
Total liabilities[c]	**23,478**	**20,128**
Total equity[d]	**91,262**	**87,396**
Current ratio[a/b]	339.3%	401.0%
Debt ratio[c/d]	25.7%	23.0%

[Separate]

Accounts (unit: hundred mil. KRW)	FY 20	FY 19
Current Asset[a]	**47,069**	**43,142**
Cash and cash equivalents, Etc[*]	23,211	22,734
Trade and other receivables	10,484	7,802
Inventories	9,933	9,681
Non-current assets	**51,690**	**47,986**
Property, plant, and equipment	11,396	11,163
Investment property	11,012	9,991
Total assets	**98,759**	**91,128**
Current liabilities[b]	17,229	12,515
Non-current liabilities	790	812
Total liabilities[c]	**18,019**	**13,327**
Total equity[d]	**80,740**	**77,801**
Current ratio[a/b]	273.2%	344.7%
Debt ratio[c/d]	22.3%	17.1%

(*) Cash and cash equivalents, Etc : Cash and cash equivalents, current other financial assets, current fair value through profit or loss

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5. Appendix ② KT&G Condensed Income Statement

[Consolidated]

Accounts (unit: hundred mil. KRW)	FY 20	FY 19
Sales	**53,016**	**49,632**
Cost of sales	23,314	20,886
Gross profit	**29,702**	**28,746**
Selling, general and administrative expense	14,879	14,950
Operating profit	**14,824**	**13,796**
Other income/expenses	224	(38)
Financial gain/loss	1,044	829
Net income	**11,731**	**10,372**
Gross profit margin	56.0%	57.9%
Operating profit margin	28.0%	27.8%
Net income margin	22.1%	20.9%

[Separate]

Accounts (unit: hundred mil. KRW)	FY 20	FY 19
Sales	**34,381**	**29,426**
Cost of sales	14,091	11,321
Gross profit	**20,290**	**18,105**
Selling, general and administrative expense	6,876	6,759
Operating profit	**13,414**	**11,346**
Other income/expenses	175	27
Financial gain/loss	1,063	883
Net income	**10,751**	**8,914**
Gross profit margin	59.0%	61.5%
Operating profit margin	39.0%	38.6%
Net income margin	31.3%	30.3%

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5. Appendix ③ KT&G Condensed Cash Flow

[Consolidated]

Accounts (unit: hundred mil. KRW)	FY 20	FY 19
Cash flows from operating activities	**12,562**	**10,425**
Cash generated from operations	16,791	14,641
Income tax paid	(4,230)	(4,216)
Cash flows from investing activities	**(831)**	**(4,592)**
Acquisition of property, plant and equipment	(2,204)	(2,222)
Cash flows from financing activities	**(8,087)**	**(6,321)**
Net increase in cash and cash equivalents	3,643	(488)
Cash and cash equivalents at Jan, 1	**8,913**	**9,330**
Effect of exchange rate fluctuation and others and others	**(25)**	**72**
Cash and cash equivalents at Dec, 31	**12,532**	**8,913**

[Separate]

Accounts (unit: hundred mil. KRW)	FY 20	FY 19
Cash flows from operating activities	**11,812**	**7,702**
Cash generated from operations	15,347	11,222
Income tax paid	(3,536)	(3,521)
Cash flows from investing activities	**182**	**(3,493)**
Acquisition of property, plant and equipment	(1,646)	(1,676)
Cash flows from financing activities	**(7,785)**	**(5,111)**
Net increase in cash and cash equivalents	4,209	(902)
Cash and cash equivalents at Jan, 1	**6,568**	**7,481**
Effect of exchange rate fluctuation and others and others	(16)	(11)
Cash and cash equivalents at December, 31	**10,761**	**6,568**

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5. Appendix ④ KGC Condensed Financial Statement

[Condensed Balance Sheet]

Accounts (unit: hundred mil. KRW)	FY 20	FY 19
Non-current Assets	**6,175**	**6,004**
Property, plant and equipment	2,311	2,944
Intangible assets	286	248
Others	3,578	2,812
Current assets	**15,837**	**15,273**
Inventories	12,735	12,902
Cash and cash equivalents	216	357
Others	2,886	2,014
Total assets	**22,012**	**21,277**
Non-current liabilities	822	826
Current liabilities	1,008	1,467
Total liabilities	**1,829**	**2,293**
Total equities	**20,183**	**18,984**
Total liabilities and equities	**22,012**	**21,277**

[Condensed Statement of Comprehensive Income]

Accounts (unit: hundred mil. KRW)	FY 20	FY 19
Net sales	**13,336**	**14,037**
Red ginseng roots	691	1,059
Red ginseng products	12,626	12,949
(Ratio)	(94.7%)	(92.2%)
Others	19	29
COGS	6,314	6,481
Gross profit	**7,022**	**7,556**
SG&A	5,443	5,498
Operating profit	**1,580**	**2,059**
Other Income and expense	-116	-59
Financial gain/loss	10	-4
Net income	**1,097**	**1,477**

Thank You

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