

Non-Deal Roadshow

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KT&G
WWW.KTNG.COM



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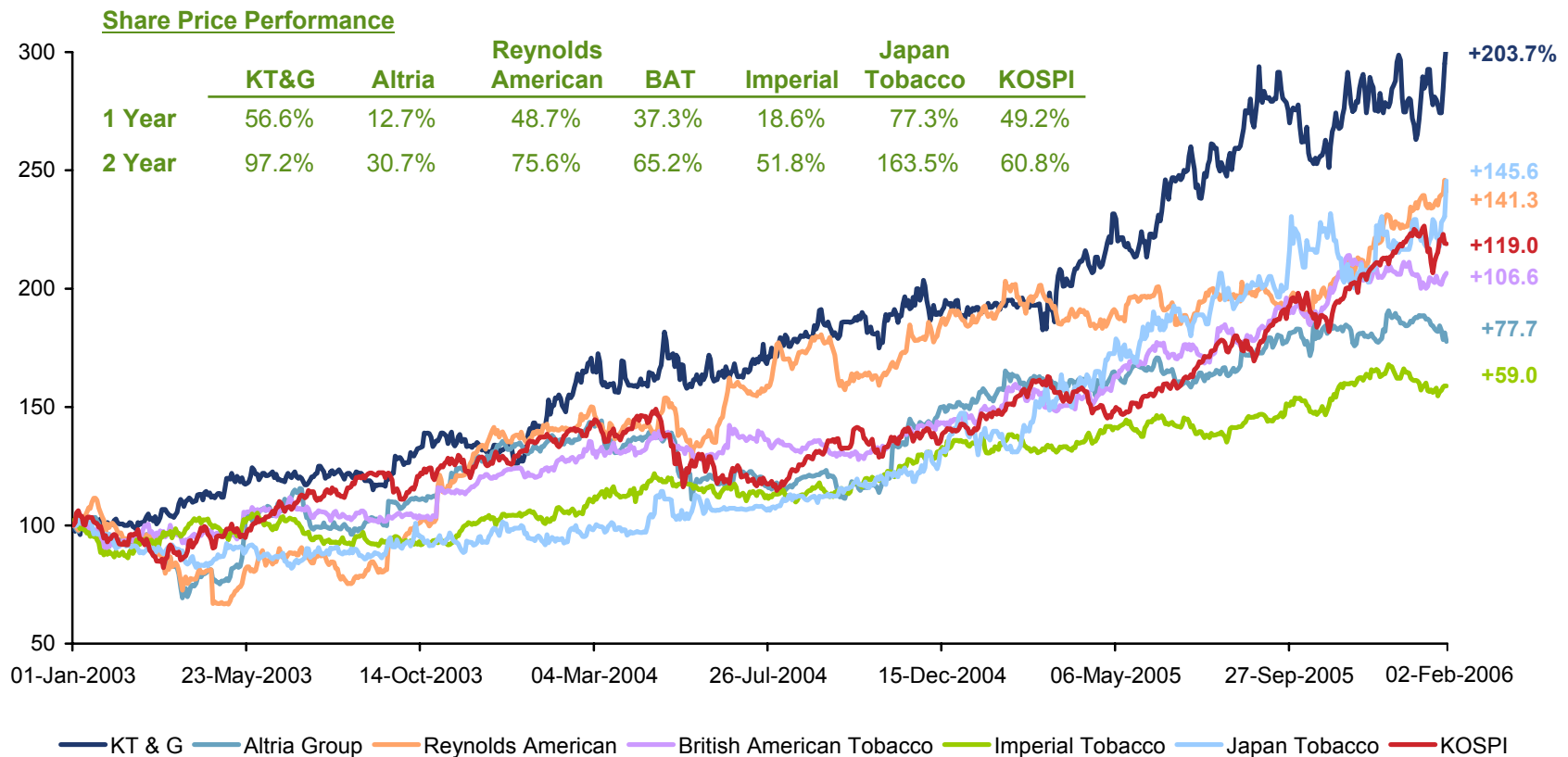


**Strong Track
Record of
Creating
Shareholder Value**



Stock Price Performance Since Privatization

Since full privatization at the end of 2002, KT&G's share price has out-performed both selected global tobacco peers and KOSPI

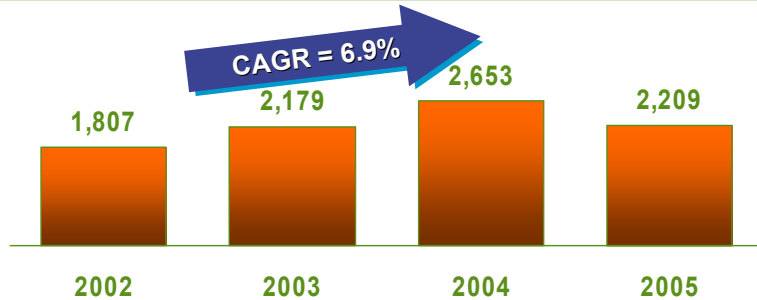


Strong Financial Performance

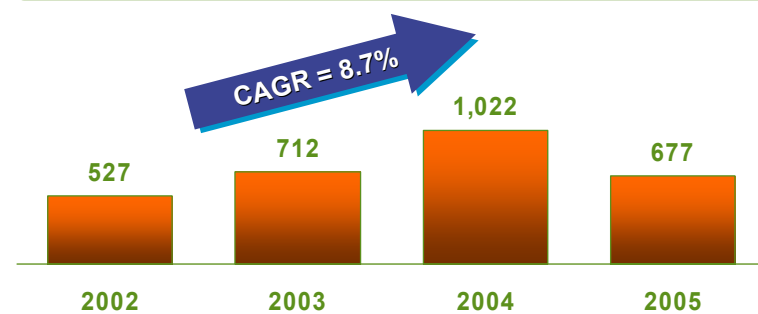
KT&G has delivered solid financial results

- ⊗ Sales volume abnormally high in FY2004 due to stockpiling
- ⊗ Domestic market in 2H 2005 recovered to normal levels

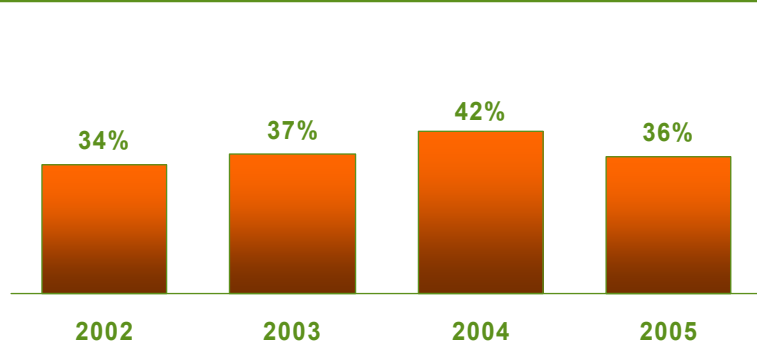
Sales (KRW bn)



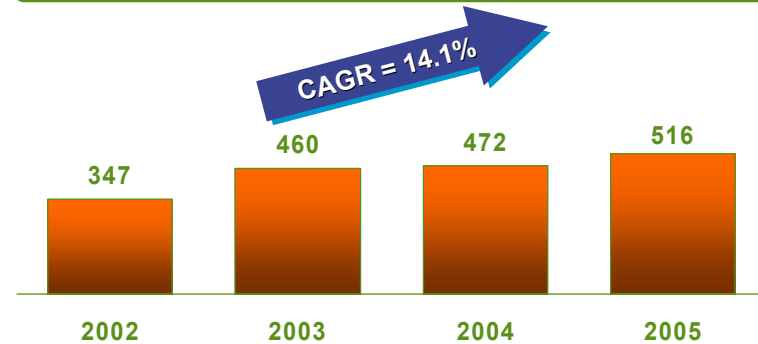
Operating Income (KRW bn)



EBITDA Margin (%)



Net Income (KRW bn)

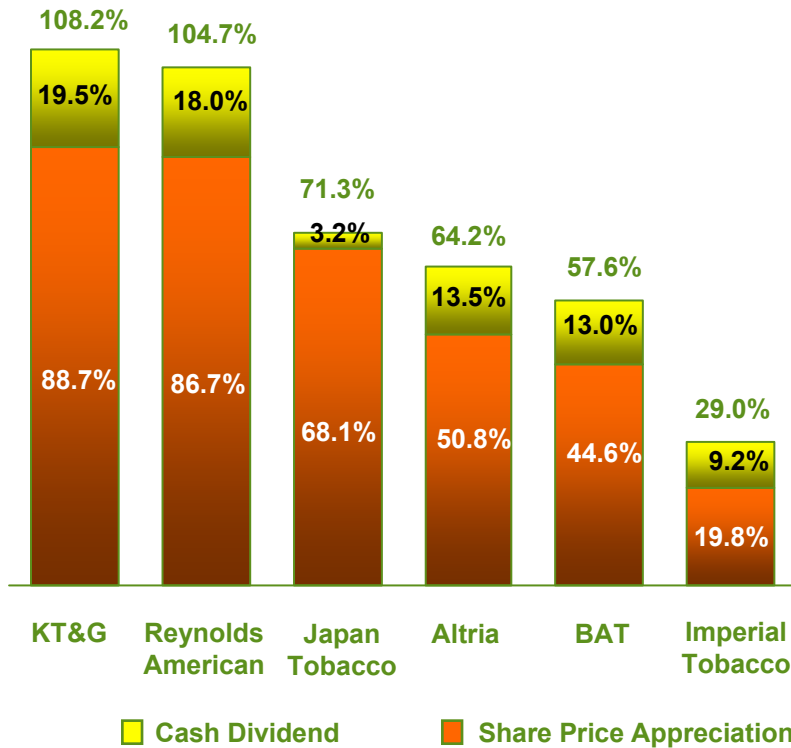


Source: Company Filings

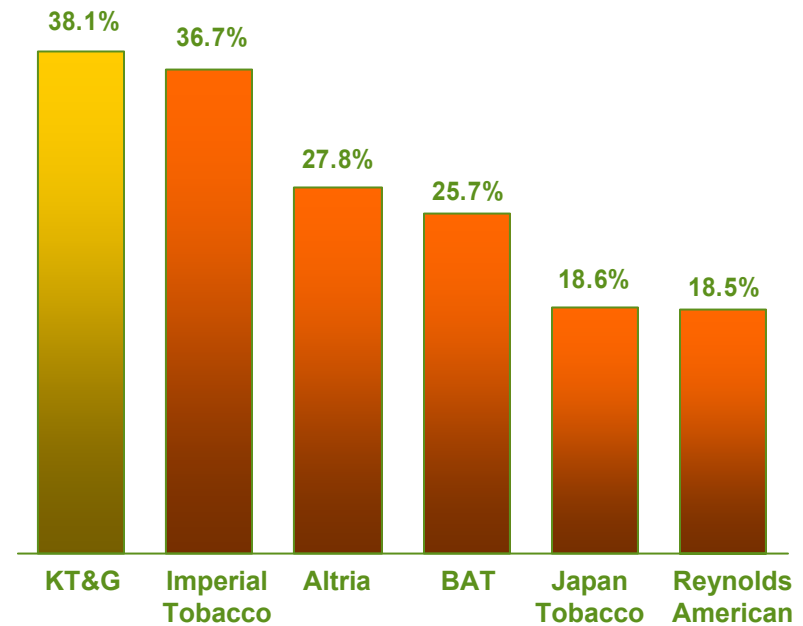
Peer Comparison

KT&G has outperformed its peers on various metrics

Total Returns to Shareholders ^(a) (2003 - 2004)



Average EBITDA Margin ^(b) (2002 - 2004)



(a) Includes capital gains and cash dividend received as % of beginning of 2003 stock price

(b) EBITDA/sales net of excise taxes

Source: Datastream, Annual Reports

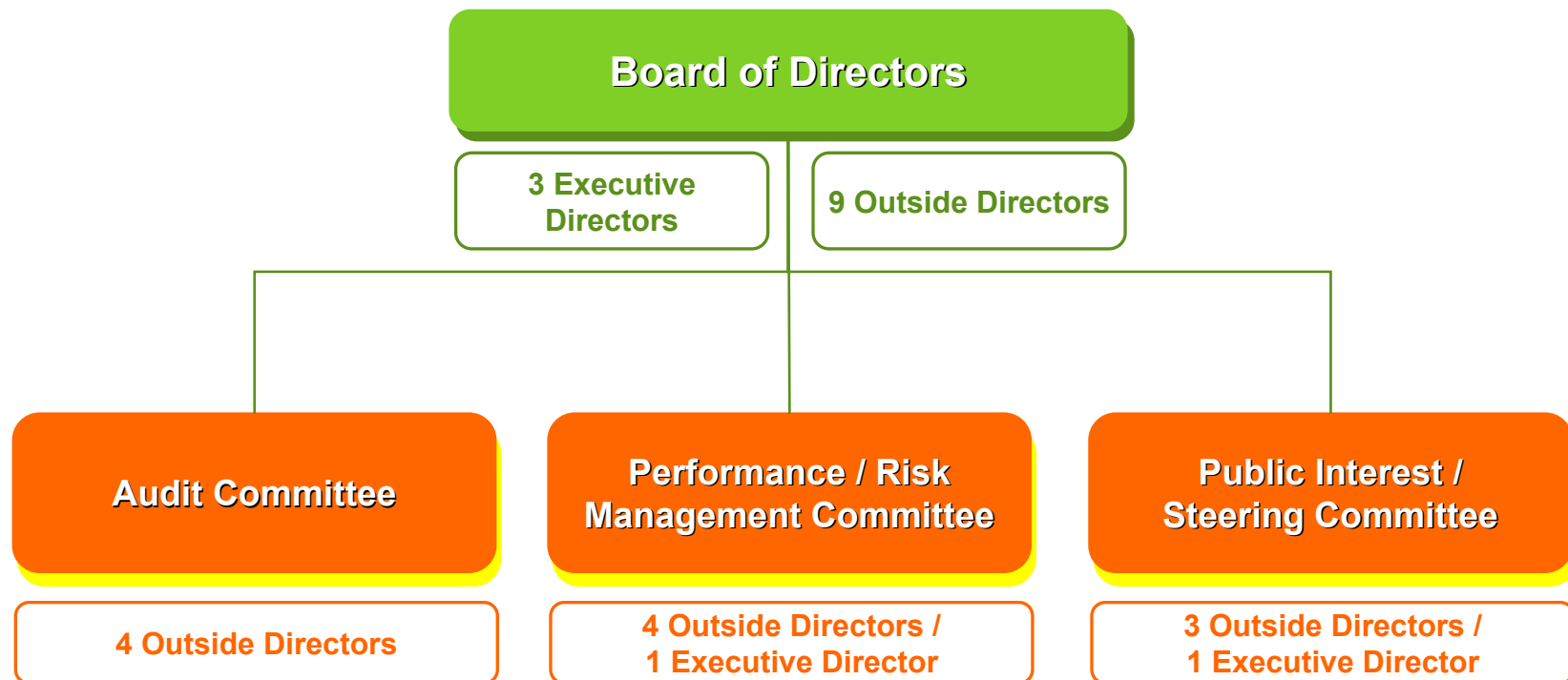
Sound Corporate Governance

KT&G has taken significant steps to improve corporate governance and continues to receive third party recognition for its corporate governance practices

- ❁ **Rated as one of the best in Korea**
 - ◆ **KT&G obtained a “Strong” rating from S&P’s evaluation of corporate governance structure in 2004, an indication that corporate governance is solid based on international standards**
 - ◆ **Received a “Very Strong” rating from Corporate Governance Services in Korea in 2004**
- ❁ **Received numerous third party recognitions in relation to corporate governance**
 - ◆ **Recognized as “Excellent Corporate Governance Company” by Corporate Governance Services in Korea in 2004 and 2005**
 - ◆ **Named “Good Shareholder Value Company” by MoneyToday in September 2005**
 - ◆ **Received “Outstanding IR Award” by Korea Investor Relations Committee in November 2005**

Transparent Structure of the Board of Directors

Structure of the Board of Directors plays a pivotal role in upholding sound corporate governance structure





**Key Issues and
Considerations**



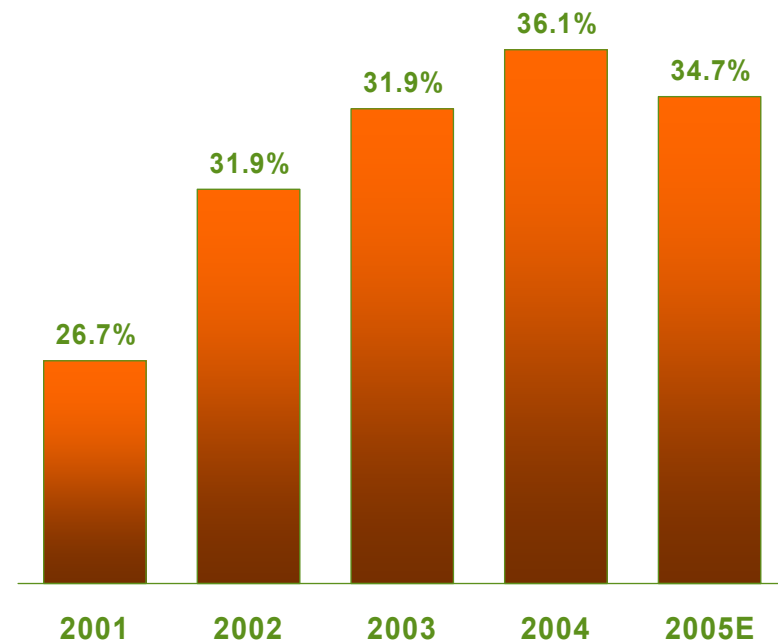
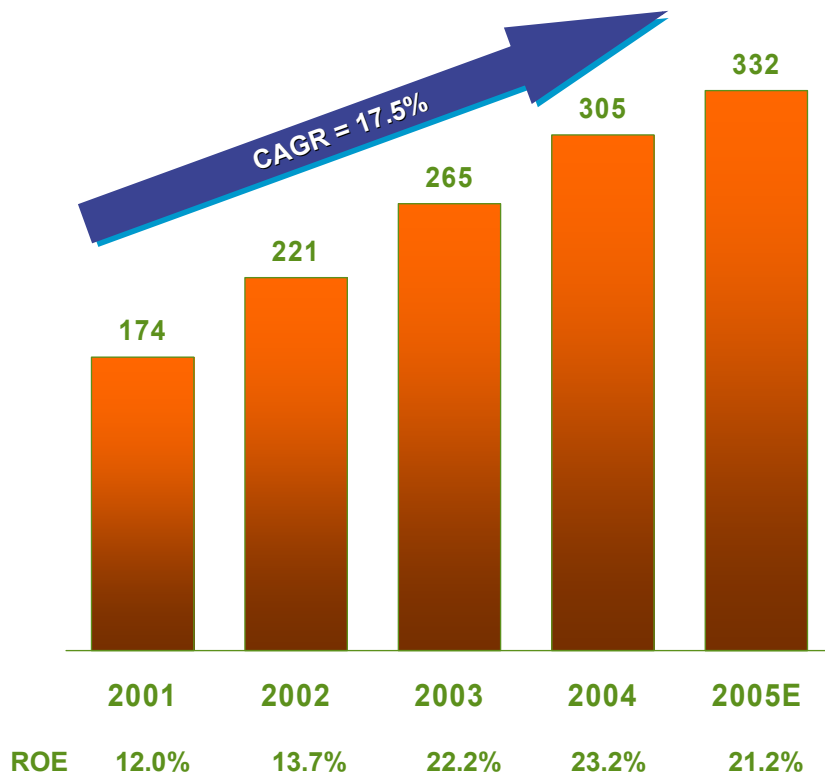
Korea Ginseng Corp. ("KGC") Historical Performance



Under KT&G's ownership during the past 100 years,
the ginseng business has recorded impressive results

Strong Sales Growth (KRW bn)

High EBITDA Margin (%)



ROE 12.0% 13.7% 22.2% 23.2% 21.2%



Korea Ginseng Corp. (“KGC”) Mid-to-Long-Term Strategy



KT&G is pursuing several key strategic initiatives for the ginseng business to further improve its financial performance as part of KT&G

- ✿ Collaboration of ginseng business and tobacco business will likely enhance value for KT&G’s shareholders
 - ◆ Potential synergies from co-marketing and co-distribution
- ✿ Expansion of ginseng supply base
 - ◆ Address potential shortage of ginseng supply
 - ◆ Upfront funding support for farmers to secure best quality ginseng
- ✿ Further strengthen brand equity
 - ◆ Already established as premium brand in Korea
 - ◆ Still significant opportunities exist in international markets
- ✿ Increase communication regarding, and disclosure of, ginseng business
 - ◆ Publish quarterly consolidated financials
- ✿ Improve mid- to long-term profitability
 - ◆ Overseas expansion with focus on Greater China
 - ◆ Expand higher margin health food and drink business

Non-core Real Estate Mid-to-Long-Term Strategy

We are actively reviewing alternatives to maximize the value of the real estate assets to our shareholders

Non-core Real Estate ^(a)

Sites	Area (m ²)	Book Value (KRW bn)	Gov't Stated Value (KRW bn)
Suwon	284,386	15.1	160.9
Cheongju	65,731	4.9	18.9
Jeonju	71,050	9.9	40.4
Daegu	51,300	20.5	38.5
Okcheon	45,584	1.0	5.6
Andong	60,820	4.7	17.7
Chungju	93,321	0.4	6.0
Yeongju	64,846	0.5	5.6
Total	737,038	57.1	293.6

Key Considerations

- ⚙️ **Difficulty in selling non-core real estate**
 - ◆ **Potential buyers, if any, are likely to request deep discounts due to:**
 - **Large size**
 - **Uncertainty regarding changing the designation to “commercial” or “residential” use**
 - **Risks associated with the scope of unpaid donations to local governments**

Dongdaemun Branch Development (KRW bn)

Book Value	5
Sale of Development	164
Development Cost	84
Operating Profit	75
Government Stated Value	33

(a) As of July 2005



Non-core Real Estate Mid-to-Long-Term Strategy

**We believe sale of non-core real estate post-development
would result in higher returns to shareholders**

- ❁ **Dedicated real estate team working closely with outside development experts to realize the value for the shareholders**
- ❁ **Plans to redevelop closed factory sites**
 - ◆ **Jeonju from 2006**
 - **In the final stage of obtaining license for the development and entering into contract with real estate developers**
 - ◆ **Cheongju from 2007**
 - ◆ **Daegu from 2007**
 - ◆ **Suwon from 2011**
- ❁ **In active discussion with local governments for the re-zoning**



Non-core Real Estate REIT

**Suitability of REIT structure for our
real estate portfolio at this time is questionable**

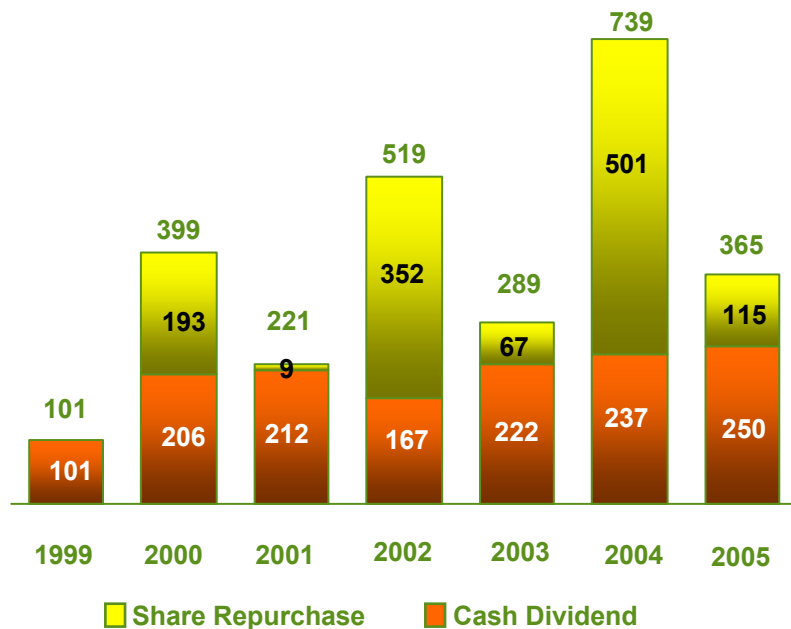
- ❁ REIT structure will likely result in significant discount in valuation at this time
 - ◆ Currently, non-core real estate has no cash flow
 - ◆ Non-core real estate has yet to receive regulatory approval for development
 - ◆ Re-zoning still under discussion with local governments
 - ◆ Only 30% of Korean REIT's assets may ordinarily be invested in real estate development projects
- ❁ Potential tax inefficiencies exist when the real estate assets are transferred to REIT

Maximizing Shareholder Value

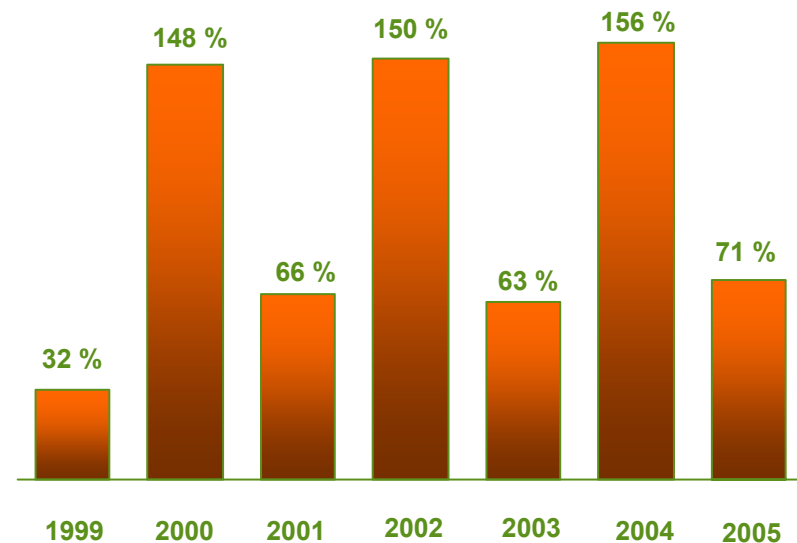
KT&G has enhanced shareholder value via dividends and share repurchases

- Since IPO, KT&G has paid-out substantial cash dividends
- Total of KRW1,237 billion^(a) worth of stock was repurchased from 1999 to 2005
- On February 24th, KT&G announced completion of further 3 million share retirement

Total Payout to Shareholders (KRW bn)



Total Payout to Shareholders (% of Net Income)

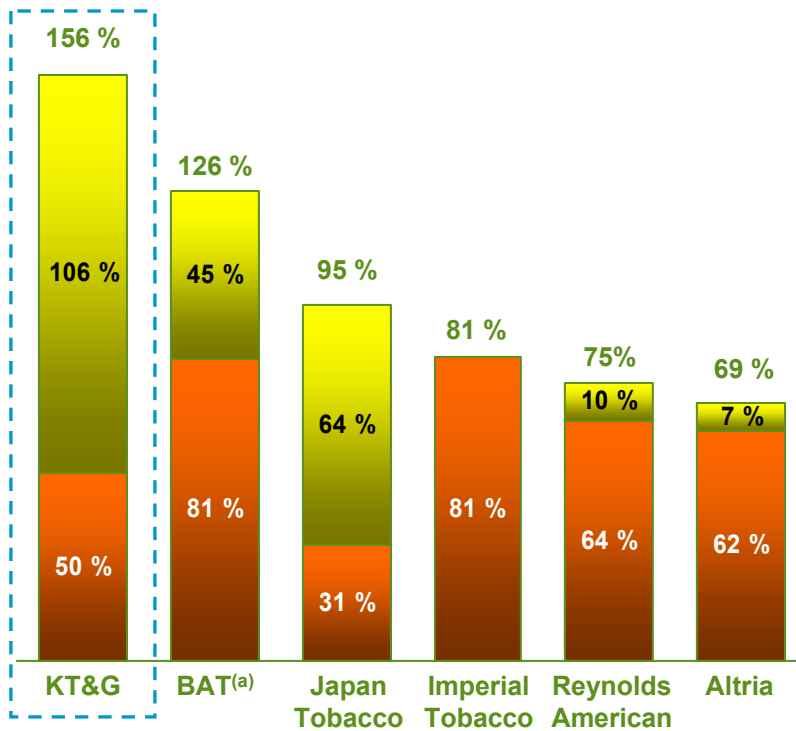


(a) Net of sale of treasury shares

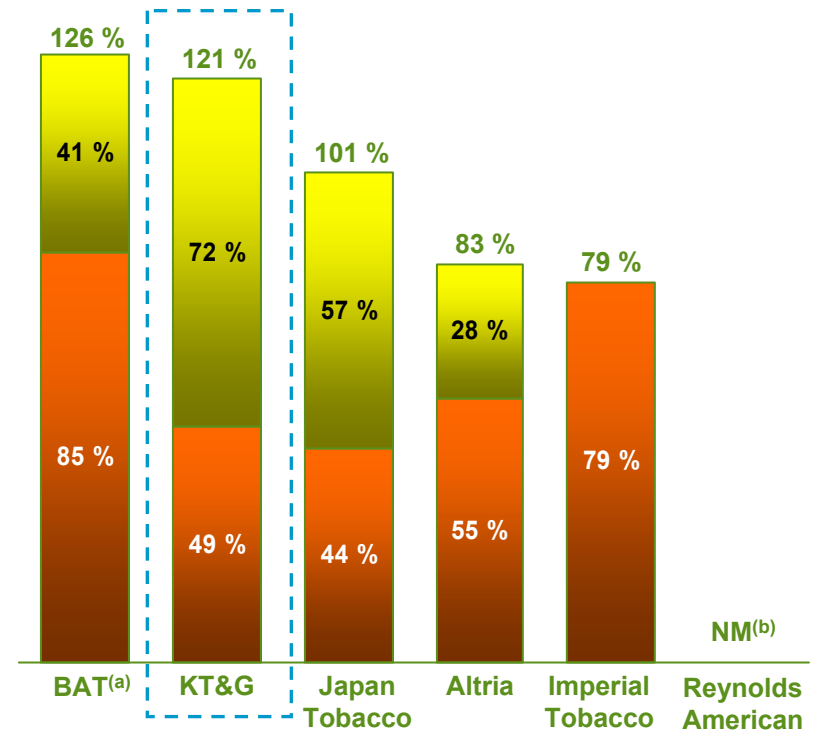
Maximizing Shareholder Value

KT&G has one of the highest total payout ratios in the industry

Total Payout to Shareholders (2004)



Combined Payout to Shareholders (2002 - 2004)



■ Share Repurchase ■ Cash Dividend

(a) Net income excludes gain on disposal of subsidiary and differences on exchange

(b) Net loss in 2002 – 2004 due to heavy restructuring costs in 2003

Source: Annual reports



KT&G's Strategy





KT&G's Key Initiatives to Increase Shareholder Value

- ✿ **Continued focus on strong financial performance**
- ✿ **Sound corporate governance and management transparency**
- ✿ **Margin improvement in the tobacco business by focusing on premium cigarettes and procurement of raw materials**
- ✿ **Implementation of value-creating initiatives to enhance the value of Ginseng business**
- ✿ **Review of strategic alternatives to maximize profits from non-core real estate assets**
- ✿ **Returning wealth to shareholders via dividends and share repurchases taking into account our cash flows and the market conditions**



Appendix



Balance Sheet Summary

(KRW bn)	FY01	FY02	FY03	FY04	FY05
Current Assets	1,865.8	1,703.9	1,746.8	2,002.0	2,032.9
Quick Assets	476.0	268.4	347.6	740.4	907.1
Cash, Short-term Financial Instruments, Trading Securities	245.3	90.9	126.5	464.5	574.1
Accounts Receivable	50.5	118.8	152.9	225.2	241.3
Inventory	1,389.7	1,435.4	1,399.0	1,261.6	1,125.8
Fixed Assets	1,804.8	2,062.4	2,140.3	1,883.0	1,931.5
Investment Assets	811.4	922.8	972.1	666.1	692.4
Tangible Assets	991.5	1,137.7	1,165.7	1,214.8	1,236.7
Intangible Assets	1.8	2.0	2.5	2.1	2.5
Total Assets	3,670.5	3,766.3	3,887.0	3,885.0	3,964.4
Current Liabilities	696.8	742.9	487.0	535.3	301.1
Short-term Debts	-	290.0	-	-	-
Convertible Bonds	-	-	-	20.1	-
Long-term Liabilities	357.8	871.4	584.7	135.5	215.3
Convertible Bonds	311.3	819.9	488.6	-	-
Total Liabilities	1,054.6	1,614.3	1,071.7	670.8	516.4
Capital Stock	955.0	955.0	955.0	955.0	955.0
Capital Surplus	0.3	1.5	81.1	277.3	300.0
Retained Earnings	2,112.5	2,291.9	2,517.0	2,355.7	2,519.3
Capital Adjustment	(451.8)	(1,096.3)	(737.8)	(373.7)	(326.3)
Total Shareholders' Equity	2,615.9	2,152.1	2,815.3	3,214.2	3,448.0
Total Liabilities and Shareholders' Equity	3,670.5	3,766.3	3,887.0	3,885.0	3,964.4

Income Statement Summary

(KRW bn)	1Q	2Q	3Q	4Q	FY04	1Q	2Q	3Q	4Q	FY05
Net Sales	589.7	673.0	618.7	772.0	2,653.4	396.4	532.4	622.1	649.1	2,209.3
Cigarette	575.6	648.0	610.8	753.2	2,587.5	374.4	497.8	593.2	597.8	2,063.3
Export of Leaf Tobacco	11.4	20.1	5.2	12.5	49.2	13.7	23.5	21.1	37.0	95.3
Real Estate, Etc.	2.6	4.9	2.8	6.3	16.6	8.2	11.1	17.1	14.3	50.7
COGS	278.7	274.5	255.7	296.3	1,105.2	195.1	232.7	275.5	281.4	984.7
Cigarette	271.7	257.1	242.8	288.5	1,060.2	154.0	216.2	254.3	265.1	889.5
Etc.	7.0	17.4	12.9	7.8	45.0	41.1	16.5	21.3	16.2	95.1
Depreciation	16.0	14.9	16.9	17.2	65.1	17.1	16.8	17.3	17.3	68.4
Gross Profit	311.0	398.5	363.0	475.6	1,548.2	201.3	299.7	356.5	367.7	1,224.6
SG&A	105.9	127.6	139.5	153.5	526.6	104.5	131.4	136.2	175.6	547.7
Depreciation	8.5	9.7	9.3	10.8	38.4	9.8	10.0	10.6	12.1	42.5
Operating Profit	205.1	270.9	223.5	322.1	1,021.6	96.8	168.3	210.4	192.0	676.9
Non-operating Income	33.1	46.4	45.7	46.1	169.7	28.8	47.4	54.1	23.8	153.1
Interest Income	8.9	9.2	10.0	9.9	38.4	5.2	6.6	8.8	10.0	30.6
Gain on Foreign Currency Transactions	0.7	1.4	0.3	1.1	2.7	0.5	0.8	1.0	1.1	2.9
Gain on Foreign Currency Translations	0.3	0.0	0.0	0.0	0.1	0.0	0.8	0.1	-	0.1
Non-operating Expense	93.0	161.7	64.6	160.5	478.2	22.5	33.6	31.6	34.4	121.2
Interest Expense	5.5	3.8	2.2	0.2	11.6	0.3	-	-	-	0.3
Loss on Foreign Currency Transactions	1.5	1.9	0.8	19.2	23.2	1.5	1.7	0.3	0.9	4.4
Loss on Foreign Currency Translations	9.2	0.0	0.6	(3.1)	6.0	0.7	-	-	2.4	1.7
Ordinary Income	145.2	155.6	2.4	207.7	713.1	103.1	182.1	232.8	181.4	708.8
Income Tax	47.7	71.0	68.6	53.5	240.8	30.8	47.6	68.4	46.2	192.9
Net Income	97.4	84.7	135.9	154.3	472.3	72.3	134.5	164.4	135.3	515.9