

2010 Q4 KT&G Conference call script

Good afternoon and evening.

Thank you for sparing time for KT&G's conference call today.

I'm Paul Kim, Deputy Sr. manager of IR dept., and Mr. Kyeong Bo Kang, Head of IR, and Nae Soo Kim, Sr. Manager of KGC, are joining this conference call.

First of all, I will proceed this presentation by reviewing business results on consolidated basis followed by separate basis.

Now, let me begin by introducing the overview of the consolidated results on page 4.

Consolidated annual sales decreased 4.5% to 3 trillion and 461.4billion won yoy. 4Q sales dropped 6% to 882.3bil won due to the decrease of real estate sales. While consolidated annual OP decreased 1.4% yoy, net income increased 21%.

On the other hand, consolidated 4Q OP and net income dropped 8% and 2.5% yoy respectively.

Now we are going to touch upon the business results of each company. First, we are going to start with KT&G's 4Q results on page 7.

Despite increase of domestic and int'l cigarettes sales, KT&G's 4Q sales decreased about 6% yoy due to the significant drop of real estate sales. On the other hand, 4Q OP declined 0.8% yoy, relatively lower than sales drop and net income increased 7%.

Next slide is about the domestic cigarette business.

Total market has continued to shrink until 3Q last year, but it

rebounded in 4Q by 2.7% yoy. KT&G's sales volume dropped around 2% due to the competitors aggressive channel stuffing in the end of last year. Sales amount slightly increased thanks to the net ASP hike.

KT&G's premium portion in 4Q increased about 2%p to 73% and accordingly net ASP grew 2.6%p yoy to 669won. Going forward, we will try our best to keep improving net ASP through the launch of new premium products tailored for customer needs.

Now we are turning to export business.

Export volume in 4Q went up 23% yoy thanks to sales recovery in main markets and a big jump in new markets. However, due to Korean Won appreciation, export ASP slightly declined. As a result, export sales increased 22% yoy to 185.1bil. Won, little lower rate than volume increase.

We are going to move on to the profitability side.

While 4Q gross profit went up by 3% yoy, OP declined 1% yoy due to the increase of operating expenses such as international A&P cost. On the other hand, net income increased 7%.

Let us take a closer look at profitability.

Despite increase of other income including the disposal gain of property, OP declined 1% due to the increase of SG&A expenses including int'l marketing expenses. On the other hand, net income increased 7% thanks to the improvement of net financial gain, etc.

Now we are going to provide you with KT&G's 2011 business target.

This year's sales target is set to increase 5% yoy to 2tril. and 630.9bil. Won. And OP target is 886bil. won, 4% down yoy.

For domestic business, total market demand is expected to slightly increase yoy due to the base effect last year. KT&G will make its best efforts to defend market share and increase net ASP through enlarging

global licensing and nurturing core brands via launching innovative products.

For overseas business, we will not only continue steady growth of sales in main markets, but also pro-actively expand new markets through securing footholds in each market and bolstering alliance with local companies. Also, we are going to make best efforts to maintain high profitability through expansion of premium products sales.

Next we will go over the 4Q results of Korea Ginseng Corp., KGC. KGC sales in Q4 increased 9% yoy, but OP and net income decreased 1% and 3% each.

Let's move on to the next slide, Sales Analysis, on page 15. 4Q sales recorded 204.2bil. Won, up 9% yoy. Especially, international sales jumped up by 42% yoy as a result of reinforcing distribution network in the local markets.

Next slide is about the profitability of KGC. 4Q OP and net income decreased 1% and 3% yoy each. The reason for the profit decline is mainly due to the hike of SG&A cost driven by reinforced marketing activities including the acquisition of sports team from KT&G.

Next slide is about KGC's 2011 business target. KGC's sales target is set to increase to 30.5% to 1trillion and 100bil. Won. And OP target is 270bil. Won, 18% increase yoy.

For domestic, we are going to solidify the leadership in domestic market, by not only creating new customer base but also enlarging sales channels and product portfolio of Good base.

For export, we will put our emphasis on laying the foundation for sales growth through reinforcing distribution network and enlarging high

value-added segments in main markets.

Going forward, KT&G will put every efforts and core competence into key businesses such as cigarette & ginseng in order to strengthen the mid to long-term sustainable growth.

This is the end of today's presentation. Thank you for your time.