

## KT&G 2009 Q4 IR Conference Call Script

Good Afternoon (or Evening)?

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

I'm Paul Kim, Manager of IR dept. and Mr. Up Huh, Director of Corporate Strategy and Mr. Kyeong Bo Kang, Head of IR are joining this call.

Last year, overall sales growth has maintained, but profitability slightly went down due to cost increase and F/X rate down.

Although external environment for our business is still somewhat cloudy like F/X rate drop this year, we are going to do our best to achieve this year's target.

Now, we will proceed this conference call by reviewing the fourth quarter results.

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

Consolidated annual sales increased 9.5% yoy to 3tril. and 626.4bil. Won.

Also, 4Q sales went up 6.9% to 940.7bil. Won.

Of KT&G's business, sales from real estate business drastically soared in Q4.

KGC also recorded about 15.4% growth yoy in Q4.

Consolidated annual OP and Net Income declined by 6.6% and 5.0% yoy each.

Fourth quarter's OP and NI also dropped 24.2% and 28.0% yoy respectively.

The higher drop in Q4 compared with annual decrease rate is mainly due to the increase of operating expenses driven by cost increase and F/X rate down.

Now we are going to touch upon the business results of each company.

First, we are going to start with KT&G's 4th quarter results on page 7.

KT&G's 4th quarter net sales increased 2.8% yoy.

OP and NI declined by 29.2% and 38.3% yoy each due to cost increase and the rise of other operating expenses such as F/X translation loss, etc.

Next slide is about the domestic cigarette business.

Since some additional sales have incurred in advance in the end of Q3 ahead of Chuseok holiday in early October, total domestic market volume dropped 5.9% yoy. KT&G's sales volume decreased 13.6% yoy, but sales amount decline was somewhat lower than volume drop.

KT&G's premium portion in Q4 increased 1.3%p yoy to 70.6%.

Net ASP in Q4 also grew 1.1% yoy to 652.5won/pack.

Going forward, we are doing our best to increase net ASP through the launch of new brands to meet customer needs.

Now we are turning to export business.

Export volume in Q4 dropped 9.1% yoy due to high base effects on Q4 last year. Export revenue decreased 18.2% yoy due to the drop of average F/X rate.

Let us take a look at detailed regional export results.

While export in new emerging markets such as Russia drastically soared, sales in M.E. and CIS dropped.

Going forward, in order for our export to more contribute to the overall sales growth, we are going to make efforts to penetrate new markets along with stabilizing our position in main markets.

We are going to move on to the profitability side.

4Q gross profits decreased 12.6% yoy and GP margin also dropped due to cost increase, etc.

OP margin also decreased 12.5%p yoy due to F/X related loss which used to be booked as non-op item under K-GAPP.

Let us take a closer look at profitability.

4Q SG&A cost slightly went up, and other operating expenses greatly jumped up due to F/X related loss.

Accordingly, NI and CI have dropped in 4Q.

Now we are going to provide you with KT&G's 2010 business target.

We set target this year at 2tril. and 680bil. won sales and 883bil. won OP.

For domestic business, we target to achieve last year's sales-level through putting our best efforts on maintaining M/S.

For export, we are doing our best to keep export sales from falling even in case of F/X rate down through penetrating new markets and increasing export ASP in US\$.

Please also refer that as KT&G's individual business target has set under IFRS, equity method gains which used to be reflected in the past were excluded in the target.

Next we will go over the 4th quarter results of Korea Ginseng Corp. KGC.

KGC has achieved the annual business target in spite of economic recession last year.

In Q4, sales growth continued but profitability dropped a little bit as a result of temporary operating expenses incurred in the quarter.

Let's move on to the next slide, Sales Analysis, on page 16.

The 4th quarter sales increased 15.4% yoy to 187.1bil. Won.

Sales of high margin processed products recorded 28.1% increase yoy, contributing to the overall sales growth.

Taking more details on markets, while domestic sales greatly increased by 27.1% yoy, overseas sales dropped in the 4th quarter.

Next slide is about profitability of KGC.

4Q gross profits rose by 17.4% yoy.

Excluding non-op items booked under K-GAPP, business-related operating profits increased 11.5% yoy.

However, overall OP and NI in 4Q dropped 11.4% and 0.6% each due to the temporary increase of other expenses such as donation, etc.

Next slide is about KGC's 2010 business target.

KGC has set this year's target at 850bil. won sales and 238bil. won OP.

For domestic, we are going to solidify our leadership in the market, by not only creating new customers and enlarging the number of F/C but also proactively executing new health-related business.

For export, we will put our emphasis on laying the foundation for growth through reinforced marketing activities in strategic markets and developing customized products for export.

This year, we will do our best efforts to improve both sales growth and profitability.

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

And now, we are going to start Q&A session.

Mr. Huh is going to answer your questions.

Please ask any question you may have.