

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.

While overall sales in 2Q dropped yoy due to the decreased sales in domestic cigarette and real estate business, OP and Net income soared thanks to the disposal gains of a property and an available-for-sale security.

Going forward, KT&G will make its best efforts to achieve a better business performance.

First of all, I will proceed with 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.

While consolidated 1H sales decreased 5% to 1trillion 636.1billion won, 2Q sales dropped 2% to 855.2bil. won.

Although KGC sales greatly went up, underperforming of domestic cigarettes and real estate development sales led to overall sales decrease.

Consolidated 1H OP declined 4%, but net income soared 34% yoy.

2Q OP and NI jumped up by 23% and 111% yoy each.

Huge profit growth was mainly driven by the increase of disposal gains on properties and available-for-sale securities.

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

First, we are going to start with KT&G's 2Q results on page 7.

KT&G's 2Q sales dropped 11% due to underperformance of domestic cigarettes and real estate development business.

On the other hand, 2Q OP soared 20% yoy thanks to the increase of other income driven by sale of Yongsan property and improvement of F/X related account.

Net income jumped up 124% yoy due to the disposal gain incurred from the sale of Celtrion.

Next slide is about the domestic cigarette business.

Total market decline in 2Q was somewhat lower compared with 1Q, but the market still dropped around 5% yoy.

KT&G's sales volume was contracted by 13% yoy due to total market and M/S drop.

However, the decrease of sales amount recorded 11.5% yoy, a little lower than volume drop thanks to the increase of Net ASP growth.

KT&G's premium portion in 2Q increased about 2%p to 71% and accordingly Net ASP grew 2% yoy to 661won/pack.

However, Net ASP recorded a slight decline qoq due to the limited offer of a super-premium brand only in 1Q.

Going forward, we are doing our best to keep improving net ASP trend through the launch of new premium products tailored for customer needs

Now we are turning to export business.

Export volume in 2Q dropped 8% yoy due to sales drop in our main markets.

Despite volume drop and Korean Won appreciation, export revenue decline was relatively low at 2.5% yoy to 137.5bil. Won, mainly driven by big jump on USD ASP

We are going to move on to the profitability side.

2Q gross profit margin decreased by 1%p yoy caused by sales drop in domestic cigarettes and cost increase of imported leaf tobacco.

On the other hand, OP margin and net income margin significantly increased by 12%p and 40%p yoy each thanks to the increase of other income.

Let us take a closer look at profitability.

SG&A cost went up 10% yoy due to honorary severance payment incurred by personnel restructuring in 2Q.

OP and net income significantly grew thanks to the increase of other income and net financial gain.

On the other hand, the growth of comprehensive income in 2Q was relatively low due to the decrease of valuation gain on available-for-sale securities, driven by the disposal of Celtrion.

Next we will go over the 2Q results of Korea Ginseng Corp., KGC.

KGC sales in 2Q continued its high growth trend, showing 17% increase yoy.

OP and net income jumped up greatly 24% and 27% yoy each thanks to the increase of other income from sale of a subsidiary, KGC Sales.

Let's move on to the next slide, Sales Analysis, on page 14.

2Q sales recorded 202.5bil. Won, up 17% yoy.

Especially, strong growth in dept. stores, D/F shop, & home shopping played a major role in the overall sales growth.

Next slide is about the profitability of KGC.

2Q Gross profit increased 21% yoy thanks to the improvement of COGS ratio driven by

sales growth of high-margin processed products such as pouch and drinking types.

OP and net income increased 24% and 27% each mainly driven by the disposal gain of KGC sales.

Going forward, for maintaining high growth trend, we will put our best efforts.

This is the end of presentation.

Now we are going to have Q&A session.