

KT&G 2009 Q3 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. Kyeong Bo Kang, Head of IR is also joining this call.

In the 3rd quarter, we achieved the overall growth of top-line thanks to the increase of cigarette export sales and high sales growth in Korea Ginseng Corporation. Going forward, we will continue to give our every effort to increase sales and profitability.

We will proceed with this conference call by reviewing the 3rd quarter results.

Now, let me begin by summarizing the overview of the consolidated 3rd quarter results on page 4.

While accumulated Q3 consolidated sales increased 10.4% to 2trillion and 685.6 billion won, Q3 only sales increased 13.3% to 956.1 bil. won. Cigarette export sales in Q3 drastically increased yoy, and KGC's sales also recovered 20%-level growth yoy. As a result, consolidated Q3 sales recorded high growth over the same period last year.

Consolidated operating profit for accumulated Q3 decreased by 0.6% yoy and net income increased by 3.1% yoy. OP and NI for Q3 dropped 14.6% and 10.3% yoy each. Profit decrease in Q3 is mainly driven by the huge increase in other operating expenses such as foreign currency translation loss.

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

This slide on page 7 shows Q3 results of KT&G. Net sales of KT&G in Q3 increased 9.7% yoy. On the other hand, OP and net income decreased 22.3% and 17.7% yoy each due to the big increase in other operating expenses such as F/X translation loss, etc.

Next slide is about the domestic cigarette business. Total cigarette market in Korea increased 1.9% yoy. On the other hand, KT&G's market share slightly went down compared with the previous quarter. Due to the market share drop, KT&G's sales volume decreased by 3.0% yoy, and sales amount declined 2.0% yoy.

Q3's premium portion for KT&G increased 1.5% point yoy to 69.9%.

Consequently, Net ASP in Q3 also went up by 1.1% yoy to 648.9won. Going forward, we are doing our best to increase net ASP through the launch of new brands to meet customer needs.

Now we're turning to our export business.

Q3 export volume increased 33.9% yoy, fully recovering the volume drops in 2nd quarter. Export revenue drastically went up by 59.1% yoy, much higher than volume growth rate, thanks to the ASP growth in US\$ and F/X benefits.

Let us take a look at detailed regional export volumes.

While our main markets like Middle East & Central Asia recorded the highest growth in terms of export volume, sales portion of emerging markets such as Russia and South East Asia went up relatively. 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.

Q3 gross profits increased 5.5% yoy, but GP margin ratio slightly decreased because of COGS rise. Operating profit decreased drastically due to the increase of other operating expenses such as F/X related loss, and also OP margin went down by 12.7%p yoy. However, thanks to the strong sales growth and cost cut-down, business-related operating profit, excluding the items which used to be booked as non-op income or expenses, increased by 11.2% and the business-related OP margin also slightly improved.

Let us take a closer look at profitability.

3rd Quarter's SG&A cost diminished by 2.9% yoy. However, due to the Korean won appreciation compared with 2nd quarter, other income dropped significantly and other expenses such as F/X translation losses have soared.

Comprehensive income in 3Q went down by 14.6% yoy. However, Comprehensive income decline rate was somewhat lower than OP drop rate due to the increase of financial gains and other comprehensive income.

Next, we will go over the 3rd Quarter result of Korean Ginseng Corporation, KGC. In the 3rd quarter, KGC, broadening customer base through proactive promotion, has recovered strong growth trend with more-than 20% growth from top to bottom-line. In the following 4th Quarter, KGC will put its best efforts to boost both sales and profitability for meeting the annual target.

Let's move on to next slide, 'Sales Analysis' on page 15.

The 3rd quarter sales increased by 23.6% year-on-year to 220.5 billion won.

Also, sales of high margin processed products recorded a 22.1% increase yoy.

Domestic sales went up by 18.2% yoy and its growth rate is gradually increasing.

In addition, KGC's overseas sales surged by 117.7% yoy, maintaining a very high growth trend this year.

Next slide is about profitability of KGC. Q3 gross profits rose by 25.9% yoy. Both operating profits and net income increased 20.9% and 26.7% yoy each. In the fourth quarter, we will do our best efforts to improve both sales growth and

profitability.

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

And now, we are going to start Q&A session. Please ask any question you may have. And, Mr. Kang is going to answer your questions.