KT&G FY2005 IR Conference

케이티엔지기업설명회

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- ❖ Analysis of Domestic Market
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FY2005 Results & Market Analysis

- FY2005 Performance Overview
- Domestic Market Analysis
  - Market Size
  - Premium Market
  - Market Share

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FY2005 Performance Overview

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Sales decreased 16.7% but net profit increased 9.2% compared w/ FY2004

(Billion sticks, Billion Won)	Results		% change		
	Q4 FY05	FY05	4Q FY04	Q3 FY05	FY04
• Sales Volume (Domestic)	27.3 (17.1)	88.6 (60.1)	-7.6% (-29.5%)	4.9% (-7.6%)	-21.9% (-27.0%)
• Net sales	649.1	2,209.3	-15.9%	4.3%	-16.7%
• Operating Profit	192.0	676.9	-40.4%	-8.7%	-33.7%
• Net Profit	135.3	515.9	-12.3%	-17.7%	9.2%
• Net ASP (Won)	579.7	563.3	1.2%	1.8%	1.5%

Sales & profit declined compared w/ Q4 FY04

- '04.Q4 Stockpiled vs. '05.Q4 Normalized market
- Total market 24.1% decline, KT&G volume 29.5% drop
- Sales & operating profit decreased 15.9% & 40.4% each

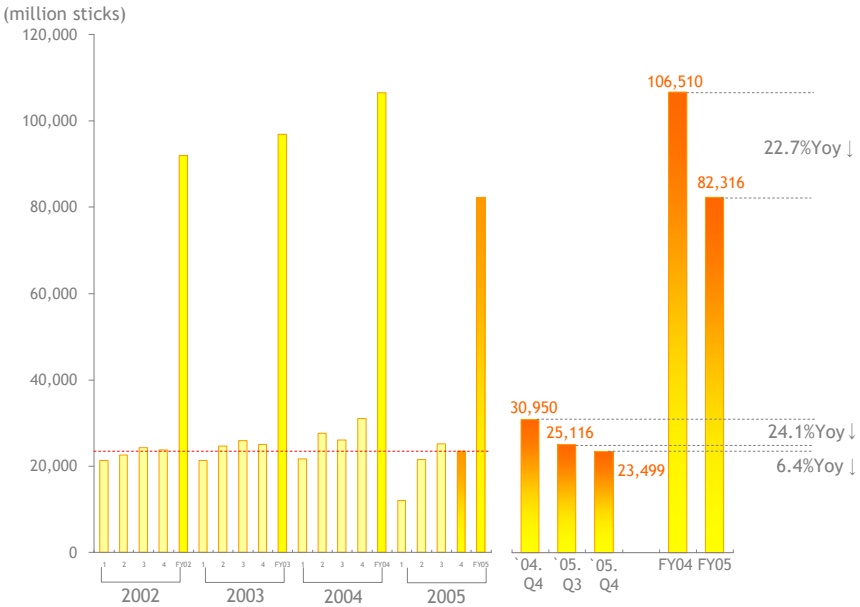
Sales decrease & net profit increase vs. FY04

- Stockpiling: Q2-Q4 in 2004 vs. Q3 only in 2005
- Total market 22.7% drop, KT&G volume 27.0% decrease
- Sales & operating profit decreased 16.7% & 33.7% each

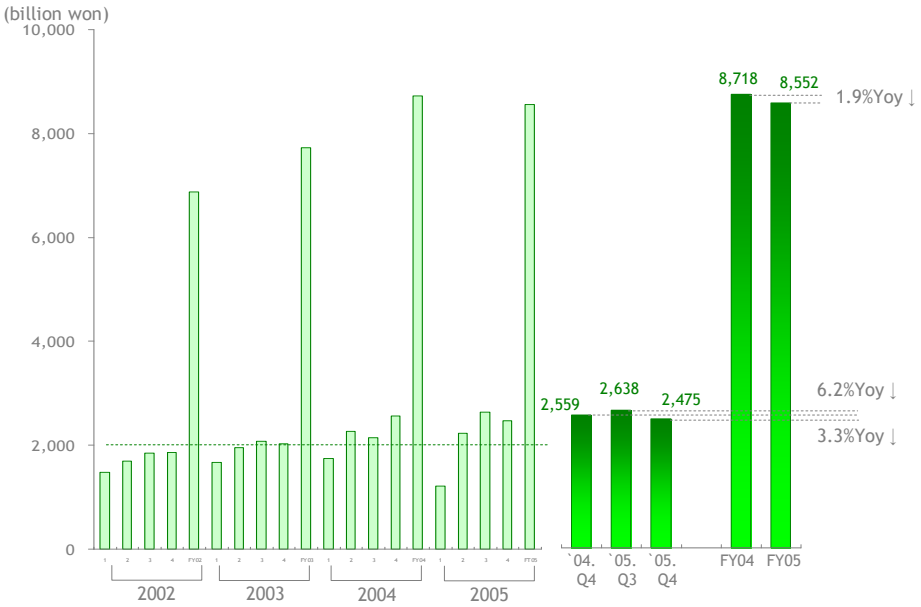
Domestic Market Analysis I - Market Size

Sales Volume significantly declined in FY05 due to huge stockpiling in FY04

››› Volume: 22.7% decline (FY05vs.FY04)



››› Amount: 1.9% decline(FY05vs.FY04)



* Amount above is based on the price to retailers.

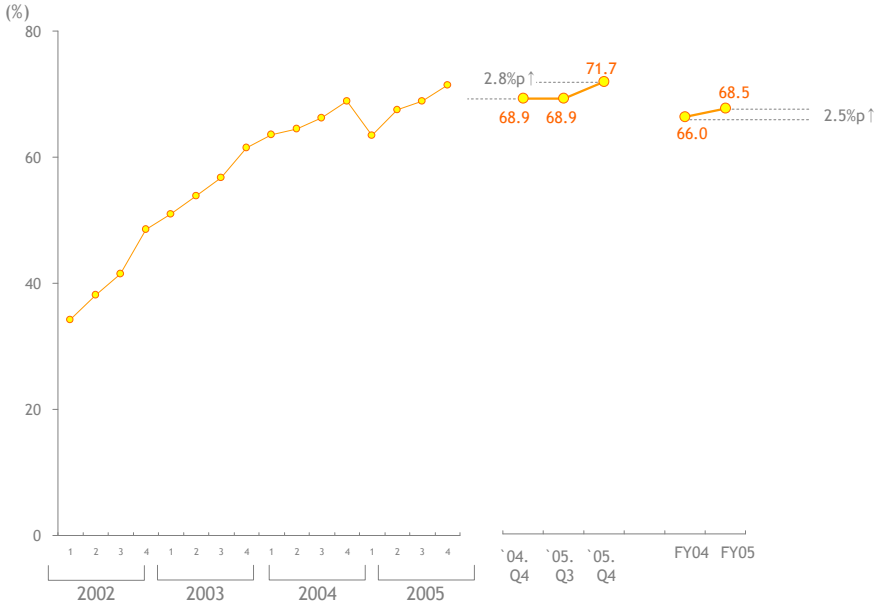
- **Domestic market in H2 '05 recovered to normal level**
  - Quarterly avg. market size in recent 3 years: 23.8bn sticks (Q4 '05: 23.5bn sticks)
- **Market dropped significantly vs. FY04**
  - Huge stockpiling in H2 '04
  - 24.1%↓ (Q4 '05 vs. Q4 '04), 22.7% ↓ (FY05 vs. FY04)

- **Premium market portion continued growth**
  - Premium market increased 1.3%p↑ vs. FY04
  - '05 Q4 : 2.6% ↑ (vs. '04 Q4), 2.6% ↑ (vs. '05 Q3)
- **Huge volume drop, slight amount decline**
  - '05 Q4 vs. '04 Q4: Volume 24.1% ↓, Amount 3.3% ↓
  - FY2005 vs. FY2004: Volume 22.7% ↓, Amount 1.9% ↓

Domestic Market Analysis II - Premium Market

Premium market fully recovered to normal level

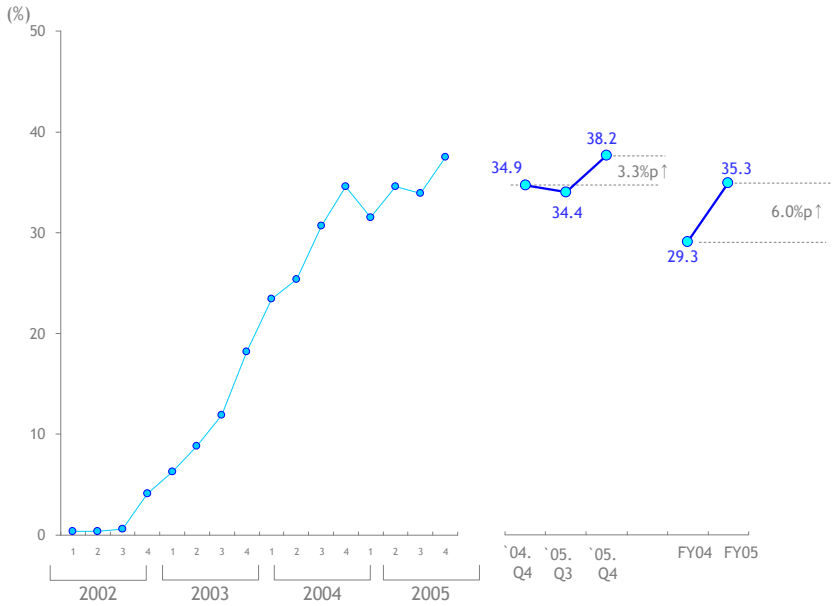
››› Premium Market



Premium market continued growth

- Continued customers preference to premium brands
- New premium brand launching
- Q4 premium market: 71.7% (2.8%↑ vs.Q4 '04, 2.8%↑vs.Q3 '05)
- FY 05: 68.5% (2.5%p ↑ vs. FY04)

››› Low-tar market



Low-tar market fully returned to normal level

- Clear recovery: 32.1%(Q1) → 34.9%(Q2)→ 34.4%(Q3) → 38.2%(Q4)
- Low-tar market portion
  - '05 4Q: 38.2% (3.3%p↑ vs. Q4 '04, 3.8%P ↑ vs. Q3 '05)
  - FY05 : 35.3% (6.0%p ↑ vs. FY04)

Domestic Market Analysis III - Market Share(Volume)

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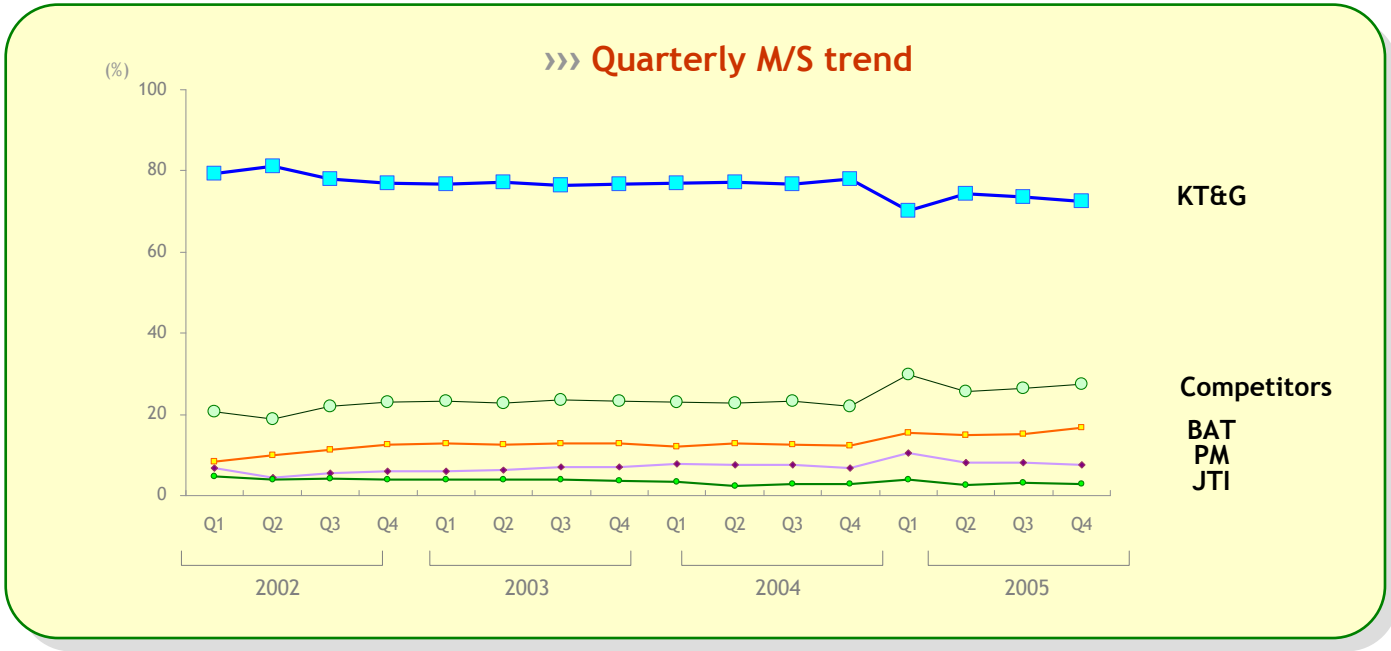
Slight decline of KT&G M/S



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- Slight decrease : 74.4% (Q2 '05) → 73.5% (Q3) → 72.6% (Q4)
- Continued reinforcing marketing activities: Launching of new premium & renewal brands

Competitors

- Maintained slight upturn through new low-tar brand launch and aggressive marketing activities.
- Slight M/S increase: 26.5% (Q3 '05) → 27.4% (Q4), 0.9p% ↑

Analysis of FY2005 Results

- Sales overview
- Sales Analysis
  - Domestic, Net ASP, Export
- Profitability Overview
- Profitability Analysis
  - Operating Profit
  - Non-operating Profit

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Sales Overview

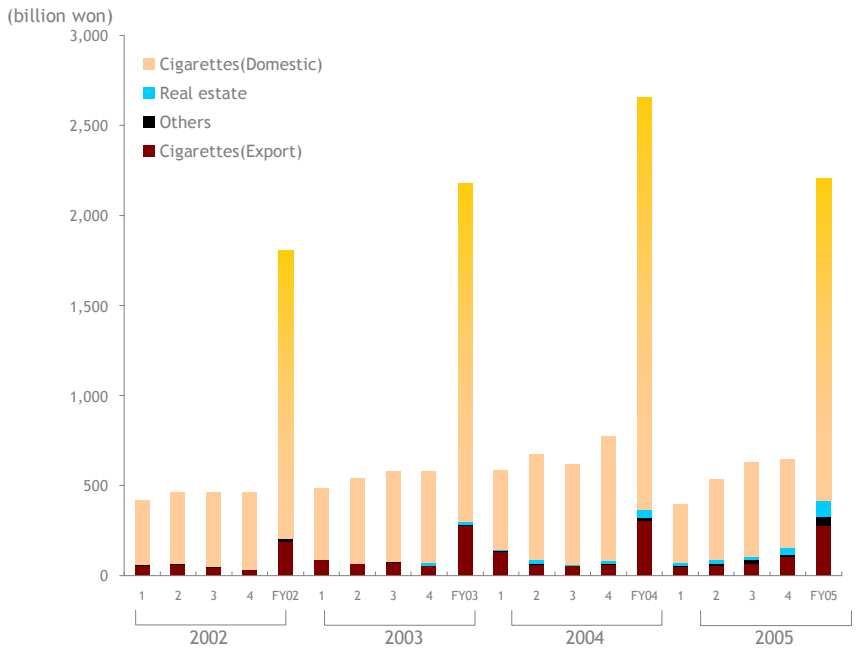
Sales dropped 15.9% vs. Q4 '04 & 16.7% vs. FY04

››› Net sales breakdown

(billion won)	Q-o-Q results		
	Q4 FY05	Q4 FY04	**%yoy**
Cigarettes	**597.9**	753.2	**20.6%↓**
- Domestic	494.4	692.7	28.6%↓
-Export	103.5	60.5	71.1%↑
Real estate	**37.0**	12.5	**195.7%↑**
Others	**14.3**	6.3	**127.0 %↑**
Total	**649.1**	772.0	**15.9%↓**

(billion won)	Annual results		
	FY05	FY04	**%YoY**
Cigarettes	**2,063.3**	2,587.5	**20.3%↓**
- Domestic	**1,790.4**	2,284.7	**21.6%↓**
-Export	**272.9**	302.8	**9.9%↓**
Real estate	**95.3**	49.2	**93.7%↑**
Others	**50.7**	16.6	**205.4%↑**
Total	**2,209.3**	2,653.4	**16.7%↓**

››› Sales trend



Sales Analysis - Domestic (Cigarettes)

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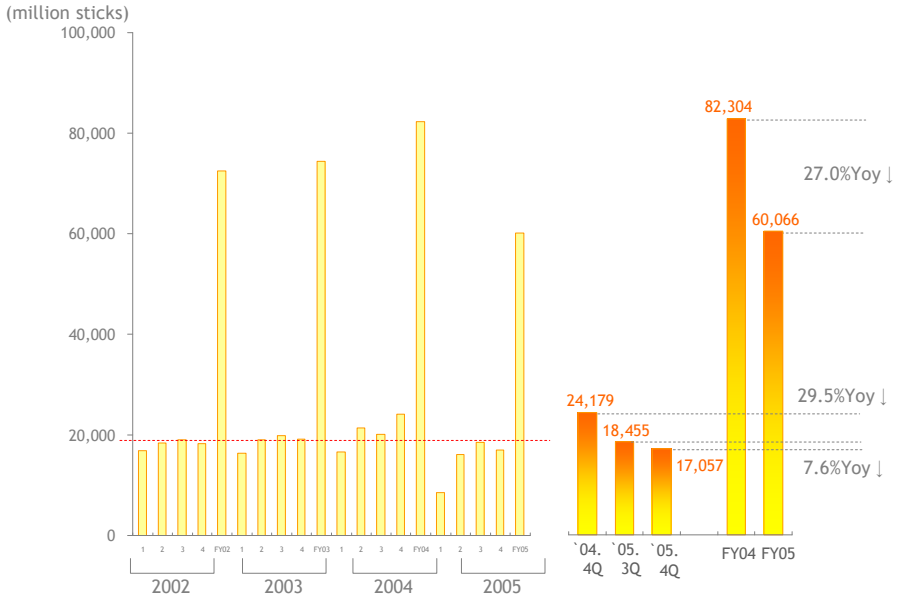
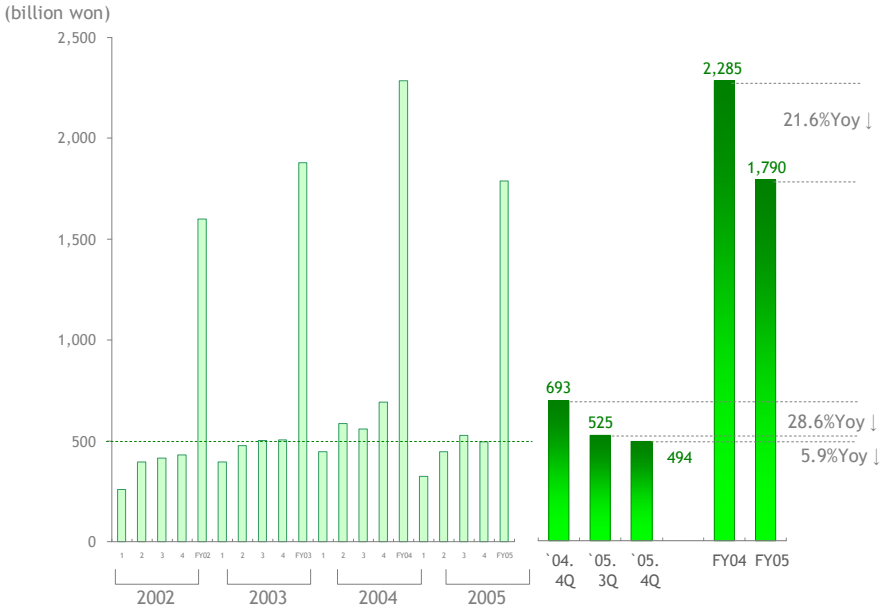
Q4 '04 huge stockpiling vs. Q4 '05 normalized sales → Significant decline

››› Volume: 27.0% decline (FY05vs.FY04)



- **Q4 sales volume dropped 29.5% vs. Q4 '04**
  - Stockpiling in FY04 & competitors reinforced marketing
  - Compared w/ Q4 '04, Q4 '05 market dropped 24.1% & M/S fell 5.5%p
- **FY05 sales volume decreased 27.0% vs. FY04**

››› Amount: 21.6% decline(FY05vs.FY04)

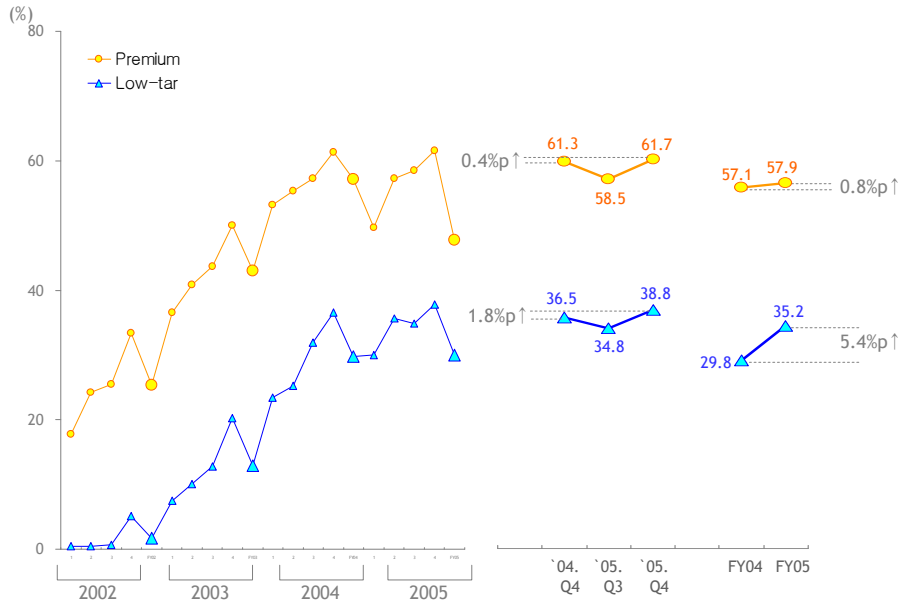


- **Q4 sales amount decreased 28.6% vs. Q4 '04**
  - Sales volume & M/S decreased
  - Net ASP slightly increased
- **FY05 sales amount fell 21.6% vs. FY04**

Net ASP (Domestic cigarettes)

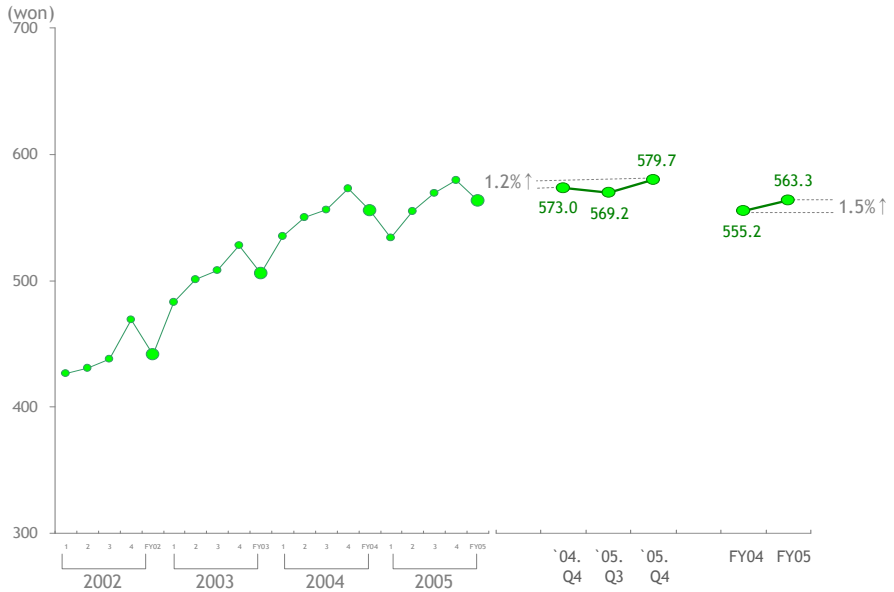
Net ASP continued the increasing trend

››› Premium brand portion



- **Continued increasing trend of premium brand sales portion**
  - Q4: 61.7% (0.4%p ↑ vs. Q4 '04, 3.2%p ↑ vs. Q3 '05)
  - FY05: 57.9% (0.8% ↑ vs. FY04)
- **Low-tar sales turned to upward trend**
  - 1.8%p ↑ vs. Q4 '04, 5.5%p ↑ vs. FY04

››› Net ASP trend



- **Net ASP continued to grow w/ premium sales increase**
  - 579.7won (1.2% ↑ vs. Q4 '04, 1.8% ↑ vs. Q3 '05)
  - Annual Net ASP remained increasing trend (1.5%↑ vs. FY04)
- **Continued premium brand launching**
  - New brands: ENTZ (2,500won), ESSE S.E(5,000won), ESSE S.G.(3,000won)

Sales Analysis - Export (Cigarettes)

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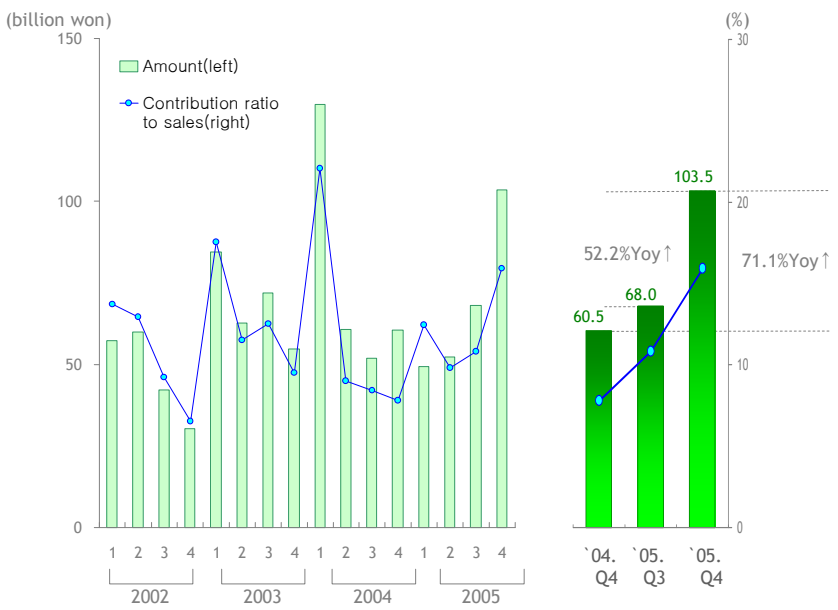
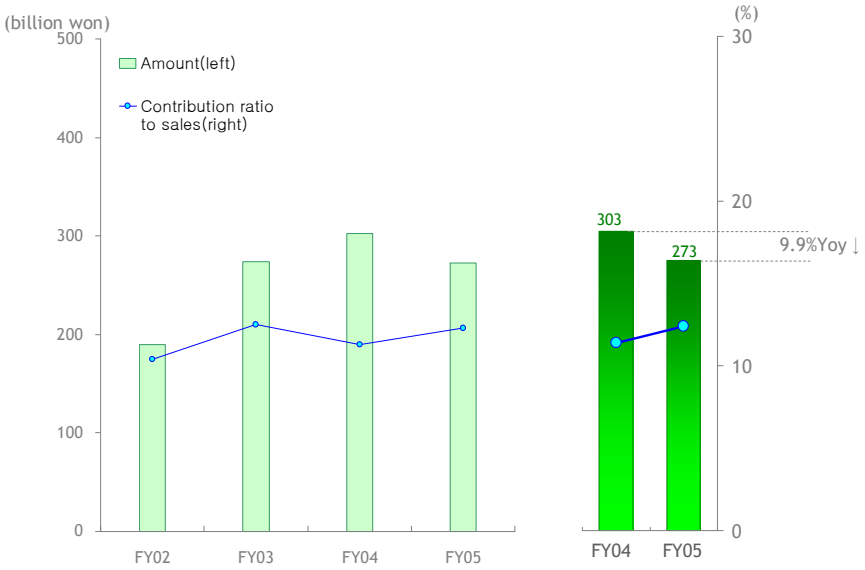
Significant increase compared w/ Q4 '04, but slight decline vs. FY04

››› Quarterly sales



››› Annual Sales



- **Recorded gradual increasing trend of sales**
  - 49.3bn won (Q1 '05) → 52.2bn (Q2) → 68.0bn(Q3) → 103.5bn (Q4)
  - Annual sales recorded 272.9bn won, 9.9% decrease vs. FY04 due to temporary sales increase Q1 '04
- **Product differentiation & premium brand proportion enlarged**
  - Sales portion in premium segment increased & export price increased
  - Entered the improving phase of profitability

Profitability Overview

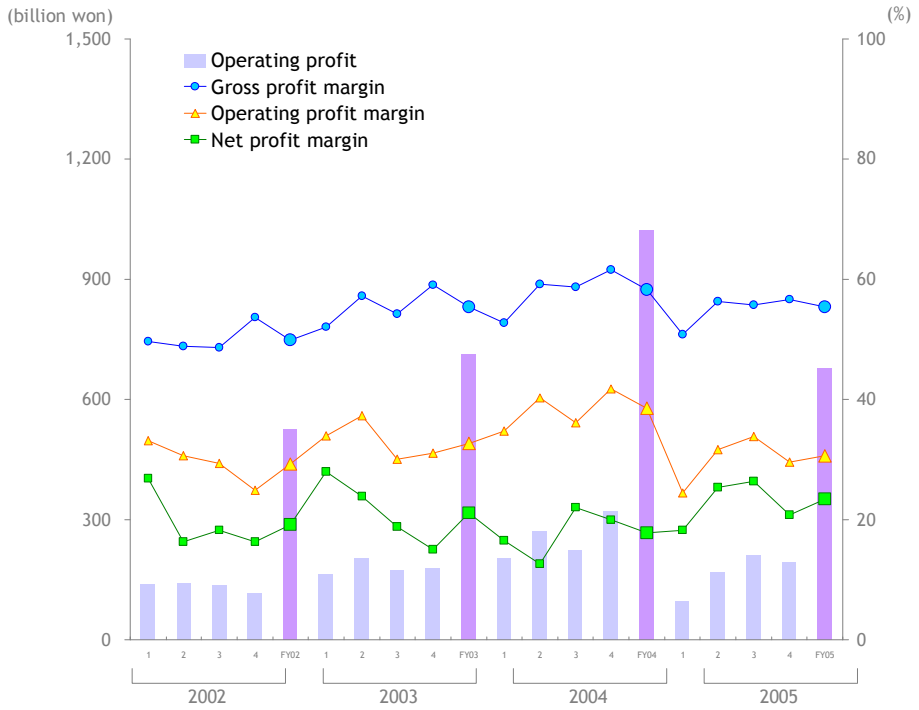
Operating profit decreased by 40.4% vs. Q4 FY04, 33.7% vs. FY04

››› Profitability analysis

(billion won)	Quarterly result		
	4Q FY05	4Q FY04	%YoY
Sales	649.1	772.0	15.9% ↓
Gross profit	367.7	475.6	22.7% ↓
Operating profit	192.0	322.1	40.4% ↓
Net Profit	135.3	154.3	12.3% ↓

(billion won)	Annual results		
	FY05	FY04	%YoY
Sales	2,209.3	2,653.4	16.7% ↓
Gross profit	1,224.6	1,548.2	20.9% ↓
Operating profit	676.9	1,021.6	33.7% ↓
Net Profit	515.9	472.3	9.2% ↑

››› Profitability trend

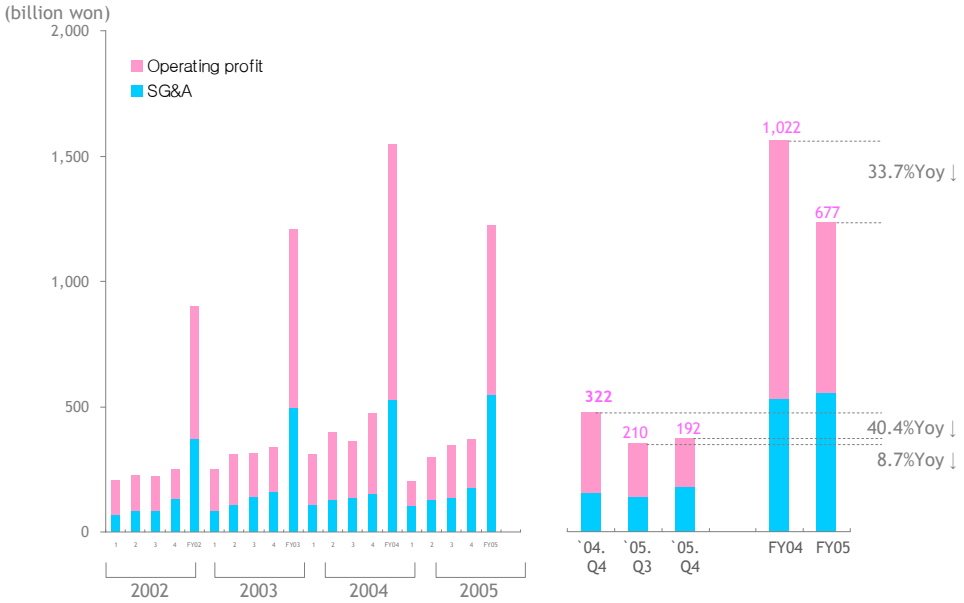


Profitability Analysis - Operating profit

Profitability significantly decreased as a result of sales decline

››› Profitability trend

››› Profit trend



OP margin decreased 12.1p% vs.Q4 '04 & 7.9%p vs.FY04

- OP margin declined due to sales volume drop & fixed cost ratio increase
  - Domestic sales decreased 27.0%, SG&A ratio increased 5.0%p vs.FY04
- Slight increase in COGS ratio and SG&A ratio
  - COGS ratio : 5.0%p↑ vs. '04.4Q, 2.9%p↑ vs. FY04
  - SG&A ratio : 7.2%p↑ vs. '04.4Q, 5.0%p↑ vs. FY04
- OP margin : Q4 '05 29.6%, FY05 30.6%

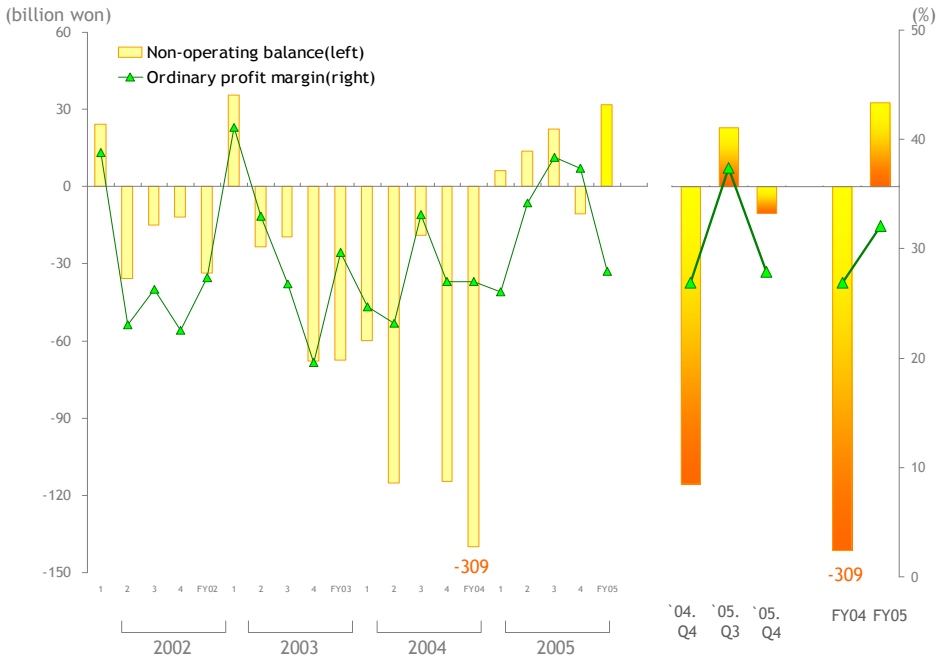
Operating profit fell 40.4% vs.Q4 '04, 33.7% vs.FY04

- Profitability decreased due to sales drop & Q4 '04 stockpiling
  - Vs.'04, gross profit margin & OP margin decreased 2.9%p & 7.9%p each
  - SG&A spent in previous years' level (FY04: 526.6bn won → FY05 547.7bn, 4.0%↑)
- Operating Profit: Q4 '05 192bn won, FY05 676.9bn won

Profitability Analysis - Non-operating profit

Non-operating balance improved significantly

››› Non-operating balance



››› Key factors

Non-op balance: 340.4bn won Improved vs. FY04

- Non-op profit slight decrease, non-op cost huge drop
  - Non-op profit: 22.3bn won ↓ vs.Q4 '04, 16.6bn ↓ vs.FY04
  - Non-op cost: vs. Q4 '04 126.1bn ↓, vs. FY04 357.0bn ↓
- Key factors(FY05)
  - Decrease of loss on CB conversion(142.1bn) / decrease of penalty tax (85.2bn won), Decline of donations (55.1bn)

Ordinary profit: slight down, Net profit: increasing

- Op profit dropped, but non-op balance continued improving
  - Annual ordinary profit margin:32.1% , net profit margin: 23.4%
- Ordinary profit 0.6% ↓, Net profit 9.2% ↑ vs. FY04
- Ordinary profit: 708.8bn won, Net profit: 515.9bn won

FY2006 Business Target

- FY2006 Business Target
- Shareholder value maximization policy

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FY 2006 Target

Net sales 2,348bn won, Operating profit 731.2bn won

››› FY2006 Target

	2005 Results	2006 Target	% change
Sales volume (Domestic)	88.6bn sticks (60.1bn sticks)	97.1bn sticks (64.4bn sticks)	9.6%↑ (7.1%↑)
Net Sales	2,209.3bn won	2,348.0bn won	6.3%↑
Operating margin	676.9bn won	731.2bn won	8.0%↑
Net profit	515.9bn won	525.0bn won	1.8%↑
Net ASP (Domestic)	563won	585won	3.9%↑
CAPEX	181.6bn won	208.0bn won	14.5%↑
Depreciation	110.9bn won	126.7bn won	14.2%↑

››› FY2006 key business factors

- **Domestic market size : 87.0bn sticks** (5.7%↑ vs. FY04)
- **M/S : 74%** (1.0%p↑ vs. FY04)

Shareholder value maximization policy

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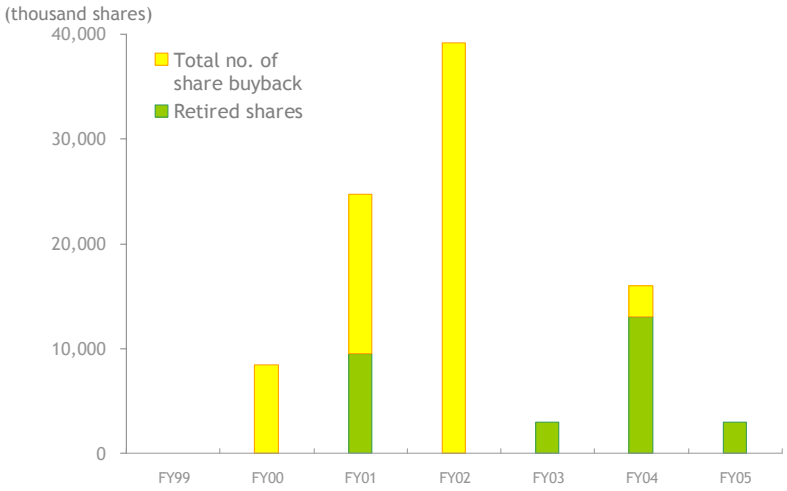
Continue shareholder value maximization as top priority

- **Dividend : 1,700won per share**
- **KT&G will continue its shareholder return policy**
  - The policy will be conducted flexibly considering market situation & cash flow

››› Share buyback



››› Investment index

	FY01	FY02	*FY03*	*FY04*	*FY05*
Total no. of shares issued (1000 shares, as of each year-end)	190,992	181,443	*178,442*	*165,442*	*162,442*
Market Cap.(bn won)	3,705.2	2,975.7	*3,693.8*	*5,120.4*	*7,318.0*
Net Asset Value per share (won)	11,697	11,268	*14,741*	*16,829*	*21,226*
Sales per share(won)	8,908	9,959	*12,210*	*16,038*	*13,600*
EPS (won)	1,748	1,915	*2,576*	*3,183*	*3,497*
PER(x)	11.1	8.6	*8.0*	*9.7*	*12.9*
PBR(x)	1.4	1.5	*1.4*	*1.8*	*2.1*

- Stock price is based on the closing price on Dec. 29 2005.

Appendix

- ❖ Key managerial index
- ❖ Balance sheet
- ❖ Income statement

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Key management index

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››› Growth rate

	FY01	FY02	*FY03*	*FY04*	*FY05*
Sales (% YoY)	-0.2	6.2	*20.6*	*21.8*	-16.7
Operating profit (% YoY)	5.5	17.3	*35.0*	*43.6*	-33.7
Ordinary profit (% YoY)	23.0	2.7	*30.5*	*10.7*	-0.6
Net profit (% YoY)	23.5	4.1	*32.3*	*2.7*	9.2
Total asset (% YoY)		2.6	*3.2*	*-0.1*	2.0

››› Profitability

	FY01	FY02	*FY03*	*FY04*	*FY05*
OP margin (%)	26.4	29.2	*32.7*	*38.5*	*30.6*
Ordinary Profit margin (%)	28.2	27.3	*29.6*	*26.9*	*32.1*
Net profit margin (%)	19.6	19.2	*21.1*	*17.8*	*23.4*
ROE (%)		14.6	*18.5*	*15.7*	*15.5*
ROA (%)		9.3	*12.0*	*12.2*	*13.1*

››› Stability

	FY01	FY02	*FY03*	*FY04*	*FY05*
Current ratio (%)	267.8	229.4	*358.7*	*374.0*	*675.2*
Liability ratio (%)	40.3	75.0	*38.1*	*20.9*	*15.0*
Net interest-bearing debt ratio (%)	2.5	47.3	*12.9*	*-13.8*	*-16.7*
Interest coverage ratio (times)	126.3	16.6	*17.4*	*88.3*	*2,219.4*

Balance sheet summary

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(billion won)	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	1,399.1	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	.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

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(billion won)	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	.7	1.4	.3	1.1	2.7	.5	.8	1.0	1.1	2.9
Gain on Foreign Currency Translations	.3	0	0	0	.1	0	.8	.1	-	.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	.2	11.6	.3	-	-	-	.3
Loss on Foreign Currency Transactions	1.5	1.9	.8	19.2	23.2	1.5	1.7	.3	.9	4.4
Loss on Foreign Currency Translations	9.2	0	.6	-3.1	6.0	.7	-	-	2.4	1.7
Ordinary Income	145.2	155.6	204.5	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

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