
IR Presentation



Korea Tomorrow & Global

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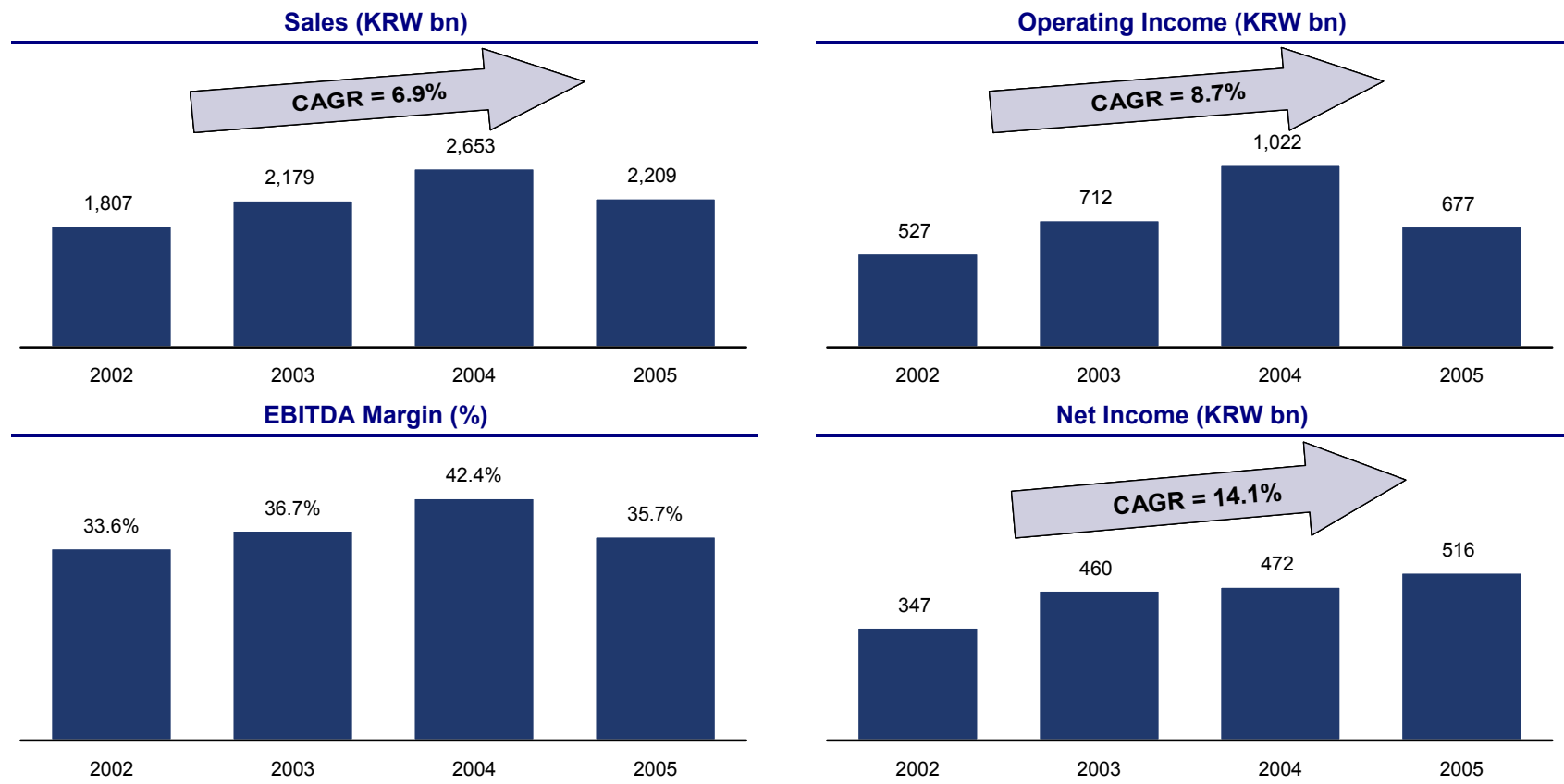
KT&G's Objectives

- Create superior and sustainable shareholder value
- Shareholder value could be created by:
 - Strong financial and share price performance
 - Sound corporate governance and management transparency
 - Enhancement of the value of the Ginseng business
 - Non-core real estate ... profit maximization through development and subsequent sale
 - Returning wealth to shareholders via dividends and share repurchases taking into account our cash flows and the market conditions

Strong Financial Performance

KT&G has solid financial track record

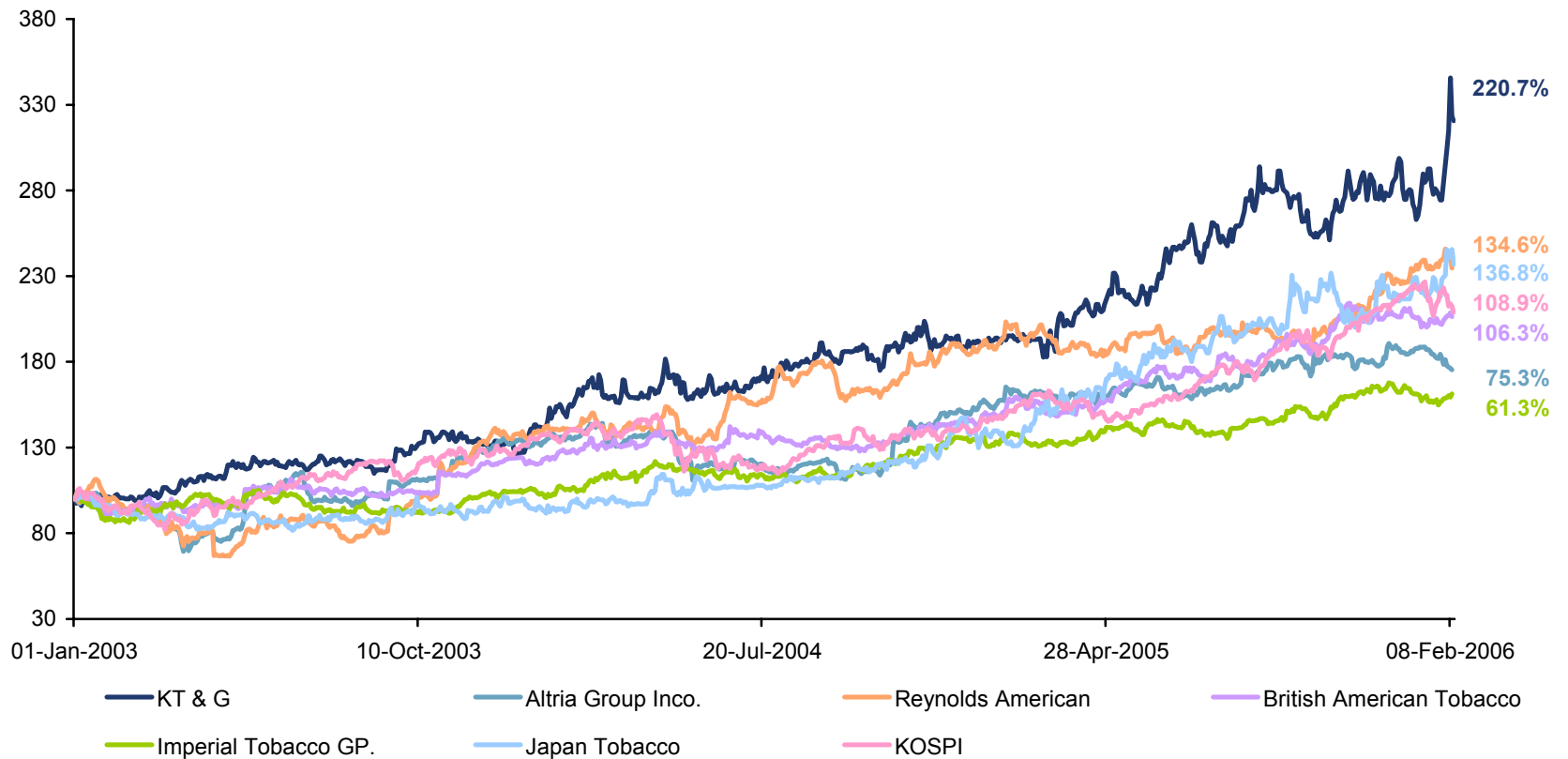
- Sales volume significantly declined in FY2005 due to huge stockpiling in FY2004
- Domestic market in 2H 2005 recovered to normal level



Source: Company Filings

Stock Price Performance

Since privatization at the end of 2002, KT&G's share price has out-performed the global Tobacco peers and KOSPI



Source: Datastream

Sound Corporate Governance

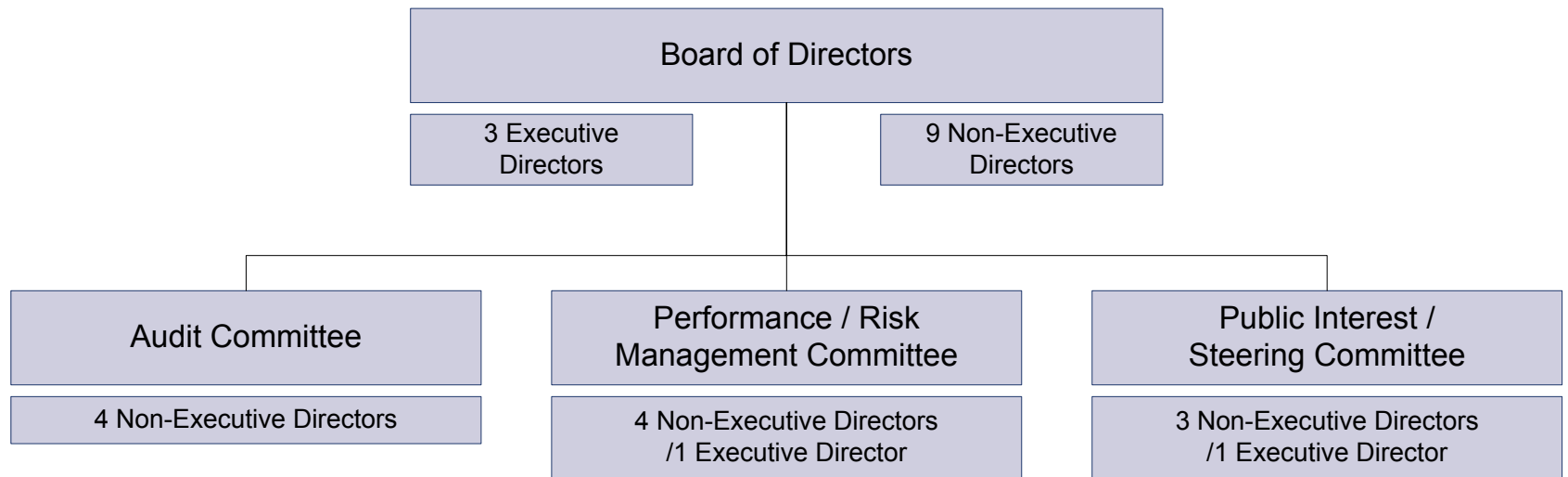
KT&G has taken significant steps to improve corporate governance and continues to receive third party recognition for outstanding corporate governance practices

- Rated as one of the best in Korea
 - KT&G obtained “Strong” rating from S&P’s evaluation of corporate governance structure in 2004, an indication that corporate governance is solid based on international standards
 - Received “Very Strong” rating from Corporate Governance Services in 2004

- Received numerous third party recognitions in relation to corporate governance
 - Recognized as “Excellent Corporate Governance Company” by Corporate Governance Services in Korea in 2004 and 2005
 - Named “Good Shareholder Value Company” by MoneyToday in September 2005
 - Received “Outstanding IR Award” by Korea Investor Relations Committee in November 2005

Transparent Structure of the Board of Directors

Structure of the Board of Directors plays a pivotal role in upholding sound corporate governance structure

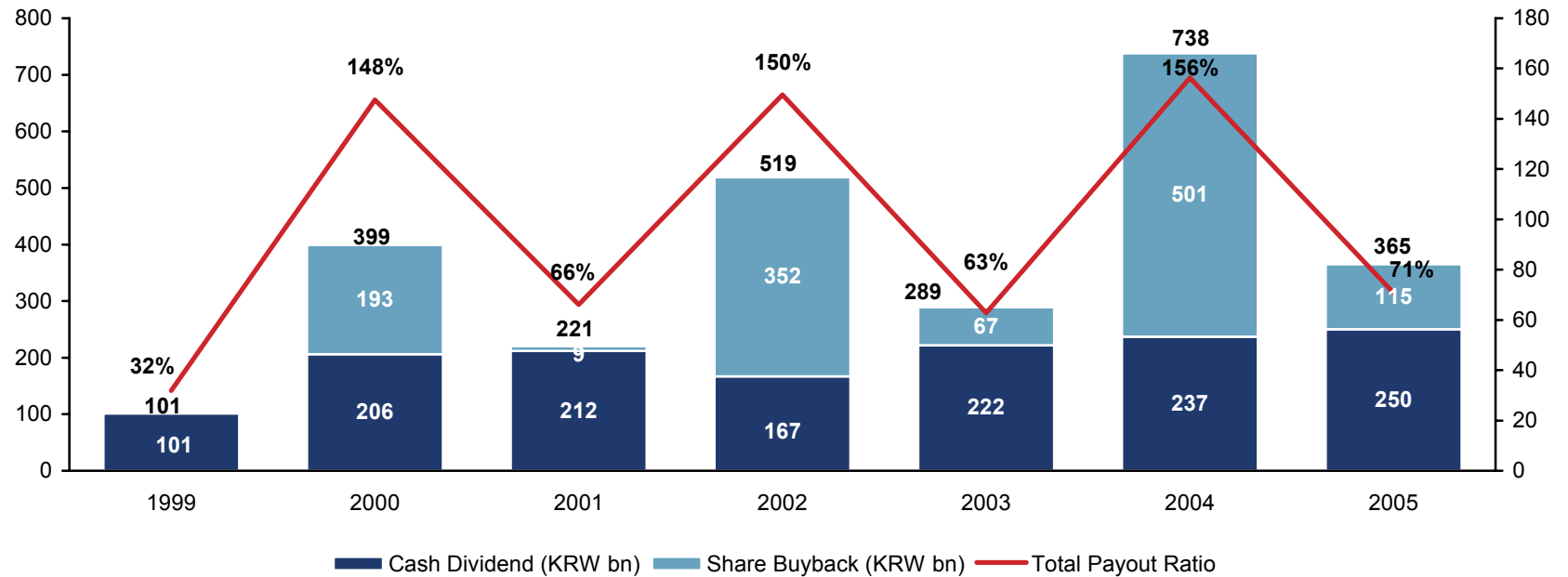


Maximizing Shareholder Value

KT&G has been enhancing shareholders' value by proactively returning value to shareholders via dividends and share repurchases

- Since IPO, KT&G has consistently paid high level of annual dividends
- Total of KRW1,237 billion worth of stock was repurchased from 1999 to 2005
- As of February 2006, KT&G is currently in the process of repurchasing 3 million shares

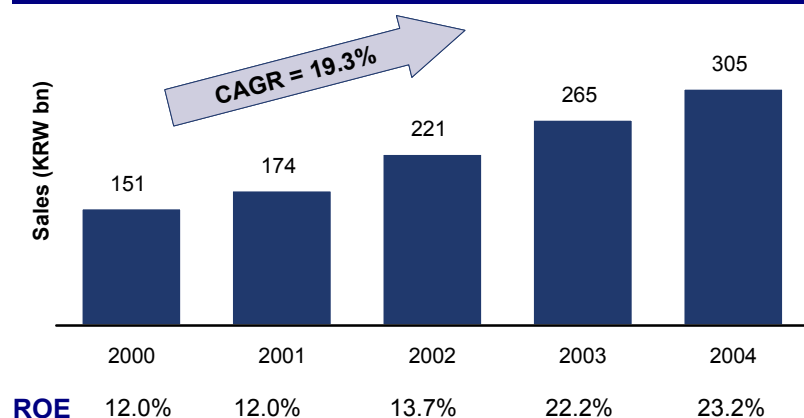
Total Payout to Shareholders



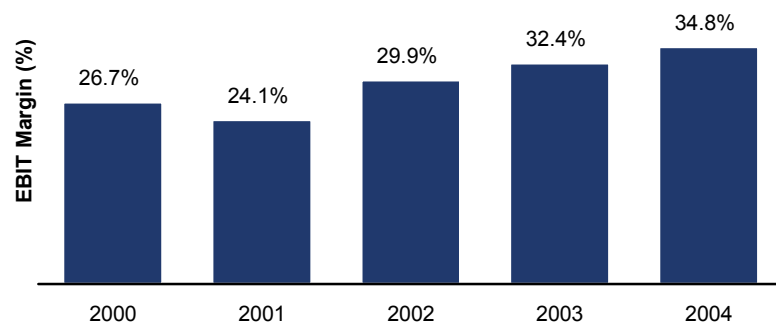
Korea Ginseng Corp. (“KGC”) - Mid to Long-Term Strategy

KGC has had strong sales growth and profit margins, but higher valuation could be achieved in the future through enhanced operations and stronger brand equity

Strong Sales Growth



Enhancing EBIT Margin (%)



- Expansion of ginseng supply base
 - Potential shortage of ginseng supply
 - More competition for existing ginseng suppliers
 - Difficulties in expanding the cultivation land
 - KGC mainly uses six-year old plants cultivated in South Korea
 - Upfront funding support for farmers to secure quality six-year old plants

- Further strengthen brand equity
 - Already established as premium brand in Korea
 - Strengthen mid to long-term growth potential by increasing brand equity both in domestic and international markets

- Continued strong financial performance of KGC

- In addition, KGC's contribution to KT&G continues to increase which may create more value to KT&G shareholders in the long-term than an IPO at this time

Non-Core Real Estate - Mid to Long-term Strategy

Sale of non-core real estate post development may provide profit maximization

Non-Core Real Estate

Sites	Area (m ²)	Book Value (KRW bn)	Gov't Stated Value (KRW bn)
Suwon	284,386	15.5	160.9
Cheongju	65,731	4.9	18.9
Jeonju	71,050	9.9	40.4
Daegu	51,300	20.5	38.5
Okcheon	45,584	1.0	5.6
Andong	60,820	4.7	17.7
Chungju	93,321	0.4	6.0
Yeongju	64,846	0.5	5.6
Total	737,038	57.1	293.6

Key Considerations

■ Difficulty in selling non-core real estate

- Potential buyers, if any, are likely to request deep discounts
 - Large size
 - Uncertainty regarding changing the designation to “commercial” or “residential” use
 - Risks associated with unpaid donations

■ Sale post development of non-core real estate may result in higher return to shareholders

Dongdaemun Branch Development (KRW bn)

Book Value	5
Gov't Stated Value	33
Development Cost	84
Sale of Development	164
Operating Profit	75
Pre-tax ROI (Book Value)	84%
Pre-tax ROI (Gov't Stated Value)	64%