

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 sales in 3Q slightly dropped yoy due to the decreased sales in domestic cigarette and real estate business, OP and Net income soared thanks to the increase of cigarette export and the decrease of operating expenses.

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 9 month sales decreased 4% to 2 trillion and 579.2billion won, 3Q sales dropped by 1% to 943.0billion won. Despite the drop of domestic cigarette sales, the decrease rate of consolidated sales in Q3 was relatively low thanks to the increase of cigarette export and KGC sales.

Consolidated 9month OP increased 0.4% yoy and Net income went up 27% yoy.

OP and net income in 3Q recorded high growth with 11% and 12% increase each.

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

First, we are going to start with KT&G's 3Q results on page 7. KT&G's 3Q sales decreased 3% yoy due to the underperformance of domestic cigarettes business mainly driven by the drop of total market.

On the other hand, 3Q OP and Net income jumped up 15% and 16% yoy each as a result of the decrease of operating expenses such as SG&A.

Next slide is about the domestic cigarette business.

Total market in 3Q dropped 6% yoy due to the high base effect driven by Chuseok holiday in 3<sup>rd</sup> quarter last year.

It is expected that total market will be stabilized in 4Q this year and slightly increase next year compared with 2010, the year of sharply contracted market due to unusual cold weather, etc.

KT&G sales volume dropped by 11% yoy as a result of market decrease and M/S drop, but sales amount went down 9% yoy a little lower than volume drop due to the increase of Net ASP.

On the other hand, our market share slightly rebounded to 59.6% from the previous quarter.

KT&G's premium portion in 3Q increased about 2%p to 72% and accordingly net ASP grew 2%p yoy to 662won.

Going forward, we will try our best to keep improving net ASP through the launch of new premium products tailored for customer needs.

Now we are turning to export business.

Export volume in 3Q went up 14% yoy as a result of increase in main markets and a big jump in new markets.

Despite Korean Won appreciation, export revenue soared by 21% to 178.2billion won mainly driven by volume increase and a rise of US dollar ASP.

We are going to move on to the profitability side.

3Q gross profit margin went up by 0.3%p yoy.

And, OP margin and NI margin soared by 6%p and 5%p each .

Let us take a closer look at profitability.

SG&A cost went down 14.5% yoy due to the decrease of A&P and labor cost, and net other income also greatly improved as well.

Additionally, improved net financial gain contributed to the increase of net income margin.

Next we will go over the 3Q results of Korea Ginseng Corp., KGC.

KGC sales in Q3 increased 5.4% yoy.

3Q sales growth was relatively lower due to the base effect of high sales in 3Q last year driven by H1N1 effect.

OP and net income increased 1.5% and 2% each.

Let's move on to the next slide, Sales Analysis, on page 14. 3Q sales recorded 232.5bil. Won, up 5% yoy. Steady growth of high value-added products continued, and sales in major distribution channels like F/C and DFS are also increasing.

Next slide is about the profitability of KGC. 3Q gross sales increased 4%, a little lower rate than sales growth due to the increase of material cost. Also, OPM and NIM slightly dropped due to the increase of SG&A cost such as marketing expenses. Going forward, we will put our best efforts to continue high growth and profitability trend.

Next we'd like to talk about the key business plan.

First, in our domestic cigarette business, in order to reinforce brand competitiveness we have launched Davidoff in June this year and currently we are carrying forward licensing of a non-tobacco int'l luxury brand. Going forward, we'll do our best to defend our market through various brand strategies. In our international business, we recently established a solid business foundation by making a 5 year contract with the middle east distributor. In oct. our Russian factory was completed and will start selling

with a full fledge level from early next year.

In new markets, we have changed the distributors in S.E. Asia including Indonesia and established the direct control of U.S. business.

Especially, S.E.Asian markets are expected to grow very fast targeting 4.2billion stick sales in this year and 5.7billion stick sales in '11.

Also , through setting up KT&G sales offices in India, Brazil, and Eastern Europe within this year, we will actively expand new markets.

Next is the plan for KGC.

We are trying to improve profitability through strengthening sales of high value added products.

And, KGC launched the 2<sup>nd</sup>- tier red ginseng brand, Good Base, last September.

Going forward, we will expand our penetration into big marts further and launch the brands in other channels like home shopping and E-Biz.

For overseas markets, we will shift to the directly-controlled strategy and put emphasis on core markets such as Taiwan and Japan etc.

Regarding the business of oriental medicinal herbs, we opened a manufacturing factory in September and target manufacturing and distributing 800 Metric tones per annum within 5 years.

For red ginseng business in China, we are currently under process of establishing a corp. entity and producing sample products using Chinese raw ginseng.

We plan to start building a manufacturing factory in the 1<sup>st</sup> half next year and producing and selling in 2<sup>nd</sup> half of 2012.

Next we'll introduce to KGC Health and Living, a tentative name now, to start in November this year.

Currently, we are setting up the one-stop fusion health food shops and plan to open stores in the 2<sup>nd</sup> half next year.

For our cosmetics business, we plan to choose a ODM company within this year and setup the distribution network in 1<sup>st</sup> half next year and start to sell products 2<sup>nd</sup> half next year.

Going forward, KT&G will put every efforts and core competence into key businesses such as cigarette & ginseng in order to strengthen the mid to long-term sustainable growth.

Thank you for sparing time with us.

Now we are going to have a Q&A session.