

INVESTOR RELATIONS

*FY2006 Q2 Earnings
Presentation*

KT&G
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INVESTORRELATIONS

작은 나뭇잎이 큰 꿈이 됩니다.

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- 2Q 2006 Business Results
- 2H 2006 Outlook
- Overview of Korea Ginseng Corp.
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2Q 2006 Business Results

- Sales Analysis
- Profit Analysis

2Q Sales and OP rose 13.1%, 19.2% yoy, respectively

(billion sticks, KRW billion)	YoY Results		% Change		FY 2006 Target	
	2Q 2006	2Q 2005	2Q 2005	1Q 2006	Target	Achievement Rate
• Sales Volume (Domestic)	24.7 (16.5)	21.6 (16.1)	↑ 14.2% (↑ 2.9%)	↑ 37.6% (↑ 33.6%)	97.1 (64.3)	43.9% (45.0%)
• Net Sales	602.0	532.4	↑ 13.1%	↑ 36.6%	2,348.0	44.4%
• Operating Profit	200.7	168.3	↑ 19.2%	↑ 74.3%	731.2	43.2%
• Net Income	156.1	134.5	↑ 16.0%	↑ 61.7%	525.0	48.3%
• Net ASP (won/pack)	590.2	554.8	↑ 6.4%	↑ 1.3%	585	100.9%

2Q '06 Highlights

- Sales & OP increased 13.1% yoy, 19.2% yoy
- Rebound in Domestic M/S
- Expansion of premium market, record high Net ASP

Huge improvements in Sales & Profitability vs. 1Q '06

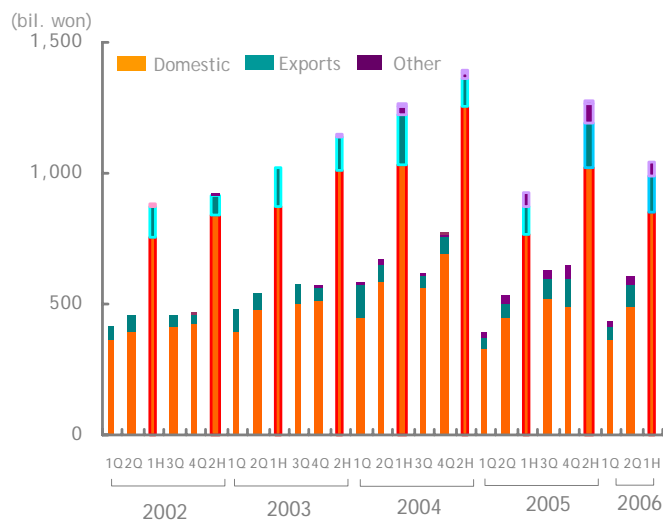
- Sales & OP increased 36.6% qoq, 74.3% qoq
- Continuous improvements in major business indexes
 - volume, contribution from premium brands, Net ASP, market share etc.

2Q Sales grew 13.1% yoy to 602 bil. won

>>> **Net Sales breakdown**

Quarterly Results (bil. won)			First Half Results (bil. won)			
2Q 2006	2Q 2005	% yoy		1H 2006	1H 2005	% yoy
574.0	497.8	↑ 15.3%	Cigarettes	994.0	872.2	↑ 14.0%
488.0	445.6	↑ 9.5%	- Domestic	848.8	770.8	↑ 10.1%
86.0	52.2	↑ 65.0%	- Export	145.2	101.4	↑ 43.1%
15.7	23.5	↓ 33.2%	Real Estate	26.4	37.2	↓ 29.0%
12.3	11.1	↑ 10.8%	Others	22.3	19.3	↑ 15.2%
602.0	532.4	↑ 13.1%	Total	1,042.6	928.8	↑ 12.3%

>>> **Sales trend**

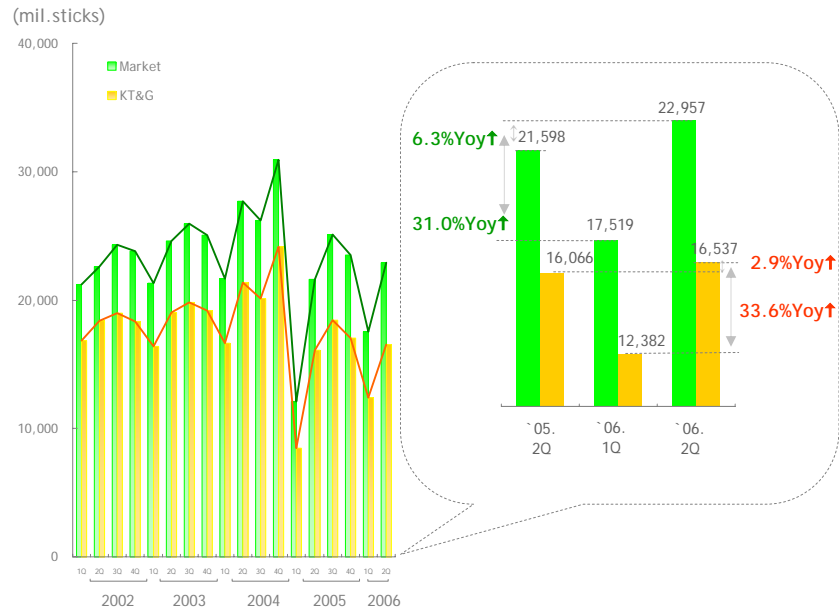


※ **Reasons for increase**

- Increase in domestic/export sales volume and greater contribution from premium segment
- Rebound in M/S due to favorable sales results of new products
- Other business areas realizing similar results to previous year

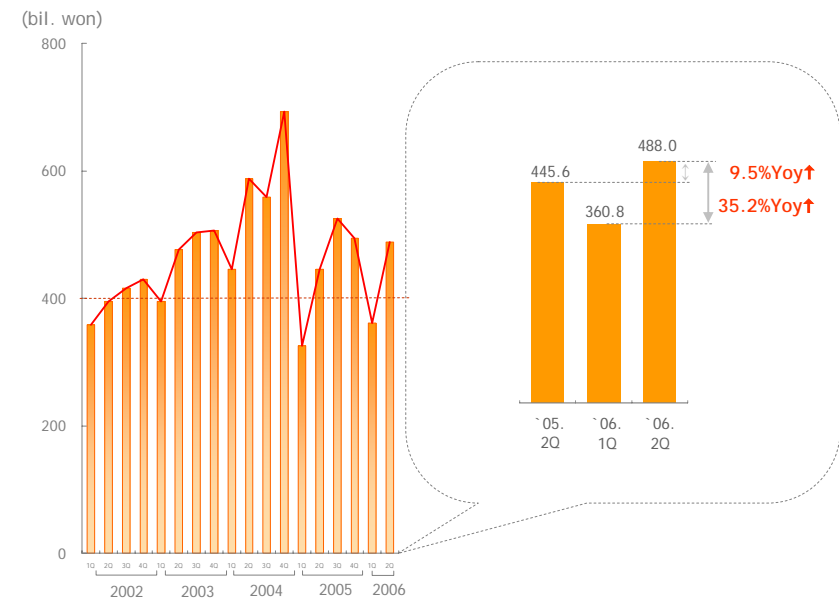
Recovery in domestic tobacco market, back to normal levels

>>> Volume increased 2.9% yoy



- Domestic market size: 23 billion sticks, up 6.3% yoy
- up 31.0% vs. 1Q '06 and up 20.1% vs. 1H '05
- KT&G sales volume: 16.5 billion sticks, up 2.9% yoy
- Due to favorable sales results of new brands, up 33.6% compared w/ 1Q '06, surpassing the market growth rate

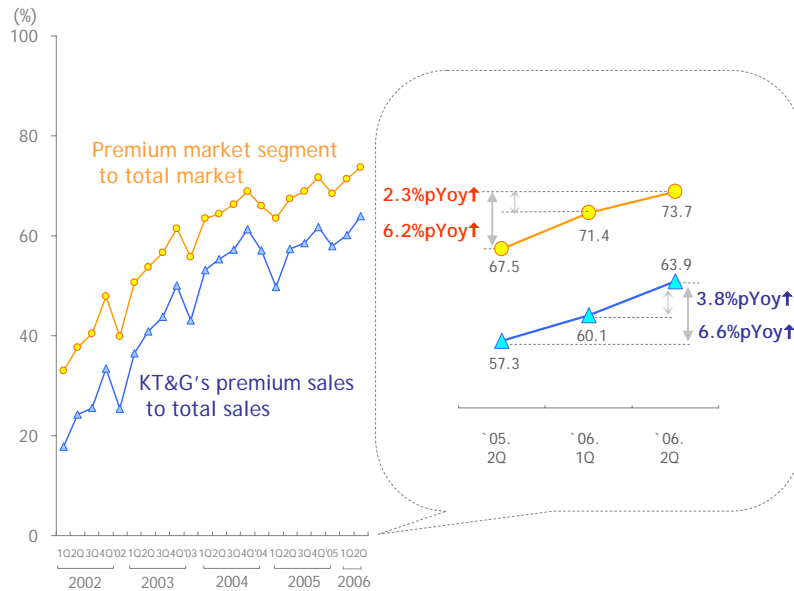
>>> Amount increased 9.5% yoy



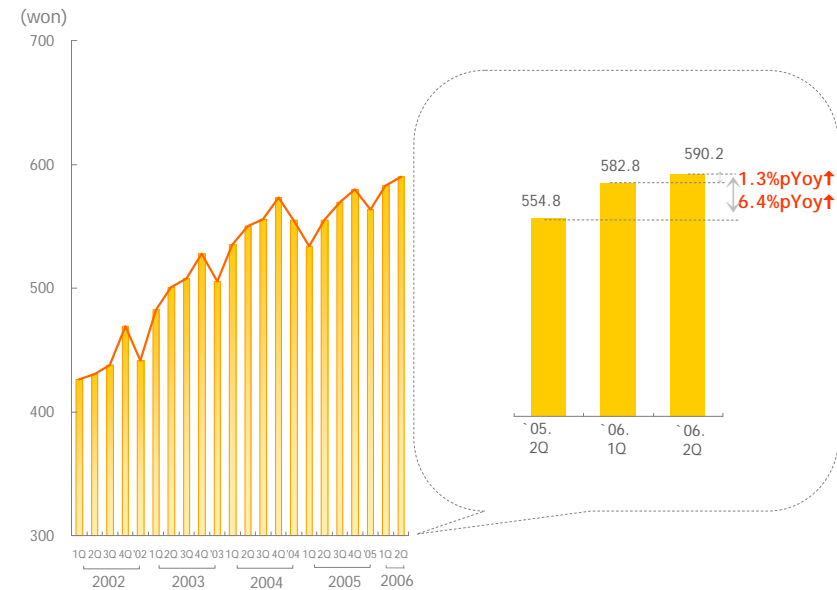
- Due to sales volume increase and expansion of premium segment, 1H sales result approaches the 500 bil. won level
- Recovery of sales volume and increase in premium sales to total sales
- Recorded 488 bil. won, up 9.5% yoy
- "Amount growth (9.5%) > Volume growth (2.9%)" trends to continue

Continued increasing trend of Net ASP, recording historical high

>>> On-going growth of premium market



>>> Continued increasing trend in Net ASP



• Expansion of premium market

- Total premium market increased 6.2%p < KT&G's premium sales ratio increased 6.6%p compared w/ 2Q '05
- KT&G's favorable sales of new brands : ESSE Series has total M/S of 25.1% as of 2Q '06

• Expansion of low tar market led by KT&G

- Total low tar market increased 8.2%p < KT&G's low tar sales ratio increased 8.9%p compared w/ 2Q '05

• Net ASP records historical high levels, close to 600 won

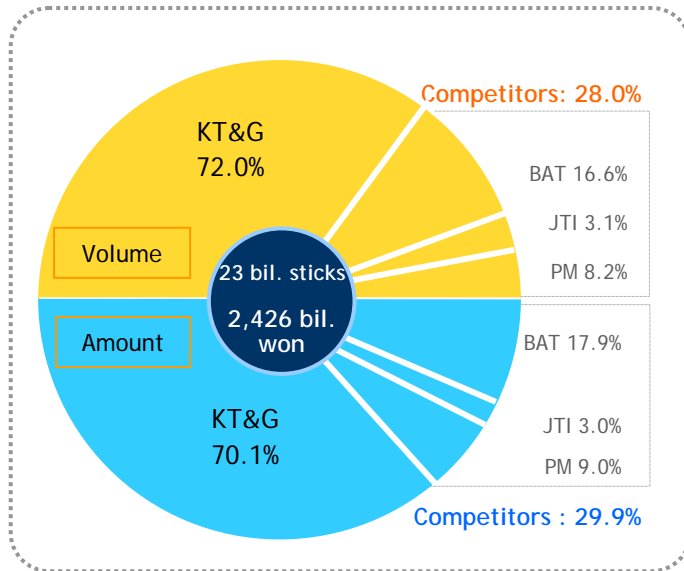
- up 6.4% vs. 2Q '05 and up 1.3% vs. 1Q '06
- 4Q '05: 579.7 won → 1Q '06: 582.8 won → 2Q '06: 590.2 won

• Favorable sales results of new premium brands leads to increase in Net ASP

- '06 ESSE Soun (April), Arirang, Raison Black (May) etc

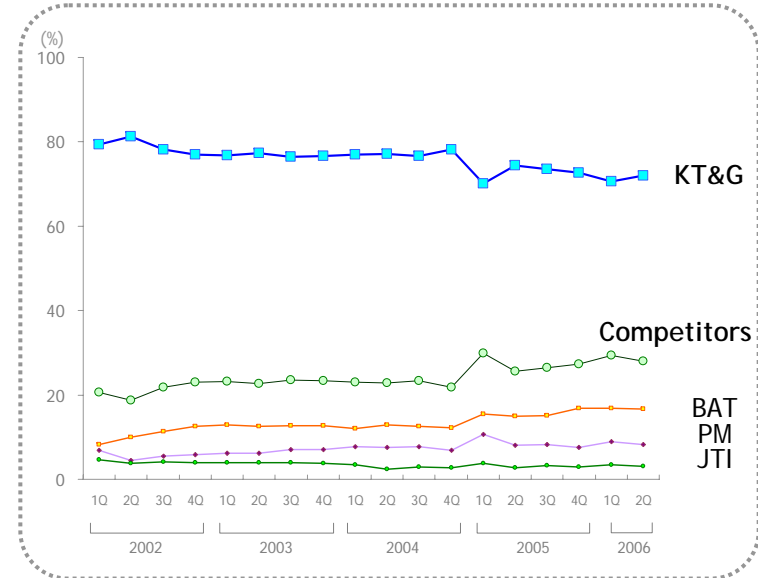
Slight Increase in M/S due to favorable sales of slim cigarettes

>>> Market Share (2Q 2006)



-Sales amount is based on price to retailers (KT&G est.)

>>> Quarterly M/S (Volume)



KT&G

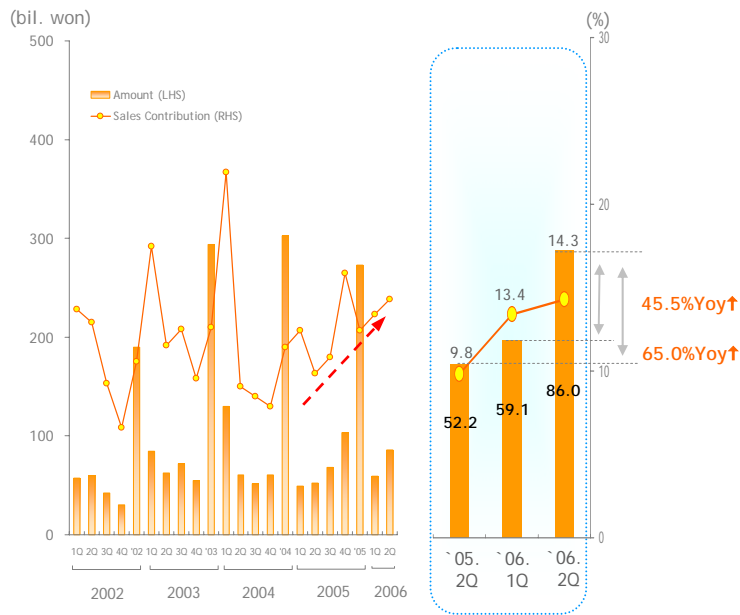
- Recovery of M/S
 - 4Q '05: 72.6% → 1Q '06: 70.7% → 2Q '06: 72.0% (volume)
 - Due to aggressive new product launches and favorable sales of the ESSE Series
- Strengthening marketing efforts thru market segmentation

Competitors

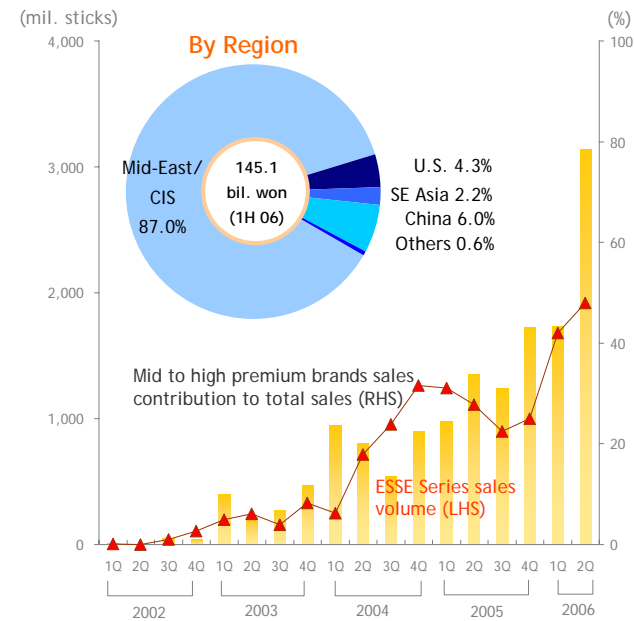
- New product launching and strengthening marketing activities
- Declining M/S
 - 1Q '06 29.3% → 2Q '06 28.0% (1.3%p↓)

Despite drop in F/X rate, exports excelled due to increase in premium brands

>>> Quarterly export trends



>>> Sales contribution trends of mid to high premium brands



- Recorded 86 bil. won, up 65.0% yoy
 - Contribution to total sales up 0.9%p vs. 2Q '05 (14.3%)
 - Expansion of premium brands and strengthening main export markets

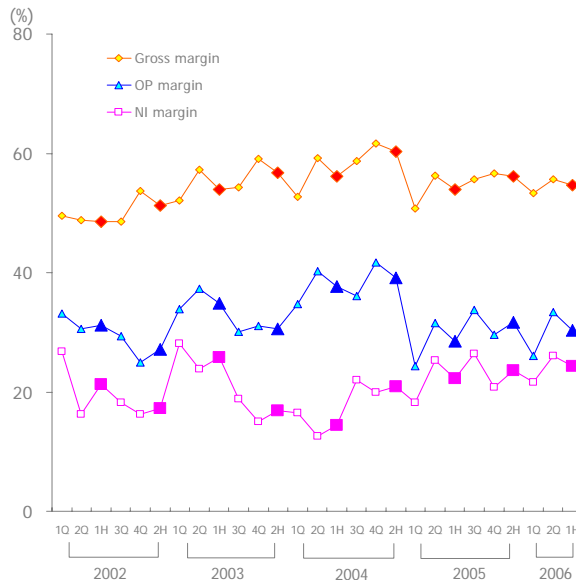
- Huge improvements in profitability
 - Aligned with profitability strategy, mid to high premium sales increased (2Q '05: 27.8% → 2Q '06: 48.0% 20.2%p↑)
 - Continued improvements in Net ASP due to increased contribution from premium brands

OP and NI margin improved 1.7%p and 0.6%p yoy, respectively

>>> Profitability Analysis

Quarterly Comparison (bil. won)				First Half Comparison (bil. won)		
2Q 2006	2Q 2005	% yoy		1H 2006	1H 2005	% yoy
55.7%	56.3%	↓ 0.6%p	Gross Margin	54.7%	53.9%	↑ 0.8%p
33.3%	31.6%	↑ 1.7%p	OP Margin	30.3%	28.5%	↑ 1.8%p
25.9%	25.3%	↑ 0.6%p	NI margin	24.4%	22.3%	↑ 2.1%p

>>> Profitability trend

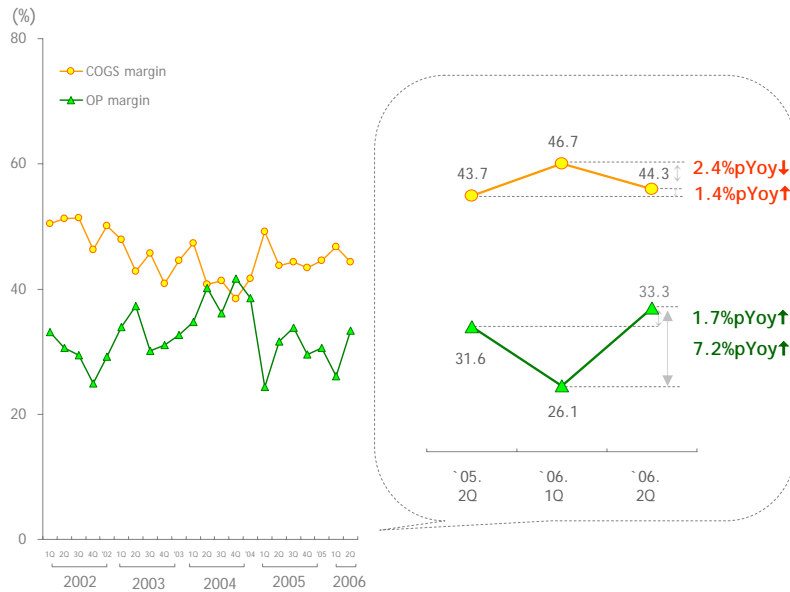


※ Reasons for increase

- Increased volume leading to higher sales
- Continued expansion of premium products for both domestic & export markets
- Sustaining positive Non-oper. balance

Premium brands leading the way

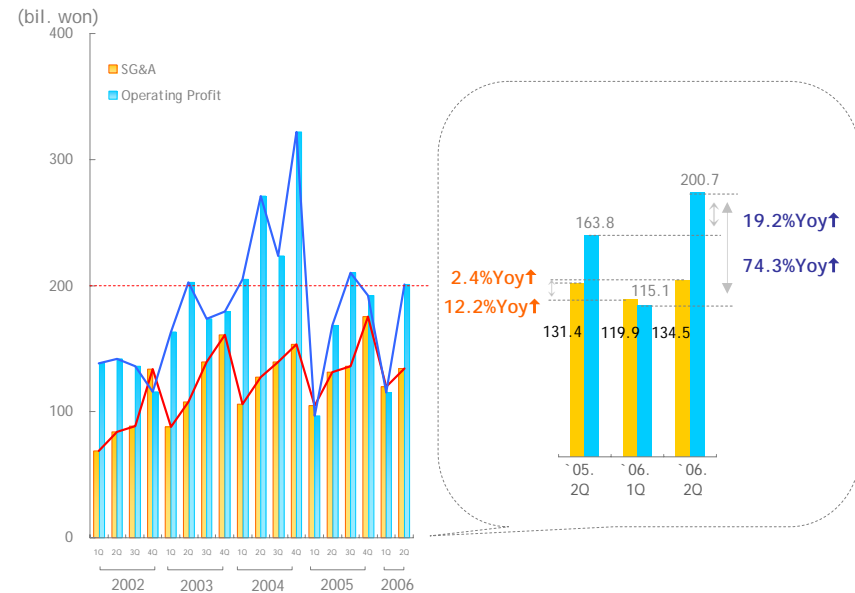
>>> Profitability trend



Gross Profit: recorded 335.2 bil. won, up 11.8% yoy

- COGS ratio : slightly up by 44.3% yoy
 - Despite decreased fixed cost ratio due to premium sales increase, COGS slightly increased
 - Valuation loss by reducing excess leaf inventory and increase in export volume of high cost leaf tobacco
- SG&A ratio : 134.4 bil. won, down 2.4%p yoy

>>> Profit trend

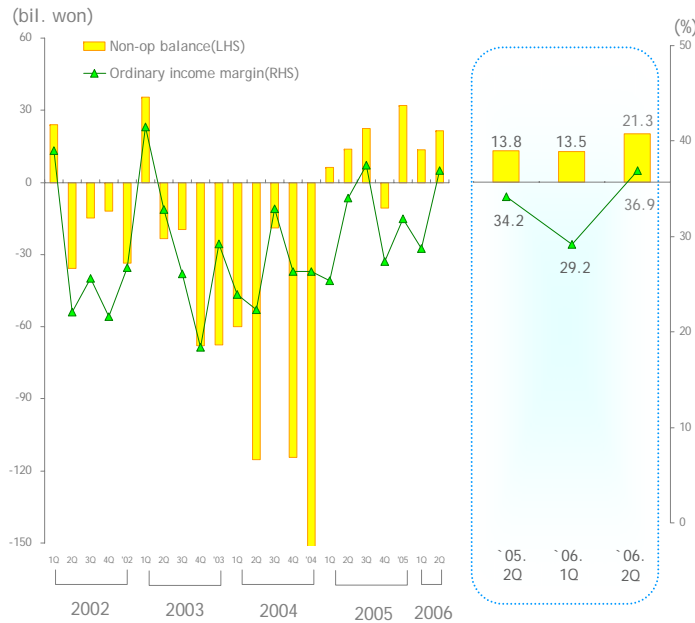


OP: Recorded 200.7 bil. won, up 19.2% yoy

- OP : Recorded 200 bil. won level due to favorable sales of value-added products
 - Gross profit recorded 335.2 bil. won, up 11.8% vs. 2Q '05
 - OP margin :Recorded 33.3%, up 1.7%p vs. 2Q '05
- Exports: By expanding premium product sales, profit and its contribution to total profit is expected to continue
 - Increase proportion of mid to high premium brands compared w/ 2Q '05, resulted in higher Net ASP

Sustain positive Non-operating balance...NI surpasses 150 bil. won level

>>> Non-operating balance



>>> Reasons for increase

Non-op balance: Positive since 1Q '05

- Recorded 21.3 bil. won, up 7.5 bil. won yoy
- Key Factors
 - Non-op Income: 63.2 bil. won
 - Interest income (10.5 bil), Equity method gains (27.2 bil.), Gains on disposal from marketable securities (17.4 bil.)
 - Non-op Expense: 41.9 bil. won
 - Donations (28.8 bil.)

Ordinary income & NI: Up 21.9% yoy & 16.0% yoy

- Increase in OP and a sustainable positive Non-op balance leads to huge profitability
 - Ordinary income margin: 36.9%, NI margin: 25.9%
- Ordinary income & NI: 222 bil. won, 156.1 bil. won, respectively

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Outlook for 2H 2006

└───• Outlook for 2H 2006

Maintaining domestic market dominance & Continual improvement of profit contribution from exports

>>> **Business Outlook**



>>> **2H Outlook**

- Maintain market share
 - Sales of ESSE Series & strengthening marketing activities
 - Increasing Net ASP
 - Continuing trend of higher sales portion of premium products
 - Increasing Profitability in Ordinary income and bottom line
 - Continuous improvement in Non-op balance
 - Contribution from growth in Exports
- **Maintain 2006 annual business targets**

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KGC Business Overview

- Company Overview
- 2Q 2006 Business Results
- 2H 2006 Outlook



Best Brand "Cheong-Kwan-Jang"

>>> KGC Overview

• Facts

- Est. : 1999. 1. 1
- CEO : Sang-Dae JEON
- Major Product : Red Ginseng Roots and Products
- No. of Employees: 382

• History

- 1899: Established as Ginseng management division within royal palace of the Daehan Empire
- 1908: Red Ginseng Monopoly Law Enacted
- 1928: Began use "Cheong-Kwon-Jang" trademark
- 1952: Status promoted to Monopoly Bureau
- 1988: Permitted for drug manufacturing and product license
- 1999: KGC established

>>> KGC Brand "Cheong-Kwan Jang"



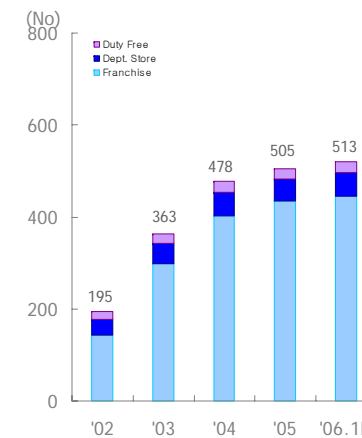
- Specialty product of Korea symbolizing Flag
- Future-orientated red ginseng's character
- Official brand for the 6yr old red ginseng

- Best brand representing domestic health food
- Premium brand w/ tradition
- Grow "Great Brand" based on customer's trust

- 2001 Selected as Korean world-class product

>>> Sales Network

• Domestic



Organization	Details
Raw material office	North Division/ Centra Division/ South Division
Factory	Buyeo, Korea
Sales Market	Domestic: 16 branch offices & 513 stores

- Overseas: Hong Kong/Japan etc. exporting to 40 countries

2Q Sales and OP up 22.2% and 4.1% yoy, respectively

bil. won	Year on Year Comparison		Quarterly Comparison		First Half Comparison	
	2Q '06	2Q '05	2Q '05	1Q '06	1H '06	1H '05
• Net Sales	101.2	82.8	↑ 22.2%	↓ 0.5%	202.9	↑ 33.8%
• Gross Profit	55.8	42.4	↑ 31.6%	↑ 0.7%	111.2	↑ 42.4%
• Operating Profit	33.3	32.0	↑ 4.1%	↓ 2.6%	67.5	↑ 24.3%
• Ordinary Income	33.7	21.9	↑ 53.9%	↓ 2.9%	68.4	↑ 55.1%
• Net Income	24.4	16.0	↑ 52.5%	↓ 3.6%	49.7	↑ 54.8%

2Q '06: Continued High Growth & Profitability

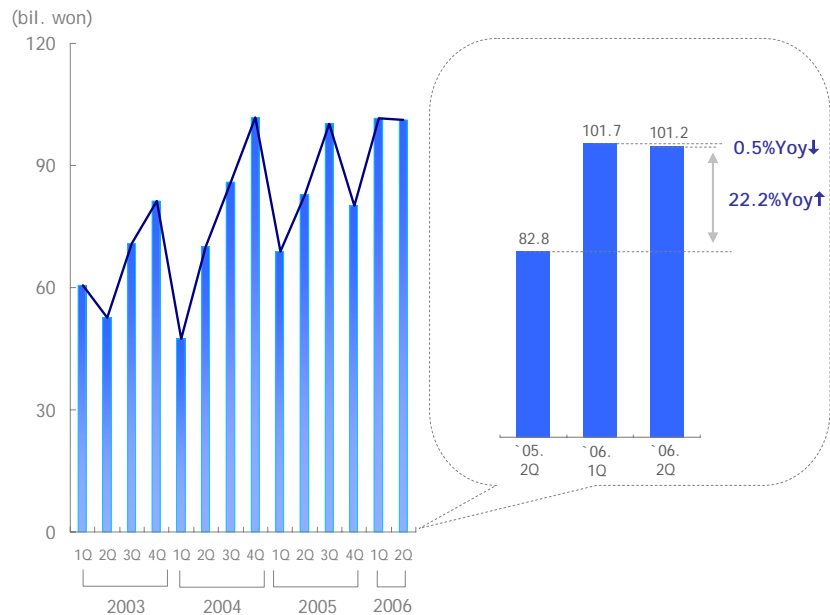
- Sales & OP: 101.2 bil. won & 33.3 bil. won, respectively
- Sales: Strengthen distribution network and expansion of premium brand segment
- Profitability : Expanded new functional and high value-added products and OP slightly increased due to temporary surge of SG&A (from Home Shopping sales commission)

1H '06: Sales 33.8% yoy, OP 24.3% yoy

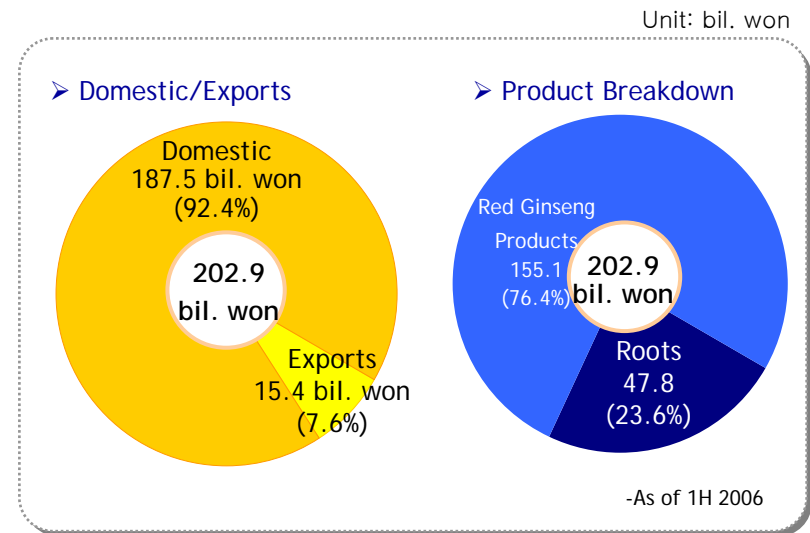
- 1H '06 Sales & OP: 202.9 bil. won & 67.5 bil. won, respectively
- Sales & OP achievement rate for '06 annual target is 50.7% & 66.2%, respectively
- Improving corporate efficiency thru continuous management innovation

Sales jumped 22.2% yoy to 101.2 bil. won

>>> Sales Trend



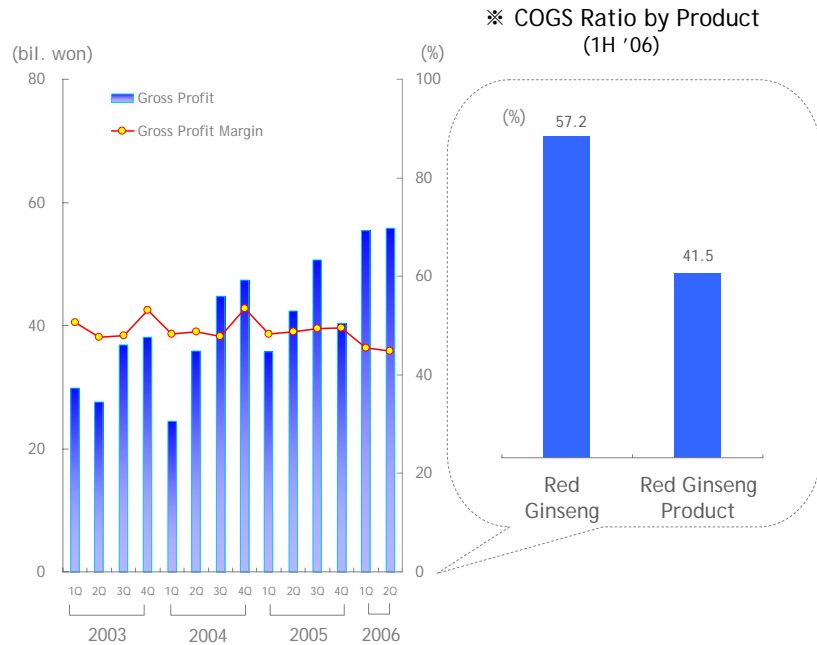
>>> Sales Breakdown



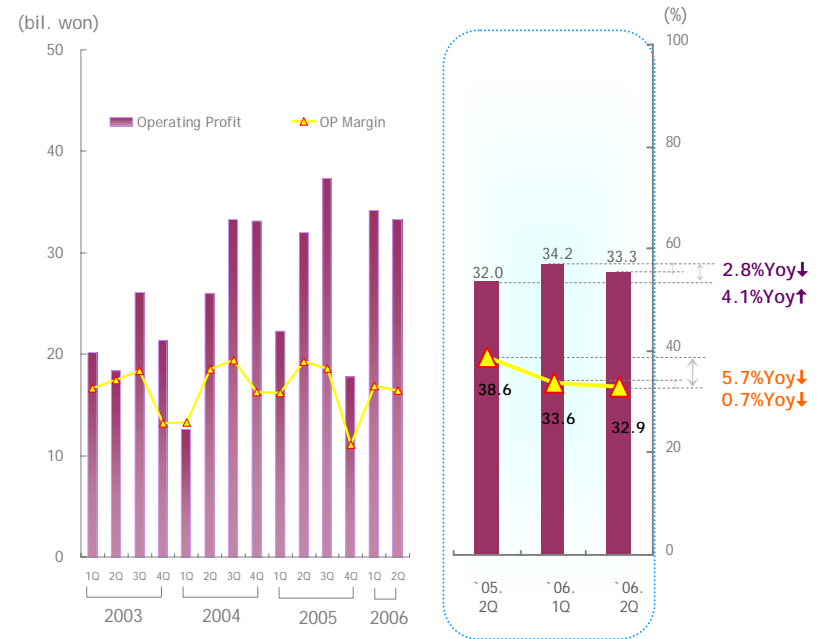
- Increased monthly sales due to expansion of main distribution networks (franchises)
- Continue to expand product line
- Strengthen marketing activities focusing on consumer needs
- Expand new product sales, which have both growth and profitability (red ginseng product sales portion 2Q '05: 72.0% → 2Q '06: 77.6%)

Operating Profit gains 4.1% yoy to 33.3 bil. won

>>> COGS Ratio Trend



>>> Operating Profit & Margin Trend



- Gross profit: Increase of 31.6% yoy to 55.8 bil. won
 - Sales growth in high end products while reducing burden of fixed cost
 - Improving COGS ratio trend: '04 50.0% → '05 49.0% → 1H '06: 45.2%
- Operating profit rose 4.1% yoy to 33.3 bil. won
 - SG&A ratio grew 9.7%p to 22.2%
 - : Aggressive marketing & increased Home Shopping sales commission (10.3 bil.won), R&D expense (1.4 bil. won) etc.

- Non-op balance: recorded 0.4 bil. won surplus
- Ordinary & net income: 33.7 bil. won & 24.4 bil. won, respectively

Superior business results thru market dominance

››› Domestic

- ✓ Strengthen competitiveness of core distribution channel
 - Reposition franchises in centralized areas where there is a higher demand
 - Entry into small-sized cities and districts
 - Nurturing franchise professionals
- ✓ Expansion of other distribution channels
 - Expand Home Shopping distribution & product renewal
 - Expansion of duty free sales
- ✓ Strengthen marketing activities
 - Marketing of key products and sales promotion during major holidays
 - Monthly sales promotion with different themes

&

››› Overseas

- ✓ Strengthen & develop distribution channel
 - Reinforce Taiwan sales network
 - Additional franchise opening in China & U.S. (2H '06)
- ✓ Strengthen marketing
 - Reinforce localized promotions (China, Japan etc.)
 - Continuously registering brands in new markets
- ✓ Strengthen FX risk management
 - Implement FX hedging system

Expected
to exceed
2006 annual
business
target

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Appendix

- KT&G Financial Statements
- KGC Financial Statements

(bil. won)	FY01	FY02	FY03	FY04	FY05	1H '06
Current Assets	1,865.8	1,703.9	1,746.8	2,002.0	2,032.9	2,123.0
Quick Assets	476.0	268.4	347.6	740.4	907.1	1,156.4
- Cash, Short-term Financial Instruments, Trading Securities	245.3	90.9	126.5	464.5	574.1	763.1
- Accounts Receivable	50.5	118.8	152.9	225.2	241.3	257.8
Inventory	1,389.7	1,435.4	1,399.1	1,261.6	1,125.8	966.6
Fixed Assets	1,804.8	2,062.4	2,140.3	1,883.0	1,931.5	1,962.1
Investment Assets	811.4	922.8	972.1	666.1	692.4	700.4
Tangible Assets	991.5	1,137.7	1,165.7	1,214.8	1,236.7	1,259.6
Intangible Assets	1.8	2.0	2.5	21	2.5	2.1
Total Assets	3,670.5	3,766.3	3,887.0	3,885.0	3,964.4	4,085.1
Current Liabilities	696.8	742.9	487.0	535.3	301.1	536.5
Short-term Debts	-	290.0	-	-	-	-
Convertible Bonds	-	-	-	20.1	-	-
Long-term Liabilities	357.8	871.4	584.7	135.5	215.3	249.2
Convertible Bonds	311.3	819.9	488.6	-	-	-
Total Liabilities	1,054.6	1,614.3	1,071.7	670.8	516.4	785.7
Capital Stock	955.0	955.0	955.0	955.0	955.0	955.0
Capital Surplus	.3	1.5	81.1	277.3	300.0	309.9
Retained Earnings	2,112.5	2,291.9	2,517.0	2,355.7	519.3	2,361.4
Capital Adjustment	-451.8	-1,096.3	-737.8	-373.7	-326.3	-326.8
Total Shareholders' Equity	2,615.9	2,152.1	2,815.3	3,214.2	3,448.0	3,299.4
Total Liabilities and Shareholders' Equity	3,670.5	3,766.3	3,887.0	3,885.0	3,964.4	4,085.1

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KT&G – Summarized Income Statement



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(bil. won)					FY04					FY05			1H '06
	1Q	2Q	3Q	4Q		1Q	2Q	3Q	4Q		1Q '06	2Q '06	
Net Sales	589.7	673.0	618.7	772.0	2,653.4	396.4	532.4	622.1	649.1	2,199.9	440.6	602.0	1,042.6
Cigarette	575.6	648.0	610.8	753.2	2,587.5	374.4	497.8	593.2	597.8	2,063.3	419.9	574.0	993.9
Real Estate	11.4	20.1	5.2	12.5	49.2	13.7	23.5	21.1	37.0	95.3	10.7	15.7	26.4
Other	2.6	4.9	2.8	6.3	16.6	8.2	11.1	17.1	14.3	50.7	9.9	12.3	22.3
COGS	278.7	274.5	255.7	296.3	1,105.2	195.1	232.7	275.5	281.4	984.7	205.6	266.9	472.4
Cigarette	271.7	257.1	242.8	288.5	1,060.2	154.0	216.2	254.3	265.1	889.5	179.4	239.1	418.5
Other	7.0	17.4	12.9	7.8	45.0	41.1	16.5	21.3	16.2	95.1	16.1	27.7	53.9
- Depreciation	16.0	14.9	16.9	17.2	65.1	17.1	16.8	17.3	17.3	68.4	17.9	16.6	35.5
Gross Profit	311.0	398.5	363.1	475.6	1,548.2	201.3	299.7	346.5	367.7	1,215.2	235.0	335.2	570.2
SG&A	105.9	127.6	139.5	153.5	526.6	104.5	131.4	136.2	175.6	547.7	119.9	134.5	254.3
Depreciation	8.5	9.7	9.3	10.8	38.4	9.8	10.0	10.6	12.1	42.5	11.2	12.0	23.2
Oper. Inc.	205.1	270.9	223.5	322.1	1,021.6	96.8	168.3	210.4	192.0	667.5	115.1	200.7	315.9
Non-Oper. Inc.	33.1	46.4	45.7	46.1	171.3	28.8	47.4	54.1	23.8	154.0	41.5	63.2	102.3
Interest Inc.	8.9	9.2	10.0	9.9	37.9	5.2	6.6	8.8	10.0	30.6	9.7	10.5	20.2
Foreign Currency Transaction Gain	0.7	1.4	0.3	1.1	3.5	0.5	0.8	1.0	1.1	3.5	0.4	0.3	0.7
Foreign Currency Translation Gain	0.3	0	0	0	0.3	0	0.8	0.1	-0.9	0.1	0	0.9	0.9
Non-Oper. Exp.	93.0	161.7	64.6	160.5	479.8	22.5	33.6	31.6	34.4	122.1	28.0	41.9	67.6
Interest Exp.	5.5	3.8	2.2	0.2	11.6	0.3	-	-	-	0.3	0	0	0.1
Foreign Currency Transaction Loss	1.5	1.9	0.8	19.2	23.4	1.5	1.7	0.3	0.9	4.4	4.0	2.2	4.8
Foreign Currency Translation Loss	9.2	0	0.6	-3.1	6.7	0.7	-	-	1.5	2.3	1.4	0.2	1.5
Ordinary Inc.	145.2	155.6	204.5	207.7	713.1	103.1	182.1	232.8	181.4	699.4	128.6	222.0	350.6
Corp. Tax	47.7	71.0	68.6	53.5	240.8	30.8	47.6	68.4	46.2	192.9	33.2	65.9	98.0
Net Income	97.4	84.7	135.9	154.3	472.3	72.3	134.5	164.4	135.3	506.5	95.4	156.1	252.6

>>> Balance Sheet

(billion won)	FY01	FY02	FY03	FY04	FY05	1H '06
Current Assets	197.4	231.5	244.1	253.8	263.7	273.3
- Cash & Cash equivalents	37.4	72.8	40.2	32.6	11.1	74.1
-Inventory	124.0	131.4	158.1	167.5	188.9	124.7
Fixed Assets	88.5	94.2	102.5	120.8	143.0	175.3
Investment Assets	44.6	50.8	61.3	74.3	94.2	125.7
Tangible Assets	43.7	43.1	40.7	45.6	48.0	48.9
Total Assets	283.2	325.8	346.6	374.6	406.7	448.6
Current Liabilities	25.9	27.3	30.8	32.8	43.3	32.0
Long-term liabilities	4.0	7.8	8.9	10.7	10.0	14.1
Total Liabilities	299	35.1	39.6	43.5	53.3	46.1
Capital Stock	214.9	214.9	164.9	114.9	64.9	64.9
Retained earnings	38.4	75.7	142.1	216.2	288.3	338.3
Shareholders' Equity	253.3	290.6	307.0	331.1	353.4	402.5
Total Liabilities & Assets	283.2	325.8	346.8	374.6	406.7	448.6

>>> Income Statement

(bil. won,%)	FY04				FY05	1H '06							
	1Q	2Q	3Q	4Q		1Q '06	2Q '06	1H '06					
Net Sales	47.4	70.1	85.9	101.9	305.3	68.9	82.8	100.2	80.1	332.0	101.7	101.2	202.9
- Red Ginseng	11.2	21.5	24.5	40.8	98.0	15.5	23.2	30.3	20.5	89.5	25.1	22.7	47.8
- Processed Products	36.2	48.6	61.4	61.1	207.3	53.4	59.6	69.9	59.6	242.5	76.6	78.5	155.1
(%)	(76.4)	(69.3)	(71.5)	(60.0)	(67.9)	(77.5)	(72.0)	(69.8)	(74.4)	(73.0)	(75.3)	(77.6)	(76.4)
COGS	22.9	34.2	41.1	54.5	152.7	33.2	40.4	49.5	39.7	162.8	46.3	45.4	91.7
Gross profit	24.5	35.9	44.8	47.4	152.6	35.7	42.4	50.7	40.4	169.2	55.4	55.8	111.2
SG&A	11.9	9.9	11.5	14.3	47.6	13.4	10.4	13.4	22.6	59.8	21.2	22.5	43.7
Oper. Inc.	12.6	26.0	33.3	33.1	105.0	22.3	32.0	37.3	17.8	109.4	34.2	33.3	67.5
Non-Oper. Inc.	0.7	0.7	1.0	4.0	6.4	1.2	0.6	5.2	-	7.0	0.9	1.3	2.2
Non-Oper. Exp.	1.0	4.9	-	1.2	7.1	1.3	10.7	-	2.2	14.2	0.4	0.9	1.3
Ord. Inc.	12.3	21.8	34.3	35.9	104.3	22.2	21.9	42.5	15.6	102.2	34.7	33.7	68.4
Net Inc.	8.7	15.2	24.9	25.3	74.1	16.1	16.0	29.5	10.8	72.4	25.3	24.4	49.7

Thank You