Investor Relations 2008

FY2008 1Q Earnings Presentation

KT&G

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FY2008 1Q Business Results
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Chapter 1.
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FY08 1Q Sales and OP increased by 9.0%yoy, 32.5%yoy each

(billion sticks, Billion won)	Quarterly results		% change	2008 Business Target	
	'08. 1Q	'07. 1Q			Achievement rate
Sales Volume (Domestic)	21.0 (14.7)	20.6 (14.5)	2.1%↑ (0.9%↑)	103.3 (62.5)	20.3% (23.4%)
Net Sales	561.7	515.5	9.0%↑	2,619.1	21.4%
Operating Profit	207.3	156.4	32.5%↑	907.0	22.9%
Net Income	196.2	130.2	50.7%↑	715.0	27.4%
Net ASP(won/pack)	640.0	611.7	4.6%↑	641.3	99.8%

※ Net ASP is based on domestic sales only.

Compared with FY07 1Q : Sales and Profitability greatly increased

- **KT&G's domestic sales volume increased due to the continued recovery of the Korean market**
  - FY08 1Q : Volume 0.9% ↑ yoy, Amount 5.5% ↑ yoy
- **Contribution from export business to total sales and profit improved**

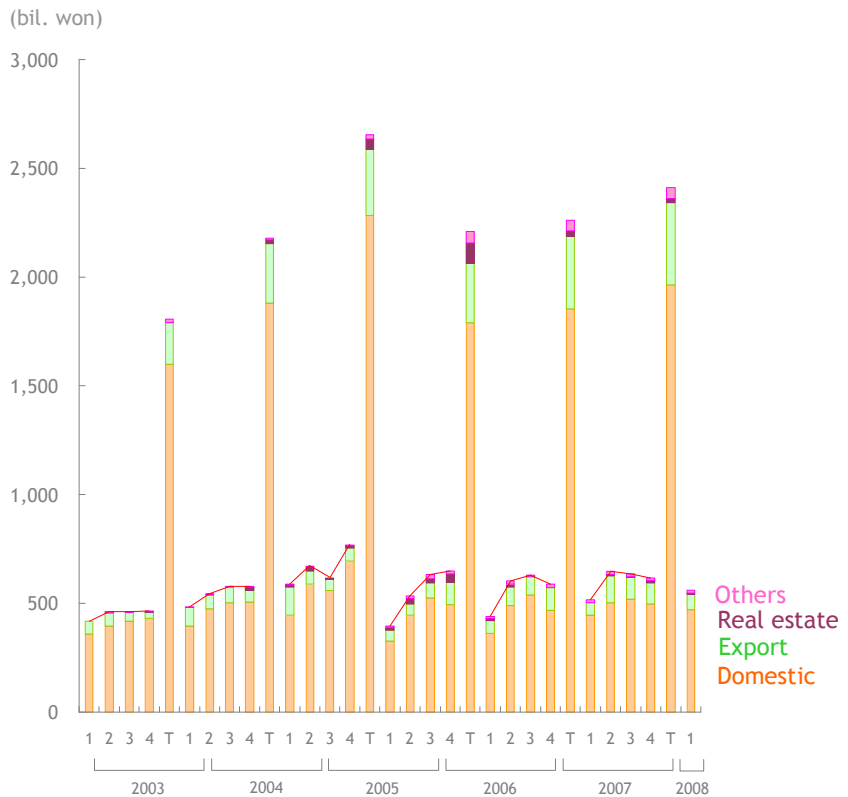
- **Sales and OP increased 9.0%yoy, 32.5%yoy each**
- **Continuous Net ASP increase contributed to profitability improvement**
  - FY08 1Q : 4.6% ↑ yoy , 1.1% ↑ qoq

FY08 1Q Sales increased 9.0% yoy to 561.7billion won

Net Sales Breakdown

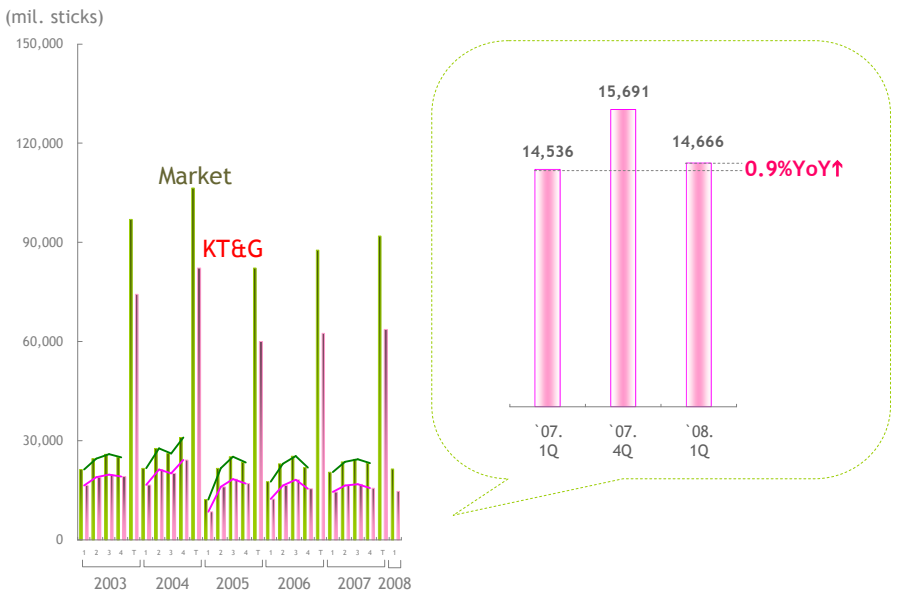
	1Q FY08	1Q FY07	% change
Cigarettes	**542.0**	**503.8**	**7.6 %↑**
- Domestic	469.3	444.6	5.5 %↑
- Export	72.7	59.1	23.0 %↑
Real estate	**5.9**	**0.1**	**9,235.8 %↑**
Others	**13.8**	**11.7**	**18.4 %↑**
Total	**561.7**	**515.5**	**9.0 %↑**

Sales Trend

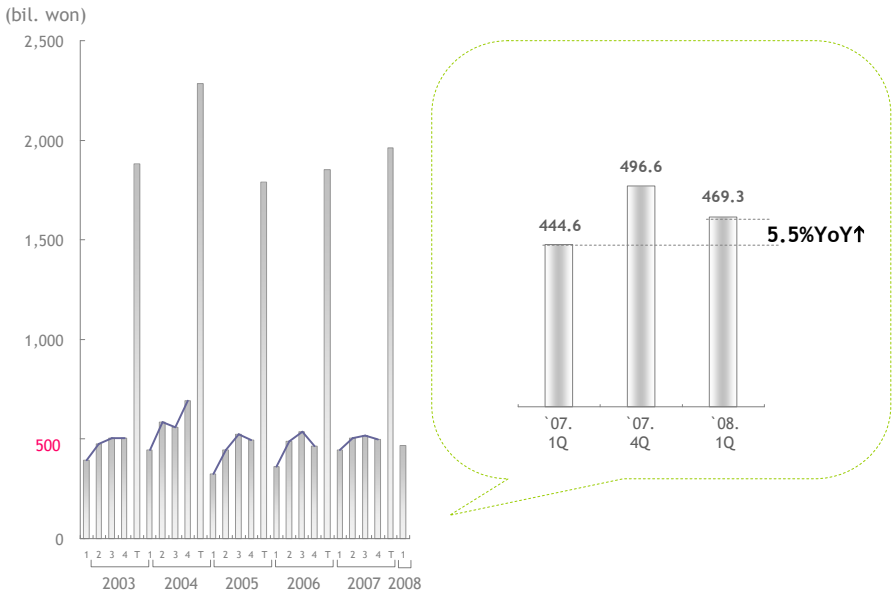


1Q sales volume and sales amount increased 0.9% yoy, 5.5% yoy respectively

Quarterly sales volume



Quarterly sales amount

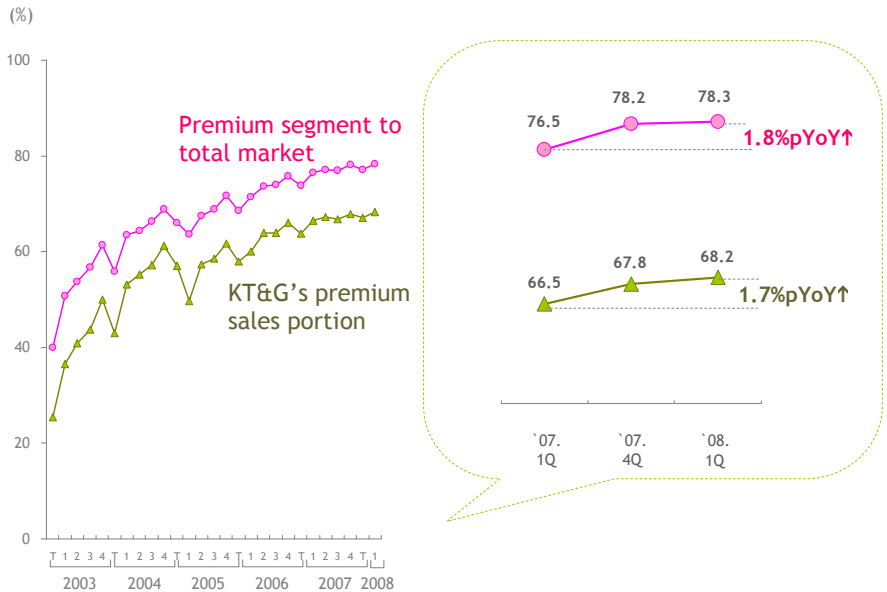


- **Total domestic market increased 4.7%yoy**
  - '07. 1Q 20.6bil. sticks → '08. 1Q 21.5bil sticks
- **KT&G sales volume increased 0.9% yoy**
  - '07. 1Q 14.5bil. sticks → '08. 1Q 14.7bil. sticks
  - Slight M/S increase ('07.4Q 67.8% → '08.1Q 68.1%, 0.3%p↑)

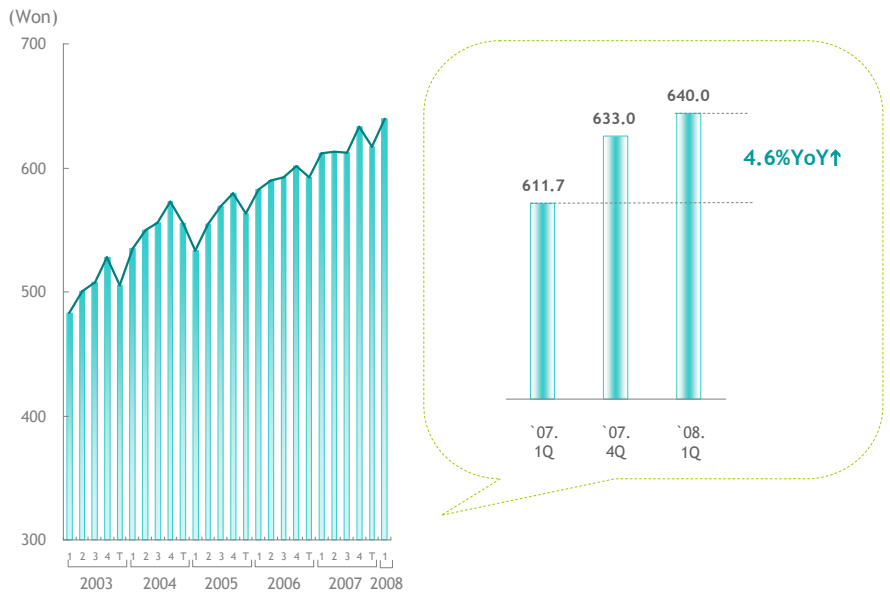
- **Sales amount increased 5.5% yoy to 469.3bil. won**
- **Recovered domestic sales volume(0.9%) and continuous premium sales portion increase(1.7%p)**

Increased premium sales portion and recorded historic high in Net ASP

Premium market trend



Net ASP trend

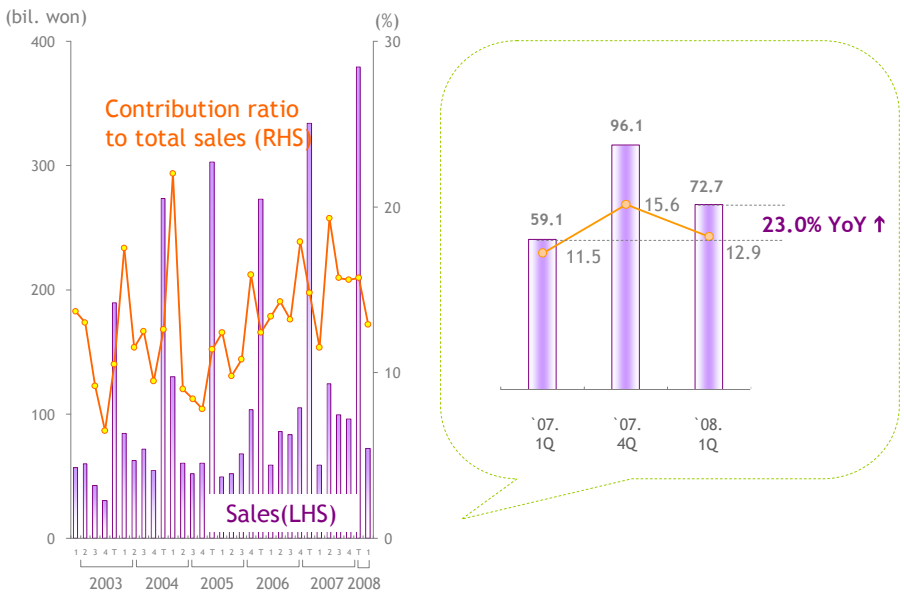


- **Continued premium market growth**
  - Total premium market increased 1.8%p yoy, KT&G' premium sales portion increased 1.7%p yoy
- **Low-tar market increase**
  - Due to continued new product launch,
    - Total low-tar market portion increased 0.7%p yoy to 47.1%
    - KT&G's low-tar sales portion increased 1.9%p yoy to 50.9%

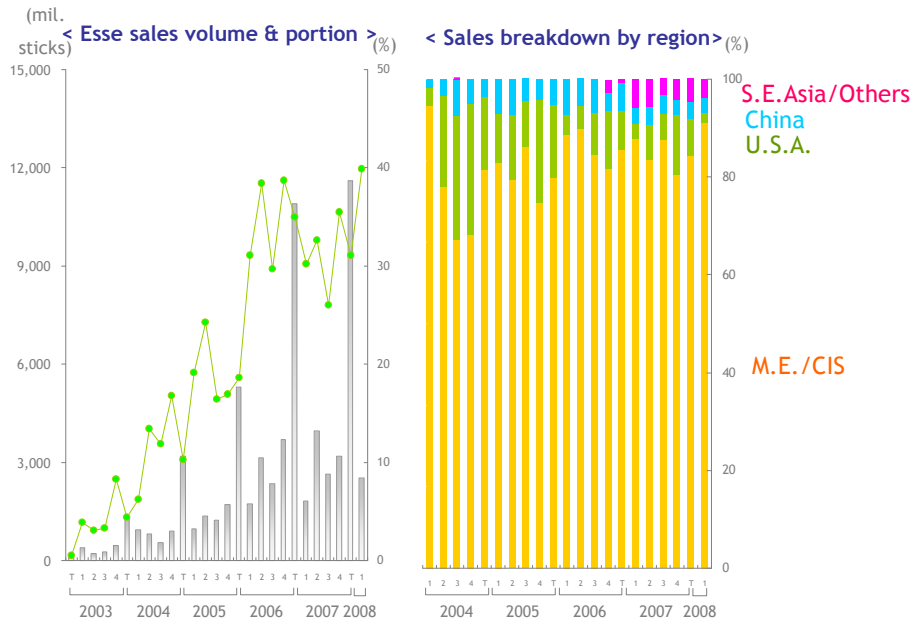
- **Net ASP recorded historic high due to premium sales portion increase**
  - FY08 1Q Net ASP recorded 640.0won, 1.1% ↑ qoq, 4.6% ↑ yoy
  - Recorded 99.8% of '08 annual Net ASP target (641.3won)
- **Net ASP expected to continue to grow**
  - Improvement of sales mix through new product launch, etc.

1Q sales greatly increased and profitability improved compared with FY07 1Q

Quarterly results



Portion of mid-premium products



- **Sales greatly increased by volume increase and premium sales portion growth**
  - 1Q sales increased 23.0% yoy to 72.7bil. won
- **Contribution to total sales improved compared w/ '07 1Q**
  - Contribution ratio recorded 12.9%, 1.4%p ↑ yoy

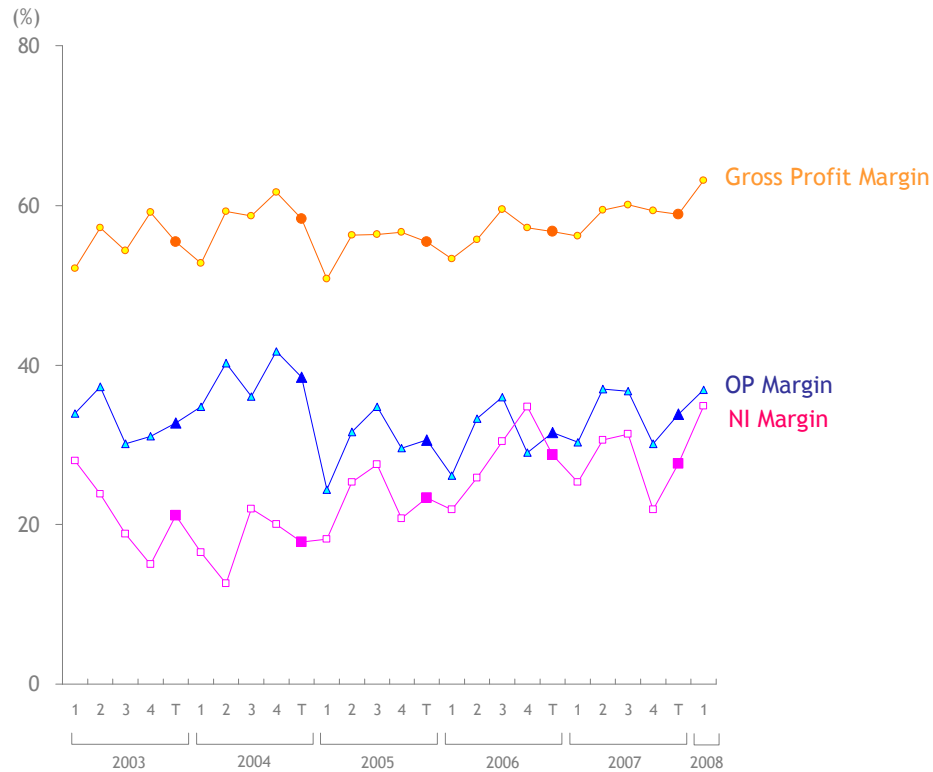
- **Export to Russia increased**
  - '07.1Q 0.8bil. sticks → '08.1Q 1.4bil. sticks
- **Continued efforts to improve profitability**
  - Continuous sales portion increase of Esse brands ('07.1Q 30.2% → '08.1Q 39.9%, 9.7%p↑)
  - Proactive development of new markets for premium products by aggressive marketing activities

FY08 1Q OP margin significantly improved

Profitability Analysis

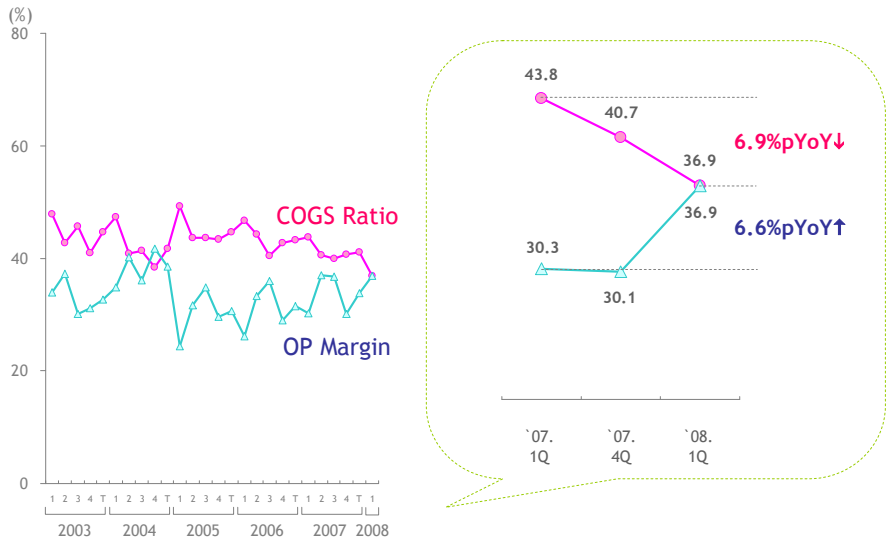
	1Q FY08	1Q FY07	% yoy
Gross Profit Margin	63.1%	56.2%	6.9%p↑
Operating Profit Margin	36.9%	30.3%	6.6%p↑
Income Before Income Tax Margin	46.6%	35.9%	10.7%p↑
Net Income Margin	34.9%	25.3%	9.6%p↑

Profitability Trend



FY08 1Q OP margin increased 6.6%p yoy to 36.9%

Profitability Trend



Profit Trend

Gross Profit : Up 22.5% yoy to 354.4bil. won

- **1Q COGS ratio decreased 6.9%p yoy to 36.9%**
  - Increased sales volume and premium products sales portion
  - Continued decrease of usage ratio of domestic leaf
- **OP margin increased 6.6%p yoy to 36.9%**

Operating profit : Up 32.5% yoy to 207.3bil. won

- **Operating profit greatly increased due to sales increase and COGS improvement**
  - '08 1Q OP recorded 207.3bil. won (32.5% ↑ yoy, 11.6% ↑ qoq)
- **Export's contribution to operating profit continued to improve through sales and margin increase**

Increased positive balance in non-operating side, Net income recorded 196.2bil. won

Non-Operating Balance Trend

Major reasons for change

Non-oper. balance : Continued positive balance

- **1Q recorded 54.5bil. won profit**
  - Increased 90.1% yoy and 1 ,415.4% qoq each
- **Main items of 1Q non-operating balance**
  - Non-operating income 63.4bil.won : Gains on equity method(38.7), Interest income (5.9)
  - Non-operating expense 9.0bil. won : Donations(2.5), Loss on equity method (1.2)

Net Income : Increased 50.7% yoy

- **Net income soared due to the increase of OP and enlarged surplus of non-operating balance**
  - Income before income tax margin : Increased 41.4% yoy to 261.7bil. won (Margin 46.6%)
  - Net income : Increased 50.7% yoy to 196.2bil. won (Margin 34.9%)

➔ **Major management and investment indices continued to improve**

Improvement in profitability of domestic cigarette business / Continuous increase in the contribution of exports to total sales

Business Outlook

< Domestic >

Maintain dominant M/S

- **Effective roll-out of strategic brands**
  - Differentiated value & full flavored regular products
- **Continuous reinforcement of proactive marketing activities by market segmentation**
  - Will strive to achieve FY2008 annual M/S target

→ Concentrate marketing capabilities to maintain the market dominance

Continued increase of premium sales portion

- **Continuous launch of new premium products tailored to consumer preferences**
- **Continued improvement of sales mix**

→ Will exert to outperform annual target through expansion of premium sales portion

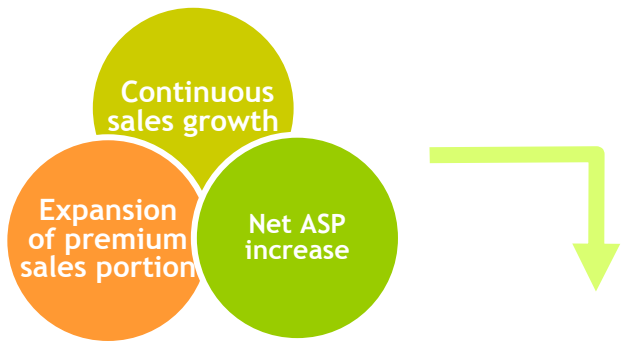
< Export >

Continuous increase in contribution to total sales & profitability

- **Continued reinforcement of marketing activities**
  - ME/Central Asia : Steadily expand M/S
  - Other markets : Build premium brands
- **Continuous increase of export price via expansion of mid to high-end product sales portion**

→ Maintain strategy to increase both in sales & in profitability

Forecast of business performance



" Achieve annual target "

Maintain the existing shareholder value maximization policy

✦ Faithful implementation of mid to long term Masterplan

- Shareholder value maximization policy will be flexibly implemented considering market condition and cash flow
- Masterplan has been faithfully implemented (Residue rate for share buyback & cancellation : 13.3% and dividends : 34.0%)

✦ Continuous improvement in major investment indices

- Enhance corporate value through continued improvement in business performance and high shareholder return.

Progress of the Masterplan

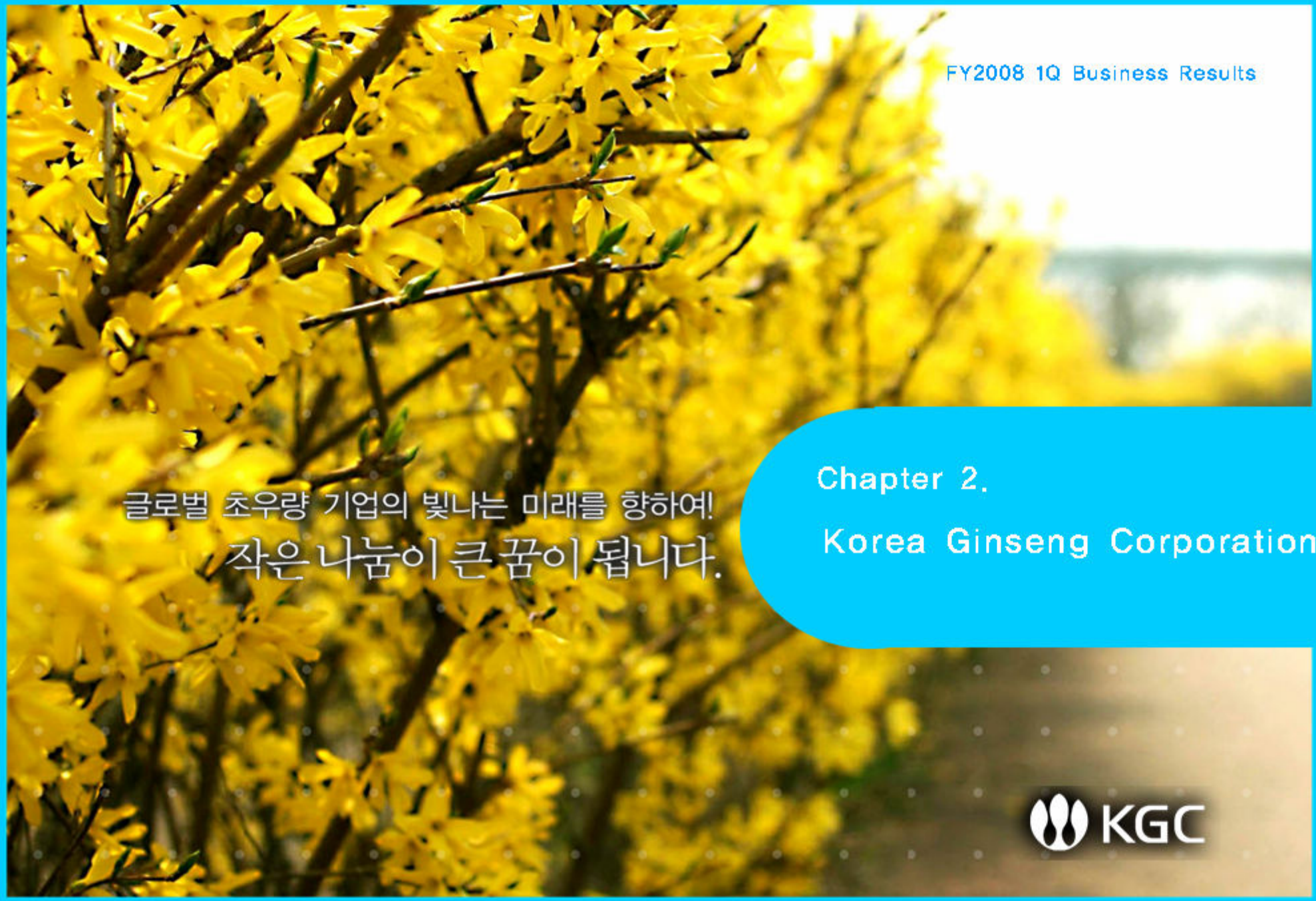
(Share buyback & cancellation, dividends for '06~'08)

(KRW)	Master Plan	Achievement		Residue	
		Accumulative Amount	Rate	Amount	Rate
Share Buyback	1.3 tril. Won	1,127.2 bil. won (19mil.shares)	86.7%	172.8 bil. won	13.3%
Dividends	1 tril. won	660.1 bil. won	66.0%	339.9 bil. won	34.0%
Total	**2.3 tril. won**	**1,787.3 bil. won**	**77.7%**	**512.7 bil. won**	**22.3%**

Major Investment Indices

	FY03	FY04	FY05	FY06	FY07	08 1Q
Outstanding Shares (As of year-end/ 1,000shares)	178,442	165,442	162,442	147,442	143,442	140,742
Market Cap. (bil. won)	3,694.0	5,120.0	7,318.0	8,331.0	11,432.4	10,921.6
Net asset per share (won)	14,741	16,829	21,226	20,657	21,904	21,174
Net sales per share (won)	12,210	16,038	13,600	15,346	16,820	15,964
EPS (won)	2,576	3,183	3,497	4,608	4,992	6,012
PER(x)	8.0	9.7	12.9	12.3	16.0	12.9
PBR(x)	1.4	1.8	2.1	2.7	3.6	3.7

- FY08 1Q market cap. is based on the end of March, 2008 closing share price and other 08 1Q numbers are annual estimates(1Q result X4).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Chapter 2.
Korea Ginseng Corporation
KGC

Sales and operating profit increased 24.9% yoy and 28.6% yoy respectively

(bil. won)	Quarterly Results		Change in YoY	
	'08.1Q	'07.1Q	Net Balance	% Change
Sales	145.4	116.4	29.0	24.9 % ↑
Gross Profit	78.3	62.6	15.7	25.1 % ↑
Operating Profit	49.5	38.5	11.0	28.6 % ↑
Income before Income Tax	51.6	39.4	12.2	31.0 % ↑
Net Income	38.1	28.5	9.6	33.7 % ↑

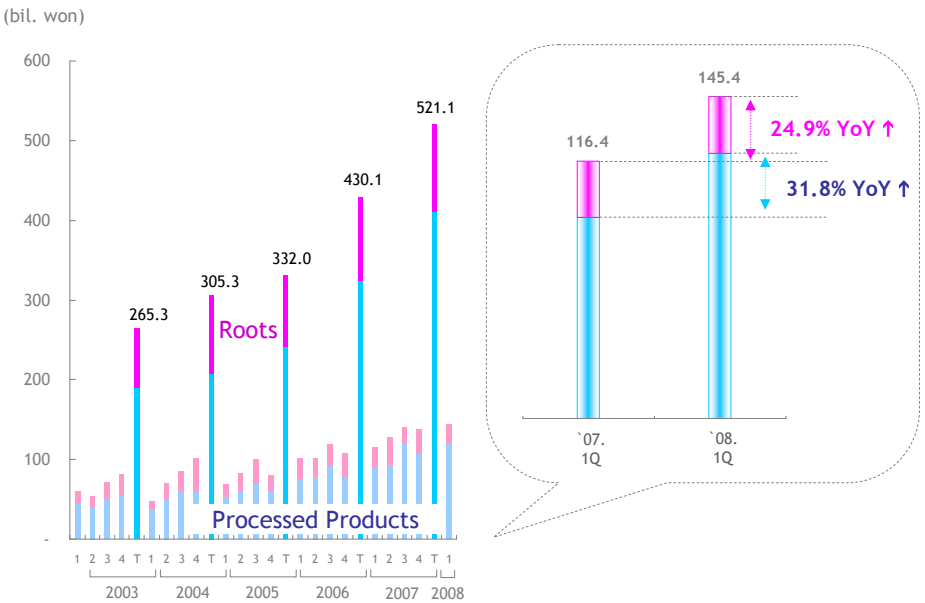
Compared to FY07. 1Q :

- **Sales : Increased 24.9% to 145.4 bil. won**
  - Domestic : Executed CRM-related promotions and expanded distribution network
  - Export : Reinforced marketing in sino-cultural regions and increased sales in emerging markets including South-east Asia

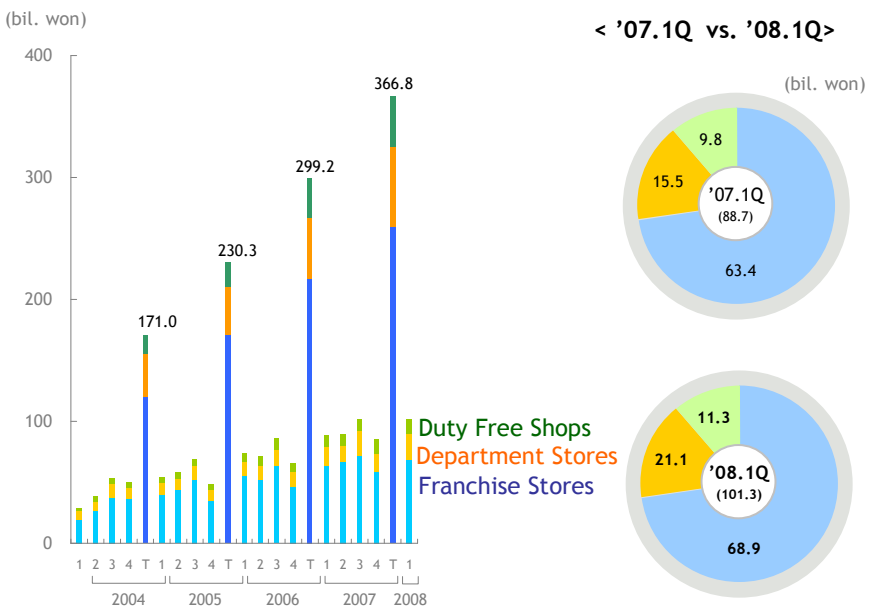
- **Operating profit : Increased 28.6% to 49.5 bil. won**
  - Sales portion of highly value-added products grew
  - Promotion efficiency enhanced via utilizing publicity
    * OP margin: '07 1Q 33.1% → '08 1Q 34.0%, 0.9%p↑

Sales increased 24.9% yoy to 145.4 bil. won

Quarterly Sales



Quarterly sales breakdown by Network

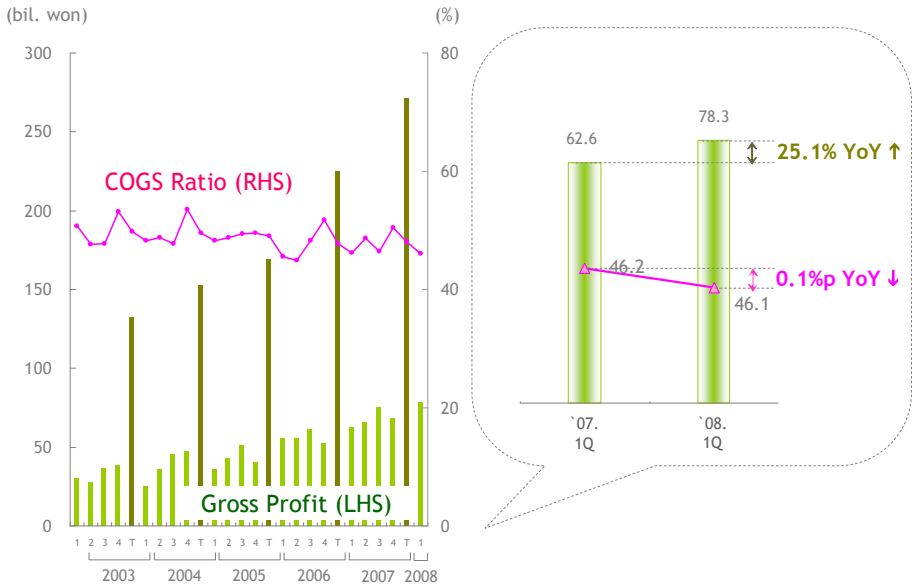


- **Sales growth continued**
  - '07.1Q(116.4 bil. won) vs. '08.1Q(145.4 bil. won), 24.9% ↑
- **Sales portion of strategic products (i.e. pouches, tonics) grew thanks to reinforced marketing**
  - '07.1Q(78.1%) vs. '08.1Q(82.4%) 4.3%p ↑
    (90.9 bil. won) (119.8 bil. won) 31.8% ↑

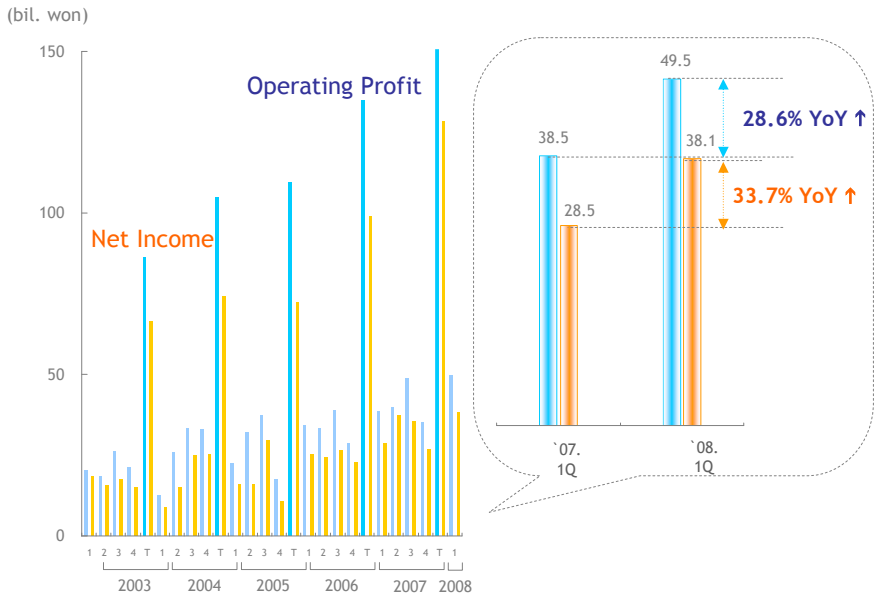
- **Steady growth of main distribution channels led by franchise stores**
  - '07.1Q(88.7 bil. won) vs. '08.1Q(101.3 bil. won) 14.2% ↑
  - Customer base enlarged through new openings of FCS and some relocations of FCS

Gross profit increased 25.1% yoy to 78.3 bil. won

Gross Profit & COGS Ratio



Operating Profit & Net Income



- **Gross Profit**
  - '07.1Q (62.6 bil. won) vs. '08.1Q (78.3 bil. won), 25.1% ↑
- **COGS ratio slightly fell due to depreciation of KRW & expansion of highly value-added product sales portion**
  - '07.1Q (46.2%) vs. '08.1Q (46.1%), 0.1%p ↓

- **Operating Profit**
  - '07.1Q (38.5 bil. won) vs. '08.1Q (49.5 bil. won), 28.6% ↑
- **Net Income**
  - '07.1Q (28.5 bil. won) vs. '08.1Q (38.1 bil. won), 33.7% ↑

Domestic : Increase customer loyalty & expand distribution network / Overseas : Reinforce marketing in main export markets

< Domestic >

Fortify customer-oriented MKT

- Execute target marketing via CRM-based promotions
- Timely launch of new products aimed at creating new demand

Establish growth foundation via distribution network expansion

- Proactive launch of new stores in core & emerging markets
- Expansion of distribution channels including big marts

&

< Overseas >

Reinforce marketing capacities in sino-cultural markets

- Expansion of distribution channel such as department stores, etc.
- Efforts to penetrate new markets with processed products
- Execute localized promotions

Enter into functional health food market in Japan

- Enter into new distribution channel utilizing local F/H food companies
- Propel additional launching in airport duty free shops

→ **Achieve annual target of 620 bil. won**

Details of 2nd Plant Construction

- Purpose : To expand manufacturing capacity for the achievement of '2010 vision' and prepare for future growth such as new business, etc.
- Location : Eumseong-gun, North Chungcheong
- Land size : Approx. 125,000 ㎡
- Investment : Approx. 150 billion won (2008-2010)
- Sales forecast : Approx. 150 billion won by 2010 and will increase to 400 bil. won by 2012
- Manufactured products : Red ginseng and other functional health food products

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(bil. won)	FY03	FY04	FY05	FY06	FY07	1Q.08
Current Assets	1,746.8	2,002.0	2,032.9	1,602.7	1,467.1	1,654.7
Quick Assets	347.6	740.4	907.1	586.2	487.6	673.4
- Cash, Short-term Financial Instruments, Trading Securities	126.5	464.5	574.1	166.9	116.1	206.9
- Accounts Receivables	152.9	225.2	241.3	263.2	294.9	279.0
Inventory Assets	1,399.1	1,261.6	1,125.8	1,016.5	979.5	981.3
Non-current Assets	2,140.3	1,883.0	1,931.5	2,065.6	2,510.7	2,504.9
- Investment Assets	972.1	666.1	692.4	623.7	980.6	977.9
- Tangible Assets	1,165.7	1,214.8	1,236.7	1,344.2	1,409.0	1,396.1
- Intangible Assets	2.5	2.1	2.5	2.1	1.7	1.6
- Sundry non-current Assets	-	-	-	95.7	119.4	129.3
Total Assets	**3,887.0**	**3,885.0**	**3,964.4**	**3,668.4**	**3,977.8**	**4,159.6**
Current Liabilities	487.0	535.3	301.1	345.8	622.7	951.0
- Short-term Borrowings	-	-	-	-	-	-
- Exchangeable Bonds	-	20.1	-	-	-	-
Non-current Liabilities	584.7	135.5	215.3	276.8	213.1	228.6
- Exchangeable Bonds	488.6	-	-	-	-	-
Total Liabilities	**1,071.7**	**670.8**	**516.4**	**622.6**	**835.8**	**1,179.5**
Capital Stock	955.0	955.0	955.0	955.0	955.0	955.0
Capital Surplus	81.1	277.3	300.0	335.4	466.8	470.7
Capital Adjustments	-737.8	-373.7	-326.3	-321.9	-414.9	-227.2
Accumulated Other Comprehensive Income	-	-	-	15.8	1.6	2.0
Retained Earnings	2,517.0	2,355.7	2,519.3	2,061.5	2,133.6	1,779.6
Total Shareholders' Equity	**2,815.3**	**3,214.2**	**3,448.0**	**3,045.8**	**3,142.0**	**2,980.1**
Total Liabilities and Shareholders' Equity	**3,887.0**	**3,885.0**	**3,964.4**	**3,668.4**	**3,977.8**	**4,159.6**

(bil. won)	1Q	2Q	3Q	4Q	FY06	1Q	2Q	3Q	4Q	FY07	1Q.08
Net Sales	**440.6**	**602.0**	**630.8**	**589.2**	**2,262.7**	**515.5**	**645.6**	**634.4**	**617.2**	**2,412.7**	**561.7**
- Cigarette	419.9	574.0	621.8	570.9	2,186.6	503.8	627.8	618.2	592.7	2,342.4	542.0
- Real Estate	10.7	15.7	-	0.5	26.8	0.1	5.9	2.9	10.9	19.8	5.9
- Others	9.9	12.3	9.0	17.9	49.2	11.7	11.9	13.3	13.7	50.5	13.8
COGS	**205.6**	**266.9**	**255.4**	**252.0**	**979.8**	**226.0**	**261.9**	**253.4**	**251.2**	**992.4**	**207.2**
- Cigarette	179.4	239.1	242.7	235.6	896.9	201.1	250.9	240.5	222.3	914.9	199.2
- Others	26.1	27.7	12.7	16.3	82.9	24.9	11.0	12.9	28.9	77.5	8.0
- Depreciation	17.9	17.6	18.2	19.4	73.1	20.1	19.7	19.8	21.3	80.9	20.7
Gross Profit	**235.0**	**335.2**	**375.4**	**337.3**	**1,282.9**	**289.5**	**383.8**	**380.9**	**366.1**	**1,420.2**	**354.4**
SG&A	119.9	134.5	148.5	166.2	569.2	133.1	144.8	147.9	180.3	605.8	147.2
- Depreciation	11.2	12.0	11.4	13.4	48.1	13.5	13.8	13.7	13.5	54.6	13.7
Operating Profit	**115.1**	**200.7**	**226.9**	**171.0**	**713.7**	**156.4**	**238.9**	**233.1**	**185.8**	**814.4**	**207.3**
Non-operating Income	41.5	63.2	47.4	142.6	294.7	50.0	54.2	52.3	47.8	201.4	63.4
- Interest Income	9.7	10.5	11.9	8.3	40.4	9.8	8.5	9.1	10.8	38.2	5.9
- Gain on valuation of equity method investments	25.0	27.2	26.5	21.0	99.7	28.5	37.3	35.6	26.9	128.3	38.7
- Foreign Currency Transaction & Translation Gain	0.4	1.3	1.2	-	2.3	1.4	0.3	0.7	5.2	5.3	11.0
Non-operating Expense	28.0	41.9	24.4	59.1	153.4	21.4	27.8	17.9	44.2	108.7	9.0
- Interest Expense	-	-	-	-	-	-	-	0.1	-	0.1	-
- Foreign Currency Transaction & Translation Loss	4.1	2.4	3.0	2.0	11.0	0.3	2.2	2.3	0.8	3.5	1.3
- Donations	12.4	28.8	8.8	48.9	98.9	6.4	0.4	3.5	14.7	25.0	2.5
Income Before Income Tax	128.6	222.0	249.8	254.5	855.0	185.0	265.3	267.4	189.4	907.1	261.7
Income Tax	32.1	65.9	57.8	49.4	205.3	54.8	67.8	68.9	54.3	245.9	65.6
Net Income	**96.5**	**156.1**	**192.0**	**205.1**	**649.7**	**130.2**	**197.5**	**198.5**	**135.0**	**661.2**	**196.2**

(bil. won)	FY03	FY04	FY05	FY06	FY07	1Q.08
- Current Assets	244.0	253.8	251.8	342.4	403.3	440.9
Quick Assets	85.9	86.3	62.7	92.6	91.8	171.9
Inventory Assets	158.1	167.5	189.1	249.8	311.5	269.0
- Non-current Assets	102.6	120.8	143.0	165.9	230.0	231.3
Investment Assets	61.3	74.3	94.2	5.0	8.8	8.3
Tangible Assets	40.7	45.6	48.0	61.6	103.1	102.9
Intangible Assets	0.6	1.0	0.8	0.7	1.8	1.9
Sundry Non-current Assets	-	-	-	98.6	116.3	118.2
Total Assets	**346.6**	**374.6**	**394.8**	**508.3**	**633.3**	**672.2**
- Current Liabilities	30.7	32.8	28.9	40.8	61.5	123.9
- Non-current Liabilities	8.9	10.7	12.8	16.0	11.9	9.9
Total Liabilities	**39.6**	**43.5**	**41.7**	**56.8**	**73.4**	**133.8**
- Capital Stock	164.9	114.9	64.9	64.9	64.9	64.9
- Retained Earnings	142.1	216.2	288.6	387.5	495.8	474.0
- Accumulated Other comprehensive Income	-	-	-0.4	-0.9	-0.8	-0.5
Total Shareholders' Equity	**307.0**	**331.1**	**353.0**	**451.5**	**559.9**	**538.4**
Total Liabilities and Shareholders' Equity	**346.6**	**374.6**	**394.8**	**508.3**	**633.3**	**672.2**

(bil. won%)	FY06					FY07					1Q.08
	1Q	2Q	3Q	4Q		1Q	2Q	3Q	4Q		
Sales	**101.8**	**101.1**	**119.0**	**108.2**	**430.1**	**116.4**	**126.8**	**139.9**	**138.0**	**521.1**	**145.4**
- Red Ginseng Roots	25.1	22.7	26.5	31.6	105.8	25.5	33.8	19.7	31.2	110.1	25.6
- Processed Products	76.7	78.4	92.5	76.6	324.3	90.9	93.0	120.2	106.8	411.0	119.8
(%)	(75.3)	(77.5)	(77.7)	(70.8)	(75.4)	(78.1)	(73.3)	(85.9)	(77.4)	(78.9)	(82.4)
COGS	**46.4**	**45.3**	**57.5**	**56.1**	**205.3**	**53.8**	**61.6**	**65.1**	**69.6**	**250.1**	**67.1**
Gross Profit	**55.4**	**55.8**	**61.5**	**52.1**	**224.8**	**62.6**	**65.2**	**74.8**	**68.4**	**271.0**	**78.3**
SG&A	21.2	22.5	22.5	23.6	89.8	24.1	25.3	25.9	33.3	108.5	28.8
Operating Profit	**34.2**	**33.3**	**39.0**	**28.5**	**135.0**	**38.5**	**39.9**	**48.9**	**35.1**	**162.5**	**49.5**
Non-operating Income	0.9	1.3	1.7	2.9	6.8	1.7	12.0	3.9	1.4	19.0	3.1
Non-operating Expense	0.5	0.8	4.9	-	6.2	0.8	0.4	4.8	0.9	6.9	1.0
Income before Income Tax	34.7	33.7	35.8	31.3	135.6	38.5	51.5	48.0	35.6	174.6	51.6
Net Income	**25.3**	**24.4**	**26.4**	**22.8**	**98.9**	**28.5**	**37.3**	**35.6**	**26.9**	**128.3**	**38.1**

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