

2010 1Q KT&G Conference Call Presentation Script

Good Afternoon (or 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, General Manager of KGC, and other KT&G IR members are joining this call.

1Q business results recorded lower figures compared with the same period of last year, due to sales decrease of domestic cigarette and real estate businesses.

Going forward, KT&G will make its best efforts to achieve a better business performance.

I will proceed with this presentation by reviewing business results on consolidated and separate basis followed by explaining our key business plans going forward.

Now, let me begin by introducing the overview of the consolidated results on page 4.

Consolidated 1st Quarter sales decreased 9% yoy to 780.9bil. Won.

While KGC sales greatly went up, underperforming of domestic cigarette sales and a big drop of real estate development sales led to overall sales decrease.

Especially, real estate sales notably reduced in this quarter, because significant amount of revenue from Jeon-Joo and Dae-Jeon property development reflected in 1Q of 09.

Consolidated 1Q OP and Net Income declined by 27% and 30% yoy each.

Higher drop of profit compared with sales decrease is mainly attributable to the increase of operating expenses driven by the appreciation of Korean Won.

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

First, we are going to start with KT&G's 1st quarter results on page 7.

Overall KT&G's results in Q1, from sales to profits, dropped yoy.

KT&G's 1Q net sales went down 20% yoy.

Especially, this quarter real estate sales recorded significantly lower yoy due to high booking amount of sales from property development in 1Q last year by adopting IFRS in 2009.

And, OP and NI declined by 36% and 30% yoy each due to the increase of operating expenses.

Next slide is about the domestic cigarette business.

Total domestic market in the first quarter dropped by 9% yoy.

KT&G's volume contracted 15% yoy, driven by total market and M/S drop.

However, the decrease of KT&G sales amount was a little lower than volume drop thanks to the increase of Net ASP growth.

On the other hand, KT&G' domestic M/S slightly recovered from 4th quarter last year.

KT&G's premium portion in Q1 increased about 1%p yoy to 71%.

Net ASP in Q1 also grew 2% yoy to 663won/pack, recording historical-high.

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

Now we are turning to export business.

Export volume in Q1 dropped 8% yoy due to sales drop in main markets.

Despite volume drop and huge Korean Won appreciation, export revenue decline rate was relatively low at 3% yoy, mainly driven by big jump on USD ASP.

In 1st quarter, dollar ASP showed strong and robust growth owing to normalization of export in

Russia where export volume of ESSE was very small in 1Q last year due to undersupply of import stamps.

Let us take a look at detailed regional export results.

While export in main markets such as Middle East and Central Asia drastically dropped, sales in Russia showed very strong growth.

Also, export contribution to total sales is on the steady rise.

We are going to move on to the profitability side.

1Q gross profit decreased 18% yoy caused by sales drop in real estates and domestic cigarette.

OP dropped 36% yoy due to hike of operating expense from F/X related loss.

K-GAAP based OP, excluding impact of F/X related factors and others, decreased by 24% yoy, relatively lower than OP drop rate under IFRS.

Let us take a closer look at profitability.

While 1Q SG&A cost went down 7% yoy, other operating expenses greatly jumped up due to the drop of F/X related gains and the increase of F/X losses.

Accordingly, NI and CI have dropped in 1Q.

Next we will go over the 1st quarter results of Korea Ginseng Corp., KGC.

Despite sluggish domestic economy, KGC has achieved 23% of high growth in sales.

However, profitability dropped a little bit as a result of increased operating expenses including marketing cost.

Let's move on to the next slide, Sales Analysis, on page 15.

The 1st quarter sales showed 203.6bil won, up 23% yoy.

Sales of high margin processed products recorded 27% increase yoy, leading the overall sales growth.

In terms of distribution channels, quite strong growth in department store, duty free shop, home shopping, etc, played major role in overall sales growth.

Next slide is about profitability of KGC.

1Q GP rose by 24% yoy, thanks to improvement of COGS ratio from sales growth of red ginseng processed products.

However, OP increased only about 11% yoy due to the increase of marketing expense because of fierce market competition.

Going forward, for maintaining high growth trend, we will put our best efforts.

Next slide is about our Key business Plan.

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.

First, for domestic cigarette business, we will put the top priority on defending our market. To this end, we are going to establish global pipe-line through strategic alliance with global players, and also reshuffle current brand portfolio.

In terms of overseas cigarette business, we will establish strategic partnership and reset the roles in main markets. In new markets such as South East Asia, Central and South America, KT&G will be better placed by enhancing pre-emptive investment for mid-long term growth.

Next is about ginseng business.

For domestic business, we will secure solid customer confidence and loyalty to 'Cheong Kwan Chang' brand based on product safety and will try our best to obtain competitive advantages to be a global total healthcare enterprise.

For export, we will organize new teams to strengthen overseas business and rationalize distribution channels and will proactively implement plans for direct producing and selling in Sino-cultural markets.

Additionally, for non-ginseng business, KGC will enhance investment in brands and initiate exclusive franchise system to develop this business as a future growth engine.

Lastly, for dividend policy, KT&G will continue high dividend stance by maintaining at least last year's DPS.

Thank you for sparing time with us.

Now we are going to have Q&A session.