

## The Korea Fund

**Terrence S. Gray, CFA, Managing Director**

**April 2006**

# Investment Objective:

## **The Fund seeks long-term capital appreciation through investment in Korean securities.**

Closed end funds, unlike open end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed end funds are sold in the open market through a stock exchange. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the fund's shares is determined by a number of factors, several of which are beyond the control of the fund. Therefore, the fund cannot predict whether its shares will trade at, below or above net asset value.

Foreign security markets generally exhibit greater price volatility and are less liquid than the US market. Additionally, this fund focuses its investments in certain geographical regions, thereby increasing its vulnerability to developments in that region and potentially subjecting the fund's shares to greater price volatility.

References to securities, transactions and holdings should not be considered a recommendation to purchase or sell a particular security and there is no assurance, as of the date of publication, that the securities remain in the portfolio. Additionally, it is noted that the securities or transactions referenced do not represent all of the securities purchased, sold or recommended during the period referenced and there is no guarantee as to the future profitability of any of the securities identified and discussed herein. We or our affiliates or persons associated with us, or such affiliates (associated persons) may maintain a long or short position in securities referred to herein, or in related futures or options; purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing.

# Korea Fund Performance

**Past performance is not a guarantee of future results. Investment return and principle value will fluctuate so that shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. Visit <http://www.cef.scudder.com> or call 1-800-349-4281 for the fund's most recent performance. Returns less than one year are cumulative.**

**Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market value reflects changes in market value. Each figure assumes that dividend and capital gains, if any, were reinvested. These figures will differ depending upon the level of any discount from or premium to NAV at which the fund's share traded during the period.**

# NAV vs Market Price

August 31, 1984 – February 28, 2006

**FUND PREMIUM/DISCOUNT** Page 1/10  
 Range **8/31/84** - **2/28/06** Period **Monthly** Currency USD  
**KF UN** Korea Fund Inc/The

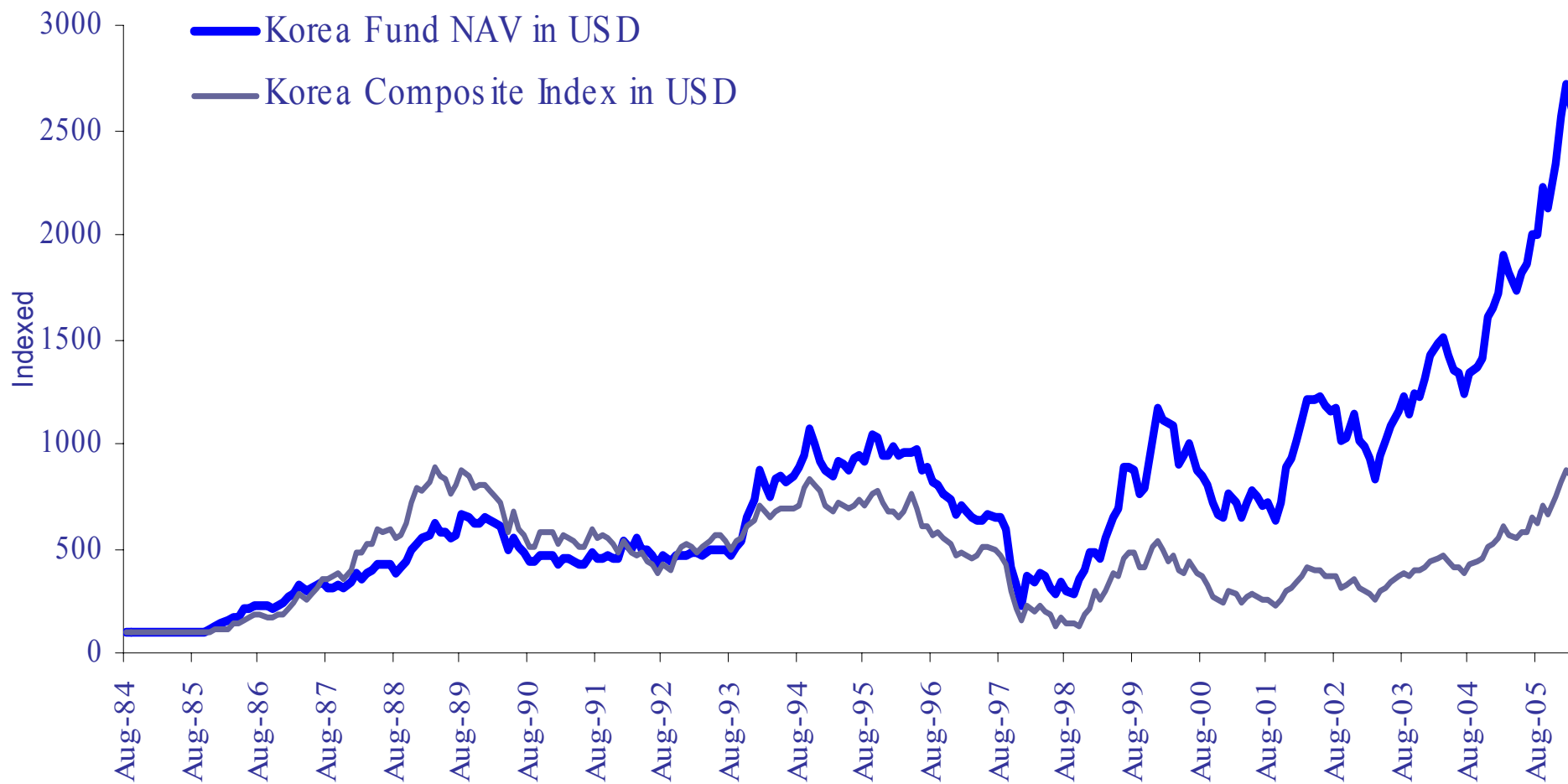


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 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000  
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Source: Bloomberg

Past performance is no guarantee of future result. Net asset value (NAV) is total assets less total liabilities divided by the number of shares outstanding.

## Indexed NAV vs KOSPI since inception



Past performance is no guarantee of future result.

Net asset value (NAV) is total assets less total liabilities divided by the number of shares outstanding.

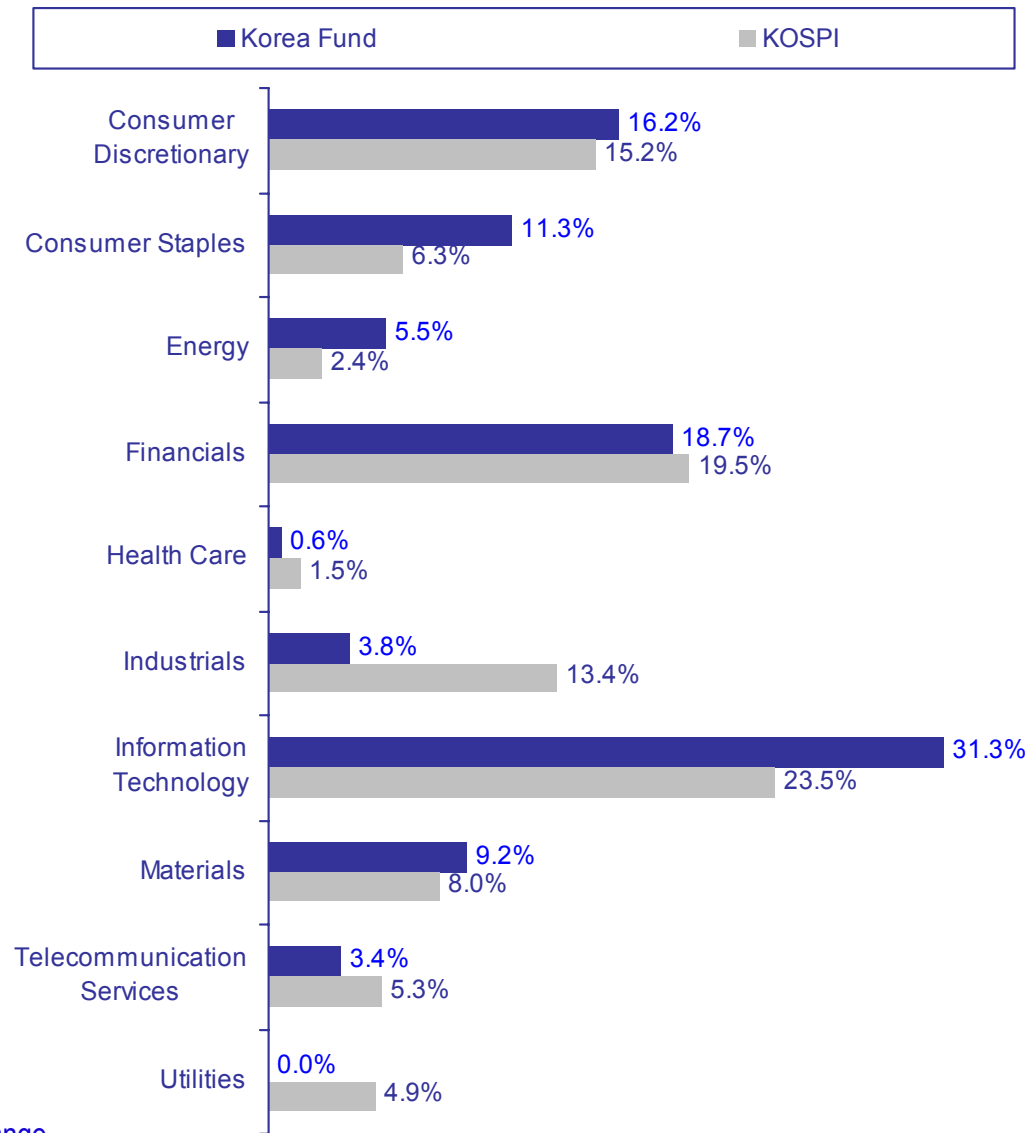
## Top 10 Holdings as of February 28, 2006

Security	Description	Fund (% equity)	KOSPI (% equity)
Samsung Electronics	World's largest producer of memory chips. Major producer of TFT-LCD screens and cellular handsets.	22.05	15.57
Samsung Fire & Marine Insurance	Largest provider of domestic non-life insurance.	8.43	0.94
Hyundai Motor	Global manufacturer of passenger trucks, cars and commercial vehicles.	6.95	2.80
POSCO	Leading global steel producer.	5.80	3.09
Kookmin Bank	Offers commercial banking services, credit cards, trust funds, foreign exchange and corporate finance.	4.64	3.86
S-Oil	Crude oil refiner selling petroleum and related products.	4.02	1.21
Shinsegae	Operates department stores and E-Mart discount stores.	3.33	1.34
SK Telecom	Korea's largest mobile phone service provider.	3.32	2.56
Hankook Tire Manufacturing	Develops and manufactures radial tires for passenger cars, light trucks, trucks, and buses.	3.16	0.29
Seoul Semiconductor	Manufacturer of diodes, transistors and other semiconductor products.	2.26	--
<b>Total</b>		<b>63.96</b>	<b>31.66</b>

*Portfolio holdings subject to change.*

# Portfolio Construction

## Sector Distribution as a % of Total Equity (as of February 28, 2006)



Sector allocations are subject to change

# Establishing global industry peer groups

## Korean vs. global market peers

Sector	Korean Companies	Global Mkt Peers
PC FOOD CHAIN/ELEC MFG	Samsung Electronics LG Electronics SE Co., Ltd. Samsung SDI	STMicro-electronics Intel ASML IBM HP MU Dell
DIV. METALS & MINING	Korea Zinc	Rio Tinto BHP Billiton CVRD Anglo American
MOBILE/FIXED LINE	KT Corp. SK Tel KT Freetel Telmex Hanaro Tel	Vodafone Deutsche Telekom Telecom Italia British Tel AMX Telmex China Mobile
FINANCIAL SVCES	Kookmin Bank Hanna Bank Shinhan Daegu Roosan	Barclays Credit Lyonnais DBK Unicredito
STEEL	Posco	Arcelor Nucor TISCO

Sector	Korean Companies	Global Mkt Peers
PHARMA	Yuhan	Aventis Glaxosmith Altana Novartis Dr. Reddy's Labs Ranbaxy
BUILDING MATERIALS	Sungshin Cement	Holcim Cemex Siam Cement
AUTOS	Hyundai Motor Kia Motors	Honda Nissan Volkswagen DCX Ford Hero Honda
TOBACCO	KT&G	BAT ITC
CHEMICALS	LG Chemical Hanwha Honam	BASF DSM Dow Chemical Reliance Ind Formosa Plastics Taiwan Styrene Monomer
BEVERAGES	Hite Brewery	Anheuser Busch Ambev

Not indicative of holdings in the fund, and is meant to illustrate Korean companies in the global market.

# Special Situations Investing

## Hana Tour Services



## Business Description

- Primary Business: Korea's leading travel tour operator
- Mkt Cap: \$650 million
- Earnings Drivers: Increasing outbound tourism traffic

## Variant Perception

- Under-researched company with 25% plus earnings growth for the next three years.
- Strong brand recognition and superior IT systems set them apart from competition.
- Leisure class is an unexplored theme in the stock market

## Catalysts

- Next Earnings Date: May 2006
- Rising tourism traffic
- Increasing online sales and growing economies of scale are leading to improved margins

Source: Bloomberg, FactSet, DeAM

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# Strategy and Outlook

## **Global Branding on the rise**

- We continue to identify companies building strong brand awareness
- Examples include Samsung Electronics, Hankook Tire and Hyundai Motors

## **Domestic Consumption recovery**

- Korean economy gaining strength & benefiting the consumer
- Retail, travel & food products are seeing strong growth in sales

## **Local Institutions are returning to the equity market**

- Equity funds have been attracting \$1billion inflows per month
- Corporate pension reforms and the emergence of 401k will dramatically alter the asset allocation mode in Korea

# Korean Companies = Global Brands

**THE BIG WINNERS**

High tech and finance got it right in this year's ranking. America's electronic flea market, eBay, has ended up on top, a few rungs above Apple. Samsung repeats from last year, as does HSBC. Joining the megabank is financial powerhouse UBS.

RANK 2005	BRAND	2005 BRAND VALUE (BILLIONS)	2004 BRAND VALUE (BILLIONS)	PERCENT CHANGE
55	<b>EBAY</b>	\$5.70	\$4.70	+21%
29	<b>HSBC</b>	10.43	8.67	+20
20	<b>SAMSUNG</b>	14.96	12.55	+19
41	<b>APPLE</b>	7.99	6.87	+16
44	<b>UBS</b>	7.57	6.53	+16

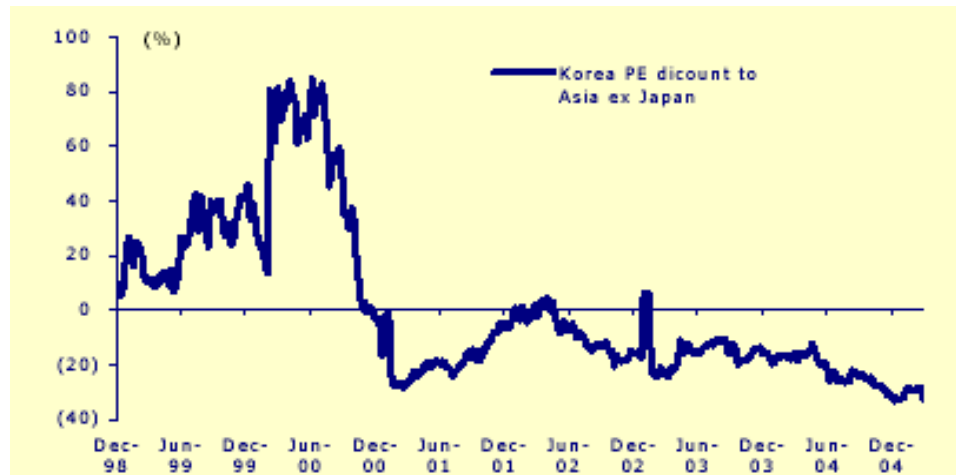
“Over the past five years, No. 20 Samsung has posted the biggest gain in value of any Global 100 brand, with a 186% surge. Even sweeter, last year Samsung surpassed No. 28 Sony, a far more entrenched rival that once owned the electronics category, in overall brand value. Now, in a nod to Samsung, Korean electronics concern LG Electronics Inc. has followed its rival's playbook. Cracking this year's global list for the first time at No. 97, LG has also sought to elevate its product under a single brand led by phones and TVs.”

Source: Business Week, August 1, 2005

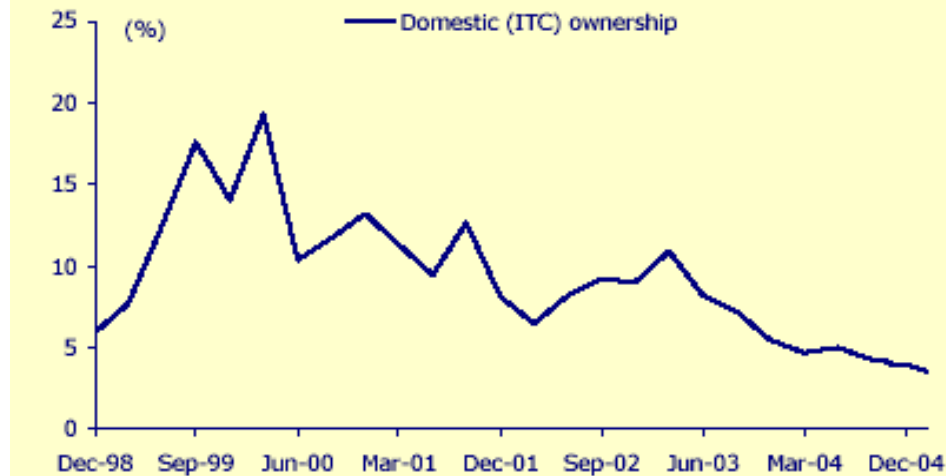
Source: Interbrand Corp., JPMorgan Chase, Citigroup, Morgan Stanley

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# Absence of domestic equity culture is primary cause of Korean Discount



Source: CLSA Asia-Pacific Markets



Source: CLSA Asia-Pacific Markets

- Korean discount is a relatively new phenomenon
- Whilst high profile CG scandals of recent years have played their part, we believe the discount can be largely attributed to the great Korean equity sell-off of the last 4.5 years
- Renewed domestic interest will substantially narrow the “Korean” discount

The top slide compares the Korean Market (represented by the KOSPI/KOSDAQ listed funds) against Asia ex Japan (represented by MSCI Asia ex Japan Index). The bottom slide shows domestic ownership in the Korean markets.

# Listed Korea is even more impressive\*

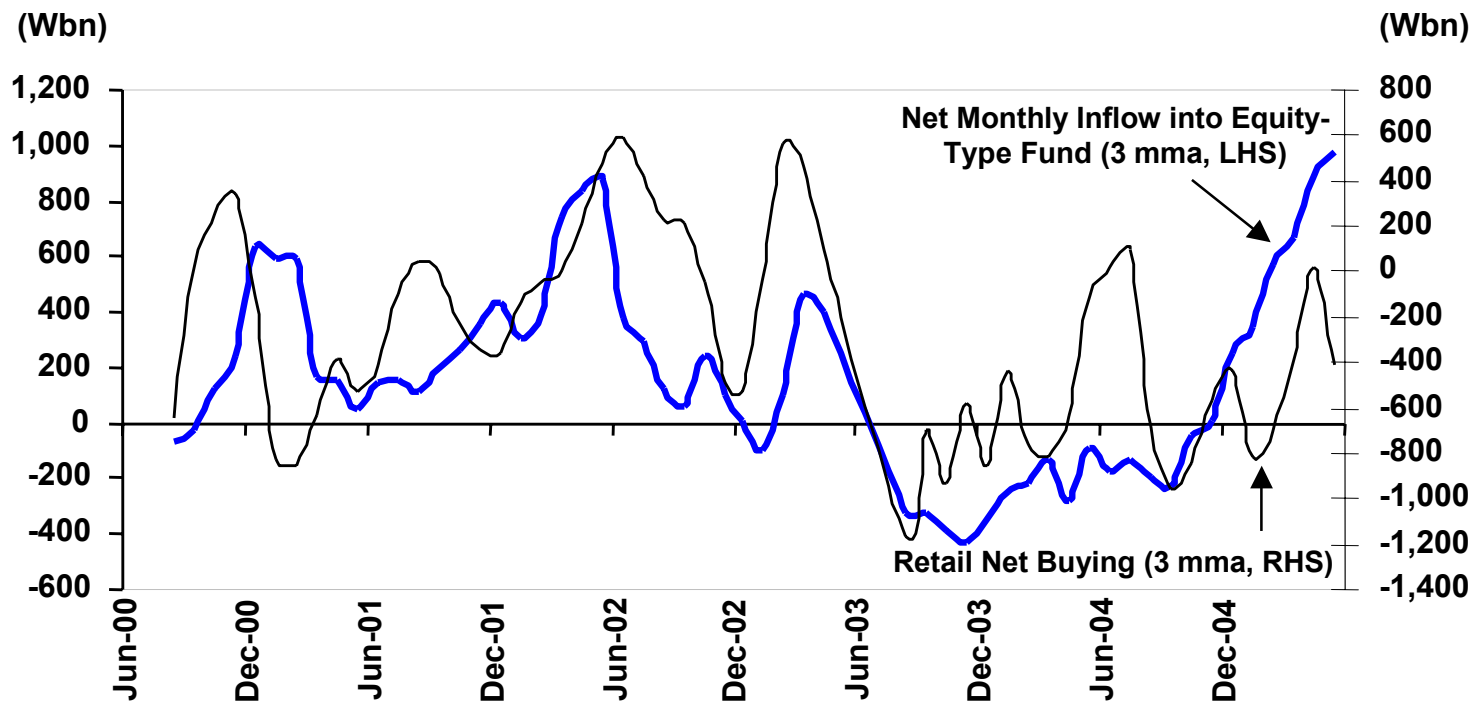
## SUMMARY CASH FLOW FORECAST(US\$m)

Year Ending	Dec99	Dec00	Dec01	Dec02	Dec03	Dec04	Dec05	
<b>Operating income</b>	<b>13,196</b>	<b>24,089</b>	<b>15,874</b>	<b>23,552</b>	<b>29,711</b>	<b>41,786</b>	<b>43,752</b>	OP tripled from 99-04
Depreciation	14,151	17,360	17,124	18,629	20,642	22,160	29,485	
Working capital changes	1,265	(1,903)	(1,548)	5,184	(2,580)	(7,868)	510	Stabilising in FY06 as raw mat. costs stabilise
Others	(1,498)	2,990	4,318	766	3,497	2,038	1,893	
<b>Operating cashflow</b>	<b>27,115</b>	<b>42,536</b>	<b>35,767</b>	<b>48,132</b>	<b>51,270</b>	<b>58,116</b>	<b>75,641</b>	Cashflow to jump 30% in Fy06
Net interest inc (exp)	(5,662)	(7,354)	(6,253)	(3,955)	(3,292)	(2,252)	(2,149)	Financing costs down 70% since 2000
Tax received (paid)	(2,177)	(5,150)	(4,052)	(5,759)	(5,864)	(9,628)	(11,394)	
Dividends received	160	116	63	80	81	296	42	
<b>Cash flow</b>	<b>19,435</b>	<b>30,148</b>	<b>25,525</b>	<b>38,498</b>	<b>42,195</b>	<b>46,533</b>	<b>62,140</b>	
Dividends paid	(826)	(1,866)	(2,086)	(2,423)	(3,665)	(6,081)	(7,137)	Dividends up 7-fold in 5 years
Capex	(24,229)	(34,804)	(19,971)	(23,328)	(26,519)	(31,865)	(41,534)	Capex reduced from 2x OP to about 90%.
Others	(4,125)	(2,296)	(2,361)	(6,824)	(5,579)	838	(1,039)	Drain from affiliates eased in 2004
<b>Net cash flow</b>	<b>(9,745)</b>	<b>(8,817)</b>	<b>1,107</b>	<b>5,922</b>	<b>6,432</b>	<b>9,426</b>	<b>12,429</b>	
Shares Issued	20,055	1,943	6,603	1,445	2,651	961	155	<10% of avge equity has been raised since '99
Exch rate movements	753	(1,620)	(417)	799	344	1,733	5	
<b>Net debt change</b>	<b>11,062</b>	<b>(8,494)</b>	<b>7,293</b>	<b>8,167</b>	<b>9,427</b>	<b>12,120</b>	<b>12,590</b>	
<b>Close net (debt)/cash</b>	<b>(56,979)</b>	<b>(71,202)</b>	<b>(62,193)</b>	<b>(60,778)</b>	<b>(50,980)</b>	<b>(45,095)</b>	<b>(34,427)</b>	
<b>Valuations</b>								
Price-to-Free Cashflow	18.9	15.6	17.1	12.0	13.8	12.2	10.3	
Core PER (x)	25.4	19.0	23.7	15.2	14.0	8.0	7.8	
Core PER relative to Asia (x)	1.12	0.99	1.03	0.75	0.86	0.72	0.75	From 12% premium to 25% discount
Price-to-Book	2.4	2.5	2.6	2.7	1.9	1.4	1.2	PB (x) has halved whilst ROE has risen 50%
Dividend Yield	0.7	0.9	0.7	0.9	1.6	2.5	3.2	
Payout ratio (%)	19.1	27.3	59.7	18.9	25.3	20.3	25.4	Still much room for improvement
<b>Growth</b>								
Revenue growth (%)	42	93	(11)	17	5	24	20	
Ebitda growth (%)	39	52	(20)	26	19	27	15	
EPS growth (%)	152	54	(21)	72	9	67	2	
<b>Margins</b>								
Ebitda margin (%)	23.1	18.2	16.7	17.7	20.2	20.7	19.9	EBITDA margins do not look unsustainable
Core margin (%)	7.5	6.7	5.8	8.0	8.1	11.2	9.5	
<b>Returns</b>								
ROE (%)	10.5	11.2	4.6	12.4	12.7	18.6	15.9	ROE > COE for last 3 years
ROCE (%)	10.6	10.4	3.2	12.3	12.6	18.7	15.8	
Gearing	56.4	66.6	55.8	45.5	34.2	22.8	14.7	Gearing down to 15%

\*Listed Korea stocks represent stocks held on the KOSPI and KOSDAQ

# Local Fund Flow Has Driven Stock Re-rating

## Retail Net Buy vs Net Monthly Inflow into Equity-Type Fund



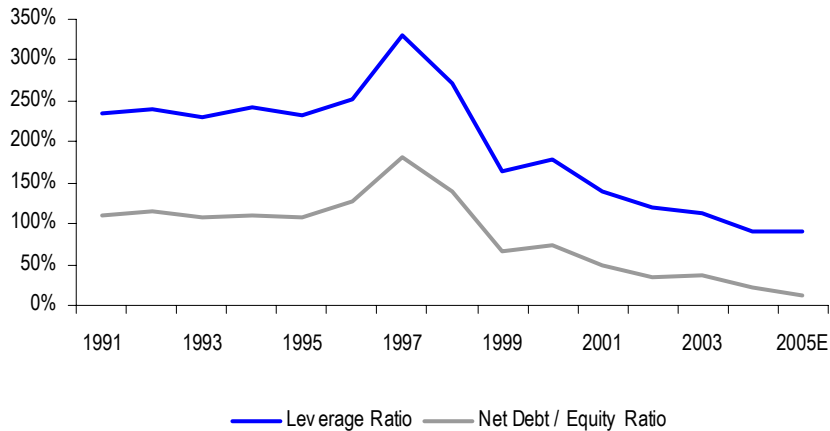
Source: Asset Management Associate of Korea, Datastream

## Groundwork has been laid to achieve global valuations

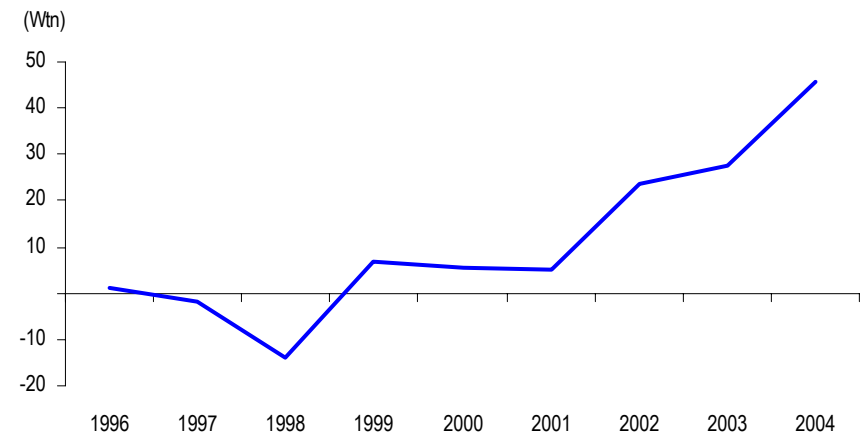
- ✓ Structural imbalances that plagued Korea have been unwound as a result of the Asian financial crisis, the IT bubble and the consumer credit bubble.
- ✓ The Korean equity market is dominated by value-creating, globally competitive companies trading at discounts to global peers.
- ✓ Corporate governance renaissance has driven a shareholder friendly culture.
- ✓ Policy reform initiatives are creating a more robust institutional equity class.

# Groundwork has been laid to achieve global valuations, but . . .

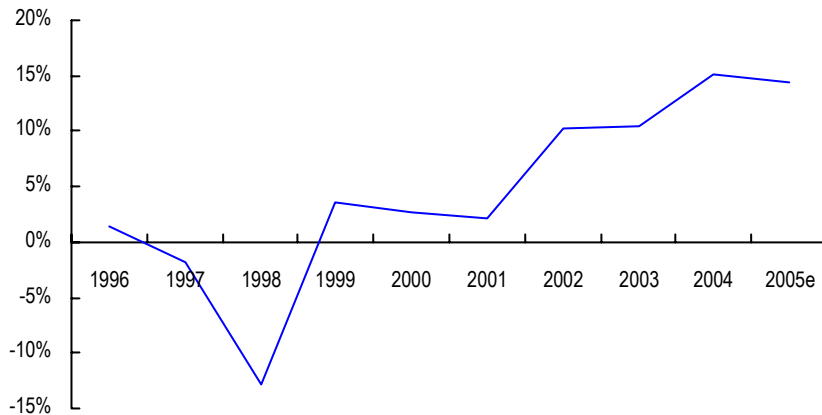
## Successful De-Leveraging



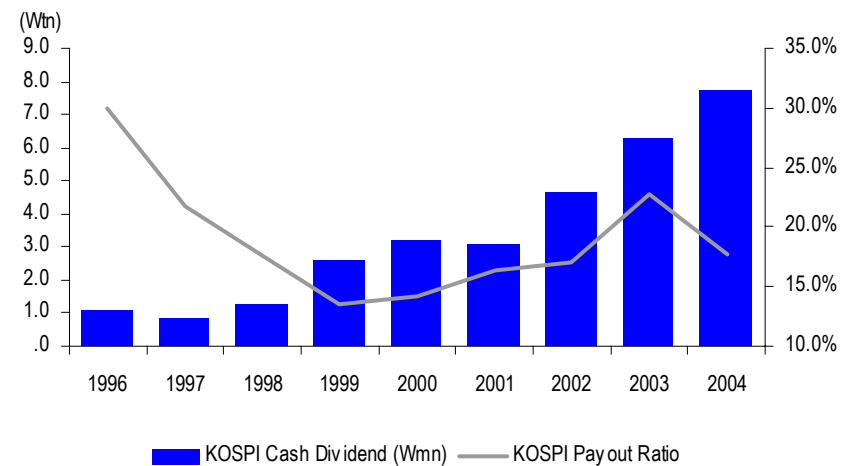
## Earnings on Secular Upward Trend



## ROE of KOSPI Approaching 20%



## Surging Dividend Payout Ratios



Source: WiseNet from Merrill Lynch

... the market has failed to price this in.

	PE(x)		PB(x)		PCF(x)		EPS Growth(%)		ROE(%)		Div Yield (%)	
	2005E	2006E	2005E	2006E	2005E	2006E	2005E	2006E	2005E	2006E	2005E	2006E
<b>Korea</b>	<b>10.6</b>	<b>8.9</b>	<b>1.6</b>	<b>1.4</b>	<b>6.2</b>	<b>5.5</b>	<b>4.9</b>	<b>18.6</b>	<b>16.4</b>	<b>18.2</b>	<b>2.2</b>	<b>2.7</b>
<b>HK</b>	16.8	14.6	1.5	1.5	20.7	14.2	22.4	15.0	11.9	10.2	3.5	3.8
<b>Singapore</b>	15.1	13.8	1.7	1.6	8.7	8.8	7.1	9.3	11.9	12.2	6.2	3.9
<b>Taiwan</b>	15.4	11.8	1.9	1.8	9.5	8.4	-18.0	30.5	12.6	15.4	3.8	4.0
<b>Malaysia</b>	14.8	13.2	1.8	1.8	9.1	8.8	10.2	12.1	11.1	14.0	4.7	4.6
<b>MSCI Asia Free</b>	14.4	12.5	1.9	1.7	8.8	7.8	8.1	14.5	14.3	14.9	1.7	1.8
<b>MSCI GEMS</b>	12.3	10.7	2.1	1.9	8.0	7.3	11.3	14.6	23.9	24.5	3.0	3.2
<b>MSCI AC World</b>	15.4	13.8	2.5	2.3	7.8	9.2	11.7	11.9	17.2	17.7	2.2	2.3

Source: CLSA Evaluator, MSCI, IBES

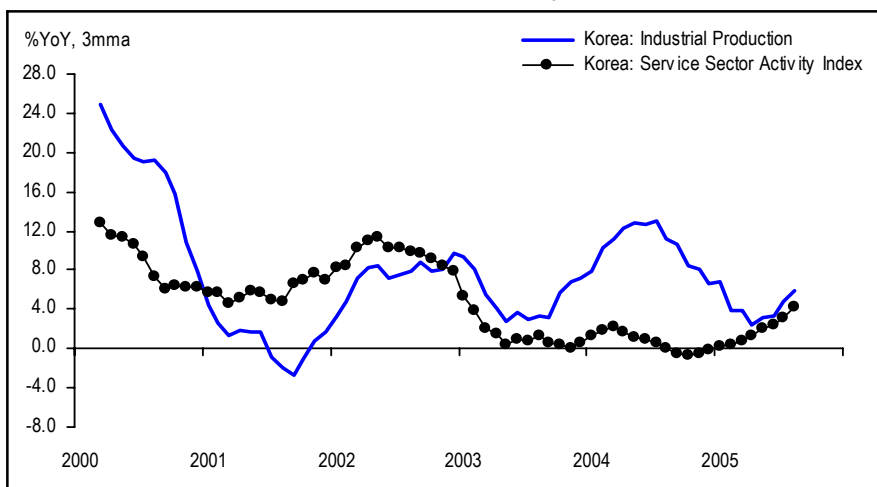
Past performance in no guarantee of future results

## Korean Macro Economic Overview

- Recent turnaround in GDP and export numbers demonstrate a gradual recovery into 2006
- Domestic demand has been improving over the past year and we expect this to continue
- Interest rates will rise at a measured pace that will support sustained economic growth

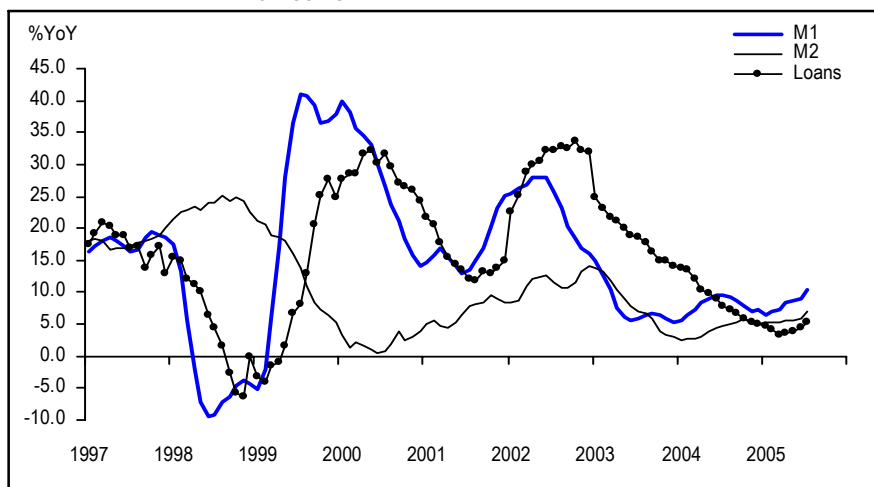
# Korean Macro Economic Overview

**Chart 1: Industrial Production and Service Sector Activity**



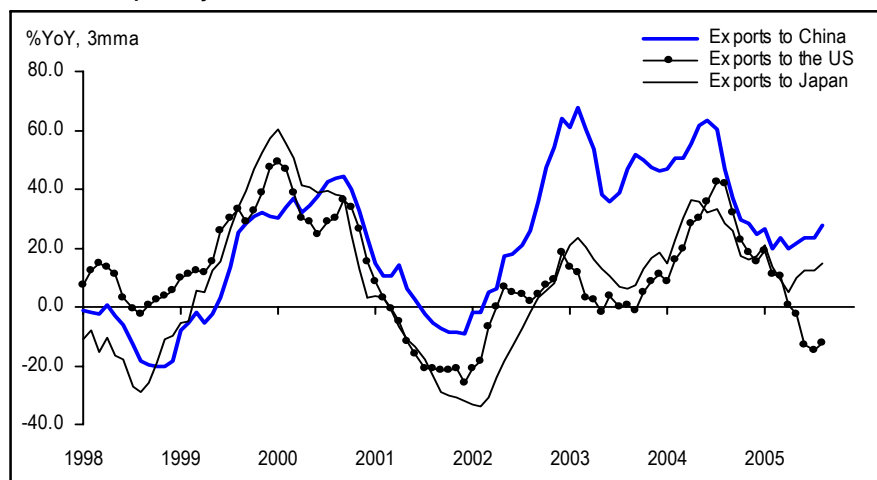
Source: CEIC, Merrill Lynch calculations.

**Chart 3: Korea—Monetary Aggregates**



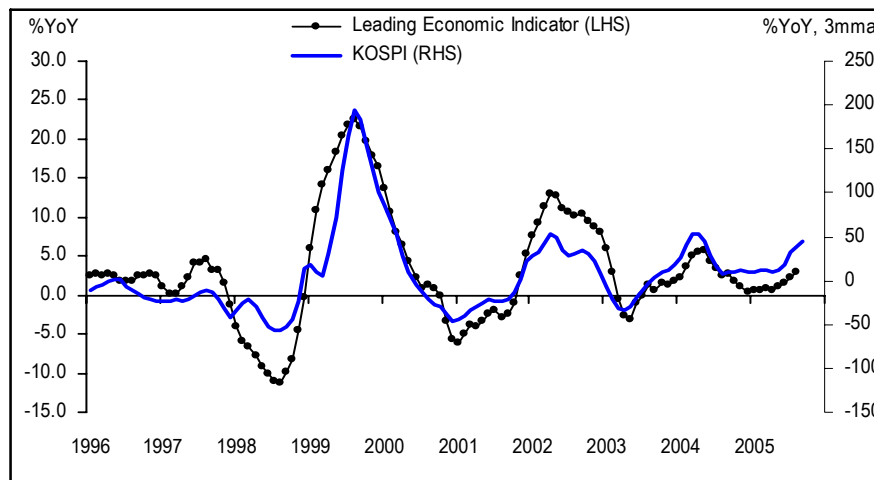
Source: CEIC, Merrill Lynch calculations.

**Chart 2: Exports by Destination**



Source: CEIC, Merrill Lynch calculations.

**Chart 4: The Leading Indicator and the KOSPI**



Source: CEIC, Merrill Lynch calculations.

## Important Notes

*Fund shares are not FDIC-insured and are not deposits or other obligations of, or guaranteed by, any bank. Fund shares involve investment risk, including possible loss of principal.*

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*Investment return and principal value will fluctuate so that when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the figures shown. Please visit [www.cef.scudder.com](http://www.cef.scudder.com) for the fund's most recent performance*

Performance assumes reinvestment of dividends and capital gain

*For More Information Please call:*

**800-349-4281**

*Or*

*Visit us on the web at [www.cef.scudder.com](http://www.cef.scudder.com)*

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