Korea Tomorrow & Global

KT&G CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2009, December 31, 2008 and January 1, 2008

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Directors and Shareholders
KT&G Corporation:

We have audited the accompanying consolidated financial statements of KT&G Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2009, December 31, 2008 and January 1, 2008, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years all of which ended December 31, 2009 and 2008.

Management's responsibility
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards.

Our responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

Scope of Audit
We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Audit Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KT&G Corporation and its subsidiaries as of December 31, 2009, December 31, 2008 and January 1, 2008 and the results of its operations, the changes in its equity and its cash flows for the years all of which ended December 31, 2009 and 2008 in conformity with Korean International Financial Reporting Standards.

The accompanying consolidated financial statements as of and for the year ended December 31, 2009 have been translated into United States dollars solely for the convenience of the reader. We have reviewed the translation and, in our opinion, the consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in note 3 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 31 to the consolidated financial statements, the Group and the Korean government are defendants in lawsuits claiming damages of ₩584 million for the effects of smoking. The final outcome of these lawsuits cannot be predicted. Accordingly, no provisions have been made in the accompanying consolidated financial statements.

As discussed in note 31 to the consolidated financial statements, the Group maintains a contract with the farmers under which they are to grow green ginseng and, once the product becomes six years old, sell the ginseng to the Group. The amount paid to the farmers in accordance with the contract is recognized in long-term advance payment and advance payment.

As discussed in notes 2 and 36 to the consolidated financial statements, the Group has early-adopted Korean International Financial Reporting Standards as prescribed in the Act on External Audit of Corporation from 2009. Accordingly, the prior period consolidated financial statements presented for comparative purposes have been restated in accordance with Korean International Financial Reporting Standards No.1101 *First-time Adoption of Korean International Financial Reporting Standards*.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 11, 2010

This report is effective as of February 11, 2010, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

KT&G CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Position

As of December 31, 2009, December 31, 2008 and January 1, 2008

In millions of Won and thousands of U.S. dollars	*Note*	2009 Korean Won	2009 U.S. dollars (note 3)	2008 Korean Won	January 1 2008 Korean Won
Assets					
Property, plant and equipment	*5, 14*	₩ 1,471,555	$ 1,260,325	₩ 1,503,991	₩ 1,465,723
Intangible assets	*6*	55,700	47,705	51,934	47,507
Investment property	*7, 14*	104,115	89,170	107,330	110,559
Equity accounted investment	*4, 8*	1,584	1,357	1,270	1,088
Available-for-sale financial assets	*4, 9, 30*	442,083	378,625	302,121	252,672
Other financial assets	*14, 30*	286	245	6	47
Long-term deposits in MSA Escrow Fund	*10, 30, 31*	118,121	101,166	110,261	66,633
Long-term advance payments	*31*	133,362	114,219	118,240	95,711
Long-term prepaid expenses		6,412	5,491	6,283	2,580
Long-term trade and other receivables	*11, 30*	130,047	111,380	138,379	149,828
Deferred income tax assets	*27*	8,169	6,996	7,109	3,355
Total non-current assets		2,471,434	2,116,679	2,346,924	2,195,703
Inventories	*12*	1,509,079	1,292,462	1,558,885	1,337,318
Current available-for-sale financial assets	*4, 9, 30*	1,957	1,676	2,149	92
Current other financial assets	*30*	926	793	1,715	2,619
Prepaid tobacco excise and other taxes		169,440	145,118	201,774	164,376
Trade and other receivables	*11, 30*	600,804	514,563	633,640	482,077
Advance payments	*31*	43,614	37,355	30,989	23,718
Prepaid expenses		11,805	10,110	3,701	7,549
Cash and cash equivalents	*13, 30*	316,672	271,216	110,245	146,218
		2,654,297	2,273,293	2,543,098	2,163,967
Asset held for sale	*4, 14, 32*	46,152	39,527	22,907	22,956
Total current assets		2,700,449	2,312,820	2,566,005	2,186,923
Total assets	*4*	₩ 5,171,883	$ 4,429,499	₩ 4,912,929	₩ 4,382,626

See accompanying notes to consolidated financial statements.

KT&G CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Position (Continued)

As of December 31, 2009, December 31, 2008 and January 1, 2008

In millions of Won and thousands of U.S. dollars	*Note*	2009 Korean Won	2009 U.S. dollars (note 3)	2008 Korean Won	January 1 2008 Korean Won
Equity					
Ordinary shares	*1, 15*	₩ 954,959	$ 817,882	₩ 954,959	₩ 954,959
Other capital surplus	*15*	5,321	4,557	2,869	2,869
Treasury shares	*16*	(226,945)	(194,369)	(226,945)	(414,947)
Gain on reissuance of treasury shares	*16, 27*	468,274	401,057	468,274	463,900
Reserve	*17*	2,075,269	1,777,381	1,825,710	1,739,067
Retained earnings	*18*	704,012	602,957	451,406	363,171
Equity attributable to owners of the parent	*30*	3,980,890	3,409,465	3,476,273	3,109,019
Non-controlling interests		27,112	23,220	27,564	30,889
Total equity		4,008,002	3,432,685	3,503,837	3,139,908
Liabilities					
Long-term borrowings	*14, 20, 30*	2,026	1,735	2,474	2,733
Long-term trade and other payables	*21, 30*	23,028	19,723	23,580	25,686
Long-term advance receipts	*24*	10,216	8,749	8,386	5,107
Defined benefit liabilities	*23*	35,445	30,357	73,994	68,109
Provision		2,258	1,933	1,957	1,256
Deferred income tax liabilities	*27*	167,345	143,324	106,762	90,832
Total non-current liabilities		240,318	205,821	217,153	193,723
Short-term borrowings	*14, 22, 30*	94,532	80,963	104,113	85,675
Current portion of long-term borrowings	*14, 20, 30*	448	384	280	210
Trade and other payables	*21, 30*	326,598	279,717	455,333	370,934
Advance receipts		23,516	20,141	71,707	25,397
Other financial liabilities	*30*	-	-	2,699	25
Income taxes payable	*27*	128,419	109,985	187,610	220,643
Tobacco excise and other taxes payable		350,050	299,803	370,197	346,111
Total current liabilities		923,563	790,993	1,191,939	1,048,995
Total liabilities	*4*	1,163,881	996,814	1,409,092	1,242,718
Total equity and liabilities		₩ 5,171,883	$ 4,429,499	₩ 4,912,929	₩ 4,382,626

See accompanying notes to consolidated financial statements.

KT&G CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

For the years ended December 31, 2009 and 2008

In millions of Won and thousands of U.S. dollars, except earnings per share	*Note*		2009 Korean Won		2009 U.S. dollars (note 3)		2008 Korean Won
Sales	*4, 29*	₩	3,626,353	$	3,105,818	₩	3,312,319
Cost of sales	*29*		(1,553,263)		(1,330,305)		(1,312,532)
Gross profit			2,073,090		1,775,513		1,999,787
Other income	*25*		61,496		52,669		118,859
Selling, general and administrative expenses	*25*		(847,725)		(726,041)		(809,681)
Employee welfare fund			(19,500)		(16,701)		(21,000)
Other expense	*25*		(111,625)		(95,602)		(50,061)
Profit from operations	*4*		1,155,736		989,838		1,237,904
Net finance income (costs)	*26*		6,327		5,419		7,542
Share of loss of associates, net	*8*		(185)		(158)		(318)
Profit before income taxes			1,161,878		995,099		1,245,128
Income tax expense	*27*		(311,784)		(267,029)		(349,999)
Profit for the period		₩	850,094	$	728,070	₩	895,129
Other comprehensive income:							
Available-for-sale financial assets, net of tax	*9, 26*		101,055		86,549		25,637
Exchange differences on translating foreign operations, net of tax			(3,044)		(2,607)		3,711
Actuarial gains (losses), net of tax	*23*		20,416		17,486		(35,017)
Other comprehensive income (expense) for the period, net of tax			118,427		101,428		(5,669)
Total comprehensive income for the period		₩	968,521	$	829,498	₩	889,460
Profit attributable to:							
- Owners of the parent			851,091		728,923		897,777
- Non-controlling interests			(997)		(853)		(2,648)
		₩	850,094	$	728,070	₩	895,129
Total comprehensive income attributable to:							
- Owners of the parent			968,973		829,884		892,785
- Non-controlling interests			(452)		(386)		(3,325)
		₩	968,521	$	829,498	₩	889,460
Earnings per share in Won:							
Basic and diluted	*28*	₩	6,630	$	5.68	₩	6,899

See accompanying notes to consolidated financial statements.

KT&G CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Equity

For the year ended December 31, 2009

In millions of Won		Ordinary shares	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interest	Total equity
Balance at January 1, 2009	₩	954,959	2,869	(226,945)	468,274	1,825,710	451,406	3,476,273	27,564	3,503,837
Total comprehensive income for the period:										
Profit for the period		-	-	-	-	-	851,091	851,091	(997)	850,094
Other comprehensive income:										
- Available-for-sale financial assets, net of tax		-	-	-	-	101,055	-	101,055	-	101,055
- Exchange differences on translating foreign operations, net of tax		-	-	-	-	(3,044)	-	(3,044)	-	(3,044)
- Actuarial gains, net of tax		-	-	-	-	-	19,871	19,871	545	20,416
Total other comprehensive income		-	-	-	-	98,011	19,871	117,882	545	118,427
Total comprehensive income for the period		-	-	-	-	98,011	870,962	968,973	(452)	968,521
Transactions with owners and others, recorded directly in equity:										
Dividends		-	-	-	-	-	(360,357)	(360,357)	-	(360,357)
Reacquisition of treasury shares		-	-	(103,999)	-	-	-	(103,999)	-	(103,999)
Retirement of treasury shares		-	-	103,999	-	-	(103,999)	-	-	-
Transfer to unconditional reserve		-	-	-	-	169,000	(169,000)	-	-	-
Transfer from reserve for research and human resource development		-	-	-	-	(15,000)	15,000	-	-	-
Expiration of employee share options		-	2,452	-	-	(2,452)	-	-	-	-
Total transactions with owners and others		-	2,452	-	-	151,548	(618,356)	(464,356)	-	(464,356)
Balance at December 31, 2009	₩	954,959	5,321	(226,945)	468,274	2,075,269	704,012	3,980,890	27,112	4,008,002

See accompanying notes to consolidated financial statements.

KT&G CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Equity (Continued)

For the year ended December 31, 2009

In thousands of U.S. dollars	Ordinary shares	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interest	Total equity
Balance at January 1, 2009	$ 817,882	2,457	(194,369)	401,057	1,563,645	386,611	2,977,283	23,606	3,000,889
Total comprehensive income for the period:									
Profit for the period	-	-	-	-	-	728,923	728,923	(853)	728,070
Other comprehensive income:									
- Available-for-sale financial assets, net of tax	-	-	-	-	86,549	-	86,549	-	86,549
- Exchange differences on translating foreign operations, net of tax	-	-	-	-	(2,607)	-	(2,607)	-	(2,607)
- Actuarial gains, net of tax	-	-	-	-	-	17,019	17,019	467	17,486
Total other comprehensive income	-	-	-	-	83,942	17,019	100,961	467	101,428
Total comprehensive income for the period	-	-	-	-	83,942	745,942	829,884	(386)	829,498
Transactions with owners and others, recorded directly in equity:									
Dividends	-	-	-	-	-	(308,631)	(308,631)	-	(308,631)
Reacquisition of treasury shares	-	-	(89,071)	-	-	-	(89,071)	-	(89,071)
Retirement of treasury shares	-	-	89,071	-	-	(89,071)	-	-	-
Transfer to unconditional reserve	-	-	-	-	144,741	(144,741)	-	-	-
Transfer from reserve for research and human resource development	-	-	-	-	(12,847)	12,847	-	-	-
Expiration of employee share options	-	2,100	-	-	(2,100)	-	-	-	-
Total transactions with owners and others	-	2,100	-	-	129,794	(529,596)	(397,702)	-	(397,702)
Balance at December 31, 2009	$ 817,882	4,557	(194,369)	401,057	1,777,381	602,957	3,409,465	23,220	3,432,685

See accompanying notes to consolidated financial statements.

KT&G CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Equity (Continued)

For the year ended December 31, 2008

In millions of Won		Ordinary shares	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interest	Total equity
Balance at January 1, 2008	₩	954,959	2,869	(414,947)	463,900	1,739,067	363,171	3,109,019	30,889	3,139,908
Total comprehensive income for the period:										
Profit for the period		-	-	-	-	-	897,777	897,777	(2,648)	895,129
Other comprehensive income:										
- Available-for-sale financial assets, net of tax		-	-	-	-	25,637	-	25,637	-	25,637
- Exchange differences on translating foreign operations, net of tax		-	-	-	-	3,711	-	3,711	-	3,711
- Actuarial losses, net of tax		-	-	-	-	-	(34,340)	(34,340)	(677)	(35,017)
Total other comprehensive income		-	-	-	-	29,348	(34,340)	(4,992)	(677)	(5,669)
Total comprehensive income for the period		-	-	-	-	29,348	863,437	892,785	(3,325)	889,460
Transactions with owners and others, recorded directly in equity:										
Dividends		-	-	-	-	-	(340,449)	(340,449)	-	(340,449)
Reacquisition of treasury shares		-	-	(194,128)	-	-	-	(194,128)	-	(194,128)
Retirement of treasury shares		-	-	379,753	-	-	(379,753)	-	-	-
Share-based payment transaction		-	-	-	-	2,295	-	2,295	-	2,295
Employee benefits by treasury shares		-	-	2,377	4,374	-	-	6,751	-	6,751
Transfer to unconditional reserve		-	-	-	-	70,000	(70,000)	-	-	-
Transfer from reserve for research and human resource development		-	-	-	-	(15,000)	15,000	-	-	-
Total transactions with owners and others		-	-	188,002	4,374	57,295	(775,202)	(525,531)	-	(525,531)
Balance at December 31, 2008	₩	954,959	2,869	(226,945)	468,274	1,825,710	451,406	3,476,273	27,564	3,503,837

See accompanying notes to consolidated financial statements.

KT&G CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

In millions of Won and thousands of U.S. dollars	*Note*	2009 Korean Won	2009 U.S. dollars (note 3)	2008 Korean Won
Cash flows from operating activities				
Cash generated from operations	33	₩ 1,183,842	$ 1,013,911	₩ 1,063,379
Income tax paid		(352,729)	(302,098)	(365,569)
Net cash from operating activities		831,113	711,813	697,810
Cash flows from investing activities				
Interest received		10,721	9,182	17,453
Dividends received		215	184	3,458
Proceeds from sale of property, plant and equipment		18,638	15,963	23,106
Proceeds from sale of intangible assets		64	55	35
Proceeds from sale of available-for-sale financial assets		2,346	2,009	349
Proceeds from investments in associates		1	1	-
Proceeds from investments in subsidiaries		-	-	282
Collection of loans		25,671	21,986	29,162
Withdrawal of guarantee deposits		17,308	14,824	12,275
Purchases of property, plant and equipment		(152,248)	(130,394)	(205,649)
Acquisition of intangible assets		(5,892)	(5,046)	(6,382)
Acquisition of investment property		(323)	(277)	(222)
Purchases of investments in associates		(500)	(428)	(500)
Purchases of available-for-sale financial assets		(11,995)	(10,273)	(19,099)
Increase in loans		(10,403)	(8,910)	(22,607)
Payments of guarantee deposits		(20,187)	(17,289)	(18,401)
Payments long-term deposits in MSA Escrow Fund		(18,055)	(15,463)	(17,895)
Settlement of financial derivatives		(4,410)	(3,777)	(6,320)
Cash flows from other investing activities		653	559	(665)
Net cash used in investing activities		(148,396)	(127,094)	(211,620)
Cash flows from financing activities				
Interest paid		(4,976)	(4,262)	(4,255)
Dividends paid		(360,357)	(308,631)	(340,449)
Proceeds from short-term borrowings		75,262	64,459	80,905
Proceeds from long-term borrowings		-	-	22
Increase in deposits received		2,953	2,529	4,375
Repayment of short-term borrowings		(83,227)	(71,280)	(64,736)
Repayment of long-term borrowings		(280)	(240)	(210)
Decrease in deposits received		(3,593)	(3,077)	(5,898)
Reacquisition of treasury shares		(103,999)	(89,071)	(194,128)
Net cash used in financing activities		(478,217)	(409,573)	(524,374)
Net increase (decrease) in cash and cash equivalents		204,500	175,146	(38,184)
Cash and cash equivalents at beginning of year		110,245	94,420	146,218
Effect of exchange rate fluctuation on cash held		1,927	1,650	2,211
Cash and cash equivalents at end of year		₩ 316,672	$ 271,216	₩ 110,245

See accompanying notes to consolidated financial statements.

December 31, 2009, December 31, 2008 and January 1, 2008

1 Organization and Description of Business

KT&G Corporation (the "Parent Company"), which is engaged in manufacturing and selling tobacco, was established on April 1, 1987 as Korea Monopoly Corporation, a wholly-owned enterprise of the Korean government, pursuant to the Korea Monopoly Corporation Act, in order to secure financing and to promote and develop, through efficient management, the monopoly business of red ginseng and tobacco. On April 1, 1989, the Parent Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. Also, pursuant to the Act on Management Reform and Privatization of Public Enterprises, proclaimed on August 28, 1997 and enforced on October 1, 1997, the Parent Company was excluded from the application of the Act for the Management of Government Invested Enterprises. Accordingly, the Parent Company became an entity existing and operating under the Commercial Code of Korea. The Korean government sold 28,650,000 shares of the Parent Company to the public during 1999 and the Parent Company listed its share on the Korea Exchange (formerly, the Korea Stock Exchange) on October 8, 1999. On December 27, 2002, the Parent Company changed its name again to KT&G Corporation from Korea Tobacco and Ginseng Corporation.

As of December 31, 2009, the Parent Company has four manufacturing plants, including the Shin Tan Jin plant, and 14 local headquarters and 168 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Chunahn printing plant for the manufacturing of packaging, and has its head office in Pyeongchon-dong, Daedeok-gu, Daejeon.

Pursuant to the Korean government's privatization program and management reorganization plan, on December 28, 1998, the shareholders approved a plan to separate the Parent Company into two companies by setting up a subsidiary for its red ginseng business segment effective January 1, 1999. The separation was accomplished by the Parent Company's contribution of the assets and liabilities in the red ginseng business segment into a wholly-owned subsidiary, Korea Ginseng Corporation.

On October 17, 2002 and October 31, 2001, the Parent Company listed 35,816,658 and 45,400,000 Global Depositary Receipts ("GDR") (each GDR representing the right to receive one-half share of ordinary share of the Parent Company), respectively, on the Luxembourg Stock Exchange pursuant to the Korean government's privatization program. Also, on June 25, 2009, the market of the Parent Company's GDR was changed from the BdL Market to the Euro MTF in the Luxembourg Stock Exchange.

The ownership of the Parent Company's issued ordinary share at December 31, 2009 is held as follows:

Shareholder	Number of shares	Percentage of ownership
Industrial Bank of Korea	9,510,485	6.93%
Employee Share Ownership Association	5,660,022	4.12%
Treasury shares	10,093,697	7.35%
Others	112,028,293	81.60%
	137,292,497	100.00%

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies

(a) Basis of Preparation

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audit of Corporations. K-IFRS is effective from the fiscal year beginning on or after January 1, 2011 and the Group early-adopted K-IFRS from 2009.

The consolidated financial statements are the Group's first consolidated financial statements, with a transition date of January 1, 2008. The prior period consolidated financial statements presented for comparative purposes have been restated in accordance with the accounting policies described below. The effect of the transition from the Generally Accepted Accounting Principles in the Republic of Korea to K-IFRS, affecting the Group's reported financial position, financial performance and cash flows is described in note 36 to consolidated financial statements.

Certain information included in the Korean language consolidated financial statements, but not required for a fair presentation of the Group's financial position, results of operations, changes in equity or cash flows, is not presented in the accompanying consolidated financial statements.

(b) Basis of Measurement

The consolidated financial statements have been prepared under the historical cost basis except as described in the accounting policy below on financial instruments and share-based payment.

(c) Basis of Consolidation

Subsidiaries
A subsidiary is an entity controlled by the Group, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing the control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Profit or loss and each component of other comprehensive income are attributed to owners of the Parent Company and to non-controlling interests. Total comprehensive income is attributed to owners of the Parent Company and to non-controlling interests even if this results in non-controlling interests having a deficit balance.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(c) Basis of Consolidation, Continued

Associate
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate after the date of acquisition. If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(d) Foreign Currencies

These consolidated financial statements are presented in Korean Won, which is the Parent Company's functional currency that is the currency of the primary economic environment in which the Group operates.

Foreign currency transactions are initially recorded using the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated using the closing rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise. When gains or losses on non-monetary items are recognized in other comprehensive income, exchange components of that gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on non-monetary items are recognized in profit or loss, exchange components of that gains or losses are recognised in profit or loss.

If the functional currency of foreign operations differs from the Group's presentation currency, assets and liabilities for each statement of financial position presented (including comparatives) are translated using the exchange rate at the date of that statement of financial position and income and expenses for each statement of comprehensive income statement presented (including comparatives) are translated using the exchange rates at the dates of the transactions. All resulting exchange differences are recognized in other comprehensive income.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(e) Property, Plant and Equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditure arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for them to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which they are located. In addition, in the preparation of the opening K-IFRS consolidated statement of financial position on the date of transition to K-IFRS, the Group measures some land at deemed cost which is fair value at the date of transition in accordance with K-IFRS No.1101.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land and other tangible fixed assets, are depreciated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

	Useful lives (years)
Buildings and structures	4 ~ 60
Machinery and vehicles	2 ~ 20
Tools, furniture and fixtures	4 ~ 5

Each part of property, plant and equipment with a cost that is significant in relation to the total cost are depreciated separately.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The change is accounted for as a change in an accounting estimate.

(f) Intangible Assets

Intangible assets are measured initially at cost and after initial recognition, are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets consist of industrial property rights, rights to facility usage and other intangible asset. Intangible assets are amortized on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is assumed to be zero. However, as there are no foreseeable limits to the periods over which rights to facility usage and some of industrial property right are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(f) Intangible Assets, Continued

The estimated useful lives are as follows:

	Useful lives (years)
Industrial property rights	10 ~ 20 or indefinite
Rights to facility usage	indefinite
Other intangible assets	15

The amortization period and the amortization method for intangible assets with a finite useful life are reviewed at each financial year-end. The useful lives of intangible assets that are not being amortized are reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for those assets. If it is appropriate to change, such a change is accounted for as a change in an accounting estimate.

(g) Investment Property

Properties held to earn rental or for capital appreciation are classified as investment properties. Investment properties are measured initially at its cost including transaction costs and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment properties, except for land, are depreciated on a straight-line basis over 10 ~ 60 years, the estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The change is accounted for as a change in an accounting estimate.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is determined by the weighted-average method for merchandise, finished goods, by-products, work-in-progress and tobacco leaf in raw materials, by the moving-average method for raw materials and supplies; and by the specific identification method for all other inventories.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(h) Inventories, Continued

Tobacco leaf inventories which have an operating cycle that exceeds 12 months are classified as current assets, consistent with recognized industry practice. The estimated amounts of inventories in current assets which are not expected to be realized within 12 months are ₩145,064 million, ₩304,969 million and ₩319,217 million, respectively, as of December 31, 2009, December 31, 2008 and January 1, 2008.

(i) Non-Derivative Financial Assets

The Group classifies a non-derivative financial asset into the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables or available-for-sale financial assets, relating to recognition and measurement of financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial asset. The Group derecognizes financial assets from the consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire or the Group transfers the contractual rights to receive the cash flows on the financial asset in a transaction in which and all the risks and rewards of ownership of the financial asset are substantially transferred. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial asset and recognizes financial liabilities for the consideration received.

Non-derivative financial assets comprise investments in equity and debt securities, long-term deposits in MSA Escrow Fund, trade and other receivables and cash and cash equivalents. When non-derivative financial assets are recognized initially, the Group measures it at its fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Financial Assets at Fair Value through Profit or Loss
Financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Held-to-maturity Investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity investments. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

Loans and Receivables
Loans and receivables are trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for short-term receivables of which the effect of discounting is immaterial.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(i) Non-Derivative Financial Assets, Continued

Available-for-sale Financial Assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized directly in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary available-for-sale financial asset. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When the financial asset is derecognized or impairment losses is recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date. Bank overdrafts are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(j) Non-Derivative Financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability and removes financial liabilities from the consolidated statement of financial position when the financial liability is extinguished.

Non-derivative financial liabilities comprise borrowings and trade and other payables. When non-derivative financial liabilities are recognized initially, the Group measures it at its fair value minus, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

Financial Liabilities at Fair Value through Profit or Loss
Financial liabilities are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition transaction costs are recognized in profit or loss when incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Other Financial Liabilities
Other financial liabilities are those non-derivative financial liabilities that are not classified as financial liabilities at fair value through profit or loss. After initial recognition, other financial liabilities are measured at amortized cost using the effective interest method except for short-term liabilities of which the effect of discounting is immaterial.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(k) Derivative Financial Instruments

Derivatives are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss when incurred.

A hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment that is attributable to a particular risk is accounted for as a fair value hedge. A hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction is accounted for cash flow hedge.

At the inception of the hedge, the Group formally designates the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge and documents identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness. The Group assesses the hedge effectiveness on an ongoing basis throughout the financial reporting periods for which the hedge was designated.

Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Fair value hedges
The gain or loss from remeasuring the hedging instrument designated as a fair value hedge at fair value and the gain or loss on the hedged item attributable to the hedged risk is recognized in profit or loss.

Cash flow hedges
The portion of the gain or loss on the hedging instrument designated as a cash value hedge that is determined to be an effective hedge is recognized in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss. The associated gains or losses that were recognized in other comprehensive income is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed and included in the initial cost or other carrying amount of the asset or liability.

If the hedging instrument expires or is sold, terminated or exercised or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation, the hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified from equity to profit or loss when the forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss that had been recognized in other comprehensive income is immediately reclassified from equity to profit or loss.

Changes in the fair value of derivatives that are not designated as hedging instrument or do not meet the criteria for hedge accounting are recognized immediately in profit or loss.

Derivative financial instruments, which were designed as exchange rate hedging instruments in the year ended December 31, 2008 were settled in the year ended December 31, 2009. Therefore as of December 31, 2009 the Company does not have derivative financial instruments.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(l) Non-current Assets Held for Sale

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use, and measures it at the lower of its carrying amount and fair value less costs to sell.

A non-current asset which is classified as held for sale or which is part of a disposal group classified as held for sale is not depreciated.

The Group recognizes an impairment loss for write-down of the asset (or disposal group) to fair value less costs to sell and a gain for increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized previously in accordance with K-IFRS No.1036 *Impairment of Assets*.

(m) Revenue Recognition

The Group's revenue categories consist of goods sold, services and other income.

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of tobacco excise and other taxes, trade discounts and volume rebates. Revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Tobacco excise and other taxes deducted from revenue for the years ended December 31, 2009 and 2008 were ₩3,772,203 million and ₩4,000,850 million, respectively.

Revenue from the building lotting-out construction contracts is recognized upon delivery when the significant risks and rewards of ownership of the goods are transferred to the buyer.

Revenue associated with the transaction involving the rendering of services is recognized by reference to the stage of completion of the transaction at the end of the reporting period when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Revenue arising from the use by others of the Group assets yielding interest, royalties and dividends is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

In addition, interest is recognized using the effective interest method, royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement and dividends are recognized when the shareholder's right to receive is established.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(n) Impairment of Non-financial Assets

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that it may be impaired. If there is any indication that an asset may be impaired, recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

The recoverable amount is measured as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. If the recoverable amount of an asset or cash-generating unit is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognized in profit or loss.

(o) Impairment of Financial Instruments

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired, except a financial asset at fair value through profit or loss. A financial asset or group of financial assets is considered to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. For specific financial assets such as trade receivables, if the Group determines that no objective evidence of impairment exists for and individually assessed financial asset, it collectively assesses them for impairment. The objective evidence that the group of loans and receivables is impaired includes an increased number of delayed payments and an adverse change in national or local economic conditions that correlate with defaults on the assets in the group.

The amount of the impairment loss on financial assets carried at amortized cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

The amount of the impairment loss on financial assets carried at cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not be reversed.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(o) Impairment of Financial Instruments, Continued

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(p) Income Taxes

Income tax expense comprises current tax expense and deferred tax expense. Current and deferred taxes are recognized as an expense included in profit or loss for the period, except to the extent that the tax arises from a transaction which is recognized in other comprehensive income or directly in equity.

Current tax expense is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized for temporary differences which are differences between the carrying amount of an asset or liability in the consolidated statement of financial position and its tax base, the carryforward of unused tax losses and unused tax credits. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates, except to the extent that the Group is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that, and only to the extent that it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of these deferred tax assets to be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(q) Dividends

The dividends declared to holders of equity instruments after the reporting period are not recognized as a liability at the end of the reporting period.

(r) Equity Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the equity transaction are recognized as a deduction from equity, net of any tax effects.

If the Group reacquires its own equity instruments, those instruments ("treasury shares") are presented as a deduction from total equity. The gain or loss on the purchase, sale, issue or cancellation of treasury shares is not recognized in profit or loss but recognized directly in equity.

(s) Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized when, it is virtually certain that reimbursement will be received if the Group settles the obligation. The reimbursement is treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

In addition, with regard to returns, the Group recognizes revenue, net of estimated returns and provides for the estimated liability at the time revenue is recognized. The related estimated cost of returns is added to the cost of sales or selling, general and administrative expenses. At the point of return, differences arising from estimates are recognized as cost of sales or selling, general and administrative expenses.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(t) Employee Benefits

Short-term Employee Benefits
Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

The Group recognizes the expected cost of profit-sharing and bonus payments if the Group has a present legal or constructive obligation to make such payments as a result of past events; and a reliable estimate of the obligation can be made.

Retirement Benefits: Defined Contribution Plans
With regard to the defined contribution plan, when an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

Retirement Benefits: Defined Benefit Plans
The Group classifies retirement benefits plans other than defined contribution plans as defined benefit plans. The defined benefit liabilities are calculated the present value of the defined benefit obligations less the fair value of the plan assets at the end of the reporting period.

In determining the present value of its defined benefit obligations and the related current service cost, the Group uses the projected unit credit method.

With regard to actuarial gains and losses which arise from application of actuarial assumptions, the Group recognizes all actuarial gains and losses in other comprehensive income. Actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings and are not reclassified to profit or loss in a subsequent period.

(u) Deferred Revenue

With regard to ginseng sales, the Group uses the customer loyalty program to provide customers with incentives to buy goods. The Group has provided points to the customers, who can redeem in the future for free or discounted goods. The fair value of points is estimated by considering the fair value of ginseng provided to customers for the redemption of points and expected rate and timing of redemption. The fair value of points provided to the customers among the consideration received or receivable from the sales transaction is deferred and recognized as revenue over the period during which the service is performed.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(v) Share-based Payment

For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

For share-based payment transactions in which the terms of the arrangement provide either the Group or the counterparty with the choice of whether the Group settles the transaction in cash or by issuing equity instruments, the Group accounts for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

(w) Earning per Share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss for the period attributable to owners of the Parent Company by the weighted-average number of shares outstanding during the period.

Diluted earnings per share are determined by adjusting the profit or loss for the period attributable to owners of the Parent Company and the weighted-average number of shares outstanding for the effects of all dilutive potential shares, which comprise employee share options.

(x) Segments Reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services, which is determined based on the Group's internal report that is regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group has four operating segments - manufacturing and selling tobacco (the "Tobacco" segment), manufacturing and selling ginseng products (the "Ginseng" segment), sales or rent of real estate (the "Real Estate" segment) and other operations. The Group's geographical segment information is not included in the consolidated financial statements since segment revenues, segment assets and segment liabilities from external customers attributed to an individual foreign country are immaterial. The prices agreed between the Group companies for intra-group transactions are based on normal commercial practices which would apply between independent businesses.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(y) Use of Estimates and Judgments

The preparation of consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These include estimates about carrying amount of property, plant and equipment, financial instruments, defined benefit obligations and deferred tax assets and liabilities. Actual results may differ from these estimates.

(z) New Standards and Interpretations Not Yet Adopted

The new and amended standards and interpretations that have been issued but are not yet effective as of December 31, 2009 have not applied in preparing the consolidated financial statements. These standards and interpretations will be applied for annual periods beginning on or after January 1, 2010 and are not expected to have significant impact on the consolidated financial statements.

3 Basis of Translating Consolidated Financial Statements

The consolidated financial statements are expressed in Korean Won and have been translated into U.S. dollars at the rate of ₩1,167.60 to $1, the basic exchange rate on December 31, 2009, solely for the convenience of the reader. This translation should not be construed as a representation that any or all of the amounts shown could be converted into United States dollars at this or any other rate.

4 Segment Information

(a) Details of the Group's operating segment are summarized as follows:

Operating segments	Principal operation
Tobacco	Manufacturing and selling of tobaccos
Ginseng	Manufacturing and selling of red ginseng
Real estate	Selling and renting of real estates
Others	Manufacturing and selling of medicines and others

(b) Segment information on revenue and profit from operations for the year ended December 31, 2009 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Segment Total	Elimination	Consolidated
Total segment sales	₩	2,510,839	810,290	258,674	154,401	3,734,204	(107,851)	3,626,353
Less: Inter-segment sales		13,616	65,292	2,294	26,649	107,851	(107,851)	-
External sales	₩	2,497,223	744,998	256,380	127,752	3,626,353	-	3,626,353
Profit from operations	₩	853,767	209,243	77,455	14,843	1,155,308	428	1,155,736

(c) Segment information on revenue and profit from operations for the year ended December 31, 2008 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Segment Total	Elimination	Consolidated
Total segment sales	₩	2,530,735	692,067	22,178	149,735	3,394,715	(82,396)	3,312,319
Less: Inter-segment sales		15,308	49,695	2,124	15,269	82,396	(82,396)	-
External sales	₩	2,515,427	642,372	20,054	134,466	3,312,319	-	3,312,319
Profit from operations	₩	1,036,450	197,703	(9,293)	15,159	1,240,019	(2,115)	1,237,904

(d) Segment information on assets and liabilities as of December 31, 2009 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Segment Total	Elimination	Consolidated
Assets:								
Segment assets	₩	3,305,202	841,364	157,932	112,558	4,417,056	(63,006)	4,354,050
Equity accounted investments		723,160	8,252	-	-	731,412	(729,828)	1,584
Available-for-sale financial assets		443,800	-	-	240	444,040	-	444,040
Non-current assets classified as held-for-sale		23,245	-	-	22,907	46,152	-	46,152
		4,495,407	849,616	157,932	135,705	5,638,660	(792,834)	4,845,826
Unallocated assets								326,057
Total assets	₩							5,171,883
Liabilities:								
Segment liabilities	₩	863,367	113,692	-	76,455	1,053,514	(56,978)	996,536
Unallocated liabilities								167,345
Total liabilities	₩							1,163,881

4 Segment Information, Continued

(e) Segment information on assets and liabilities as of December 31, 2008 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Segment Total	Elimination	Consolidated
Assets:								
Segment assets	₩	3,317,602	779,100	307,003	117,119	4,520,824	(55,418)	4,465,406
Equity accounted investments		669,946	3,460	-	-	673,406	(672,136)	1,270
Available-for-sale financial assets		304,105	-	-	165	304,270	-	304,270
Non-current assets classified as held-for-sale		-	-	-	22,907	22,907	-	22,907
		4,291,653	782,560	307,003	140,191	5,521,407	(727,554)	4,793,853
Unallocated assets								119,076
Total assets	₩							4,912,929
Liabilities:								
Segment liabilities	₩	1,115,024	157,173	-	77,828	1,350,025	(47,692)	1,302,333
Unallocated liabilities								106,759
Total liabilities	₩							1,409,092

(f) Segment information on assets and liabilities as of January 1, 2008 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Segment Total	Elimination	Consolidated
Assets:								
Segment assets	₩	3,018,210	648,134	191,611	114,070	3,972,025	(18,444)	3,953,581
Equity accounted investments		667,149	3,461	-	-	670,610	(669,522)	1,088
Available-for-sale financial assets		252,755	-	-	9	252,764	-	252,764
Non-current assets classified as held-for-sale		-	-	-	22,956	22,956	-	22,956
		3,938,114	651,595	191,611	137,035	4,918,355	(687,966)	4,230,389
Unallocated assets								152,237
Total assets	₩							4,382,626
Liabilities:								
Segment liabilities	₩	981,372	115,048	-	68,302	1,164,722	(12,833)	1,151,889
Unallocated liabilities								90,829
Total liabilities	₩							1,242,718

(g) The extent of reliance on major customers

Revenues from major customers of which revenues amount to 10 percent or more of the Group's total revenues for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won

Segment	Major customers		2009	2008
Tobacco	Alokozay International Ltd.	₩	477,080	429,709

5 Property, Plant and Equipment

(a) Changes in property, plant and equipment for the year ended December 31, 2009 were as follows:

In millions of Won		Land, buildings and structures	Machinery and vehicles	Tools, furniture, fixtures and other	Construction-in-progress	Total
Cost:						
Balance at January 1, 2009	₩	1,169,943	972,038	244,203	57,120	2,443,304
Additions		20,980	18,138	26,030	87,100	152,248
Disposals		(14,458)	(20,802)	(3,922)	-	(39,182)
Net exchange difference		(1,760)	(2,011)	(116)	(2,343)	(6,230)
Other		21,404	13,726	5,534	(72,537)	(31,873)
Balance at December 31, 2009	₩	1,196,109	981,089	271,729	69,340	2,518,267
Accumulated depreciation and impairment:						
Balance at January 1, 2009	₩	(238,505)	(545,099)	(155,709)	-	(939,313)
Disposals		3,153	18,111	3,551	-	24,815
Depreciation		(32,486)	(73,923)	(41,937)	-	(148,346)
Impairment		-	(657)	-	-	(657)
Net exchange difference		66	243	48	-	357
Other		840	15,534	58	-	16,432
Balance at December 31, 2009	₩	(266,932)	(585,791)	(193,989)	-	(1,046,712)
Carrying amount:						
Balance at January 1, 2009	₩	931,438	426,939	88,494	57,120	1,503,991
Balance at December 31, 2009	₩	929,177	395,298	77,740	69,340	1,471,555

Other changes for the year ended December 31, 2009 include the amount transferred to non-current asset held for sale amounting to ₩23,245 million. The Group recognized ₩657 million of impairment loss on the machinery of the Wanju plant relating to discontinuing production of medicine products for the year ended December 31, 2009.

5 Property, Plant and Equipment, Continued

(b) Changes in property, plant and equipment for the year ended December 31, 2008 were as follows:

In millions of Won		Land, buildings and structures	Machinery and vehicles	Tools, furniture, fixtures and other	Construction-in-progress	Total
Cost:						
Balance at January 1, 2008	₩	1,093,721	911,129	247,594	93,798	2,346,242
Additions		12,279	15,192	31,148	147,030	205,649
Disposals		(8,013)	(49,752)	(41,319)	-	(99,084)
Net exchange difference		(271)	(401)	108	(1,640)	(2,204)
Other		72,227	95,870	6,672	(182,068)	(7,299)
Balance at December 31, 2008	₩	1,169,943	972,038	244,203	57,120	2,443,304
Accumulated depreciation and impairment:						
Balance at January 1, 2008	₩	(212,431)	(515,666)	(151,328)	(1,094)	(880,519)
Disposals		2,182	45,248	40,834	-	88,264
Depreciation		(28,266)	(74,356)	(45,078)	-	(147,700)
Impairment		-	(429)	-	-	(429)
Net exchange difference		10	15	(88)	-	(63)
Other		-	89	(49)	1,094	1,134
Balance at December 31, 2008	₩	(238,505)	(545,099)	(155,709)	-	(939,313)
Carrying amount:						
Balance at January 1, 2008	₩	881,290	395,463	96,266	92,704	1,465,723
Balance at December 31, 2008	₩	931,438	426,939	88,494	57,120	1,503,991

Other changes for the year ended December 31, 2008 include the amount transferred to inventories and intangible assets amounting to ₩5,970 million and ₩791 million, respectively. The Group recognized ₩ 429 million of impairment loss on the machinery relating to the closure of the Namwon plant for fabrication of leaf tobacco for the year ended December 31, 2008.

6 Intangible Assets

(a) Changes in intangible assets for the year ended December 31, 2009 were as follows:

In millions of Won		Industrial property rights	Rights to facility usage	Other intangible assets	Assets under development	Total
Cost:						
Balance at January 1, 2009	₩	9,404	19,964	8,527	27,172	65,067
Additions		159	764	1,006	3,963	5,892
Disposals		-	(64)	-	-	(64)
Net exchange difference		-	-	(27)	-	(27)
Other		(264)	86	227	-	49
Balance at December 31, 2009	₩	9,299	20,750	9,733	31,135	70,917
Accumulated amortization and impairment:						
Balance at January 1, 2009	₩	(7,557)	-	(5,576)	-	(13,133)
Amortization		(263)	-	(1,229)	-	(1,492)
Impairment		-	-	-	(647)	(647)
Net exchange difference		-	-	17	-	17
Other		2	-	36	-	38
Balance at December 31, 2009	₩	(7,818)	-	(6,752)	(647)	(15,217)
Carrying amount:						
Balance at January 1, 2009	₩	1,847	19,964	2,951	27,172	51,934
Balance at December 31, 2009	₩	1,481	20,750	2,981	30,488	55,700

The Group recognized ₩647 million of impairment loss on the intangible assets under development due to the relinquishment of the industrial property rights for the year ended December 31, 2009.

(b) Changes in intangible assets for the year ended December 31, 2008 were as follows:

In millions of Won		Industrial property rights	Rights to facility usage	Other intangible assets	Assets under development	Total
Cost:						
Balance at January 1, 2008	₩	9,039	19,128	7,399	23,035	58,601
Additions		168	942	1,135	4,137	6,382
Disposals		-	(32)	-	-	(32)
Net exchange difference		-	-	16	-	16
Other		197	(74)	(23)	-	100
Balance at December 31, 2008	₩	9,404	19,964	8,527	27,172	65,067
Accumulated amortization and impairment:						
Balance at January 1, 2008	₩	(6,815)	-	(4,279)	-	(11,094)
Amortization		(742)	-	(1,292)	-	(2,034)
Net exchange difference		-	-	(5)	-	(5)
Balance at December 31, 2008	₩	(7,557)	-	(5,576)	-	(13,133)
Carrying amount:						
Balance at January 1, 2008	₩	2,224	19,128	3,120	23,035	47,507
Balance at December 31, 2008	₩	1,847	19,964	2,951	27,172	51,934

December 31, 2009, December 31, 2008 and January 1, 2008

6 Intangible Assets, Continued

Other changes for the year ended December 31, 2008 include the amount transferred from property, plant and equipment amounting to ₩791 million.

(c) Expenditures not capitalized for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Cost of sales	₩	768	1,021
Selling expenses		5,402	6,563
General and administrative expenses		14,943	15,345
	₩	21,113	22,929

7 Investment Property

(a) Changes in investment property for the year ended December 31, 2009 were as follows:

In millions of Won		Land	Buildings	Total
Cost:				
Balance at January 1, 2009	₩	15,385	117,562	132,947
Subsequent expenditure		-	323	323
Balance at December 31, 2009	₩	15,385	117,885	133,270
Accumulated depreciation and impairment:				
Balance at January 1, 2009	₩	-	(25,617)	(25,617)
Depreciation		-	(3,538)	(3,538)
Balance at December 31, 2009	₩	-	(29,155)	(29,155)
Carrying amount:				
Balance at January 1, 2009	₩	15,385	91,945	107,330
Balance at December 31, 2009	₩	15,385	88,730	104,115

(b) Changes in investment property for the year ended December 31, 2008 were as follows:

In millions of Won		Land	Buildings	Total
Cost:				
Balance at January 1, 2008	₩	15,385	117,340	132,725
Subsequent expenditure		-	222	222
Balance at December 31, 2008	₩	15,385	117,562	132,947
Accumulated depreciation and impairment:				
Balance at January 1, 2008	₩	-	(22,166)	(22,166)
Depreciation		-	(3,451)	(3,451)
Balance at December 31, 2008	₩	-	(25,617)	(25,617)
Carrying amount:				
Balance at January 1, 2008	₩	15,385	95,174	110,559
Balance at December 31, 2008	₩	15,385	91,945	107,330

7 Investment Property, Continued

(c) The amounts recognized in profit or loss from investment property for the three- and years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Rental income	₩	16,880	16,604
Direct operating expense		(3,538)	(3,451)
	₩	13,342	13,153

(d) The carrying amount and the fair value of investment property as of December 31, 2009 are as follows:

In millions of Won		Fair value	Carrying amount
Land	₩	207,717	15,385
Buildings		111,184	88,730
	₩	318,901	104,115

8 Equity Accounted Investment

(a) Equity accounted investments as of December 31, 2009, December 31, 2008 and January 1, 2008 are summarized as follows:

In millions of Won, except percentage of ownership			2009		2008		January 1 2008	
Associate	Location	Principal operation	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Cosmo Tabacco Co., Ltd.	Mongolia	Manufacturing and selling tobacco	40.00%	₩ -	40.00%	₩ -	40.00%	₩ -
Korea Islet Transplantation, Inc.	Korea	Research and development medicine	-	-	48.25%	72	48.25%	229
Lite Pharm Tech, Inc.	Korea	Manufacturing medical supplies	29.46%	572	29.46%	692	29.46%	859
Korean Carbon Finance, Inc.	Korea	Emissions trading	20.00%	1,012	20.00%	506	-	-
				₩ 1,584		₩ 1,270		₩ 1,088

Cosmo Tabacco Co., Ltd. was in the process of liquidation as of December 31, 2009, December 31, 2008 and January 1, 2008. The Group has discontinued application of the equity method to Cosmo Tabacco Co., Ltd. as the carrying amount of investment in Cosmo Tabacco Co., Ltd. has reduced to zero due to accumulated deficit.

(b) Changes in equity accounted investments for the year ended December 31, 2009 were as follows:

In millions of Won

Associate		Balance at beginning of year	Acquisition	Share of profit or loss of associates	Disposal	Balance at end of year
Korea Islet Transplantation, Inc.	₩	72	-	(71)	(1)	-
Lite Pharm Tech, Inc.		692	-	(120)	-	572
Korean Carbon Finance, Inc.		506	500	6	-	1,012
	₩	1,270	500	(185)	(1)	1,584

8 Equity Accounted Investment, Continued

(c) Changes in equity accounted investments for the year ended December 31, 2008 were as follows:

In millions of Won

Associate		Balance at beginning of year	Acquisition	Share of profit or loss of associates	Balance at end of year
Korea Islet Transplantation, Inc.	₩	229	-	(157)	72
Lite Pharm Tech, Inc.		859	-	(167)	692
Korean Carbon Finance, Inc.		-	500	6	506
	₩	1,088	500	(318)	1,270

(d) Summarized financial information on associates as of and for the year ended December 31, 2009 was as follows:

In millions of Won

Associate		Total assets	Total liabilities	Revenue	Profit or loss
Lite Pharm Tech, Inc.	₩	3,366	1,425	902	(409)
Korean Carbon Finance, Inc.		5,108	45	764	46

(e) Summarized financial information on associates as of and for the year ended December 31, 2008 was as follows:

In millions of Won

Associate		Total assets	Total liabilities	Revenue	Profit or loss
Korea Islet Transplantation, Inc.	₩	174	25	-	(326)
Lite Pharm Tech, Inc.		3,913	1,563	514	(566)
Korean Carbon Finance, Inc.		2,618	87	258	30

9 Available-for-sale Financial Assets

(a) Changes in available-for-sale financial assets for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won		2009	2008
Balance at beginning of year	₩	304,270	252,764
Acquisitions		11,995	19,099
Net changes in fair value before tax		129,558	32,664
Disposals		(1,783)	(257)
Balance at end of year	₩	444,040	304,270
Current	₩	1,957	2,149
Non-current		442,083	302,121
	₩	444,040	304,270

9 Available-for-sale Financial Assets, Continued

(b) Available-for-sale financial assets as of December 31, 2009, December 31, 2008 and January 1, 2008 are summarized as follows:

In millions of Won		2009	2008	January 1 2008
Available-for-sale debt instruments:				
- Government and municipal bonds	₩	2,196	2,280	2,220
- Corporate bonds		2,040	2,030	2,000
Total available-for-sale debt instruments		4,236	4,310	4,220
Available-for-sale equity instruments:				
Listed				
- Yonhap Television News (YTN)		38,967	37,249	28,366
- Crystal Genomics Co., Ltd.		1,748	1,722	1,791
- Oscotech, Inc.		780	748	1,396
- Shinhan Financial Group Co., Ltd.		173,161	103,950	187,250
- Rexahn Pharmaceuticals, Inc.		4,878	5,196	-
- Celltrion, Inc.		195,462	129,005	-
- Genematrix, Inc.		708	-	-
		415,704	277,870	218,803
Unlisted				
- Rexahn Pharmaceuticals, Inc.		-	-	5,158
- Celltrion, Inc.		-	-	21,245
- Dream Hub PFV Co., Ltd.		15,975	15,000	75
- Migami, Inc.		3,365	2,831	1
- Genematrix, Inc.		-	1,500	1,500
- Other unlisted available-for-sale equity instruments		4,760	2,759	1,762
		24,100	22,090	29,741
Total available-for-sale equity instruments		439,804	299,960	248,544
Total available-for-sale financial assets	₩	444,040	304,270	252,764

The fair value of listed available-for-sale equity instruments is principally based on quoted prices in an active market.

The fair value of Dream Hub PFV Co., Ltd. that does not have market price in an active market is established by the independent rating agency using a valuation method. The fair value of Dream Hub PFV Co., Ltd. is established on the basis of the value per share determined by using discounted cash flow model and net asset valuation model and estimation of probability distribution of the value per share.

The other unlisted available-for-sale equity instruments that do not have market price in an active market and whose fair value cannot be reliably measured and available-for-sale debt instruments whose fair value is similar to their carrying amount, are measured at cost.

10 Long-term Deposits in MSA Escrow Fund

(a) Long-term deposits in MSA Escrow Fund as of December 31, 2009, December 31, 2008 and January 1, 2008 are summarized as follows:

In millions of Won		2009	2008	January 1 2008
MMF	₩	4,874	110,261	66,633
T-Bill		57,287	-	-
T-Note		55,960	-	-
	₩	118,121	110,261	66,633

(b) As discussed in notes 31 to consolidated financial statements, long-term deposits in MSA Escrow Fund are deposited to the United States government related to the export of tobacco to the United States. The payments of long-term deposits in MSA Escrow Fund for the years ended December 31, 2009 and 2008 are ₩18,055 million and ₩17,895 million, respectively.

(c) Investment income on long-term deposits in MSA Escrow Fund for the years ended December 31, 2009 and 2008 are ₩23 million and ₩1,335 million, respectively.

(d) Long-term deposits in MSA Escrow Fund are measured at quoted prices in an active market.

11 Trade and Other Receivables

(a) Trade and other receivables as of December 31, 2009, December 31, 2008 and January 1, 2008 are summarized as follows:

		2009		2008		January 1 2008	
In millions of Won		Current	Non-current	Current	Non-current	Current	Non-current
Loans to employees	₩	24,031	68,176	28,036	78,605	19,487	96,168
Loans		1,242	6,669	1,073	7,136	1,095	5,349
Other receivables		53,461	-	53,448	561	33,424	1,028
Guarantee deposits		-	55,202	-	52,077	-	47,283
Accrued income		573	-	384	-	340	-
Trade receivables		521,497	-	550,699	-	427,731	-
	₩	600,804	130,047	633,640	138,379	482,077	149,828

(b) Trade and other receivables as of December 31, 2009, December 31, 2008 and January 1, 2008 have been reported in the consolidated statements of financial position net of allowances as follows:

		2009		2008		January 1 2008	
In millions of Won		Current	Non-current	Current	Non-current	Current	Non-current
Gross trade and other receivables	₩	611,041	130,047	643,215	138,379	500,212	149,828
Allowance account:							
- Other receivables		(2,202)	-	(1,706)	-	(5,615)	-
- Trade receivables		(8,035)	-	(7,869)	-	(12,520)	-
		(10,237)	-	(9,575)	-	(18,135)	-
Net trade and other receivables	₩	600,804	130,047	633,640	138,379	482,077	149,828

11 Trade and Other Receivables, Continued

(c) Changes in the allowance account for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won		2009	2008
Balance at beginning of year	₩	9,575	18,135
Impairment		720	763
Reversal of impairment		(46)	(1,315)
Retirement		(12)	(8,008)
Balance at end of year	₩	10,237	9,575

Impairment and reversal of impairment of trade and other receivables is included as part of other expense and income in the consolidated statements of comprehensive income.

(d) The age schedule of trade and other receivables which were past due but not impaired as of December 31, 2009, December 31, 2008 and January 1, 2008 is as follows:

In millions of Won		2009	2008	January 1 2008
Within 1 month	₩	62,770	57,058	35,297
Between 1 and 2 months		71,921	60,826	29,182
Beyond 2 months		15,536	44,132	27,693
	₩	150,227	162,016	92,172

There is no significant concentration of credit risk with respect to trade receivables as the Group has a large number of widely dispersed customers, except for export trade receivables, and the Group holds bank guarantees, other guarantees and credit insurance in respect of some of the past due debtor balances.

(e) Details of trade and other receivables that are measured at amortized cost as of December 31, 2009 and 2008 are as follows:

	2009				2008			
In millions of Won	Effective interest rate		Current	Non-current	Effective interest rate		Current	Non-current
Loans to employees	3.00 ~ 5.68%	₩	23,985	68,067	5.38~7.29%	₩	27,993	78,437
Loans	7.29 ~ 8.47%		1,242	2,885	7.29%		1,073	3,360
Guarantee deposits	3.00 ~ 8.47%		-	53,059	5.38~7.29%		-	50,165
		₩	25,227	124,011		₩	29,066	131,962

There is no material difference between the carrying amount and their fair value except the above trade and other receivables, due to the short-term duration of the majority of trade and other receivables.

12 Inventories

(a) Inventories as of December 31, 2009, December 31, 2008 and January 1, 2008 were summarized as follows:

In millions of Won		2009	2008	January 1 2008
Merchandise, net of loss on the write-down of inventories	₩	2,623	793	1,107
Finished goods, net of loss on the write-down of inventories		207,308	183,668	154,813
Work-in-progress, net of loss on the write-down of inventories		318,780	296,072	260,847
Raw materials, net of loss on the write-down of inventories		878,360	842,193	806,937
Supplies		25,256	23,269	21,856
By-products		5,650	3,242	2,641
Completed buildings		53,816	-	-
Buildings under construction		-	182,059	66,837
Sites for building lotting-out construction		-	17,613	14,215
Goods-in-transit		17,286	9,976	8,065
	₩	1,509,079	1,558,885	1,337,318

(b) The amount of inventories recognized as an expense for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Cost of Sales:			
- Loss on the write-down of inventories	₩	-	4,413
- Reversal of loss on the write-down of inventories		(3,807)	(22,542)
Other expense		4,154	5,323
	₩	347	(12,806)

13 Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2009, December 31, 2008 and January 1, 2008 were summarized as follows:

In millions of Won		2009	2008	January 1 2008
Cash on hand	₩	6,796	6,148	2,176
Demand deposits		76,983	85,197	85,461
Short-term investment assets		232,893	18,900	58,581
	₩	316,672	110,245	146,218

Cash equivalents include short-term investment assets with an original maturity of three months or less. The carrying amount of cash and cash equivalents approximates their fair value.

December 31, 2009, December 31, 2008 and January 1, 2008

14 Pledged Assets

(a) The following assets were pledged as collateral for the Group's borrowings and others as of December 31, 2009:

In millions of Won

Asset	Carrying amount	Type of borrowings	Borrowing amount	Collateralized amount	Lender
Land, buildings and structures, investment property non-current asset held for sale	₩ 68,275	Short-term	₩ 37,014	55,900	Hana Bank and others
		Long-term	2,474		
	₩ 68,275		₩ 39,488	55,900	

(b) Financial assets restricted in use for security deposits for maintaining checking accounts as of December 31, 2009, December 31, 2008 and January 1, 2008 were ₩6 million.

15 Share Capital

(a) Details of share capital as of December 31, 2009, December 31, 2008 and January 1, 2008 are as follows:

In Won, except number of shares	2009	2008	January 1 2008
Number of ordinary shares:			
- Authorized	800,000,000	800,000,000	800,000,000
- Issued	137,292,497	138,792,497	143,442,497
- Outstanding	127,198,800	128,698,800	130,839,907
Par value	₩ 5,000	5,000	5,000

The Parent Company has, thus far, reacquired and retired 53,699,400 shares of treasury share. Accordingly, as of December 31, 2009, the Parent Company's ordinary share differs from the aggregate par value of issued shares by ₩268,497 million.

(b) Changes in the number of shares for the years ended December 31, 2009 and 2008 were as follows:

	2009			2008		
Number of shares	Ordinary share	Treasury share	Total	Ordinary share	Treasury share	Total
Beginning of year	138,792,497	(10,093,697)	128,698,800	143,442,497	(12,602,590)	130,839,907
Reacquisition of treasury shares	-	(1,500,000)	(1,500,000)	-	(2,254,082)	(2,254,082)
Employee benefits by treasury shares	-	-	-	-	112,975	112,975
Retirement of treasury shares	(1,500,000)	1,500,000	-	(4,650,000)	4,650,000	-
End of year	137,292,497	(10,093,697)	127,198,800	138,792,497	(10,093,697)	128,698,800

15 Share Capital, Continued

(c) Changes in the other capital surplus for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won		2009	2008
Balance at beginning of year	₩	2,869	2,869
Expiration of employee share options		2,452	-
Balance at end of year	₩	5,321	2,869

The employee share options were settled in cash and terminated for the year ended December 31, 2009. Consequently, the employee share option reserve was reclassified to other capital surplus.

16 Treasury Stock

(a) Changes in the treasury shares for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won, except number of shares	2009 Number of shares		2009 Carrying amount	2008 Number of shares		2008 Carrying amount
Balance at beginning of year	10,093,697	₩	226,945	12,602,590	₩	414,947
Reacquisition of treasury shares	1,500,000		103,999	2,254,082		194,128
Employee benefits by treasury shares	-		-	(112,975)		(2,377)
Retirement of treasury shares	(1,500,000)		(103,999)	(4,650,000)		(379,753)
Balance at end of year	10,093,697	₩	226,945	10,093,697	₩	226,945

(b) Changes in gain on reissuance of treasury shares for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won		2009	2008
Balance at beginning of year	₩	468,274	463,900
Gain on reissuance of treasury shares before tax		-	6,033
Less: Tax at 27.5%		-	(1,659)
Gain on reissuance of treasury shares after tax		-	4,374
Balance at end of year	₩	468,274	468,274

17 Reserves

(a) Details of reserves as of December 31, 2009, December 31, 2008 and January 1, 2008 are as follows:

In millions of Won		2009	2008	January 1 2008
Available-for-sale financial assets reserve	₩	128,793	27,737	2,100
Employee share option reserve		-	2,452	157
Exchange differences on translating foreign operations		1,161	4,206	495
Legal reserve		602,937	602,937	602,937
Voluntary reserve		1,342,378	1,188,378	1,133,378
	₩	2,075,269	1,825,710	1,739,067

December 31, 2009, December 31, 2008 and January 1, 2008

17 Reserves, Continued

(b) Available-for-sale financial assets reserve as of December 31, 2009, December 31, 2008 and January 1, 2008 were summarized as follows:

In millions of Won		2009	2008	January 1 2008
Available-for-sale financial assets reserve before tax	₩	165,119	35,561	2,897
Tax effect		(36,326)	(7,824)	(797)
	₩	128,793	27,737	2,100

(c) Legal Reserve

The Korean Commercial Code requires the Parent Company to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to ordinary share in connection with a free issue of shares.

(d) Details of voluntary reserve as of December 31, 2009, December 31, 2008 and January 1, 2008 are as follows:

In millions of Won		2009	2008	January 1 2008
Reserve for business rationalization	₩	12,851	12,851	12,851
Reserve for research and human resource development		15,000	30,000	45,000
Reserve for loss on reissuance of treasury shares		26,646	26,646	26,646
Reserve for business expansion		698,881	698,881	698,881
Unconditional reserve		589,000	420,000	350,000
	₩	1,342,378	1,188,378	1,133,378

Reserve for Business Rationalization
Until December 10, 2002 under the Special Tax Treatment Control Law, investment tax credits were allowed for certain investments. The Parent Company was, however, required to appropriate from retained earnings, the amount of tax benefits received, and transfer such amount into a reserve for business rationalization.

Effective December 11, 2002, the Parent Company was no longer required to establish a reserve for business rationalization despite tax benefits received for certain investments and, consequently, the existing balance is now regarded as a voluntary reserve.

Reserve for Business Expansion
Reserve for business expansion was a legal reserve under the Korea Tobacco and Ginseng Corporation Act, which was abrogated on September 1, 1997, consequently, the existing balance has been regarded as a voluntary reserve since then.

Other Reserves
Reserves for research and human resource development and loss on reissuance of treasury shares were appropriated in order to utilize certain tax deduction benefits through the early recognition of future expenditures. These reserves are restored to retained earnings in accordance with the relevant tax laws. Such reserves are taken back into taxable income in the year of restoration. Reserves without specific purposes are restored to retained earnings by a resolution at a general meeting of shareholders.

December 31, 2009, December 31, 2008 and January 1, 2008

18 Retained Earnings

Changes in retained earnings for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won		2009	2008
Balance at beginning of year	₩	451,406	363,171
Transfer from reserve for research and human resource development		15,000	15,000
Transfer to unconditional reserve		(169,000)	(70,000)
Profit for the period		850,094	895,129
- Less: non-controlling interests		997	2,648
Actuarial gains (losses), net of tax		20,416	(35,017)
- Less: non-controlling interests		(545)	677
Dividends		(360,357)	(340,449)
Retirement of treasury shares		(103,999)	(379,753)
Balance at end of year	₩	704,012	451,406

19 Statements of Appropriation of Retained Earnings

Statements of Appropriation of Retained Earnings of the Parent Company, KT&G Corporation, for the years ended December 31, 2009 and 2008 are as follows:

Date of Appropriation for 2009: February 26, 2010
Date of Appropriation for 2008: March 13, 2009

In millions of Won		2009	2008
Unappropriated retained earnings:			
Balance at beginning of year	₩	(77,904)	(2,236)
Retirement of treasury shares		(103,999)	(379,753)
Profit for the period		744,942	849,486
Actuarial gains (losses), net of tax		16,924	(31,044)
Balance at end of year before appropriation		579,963	436,453
Transfer from voluntary reserves:			
Reserve for research and human resource development		15,000	15,000
Reserve for loss on reissuance of treasury shares		26,646	-
		41,646	15,000
Unappropriated retained earnings available for appropriation		621,609	451,453
Appropriation of retained earnings:			
Dividends (note 34)		(356,157)	(360,357)
Reserve for research and human resource development		(60,000)	-
Unconditional reserve		(203,000)	(169,000)
		(619,157)	(529,357)
Unappropriated retained earnings (undisposed accumulated deficit) to be carried over to subsequent year	₩	2,452	(77,904)

Statements of Appropriation of Retained Earnings were prepared based on non-consolidated financial statements of the Parent Company.

20 Long-term Borrowings

Long-term borrowings as of December 31, 2009, December 31, 2008 and January 1, 2008 are summarized as follows:

In millions of Won	Maturity	Annual interest rate		2009 Current	2009 Non-current	2008 Current	2008 Non-current	January 1 2008 Current	January 1 2008 Non-current
Borrowings for energy facilities	March 15, 2013	3.25%	₩	280	631	280	911	210	1,192
Borrowings for environmental facilities	March 31, 2017	4.77%		168	1,395	-	1,563	-	1,541
			₩	448	2,026	280	2,474	210	2,733

The Group has been guaranteed by Facilities Management Corporation relating to the above borrowings.

21 Trade and Other Payables

(a) Trade and other payables as of December 31, 2009, December 31, 2008 and January 1, 2008 are summarized as follows:

In millions of Won		2009 Current	2009 Non-current	2008 Current	2008 Non-current	January 1 2008 Current	January 1 2008 Non-current
Leasehold deposits received	₩	25	23,028	45	23,580	102	25,686
Trade payables		46,346	-	39,956	-	20,808	-
Withholdings		134,784	-	139,617	-	140,901	-
Accrued expenses		103,941	-	121,477	-	103,324	-
Other payables		41,502	-	154,238	-	105,799	-
	₩	326,598	23,028	455,333	23,580	370,934	25,686

(b) Details of trade and other payables that are measured at amortized cost as of December 31, 2009 and 2008 are as follows:

In millions of Won	2009 Effective interest rate	2009 Amortized cost	2008 Effective interest rate	2008 Amortized cost
Leasehold deposits received	3.00~5.68%	₩ 23,028	5.38~5.68%	₩ 23,580

There is no material difference between the carrying amount and their fair value except the above trade and other payables, due to the short-term duration of the majority of trade and other payables.

December 31, 2009, December 31, 2008 and January 1, 2008

22 Short-term Borrowings

Short-term borrowings as of December 31, 2009, December 31, 2008 and January 1, 2008 are summarized as follows:

In millions of Won	Description of borrowings	Annual interest rate		2009	2008	January 1 2008
Local currency	Customer credit contracts	-	₩	43,863	45,371	43,011
	General purpose borrowings	4.00 ~ 7.73%		41,914	51,455	22,390
	Borrowings on notes	7.10%		3,000	3,000	15,338
	Discount on commercial note	-		4,589	4,287	4,377
Foreign currency	General purpose borrowings	6.45%		1,166	-	559
			₩	94,532	104,113	85,675

The Group has entered into a customer credit contract with the National Agricultural Cooperative Federation ("NACF") and other financial institutions. The financial institutions pay past-due trade receivables for customers and the Group has provided guarantees to the financial institutions for customers. The amount paid by the financial institutions is recognized as short-term borrowings on the consolidated statement of financial position.

23 Defined Benefits Plan

The Group operates both defined benefit and defined contribution plans. According to these defined benefit plans, the Group pays retirement benefits calculated under the plan's benefit formula at the time employees leave the Group. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

(a) The components of retirement benefit costs for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won		2009	2008
Defined benefit costs:			
Current service costs	₩	40,468	28,571
Interest costs		7,257	8,533
Expected returns on plan assets		(6,270)	(6,432)
Gains on the settlement of the plan		(279)	-
		41,176	30,672
Defined contribution costs:			
Contributions recognized as expense		365	-
	₩	41,541	30,672

Some of employees have transferred from the defined benefit plan to the defined contribution plan. The Group recognized ₩279 million of the gains on the settlement of defined benefit plan in profit or loss.

The Group recognized contributions payable amounting to ₩74 million as accrued expenses in the consolidated statements of financial position.

December 31, 2009, December 31, 2008 and January 1, 2008

23 Defined Benefits Plan, Continued

(b) Changes in defined benefit liabilities for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won		2009	2008
Balance at beginning of year	₩	73,994	68,109
Retirement benefit costs		41,176	30,672
Actuarial losses (gains) before tax		(25,829)	44,464
Payments into plan assets		(32,926)	-
Payments, including the amount transferred to the defined contribution plan		(20,969)	(69,251)
Net exchange difference		(1)	-
Balance at end of year	₩	35,445	73,994
Consolidated statements of financial position:			
- Present value of retirement benefit obligations	₩	163,006	175,939
- Fair value of plan assets		(127,561)	(101,945)
Defined benefit liabilities	₩	35,445	73,994

(c) Changes in defined benefit obligations for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won		2009	2008
Balance at beginning of year	₩	175,939	201,270
Current service costs		40,468	28,571
Interest costs		7,257	8,533
Actuarial losses (gains) before tax		(25,159)	45,331
Payments, including the amount transferred to the defined contribution plan		(35,219)	(107,766)
Gains on the settlement of the plan		(279)	-
Net exchange difference		(1)	-
Balance at end of year	₩	163,006	175,939

(d) Changes in plan assets for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won		2009	2008
Balance at beginning of year	₩	101,945	133,161
Expected return on plan assets		6,270	6,432
Actuarial gains before tax		670	867
Payments into plan assets		32,926	-
Payments, including the amount transferred to the defined contribution plan		(14,250)	(38,515)
Balance at end of year	₩	127,561	101,945

Actual returns on plan assets for the years ended December 31, 2009 and 2008 are ₩6,940 million and ₩ 7,299 million, respectively.

Expected rates of return are determined taking into account the current level of expected returns on risk-free investments, the historical level of risk premium associated with other invested assets, and the expectations for future returns on such assets.

23 Defined Benefits Plan, Continued

(e) The amount of actuarial gains (losses) for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won		2009	2008
Actuarial gains (losses) before tax	₩	25,829	(44,464)
Tax effect		(5,413)	9,447
	₩	20,416	(35,017)

(f) The components of plan assets as of December 31, 2009, December 31, 2008 and January 1, 2008 are as follows:

In millions of Won		2009	2008	January 1 2008
Short-term trading financial assets	₩	109,511	49,737	118,184
Available-for-sale financial assets		8,590	48,735	2,959
Other		9,460	3,473	12,018
	₩	127,561	101,945	133,161

As of December 31, 2009, December 31, 2008 and January 1, 2008, the amounts of severance insurance and National Pension Fund in plan assets which continue to be covered by the existing retirement benefits plan are ₩12,405 million, ₩16,985 million and ₩133,161 million, respectively.

(g) The principal actuarial assumptions as of December 31, 2009, December 31, 2008 and January 1, 2008 are as follows:

In millions of Won	2009	2008	January 1 2008
Rate of salary increases	4.00~6.00%	3.98~6.50%	3.98~7.50%
Discount rate	4.81~5.80%	4.25~5.00%	5.00~5.78%
Expected rate of return on plan assets	4.48~6.00%	4.25~6.50%	4.80~6.25%

For the purpose of calculating present value of the defined benefit obligations, the Group used the discount rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds consistent with the currency and estimated term of the defined benefit obligations.

23 Defined Benefits Plan, Continued

(h) Sensitivities in respect of the key assumptions used to measure the defined benefit plan are as follows:

In millions of Won		1 percentage point increase	1 percentage point decrease
Rate of salary increases:			
- Increase (decrease) in defined benefit obligations	₩	13,852	(11,724)
- Increase (decrease) in retirement benefit costs		3,784	(3,268)
Discount rate:			
- Increase (decrease) in defined benefit obligations		(12,336)	14,843
- Increase (decrease) in retirement benefit costs		(1,571)	1,837
Expected rate of return on plan assets:			
- Increase (decrease) in retirement benefit costs		(1,233)	1,233

The effect on retirement benefit costs before tax is for 2009. The effect on defined benefit obligations is as of December 31, 2009.

24 Deferred Revenue

Changes in deferred revenue included in long-term advance receipts for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won		2009	2008
Balance at beginning of year	₩	7,764	5,108
Revenue deferred		9,092	5,828
Revenue recognized		(7,174)	(3,172)
Balance at end of year	₩	9,682	7,764

25 Profit from Operations

(a) Employee benefit costs for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Salaries	₩	408,924	397,954
Retirement benefit costs		41,541	30,672
Employee welfare		41,815	48,344
	₩	492,280	476,970

(b) Depreciation and amortization for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Depreciation	₩	151,884	151,151
Amortization		1,492	2,034
	₩	153,376	153,185

25 Profit from Operations, Continued

(c) Details of other income for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Foreign currency transaction gain	₩	30,204	64,378
Foreign currency translation gain		1,184	26,933
Reversal of impairment loss on trade and other receivables		46	1,315
Gain on sale of property, plant and equipment		17,033	15,410
Gain on sale of intangible assets		-	3
Others		13,029	10,820
	₩	61,496	118,859

(d) Details of selling expenses for years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Salaries	₩	182,578	166,958
Retirement benefit costs		15,194	20,084
Employee welfare		20,478	22,169
Travel		6,906	6,438
Communications		2,420	2,281
Utilities		4,827	4,667
Taxes and dues		14,904	22,126
Supplies		2,328	1,956
Rent		11,112	8,020
Depreciation		35,361	42,608
Amortization		306	517
Repairs and maintenance		3,498	2,731
Vehicles		7,517	8,422
Insurance		853	670
Commissions		100,531	87,823
Freight and custody		32,062	35,641
Conferences		4,688	2,618
Advertising		216,319	196,977
Training		1,208	2,333
Prizes and rewards		551	852
Normal research and development		5,402	6,563
	₩	669,043	642,454

25 Profit from Operations, Continued

(e) Details of general and administrative expenses for years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Salaries	₩	60,799	63,608
Retirement benefit costs		11,663	1,068
Employee welfare		6,985	4,760
Travel		2,431	3,146
Communications		2,715	2,811
Utilities		1,788	1,627
Taxes and dues		2,523	2,287
Supplies		2,722	3,576
Rent		6,937	5,902
Depreciation		17,757	10,959
Amortization		1,072	1,494
Repairs and maintenance		1,766	3,176
Vehicles		1,564	1,083
Insurance		371	560
Commissions		31,474	30,585
Conferences		767	1,721
Advertising		3,013	1,884
Training		6,274	7,200
Prizes and rewards		1,118	4,435
Normal research and development		14,943	15,345
	₩	178,682	167,227

(f) Details of other expenses for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Foreign currency transaction loss	₩	40,697	11,797
Foreign currency translation loss		17,708	1,337
Impairment loss on trade and other receivables		720	763
Donations		32,628	13,106
Loss on sale of property, plant and equipment		7,496	3,124
Impairment loss on property, plant and equipment		657	429
Impairment loss on intangible assets		647	-
Loss on retirement of inventories		4,154	5,323
Others		6,918	14,182
	₩	111,625	50,061

26 Net Finance Costs

(a) Details of net finance costs (income) for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Finance cost:			
- Interest costs	₩	4,815	4,713
- Loss on sale of available-for-sale financial assets		-	4
- Loss on transaction of financial derivatives		1,711	6,295
- Loss on valuation of financial derivatives		-	2,699
		6,526	13,711
Finance income:			
- Interest income		(12,052)	(16,376)
- Dividend income		(215)	(3,458)
- Investment income on long-term deposits in MSA Escrow Fund		(23)	(1,335)
- Gain on sale of available-for-sale financial assets		(563)	(4)
- Gain on sale of investments in subsidiaries		-	(80)
		(12,853)	(21,253)
Net finance costs (income)	₩	(6,327)	(7,542)

(b) Details of interest costs for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Related financial liabilities:			
Borrowings	₩	4,370	4,253
Trade and other payables		510	452
Others		(65)	8
	₩	4,815	4,713

(c) Details of interest income for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Related financial assets:			
Deposits	₩	7,496	12,446
Available-for-sale financial assets		245	27
Trade and other receivables		4,311	3,903
	₩	12,052	16,376

(d) Details of finance income recognized in other comprehensive income for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Gain on valuation available-for-sale financial assets, before tax	₩	129,558	32,664
Tax effect		(28,503)	(7,027)
Gain on valuation available-for-sale financial assets, net of tax	₩	101,055	25,637

27 Income Taxes

(a) The Group was subject to income taxes on taxable income at the following normal tax rates.

Taxable income		Tax rate			
Prior to 2008	Thereafter	Prior to 2008	2008	2009~2011	Thereafter
Up to ₩100 million	Up to ₩200 million	14.3%	12.1%	12.1%	11.0%
Over ₩100 million	Over ₩200 million	27.5%	27.5%	24.2%	22.0%

In December 2008, the Korean government reduced the corporate income tax rate (including resident tax) and increased the tax base from ₩100 million to ₩200 million beginning in 2008. Effective January 1, 2008, the income tax rate for those having their taxable income less than ₩200 million was reduced from 14.3 % to 12.1%.

(b) The components of income tax expense (benefit) for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Current income tax expense	₩	271,617	333,596
Adjustments recognized in the period for current tax of prior periods		14,161	3,970
Changes in temporary difference		59,523	12,176
Total income tax expense		345,301	349,742
Tax expense (benefit) recognized outside profit or loss		(33,517)	257
Income tax expense	₩	311,784	349,999

(c) Current and deferred tax expense that were recognized outside profit or loss for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Current:			
- Gain on reissuance of treasury shares	₩	-	(1,659)
Deferred:			
- Net changes in fair value of available-for-sale financial assets		(28,503)	(7,027)
- Exchange differences on translating foreign operations		399	(504)
- Actuarial gains (losses)		(5,413)	9,447
		(33,517)	1,916
Tax expense (benefit) recognized outside profit or loss	₩	(33,517)	257

The Group recognized current tax expense related to gain on reissuance of treasury shares directly in equity and deferred tax expense related to other comprehensive income in other comprehensive income.

27 Income Taxes, Continued

(d) The income tax expense calculated by applying statutory tax rates to the Group's profit before tax for the period differs from the actual tax expense in the consolidated statement of comprehensive income for the years ended December 31, 2009 and 2008 for the following reasons:

In millions of Won, except tax rate information		2009	2008
Profit before tax	₩	1,161,878	1,245,128
Normal tax rate		24.2%	27.5%
Expense for income taxes at normal tax rate		281,150	342,379
Adjustment:			
- Tax effects of permanent differences		3,447	3,725
- Investment tax credits		(3,271)	(6,759)
- Additional income taxes for prior period		9,131	4,029
- Effect of change in tax rate		-	(28,876)
- Tax effects of profit of subsidiaries		20,177	31,797
- Others		1,150	3,704
Income tax expense	₩	311,784	349,999
Effective tax rate		26.8%	28.1%

(e) Deferred tax expense relating to the origination and reversal of temporary differences for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Deferred tax liabilities at end of year	₩	159,176	99,653
Deferred tax liabilities at beginning of year		99,653	87,477
Deferred tax expense	₩	59,523	12,176

(f) Deferred tax assets and liabilities are measured using the tax rate to be applied for the period in which temporary differences are expected to be realized.

(g) The net deferred tax liabilities are reflected in the consolidated statements of financial position after offsetting assets and liabilities where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred income taxes relate to the same fiscal authority.

27 Income Taxes, Continued

(h) Changes in deferred tax assets and liabilities for the year ended December 31, 2009 were as follows:

In millions of Won		Balance at beginning of year	Credited to profit (charged to loss)	Credited (charged) to other comprehensive income	Balance at end of year
Available-for-sale financial assets	₩	8,800	648	-	9,448
Accrued expense		22,012	905	-	22,917
Sales		7,157	(7,157)	-	-
Donations in excess of tax limit		8,606	(8,517)	-	89
Retirement benefit costs		6,119	(1,990)	(5,413)	(1,284)
Undistributed earnings of associates and subsidiaries		(120,954)	(20,177)	-	(141,131)
Foreign currency translations		(6,055)	9,962	-	3,907
Treasury shares		(8,565)	-	-	(8,565)
Changes in fair value of available-for-sale financial assets		(7,823)	-	(28,503)	(36,326)
Voluntary reserve		(12,070)	(4,278)	-	(16,348)
Provision for advanced depreciation		(4,722)	-	-	(4,722)
Others		7,842	4,598	399	12,839
	₩	(99,653)	(26,006)	(33,517)	(159,176)

(i) Changes in deferred tax assets and liabilities for the year ended December 31, 2008 were as follows:

In millions of Won		Balance at beginning of year	Credited to profit (charged to loss)	Credited (charged) to other comprehensive income	Effect of changes in the tax rate	Balance at end of year
Available-for-sale financial assets	₩	11,000	-	-	(2,200)	8,800
Accrued expense		24,706	73	-	(2,767)	22,012
Sales		1,801	6,332	-	(976)	7,157
Donations in excess of tax limit		18,467	(8,687)	-	(1,174)	8,606
Retirement benefit costs		(3,542)	1,624	9,447	(1,410)	6,119
Undistributed earnings of associates and subsidiaries		(119,396)	(31,797)	-	30,239	(120,954)
Foreign currency translations		-	(6,891)	-	836	(6,055)
Treasury shares		(10,781)	75	-	2,141	(8,565)
Changes in fair value of available-for-sale financial assets		(797)	(1,955)	(7,027)	1,956	(7,823)
Voluntary reserve		(20,455)	6,742	-	1,643	(12,070)
Provision for advanced depreciation		(5,903)	-	-	1,181	(4,722)
Others		17,423	(8,484)	(504)	(593)	7,842
	₩	(87,477)	(42,968)	1,916	28,876	(99,653)

(j) As of December 31, 2009, December 31, 2008 and January 1, 2008, the aggregate amounts of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognized were ₩4,191 million, ₩5,426 million and ₩ 3,373 million, respectively.

27 Income Taxes, Continued

(k) The income taxes payable and income taxes refund before offsetting as of December 31, 2009, December 31, 2008 and January 1, 2008 are as follows:

In millions of Won		2009	2008	January 1 2008
Income taxes payable	₩	272,633	333,304	324,118
Income taxes refund		(144,370)	(145,771)	(103,515)
	₩	128,263	187,533	220,603

28 Earnings per Share

Basic and diluted earnings per share for the years ended December 31, 2009 and 2008 were as follows:

In millions of Won, except share information		2009	2008
Profit for the period	₩	851,091	897,777
Weighted-average number of ordinary shares outstanding		128,372,302	130,140,446
Basic and diluted earnings per share in Won	₩	6,630	6,899

December 31, 2009, December 31, 2008 and January 1, 2008

29 Transactions and Balances with Related Companies

(a) Details of parent and subsidiary relationships as of December 31, 2009, December 31, 2008 and January 1, 2008 were as follows:

			Percentage of ownership								
			2009			2008			January 1 2008		
Subsidiary	Location	Next most senior parent	Parent	Sub-sidiary	Total	Parent	Sub-sidiary	Total	Parent	Sub-sidiary	Total
Korea Ginseng Corporation	Korea	KT&G Corporation	100.00%	-	100.00%	100.00%	-	100.00%	100.00%	-	100.00%
Yungjin Pharm. Ind. Co., Ltd.	Korea	KT&G Corporation	55.50%	-	55.50%	55.50%	-	55.50%	55.50%	-	55.50%
Tae-a Industry Co., Ltd.	Korea	KT&G Corporation	100.00%	-	100.00%	100.00%	-	100.00%	100.00%	-	100.00%
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	KT&G Corporation	99.99%	-	99.99%	99.99%	-	99.99%	99.99%	-	99.99%
Korea Tabacos do Brasil Ltda.	Brazil	KT&G Corporation	99.90%	-	99.90%	99.90%	-	99.90%	99.90%	-	99.90%
KT&G Pars	Iran	KT&G Corporation	99.99%	-	99.99%	99.99%	-	99.99%	99.99%	-	99.99%
KT&G Rus L.L.C.	Russia	KT&G Corporation	100.00%	-	100.00%	100.00%	-	100.00%	100.00%	-	100.00%
KT&G Bio Corp.	Korea	KT&G Corporation	100.00%	-	100.00%	-	-	-	-	-	-
KT&G Mongolia LLC	Mongolia	KT&G Corporation	-	-	-	-	-	-	100.00%	-	100.00%
Korea Ginseng HK, Ltd.	Hong Kong	Korea Ginseng Corporation	-	99.99%	99.99%	-	99.99%	99.99%	-	99.99%	99.99%
KGC Sales Co., Ltd.	Korea	Korea Ginseng Corporation	-	100.00%	100.00%	-	100.00%	100.00%	-	100.00%	100.00%
Cheong Kwan Jang Taiwan Corporation	Taiwan	Korea Ginseng Corporation	-	100.00%	100.00%	-	-	-	-	-	-
Korea Red Ginseng Corporation	United States	Korea Ginseng Corporation	-	100.00%	100.00%	-	-	-	-	-	-
Korea Ginseng (China) Corp.	China	Korea Ginseng Corporation	-	100.00%	100.00%	-	-	-	-	-	-

KT&G Bio Corp., Cheong Kwan Jang Taiwan Corporation, Korean Red Ginseng Corp., Inc. and Korea Ginseng (China) Corp. were established and included in consolidation for the year ended December 31, 2009.

29 Transactions and Balances with Related Companies, Continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2009 and 2008 are summarized as follows:

In millions of Won

Sales company	Purchase company		2009	2008
KT&G Corporation	Korea Ginseng Corporation	₩	12,790	13,271
KT&G Corporation	Yungjin Pharm. Ind. Co., Ltd.		174	171
KT&G Corporation	Tae-a Industry Co., Ltd.		1	-
KT&G Corporation	KGC Sales Co., Ltd.		2	-
KT&G Corporation	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		7,943	3,194
KT&G Corporation	KT&G Pars		6,825	1,521
KT&G Corporation	KT&G Rus L.L.C.		485	-
Korea Ginseng Corporation	KT&G Corporation		2,096	1,446
Korea Ginseng Corporation	Yungjin Pharm. Ind. Co., Ltd.		1,089	1,914
Korea Ginseng Corporation	Tae-a Industry Co., Ltd.		13	25
Korea Ginseng Corporation	Korea Ginseng HK, Ltd.		33,630	33,363
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation		14,477	-
Korea Ginseng Corporation	Korean Red Ginseng Corp., Inc.		4,003	-
Korea Ginseng Corporation	KGC Sales Co., Ltd.		10,073	13,065
Yungjin Pharm. Ind. Co., Ltd.	KT&G Corporation		43	121
Yungjin Pharm. Ind. Co., Ltd.	KGC Sales Co., Ltd.		8	-
Tae-a Industry Co., Ltd.	KT&G Corporation		13,616	15,321
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	KT&G Pars		4,555	-
Korea Tabacos do Brasil Ltda.	KT&G Corporation		191	165
		₩	112,014	83,577

The Parent Company received dividends from Korea Ginseng Corporation amounting to ₩30,000 million and ₩60,000 million for the years ended December 31, 2009 and 2008, respectively. Korea Ginseng Corporation received dividends from KGC Sales Co., Ltd. and Korea Ginseng HK, Ltd. amounting to ₩700 million and ₩ 902 million, respectively, for the year ended December 31, 2009.

Intra-group transactions among above transactions are eliminated in preparing the consolidated financial statements.

29 Transactions and Balances with Related Companies, Continued

(c) Account balances with related companies as of December 31, 2009, December 31, 2008 and January 1, 2008 were as follows:

In millions of Won

Creditor	Debtor		2009	2008	January 1 2008
KT&G Corporation	Korea Ginseng Corporation	₩	-	3,184	-
KT&G Corporation	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		13,437	25,441	1,127
KT&G Corporation	KT&G Pars		18,883	7,204	-
KT&G Corporation	KT&G Rus L.L.C.		5,487	347	-
KT&G Corporation	KT&G Mongolia LLC		-	-	554
Korea Ginseng Corporation	KT&G Corporation		2,238	2,595	2,649
Korea Ginseng Corporation	Yungjin Pharm. Ind. Co., Ltd.		82	130	98
Korea Ginseng Corporation	Korea Ginseng HK, Ltd.		5,511	6,835	5,037
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation		5,998	-	-
Korea Ginseng Corporation	Korean Red Ginseng Corp., Inc.		1,641	-	-
Korea Ginseng Corporation	KGC Sales Co., Ltd.		1,378	1,747	3,158
Yungjin Pharm. Ind. Co., Ltd.	Korea Ginseng Corporation		212	212	212
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	KT&G Pars		1,623	-	-
		₩	56,490	47,695	12,835

Intra-group balances among above balances are eliminated in preparing the consolidated financial statements.

(d) Details of guarantees provided for related companies as of December 31, 2009, December 31, 2008 and January 1, 2008 were as follows:

In thousands of U.S. dollars and Euro

				2009		2008		January 1 2008	
Guarantee provider	Guarantee recipient	Type of guarantee		Limit	Exercise	Limit	Exercise	Limit	Exercise
Korea Ginseng Corporation	Korea Ginseng HK, Ltd.	Payment guarantee on borrowing	$	7,500	5,500	2,500	-	20,000	600
KT&G Corporation	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Guarantee on foreign currency letter of credit	€	-	-	-	-	10,000	-
KT&G Corporation	KT&G Rus L.L.C.	opened		7,267	-	-	-	-	-

(e) Details of key management personnel compensation for the years ended December 31, 2009 and 2008 are summarized as follows:

In millions of Won

		2009	2008
Short-term employee benefits	₩	9,252	10,824
Post-employment benefits		6,470	9,761
	₩	15,722	20,585

30 Risk Management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- capital risk
- currency risk
- liquidity risk
- credit risk
- interest rate risk
- market price risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these non-consolidated financial statements.

(b) Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The purpose of managing financial risks is to identify the potential risk factors that may affect the Group's financial performance, and minimize, eliminate and avoid it to the extent that is acceptable. One of the principal responsibilities of the treasury department is to manage the financial risks arising from the Group's underlying operations. The treasury department monitors and manages the financial risk arising from the Group's underlying operations in accordance with the risk management policies and procedures authorized by the board of directors. Also, the treasury department provides an internal report analyzing the nature and exposure level on financial risks to Risk Management Committee of the Group. The Risk Management Committee prepares the overall strategy for financial risk management, and evaluates the effectiveness of the financial risk management. In addition, the internal auditor consistently observes the compliance of the risk management policy and procedure, and reviews the risk exposure limit of the Group. The Group holds derivative financial instruments to hedge its specific financial risks such as currency risk.

30 Risk Management, Continued

(c) Management of Capital Risk

The fundamental goal of capital management is the maximization of shareholders' value by means of the stable dividend policy and the retirement of treasury shares. The capital structure of the Group consists of equity and net debt deducting cash and cash equivalents and current financial instruments from borrowings. The Group applied the same financial risk management strategy that was applied in the previous period.

As of December 31, 2009, December 31, 2008 and January 1, 2008, the Group defines net debt and equity as follows:

In millions of Won		2009	2008	January 1 2008
Net debt:				
Debts (Borrowings)	₩	97,006	106,867	88,618
Less:				
- Cash and cash equivalents		(316,672)	(110,245)	(146,218)
- Current other financial assets		(926)	(1,715)	(2,619)
- Current available-for-sale financial assets		(1,957)	(2,149)	(92)
	₩	(222,549)	(7,242)	(60,311)
Equity of owners of the Parent	₩	3,980,890	3,476,273	3,109,019

(d) Management of Financial Risks

The Group is exposed to risks such as currency risk, liquidity risk, credit risk, interest rate risk and market price risk. The purpose of managing financial risks is to identify the potential risk factors that may affect the Group's financial performance, and minimize, eliminate and avoid it to the extent that is acceptable. One of the principal responsibilities of the treasury department is to manage the financial risks arising from the Group's underlying operations. The treasury department monitors and manages the financial risk arising from the Group's underlying operations in accordance with the risk management policies and procedures authorized by the board of directors. Also, the treasury department provides an internal report analyzing the nature and exposure level on financial risks to Risk Management Committee of the Group. The Risk Management Committee prepares the overall strategy for financial risk management, and evaluates the effectiveness of the financial risk management. In addition, the internal auditor consistently observes the compliance of the risk management policy and procedure, and reviews the risk exposure limit of the Group. The Group holds derivative financial instruments to hedge its specific financial risk such as currency risk.

30 Risk Management, Continued

Currency Risk

The Group is exposed to foreign currency risk arising from the export and import of tobacco. The Group's primary exposure is to the US dollar and Euro. The Group's primary exposure is to the US dollar and Euro. The carrying amounts of monetary assets and liabilities denominated in a currency other than the functional currency as of December 31, 2009, December 31, 2008 and January 1, 2008 are as follows:

				2009			2008			January 1 2008
In millions of Won		USD	EUR	Other currency	USD	EUR	Other currency	USD	EUR	Other currency
Assets:										
Cash and cash equivalents	₩	3,889	1,673	264	3,420	3,040	42	11,549	3,057	-
Trade and other receivables		324,358	8,946	2	329,344	3,388	11	179,542	1,277	2
Long-term deposits in MSA Escrow Fund		118,121	-	-	110,261	-	-	66,633	-	-
	₩	446,368	10,619	266	443,025	6,428	53	257,724	4,334	2
Liabilities:										
Trade and other payables	₩	21,923	24,853	-	1,094	7,901	-	650	7,610	-
Short-term borrowings		479	16,934	-	21,057	10,665	-	11,179	-	-
Trade and other payables	₩	22,402	41,787	-	22,151	18,566	-	11,829	7,610	-

The Group measures currency risk of changes in foreign exchange rates regularly. As of December 31, 2009, December 31, 2008 and January 1, 2008, the effect of 10% strengthening or weakening of functional currency against foreign currencies other than functional currency on profit before tax are as follows:

			2009		2008		January 1 2008
In millions of Won		10% strengthening	10% weakening	10% strengthening	10% weakening	10% strengthening	10% weakening
USD	₩	42,397	(42,397)	42,087	(42,087)	24,590	(24,590)
EUR		(3,117)	3,117	(1,214)	1,214	(328)	328
Other currency		27	(27)	5	(5)	-	-
	₩	39,307	(39,307)	40,878	(40,878)	24,262	(24,262)

The above sensitivity analysis was applied to monetary assets and liabilities denominated in foreign currencies other than the functional currency at the end of the reporting period.

30 Risk Management, Continued

The Group entered into foreign currency option contracts to hedge foreign currency risk of accounts receivable related to the export of tobacco. Details of the contracts as of December 31, 2008 were as follows:

In Won and In thousands of US dollars		Contracts outstanding		Exchange rate
Call Option Sell	$	6,000	₩	988
		4,000		989
Put Option Buy		3,000		988
		2,000		989

The above foreign currency option contracts were not designated as hedging instruments, and were settled in the year ended December 31, 2009. Related gains and losses are charged to the consolidated statement of comprehensive income as finance charge.

Liquidity risk
The Group has established short-term and long-term financial management plan to manage the liquidity risk, and analyzed cash outflows occurred and cash outflows budgeted, so as to match the maturity structure of financial assets and financial liabilities. The Group's management determines the financial liabilities are repayable with the operating cash flows and cash inflows from financial assets. The Group entered into an overdraft agreement with the NACF to manage the temporary liquidity risk.

The maturity analysis with a residual contractual maturity of financial liabilities as of December 31, 2009, December 31, 2008 and January 1, 2008 is as follows:

				Residual contractual maturity			
In millions of Won		Carrying amount	Contractual cash flow	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	Beyond 5 years
As of December 31, 2009:							
Derivative financial liabilities	₩	-	-	-	-	-	-
Non-derivative financial liabilities		311,848	313,983	178,668	123,591	9,192	2,532
	₩	311,848	313,983	178,668	123,591	9,192	2,532
As of December 31, 2008:							
Derivative financial liabilities	₩	2,699	2,699	2,699	-	-	-
Non-derivative financial liabilities		446,163	450,035	198,185	241,595	6,676	3,579
	₩	448,862	452,734	200,884	241,595	6,676	3,579
As of January 1, 2008:							
Derivative financial liabilities	₩	25	25	25	-	-	-
Non-derivative financial liabilities		344,337	346,601	175,355	161,783	7,995	1,468
	₩	344,362	346,626	175,380	161,783	7,995	1,468

The above financial liabilities are presented at the nominal value of undiscounted future cash flows as of the earliest period at which the Group can be required to pay.

30 Risk Management, Continued

Credit Risk

The Group has transacted with customers with high credit ratings to manage credit risk, and has implemented and operated policies and procedures for credit enhancements of the financial assets. Counterparty credit risk is managed by evaluating its credit rating and limiting the aggregate amount and duration of exposure before sales commence, and the Group has been provided collaterals and guarantees. The credit ratings of all counterparties and the level of collaterals and guarantees are reviewed regularly. Analysis of financial assets past due has been reported quarterly and appropriate measures have been taken to secure the Group's assets.

The carrying amount of financial assets is maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2009, December 31, 2008 and January 1, 2008 is as follows:

In millions of Won		2009	2008	January 1 2008
Available-for-sale financial assets	₩	444,040	304,270	252,764
Long-term deposits in MSA Escrow Fund		118,121	110,261	66,633
Trade and other receivables		730,851	772,019	631,905
Other financial assets		1,212	1,721	2,666
Cash and cash equivalents		316,672	110,245	146,218

Export trade accounts receivables to overseas clients, including Alokozay International, Ltd., are ₩229,096 million, ₩266,592 million and ₩149,720 million, and equal to 43.9%, 48.4% and 35.0% of the aggregate trade receivables, respectively, as of December 31, 2009, December 31, 2008 and January 1, 2008. The Group's trade receivables mentioned above were insured against non-payment up to USD36,200 thousand, USD34,400 thousand and USD34,900 thousand by export guarantee insurance with the Korea Export Insurance Corporation as of December 31, 2009, December 31, 2008 and January 1, 2008. The Group has no significant concentrations of customer credit risk except for the above export trade accounts receivables; on the other hand, there are a large number of widely dispersed customers with trade and other receivables.

The Group has made deposits on cash, cash equivalent and long-term in NACF and several financial institutions with high credit ratings, thus the credit risks from these financial institutions are very limited.

Interest rate risk

The Group has issued borrowings at variable rates and fixed rates, which expose the Group to interest rate risk. The Group's management monitors the level of interest rates and maintains the balance of borrowings at variable rates and fixed rates. As of December 31, 2009, December 31, 2008 and January 1, 2008, the amount of borrowings issued at variable rates is ₩40,655 million, ₩37,543 million and ₩28,320 million, respectively. There is no significant effect on cash flows or the fair value of financial liabilities from the interest rate fluctuation.

30 Risk Management, Continued

Market price risk
Market price risk arises from available-for-sale equity instruments held for investments. Management of the Group monitors the mix of debt and equity instruments in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Risk Management Committee.

As of December 31, 2009, the effect of 5% fluctuation of the price index of stocks on other comprehensive income is as follows:

In millions of Won		5% Increase	5% Decrease
Other comprehensive income before tax	₩	25,536	(25,536)
Tax effect		5,618	(5,618)
	₩	19,918	(19,918)

(c) Fair Value of Financial Instruments

The carrying amount and the fair value of financial instruments as of December 31, 2009, December 31, 2008 and January 1, 2008 are summarized as follows.

In millions of Won		2009 Carrying amount	2009 Fair value	2008 Carrying amount	2008 Fair value	January 1 2008 Carrying amount	January 1 2008 Fair value
Assets:							
Financial assets measured at fair value							
- Available-for-sale financial assets	₩	444,040	444,040	304,270	304,270	252,764	252,764
- Other financial assets		1,212	1,212	1,721	1,721	2,666	2,666
- Long-term deposits in MSA Escrow Fund		118,121	118,121	110,261	110,261	66,633	66,633
- Cash and cash equivalents		316,672	316,672	110,245	110,245	146,218	146,218
	₩	880,045	880,045	526,497	526,497	468,281	468,281
Financial assets measured at amortized cost							
- Trade and other receivables	₩	730,851	730,851	772,019	772,019	631,905	631,905
	₩	1,610,896	1,610,896	1,298,516	1,298,516	1,100,186	1,100,186
Liabilities:							
Financial liabilities measured at fair value							
- Other financial liabilities	₩	-	-	(2,699)	(2,699)	(25)	(25)
Financial liabilities measured at amortized cost							
- Trade and other payables	₩	(214,842)	(214,842)	(339,296)	(339,296)	(255,719)	(255,719)
- Long-term borrowings		(2,026)	(2,026)	(2,474)	(2,474)	(2,733)	(2,733)
- Short-term borrowings		(94,532)	(94,532)	(104,113)	(104,113)	(85,675)	(85,675)
- Current portion of long-term borrowings		(448)	(448)	(280)	(280)	(210)	(210)
	₩	(311,848)	(311,848)	(446,163)	(446,163)	(344,337)	(344,337)
	₩	(311,848)	(311,848)	(448,862)	(448,862)	(344,362)	(344,362)

30 Risk Management, Continued

The fair value hierarchy
The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level of fair value hierarchy is as follows:

	the significance of the inputs
Level Ⅰ	The quoted prices in active markets for identical assets or liabilities
Level Ⅱ	The inputs that are observable for the asset or liability, either directly or indirectly
Level Ⅲ	The inputs for the asset or liability that are not based on observable market data

The fair value measurements classified by fair value hierarchy as of December 31, 2009 and December 31, 2008 and January 1, 2008 are as follows.

In millions of Won		Level Ⅰ	Level Ⅱ	Level Ⅲ	Total
As of December 31, 2009:					
Financial assets					
- Available-for-sale financial assets	₩	413,022	6,918	24,100	444,040
- Other financial assets		1,212	-	-	1,212
- Long-term deposits in MSA Escrow Fund		118,121	-	-	118,121
- Cash and cash equivalents		316,672	-	-	316,672
	₩	849,027	6,918	24,100	880,045
As of December 31, 2008:					
Financial assets					
- Available-for-sale financial assets	₩	274,954	7,226	22,090	304,270
- Other financial assets		1,721	-	-	1,721
- Long-term deposits in MSA Escrow Fund		110,261	-	-	110,261
- Cash and cash equivalents		110,245	-	-	110,245
	₩	497,181	7,226	22,090	526,497
Financial Liabilities					
- Other financial liabilities	₩	-	(2,699)	-	(2,699)
As of January 1, 2008:					
Financial assets					
- Available-for-sale financial assets	₩	221,023	2,000	29,741	252,764
- Other financial assets		2,666	-	-	2,666
- Long-term deposits in MSA Escrow Fund		66,633	-	-	66,633
- Cash and cash equivalents		146,218	-	-	146,218
	₩	436,540	2,000	29,741	468,281
Financial Liabilities					
- Other financial liabilities	₩	-	(25)	-	(25)

As Genematrix, Inc. was listed on KOSDAQ in the year ended December 31, 2009, available-for-sale equity instruments in Genematrix, Inc. was transferred from Level III to Level Ⅰ. As Rexahn Pharmaceuticals, Inc. was listed on New York Stock Exchange in the year ended December 31, 2008, available-for-sale equity instruments in Rexahn Pharmaceuticals, Inc. was transferred from Level III to Level Ⅱ. As Celltrion, Inc. was listed on KOSDAQ in the year ended December 31, 2008, available-for-sale equity instruments in Celltrion, Inc. was transferred from Level III to Level Ⅰ.

31 Contingent Liabilities and Financial Commitments

(a) The Group deposited some proportion of sales in accordance with Tobacco Master Settlement Agreement ("MSA") under the Escrow Statute of the US Government, related to the export of tobacco to the United States. The MSA Escrow Funds is maintained to pay the medical expenses of tobacco purchasers who have suffered health effects as a result of smoking. The unused portion of this fund will be refunded to the Group 25 years from the date that the fund was established. The Group recorded as long-term deposits the amounts paid into the MSA Escrow Funds of State governments in the United States against potential litigation and damages related to the export of tobacco into the United States.

(b) As of December 31, 2009, tobacco lawsuits claiming damages of ₩584 million were filed against the Group and the Korean government. The plaintiffs have asserted that the Group and the Korean government did not perform their obligations to notify smokers of the potential health hazards of smoking. Additionally, the Group is involved in various lawsuits for claims and damages aggregating ₩4,437 million as a defendant and ₩14,969 million as a plaintiff. According to the Group's management, the final outcome of these cases cannot be predicted as of December 31, 2009.

(c) As of December 31, 2009, the Group has entered into Letter of Credit agreements with the NACF and other banks with a limit set at USD48,300 thousand.

(d) As of December 31, 2009, the Group's trade receivables from the export of cigarettes were insured against non-payment up to USD36,200 thousand by an export guarantee insurance with the Korea Export Insurance Corporation.

(e) As of December 31, 2009, the Group has been provided with a foreign currency payment guarantee for local dealers in Russia and other countries up to USD70,000 thousand by Korea Exchange Bank and other.

(f) As of December 31, 2009, the Group maintains a contract with the farmers who grow six-year old green ginseng for purchase volume guarantees and recorded advance payments to the farmers in accordance with the contract amounted to ₩161,332 million.

(g) As of December 31, 2009, the Group and 28 other companies, which form the Samsung Corporation-National Pension Service Joint Consortium, were guaranteed ₩240,000 million by Seoul Guarantee Insurance Co., Ltd. in relation to the Yongsan International Commercial Development Project.

(h) The Group entered into an overdraft agreement with a limit of ₩10,000 million with the NACF and a discount on the commercial note agreement with a limit of ₩16,000 million with the IBK Capital Corporation as of December 31, 2009.

(i) As of December 31, 2009, the Group provided 2 blank notes, 15 notes amounting to ₩17,200 million and 5 blank checks to Tong Yang Securities Inc. and others as collateral for its short-term borrowings and trade agreements. The Group is in the process of having 1 lost note provided as collateral as of December 31, 2009 nullified.

32 Non-current Asset Held for Sale

In 2006, the Group determined to dispose the land located in Pyeongtaek City, Gyeonggi-do for the purposes of improving its financial structure and investments in property, and entered into a contract to sell the land. The transacting party may terminate the contract if the land is not included in the area for development by Pyeongtaek City. Also, the Group entered into a contract to sell the land located in Yongsan and Eulji-ro, Seoul for the year ended December 31, 2009. In respect of the above transaction, the Group recognised non-current asset held for sale amounting to ₩46,152 million, ₩22,907 million and ₩22,956 million at the lowers of its carrying amount and fair value less costs to sell as of December 31, 2009, December 31, 2008 and January 1, 2008.

33 Cash flows from operating activities

Details of cash generated from operations for the years ended December 31, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Profit for the year	₩	850,094	895,129
Adjustments for:			
- Income tax expense		311,784	349,999
- Finance costs		6,526	13,711
- Finance income		(12,853)	(21,253)
- Depreciation		151,884	151,151
- Amortization		1,492	2,034
- Retirement benefit costs		41,541	30,672
- Foreign currency translations loss		17,708	1,337
- Loss on the write-down of inventories		-	4,413
- Impairment loss on trade and other receivables		720	763
- Loss on sale of property, plant and equipment		7,496	3,124
- Impairment loss on property, plant and equipment		657	429
- Impairment loss on intangible assets		647	-
- Other expense		4,154	5,412
- Share of loss of associates, net		185	318
- Reversal of loss on the write-down of inventories		(3,807)	(22,542)
- Foreign currency translations gain		(1,184)	(26,933)
- Gain on sale of property, plant and equipment		(17,033)	(15,410)
- Gain on sale of intangible assets		-	(3)
- Reversal of impairment loss on trade and other receivables		(46)	(1,315)
- Other income		(94)	(335)
		1,359,871	1,370,701
Changes in working capital:			
- Trade and other receivables		17,697	(88,854)
- Advance payments		(28,083)	(25,801)
- Prepaid expenses		(3,595)	3,791
- Prepaid tobacco excise and other taxes		32,333	(37,398)
- Inventories		48,067	(195,254)
- Trade and other payables		(122,072)	80,786
- Advance receipts		(46,045)	573
- Tobacco excise and other taxes payable		(20,147)	24,086
- Payment of retirement benefits		(54,184)	(69,251)
Cash generated from operations	₩	1,183,842	1,063,379

December 31, 2009, December 31, 2008 and January 1, 2008

34 Dividends

Dividends and dividends per share proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the years ended December 31, 2009 and 2008 are as follows:

In millions of Won, except share information and dividends per share		2009	2008
Number of shares receivable dividend		127,198,800	128,698,800
Dividends per share in Won	₩	2,800	2,800
Total Dividends		356,157	360,357

35 Date of Authorization for Issue

The 2009 financial statements were authorized for issue on January 20, 2010, at the Board of Directors Meeting.

36 Transition to Korean International Financial Reporting Standards

Prior to 2009, the Group prepared its consolidated financial statements under Generally Accepted Accounting Principles in the Republic of Korea ("K-GAAP"). From January 1, 2009, the Group is required to prepare its consolidated financial statements in accordance with K-IFRS. As the 2009 consolidated financial statements include comparatives for 2008, the Group's date of transition to K-IFRS in accordance with K-IFRS No.1101 on first time adoption of K-IFRS, is January 1, 2008, and the 2008 comparatives are restated to K-IFRS.

The effect of the transition from K-GAAP to K-IFRS, affecting the Group's reported financial position, financial performance and cash flows, is as follows:

(a) K-IFRS No.1101 permits those companies adopting K-IFRS for the first time certain exemptions from the full requirements of K-IFRS in the transition period. The Group has taken the following key exemptions:

(i) Business combinations prior to the date of transition are not restated.

(ii) The Group measures some of land at the deemed cost which is fair value at the date of transition to K-IFRS.

(iii) The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset after the date of transition to K-IFRS.

(b) The main adjustments in changing to K-IFRS are as follows and the tables of reconciliation are cross-referenced to the notes below where relevant:

(1) Reclassification of Investment Property and Intangible Asset under Development

In accordance with K-GAAP, property held to earn rentals or for capital appreciation or both were classified and accounted for as property, plant and equipment. In accordance with K-IFRS, it is reclassified as investment property.

In accordance with K-GAAP, the land determined to be disposed was classified and accounted for as property, plant and equipment. In accordance with K-IFRS, it is reclassified as non-current asset held for sale.

In addition, development costs of new medicines classified as construction-in-progress of property, plant and equipment in accordance with K-GAAP, are reclassified as intangible asset under development in accordance with K-IFRS.

(2) Reclassification of Guarantee Deposits Paid and Guarantee Deposits for Membership

In accordance with K-GAAP, guarantee deposits paid and guarantee deposits for membership recognized as other non-current assets are recorded in intangible assets as rights to facility usage with indefinite useful lives and prepaid expenses, respectively. Prepaid expenses attribute expenses to periods of service.

36 Transition to Korean International Financial Reporting Standards, Continued

(3) Revenue Recognition Criteria

In accordance with K-GAAP, revenue from building lotting-out construction contracts is accounted for by the percentage of completion method. In accordance with K-IFRS, it is recognized when the significant risks and rewards of ownership are transferred to a third party.

With regard to the customer loyalty program to provide customers with incentives to buy goods, the Group recognized its obligations by recording a liability for the estimated incremental cost of points expected to be redeemed in accordance with K-GAAP. However, in accordance with K-IFRS, the fair value of points provided to the customers among the consideration received or receivable from the sales transaction is deferred and recognized as revenue over the period during which the service is performed.

(4) Retirement Benefit Obligations

Employees who have been with the Group for more than one year are entitled to lump-sum payments based on current salary rates and length of service when they leave the Group. In accordance with K-GAAP, the Group's estimated liability under the plan which would be payable if all employees left on the end of reporting date is accrued in the consolidated statement of financial position. In accordance with K-IFRS, the Group uses the projected unit credit method by way of an actuarial valuation method to determine the present value of its defined benefit obligations.

(5) Employee Benefits: Accumulating Compensated Absence and Bonus

According to the K-IFRS, the Group recognizes the expected cost of short-term employee benefits in the form of compensated absence as a liability, when employees render service that increases their entitlement to future compensated absences. Also, the Group recognizes its legal or constructive obligation under a profit-sharing or bonus plan as a liability when employees render service.

(6) Derecognition of Financial Assets and Financial Liabilities

With regard to trade receivables with customer credit contracts, trade receivables were derecognized at the point of the collection from lenders in accordance with K-GAAP. However, in accordance with K-IFRS, trade receivables with customer credit contracts were derecognized at the point of the collection from borrowers. In addition, in accordance with K-GAAP, tobacco excise and other taxes payable were reflected in the consolidated statement of financial position after offsetting by prepaid tobacco excise and other taxes. However, in accordance with K-IFRS, they are reflected in the consolidated statement of financial position the aggregate amount in total rather than offset.

36 Transition to Korean International Financial Reporting Standards, Continued

(7) Changes in Consolidated Subsidiaries and Equity Accounted Investments

In accordance with K-GAAP, investments in small subsidiaries such as KT&G Pars, KT&G Rus L.L.C. and KGC Sales Co., Ltd. with total assets amounting to less than ₩7,000 million as of the prior fiscal year-end are excluded from the scope of consolidated financial statement. However, in accordance with K-IFRS, all investments in subsidiaries controlled by the Parent Company are included in the scope of consolidated financial statement.

In accordance with K-GAAP, investments in associates such as Cosmo Tabacco Co., Ltd., Korea Islet Transplantation Institute, Inc. and Lite Pharm Tech, Inc. were accounted for under the cost method since the effect of applying the equity method on its consolidated financial statements is immaterial. In accordance with K-IFRS, these are reclassified as the equity accounted investment accounted for under the equity method of accounting.

(8) Impairment and Uncollectibility of Financial Assets

In accordance with K-GAAP, allowances for the receivables were influenced by tax requirements and practice. However, in accordance with K-IFRS, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

(9) Financial Instrument Carried at Amortized Cost

In accordance with K-GAAP, a financial instrument such as loans and receivables was recognized in nominal terms. However, in accordance with K-IFRS, when a financial instrument is recognized initially, it is measured at its fair value. After initial recognition, a financial instrument is measured at amortized cost using the effective interest method.

(10) Review of Depreciation Period or Depreciation Method

The Group reviewed the depreciation method and the useful life of the asset to reflect the pattern and period in which the asset's future economic benefits are expected to be consumed by the Group.

(11) Measurement of Land at the Deemed Cost at the Date of Transition

In the preparation of the opening K-IFRS consolidated statement of financial position on the date of transition to K-IFRS, the Group measures some of land at the deemed cost which is fair value at the date of transition.

(12) The Effect of Income Tax

In accordance with K-GAAP, it is required that deferred tax assets and liabilities be classified as current or non-current. However, K-IFRS does not specify whether the Group should distinguish current and non-current portions of deferred tax assets and liabilities. In addition, the tax effects of the above adjustments arising from differences between K-GAAP and K-IFRS have been reflected in the financial statements.

36 Transition to Korean International Financial Reporting Standards, Continued

(c) Reconciliation of Equity in accordance with K-GAAP to Equity in accordance with K-IFRS

(i) The effect of the change to K-IFRS on the consolidated statement of financial position at January 1, 2008 is as follows:

In millions of Won		K-GAAP	Re-classification	Revenue recognition criteria	Retirement benefit obligations	Employee benefits	Derecognition of financial instruments	Scope of con-solidation and equity method	Other Changes	K-IFRS
Notes			(1)(2)	(3)	(4)	(5)	(6)	(7)	(8)(9)(10)(11)(12)	
Assets	₩	4,134,102	(953)	12,623	(2,092)	5,967	214,443	2,263	16,273	4,382,626
Equity	₩	3,163,227	(953)	(6,549)	16,631	(79,534)	-	(3,001)	50,087	3,139,908
- Equity attributable to owners of the Parent Company		3,143,110	(953)	(6,549)	16,342	(79,119)	-	(3,001)	39,189	3,109,019
- Non-controlling interests		20,117	-	-	289	(415)	-	-	10,898	30,889
Liabilities		970,875	-	19,172	(18,723)	85,501	214,443	5,264	(33,814)	1,242,718
Equity and liabilities	₩	4,134,102	(953)	12,623	(2,092)	5,967	214,443	2,263	16,273	4,382,626

(ii) The effect of the change to K-IFRS on the consolidated statement of financial position at December 31, 2008 is as follows:

In millions of Won		K-GAAP	Re-classification	Revenue recognition criteria	Retirement benefit obligations	Employee benefits	Derecognition of financial instruments	Scope of con-solidation and equity method	Other Changes	K-IFRS
Notes			(1)(2)	(3)	(4)	(5)	(6)	(7)	(8)(9)(10)(11)(12)	
Assets	₩	4,572,188	(977)	37,473	2,301	3,890	253,933	600	43,521	4,912,929
Equity	₩	3,556,131	(977)	(29,574)	(10,484)	(83,773)	-	(26,478)	98,992	3,503,837
- Equity attributable to owners of the Parent Company		3,539,055	(977)	(29,574)	(10,401)	(83,170)	-	(26,478)	87,818	3,476,273
- Non-controlling interests		17,076	-	-	(83)	(603)	-	-	11,174	27,564
Liabilities		1,016,057	-	67,047	12,785	87,663	253,933	27,078	(55,471)	1,409,092
Equity and liabilities	₩	4,572,188	(977)	37,473	2,301	3,890	253,933	600	43,521	4,912,929

36 Transition to Korean International Financial Reporting Standards, Continued

(d) Reconciliation of Total Comprehensive Income in accordance with K-GAAP to Total Comprehensive Income in accordance with K-IFRS

(i) The effect of the change to K-IFRS on the consolidated statement of comprehensive income for the year ended December 31, 2008 is as follows:

In millions of Won, except earnings per share		K-GAAP	Re-classification	Revenue recognition criteria	Retirement benefit obligations	Employee benefits	Scope of con-solidation and equity method	Other Changes	K-IFRS
Notes			(1)(2)	(3)	(4)	(5)	(7)	(8)(9)(10)(11)(12)	
Sales	₩	3,363,854	47	(51,843)	-	-	(233)	494	3,312,319
Cost of sales		(1,375,659)	(3,538)	48,950	9,289	(2,994)	4,185	7,235	(1,312,532)
Gross profit		1,988,195	(3,491)	(2,893)	9,289	(2,994)	3,952	7,729	1,999,787
Other income		121,646	(47)	-	-	-	-	(2,740)	118,859
Selling, general and administrative expenses		(808,334)	3,515	(20,133)	16,102	(1,244)	(1,929)	2,342	(809,681)
Contribution to employee welfare foundation		(21,000)	-	-	-	-	-	-	(21,000)
Other expense		(59,529)	209	-	-	-	(3,588)	12,847	(50,061)
Profit from operations		1,220,978	186	(23,026)	25,391	(4,238)	(1,565)	20,178	1,237,904
Net finance income (costs)		14,767	(209)	-	(7,903)	-	239	648	7,542
Share of profit or loss of associates		15	-	-	-	-	(333)	-	(318)
Profit before tax		1,235,760	(23)	(23,026)	17,488	(4,238)	(1,659)	20,826	1,245,128
Income tax expense		(346,405)	-	-	-	-	(196)	(3,398)	(349,999)
Profit for the period	₩	889,355	(23)	(23,026)	17,488	(4,238)	(1,855)	17,428	895,129
Other comprehensive income, net of tax		28,175	-	-	(35,015)	-	1,171	-	(5,669)
Total comprehensive income for the period	₩	917,530	(23)	(23,026)	(17,527)	(4,238)	(684)	17,428	889,460
Profit attributable to:									
- Owners of the Parent Company		892,396	(23)	(23,026)	17,183	(4,050)	(1,855)	17,152	897,777
- Non-controlling interests		(3,041)	-	-	305	(188)	-	276	(2,648)
Total comprehensive income attributable to:									
- Owners of the Parent Company		920,571	(23)	(23,026)	(17,155)	(4,050)	(684)	17,152	892,785
- Non-controlling interests		(3,041)	-	-	(372)	(188)	-	276	(3,325)
Basic and diluted earnings per share in Won	₩	6,857							6,899

36 Transition to Korean International Financial Reporting Standards, Continued

(e) Explanation of Material Adjustments to the Consolidated Statement of Cash Flows

Interest paid, interest received and dividends received were classified as operating cash flows in accordance with K-GAAP. But, in accordance with K-IFRS, interest paid are reclassified as financing cash flows, and interest received and dividends received are reclassified as investing cash flows. The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is presented separately from cash flows from operating, investing and financing activities.

Bank overdrafts which form an integral part of the Group's cash management are included as a component of cash and cash equivalents rather than financing cash flows.