KT&G Corporation and Subsidiaries

Interim Consolidated Financial Statements
March 31, 2013 and 2012

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Report on Review Interim Financial Statements

To the Board of Directors and Shareholders of
KT&G Corporation

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements KT&G Corporation and its subsidiaries (collectively the "Group"). These financial statements consist of the statement of financial position of the Group as of March 31, 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") 1034, *Interim Financial Reporting*, and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to issue a report on these interim consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe the accompanying interim consolidated financial statements do not present fairly, in all material respects, in accordance with the Korean IFRS 1034, Interim Financial Reporting.

Other Matters

We have audited the consolidated statement of financial position of KT&G Corporation as of December 31, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those financial statements in our audit report dated February 5, 2013. These financial statements are not included in this review report. The consolidated statement of financial position as of December 31, 2012, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as of December 31, 2012.

The accompanying interim consolidated financial statements as of and for the three-month period ended March 31, 2013, have been translated into US dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 34 to the interim consolidated financial statements.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean review standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea

May 14, 2013

This report is effective as of May 14, 2013, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying interim consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Financial Position
March 31, 2013 and December 31, 2012

(in millions of Korean won and thousands of U.S. dollars)	Notes		March 31, 2013 Korean won		March 31, 2013 U.S. dollars (Note 34)		December 31, 2012 Korean won
Assets							
Non-current assets							
Property, plant and equipment	10,14	₩	1,624,856	$	1,461,070	₩	1,631,436
Intangible assets	11		246,432		221,592		246,793
Investment property	12,14		178,459		160,471		181,986
Investments in associates	5,15		54,930		49,393		55,777
Available-for-sale financial assets	6,7		263,561		236,994		263,884
Other financial assets	6,17		290		260		275
Long-term deposits in MSA Escrow Fund	6,9,32		185,380		166,693		168,667
Long-term advance payments	32		143,281		128,839		144,649
Long-term prepaid expenses			5,230		4,703		5,416
Long-term trade and other receivables	6,8		105,114		94,518		121,784
Deferred income tax assets	28		16,331		14,685		17,491
			2,823,864		2,539,218		2,838,158
Current assets							
Inventories	16		1,701,504		1,529,992		1,706,796
Available-for-sale financial assets	6,7		1,000		900		1,000
Other financial assets	6,17		263,536		236,972		649,186
Prepaid tobacco excise and other taxes			327,115		294,141		257,183
Trade and other receivables	6,8		944,030		848,871		883,778
Advance payments	32		113,156		101,750		66,315
Prepaid expenses			27,083		24,353		20,523
Cash and cash equivalents	6,17		793,339		713,372		372,260
			4,170,763		3,750,351		3,957,041
Assets held for sale	5,13		177		159		762
Total assets		₩	6,994,804	$	6,289,728	₩	6,795,961
Equity							
Capital stock	1,18	₩	954,959	$	858,699	₩	954,959
Other capital surplus	18		(4,572)		(4,112)		(4,572)
Treasury shares	19		(339,059)		(304,881)		(339,059)
Gain on reissuance of treasury shares	19		492,032		442,435		492,032
Reserve	20		3,373,408		3,033,368		3,011,110
Retained earnings	21		429,469		386,178		976,425
Equity attributable to equity holders of the Parent Company			4,906,237		4,411,687		5,090,895
Non-controlling interests			99,810		89,749		103,524
Total equity			5,006,047		4,501,436		5,194,419
Liabilities							
Non-current liabilities							
Long-term borrowings	6,23		113,400		101,969		109,599
Long-term trade and other payables	6,22		26,035		23,411		25,407
Long-term advance receipts			18,924		17,016		20,238
Defined benefit liability	24		122,836		110,454		107,644
Provisions for other liabilities and charges			3,047		2,740		3,329
Deferred income tax liabilities	28		248,740		223,667		237,605
			532,982		479,257		503,822
Current liabilities							
Borrowings	6,23		69,521		62,513		91,868
Current portion of long-term borrowings	6,23		2,897		2,605		2,912
Trade and other payables	6,22		425,887		382,958		410,216
Advance receipts			43,483		39,101		30,875
Income taxes payable	28		219,072		196,990		148,925
Tobacco excise and other taxes payable			694,905		624,859		412,924
Derivatives liability			10		9		-
			1,455,775		1,309,035		1,097,720
Total liabilities			1,988,757		1,788,292		1,601,542
Total liabilities and equity		₩	6,994,804	$	6,289,728	₩	6,795,961

The accompanying notes are an integral part of these interim consolidated financial statements.
The US dollar figures are provided for information purposes only and do not form part of the consolidated financial statements. Refer to Note 34.

KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Comprehensive Income
Three-Month Periods Ended March 31, 2013 and 2012

(in millions of Korean won and thousands of U.S. dollars, except per share amounts)	Notes	Period Ended March 31 2013 Korean won	2013 U.S. dollars (Note 34)	2012 Korean won
Sales	5	₩ 896,038	$ 805,717	₩ 961,562
Cost of sales	26	(376,744)	(338,768)	(430,036)
Gross profit		519,294	466,949	531,526
Selling and administrative expenses	25,26	(270,467)	(243,204)	(265,582)
Operating income		248,827	223,745	265,944
Other income	25	45,207	40,650	16,569
Other expenses	25,26	(10,494)	(9,436)	(24,396)
Net other income		34,713	31,214	(7,827)
Finance income	27	13,035	11,721	12,772
Finance cost	27	(15,195)	(13,663)	(3,939)
Net Finance income		(2,160)	(1,942)	8,835
Income from jointly controlled entities and associates	15	411	370	1,286
Expense from jointly controlled entities and associates	15	(993)	(893)	(165)
Profit before income tax		280,798	252,494	268,073
Income tax expense	28	(82,449)	(74,139)	(81,820)
Profit for the period		₩ 198,349	$ 178,355	₩ 186,253
Other comprehensive income(loss), net of tax				
Items that will not be reclassified to profit or loss:				
Actuarial loss on defined benefit liability	24	(180)	(162)	(178)
Items that will be reclassified subsequently to profit or loss:				
Change in value of available-for-sale financial assets	7	₩ 8,851	$ 7,959	₩ 20,325
Gain on currency translation of foreign operations		6,447	5,798	7,167
Other comprehensive income for the period, net of tax		15,118	13,595	27,314
Total comprehensive income for the period		₩ 213,467	$ 191,950	₩ 213,567
Profit for the period attributable to:				
Equity holders of the Parent Company		₩ 203,099	$ 182,626	₩ 190,820
Non-controlling interests		(4,750)	(4,271)	(4,567)
		₩ 198,349	$ 178,355	₩ 186,253
Total comprehensive income for the period attributable to:				
Equity holders of the Parent Company		₩ 218,219	$ 196,223	₩ 218,136
Non-controlling interests		(4,752)	(4,273)	(4,569)
		₩ 213,467	$ 191,950	₩ 213,567
Earnings per share attributable to the equity holders of the Parent Company during the period (in won)				
Basic and diluted earnings per share	29	₩ 1,613	$ 1.45	₩ 1,517

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KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Changes in Equity
Three-Month Periods Ended March 31, 2013 and 2012

(in millions of Korean won)

		Attributable to equity holders of the Parent Company								
	Notes	Capital stock	Other Capital Surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2012		₩ 954,959	₩ 5,333	₩ (343,522)	₩ 485,922	₩ 2,663,313	₩ 1,022,126	₩ 4,788,131	₩ 96,947	₩ 4,885,078
Comprehensive income										
Profit for the period		-	-	-	-	-	190,820	190,820	(4,567)	186,253
Change in value of available-for-sale financial assets		-	-	-	-	20,325	-	20,325	-	20,325
Gain on currency translation of foreign operations		-	-	-	-	7,167	-	7,167	-	7,167
Actuarial gains (losses) on defined benefit liability		-	-	-	-	-	(175)	(175)	(3)	(178)
Total comprehensive income (loss)		-	-	-	-	27,492	190,645	218,137	(4,570)	213,567
Transactions with equity holders of the Parent Company										
Cash dividends		-	-	-	-	-	(402,396)	(402,396)	-	(402,396)
Other reserve		-	-	-	-	359,000	(359,000)	-	-	-
Convertible bond – equity component		-	4,204	-	-	-	-	4,204	-	4,204
Total transactions with equity holders of the Paretn Company		-	4,204	-	-	359,000	(761,396)	(398,192)	-	(398,192)
Balance at March 31, 2012		₩ 954,959	₩ 9,537	₩ (343,522)	₩ 485,922	₩ 3,049,805	₩ 451,375	₩ 4,608,076	₩ 92,377	₩ 4,700,453
Balance at January 1, 2013		₩ 954,959	₩ (4,572)	₩ (339,059)	₩ 492,032	₩ 3,011,110	₩ 976,425	₩ 5,090,895	₩ 103,524	₩ 5,194,419
Comprehensive income										
Profit for the period		-	-	-	-	-	203,099	203,099	(4,750)	198,349
Change in value of available-for-sale financial assets		-	-	-	-	8,851	-	8,851	-	8,851
Gain on currency translation of foreign operations		-	-	-	-	6,447	-	6,447	-	6,447
Actuarial gains (losses) on defined benefit liability		-	-	-	-	-	(178)	(178)	(2)	(180)
Total comprehensive income (loss)		-	-	-	-	15,298	202,921	218,219	(4,752)	213,467
Transactions with equity holders of the Parent Company										
Cash dividends		-	-	-	-	-	(402,877)	(402,877)	-	(402,877)
Other reserve		-	-	-	-	317,000	(317,000)	-	-	-
Transfer from reserve for research and human resource development		-	-	-	-	30,000	(30,000)	-	-	-
Acquisition of investments in subsidiaries		-	-	-	-	-	-	-	1,038	1,038
Total transactions with equity holders of the Parent Company		-	-	-	-	347,000	(749,877)	(402,877)	1,038	(401,839)
Balance at March 31, 2013		₩ 954,959	₩ (4,572)	₩ (339,059)	₩ 492,032	₩ 3,373,408	₩ 429,469	₩ 4,906,237	₩ 99,810	₩ 5,006,047

The accompanying notes are an integral part of these interim consolidated financial statements.

KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Changes in Equity
Three-Month Periods Ended March 31, 2013 and 2012

(in thousands of U.S. dollars) (Note 34)	Attributable to equity holders of the Parent Company								
	Capital stock	Other Capital Surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2013	$ 858,699	$ (4,112)	$ (304,881)	$ 442,435	$ 2,707,589	$ 878,001	$ 4,577,731	$ 93,089	$ 4,670,820
Comprehensive income									
Profit for the period	-	-	-	-	-	182,626	182,626	(4,271)	178,355
Change in value of available-for-sale financial assets	-	-	-	-	7,959	-	7,959	-	7,959
Gain on currency translation of foreign operations	-	-	-	-	5,798	-	5,798	-	5,798
Actuarial gains (losses) on defined benefit liability	-	-	-	-	-	(160)	(160)	(2)	(162)
Total comprehensive income (loss)	-	-	-	-	13,757	182,466	196,223	(4,273)	191,950
Transactions with equity holders of the Parent Company									
Cash dividends	-	-	-	-	-	(362,267)	(362,267)	-	(362,267)
Other reserve	-	-	-	-	285,046	(285,046)	-	-	-
Transfer from reserve for research and human resource development	-	-	-	-	26,976	(26,976)	-	-	-
Acquisition of investments in subsidiaries	-	-	-	-	-	-	-	933	933
Total transactions with equity holders of the Parent Company	-	-	-	-	312,022	(674,289)	(362,267)	933	(361,334)
Balance at March 31, 2013	$ 858,699	$ (4,112)	$ (304,881)	$ 442,435	$ 3,033,368	$ 386,178	$ 4,411,687	$ 89,749	$ 4,501,436

The accompanying notes are an integral part of these interim consolidated financial statements.

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KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Cash Flows
Three-Month Periods Ended March 31, 2013 and 2012

(in millions of Korean won and thousands of U.S. dollars)	Notes		Period Ended March 31 2013 Korean won		2013 U.S. dollars (Note 34)		2012 Korean won
Cash flows from operating activities							
Cash generated from operations	31	₩	492,768	$	443,097	₩	592,663
Income tax paid			(2,606)		(2,343)		(1,164)
Net cash generated from operating activities			490,162		440,754		591,499
Cash flows from investing activities							
Interest received			10,316		9,277		6,915
Investment income received from long-term deposits in MSA Escrow Fund			400		360		70
Dividends received			3,591		3,229		3,416
Proceeds from sale of property, plant and equipment			1,058		951		3,938
Proceeds from sale of intangible assets			46		42		454
Proceeds from sale of non-current asset held for sale			725		652		-
Proceeds from sale of available-for-sale financial assets			-		-		1,080
Decrease in loans			2,354		2,117		5,488
Decrease in guarantee deposits			6,712		6,035		11,164
Acquisition of property, plant and equipment			(26,973)		(24,254)		(32,238)
Acquisition of intangible assets			(922)		(829)		(646)
Acquisition of investment property			(1,422)		(1,278)		-
Acquisition of jointly controlled entities and associates			-		-		(11,500)
Acquisition of available-for-sale financial assets			-		-		(1,500)
Increase in loans			(183)		(165)		(401)
Increase in guarantee deposits			(9,413)		(8,464)		(8,265)
Increase in long-term deposits in MSA Escrow Fund			(9,977)		(8,971)		(5,578)
Increase (Decrease) in other financial assets			385,676		346,800		(135,909)
Net cash provided by (used in) investing activities			361,988		325,502		(163,512)
Cash flows from financing activities							
Interest paid			(3,214)		(2,891)		(5,648)
Dividends paid			(402,876)		(362,266)		(402,396)
Proceeds from long-term borrowings			-		-		26,277
Proceeds from short-term borrowings			41,810		37,595		29,807
Increase in deposits received			1,370		1,232		4,972
Repayments of long-term borrowings			-		-		(1,064)
Repayments of short-term borrowings			(66,331)		(59,645)		(34,294)
Decrease in deposits received			(1,892)		(1,701)		(1,035)
Net cash used in financing activities			(431,133)		(387,676)		(383,381)
Net increase in cash and cash equivalents			421,017		378,580		44,606
Cash and cash equivalents at the beginning of period			372,260		334,736		807,731
Exchange gains on cash and cash equivalents			62		56		44
Cash and cash equivalents at the end of period		₩	793,339	$	713,372	₩	852,381

The accompanying notes are an integral part of these interim consolidated financial statements.
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1. General Information

General information about KT&G Corporation (the "Parent Company") and its subsidiaries (collectively referred to "the Group") is as follows.

The Parent Company, which is engaged in manufacturing and selling tobaccos, 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 shares 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 March 31, 2013, the Parent Company has two manufacturing plants, including the Shintanjin plant, and 14 local headquarters and 135 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for the manufacturing of packaging. The head office of the Parent Company is located 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 an 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 shares as of March 31, 2013, is held as follows:

Shareholders	Number of shares	Percentage of ownership
Industrial Bank of Korea	9,510,485	6.93%
Employee share ownership association	2,622,646	1.91%
Others	113,765,669	82.86%
	125,898,800	91.70%
Treasury shares	11,393,697	8.30%
	137,292,497	100.00%

The Parent Company's consolidated subsidiaries as of March 31, 2013, are as follows:

Immediate Parent	Subsidiaries	Location	Percentage of ownership (%)
			March 31, 2013
KT&G Corporation	Korea Ginseng Corporation	Korea	100.00
	Yungjin Pharm. Ind. Co., Ltd.	Korea	53.00
	Tae-a Inddustry Co., Ltd.	Korea	100.00
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	99.99
	Korea Tabacos do Brasil Ltda.	Brazil	99.90
	KT&G Pars	Iran	99.99
	KT&G Rus L.L.C.	Russia	100.00
	KG Life & Gin Co., Ltd	Korea	100.00
	Global Trading, Inc.	USA	100.00
	Jilin Hanzheng Ginseng Co., Ltd.	China	100.00
	Somang Cosmetics Co., Ltd.[1]	Korea	60.00
	Renzoluc Pte., Ltd[2].	Singapore	100.00
	KT&G Life Science[3]	Korea	73.94
	Yebon Nongwon Agriculture Co., Ltd	Korea	90.00
	KGC Yebon	Korea	100.00
	K-Q HongKong I,Limited[4]	Hong Kong	100.00
	PT KT&G Indonesia	Indonesia	99.96
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Indonesia	60.17
	PT Mandiri Maha Mulia	Indonesia	66.47
PT Trisakti Purwosari Makmur	PT Sentosa Ababi Purwosari	Indonesia	99.24
	PT Purindo Ilufa	Indonesia	100.00
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation	Taiwan	100.00
	Korean Red Ginseng Corp., Inc.	USA	100.00
	Korea Ginseng (China) Corp.	China	100.00
	Korea Ginseng Corporation Japan	Japan	100.00
	PT CKJ INDONESIA	Indonesia	99.88

[1] The Parent Company's percentage of ownership includes convertible preferred shares. As of March 31, 2013, the Company's percentage of ownership excludes convertible preferred shares, is 50.00%.

[2] The Parent Company's percentage of ownership includes convertible preferred shares. As of March 31, 2013, the Company's percentage of ownership excludes convertible preferred shares, is 68.91%.

[3]The Parent Company's percentage of ownership includes convertible preferred shares. As of March 31, 2013, the Company's percentage of ownership excludes convertible preferred shares, is 59.48%.

[4] The Parent Company's percentage of ownership includes convertible preferred shares. As of March 31, 2013, the Company's percentage of ownership excludes convertible preferred shares, is 50.00%.

Summarized financial information of subsidiaries as of March 31, 2013, and for the three-month period ended March 31, 2013, is as follows:

(In millions of Korean won)

Subsidiaries	Total assets	Total liabilities	Revenue	Profit (loss)	Total comprehensive income
Korea Ginseng Corporation	1,300,047	112,374	201,942	31,462	31,432
Yungjin Pharm. Ind. Co., Ltd.	165,020	72,107	37,622	1,849	1,844
Tae-a industry Co., Ltd.	14,739	3,235	3,797	56	55
KT&G Tutun Mamulleri Sanayive Ticaret A.S.	54,372	33,282	3,044	(554)	27
Korea Tabacos do Brasil Ltda.	1,099	11	-	-	-
KT&G Pars	45,163	42,404	4,349	2,632	2,632
KT&G Rus L.L.C.	135,527	30,077	-	(350)	923
KG Life & Gin Co., Ltd.	22,414	17,458	11,355	(3,992)	(3,991)
Global Trading, Inc.	32,175	24,958	48,224	149	413
Jilin Hanzheng Ginseng Co., Ltd.	69,347	43,447	-	(1,131)	(93)
Somang Cosmetics Co., Ltd.	86,802	71,550	21,730	(7,667)	(7,667)
Renzoluc Pte., Ltd.	112,993	60,944	-	171	2,088
KT&G Life science	37,429	14,314	2	(1,427)	(1,427)
Yebon Nongwon Agriculture Co., Ltd.	98	-	-	(3)	(3)
KGC Yebon	43,000	977	-	(414)	(411)
PT Trisakti Purwosari Makmur	130,704	90,857	10,436	(3,600)	(2,422)
Cheong Kwan Jang Taiwan Corporation	20,906	21,523	4,387	(632)	(640)
Korean Red Ginseng Corp., Inc.	6,794	3,595	2,276	(103)	16
Korea Ginseng (China) Corp.	37,663	28,137	9,023	(421)	(39)
Korea Ginseng Corporation Japan	3,787	2,278	808	(366)	(476)
K-Q HongKong I,Limited	36,310	-	-	579	1,914
PT CKJ INDONESIA	3,841	3,037	810	(32)	(9)
PT KT&G Indonesia	13,222	9,434	-	(72)	42
PT Mandiri Maha Mulia	3,035	74	-	(135)	(48)

For the three-month periods ended March 31, 2013, there has been no change in consolidation scope, except PT KT&G INDONESIA and PT Mandiri Maha Mulia being included in the consolidation.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of Preparation

This condensed consolidated interim financial information as of and for the three-month periods ended March 31, 2013, has been prepared in accordance with Korean IFRS 1034, Interim financial reporting. The principles used in the preparation of these financial statements are based on Korean IFRS and interpretations effective as of March 31, 2013.

(a) New and amended standards adopted by the Group

The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2013:

- Amendment to Korean IFRS 1001, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*

According to the amendment to Korean IFRS 1001, *Presentation of Financial Statements*, the amendment requires the entities to group items presented in other comprehensive income based on whether they are potentially reclassified to profit or loss subsequently. The Group applies the amendment retroactively and the comparative consolidated statement of the comprehensive income is restated by reflecting adjustments resulting from the retrospective application. There is no material impact on its total comprehensive income due to the retrospective application of changes in these accounting policies.

- Amendments to Korean IFRS 1019, *Employee Benefits*

According to the amendments to Korean IFRS 1019, Employee Benefits, the use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense (income) by applying discount rate used in measuring defined benefit liability in net defined benefit liabilities (assets). The Group applies amended Korean IFRS 1019 retrospectively.

In addition, according to Korean IFRS 1019, termination benefits are paid when an employee's employment is terminated by the Group's decision before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for certain benefits. The Group recognizes a liability and expense for termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits and (b) when the Group recognizes costs for a restructuring that is within the scope of Korean IFRS 1037 and involves the payment of termination benefits. In the case of voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Where the benefits fall due more than 12 months after the reporting period, they are discounted to its present value. This amendment does not have a material impact on its financial statements.

- Enactment of Korean IFRS 1110, *Consolidated Financial Statements*

Korean IFRS 1110 supersedes Korean IFRS 1027, *Consolidated and Separate Financial Statements*, and SIC-2012, *Consolidation—Special Purpose Entities.*

Korean IFRS 1110 explains the principle of control which is the basis for determining which entities are consolidated in the consolidated financial statements. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard sets out further guidance where it is difficult to determine control.

In accordance with transition of Korean IFRS 1110, when there are changes as of January 1, 2013, the date of initial application, the financial statements for the comparative periods are restated in conformity with the conclusion of Korean IFRS 1110 unless it is impracticable to do so. When there are no changes of consolidation scope, the previous accounting treatments are not adjusted. The Group reviewed there are no changes of consolidation scope due to adoption of Korean IFRS 1110.

- Enactment of Korean IFRS 1111, *Joint Arrangements*

Korean IFRS 1111, *Joint Arrangements*, aims to reflect the substance of joint arrangements by focusing on the contractual rights and obligations that each party to the arrangement has rather than its legal form. Joint arrangements are classified as either joint operations or joint ventures. A joint operation is when joint operators have rights to the assets and obligations for the liabilities, and account for the assets, liabilities, revenues and expenses, while parties to the joint venture have rights to the net assets of the arrangement and account for their interest in the joint venture using the equity method. There are no changes in accounting treatment due to adoption of Korean IFRS 1111 of the Group.

- Enactment of Korean IFRS 1112, *Disclosures of Interests in Other Entities*

Korean IFRS 1112, *Disclosure of Interests in Other Entities*, provides disclosure requirements for all types of equity investments in other entities including subsidiaries, associates, joint ventures and unconsolidated structured entities. Disclosure impact resulting from the application of this standard was not reflected on these interim financial statements.

- Amendments to Korean IFRS 1027, *Separate Financial Statements*

Korean IFRS 1027, which is amended in accordance with enactment of Korean IFRS 1110, is to prescribe the accounting for investments in subsidiaries, associates and joint ventures of the Parent Company in the separate financial statements.

- Enactment of Korean IFRS 1113, *Fair Value Measurement*

Korean IFRS 1113, Fair Value Measurement, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied when its use is already required or permitted by other standards within the Korean IFRSs. This enactment is prospectively applied for annual periods beginning on or after January 1, 2013, and does not have any material impact on its consolidated financial statements.

(b) New standards and interpretations not yet adopted

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2013, and not early adopted by the Group are as follows:

- Amendments to Korean IFRS 1032, *Financial Instruments: Presentation*

According to the amendments to Korean IFRS 1032, *Financial Instruments: Presentation,* a right to offset financial instruments does not depend on future events but should be legally enforceable in every circumstance. Also, standards for settling the payment net would be satisfied in case it is available to settle the amount by the same method as net settlement. This amendment will be effective for annual periods beginning on or after January 1, 2014, and an early adoption is permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

2.2 Consolidation

Significant accounting policies and methods adopted in the preparation of the interim consolidated financial statements are consistent with the accounting policies and method adopted for the annual financial statements for the year ended December 31, 2012, except as changes due to the application of amendment and enactments of standards described in Note 2.1(a).and described below.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is measured as the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss. Intercompany transactions, balances, income and expenses on transactions between the Group companies are eliminated. Unrealized losses are also eliminated after recognizing impairment of transferred assets.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of post-acquisition profit or loss is recognized in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in the statement of comprehensive income.

(c) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties (co-venturers) exercise joint control. As with associates, investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in jointly controlled entities includes goodwill identified on acquisition, net of accumulated impairment loss.

(d) Transactions with non-controlling interest

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 5). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions. Operating segments for the consolidation reporting consist of tobacco, ginseng, real estate and others.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Korean won, which is the controlling entity's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses, net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

(c) Translation to presentation currency

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each statement of comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

Exchange differences arising from the translation of borrowings designated for hedging the investment and other currency instruments are recognized in other comprehensive income. When foreign operations are wholly or partially sold, exchange differences recognized in equity are transferred to profit or loss in the statement of comprehensive income. When the Company ceases to control the subsidiary, exchange differences that were recorded in equity are recognized in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.6 Financial Assets

2.6.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale, and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial instruments held for trading. A financial asset and liability are classified in this category if acquired principally for the purpose of selling and in the short term. Derivatives or embedded derivatives are also categorized as held for trading unless they are designated as hedges. Assets and liabilities in this category are classified as current assets and liabilities.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'cash and cash equivalents', 'trade and other receivables', and 'other financial assets' in the statement of financial position.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of them within 12 months after the end of the reporting period.

(d) Financial liabilities carried at amortized cost

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial assets that arise when a transfer of financial liabilities at fair value through profit or loss, financial guarantee contracts and financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost. In case when a transfer of a financial asset does not qualify for derecognition, the transferred asset is continuously recognized as asset and the consideration received is recognized as financial liabilities. Financial liabilities carried at amortized cost are included in non-current liabilities, except for liabilities with maturities within 12 months after the end of the reporting period, which are classified as current liabilities.

2.6.2 Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of comprehensive income as 'financial gains and losses, net'.

Interest on available-for-sale and held-to-maturity securities calculated using the effective interest method is recognized in the statement of comprehensive income as part of 'financial income'. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income as part of 'finance income' when the Group's right to receive dividend payments is established.

2.6.3 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.7 Impairment of Financial Assets

(a) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- Delinquency in interest or principal payments for more than three months;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data suggesting that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, even though the decrease cannot be identified with respect to individual financial assets in the portfolio, such as:
    - (i) adverse changes in the payment status of borrowers in the portfolio;
    - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the initial effective interest rate. The carrying amount of the asset is reduced by the impairment loss amount and the amount of the loss is recognized in the statement of comprehensive income. In practice, the Group may measure impairment loss based on the fair value of financial asset using an observable market price.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (for example, an improvement in debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost, for example decrease in fair value of the investments by more than 30% from its cost for more than six months, is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the consolidated statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. 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 through the statement of comprehensive income.

2.8 Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for doubtful accounts.

2.9 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 and recognized as an expense in the period in which the reversal occurs.

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 ₩ 316,508 million and ₩ 347,489 million as of March 31, 2013 and December 31, 2012, respectively.

2.10 Non-current Assets (or disposal group) Held for Sale

Non-current assets (or disposal group) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and the sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.11 Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation and accumulated impairment loss. Historical cost includes expenditures directly attribute to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when 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. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Buildings	10 - 60 years
Structures	4 - 40 years
Machinery	2 - 20 years
Vehicle	4 - 5 years
Tools and equipment	4 - 5 years
Supplies	4 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other income and expenses, net' in the statement of comprehensive income.

2.12 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.13 Government Grants

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to property, plant and equipment are presented as a deduction of related assets and are credited to depreciation over the expected lives of the related assets.

Government grants relating to costs are deferred and recognized in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

2.14 Intangible Assets

(a) Goodwill

Goodwill is measured as explained in Note 2.2(a) and goodwill arises on the acquisition of subsidiaries, associates and business are included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or group of CGUs, that is expected to benefit from the synergies of the combination. Goodwill is monitored at the operating segment level.

(b) Other 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, facility usage rights and other intangible assets. 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 facility usage rights and some of the industrial property rights are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized.

The estimated useful lives are as follows:

Industrial property rights	10 - 20 years or indefinite
Facility usage rights	Indefinite
Other intangible assets	4 - 15 years or indefinite

Amortization periods and amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessment for those assets. The change is accounted for as a change in an accounting.

2.15 Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are include in the asset's carrying amount or recognized as a separate asset, only when 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. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using straight-line method over their useful lives from ten to 60 years.

The depreciation method, the residual value and the useful life of an asset are reviewed at the end of each financial year and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

2.16 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method. The Group recognizes borrowings as current assets unless it has an unconditional right to delay the settlement of the borrowing. Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognized in the statement of comprehensive income as 'finance expense'.

2.19 Compound Financial Instruments

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

2.20 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.21 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

Interim period income tax expense is accrued based on the best estimate of the weighted average annual income tax rate expected for the full financial year, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee Benefits

(a) Defined benefit liability

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit liability at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit liability is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit liability is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income, while costs are amortized over the vesting period.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal and in the case of an offer made to encourage voluntary redundancy.

2.23 Share Capital

Ordinary shares and preferred shares that are not mandatorily redeemable are classified as equity.

Where the Parent Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

2.24 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 three-month periods ended March 31, 2013 and 2012, were ₩ 849,084 million and ₩ 803,947 million, respectively.

Revenue from the construction of real estate includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed.

Revenue from 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 from the use by others of the Group's 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 shareholders' right to receive the dividend is established.

2.25 Dividend Distribution

Dividend distribution to the Parent Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

3. Critical Accounting Estimates and Judgments

The management makes judgments, estimates and assumptions that affects the application of accounting policies and the amounts of reported assets and liabilities and profits and costs in the preparation of the financial statements. Estimations and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.16. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recorded, based on its best estimate, current taxes and deferred taxes that the Group will be liable in the future for the operating results as of the financial year end. However, the final tax outcome in the future may be different from the amounts that were initially recorded. Such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(d) Provisions

As described in Note 2.20, the Group recognizes provisions for estimated returns as of the reporting date. The amounts are estimated based on historical data.

(e) Defined benefit liability

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the pension benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 24.

4. Financial Risk Management

4.1 Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures.
Risk management is carried out by a central treasury department (Group treasury) under policies approved by the board of directors. The Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The group applied the same financial risk management strategy that was applied in the previous period.

(a) Market risk

i) Foreign exchange risk

The Group has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates arising from the export and import of tobacco. The Group's management has measured the currency risk internally and regularly, and has entered into foreign currency option contracts to hedge foreign currency risk in case of need.

The carrying amounts of monetary assets and liabilities denominated in a currency other than the functional currency as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013			December 31, 2012		
	USD	EUR	JPY	USD	EUR	JPY
Assets						
Cash and cash equivalents	₩ 18,736	₩ 1,767	₩ 8	₩ 19,284	₩ 5	₩ 9
Trade and other receivables	455,740	3,919	4,214	493,243	3,256	6,410
Long-term deposits	185,380	-	-	168,667	-	-
	₩ 659,856	₩ 5,686	₩ 4,222	₩ 681,194	₩ 3,261	₩ 6,419
Liabilities						
Trade and other payables	₩ 21,364	₩ 4,800	₩ 487	₩ 16,544	₩ 3,153	₩ 2,129
Short-term borrowings	1,522	-	-	1,406	-	-
	₩ 22,886	₩ 4,800	₩ 487	₩ 17,950	₩ 3,153	₩ 2,129

As of March 31, 2013 and December 31, 2012, the effects of a 10% strengthening or weakening of functional currency against the US dollar other than functional currency on profit before tax were as follows:

(in millions of Korean won)	March 31, 2013		December 31, 2012	
	10% strengthening	**10% weakening**	**10% strengthening**	**10% weakening**
US dollar	₩ 63,697	₩ (63,697)	₩ 66,324	₩ (66,324)

ii) Price risk

The Group has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Other market price risk arises from available-for-sale equity instruments held for investments. The Group's management has monitored 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 Group's management.

As of March 31, 2013 and December 31, 2012, the effects of a 5% fluctuation of the price index of stocks on other comprehensive income are as follows:

(in millions of Korean won)	March 31, 2013		December 31, 2012	
	5% increase	**5% decrease**	**5% increase**	**5% decrease**
Other comprehensive income before tax	₩ 2,862	₩ (2,862)	₩ 5,266	₩ (5,266)
Tax effect	(630)	630	(1,274)	1,274
Other comprehensive income after tax	₩ 2,232	₩ (2,232)	₩ 3,992	₩ (3,992)

iii) Interest rate risk

The Group has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's management has monitored the level of interest rates regularly and has maintained the balance of borrowings at variable rates and fixed rates. As of March 31, 2013 and December 31, 2012, the amount of borrowings issued at variable rates is ₩ 56,045 million and ₩ 53,459 million, respectively. There is no significant effect on cash flows or the fair value of financial liabilities from the interest rate fluctuation.

(b) 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 with collateral and guarantees. The credit ratings of all counterparties and the level of collateral 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 March 31, 2013 and December 31, 2012, is as follows:

(in millions of Korean won)	March 31, 2013		December 31, 2012	
Available-for-sale financial assets	₩	2,832	₩	2,832
Long-term deposits in MSA Escrow Fund		185,380		168,667
Trade and other receivables		1,049,143		1,005,563
Other financial assets		263,826		649,461
Cash and cash equivalents		793,339		372,260
	₩	2,294,520	₩	2,198,783

(c) Liquidity Risk

The Group has exposure to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's management has established short-term and long-term financial management plans 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 whether or not the financial liabilities are repayable with the operating cash flows and cash inflows from financial assets.

The maturity analysis on the residual contractual maturity of financial liabilities as of March 31, 2013 and December 31, 2012, is as follows:

	March 31, 2013					
(in millions of Korean won)	Carrying amount	Contractual cash flow	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	Beyond 5 years
Trade and other payables	₩ 301,045	₩ 302,183	₩ 232,917	₩ 33,439	₩ 33,384	₩ 2,443
Short-term borrowings	69,521	70,633	32,742	37,891	-	-
Long-term borrowings	113,400	124,140	574	1,759	617	121,190
Current portion of long-term borrowings	2,897	3,002	193	2,809	-	-

	December, 31, 2012					
(in millions of Korean won)	Carrying amount	Contractual cash flow	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	Beyond 5 years
Trade and other payables	₩ 298,381	₩ 299,629	₩ 254,604	₩ 9,266	₩ 35,759	₩ -
Short-term borrowings	91,868	93,964	25,687	68,277	-	-
Long-term borrowings	109,599	119,785	144	410	41,984	77,247
Current portion of long-term borrowings	2,912	3,126	159	2,967	-	-

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.

In addition, derivative financial instruments held for sale will be settled within three months after the end of reporting period. These derivative financial instruments are not included in the table above. Undiscounted aggregate cash inflows and outflows are ₩1,891,949 thousand and 1,901,880 thousand, respectively, as of March 31, 2013.

4.2 Capital Management

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 March 31, 2013 and December 31, 2012, the Group defines net debt and equity attributable to owners of the Parent as follows:

(in millions of Korean won)	March 31, 2013	December 31, 2012
Total borrowings	₩ 185,818	₩ 204,379
Less:		
-Cash and cash equivalents	(793,339)	(372,260)
-Other financial assets, current	(263,536)	(649,186)
-Available-for-sale financial assets, current	(1,000)	(1,000)
Net debt(asset)	(872,057)	(818,067)
Equity attributable to owners of the parent	₩ 5,006,047	₩ 5,194,419

4.3 Fair Value Estimation

There are no significant changes in business and economic environment which impact the fair value of financial assets and liabilities of the Group for the three-month period ended March 31, 2013.

4.3.1 Fair Value by Financial Instruments

Fair value by financial instruments consists of the following:

(in millions of Korean won)	March 31, 2013		December 31, 2012	
	Book value	Fair value	Book value	Fair value
Financial assets				
Available-for-sale assets , non-current[1]	₩ 244,627	₩ 244,627	₩ 235,737	₩ 235,737
Other financial assets, non-current	290	290	275	275
Long-term deposits	185,380	185,380	168,667	168,667
Long-term trade and other receivables	105,114	105,114	121,784	121,784
Other financial assets, current	263,536	263,536	649,186	649,186
Trade and other receivables	944,030	944,030	883,778	883,778
Cash and cash equivalents	793,339	793,339	372,260	372,260
	₩ 2,536,316	₩ 2,536,316	₩ 2,431,687	₩ 2,431,687
Financial liabilities				
Long-term borrowings	₩ 113,400	₩ 113,400	₩ 109,599	₩ 109,599
Long-term trade and other payables	25,628	25,628	24,979	24,979
Short-term borrowings	69,521	69,521	91,868	91,868
Current portion of long-term borrowings	2,897	2,897	2,912	2,912
Trade and other payables	275,417	275,417	273,402	273,402

Derivative liabilities		10		10		-		-
	₩	486,873	₩	486,873	₩	502,760	₩	502,760

[1] Equity securities that do not have a quoted market price in active market and whose fair value cannot be reliably measured are recorded at cost and excluded from fair value disclosures.

4.3.2 Financial Instruments Measured at Cost

Details of financial instruments measured at cost consist of the following:

(in millions of Korean won)		March 31, 2013		December 31, 2012
Available-for-sale assets				
MASTERN 2 REIT equity	₩	10,000	₩	10,000
U&I Corporation equity		3,000		3,000
SJ Biomed equity		1,000		1,000
Others		2,934		2,934
	₩	16,934	₩	16,934

MASTERN 2 REIT equity and others are non-listed equity investments and are measured using cost method as their fair value cannot be reliably estimated.

4.3.3 Fair Value Hierarchy

Financial instruments that are measured or disclosed at fair value are classified by a fair value hierarchy. The different levels for the fair value hierarchy have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly(that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Company's financial assets and financial liabilities that are measured at fair value as of March 31, 2013:

(in millions of Korean won)	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩ 197,023	₩ 47,604	₩ 3,000	₩ 247,627
Derivatives liability	-	10	-	10

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 consist primarily of KOSPI and KOSDAQ equity investments classified as trading securities or available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

4.3.4 Valuation Technique and Inputs

The Company uses the following valuation technique and inputs for repetitive fair value measures, non-repetitive fair value measures and disclosed fair value, which are classified as level 2 and 3 in the fair value hierarchy as of March 31, 2013:

(in millions of Korean won)

		Fair Value	Level	Valuation Technique
Available-for-sale assets				
Real Estate Investment Trust	₩	47,604	2	Market approach
Unlisted		3,000	3	(*1)
Derivatives				
Foreign Exchange Forward Contracts		10	2	Market approach

[1]Unlisted stocks are shares in Dream Hub PFV Co., Ltd., which was established for the development of Yongsan Station area. The Company recognized 80% of the carrying amount as impairment loss for this interim period due to financial difficulties of this investee.

5. Operating Segments

(1) The Group's reportable segments and details are as follows:

Operating segment	Principal operation
Tobacco	Manufacturing and selling tobaccos
Ginseng	Manufacturing and selling red ginseng
Real estate	Selling and renting real estate
Others	Manufacturing and selling pharmaceuticals, cosmetics and others

(2) Segment information on revenue and profit from operations for the three-month periods ended March 31, 2013 and 2012, is as follows:

	March 31, 2013						
(in millions of Korean won)	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	W 617,504	W 218,987	W 18,678	W 85,295	W 940,464	W (44,427)	W 896,037
Less: Inter-segment sales	16,641	14,676	2,050	11,060	44,427	(44,427)	-
External sales	600,863	204,311	16,628	74,235	896,037	-	896,037
Profit(loss) from operations	211,458	35,723	5,336	(3,951)	248,566	260	248,826

	March 31, 2012						
(in millions of Korean won)	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	W 643,851	W 270,187	W 9,709	W 85,794	W 1,009,541	W (47,978)	W 961,563
Less: Inter-segment sales	13,405	19,940	1,913	12,720	47,978	(47,978)	-
External sales	630,446	250,247	7,796	73,074	961,563	-	961,563
Profit(loss) from operations	221,380	56,502	2,608	(8,618)	271,872	(5,927)	265,945

(3) Segment information on assets and liabilities as of March 31, 2013 and December 31, 2012, are as follows:

	March 31, 2013						
(in millions of Korean won)	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets							
Segment assets	W 3,680,991	W 1,374,506	W 133,335	W 365,813	W 5,554,645	W (237,385)	W 5,317,260
Equity accounted investments	-	-	52,780	2,150	54,930	-	54,930
Assets held for sale, non-current	177	-	-	-	177	-	177
	3,681,168	1,374,506	186,115	367,963	5,609,752	(237,385)	5,372,367
Unallocated assets							1,622,436
Total assets							W 6,994,803
Liabilities							
Segment liabilities	1,235,091	145,271	-	73,884	1,454,246	(136,172)	W 1,318,074
Unallocated liabilities							670,684
Total liabilities							W 1,988,758

(in millions of Korean won)	December 31, 2012						
	Tobacco	**Ginseng**	**Real estate**	**Others**	**Segment total**	**Elimination**	**Consolidated**
Assets							
Segment assets	3,630,713	1,375,619	135,368	362,884	5,504,584	(349,720)	5,154,864
Equity accounted investments	-	-	52,647	3,130	55,777	-	55,777
Assets held for sale, non-current	762	-	-	-	762	-	762
	3,631,475	1,375,619	188,015	366,014	5,561,123	(349,720)	5,211,403
Unallocated assets							1,584,558
Total assets							6,795,961
Liabilities							
Segment liabilities	910,420	147,244	-	70,560	1,128,224	(142,569)	985,655
Unallocated liabilities							615,887
Total liabilities							1,601,542

(4) The major customer who contributes 10% or more of the Group's total revenues for the three-months periods ended March 31, 2013 and 2012, is as follows:

Segment	**Major customer**	**March 31, 2013**	**March 31, 2012**
Tobacco	Alokozay International Limited	₩ 64,125	₩ 92,202

6. Financial Instruments by Category

Categorizations of financial assets as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013				
	Loans and receivables	Assets at fair value through profit or loss	Derivative financial instruments	Assets classified as available-for-sale	Total
Financial assets as available-for-sale, non-current	₩ -	₩ -	₩ -	₩ 263,561	₩ 263,561
Other financial assets, non-current	290	-	-	-	290
Long-term deposits	185,380	-	-	-	185,380
Long-term trade and other receivables	105,114	-	-	-	105,114
Financial assets as available-for-sale, current	-	-	-	1,000	1,000
Other financial assets, current	263,536	-	-	-	263,536
Trade and other receivables, current	944,030	-	-	-	944,030
Cash and cash equivalents	793,339	-	-	-	793,339
	₩2,291,689	₩ -	₩ -	₩ 264,561	₩ 2,556,250

(in millions of Korean won)	December 31, 2012				
	Loans and receivables	Assets at fair value through profit or loss	Derivative financial instruments	Assets classified as available-for-sale	Total
Financial assets as available-for-sale, non-current	₩ -	₩ -	₩ –	₩ 263,884	₩ 263,884
Other financial assets, non-current	275	-	-	-	275
Long-term deposits	168,667	-	-	-	168,667
Long-term trade and other receivables	121,784	-	-	-	121,784
Financial assets as available-for-sale, current	-	-	-	1,000	1,000
Other financial assets, current	649,186	-	-	-	649,186
Trade and other receivables, current	883,778	-	-	-	883,778
Cash and cash equivalents	372,260	-	-	-	372,260
	₩ 2,195,950	₩ -	₩ -	₩ 264,884	₩ 2,460,834

Categorizations of financial liabilities as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013				
	Liabilities at fair value through profit or loss	Derivative financial instruments	Other financial liabilities at amortized cost	Other financial liabilities	Total
Long-term Borrowings	₩ -	₩ -	₩ 113,400	₩ -	₩ 113,400
Long-term trade and other payables	-	-	25,628	-	25,628
Short-term borrowings	-	-	69,521	-	69,521
Current portion of long-term borrowings	-	-	2,897	-	2,897
Trade and other payables	-	-	275,417	-	275,417
Derivative liabilities	10	-	-	-	10
	₩ 10	₩ -	₩ 486,863	₩ -	₩ 486,873

(in millions of Korean won)	December 31, 2012				
	Liabilities at fair value through profit or loss	Derivative financial instruments	Other financial liabilities at amortized cost	Other financial liabilities	Total
Long-term Borrowings	₩ -	₩ -	₩ 109,599	₩ -	₩ 109,599
Long-term trade and other payables	-	-	24,979	-	24,979
Short-term borrowings	-	-	91,868	-	91,868
Current portion of long-term borrowings	-	-	2,912	-	2,912
Trade and other payables	-	-	273,402	-	273,402
	₩ -	₩ -	₩ 502,760	₩ -	₩ 502,760

Income and loss of financial instruments by category for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013	March 31, 2012
Available-for-sale financial assets		
Gain on valuation (other comprehensive income)	8,851	20,325
Loss on disposal (profit or loss)	-	(9)
Interest income	7	5
Dividend income	3,326	3,415
Impairment loss	(12,000)	-
Cash and cash equivalents		
Interest income	7,668	7,230
Gain on foreign currency translation	48	115
Foreign currency transaction gain (loss)	183	(565)
Trade and other receivables		
Interest income	1,688	2,051
Gain(Loss) on foreign currency translation	22,778	(8,361)
Foreign currency transaction gain (loss)	3,172	(1,334)
Other financial liabilities at amortized cost		
Interest costs	(3,185)	(3,929)
Gain on foreign currency translation	2,397	559
Foreign currency transaction gain (loss)	(1,288)	408
Financial liabilities at fair value through profit or loss		
Loss on valuation	(10)	-

7. Available-for-sale Financial Assets

The changes in available-for-sale financial assets for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	**March 31, 2013**	**March 31, 2012**
At January 1	264,884	248,403
Additions	-	1,500
Gain on valuation (before tax)	8,890	26,814
Net gains reclassified from equity	2,787	-
Impairment losses	(12,000)	-
Disposal	-	(242)
At March 31	264,561	276,475
Less: current portion	(1,000)	(1,044)
Non-current portion	263,561	275,431

Available-for-sale financial assets as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	**March 31, 2013**		**December 31, 2012**	
Available-for-sale debt instruments:				
Government and municipal bonds	₩	292	₩	292
Corporate bonds		2,540		2,540
Total available-for-sale debt instruments		2,832		2,832
Available-for-sale equity instruments:				
Listed[1]				
Yonhap Television News(YTN)		31,760		29,580
Oscotech, Inc.		1,122		869
Shinhan Financial Group Co., Ltd.		161,938		155,725
Rexahn Pharmaceuticals, Inc.		2,203		2,122
		197,023		188,296
Unlisted[2,3]		64,706		73,756
Total available-for-sale equity instruments		261,729		262,052
Total available-for-sale financial assets	₩	264,561	₩	264,884

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

[2]For the three-month period ended March 31, 2013, the Company recognizes impairment loss on unlisted available-for-sale equity instruments of ₩ 12,000 million for Dream Hub PFV Co., Ltd.

[3]The other unlisted available-for-sale equity instruments that do not have a 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.

8. Trade and Other Receivables

Trade and other receivables as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Loans to employees	₩ 12,133	₩ 15,347	₩ 7,196	₩ 22,491
Loans	565	6,944	661	6,928
Other receivables	81,216	15,270	84,559	27,529
Guarantee deposits	-	67,553	-	64,836
Accrued income	6,340	-	7,006	-
Trade receivables	843,776	-	784,356	-
	₩ 944,030	₩ 105,114	₩ 883,778	₩ 121,784

Trade and other receivables as of March 31, 2013 and December 31, 2012, reported in the consolidated statements of financial position, net of allowances, are as follows:

(in millions of Korean won)	March 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Gross trade and other receivables	₩ 972,880	₩ 105,114	₩ 912,506	₩ 121,784
Allowance account				
- Loans	(214)	-	(199)	-
- Other receivables	(2,305)	-	(2,304)	-
- Trade receivables	(26,331)	-	(26,225)	-
	(28,850)	-	(28,728)	-
Net amount	₩ 944,030	₩ 105,114	₩ 883,778	₩ 121,784

Changes in the allowance account for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013	March 31, 2012
Beginning	₩ 28,728	₩ 16,381
Impairment loss	374	199
Reversal of impairment	(1)	(117)
Write-off	(251)	-
Ending	₩ 28,850	₩ 16,463

The aging schedule of trade and other receivables as of March 31, 2013 and December 31, 2012, is as follows:

(in millions of Korean won)	March 31, 2013	December 31, 2012
Not past due	₩ 433,539	₩ 470,756
Past due but not impaired		
Within 1 month	62,018	74,054
Between 1 and 2 months	62,616	51,070
Beyond 2 months	105,378	88,586
	230,012	213,710
Impaired	206,557	126,115
	₩ 870,108	₩ 810,581

There is no significant concentration of credit risk with respect to trade and other receivables since trade and other receivables, excluding export trade receivables, are widely dispersed amongst a number of customers. The Group holds bank guarantees, other guarantees and credit insurance in respect of some of the past due debtor balances.

Details of trade and other receivables that are measured at amortized cost using effective interest rate method, as of March 31, 2013, and December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013			December 31, 2012		
	Effective interest rate	Current	Non-current	Effective interest rate	Current	Non-current
Loans to employees	3.00~5.68%	W 12,130	W 15,342	3.00~5.68%	W 7,192	W 22,486
Loans	1.7%~7.29%	-	4,684	3.13~7.29%	-	4,650
Other receivables	3.79%	4,654	15,270	3.79%	8,300	16,601
Guarantee deposits	1.7%~8.47%	-	64,405	1.7%~8.47%	-	62,400
		W 16,784	W 99,701		W 15,492	W 106,137

Transferred trade receivables

The Group discounted its trade receivables through trade receivable factoring agreements with National Agricultural Cooperative Federation and other financial institutions in relation with the collecting sales receipts with tobacco cards.

In case the customers default, the Company has an obligation to pay the related amount to the bank. As a result, this transaction, treated as a transaction with recourse, has been accounted for as collateralized borrowings. The borrowings recognized in relation to the said transaction as of March 31, 2013 and December 31, 2012, are ₩ 5,445 million and ₩ 5,477 million, respectively (Note 23).

9. Long-term Deposits

Long-term deposits as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013	December 31, 2012
MMF	₩ 2,240	₩ 10,496
T-note	183,140	158,170
	₩ 185,380	₩ 168,666

As discussed in Note 32 to the 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 three-month periods ended March 31, 2013 and 2012, are ₩ 9,977 million and ₩ 5,437 million, respectively.

Investment income on long-term deposits in MSA Escrow Fund for the three-month periods ended March 31, 2013 and 2012, is ₩346 million and ₩70 million, respectively.

In addition, the Group measured fair value of long-term deposits using market price traded in active market.

10. Property, Plant and Equipment

Changes in property, plant and equipment for the three-month periods ended March 31, 2013 and 2012, are as follows:

	March 31, 2013		
(in millions of Korean won)	Acquisition Cost	Accumulated depreciation and impairment cost	Net book value
Land	₩ 523,324	₩ -	₩ 523,324
Buildings	858,896	(308,958)	549,938
Structures	64,093	(34,425)	29,668
Machinery	1,160,393	(785,867)	374,526
Vehicles	14,873	(10,940)	3,933
Tools	53,770	(45,220)	8,550
Furniture and fixture	233,365	(171,633)	61,732
Others	1,266	-	1,266
Construction-in-progress	71,919	-	71,919
	₩ 2,981,899	₩ (1,357,043)	₩ 1,624,856

	March 31, 2012		
(in millions of Korean won)	Acquisition Cost	Accumulated depreciation and impairment cost	Net book value
Land	₩ 460,851	₩ -	₩ 460,851
Buildings	829,719	(302,017)	527,702
Structures	65,518	(35,662)	29,856
Machinery	1,065,450	(712,350)	353,100
Vehicles	12,237	(8,900)	3,337
Tools	49,870	(41,115)	8,755
Furniture and fixture	241,212	(173,992)	67,220
Others	1,219	-	1,219
Construction-in-progress	123,564	-	123,564
	₩ 2,849,640	₩ (1,274,036)	₩ 1,575,604

	March 31, 2013							
(in millions of Korean won)	Opening net book value	Additions	Disposal	Transfer	Depreciation	Exchange difference	Other changes[1]	Net book amount
Land	₩ 518,056	₩ 59	₩ (147)	₩ 4,815	₩ -	₩ 108	₩ 433	₩ 523,324
Buildings	528,715	21,099	(6)	4,429	(8,909)	1,669	2,941	549,938
Structures	26,999	3,094	(1)	234	(805)	110	37	29,668
Machinery	372,565	6,951	(110)	15,846	(21,754)	1,028	-	374,526
Vehicles	2,950	173	(4)	-	(336)	1,150	-	3,933
Tools	8,856	742	(165)	58	(1,126)	185	-	8,550
Furniture and fixture	65,856	2,177	(155)	1,259	(7,406)	1	-	61,732
Others	1,266	-	-	-	-	-	-	1,266
Construction-in-progress	106,173	(8,213)	-	(26,641)	-	600	-	71,919
	₩1,631,436	₩ 26,082	₩ (588)	₩ -	₩ (40,336)	₩ 4,851	₩ 3,411	₩ 1,624,856

[1]Other changes represent the reclassified amount from investment property to property, plant and equipment.

(in millions of Korean won)	March 31, 2012								
	Opening net book value	Additions	Changes due to business acquisition	Disposal	Transfer	Depreciation	Exchange difference	Other changes[2]	Net book amount
Land	₩ 460,487	₩ 457	₩ -	₩ (181)	₩ 5,304	₩ -	₩ 457	₩ (5,673)	₩ 460,851
Buildings	532,066	1,071	-	(1,319)	1,329	(9,317)	4,002	(130)	527,702
Structures	30,072	-	-	(179)	704	(880)	181	(42)	29,856
Machinery	365,040	1,462	165	(141)	4,284	(18,877)	1,212	(45)	353,100
Vehicles	3,547	154	9	(23)	-	(1,040)	690	-	3,337
Tools	9,871	155	113	-	-	(1,286)	(98)	-	8,755
Furniture and fixture	66,299	9,130	10	(387)	76	(7,779)	(129)	-	67,220
Others	1,219	-	-	-	-	-	-	-	1,219
Construction-in-progress	115,745	19,809	-	(226)	(11,719)	-	(45)	-	123,564
	₩1,584,346	₩32,238	₩ 297	₩ (2,456)	₩ (22)	₩ (39,179)	₩ 6,270	₩ (5,890)	₩1,575,604

[2] Other changes include ₩ 10,753 million of reclassification from property, plant and equipment to held-for-sale non-current assets and ₩ 4,864 million of reclassification from investment property to property, plant and equipment.

11. Intangible Assets

Changes in intangible assets for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013					
	Goodwill	Industrial property rights	Facility usage rights	Other intangible assets	Intangible assets under development	Total
At January 1, 2013	₩ 84,100	₩ 34,086	₩ 26,042	₩ 98,337	₩ 4,228	₩ 246,793
Additions	-	36	-	794	92	922
Disposals	-	-	(33)	-	(13)	(46)
Transfer	-	215	-	-	(215)	-
Amortization	-	(740)	-	(2,459)	-	(3,199)
Exchange differences	1,897	(15)	-	83	(3)	1,962
Acquisition cost	85,997	45,535	26,041	116,883	4,490	278,946
Accumulated amortization and impairment cost	-	(11,953)	(32)	(20,128)	(401)	(32,514)
Net book amount	₩ 85,997	₩ 33,582	₩ 26,009	₩ 96,755	₩ 4,089	₩ 246,432

	March 31, 2012					
(in millions of Korean won)	**Goodwill**	**Industrial property rights**	**Facility usage rights**	**Other intangible assets**	**Intangible assets under development**	**Total**
At January 1, 2012	₩ 87,902	₩ 23,454	₩ 24,387	₩106,641	₩ 16,234	₩ 258,618
Additions	-	26	2	410	208	646
Acquisition of subsidiary	-	25	-	-	-	25
Disposals	-	(70)	-	(53)	(667)	(790)
Transfer	-	30	-	22	(30)	22
Amortization	-	(716)	-	(1,875)	-	(2,591)
Exchange differences	(717)	(38)	(1)	(63)	-	(819)
Other changes	-	12,398	-	-	(12,398)	-
Acquisition cost	87,185	44,089	24,388	116,841	3,774	276,277
Accumulated amortization and impairment cost	-	(8,980)	-	(11,759)	(427)	(21,166)
Net book amount	₩ 87,185	₩ 35,109	₩ 24,388	₩ 105,082	₩ 3,347	₩ 255,111

Research and development expenses for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	**March 31, 2013**	**March 31, 2012**
Cost of goods sold	₩ 613	₩ 2,107
Selling and administrative expenses	5,706	7,873
	₩ 6,319	₩ 9,980

Exchange loss of ₩1,905 million arising from the translation of goodwill of PT Trisakti Purwosari Makmur, one of subsidiaries, is accounted for as a deduction from goodwill and loss on currency translation of foreign operations(other comprehensive income).

12. Investment Property

Changes in investment property for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013		
	Land	**Building**	**Total**
Beginning net book value	₩ 48,177	₩ 133,809	₩ 181,986
Additions	559	863	1,422
Transfer to property, plant and equipment	(433)	(2,978)	(3,411)
Depreciation	-	(1,538)	(1,538)
Acquisition cost	48,303	177,671	225,974
Accumulated depreciation and impairment cost	-	(47,515)	(47,515)
Net book amount	₩ 48,303	₩ 130,156	₩ 178,459

(in millions of Korean won)	March 31, 2012		
	Land	Building	Total
Beginning net book value	₩ 45,314	₩ 143,037	₩ 188,351
Transfer to property, plant and equipment	(562)	(4,301)	(4,863)
Depreciation	-	(1,551)	(1,551)
Acquisition cost	44,752	177,979	222,731
Accumulated depreciation and impairment cost	-	(40,794)	(40,794)
Net book amount	₩ 44,752	₩ 137,185	₩ 181,937

The amounts recognized in profit or loss from investment property for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013	March 31, 2012
Rental income	₩ 8,726	₩ 7,205
Direct operating expense	(1,537)	(1,551)
	₩ 7,189	₩ 5,654

Fair values and book values of investment property as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013		December 31, 2012	
	Fair value	Book value	Fair value	Book value
Land	₩ 309,188	₩ 48,303	₩ 312,735	₩ 48,177
Building	186,415	130,156	190,214	133,809
	₩ 495,603	₩ 178,459	₩ 502,949	₩ 181,986

13. Non-current Assets Held for Sale and Discontinued Operations

The Group recognizes non-current assets held for sale as the lower of net fair value and book value.

Changes in non-current assets held for sale as of March 31, 2013, are as follows:

(in millions of Korean won)	March 31, 2013				
	Land	Buildings	Structures	Machinery	Total
At January 1, 2013					
Acquisition cost	₩ 625	₩ 215	₩ 64	₩ -	₩ 904
Accumulated depreciation	-	(96)	(46)	-	(142)
Net book amount	₩ 625	₩ 119	₩ 18	₩ -	₩ 762
Changes					
Disposals	(521)	(60)	(4)	-	(585)
	₩ (521)	₩ (60)	₩ (4)	₩ -	₩ (585)
At March 31, 2013					
Acquisition cost	₩ 104	₩ 112	₩ 36	₩ -	₩ 252
Accumulated depreciation	-	(53)	(22)	-	(75)
Net book amount	₩ 104	₩ 59	₩ 14	₩ -	₩ 177

14. Pledged Assets

The following assets were pledged as collateral for the Group's long-term and short-term borrowings as of March 31, 2013:

(in millions of Korean won)

Asset	Book amount		Borrowings	Collateralized amount	Lender /Leaseholder
Investment property	₩ 76,418	Leasehold deposits received	₩ 7,500	₩ 7,833	Metlife Insurance Co. of Korea, Ltd. and 22 others
Property, plant and equipment /investment property	75,387	Short-term borrowings	14,000	59,897	Hana Bank, 3 others
		Current portion of long-term borrowings	397		Small & medium Business Coporation
		Long-term borrowings	10,828		
Property, plant and equipment	1,112	ACH pleaged	-	1,112	Bank of Oklahoma
Short-term financial instruments	700	Short-term borrowings	3,906	700	Hana Bank
Trade receivables	11,294	Short-term borrowings	11,294	11,294	Citibank Korea Inc.
	61	Short-term borrowings	61	61	Korean Exchange Bank
Total	₩ 164,972		₩ 47,986	₩ 80,897	

The following assets were pledged as collateral for the Group's long-term and short-term borrowings as of December 31, 2012:

(in millions of Korean won)

Asset	Book amount		Borrowings	Collateralized amount	Lender /Leaseholder
Property, plant and equipment /investment property	₩ 75,033	Short-term borrowings	₩ 15,000	₩ 59,897	Hana Bank and 3 others
		Current portion of long-term borrowings	412		Small &medium Business Coporation
		Long-term borrowings	10,034		
Investment Property	80,783	Leasehold deposits received	8,169	8,502	Metlife Insurance Co., Ltd. and 24others
Property, plant and equipment	1,071	ACH pleaged	-	1,071	Bank of Oklahoma
Trade receivables	11,294	Short-term borrowings	11,294	11,294	Citibank Korea Inc.
Total	₩ 168,181		₩ 44,909	₩ 80,764	

15. Investments in Associates

Investments in associates as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)

Associates	Location	Principal operation	March 31, 2013 Interest (%)	March 31, 2013 Carrying Amount	December 31, 2012 Interest (%)	December 31, 2012 Carrying Amount
Cosmo Tabacco Co., Ltd.	Mongolia	Manufacturing and selling tobaccos	40.00	₩ -	40.00	₩ -
Lite Pharm Tech, Inc	Korea	Manufacturing and Medical supplies	25.34	753	25.34	857
Korean Carbon Finance, Inc.	Korea	Emissions trading	20.00	783	20.00	932
JR CR-REIT IV Co., Ltd.	Korea	Selling and renting of real estate	49.02	13,696	49.02	13,570
KVG REIT 1 Co., Ltd.	Korea	Selling and renting of real estate	29.67	6,984	29.67	7,160
KOCREF REIT 17 Co., Ltd.	Korea	Selling and renting of real estate	22.06	6,881	22.06	6,827
JR REIT V Co., Ltd.	Korea	Selling and renting of real estate	34.63	5,669	34.63	5,581
JR REIT VIII Co., Ltd.	Korea	Selling and renting of real estate	21.74	10,064	21.74	10,008
LSK Global Pharma Services Co., Ltd	Korea	Research and developing new drug	23.15	614	23.15	1,343
JR REIT X Co., Ltd.	Korea	Selling and renting of real estate	28.79	9,487	28.79	9,500
Total				₩ 54,931		₩ 55,778

Changes in investments in associates for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013				
Associates	Beginning balance	Acquisition	Share of profit(loss)	Other changes	Ending balance
Lite Pharm Tech, Inc	₩ 857	₩ -	₩ (104)	₩ -	₩ 753
Korean Carbon Finance, Inc.	932	-	(149)	-	783
JR CR-REIT IV Co., Ltd.	13,570	-	126	-	13,696
KVG REIT 1 Co., Ltd.	7,160	-	89	(265)	6,984
KOCREF REIT 17 Co., Ltd.	6,827	-	54	-	6,881
JR REIT V Co., Ltd.	5,581	-	88	-	5,669
JR REIT VIII Co., Ltd.	10,008	-	56	-	10,064
LSK Global Pharma Services Co., Ltd	1,343	-	(729)	-	614
JR REIT X Co., Ltd.	9,500	-	(13)	-	9,487
	₩ 55,778	₩ -	₩ (582)	₩ (265)	₩ 54,931

(in millions of Korean won)	March 31, 2012				
	Beginning balance	Acquisition	Share of profit(loss)	Other changes	Ending balance
Associates					
Lite Pharm Tech, Inc	₩ 637	₩ -	₩ (17)	₩ -	₩ 620
Korean Carbon Finance, Inc.	1,013	-	(25)	-	988
JR CR-REIT IV Co., Ltd.	13,819	-	1,106	-	14,925
KVG REIT 1 Co., Ltd.	7,354	-	91	(262)	7,183
KOCREF REIT 17 Co., Ltd.	6,872	-	(68)	-	6,804
JR REIT V Co., Ltd.	5,635	-	90	-	5,725
JR REIT VIII Co., Ltd.	-	10,000	(56)	-	9,944
LSK Global Pharma Services Co., Ltd	-	1,500	-	-	1,500
	₩ 35,330	₩ 11,500	₩ 1,121	₩ (262)	₩ 47,689

Summary of the associates' financial information as of and for the three-month period ended March 31, 2013, and as of and for the year ended December 31, 2012, follows:

(in millions of Korean won)	March 31, 2013			
	Assets	**Liabilities**	**Revenues**	**Profit/(loss)**
Lite Pharm Tech, Inc.	₩ 3,434	₩ 464	₩ 1,207	₩ 306
Korean Carbon Finance, Inc.	3,974	57	(1)	(224)
JR CR-REIT IV Co., Ltd.	66,085	36,274	919	257
KVG REIT 1 Co., Ltd.	51,587	28,052	1,421	288
KOCREF REIT 17 Co., Ltd.	67,403	36,214	1,302	235
JR REIT V Co., Ltd.	31,604	15,233	567	255
JR REIT VIII Co., Ltd.	110,004	63,714	1,570	544
LSK Global Pharma Services Co., Ltd.	4,632	6,081	2,461	(280)
JR REIT X Co., Ltd.	77,584	44,643	799	52

(in millions of Korean won)	December 31, 2012			
	Assets	**Liabilities**	**Revenues**	**Profit/(loss)**
Lite Pharm Tech, Inc.	₩ 3,832	₩ 452	₩ 4,239	₩ 1,192
Korean Carbon Finance, Inc.	4,739	84	741	(397)
JR CR-REIT IV Co., Ltd.	66,139	36,591	5,309	1,566
KVG REIT 1 Co., Ltd.	52,144	28,014	5,583	1,078
KOCREF REIT 17 Co., Ltd.	66,738	35,792	5,193	865
JR REIT V Co., Ltd.	31,327	15,211	2,230	1,009
JR REIT VIII Co., Ltd.	109,750	63,714	4,822	1,984
LSK Global Pharma Services Co., Ltd.	3,807	2,108	7,738	(680)

16. Inventories

Inventories as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013			December 31, 2012		
	Acquisition	Allowance	Book amount	Acquisition	Allowance	Book amount
Merchandise	₩ 10,036	₩ (596)	₩ 9,440	₩ 8,074	₩ (521)	₩ 7,553
Finished goods	390,880	(1,957)	388,923	348,664	(1,738)	346,926
Work in progress	393,781	(32)	393,749	452,730	(3,107)	449,623
Raw materials	833,331	(1,512)	831,819	821,905	(3,093)	818,812
Supplies	26,229	-	26,229	25,633	-	25,633
By-products	7,570	-	7,570	6,076	-	6,076
Unfinished housing	567	-	567	227	-	227
Lots	7,704	-	7,704	6,551	-	6,551
Goods-in-transit	35,503	-	35,503	45,395	-	45,395
	₩ 1,705,601	₩ (4,097)	₩ 1,701,504	₩ 1,715,255	₩ (8,459)	₩ 1,706,796

The cost related inventories for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013	March 31, 2012
Cost of sales		
- Loss(profit) on inventory valuation	₩ 561	₩ (351)
- Loss on retirement of inventories	696	-
Other expenses		
- Loss on retirement of inventories	248	1,623
	₩ 1,505	₩ 1,272

17. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013	December 31, 2012
Cash on hand	₩ 3,865	₩ 4,292
Demand deposits	169,118	177,743
Short-term investment assets	620,356	190,225
	₩ 793,339	₩ 372,260

Other financial assets as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)		**March 31, 2013**		**December 31, 2012**
Long-term Financial assets				
Time deposits	₩	273	₩	143
Deposit in current account		17		17
Money trust		-		115
		290		275
Short-term Financial assets				
Time deposits		157,424		187,115
Money trust		70,000		271,000
Certificates of deposit		36,112		191,071
		263,536		649,186
	₩	263,826	₩	649,461

Restricted financial assets as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	**Description**		**March 31, 2013**		**December 31, 2012**
Cash and cash equivalents	Specific research purpose	₩	953	₩	1,357
Other financial assets	Pledge and others		2,026		1,771
Long-term other financial assets	Deposits		17		17
		₩	2,996	₩	3,145

18. Equity and Share Premium

Details of share capital as of March 31, 2013 and December 31, 2012, are as follows:

(in Korean won, except number of shares)		**March 31, 2013**		**December 31, 2012**
Number of ordinary shares				
-Authorized		800,000,000		800,000,000
-Issued		137,292,497		137,292,497
Par value per share	₩	5,000	₩	5,000
Ordinary shares	₩	954,959,485,000	₩	954,959,485,000

The Parent Company has reacquired and retired 53,699,400 treasury shares. Accordingly, as of March 31, 2013, the Parent Company's ordinary shares differ from the aggregate par value of issued shares by ₩ 268,497 million.

Changes in the number of shares for the three-month period ended March 31, 2013 and the year ended December 31, 2012, are as follows:

(Number of shares)	March 31, 2013			December 31, 2012		
	Ordinary shares	Treasury shares	Total	Ordinary shares	Treasury shares	Total
Beginning	137,292,497	(11,393,697)	125,898,800	137,292,497	(11,543,697)	125,748,800
Issuance of treasury shares	-	-	-	-	150,000	150,000
Ending	137,292,497	(11,393,697)	125,898,800	137,292,497	(11,393,697)	125,898,800

19. Treasury Shares

Changes in the treasury shares for the three-month period ended March 31, 2013 and the year ended December 31, 2012, are as follows:

(in millions of Korean won, except number of shares)	March 31, 2013		December 31, 2012	
	Number of shares	Carrying amount	Number of shares	Carrying amount
Beginning	11,393,697	₩ 339,059	11,543,697	₩ 343,522
Issuance of treasury shares	-	-	(150,000)	(4,463)
Ending	11,393,697	₩ 339,059	11,393,697	₩ 339,059

Changes in gain on reissuance of treasury shares for the three-month period ended March 31, 2013 and the year ended December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013	December 31, 2012
Beginning	₩ 492,032	₩ 485,922
Gain on reissuance of treasury shares before tax	-	8,061
Less: tax at 24.2%	-	(1,951)
Gain on reissuance of treasury shares, net of tax	-	6,110
Ending	₩ 492,032	₩ 492,032

20. Reserves

Details of reserves as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)		**March 31, 2013**		**December 31, 2012**
Available-for-sale financial assets reserve	₩	(21,783)	₩	(30,635)
Exchange differences on translating foreign operations		(21,478)		(27,925)
Legal reserve		602,937		602,937
Voluntary reserve		2,813,732		2,466,732
	₩	3,373,408	₩	3,011,109

Available-for-sale financial assets reserve as of March 31, 2013 and December 31, 2012, are summarized as follows:

(in millions of Korean won)		**March 31, 2013**		**December 31, 2012**
Available-for-sale financial assets reserve before tax	₩	(28,738)	₩	(40,415)
Tax effect		6,955		9,780
Available-for-sale financial assets reserve after tax	₩	(21,783)	₩	(30,635)

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 shares in connection with a free issue of shares.

Details of the Group's voluntary reserve as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)		**March 31, 2013**		**December 31, 2012**
Reserve for business rationalization[1]	₩	12,851	₩	12,851
Reserve for research and human resource development[2]		90,000		60,000
Reserve for business expansion[3]		698,881		698,881
Other reserve[3]		2,012,000		1,695,000
	₩	`2,813,732	₩	2,466,732

[1] *Reserve for Business Rationalization*

Until December 10, 2002 under the Special Tax Treatment Control Law, investment tax credits were allowed for certain investments. The Group 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 Group 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.

[2] *Reserve for Research and Human Resource Development*

Reserve for research and human resource development was appropriated in order to utilize certain tax deduction benefits through the early recognition of future expenditures. This reserve is restored to retained earnings in accordance with the relevant tax laws. Such reserves are taken back into taxable income in the year of restoration.

[3] *Reserve for Business Expansion and other reserve*

Reserves without specific purposes are restored to retained earnings by a resolution at a general meeting of shareholders.

21. Retained Earnings

Changes in retained earnings for the three-month period ended March 31, 2013 and for the year ended December 31, 2012, are as follows:

(in millions of Korean won)		**March 31, 2013**		**December 31, 2012**
Beginning	₩	976,425	₩	1,022,126
Transfer from other reserve		(317,000)		(359,000)
Transfer from Reserve for research and human resources development		(30,000)		-
Dividends		(402,876)		(402,396)
Profit for the period		207,848		725,118
- Less: non-controlling interests		(4,750)		12,920
Actuarial losses, net of tax		(176)		(18,579)
- Less: non-controlling interests		(2)		155
Others		-		(3,919)
Ending	₩	429,469	₩	976,425

22. Accounts Payable and Other Finance Liabilities

Accounts payable and other finance liabilities as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Leasehold deposits received	₩ -	₩ 24,561	₩ -	₩ 24,979
Accounts payable	91,006	-	48,190	-
Withholdings	17,663	407	15,855	428
Value added tax withheld	132,807	-	120,959	-
Accrued expenses	112,806	-	144,901	-
Other payables	71,605	1,067	80,311	-
	₩ 425,887	₩ 26,035	₩ 410,216	₩ 25,407

Accounts payable and other finance liabilities carried at amortized cost using the effective interest rate method as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013			December 31, 2012		
	Effective interest rate	Current	Non-current	Effective interest rate	Current	Non-current
Leasehold deposits received	3.00~5.68%	₩ -	₩ 24,561	3.00~5.68%	₩ -	₩ 24,979

23. Borrowings

Details of borrowings as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	March 31, 2013	December 31, 2012
Current		
Bank borrowings[1]	₩ 61,874	₩ 84,221
Other borrowings	7,647	7,647
Bank borrowings(current portion of long-term borrowings)	279	293
Other borrowings (current portion of long-term borrowings)	2,618	2,619
	72,418	94,780
Non-current		
Bank borrowings	12,755	11,932
Other borrowings	89	119
Convertible bonds	11,440	11,110
Convertible redeemable preference shares	71,456	69,429
Redeemable preference shares	17,660	17,009
	113,400	109,599
	₩ 185,818	₩ 204,379

[1]Bank borrowings above are collateralized with the Group's property, plant and equipment (Note 14).

Details of bank borrowings as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)

Currency	Creditor	Latest maturity date	Annual interest rate(%) March 31, 2013	March 31, 2013	December 31, 2012
Korean won	National Agricultural Cooperative Federation, other	Short-term Borrowings	4.56% and others	₩ 10,558	₩ 26,823
Korean won	Citibank	Short-term Borrowings	CD(91day)+1.25% and others	16,710	14,230
Korean won	Hana Bank	Short-term Borrowings	2.84% ~ 4.93%	34,607	43,239
Korean won	National Agricultural Cooperative Federation	2016. 07. 20	1.5%	756	756
Korean won	National Agricultural Cooperative Federation	2017. 06. 21	1.5%	1,260	1,260
Korean won	Hana Bank	2017. 03. 31	2.84%	966	966
Korean won	Korea Development Bank	2014. 11. 07	4.45%	8,000	8,000
Korean won	Korea Development Bank	2018. 06. 09	3.09%	291	291
Korean won	Hana Bank	2017. 09. 06	4.58%	1,760	881
				₩ 74,908	₩ 96,446

Convertible Bond

The Group issued 9.5% convertible bonds at a par value of ₩12,410 million on December 14, 2011. The bonds will mature four years from the issue date and become convertible into shares at the rate of ₩1,199 per share.

The fair value of the liability component, included in non-current borrowings, was calculated using the market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves, net of income taxes.

Convertible Redeemable Preference Shares

The Group issued convertible redeemable preference shares at ₩18,000 million on November 19, 2011. The convertible instrument will mature ten years from the issue date. The instrument can be converted into 1,090,909 ordinary shares at any time, and automatically converts upon maturity. If KT&G Life Sciences will be not listed by the end of 2015, recourse is available.

The Group issued convertible redeemable preferred shares at ₩26,000 million on January 9, 2012. The convertible instrument will mature five years from the issue date. The instrument can be converted into 94,079 ordinary shares at any time before maturity, and automatically converts upon maturity. If Somang Cosmetics Co., Ltd. will be not listed by the end of 2016, recourse is available.

The Group issued convertible redeemable preferred shares at ₩35,216 million on September 14, 2012. The convertible instrument will mature ten years from the date of establishment of QCP 2011 Corporate Partnership Private Equity Fund. The instrument can be converted into 6,978,948 ordinary shares at any time after five years from its issuance. If this SPC will not be liquidated and apportioned in ten years, recourse is available.

Redeemable Preference Shares

The Group issued redeemable preference shares at ₩17,761 million during 2012. Recourse will be available ten years from the date of establishment of QCP 2011 Corporate Partnership Private Equity Fund. If this SPC will not be liquidated and apportioned in ten years, recourse is available.

24. Defined Benefit Liability

The amounts recognized on the statements of income for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013		March 31, 2012	
Defined benefit plans :				
Current service cost	₩	10,714	₩	9,481
Interest expenses		2,303		2,282
Expected return on plan assets		(1,439)		(1,602)
		11,578		10,161
Defined contribution plans :				
Pension costs		707		641
Total	₩	12,285	₩	10,802

Termination benefits for the three-month period ended March 31, 2013, were ₩490 million. Out of total expenses, ₩8,773 million (2012: ₩3,724 million) and ₩8,296 million (2012: ₩7,079 million) were included in 'cost of sales' and 'selling and administrative expenses', respectively.

The movements in the net defined benefit liability as of March 31, 2013 and December 31, 2012, are as follows:

(In millions of Korean won)	March 31, 2013		December 31, 2012	
Present value of defined benefit liability	₩	298,551	₩	288,329
Fair value of plan assets		(175,715)		(180,685)
Liability in the statement of financial position	₩	122,836	₩	107,644

As of March 31, 2013, severance benefit insurance and contributions to the National Pension Plan amounting to ₩2,597 million and ₩228 million, respectively, are included in plan assets.

25. Classification of Operating Income

(1) Material items of operating income and expense

Operating income is calculated as gross profit net of selling and administrative expenses and other income and expenses were excluded.

(2) Employee benefit costs for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)		March 31, 2013		March 31, 2012
Salaries	₩	121,169	₩	115,088
Retirement benefits		12,285		10,802
Termination benefits		490		1,194
Employee welfare		13,765		11,827
	₩	147,709	₩	138,911

(3) Depreciation and amortization for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)		March 31, 2013		March 31, 2012
Depreciation	₩	41,874	₩	40,729
Amortization		3,199		2,591
	₩	45,073	₩	43,320

(4) Details of other income for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)		March 31, 2013		March 31, 2012
Foreign currency transaction gain	₩	4,961	₩	6,160
Foreign currency translation gain		29,057		3,759
Gain on sale of property, plant and equipment		5,593		1,751
Gain on sale of intangible assets		-		311
Other operating income		5,596		4,588
	₩	45,207	₩	16,569

(5) Selling and administrative expenses for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)		March 31, 2013		March 31, 2012
Salaries	₩	79,576	₩	74,773
Retirement and termination benefits		8,624		8,046
Employee welfare		9,498		7,814
Travel		2,373		3,202
Communications		1,381		1,486
Utilities		3,045		2,832
Taxes and dues		5,290		4,617
Supplies		835		1,024
Rent		6,648		7,303

Depreciation		11,829		12,150
Amortization		3,199		2,550
Repairs and maintenance		727		1,594
Vehicles		2,789		3,009
Insurance		453		800
Commissions		49,585		51,998
Freight and custody		10,634		9,164
Conferences		1,073		895
Advertising		64,842		61,668
Training		1,390		1,849
Prizes and rewards		416		459
Cooperation		198		394
Normal research and development		5,705		7,873
Bad debts expense		357		82
	₩	270,467	₩	265,582

(6) Details of other expenses for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013		March 31, 2012	
Foreign currency transaction loss	₩	2,894	₩	7,652
Foreign currency translation loss		3,834		11,446
Impairment loss on other receivables		17		1
Donations		423		2,623
Loss on sale of property, plant and equipment		157		35
Loss on sale of intangible assets		-		380
Other operating expenses		3,169		2,259
	₩	10,494	₩	24,396

26. Expenses by Nature

Expenses by nature for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013		March 31, 2012	
Changes in inventories	₩	5,292	₩	91,689
Raw materials and consumables purchased		266,415		239,843
Salary and wage		121,659		116,282
Retirement benefits		12,285		10,802
Depreciation charges		41,874		40,729
Amortization charges		3,199		2,591
Employee benefits		13,765		11,827
Advertising costs		64,858		60,605
Service fees		56,025		58,160
Other expenses		72,333		87,486
Total cost of sales, selling and administrative expenses and other expenses	₩	657,705	₩	720,014

27. Finance Income and Costs

Finance income and costs for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013	March 31, 2012
Finance cost		
Interest costs	₩ (3,185)	₩ (3,929)
Loss on sale of available-for-sale financial assets	-	(9)
Impairment loss on available-for-sale financial assets	(12,000)	-
Loss on valuation of derivatives	(10)	-
	(15,195)	(3,938)
Finance income		
Interest income	9,363	9,286
Dividend income	3,326	3,416
Investment income on long-term deposits in MSA Escrow Fund	346	70
Gain on sale of available-for-sale financial assets	-	-
	13,035	12,772
Net financial income	₩ (2,160)	₩ 8,834

Details of interest costs for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013	March 31, 2012
Borrowings	₩ (1,405)	₩ (2,314)
Trade and other payables	(1,457)	(442)
Others	(323)	(1,173)
	₩ (3,185)	₩ (3,929)

Details of interest income for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013	March 31, 2012
Deposits	₩ 7,668	₩ 7,230
Available-for-sale financial assets	7	5
Trade and other receivables	1,688	2,051
	₩ 9,363	₩ 9,286

28. Income Tax

Income tax expense was calculated based on the best weighted average annual corporate tax rate for the entire fiscal period. Estimated average annual tax rate of the year ending December 31, 2013, is 29.4%. The estimated tax rate for the three-month period ended March 31, 2012, was 30.5%.

29. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Group and held as treasury shares (Note 19).

Basic earnings per ordinary share for the three-month periods ended March 31, 2013 and 2012, is as follows:

(in Korean won, except number of shares)	March 31, 2013	March 31, 2012
Profit for the period attributable to owner of the parent	₩ 203,098,658,161	₩ 190,820,286,523
Weighted-average number of ordinary shares outstanding	125,898,800	125,748,800
Basic and diluted earnings per share in won	₩ 1,613	₩ 1,517

30. Dividends

Dividend distribution to the Parent Company's shareholders amounted to ₩ 402,876 million for the year ended December 31, 2012, was paid in March 2013.

31. Cash Generated from Operations

(1) Cash generated from operations for the three-month periods ended March 31, 2013 and 2012, are as follows:

(in millions of Korean won)	March 31, 2013	March 31, 2012
Profit	₩ 198,349	₩ 186,253
Adjustments for		
Income tax expense	82,449	81,820
Finance costs	15,195	3,939
Finance income	(13,035)	(12,772)
Depreciation	41,874	40,729
Amortization	3,199	2,591
Retirement and termination benefits	11,578	11,891
Foreign currency translations loss	3,834	11,446
Loss on the write-down of inventories	561	350
Impairment loss on trade and other receivables	374	83
Loss on sale of property, plant and equipment	157	35
Loss on sale of intangible assets	-	380
Other expense	4,341	62
Share of gain of associates	(411)	(1,286)
Share of loss of associates	993	165
Foreign currency translations gain	(29,057)	(3,759)
Gain on sale of property, plant and equipment	(5,593)	(1,751)
Gain on sale of intangible assets	-	(311)
	314,808	319,865
Changes in working capital:		
Increase in trade and other receivables	(21,035)	(39,795)
Increase in advance payments	(46,698)	(53,690)
Increase in prepaid expenses	(5,597)	(2,838)

Increase in prepaid tobacco excise and other taxes	(69,857)	(20,477)
Decrease (increase) in Inventories	(2,555)	86,936
Increase (decrease) trade and other payables	28,038	(24,601)
Increase in advance receipts	15,725	20,159
Increase in tobacco excise and other taxes payable	281,500	310,595
Payment of retirement benefits	(1,561)	(3,491)
Cash generated from operations	₩ 492,768	₩ 592,663

(2) Non-cash transactions

(in millions of Korean won)	**March 31, 2013**
Transfer to voluntary reserves in retained earnings	₩ 347,000
Reclassification of construction in progress to property, plant and equipment	17,678

32. Contingencies and Commitments

Each year, the Group deposits a proportion of sales of tobacco products in the United States in accordance with the Tobacco Master Settlement Agreement (MSA) under the Escrow Statute of the United States government. The MSA Escrow Funds are 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 of each annual funding. 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.

As of March 31, 2013, tobacco lawsuits claiming damages of ₩ 584 million are filed against the Group and the Korean government. The amount of the liability the Group may ultimately be liable for with respect to the litigation cannot be reasonably estimated as of March 31, 2013.

Additionally, as of March 31, 2013, the Group is involved in seven lawsuits as a defendant for alleged damages totaling ₩ 1,605 million. The amount of the liability the Group may ultimately be liable for with respect to the litigation cannot be reasonably estimated as of March 31, 2013.

As of March 31, 2013, the Group has letter of credit agreements with Korea Exchange Bank and other banks with limits in the aggregate of USD 61,500 thousand.

As of March 31, 2013, the Group's trade receivables from the export of cigarettes are insured against non-payment up to USD 12,200 thousand by an export guarantee insurance with the Korea Export Insurance Corporation.

As of March 31, 2013, the Group has been provided with a foreign currency payment guarantee for local dealers in Russia and other countries and for an opening of L/C for import and customs with relation to a subsidiary located in U.S.A(Global Trading Inc.) for up to USD 40,000 thousand by Korea Exchange Bank and others. In addition, the Group provides Customs Bond with limits in the aggregate of USD 11,400 thousand, regarding an opening of L/C for import and customs for a subsidiary located in U.S.A (Global Trading Inc.).

The Group has maintained a contract with the farmers who grow six-year old green ginseng for purchase volume guarantees and recorded contractual amounts paid to the farmers as advance payments in the amount of ₩ 138,947 million, classified as non-current, and ₩ 92,980 million, classified as current, (2012: non-current: ₩ 139,291 million; current: ₩ 49,396 million) as of March 31, 2013, respectively.

As of March 31, 2013, the Group has an accounts receivable loan agreement with a limit of ₩ 64,000 million with Hana Bank and other financial institutions.

As of March 31, 2013, the Group has a trade bill loan agreement with a limit of ₩ 10,000 million with Korea Exchange Bank and other financial institutions.

As of March 31, 2013, the Group has a loan agreement with a limit of ₩ 77,051 million with Shinhan Bank and other financial institutions.

As of March 31, 2013, the Group has provided two blank notes, 13 notes amounting to ₩ 14,200 million and five blank checks to Resolution and Finance Corporation and others as collateral for its borrowings and trade agreements. as of March 31, 2013, the Group lost one blank note, one blank check and five notes amounting to ₩ 4,300 million, and expects to proceed a judgment of nullification.

As of March 31, 2013, the Group and 28 other companies are guaranteed ₩ 240,000 million by Seoul Guarantee Insurance Co., Ltd. related to the Yongsan International Commercial Development Project.

On March 17, 2011, the Group signed the memorandum of understanding (MOU) on global investment partnership with the National Pension Service to jointly invest in foreign assets with a limit of ₩ 800,000 million. Following this MOU, the Group entered into a joint investment agreement with Q Capital Partners Co., Ltd., which is a general partner of private equity fund, on November 11, 2011.

Relative to the acquisition of Somang Cosmetics Co., Ltd., the Parent Company entered into a contract with a former owner of the acquiree, Kang Seok-Chang ("the Individual Shareholder"). Details of the contract are as follows:

1) Conditional put option granted to the Individual Shareholder

The Parent Company shall be required to purchase Individual Shareholder's shares, in whole or in part, at the agreed price if the following conditions are met:
-Somang Cosmetics Co., Ltd. satisfies all the listing requirements.
-Notwithstanding the written request of the Individual Shareholder, Somang Cosmetics Co., Ltd. is not able to undertake the necessary procedures for listing, due to the Parent Company's objection, within three years after the Parent Company acquires Somang Cosmetics Co., Ltd.

2) Right of first refusal held by the Parent Company

The Individual shareholder shall not be permitted to make any transfer of its shares, in whole or in part, unless the Individual Shareholder has offered them first to the Parent Company.

3) Tag-along right held by the Individual Shareholder

In the event that the Parent Company proposes to enter into a transaction or a series of related transactions with a third party purchaser to dispose of 50% or more of its shares, then the Individual Shareholder shall elect to participate in such disposition upon the terms and conditions no less favorable than those applicable to the Parent Company.

In relation to the acquisition of Mazence, Inc., the Parent Company entered into a contract with a former owner of the acquiree, Gwak Tae-Hwan ("Individual Shareholder"). Details of the contract are as follows:

1) Restriction of disposal

The Individual shareholder shall not be permitted to dispose of its shares, in whole or in part, within one year after Mazence, Inc. is listed.

2) Right of first refusal held by the Parent Company

The Individual shareholder shall not be permitted to make any transfer of its shares, in whole or in part, unless the Individual Shareholder has offered them first to the Parent Company.

3) Tag-along right held by the Individual Shareholder

In the event that the Parent Company proposes to enter into a transaction or a series of related transactions with a third party purchaser to dispose of its shares, then the Individual Shareholder shall elect to participate in such disposition upon the terms and conditions no less favorable than those applicable to the Parent Company.

Upon the resolution of the Board of Directors on January 23, 2013, the Parent Company guarantees the principal and the related interest that buyers of Andong Central Xi Apartment have borrowed from the National Agricultural Cooperative Federation, as of March 31, 2013. The amount of guarantee is ₩152,263 million and the guarantee will end on June 30, 2015.

33. Related Party Transactions

The Group has no significant transactions and receivables and liabilities with related parties for the three-month period ended March 31, 2013.

The guarantee provided by related parties as of March 31, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)

Guarantor	Guarantee for	Purpose	March 31, 2013		December 31, 2012	
			Limit	Guarante e amount	Limit	Guarantee amount
Kang Seok-chang	Somang Cosmetics Co., Ltd.	Application funds	₩ 2,500	₩ 2,500	₩ 2,591	₩ 2,893

The compensation paid or payable to key management for employee services for the three-month periods ended March 31, 2013 and 2012, consists of:

(in millions of Korean won)	March 31, 2013	March 31, 2012
Short-term employee benefits	₩ 6,917	₩ 5,995
Retirement benefits	639	1,151
	₩ 7,556	₩ 7,146

34. Basis of Translating Financial Statements

The financial statements are expressed in Korean won and have been translated into U.S. dollars at the rate of ₩ 1,112.1 to US$1, the basic exchange rate on March 31, 2013, posted by Seoul Money Brokerage Services, 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 U.S. dollars at this or any other rate.