KT&G Corporation
and Subsidiaries

Interim Consolidated Financial Statements
September 30, 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 September 30, 2013, and the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2013 and 2012, and statements of changes in equity and cash flows for the nine-month periods ended September 30, 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 consolidated statement of financial position as of December 31, 2012.

The accompanying interim consolidated financial statements as of and for the three-month and nine-month periods ended September 30, 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 35 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

November 13, 2013

This report is effective as of November 13, 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
September 30, 2013 and December 31, 2012

(in millions of Korean won and thousands of U.S. dollars)	Notes	September 30, 2013 Korean won	September 30, 2013 U.S. dollars (Note 35)	December 31, 2012 Korean won
Assets				
Non-current assets				
Property, plant and equipment	10,14	₩ 1,617,490	$ 1,503,803	₩ 1,631,436
Intangible assets	11	239,447	222,617	246,793
Investment property	12,14	175,481	163,147	181,986
Investments in associates	5,15	55,153	51,276	55,777
Available-for-sale financial assets	4,6,7	266,924	248,162	263,884
Other financial assets	6,17	315	293	275
Long-term deposits in MSA Escrow Fund	4,6,9,33	209,778	195,033	168,667
Long-term advance payments	33	184,795	171,806	144,649
Long-term prepaid expenses		5,969	5,549	5,416
Long-term trade and other receivables	4,6,8	117,306	109,061	121,784
Deferred income tax assets		22,292	20,726	17,490
		2,894,950	2,691,473	2,838,157
Current assets				
Inventories	16	1,636,440	1,521,420	1,706,796
Available-for-sale financial assets	6,7	1,000	930	1,000
Other financial assets	4,6,17	168,733	156,873	649,186
Prepaid tobacco excise and other taxes		269,983	251,007	257,184
Trade and other receivables	4,6,8	956,070	888,871	883,778
Advance payments	33	106,452	98,970	66,315
Prepaid expenses		23,805	22,132	20,523
Cash and cash equivalents	4,6,17	908,735	844,863	372,260
		4,071,218	3,785,066	3,957,042
Assets held for sale	5,13	-	-	762
Total assets		₩ 6,966,168	$ 6,476,539	₩ 6,795,961
Equity				
Capital stock	1,18	₩ 954,959	$ 887,839	₩ 954,959
Other capital surplus		(4,572)	(4,251)	(4,572)
Treasury shares	19	(339,059)	(315,227)	(339,059)
Gain on reissuance of treasury shares	19	492,032	457,449	492,032
Reserve	20	3,362,116	3,125,805	3,011,109
Retained earnings	21	715,309	665,032	976,424
Equity attributable to equity holders of the Parent Company		5,180,785	4,816,647	5,090,893
Non-controlling interests		91,989	85,523	103,524
Total equity		5,272,774	4,902,170	5,194,417
Liabilities				
Non-current liabilities				
Long-term borrowings	4,6,23	125,967	117,113	109,599
Long-term trade and other payables	4,6,22	28,517	26,513	25,407
Long-term advance receipts		18,185	16,907	20,239
Defined benefit liability	24	146,214	135,937	107,644
Provisions for other liabilities and charges		2,919	2,714	3,329
Deferred income tax liabilities		240,768	223,841	237,605
		562,570	523,025	503,823
Current liabilities				
Borrowings	4,6,23	86,460	80,383	91,868
Current portion of long-term borrowings	4,6,23	342	318	2,912
Trade and other payables	4,6,22	473,819	440,516	410,216
Advance receipts		30,795	28,631	30,875
Income taxes payable		177,544	165,065	148,925
Tobacco excise and other taxes payable		361,864	336,431	412,925
		1,130,824	1,051,344	1,097,721
Total liabilities		1,693,394	1,574,369	1,601,544
Total liabilities and equity		₩ 6,966,168	$ 6,476,539	₩ 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 interim consolidated financial statements. Refer to Note 35.

KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Comprehensive Income
Three-Month Periods Ended September 30, 2013 and 2012

(in millions of Korean won and thousands of U.S. dollars, except per share amounts)	Notes	Period Ended September 30 2013 Korean won	2013 U.S. dollars (Note 35)	2012 Korean won
Sales	5	₩ 1,024,031	$ 952,055	₩ 1,063,292
Cost of sales	27	(458,665)	(426,427)	(436,928)
Gross profit		565,366	525,628	626,364
Selling and administrative expenses	25,27	(272,388)	(253,243)	(309,387)
Operating income		292,978	272,385	316,977
Other income	26	13,029	12,113	12,893
Other expenses	26	(116,885)	(108,670)	(34,077)
Net other income		(103,856)	(96,557)	(21,184)
Finance income	28	10,312	9,587	10,597
Finance cost	28	(2,983)	(2,773)	(2,537)
Net Finance income		7,329	6,814	8,060
Income from jointly controlled entities and associates	15	1,299	1,208	(149)
Expense from jointly controlled entities and associates	15	(98)	(91)	255
Profit before income tax		197,652	183,759	303,959
Income tax expense	29	(108,201)	(100,596)	(81,211)
Profit for the period		₩ 89,451	$ 83,163	₩ 222,748
Other comprehensive income(loss), net of tax				
Items that will not be reclassified to profit or loss:				
Remeasurements of the net defined benefit liability	24	(2,753)	(2,560)	75
Items that will be reclassified subsequently to profit or loss:				
Change in value of available-for-sale financial assets	7	₩ 18,730	$ 17,414	₩ (4,026)
Gain (Loss) on currency translation of foreign operations		(19,495)	(18,125)	(1,920)
Other comprehensive income for the period, net of tax		(3,518)	(3,271)	(5,871)
Total comprehensive income for the period		₩ 85,933	$ 79,892	₩ 216,877
Profit for the period attributable to:				
Equity holders of the Parent Company		₩ 92,694	$ 86,178	₩ 226,134
Non-controlling interests		(3,243)	(3,015)	(3,386)
		₩ 89,451	$ 83,163	₩ 222,748
Total comprehensive income for the period attributable to:				
Equity holders of the Parent Company		₩ 92,304	$ 85,815	₩ 220,263
Non-controlling interests		(6,371)	(5,923)	(3,386)
		₩ 85,933	$ 79,892	₩ 216,877
Earnings per share attributable to the equity holders of the Parent Company during the period (in won)				
Basic and diluted earnings per share	30	₩ 736	$ 1	₩ 1,798

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KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Comprehensive Income
Nine-Month Periods Ended September 30, 2013 and 2012

(in millions of Korean won and thousands of U.S. dollars, except per share amounts)	Notes	Period Ended September 30 2013 Korean won	2013 U.S. dollars (Note 35)	2012 Korean won
Sales	5	₩ 2,834,588	$ 2,635,355	₩ 3,030,296
Cost of sales	27	(1,236,466)	(1,149,559)	(1,308,606)
Gross profit		1,598,122	1,485,796	1,721,690
Selling and administrative expenses	25,27	(807,614)	(750,850)	(867,098)
Operating income		790,508	734,946	854,592
Other income	26	51,745	48,109	48,384
Other expenses	26	(106,719)	(99,218)	(62,188)
Net other income		(54,974)	(51,109)	(13,804)
Finance income	28	31,788	29,554	32,085
Finance cost	28	(23,913)	(22,232)	(7,964)
Net Finance income		7,875	7,322	24,121
Income from jointly controlled entities and associates	15	2,381	2,213	1,597
Expense from jointly controlled entities and associates	15	(1,196)	(1,112)	(194)
Profit before income tax		744,594	692,260	866,312
Income tax expense	29	(264,116)	(245,553)	(246,769)
Profit for the period		₩ 480,478	$ 446,707	₩ 619,543
Other comprehensive income(loss), net of tax				
Items that will not be reclassified to profit or loss:				
Remeasurements of the net defined benefit liability	24	(1,720)	(1,599)	(22)
Items that will be reclassified subsequently to profit or loss:				
Change in value of available-for-sale financial assets	7	₩ 13,674	$ 12,713	₩ 2,140
Gain (Loss) on currency translation of foreign operations		(12,067)	(11,221)	(5,437)
Other comprehensive income (loss) for the period, net of tax		(113)	(107)	(3,319)
Total comprehensive income for the period		₩ 480,365	$ 446,600	₩ 616,224
Profit for the period attributable to:				
Equity holders of the Parent Company		₩ 490,928	$ 456,422	₩ 631,336
Non-controlling interests		(10,450)	(9,715)	(11,793)
		₩ 480,478	$ 446,707	₩ 619,543
Total comprehensive income for the period attributable to:				
Equity holders of the Parent Company		₩ 492,768	$ 458,131	₩ 628,016
Non-controlling interests		(12,403)	(11,531)	(11,792)
		₩ 480,365	$ 446,600	₩ 616,224
Earnings per share attributable to the equity holders of the Parent Company during the period (in won)				
Basic and diluted earnings per share	30	₩ 3,899	$ 4	₩ 5,021

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KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Changes in Equity
Nine-Month Periods Ended September 30, 2013 and 2012

(in millions of Korean won)	Capital stock	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to equity holders of the Parent Company								
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	-	-	-	-	-	631,336	631,336	(11,793)	619,543
Change in value of available-for-sale financial assets	-	-	-	-	2,140	-	2,140	-	2,140
Loss on currency translation of foreign operations	-	-	-	-	(5,437)	-	(5,437)	-	(5,437)
Remeasurements of the net defined benefit liability	-	-	-	-	-	(23)	(23)	1	(22)
Total comprehensive income (loss)	-	-	-	-	(3,297)	631,313	628,016	(11,792)	616,224
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	-	-	-	-	-	-	-	5,390	5,390
Changes in non-controlling interest	-	-	-	-	-	(9,002)	(9,002)	9,002	-
Others	-	-	-	-	-	(3,328)	(3,328)	4,429	1,101
Total transactions with equity holders of the Paretn Company	-	-	-	-	359,000	(773,726)	(414,726)	18,821	(395,905)
Balance at September 30, 2012	₩ 954,959	₩ 5,333	₩ (343,522)	₩ 485,922	₩ 3,019,016	₩ 879,713	₩ 5,001,421	₩ 103,976	₩ 5,105,397
Balance at January 1, 2013	₩ 954,959	₩ (4,572)	₩ (339,059)	₩ 492,032	₩ 3,011,109	₩ 976,424	₩ 5,090,893	₩ 103,524	₩ 5,194,417
Comprehensive income									
Profit for the period	-	-	-	-	-	490,928	490,928	(10,450)	480,478
Change in value of available-for-sale financial assets	-	-	-	-	13,674	-	13,674	-	13,674
Gain (Loss) on currency translation of foreign operations	-	-	-	-	(9,667)	-	(9,667)	(2,400)	(12,067)
Remeasurements of the net defined benefit liability	-	-	-	-	-	(2,167)	(2,167)	447	(1,720)
Total comprehensive income (loss)	-	-	-	-	4,007	488,761	492,768	(12,403)	480,365
Transactions with equity holders of the Parent Company									
Cash dividends	-	-	-	-	-	(402,876)	(402,876)	-	(402,876)
Other reserve	-	-	-	-	317,000	(317,000)	-	-	-
Transfer from reserve for research and human resource development	-	-	-	-	30,000	(30,000)	-	-	-
Acquisition of investments in subsidiaries	-	-	-	-	-	-	-	868	868
Total transactions with equity holders of the Parent Company	-	-	-	-	347,000	(749,876)	(402,876)	868	(402,008)
Balance at September 30, 2013	₩ 954,959	₩ (4,572)	₩ (339,059)	₩ 492,032	₩ 3,362,116	₩ 715,309	₩ 5,180,785	₩ 91,989	₩ 5,272,774

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
Nine-Month Periods Ended September 30, 2013 and 2012

(in thousands of U.S. dollars) (Note 35)	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	$ 887,839	$ (4,251)	$ (315,227)	$ 457,449	$ 2,799,470	$ 907,795	$ 4,733,075	$ 96,248	$ 4,829,323
Comprehensive income									
Profit for the period	-	-	-	-	-	456,422	456,422	(9,715)	446,707
Change in value of available-for-sale financial assets	-	-	-	-	12,713	-	12,713	-	12,713
Gain (Loss) on currency translation of foreign operations	-	-	-	-	(8,988)	-	(8,988)	(2,233)	(11,221)
Remeasurements of the net defined benefit liability	-	-	-	-	-	(2,016)	(2,016)	417	(1,599)
Total comprehensive income (loss)	-	-	-	-	3,725	454,406	458,131	(11,531)	446,600
Transactions with equity holders of the Parent Company									
Cash dividends	-	-	-	-	-	(374,559)	(374,559)	-	(374,559)
Other reserve	-	-	-	-	294,719	(294,719)	-	-	-
Transfer from reserve for research and human resource development	-	-	-	-	27,891	(27,891)	-	-	-
Acquisition of investments in subsidiaries	-	-	-	-	-	-	-	806	806
Total transactions with equity holders of the Parent Company	-	-	-	-	322,610	(697,169)	(374,559)	806	(373,753)
Balance at September 30, 2013	$ 887,839	$ (4,251)	$ (315,227)	$ 457,449	$ 3,125,805	$ 665,032	$ 4,816,647	$ 85,523	$ 4,902,170

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KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Cash Flows
Nine-Month Periods Ended September 30, 2013 and 2012

(in millions of Korean won and thousands of U.S. dollars)	Notes	Period Ended September 30 2013 Korean won	2013 U.S. dollars (Note 35)	2012 Korean won
Cash flows from operating activities				
Cash generated from operations	32	₩ 840,756	$ 781,662	₩ 1,313,907
Income tax paid		(240,022)	(223,152)	(245,868)
Net cash generated from operating activities		600,734	558,510	1,068,039
Cash flows from investing activities				
Interest received		26,996	25,099	25,495
Investment income received from long-term deposits in MSA Escrow Fund		845	785	407
Dividends received		6,889	6,404	6,282
Proceeds from sale of property, plant and equipment		5,537	5,148	21,904
Proceeds from sale of intangible assets		311	289	857
Proceeds from sale of non-current asset held for sale		7,471	6,946	
Proceeds from sale of available-for-sale financial assets		-	-	1,444
Decrease in loans		9,447	8,783	17,698
Decrease in guarantee deposits		17,423	16,198	56,018
Decrease in derivatives		244	227	-
Acquisition of property, plant and equipment		(113,400)	(105,429)	(193,551)
Acquisition of intangible assets		(3,081)	(2,864)	(3,898)
Acquisition of investment property		(1,422)	(1,322)	(51)
Acquisition of jointly controlled entities and associates		-	-	(11,500)
Acquisition of available-for-sale financial assets		-	-	(16,500)
Increase in loans		(20,452)	(19,014)	(2,000)
Increase in guarantee deposits		(18,276)	(16,992)	(52,314)
Increase in long-term deposits in MSA Escrow Fund		(41,772)	(38,836)	(24,369)
Increase (Decrease) in other financial assets		475,619	442,189	(744,819)
Net cash provided by (used in) investing activities		352,379	327,611	(918,897)
Cash flows from financing activities				
Interest paid		(5,058)	(4,703)	(8,606)
Dividends paid	31	(402,876)	(374,559)	(402,396)
Proceeds from borrowings		111,943	104,075	148,762
Increase in deposits received		3,316	3,083	5,711
Repayments of borrowings		(120,595)	(112,119)	(88,496)
Decrease in deposits received		(3,269)	(3,039)	(4,226)
Net cash used in financing activities		(416,539)	(387,262)	(349,251)
Net increase (decrease) in cash and cash equivalents		536,574	498,859	(200,109)
Cash and cash equivalents at the beginning of period		372,260	346,095	807,731
Exchange losses on cash and cash equivalents		(99)	(91)	(89)
Cash and cash equivalents at the end of period		₩ 908,735	$ 844,863	₩ 607,533

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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 September 30, 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 September 30, 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	2,890,414	2.10%
Others	113,497,901	82.67%
	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 September 30, 2013, are as follows:

Immediate Parent	Subsidiaries	Location	Percentage of ownership (%) September 30, 2013
KT&G Corporation	Korea Ginseng Corporation	Korea	100.00
	Yungjin Pharm. Ind. Co., Ltd.	Korea	53.00
	Tae-a Industry 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, shown above, excludes convertible preferred shares. As of September 30, 2013, the Group's percentage of ownership would be 50.00% if convertible preferred shares are included.

[2] The Parent Company's percentage of ownership, shown above, excludes convertible preferred shares. As of September 30, 2013, the Group's percentage of ownership would be 68.91% if convertible preferred shares are included.

[3] The Parent Company's percentage of ownership, shown above, excludes convertible preferred shares. As of September 30, 2013, the Group's percentage of ownership would be 59.48% if convertible preferred shares are included.

[4] The Parent Company's percentage of ownership, shown above, excludes convertible preferred shares. As of September 30, 2013, the Group's percentage of ownership would be 50.00% if convertible preferred shares are included.

Summarized financial information of subsidiaries as of September 30, 2013, and for the nine-month period ended September 30, 2013, is as follows:

(In millions of Korean won)

Subsidiaries	Total assets	Total liabilities	Revenue	Profit (loss)	Total comprehensive income(loss)
Korea Ginseng Corporation	₩ 1,408,579	₩ 167,690	₩ 619,178	₩ 84,629	₩ 84,648
Yungjin Pharm. Ind. Co., Ltd.	175,251	76,084	119,274	7,145	8,098
Tae-a industry Co., Ltd.	15,397	3,449	10,920	503	498
KT&G Tutun Mamulleri Sanayive Ticaret A.S.	48,032	36,623	11,961	(8,142)	(9,652)
Korea Tabacos do Brasil Ltda.	1,099	11	-	-	-
KT&G Pars	18,449	39,108	4,946	(41,432)	(20,787)
KT&G Rus L.L.C.	153,234	47,169	32,175	7,811	1,537
KG Life & Gin Co., Ltd.	24,595	7,015	29,872	(13,266)	(13,261)
Global Trading, Inc.	34,071	25,468	169,446	1,820	1,798
Jilin Hanzheng Ginseng Co., Ltd.	66,942	43,282	-	(2,978)	(2,333)
Somang Cosmetics Co., Ltd.	67,010	63,115	58,580	(19,024)	(19,024)
Renzoluc Pte., Ltd.	100,612	49,901	-	556	750
KT&G Life science	35,635	15,322	83	(4,228)	(4,228)
Yebon Nongwon Agriculture Co., Ltd.	98	-	-	(3)	(3)
KGC Yebon	42,323	875	1,849	(993)	(986)
PT Trisakti Purwosari Makmur	98,567	69,164	30,344	(7,200)	(12,867)
Cheong Kwan Jang Taiwan Corporation	17,218	19,009	12,019	(1,853)	(1,814)
Korean Red Ginseng Corp., Inc.	8,382	5,314	8,066	(132)	(115)
Korea Ginseng (China) Corp.	45,603	36,987	26,289	(1,189)	(950)
Korea Ginseng Corporation Japan	5,509	4,378	5,311	(643)	(854)
K-Q HongKong I,Limited	36,589	-	-	2,106	2,193
PT CKJ INDONESIA	3,662	3,189	3,992	(248)	(340)
PT KT&G Indonesia	7,462	7,668	383	(3,984)	(3,952)
PT Mandiri Maha Mulia	4,423	2,212	110	(372)	(798)

For the nine-month period ended September 30, 2013, there has been no change in consolidation scope, except for PT KT&G INDONESIA and PT Mandiri Maha Mulia which were 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

These consolidated interim financial statements as of and for the three-month and nine-month periods ended September 30, 2013, have 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 September 30, 2013, or early adopted.

(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*

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. 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*

The amendment requires all actuarial gains and losses incurred to be recognized immediately in other comprehensive income. In addition, 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). There is no material impact on the consolidated financial statements due to application of the amendment.

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

Korean IFRS 1110 explains the principle of control which is the basis for determining which entities are consolidated in the consolidated financial statements. There are no changes in consolidation scope of the Group 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. 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.

- Enactment of Korean IFRS 1027, *Separate Financial Statements*

Korean IFRS 1027 prescribes 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. 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:

- Amendment to Korean IFRS 1110, *Consolidated Financial Statements*

Amendment to Korean IFRS 1110, *Consolidated Financial Statements*, provides that, if a parent company qualifies as an investment entity, it is required to measure its investments in subsidiaries at fair value through profit and loss instead of consolidating these subsidiaries in its consolidated financial statements. The amendment does not apply for a parent of an investment entity if the parent itself is not an investment entity. This amendment will be effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

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

Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. This amendment will be effective for annual periods beginning on or after January 1, 2014, and the Group is assessing the impact of application of the amendment on its 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 for the changes due to the application of amendment and enactments of standards described in Note 2.1.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company controls the corresponding 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. Consolidation of a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company loses control of the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. 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.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

(c) Joint Arrangements

A joint arrangement of which two or more parties have joint control is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

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 income and expenses'.

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.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included 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 Group 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 Instruments

2.6.1 Classification

The Group classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity financial assets and financial liabilities carried at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial instruments 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' and 'trade and other receivables' 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 'finance income and cost'.

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 'finance 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 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, a decrease in fair value of the investments by more than 30% from its cost for more than nine 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 ₩ 273,647 million and ₩ 347,489 million as of September 30, 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 accumulated depreciation. 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 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 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.

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.

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 estimates.

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 10 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. Preferred shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preferred shares are recognized in the statement of comprehensive income as 'finance cost'.

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 Group’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 Group’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 nine-month periods ended September 30, 2013 and 2012, were ₩ 2,742,507 million and ₩ 2,997,464 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 Assumptions

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 Group’s financial performance.

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 September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 2013			December 31, 2012		
	USD	EUR	JPY	USD	EUR	JPY
Assets						
Cash and cash equivalents	₩ 24,359	₩ 142	₩ 1,675	₩ 19,284	₩ 5	₩ 9
Trade and other receivables	377,844	62	4,060	493,243	3,256	6,410
Long-term deposits	209,778	-	-	168,667	-	-
	₩ 611,981	₩ 204	₩ 5,735	₩ 681,194	₩ 3,261	₩ 6,419
Liabilities						
Trade and other payables	₩ 3,978	₩ 10,941	₩ 2,922	₩ 16,544	₩ 3,153	₩ 2,129
Short-term borrowings	1,412	-	-	1,406	-	-
	₩ 5,390	₩ 10,941	₩ 2,922	₩ 17,950	₩ 3,153	₩ 2,129

As of September 30, 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)	September 30, 2013		December 31, 2012	
	10% strengthening	10% weakening	10% strengthening	10% weakening
US dollar	₩ 60,659	₩ (60,659)	₩ 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 September 30, 2013 and December 31, 2012, the effects of a 5% fluctuation of the price index of stocks on other comprehensive income(change in value of available-for-sale financial assets) are as follows:

(in millions of Korean won)	September 30, 2013		December 31, 2012	
	5% increase	5% decrease	5% increase	5% decrease
Other comprehensive income before tax	₩ 4,914	₩ (4,914)	₩ 5,266	₩ (5,266)
Tax effect	(1,189)	1,189	(1,274)	1,274
Other comprehensive income after tax	₩ 3,725	₩ (3,725)	₩ 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 September 30, 2013 and December 31, 2012, the amount of borrowings issued at variable rates is ₩ 85,037 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 September 30, 2013 and December 31, 2012, is as follows:

(in millions of Korean won)		**September 30, 2013**		**December 31, 2012**
Available-for-sale financial assets	₩	2,832	₩	2,832
Long-term deposits in MSA Escrow Fund		209,778		168,667
Trade and other receivables		1,073,376		1,005,563
Other financial assets		169,048		649,461
Cash and cash equivalents		908,735		372,260
	₩	2,363,769	₩	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 September 30, 2013 and December 31, 2012, is as follows:

(in millions of Korean won)	**September 30, 2013**					
	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	₩ 334,912	₩ 336,529	₩ 299,946	₩ 7,266	₩ 26,419	₩ 2,898
Short-term borrowings	86,460	88,024	45,003	43,021	-	-
Long-term borrowings	125,967	136,015	212	636	84,342	50,825
Current portion of long-term borrowings	342	349	87	262	-	-

(in millions of Korean won)	December 31, 2012					
	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.

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 September 30, 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)	**September 30, 2013**	**December 31, 2012**
Total borrowings	₩ 212,768	₩ 204,379
Less:		
-Cash and cash equivalents	(908,735)	(372,260)
-Other financial assets, current	(168,733)	(649,186)
-Available-for-sale financial assets, current	(1,000)	(1,000)
Net debt(asset)	(865,700)	(818,067)
Equity attributable to owners of the parent	₩ 5,272,774	₩ 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 nine-month period ended September 30, 2013.

4.3.1 Fair Value by Financial Instruments

Book value and fair value by financial instruments consists of the following:

(in millions of Korean won)	September 30, 2013		December 31, 2012	
	Book value	Fair value	Book value	Fair value
Financial assets				
Available-for-sale assets, non-current[1]	₩ 250,990	₩ 250,990	₩ 247,950	₩ 247,950
Other financial assets, non-current	315	315	275	275
Long-term deposits	209,778	209,778	168,667	168,667
Long-term trade and other receivables	117,306	117,306	121,784	121,784
Other financial assets, current	168,733	168,733	649,186	649,186
Trade and other receivables	956,070	956,070	883,778	883,778
Cash and cash equivalents	908,735	908,735	372,260	372,260
	₩ 2,611,927	₩ 2,611,927	₩ 2,443,900	₩ 2,443,900
Financial liabilities				
Long-term borrowings	₩ 125,967	₩ 125,967	₩ 109,599	₩ 109,599
Long-term trade and other payables	28,153	28,153	24,979	24,979
Short-term borrowings	86,460	86,460	91,868	91,868
Current portion of long-term borrowings	342	342	2,912	2,912
Trade and other payables	306,759	306,759	273,402	273,402
	₩ 547,681	₩ 547,681	₩ 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)	September 30, 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 Group's financial assets and financial liabilities that are measured at fair value as of September 30, 2013:

(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	₩ 202,188	₩ 48,802	₩ -	₩ 250,990

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 Group 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 September 30, 2013:

(in millions of Korean won)	**Fair Value**	**Level**	**Valuation Technique**
Available-for-sale assets			
Real Estate Investment Trust	₩ 48,524	2	Market approach
Unlisted	-	-	(*1)

[1]Unlisted stocks are shares in Dream Hub PFV Co., Ltd., which was established for the development of Yongsan Station area. The Group recognized 100% of the carrying amount as impairment loss for this interim period due to financial difficulties of this investee (Note 7).

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 nine-month periods ended September 30, 2013 and 2012, is as follows:

	2013						
(in millions of Korean won)	**Tobacco**	**Ginseng**	**Real estate**	**Others**	**Segment total**	**Elimination**	**Consolidated**
Total segment sales	₩ 1,972,303	₩ 673,943	₩ 71,549	₩ 255,926	₩ 2,973,721	₩ (139,133)	₩ 2,834,588
Less: Inter-segment sales	53,163	49,870	6,129	29,971	139,133	(139,133)	-
External sales	1,919,140	624,073	65,420	225,955	2,834,588	-	2,834,588
Profit (loss) from operations	662,112	112,279	20,454	(9,687)	785,158	5,350	790,508

	2012						
(in millions of Korean won)	**Tobacco**	**Ginseng**	**Real estate**	**Others**	**Segment total**	**Elimination**	**Consolidated**
Total segment sales	₩ 2,129,908	₩ 732,677	₩ 31,690	₩ 286,212	₩ 3,180,487	₩ (150,191)	₩ 3,030,296
Less: Inter-segment sales	42,576	59,528	5,801	42,286	150,191	(150,191)	-
External sales	2,087,332	673,149	25,889	243,926	3,030,296	-	3,030,296
Profit (loss) from operations	761,431	114,147	8,580	(8,454)	875,704	(21,112)	854,592

(3) Segment information on assets and liabilities as of September 30, 2013 and December 31, 2012, is as follows:

(in millions of Korean won)	September 30, 2013						
	Tobacco	**Ginseng**	**Real estate**	**Others**	**Segment total**	**Elimination**	**Consolidated**
Assets							
Segment assets	₩ 3,539,738	₩ 1,426,592	₩ 130,220	₩ 357,268	₩ 5,453,818	₩ (233,098)	₩ 5,220,720
Equity accounted investments	-	-	52,863	2,290	55,153	-	55,153
Assets held for sale, non-current	-	-	-	-	-	-	
	3,539,738	1,426,592	183,083	359,558	5,508,971	(233,098)	5,275,873
Unallocated assets							1,690,295
Total assets							₩ 6,966,168
Liabilities							
Segment liabilities	₩ 952,970	₩ 177,950	₩ -	₩ 64,488	₩ 1,195,408	₩ (150,868)	₩ 1,044,540
Unallocated liabilities							648,854
Total liabilities							₩ 1,693,394

(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 nine-month periods ended September 30, 2013 and 2012, is as follows:

Segment	Major customer	2013	2012
Tobacco	Alokozay International Limited	₩ 204,350	₩ 320,727

6. Financial Instruments by Category

Categorizations of financial assets as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 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	₩ -	₩ -	₩ -	₩ 266,924	₩ 266,924
Other financial assets, non-current	315	-	-	-	315
Long-term deposits	209,778	-	-	-	209,778
Long-term trade and other receivables	117,306	-	-	-	117,306
Financial assets as available-for-sale, current	-	-	-	1,000	1,000
Other financial assets, current	168,733	-	-	-	168,733
Trade and other receivables, current	956,070	-	-	-	956,070
Cash and cash equivalents	908,735	-	-	-	908,735
	₩ 2,360,937	₩ -	₩ -	₩ 267,924	₩ 2,628,861

(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 September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 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	₩ -	₩ -	₩ 125,967	₩ -	₩ 125,967
Long-term trade and other payables	-	-	28,153	-	28,153
Short-term borrowings	-	-	86,460	-	86,460
Current portion of long-term borrowings	-	-	342	-	342
Trade and other payables, current	-	-	306,759	-	306,759
	₩ -	₩ -	₩ 547,681	₩ -	₩ 547,681

(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, current	-	-	273,402	-	273,402
	₩ -	₩ -	₩ 502,760	₩ -	₩ 502,760

Income and loss of financial instruments by category for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	**Nine months**	**Three months**	**Nine months**
Available-for-sale financial assets				
Gain (loss) on valuation (other comprehensive income)	₩ 18,730	₩ 13,674	₩ (4,027)	₩ 2,140
Loss on disposal	-	-	-	(9)
Interest income	7	22	13	30
Dividend income	413	5,079	578	5,054
Impairment loss	-	(15,000)	-	-
Cash and cash equivalents				
Interest income	7,725	20,760	8,479	22,690
Gain (loss) on foreign currency translation	(175)	(55)	5	(83)
Foreign currency transaction gain (loss)	(765)	9	(516)	(883)
Trade and other receivables				
Interest income	1,323	4,724	1,524	4,223
Loss on foreign currency translation	(86,235)	(39,249)	(21,880)	(24,564)
Foreign currency transaction gain	1,699	10,434	(704)	1,162
Financial assets at fair value through profit or loss				
Loss on valuation (profit or loss)	(52)	-	-	-
Gain on disposal (profit or loss)	102	244	-	-
Other financial liabilities at amortized cost				
Interest costs	(2,931)	(8,913)	(2,537)	(7,955)
Gain on foreign currency translation	5,120	2,733	2,002	3,984
Foreign currency transaction loss	(2,003)	(8,736)	(2,023)	(4,140)

7. Available-for-sale Financial Assets

The changes in available-for-sale financial assets for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013	2012
At January 1	₩ 264,884	₩ 248,403
Additions	-	16,500
Gain(loss) on valuation (before tax)	15,253	2,823
Net gains reclassified from equity	2,787	-
Impairment	(15,000)	-
Disposal	-	(243)
At September 30	267,924	267,483
Less: current portion	(1,000)	(1,044)
Non-current portion	₩ 266,924	₩ 266,439

Available-for-sale financial assets as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 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)	23,380	29,580
Oscotech, Inc.	750	869
Shinhan Financial Group Co., Ltd.	174,965	155,725
Rexahn Pharmaceuticals, Inc.	3,093	2,122
	202,188	188,296
Unlisted[2,3]	62,904	73,756
Total available-for-sale equity instruments	265,092	262,052
Total available-for-sale financial assets	₩ 267,924	₩ 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 nine-month period ended September 30, 2013, the Group recognizes impairment loss on unlisted available-for-sale equity instruments of ₩ 15,000 million for Dream Hub PFV Co., Ltd.

[3]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 are carried at cost.

8. Trade and Other Receivables

Trade and other receivables as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Loans to employees	₩ 10,777	₩ 30,332	₩ 7,196	₩ 22,491
Loans	565	5,509	661	6,928
Other receivables	61,552	15,557	84,559	27,529
Guarantee deposits	-	65,908	-	64,836
Accrued income	2,824	-	7,006	-
Trade receivables	880,352	-	784,356	-
	₩ 956,070	₩ 117,306	₩ 883,778	₩ 121,784

Trade and other receivables as of September 30, 2013 and December 31, 2012, reported in the consolidated statements of financial position, net of allowances, are as follows:

(in millions of Korean won)	September 30, 2013		December 31, 2012	
	Current	**Non-current**	**Current**	**Non-current**
Gross trade and other receivables	₩ 984,421	₩ 117,306	₩ 912,506	₩ 121,784
Allowance account				
- Loans	(211)	-	(199)	-
- Other receivables	(2,304)	-	(2,304)	-
- Trade receivables	(25,836)	-	(26,225)	-
	(28,351)	-	(28,728)	-
Net amount	₩ 956,070	₩ 117,306	₩ 883,778	₩ 121,784

Changes in the allowance account for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	**2013**	**2012**
Beginning	₩ 28,728	₩ 16,381
Impairment loss	279	311
Reversal of impairment	-	-
Write-off	(650)	(2,019)
Exchange differences	(6)	(1)
Ending	₩ 28,351	₩ 14,672

The aging schedule of trade and other receivables as of September 30, 2013 and December 31, 2012, is as follows:

(in millions of Korean won)	**September 30, 2013**	**December 31, 2012**
Not past due	₩ 531,852	₩ 470,756
Past due but not impaired		
Within 1 month	36,829	74,054
Between 1 and 2 months	24,952	51,070
Beyond 2 months	75,596	88,586
Beyond 3 months	236,959	126,115
	₩ 906,188	₩ 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 September 30, 2013, and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 2013			December 31, 2012		
	Effective interest rate	**Current**	**Non-current**	**Effective interest rate**	**Current**	**Non-current**
Loans to employees	3.00~5.68%	₩ 10,776	₩ 30,330	3.00~5.68%	₩ 7,192	₩ 22,486
Loans	1.70%~7.29%	-	4,995	1.7~3.29%	-	4,650
Other receivables	3.79%	-	17,574	3.79%	8,300	16,601

Guarantee deposits	1.70%~8.47%	-	62,890	1.7%~8.47%	-	62,400
		₩ 10,776	₩ 115,789		₩ 15,492	₩ 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 Group 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 September 30, 2013 and December 31, 2012, are ₩ 5,148 million and ₩ 5,477 million, respectively (Note 23).

9. Long-term Deposits

Long-term deposits as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	**September 30, 2013**	**December 31, 2012**
MMF	₩ 926	₩ 10,496
T-note	208,852	158,170
	₩ 209,778	₩ 168,666

As discussed in Note 33 to the interim 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 nine-month periods ended September 30, 2013 and 2012, are ₩ 41,772 million and ₩ 24,369 million, respectively.

Investment income on long-term deposits in MSA Escrow Fund for the nine-month periods ended September 30, 2013 and 2012, is ₩ 959 million and ₩ 88 million, respectively.

10. Property, Plant and Equipment

Changes in property, plant and equipment for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	**2013**		
	Acquisition Cost	**Accumulated depreciation and impairment cost**	**Net book value**
Land	₩ 530,722	₩ -	₩ 530,722
Buildings	862,933	(326,022)	536,911
Structures	65,419	(35,856)	29,563
Machinery	1,176,840	(820,706)	356,134
Vehicles	13,751	(10,506)	3,245
Tools	56,847	(47,415)	9,432
Furniture and fixture	241,693	(181,376)	60,317
Others	1,270	-	1,270
Construction-in-progress	89,896	-	89,896
	₩ 3,039,371	₩ (1,421,881)	₩ 1,617,490

(in millions of Korean won)	**2012**		
	Acquisition Cost	**Accumulated depreciation and**	**Net book value**

		impairment cost	
Land	₩ 489,376	₩ -	₩ 489,376
Buildings	803,054	(294,963)	508,091
Structures	60,444	(33,158)	27,286
Machinery	1,098,632	(748,682)	349,950
Vehicles	11,013	(7,939)	3,074
Tools	51,201	(43,206)	7,995
Furniture and fixture	251,471	(186,648)	64,823
Others	1,255	-	1,255
Construction-in-progress	182,663	-	182,663
	₩ 2,949,109	₩ (1,314,596)	₩ 1,634,513

	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	₩ 141	₩ (798)	₩ 13,630	₩ -	₩ (471)	₩ 164	₩ 530,722
Buildings	528,715	25,392	(92)	12,251	(27,188)	(4,909)	2,742	536,911
Structures	26,999	3,941	(37)	1,299	(2,507)	(169)	37	29,563
Machinery	372,565	21,632	(2,379)	31,167	(63,112)	(3,739)	-	356,134
Vehicles	2,950	428	(22)	199	(1,003)	693	-	3,245
Tools	8,856	4,244	(274)	61	(3,528)	73	-	9,432
Furniture and fixture	65,856	12,153	(508)	5,063	(22,156)	(91)	-	60,317
Others	1,266	-	(9)	13	-	-	-	1,270
Construction-in-progress	106,173	48,141	(1,053)	(63,683)	-	468	(150)	89,896
	₩ 1,631,436	₩ 116,072	₩ (5,172)	₩ -	₩ (119,494)	₩ (8,145)	₩ 2,793	₩ 1,617,490

[1] Other changes include ₩ 3,463 million of reclassification from investment property to property, plant equipment and ₩ 150 million of reclassification from property, plant and equipment to investment property and ₩ 520 million of reclassification from property, plant and equipment to held-for-sale non-current assets.

	2012							
(in millions of Korean won)	**Opening net book value**	**Additions**	**Disposal**	**Transfer**	**Depreciation**	**Exchange difference**	**Other changes[1]**	**Net book amount**
Land	₩ 460,487	₩ 16,162	₩ (5,373)	₩ 26,772	₩ -	₩ 101	₩ (8,773)	₩ 489,376
Buildings	532,066	12,340	(6,645)	11,396	(27,822)	415	(13,659)	508,091
Structures	30,072	512	(279)	1,013	(2,595)	21	(1,458)	27,286
Machinery	365,040	18,207	(494)	27,740	(60,117)	(381)	(45)	349,950
Vehicles	3,547	376	(168)	394	(975)	(100)	-	3,074
Tools	9,871	1,921	(188)	153	(3,737)	(25)	-	7,995
Furniture and fixture	66,299	22,272	(997)	554	(23,115)	(190)	-	64,823
Others	1,219	10	-	26	-	-	-	1,255
Construction-in-progress	115,745	121,751	(25,626)	(68,048)	-	38,841	-	182,663
	₩1,584,346	₩ 193,551	₩ (39,770)	₩ -	₩ (118,361)	₩ 38,682	₩ (23,935)	₩ 1,634,513

[1] Other changes represent the reclassified amount from property, plant and equipment to held-for-sale non-current assets.

11. Intangible Assets

Changes in intangible assets for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	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	-	165	773	1,397	746	3,081
Disposals	-	(4)	(33)	(302)	(13)	(352)
Transfer	-	306	-	-	(306)	-
Amortization	-	(2,256)	-	(7,380)	-	(9,636)
Impairment loss	-	-	-	-	(19)	(19)
Exchange differences	209	(5)	(3)	(619)	(2)	(420)
Acquisition cost	84,309	45,744	26,811	116,523	5,054	278,441
Accumulated amortization and impairment cost	-	(13,452)	(32)	(25,090)	(420)	(38,994)
Net book amount	₩ 84,309	₩ 32,292	₩ 26,779	₩ 91,433	₩ 4,634	₩ 239,447

(in millions of Korean won)	2012					
	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	-	234	1,328	1,209	1,127	3,898
Disposals	-	12,654	(2)	(115)	(13,443)	(906)
Transfer	-	(630)	-	-	630	-
Amortization	-	(2,205)	-	(7,388)	-	(9,593)
Exchange differences	(1,605)	423	(1)	(481)	(427)	(2,091)
Acquisition cost	86,297	44,395	25,712	113,918	4,548	274,870
Accumulated amortization and impairment cost	-	(10,465)	-	(14,052)	(427)	(24,944)
Net book amount	₩ 86,297	₩ 33,930	₩ 25,712	₩ 99,866	₩ 4,121	₩ 249,926

Research and development expenses for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	**Nine months**	**Three months**	**Nine months**
Cost of goods sold	₩ 270	₩ 2,447	₩ 290	₩ 864
Selling and administrative expenses	7,447	21,204	10,536	26,191
	₩ 7,717	₩ 23,651	₩ 10,826	₩ 27,055

Exchange gain of ₩209 million arising from the translation of goodwill of PT Trisakti Purwosari Makmur, one of subsidiaries, is accounted for as an addition from goodwill and gain on currency translation of foreign operations(other comprehensive income).

12. Investment Property

Changes in investment property for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	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)	(2,880)	(3,313)
Depreciation	-	(4,614)	(4,614)
Acquisition cost	48,303	177,154	225,457
Accumulated depreciation and impairment cost	-	(49,976)	(49,976)
Net book amount	₩ 48,303	₩ 127,178	₩ 175,481

(in millions of Korean won)	2012		
	Land	**Building**	**Total**
Beginning net book value	₩ 45,314	₩ 143,037	₩ 188,351
Additions	-	51	51
Transfer to held-for-sale non-current assets	(562)	(4,302)	(4,864)
Depreciation	-	(4,648)	(4,648)
Acquisition cost	44,752	178,029	222,781
Accumulated depreciation and impairment cost	-	(43,891)	(43,891)
Net book amount	₩ 44,752	₩ 134,138	₩ 178,890

The amounts recognized in profit or loss from investment property for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	**Nine months**	**Three months**	**Nine months**
Rental income	₩ 8,270	₩ 25,018	₩ 8,663	₩ 24,174
Direct operating expense	(1,538)	(4,613)	(1,537)	(4,617)
	₩ 6,732	₩ 20,405	₩ 7,126	₩ 19,557

Fair values and book values of investment property as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 2013		December 31, 2012	
	Fair value	**Book value**	**Fair value**	**Book value**
Land	₩ 309,188	₩ 48,303	₩ 312,735	₩ 48,177
Building	186,415	127,178	190,214	133,809
	₩ 495,603	₩ 175,481	₩ 502,949	₩ 181,986

13. Non-current Assets Held for Sale

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 for the nine-month periods ended September 30, 2013, are as follows:

(in millions of Korean won)	Land	Buildings	Structures	Total
At January 1, 2013				
Acquisition cost	₩ 625	₩ 215	₩ 64	₩ 904
Accumulated depreciation	-	(96)	(46)	(142)
Net book amount	₩ 625	₩ 119	₩ 18	₩ 762
Changes				
Transfer from property, plant and equipment	419	101	-	520
Disposals	(1,044)	(220)	(18)	(1,282)
	₩ (625)	₩ (119)	₩ (18)	₩ (762)
At September 30, 2013				
Acquisition cost	₩ -	₩ -	₩ -	₩ -
Accumulated depreciation	-	-	-	-
Net book amount	₩ -	₩ -	₩ -	₩ -

14. Pledged Assets

The following assets were pledged as collateral for the Group's long-term and short-term borrowings as of September 30, 2013:

(in millions of Korean won)

Asset	Book amount	Details	Borrowings	Collateralized amount	Lender /Leaseholder
Property, plant and equipment /investment property	₩ 95,072	Short-term borrowings	₩ 10,392	₩ 74,384	Hana Bank, 2 others and Small & medium Business Coporation
		Current portion of long-term borrowings	397		
		Long-term borrowings	27,850		
Investment property	74,538	Leasehold deposits received	8,385	8,227	Metlife Insurance Co. of Korea, Ltd. and 26 others
Property, plant and equipment	1,076	ACH pleaged	-	1,076	Bank of Oklahoma
Short-term financial instruments	700	Short-term borrowings	3,912	700	Hana Bank
Trade receivables	38,659	Short-term borrowings	38,659	38,659	Citibank Korea Inc.
Total	₩ 210,045		₩ 89,595	₩ 123,046	

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	Details	Borrowings	Collateralized amount	Lender /Leaseholder
Property, plant and equipment /investment property	₩ 76,674	Short-term borrowings	₩ 15,000	₩ 64,147	Hana Bank, 3 others and Small &medium Business Coporation
		Current portion of long-term borrowings	412		
		Long-term borrowings	10,034		

Investment Property	80,783	Leasehold deposits received	8,169	8,502	Metlife Insurance Co., Ltd. and 24 others
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	₩ 169,822		₩ 44,909	₩ 85,014	

15. Investments in Associates

Investments in associates as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)

Associates	Location	Principal operation	September 30, 2013 Interest (%)	September 30, 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 Medical supplies	25.34	1,212	25.34	856
Korean Carbon Finance, Inc.	Korea	Emissions trading	20.00	645	20.00	931
JR CR-REIT IV Co., Ltd.	Korea	Selling and renting of real estate	49.02	13,620	49.02	13,571
KVG REIT 1 Co., Ltd.	Korea	Selling and renting of real estate	29.67	6,931	29.67	7,160
KOCREF REIT 17 Co., Ltd.	Korea	Selling and renting of real estate	22.06	6,864	22.06	6,827
JR REIT V Co., Ltd.	Korea	Selling and renting of real estate	34.63	5,688	34.63	5,581
JR REIT VIII Co., Ltd.	Korea	Selling and renting of real estate	21.74	10,122	21.74	10,008
LSK Global Pharma Services Co., Ltd	Korea	Research and developing new drugs	23.15	433	23.15	1,343
JR REIT X Co., Ltd.	Korea	Selling and renting of real estate	28.79	9,638	28.79	9,500
Total				₩ 55,153		₩ 55,777

Changes in investments in associates for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013				
	Beginning balance	**Acquisition**	**Share of profit(loss)**	**Other changes**	**Ending balance**
Associates					
Lite Pharm Tech, Inc	₩ 856	₩ -	₩ 356	₩ -	₩ 1,212
Korean Carbon Finance, Inc.	931	-	(286)	-	645
JR CR-REIT IV Co., Ltd.	13,571	-	543	(494)	13,620
KVG REIT 1 Co., Ltd.	7,160	-	306	(535)	6,931
KOCREF REIT 17 Co., Ltd.	6,827	-	244	(207)	6,864
JR REIT V Co., Ltd.	5,581	-	304	(197)	5,688
JR REIT VIII Co., Ltd.	10,008	-	393	(279)	10,122
LSK Global Pharma Services Co., Ltd	1,343	-	(910)	-	433
JR REIT X Co., Ltd.	9,500	-	235	(97)	9,638
	₩ 55,777	₩ -	₩ 1,185	₩ (1,809)	₩ 55,153

(in millions of Korean won)	2012				
	Beginning balance	**Acquisition**	**Share of profit(loss)**	**Other changes**	**Ending balance**
Associates					
Lite Pharm Tech, Inc	₩ 637	₩ -	₩ 113	₩ -	₩ 750
Korean Carbon Finance, Inc.	1,013	-	(80)	-	932
JR CR-REIT IV Co., Ltd.	13,819	-	68	-	13,888
KVG REIT 1 Co., Ltd.	7,354	-	(274)	-	7,080
KOCREF REIT 17 Co., Ltd.	6,872	-	98	-	6,970
JR REIT V Co., Ltd.	5,635	-	64	-	5,699
JR REIT VIII Co., Ltd.	-	10,000	301	-	10,301
LSK Global Pharma Services Co., Ltd	-	1,500	(114)	-	1,386
	₩ 35,330	₩ 11,500	₩ 176	₩ -	₩ 47,006

Summary of the associates' financial information as of and for the nine-month period ended September 30, 2013, and as of and for the year ended December 31, 2012, is as follows:

(in millions of Korean won)	September 30, 2013			
	Assets	**Liabilities**	**Revenues**	**Profit/(loss)**
Lite Pharm Tech, Inc.	₩ 5,723	₩ 938	₩ 6,518	₩ 2,518
Korean Carbon Finance, Inc.	3,330	107	172	(919)
JR CR-REIT IV Co., Ltd.	63,477	33,822	2,678	1,113
KVG REIT 1 Co., Ltd.	51,404	28,048	4,261	1,060
KOCREF REIT 17 Co., Ltd.	67,187	36,075	4,195	1,098
JR REIT V Co., Ltd.	31,592	15,166	1,735	876
JR REIT VIII Co., Ltd.	109,854	63,294	4,868	1,495
LSK Global Pharma Services Co., Ltd.	2,129	4,358	6,921	(1,061)
JR REIT X Co., Ltd.	91,857	58,392	985	861

(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 September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 2013			December 31, 2012		
	Acquisition cost	Allowance	Book amount	Acquisition cost	Allowance	Book amount
Merchandise	₩ 10,627	₩ (470)	₩ 10,157	₩ 8,074	₩ (521)	₩ 7,553
Finished goods	414,168	(2,175)	411,993	348,664	(1,738)	346,926
Work in progress	357,994	(47)	357,947	452,730	(3,107)	449,623
Raw materials	784,466	(1,361)	783,105	821,905	(3,093)	818,812
Supplies	26,740	-	26,740	25,633	-	25,633
By-products	7,717	-	7,717	6,076	-	6,076
Unfinished housing	590	-	590	227	-	227
Lots	7,544	-	7,544	6,551	-	6,551
Goods-in-transit	30,647	-	30,647	45,395	-	45,395
	₩ 1,640,493	₩ (4,053)	₩ 1,636,440	₩ 1,715,255	₩ (8,459)	₩ 1,706,796

The cost related inventories for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	Nine months	Three months	Nine months
Cost of sales				
- Loss on inventory valuation	₩ 59	₩ 1,149	₩ (1,580)	₩ (27)
- Loss on retirement of inventories	724	2,541	-	-
Other expenses				
- Loss on retirement of inventories	123	704	83	2,404
	₩ 906	₩ 4,394	₩ (1,497)	₩ 2,377

17. Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 2013	December 31, 2012
Cash on hand	₩ 9,475	₩ 4,292
Demand deposits	157,237	177,743
Short-term investment assets	742,023	190,225
	₩ 908,735	₩ 372,260

Other financial assets as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 2013	December 31, 2012
Long-term Financial assets		
Time deposits	₩ 143	₩ 143
Deposit in current account	12	17
Money trust	160	115
	315	275
Short-term Financial assets		
Time deposits	32,657	187,115
Money trust	125,000	271,000
Certificates of deposit	11,076	191,071
	168,733	649,186
	₩ 169,048	₩ 649,461

Restricted financial assets as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	Description	September 30, 2013	December 31, 2012
Cash and cash equivalents	Specific research purpose	₩ 172	₩ 1,357
Other financial assets	Pledge and others	1,776	1,771
Long-term other financial assets	Deposits	12	17
		₩ 1,960	₩ 3,145

18. Equity and Share Premium

Details of share capital as of September 30, 2013 and December 31, 2012, are as follows:

(in Korean won, except number of shares)	September 30, 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 September 30, 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 nine-month period ended September 30, 2013 and the year ended December 31, 2012, are as follows:

(Number of shares)	September 30, 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 nine-month period ended September 30, 2013 and the year ended December 31, 2012, are as follows:

(in millions of Korean won, except number of shares)	**September 30, 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 nine-month period ended September 30, 2013 and the year ended December 31, 2012, are as follows:

(in millions of Korean won)	**September 30, 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 September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	**September 30, 2013**		**December 31, 2012**	
Available-for-sale financial assets reserve	₩	(16,960)	₩	(30,635)
Exchange differences on translating foreign operations		(37,593)		(27,925)
Legal reserve		602,937		602,937
Voluntary reserve		2,813,732		2,466,732
	₩	3,362,116	₩	3,011,109

Available-for-sale financial assets reserve as of September 30, 2013 and December 31, 2012, is as follows:

(in millions of Korean won)	**September 30, 2013**		**December 31, 2012**	
Available-for-sale financial assets reserve before tax	₩	(22,374)	₩	(40,415)
Tax effect		5,414		9,780
Available-for-sale financial assets reserve after tax	₩	(16,960)	₩	(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 September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 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 nine-month period ended September 30, 2013 and for the year ended December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 2013		December 31, 2012	
Beginning	₩	976,424	₩	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		480,478		725,118
- Less: non-controlling interests		10,450		12,920
Remeasurements of the net defined benefit liability, net of tax		(1,719)		(18,579)
- Less: non-controlling interests		(448)		155
Others		-		(3,920)
Ending	₩	715,309	₩	976,424

22. Trade and Other Payables

Trade and other payables as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Leasehold deposits received	₩ -	₩ 25,080	₩ -	₩ 24,979
Accounts payable	57,847	-	48,190	-
Withholdings	13,163	364	15,855	428
Value added tax withheld	153,897	-	120,959	-
Accrued expenses	142,891	-	144,901	-
Other payables	106,021	3,073	80,311	-
	₩ 473,819	₩ 28,517	₩ 410,216	₩ 25,407

Trade and other payables carried at amortized cost using the effective interest rate method as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 2013			December 31, 2012		
	Effective interest rate	Current	Non-current	Effective interest rate	Current	Non-current
Leasehold deposits received	3.00~5.68%	₩ -	₩ 25,080	3.00~5.68%	₩ -	₩ 24,979

23. Borrowings

Details of borrowings as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)	September 30, 2013	December 31, 2012
Current		
Bank borrowings[1]	₩ 78,814	₩ 84,221
Other borrowings	7,647	7,647
Bank borrowings(current portion of long-term borrowings)	222	293
Other borrowings (current portion of long-term borrowings)	119	2,619
	86,802	94,780
Non-current		
Bank borrowings	27,646	11,932
Other borrowings	29	119
Convertible bonds	9,320	11,110
Convertible redeemable preference shares	71,891	69,429
Redeemable preference shares	17,081	17,009
	125,967	109,599
	₩ 212,769	₩ 204,379

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

Details of bank borrowings as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)

Currency	Creditor	Latest maturity date	Annual interest rate (%) September 30, 2013	September 30, 2013	December 31, 2012
Korean won	National Agricultural Cooperative Federation, other	Short-term Borrowings	4.85% and others	₩ 11,148	₩ 26,823
Korean won	Citibank	Short-term Borrowings	CD(91day)+1.15% and others	39,214	14,230
Korean won	Hana Bank	Short-term Borrowings	2.72% ~ 4.93%	28,452	43,239
Korean won	National Agricultural Cooperative Federation	2016. 07. 20	1.50%	756	756
Korean won	National Agricultural Cooperative Federation	2017. 06. 21	1.50%	1,260	1,260
Korean won	National Agricultural Cooperative Federation	2018. 07. 02	1.50%	10,002	-
Korean won	Hana Bank	2017. 03. 31	2.72%	799	966
Korean won	Korea Development Bank	2014. 11. 07	4.45%	8,000	8,000
Korean won	Korea Development Bank	2018. 06. 09	3.79%	291	291
Korean won	Hana Bank	2017. 09. 06	4.58%	1,760	881
Korean won	Hana Bank	2016. 05. 15	4.07%	5,000	-
				₩ 106,682	₩ 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 before maturity, 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 preference 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 preference 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 before maturity, 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. Net Defined Benefit Liability

The amounts recognized on the statements of income for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)		2013		2012
Defined benefit plans :				
Current service cost	₩	32,431	₩	28,318
Interest expenses		6,914		6,930
Expected return on plan assets		(4,318)		(4,883)
		35,027		30,365
Defined contribution plans :				
Pension costs		1,734		1,542
Total	₩	36,761	₩	31,907

Retirement benefits for the nine-month period ended September 30, 2013, were ₩1,658 million (2012: ₩1,194 million). Out of total expenses, ₩11,982 million (2012: ₩11,464 million) and ₩24,779 million (2012: ₩20,443 million) were included in 'cost of sales' and 'selling and administrative expenses', respectively.

The movements in the net defined benefit liability as of September 30, 2013 and December 31, 2012, are as follows:

(In millions of Korean won)		September 30, 2013		December 31, 2012
Present value of defined benefit liability	₩	320,545	₩	288,329
Fair value of plan assets		(174,331)		(180,685)
Liability in the statement of financial position	₩	146,214	₩	107,644

As of September 30, 2013, severance benefit insurance and contributions to the National Pension Plan amounting to ₩ 2,540 million and ₩ 225 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 and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	**Nine months**	**Three months**	**Nine months**
Salaries	₩ 105,790	₩ 349,602	₩ 133,606	₩ 366,287
Retirement benefits	12,210	36,761	11,031	31,907
Termination benefits	-	1,658	-	1,194
Employee welfare	12,748	43,992	16,744	45,683
	₩ 130,748	₩ 432,013	₩ 161,381	₩ 445,071

(3) Depreciation and amortization for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	**Nine months**	**Three months**	**Nine months**
Depreciation	₩ 39,842	₩ 124,108	₩ 41,217	₩ 123,009
Amortization	3,217	9,636	3,210	9,593
	₩ 43,059	₩ 133,744	₩ 44,427	₩ 132,602

(4) Selling and administrative expenses for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	**Nine months**	**Three months**	**Nine months**
Salaries	₩ 85,861	₩ 245,267	₩ 84,587	₩ 234,337
Retirement and termination benefits	8,161	25,777	6,841	21,648
Employee welfare	10,902	32,608	11,332	31,070
Travel	3,091	8,773	3,493	10,252
Communications	1,361	4,110	1,423	4,398
Utilities	2,152	7,075	2,162	7,103
Taxes and dues	3,949	13,191	4,935	13,477
Supplies	675	2,297	847	2,853
Rent	6,953	20,658	7,808	23,188
Depreciation	11,882	35,452	11,904	36,358
Amortization	3,217	9,636	3,210	9,593
Repairs and maintenance	1,934	4,632	2,963	7,363
Vehicles	2,968	8,666	3,183	9,303
Insurance	447	1,307	465	1,766
Commissions	51,839	149,004	58,194	165,193
Freight and custody	9,590	28,691	12,177	33,055

Conferences	935	3,024	1,496	4,580
Advertising	56,740	179,424	78,907	217,234
Training	1,585	4,632	1,947	6,195
Prizes and rewards	377	1,281	713	1,636
Cooperation	226	639	-	-
Normal research and development	7,447	21,204	10,535	26,190
Bad debts expense	96	266	265	306
	₩ 272,388	₩ 807,614	₩ 309,387	₩ 867,098

26. Other Income and Other Expenses

Details of other income for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	Nine months	Three months	Nine months
Foreign currency transaction gain	₩ 4,994	₩ 17,991	₩ 3,103	₩ 14,354
Foreign currency translation gain	-	7,346	-	5,218
Reversal of allowance for bad debt	3	-	-	-
Gain on sale of property, plant and equipment	5,192	16,087	6,559	16,164
Gain on sale of intangible assets	-	-	-	359
Others	2,840	10,321	3,231	12,289
	₩ 13,029	₩ 51,745	₩ 12,893	₩ 48,384

Details of other expenses for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	Nine months	Three months	Nine months
Foreign currency transaction loss	₩ 6,061	₩ 16,284	₩ 6,346	₩ 18,215
Foreign currency translation loss	81,290	43,917	19,872	25,880
Donations	1,346	8,299	3,196	7,710
Loss on sale of property, plant and equipment	61	2,019	3,180	3,871
Loss on sale of intangible assets	-	41	-	403
Impairment loss of intangible assets	19	19	-	-
Other bad debt expenses	-	13	5	5
Others	28,108	36,127	1,478	6,104
	₩ 116,885	₩ 106,719	₩ 34,077	₩ 62,188

27. Expenses by Nature

Expenses by nature for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	**Nine months**	**Three months**	**Nine months**
Changes in inventories	₩ 11,025	₩ 70,357	₩ (47,825)	₩ 143,182
Raw materials and consumables purchased	391,964	949,610	411,159	905,554
Salary and wage	104,132	349,602	133,606	366,287
Retirement benefits	13,868	38,419	11,031	33,101
Depreciation charges	39,842	124,108	41,217	123,009
Amortization charges	3,217	9,636	3,210	9,593
Employee benefits	12,748	43,992	16,744	45,683
Advertising costs	56,785	179,545	79,228	217,334
Service fees	58,075	168,426	65,010	190,171
Other expenses	39,397	110,385	32,935	141,790
Total cost of sales, and selling and administrative expenses	₩ 731,053	₩ 2,044,080	₩ 746,315	₩ 2,175,704

28. Finance Income and Cost

Finance income and cost for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	**Nine months**	**Three months**	**Nine months**
Finance income				
Interest income	₩ 9,055	₩ 25,506	₩ 10,016	₩ 26,943
Dividend income	413	5,079	578	5,054
Gain on transaction of derivatives	103	244	-	-
Investment income on long-term deposits in MSA Escrow Fund	741	959	3	88
	10,312	31,788	10,597	32,085
Finance cost				
Interest cost	2,931	8,913	2,537	7,955
Loss on sale of available-for-sale financial assets	-	-	-	9
Impairment loss on available-for-sale financial assets	-	15,000	-	-
Loss on valuation of derivatives	52	-	-	-
	2,983	23,913	2,537	7,964
Net financial income	₩ 7,329	₩ 7,875	₩ 8,060	₩ 24,121

Details of interest costs for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	**Nine months**	**Three months**	**Nine months**
Borrowings	₩ 1,166	₩ 3,499	₩ 967	₩ 3,819
Trade and other payables	1,102	3,656	1,491	1,959
Others	663	1,758	79	2,177
	₩ 2,931	₩ 8,913	₩ 2,537	₩ 7,955

Details of interest income for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Three months	**Nine months**	**Three months**	**Nine months**
Deposits	₩ 7,725	₩ 20,760	₩ 8,479	₩ 22,690
Available-for-sale financial assets	7	22	13	30
Trade and other receivables	1,323	4,724	1,524	4,223
	₩ 9,055	₩ 25,506	₩ 10,016	₩ 26,943

29. 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 33.4%. The estimated tax rate for the nine-month period ended September 30, 2012, was 28.5%. The increase in the estimated average annual tax rate compared to September 30, 2012, is due to the amount of taxes imposed by the tax investigation authority during the reporting date.

30. 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 and nine-month periods ended September 30, 2013 and 2012, is as follows:

(in Korean won, except number of shares)	2013		2012	
	Three months	**Nine months**	**Three months**	**Nine months**
Profit for the period attributable to owner of the parent	₩ 92,694 million	₩ 490,928 million	₩ 226,134 million	₩ 631,335 million
Weighted-average number of ordinary shares outstanding	125,898,800	125,898,800	125,748,800	125,748,800
Basic and diluted earnings per share in won	₩ 736	₩ 3,899	₩ 1,798	₩ 5,021

31. 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.

32. Cash Generated from Operations

Cash generated from operations for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(*in millions of Korean won*)		2013		2012
Profit	₩	480,478	₩	619,543
Adjustments for				
Income tax expense		264,117		246,769
Finance cost		23,913		7,964
Finance income		(31,789)		(32,085)
Depreciation		124,108		123,009
Amortization		9,636		9,593
Retirement and termination benefits		35,083		30,710
Foreign currency translations loss		43,917		25,880
Loss on inventory valuation		1,149		768
Impairment loss on trade and other receivables		279		311
Loss on sale of property, plant and equipment		2,019		3,871
Loss on sale of intangible assets		41		403
Impairment loss of intangible assets		19		-
Other expense		10,007		2
Share of gain of associates		(2,381)		(1,597)
Share of loss of associates		1,196		194
Foreign currency translations gain		(7,346)		(5,218)
Gain on sale of property, plant and equipment		(16,087)		(16,164)
Gain on sale of intangible assets		-		(359)
		938,359		1,013,594
Changes in working capital:				
Increase in trade and other receivables		(70,672)		(309,391)
Increase in advance payments		(80,476)		(96,875)
Increase in prepaid expenses		(1,740)		(4,257)
Decrease (increase) in prepaid tobacco excise and other taxes		(13,250)		40,847
Decrease in Inventories		53,824		173,098
Increase trade and other payables		59,542		85,561
Increase in advance receipts		2,731		14,240
Increase (decrease) in tobacco excise and other taxes payable		(43,324)		402,360
Payment of retirement benefits		(4,238)		(5,270)
Cash generated from operations	₩	840,756	₩	1,313,907

Non-cash transactions

(*in millions of Korean won*)		September 30, 2013
Transfer to voluntary reserves in retained earnings	₩	347,000

33. 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 September 30, 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 September 30, 2013.

Additionally, as of September 30, 2013, the Group is involved in nine lawsuits as a defendant for alleged damages totaling ₩ 1,939 million. The amount of the liability the Group may ultimately be liable for with respect to the litigation cannot be reasonably estimated as of September 30, 2013.

As of September 30, 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 September 30, 2013, the Group's trade receivables from the export of cigarettes are insured against non-payment up to USD 16,200 thousand by an export guarantee insurance with the Korea Export Insurance Corporation.

As of September 30, 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 8,900 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 ₩ 182,154 million, classified as non-current, and ₩ 58,259 million, classified as current, (2012: non-current: ₩ 139,291 million; current: ₩ 49,396 million) as of September 30, 2013, respectively.

As of September 30, 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 September 30, 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 September 30, 2013, the Group has a loan agreement with a limit of ₩ 186,503 million with Shinhan Bank and other financial institutions.

As of September 30, 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 September 30, 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 September 30, 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. Seoul Guarantee Insurance Co., Ltd. can request amounts for recourse to the Company and 28 other companies based on their ownership rate, if Seoul Guarantee Insurance Co., Ltd. paid the insurance proceeds to KORAIL. As KORAIL requested the corresponding payment to Seoul Guarantee Insurance Co., Ltd. during the reporting period, the Group paid the maximum amount ₩ 5,136 million on July 31, 2013, and recognized the amount as current expense.

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 September 30, 2013. The amount of guarantee is ₩152,263 million and the guarantee will expire on June 30, 2015.

34. Related Party Transactions

The Group has no significant transactions and receivables and liabilities with related parties for the nine-month period ended September 30, 2013.

The guarantee provided by related parties as of September 30, 2013 and December 31, 2012, are as follows:

(in millions of Korean won)

Guarantor	Guarantee for	Purpose	September 30, 2013		December 31, 2012	
			Limit	Guarantee 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 and nine-month periods ended September 30, 2013 and 2012, consists of:

(in millions of Korean won)	2013		2012	
	Three months	Nine months	Three months	Nine months
Short-term employee benefits	₩ 6,994	₩ 20,765	₩ 7,544	₩ 20,265
Retirement benefits	729	2,014	917	2,935
	₩ 7,723	₩ 22,779	₩ 8,461	₩ 23,200

35. 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 ₩ 1075.6 to US$1, the basic exchange rate on September 30, 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.

36. Events after the Reporting Period

As the result of the investigation by the tax authority, the Company paid ₩25,670 million as corporate tax and ₩19,223 million as value added tax, and recognized the amounts as current expenses of the reporting period. The imposed tax amount excludes the amount related to the decision regarding duty-free cigarettes as this is still under investigation by the related authorities. The outcome and timing of the tax investigation cannot be predicted as of the reporting date.

Based on the decision of the Board of Directors on October 16, 2013, the Group decided to sell its property, plant and equipment, intangible assets, and others relating to the beverage business segment of Iksan plant to Haitai Beverage Co., Ltd. and LG Household & Healthcare Ltd. for ₩14,100 million.