KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Financial Statements

September 30, 2015 and 2014

(Unaudited)

(With Independent Auditors' Review Report Thereon)

Contents

KPMG SAMJONG

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Independent Auditors' Review Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
KT&G Corporation:

Reviewed financial statements

We have reviewed the accompanying consolidated interim financial statements of KT&G Corporation (the "Parent Company") and its subsidiaries (collectively the "Group"), expressed in Korean won, which comprise the consolidated interim statement of financial position as of September 30, 2015, and the consolidated interim statements of comprehensive income for the three- and nine-month periods ended September 30, 2015 and the consolidated interim statements of changes in equity and cash flows for the nine-month period ended September 30, 2015 and notes to the consolidated interim financial statements.

Management's responsibility

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' review responsibility

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

We conducted our review in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial statements 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 review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements referred to above are not prepared, in all material respects, in accordance with K-IFRS No.1034.

The accompanying consolidated interim financial statements as of September 30, 2015 and for the three- and nine-month periods ended September 30, 2015 have been translated into United States dollars solely for the convenience of the reader and such translation does not comply with K-IFRS. We have reviewed the translation and nothing came to our attention that cause us to believe that the consolidated interim financial statements expressed in Korean won have not been translated into dollars on the basis set forth in note 4 to the consolidated interim financial statements.

Other matters
The procedures and practices utilized in the Republic of Korea to review such consolidated interim financial statements may differ from those generally accepted and applied in other countries.

The consolidated interim statements of comprehensive income for the three- and nine-month periods ended September 30, 2014 and the consolidated interim statements of changes in equity and cash flows for the nine-month period ended September 30, 2014 were reviewed by other auditors whose review report thereon dated November 13, 2014, expressed that nothing came to their attention that caused them to believe that the consolidated interim financial statements referred to above were not prepared, in all material respects, in accordance with K-IFRS No.1034.

The consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by other auditors, whose report thereon dated February 5, 2015, expressed an unqualified opinion. The accompanying consolidated statement of financial position of the Group as of December 31, 2014 presented for comparative purposes, is not different from that audited by other auditors in all material respects.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
November 16, 2015

This report is effective as of November 16, 2015, 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 consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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

As of September 30, 2015 and December 31, 2014

In millions of won and thousands of U.S. dollars	*Note*	September 30 2015 Korean won	September 30 2015 U.S. dollars (note 4)	December 31 2014 Korean won
Assets				
Property, plant and equipment	*6,16*	₩ 1,793,248	$ 1,501,254	₩ 1,753,412
Intangible assets	*7*	151,114	126,508	154,937
Investment property	*8,16*	166,058	139,019	167,968
Investments in associates	*5,9*	62,627	52,430	57,903
Available-for-sale financial assets	*10,30*	343,444	287,521	325,833
Other financial assets	*14,16,30*	304	254	259
Long-term deposits in MSA Escrow Fund	*11,30,32*	394,577	330,328	301,808
Long-term advance payments	*32*	154,112	129,018	127,855
Long-term prepaid expenses		4,028	3,372	4,625
Long-term trade and other receivables	*12,30*	74,755	62,583	86,735
Deferred income tax assets		32,292	27,034	28,725
Total non-current assets		3,176,559	2,659,321	3,010,060
Inventories	*13*	1,795,896	1,503,471	1,982,503
Current available-for-sale financial assets	*10,30*	-	-	1,000
Current other financial assets	*14,16,30,31*	1,064,083	890,819	668,436
Prepaid tobacco excise and other taxes		406,091	339,968	260,773
Trade and other receivables	*12,30*	1,294,984	1,084,122	989,777
Advance payments	*32*	109,772	91,898	68,491
Prepaid expenses		19,872	16,636	20,802
Cash and cash equivalents	*14,30,31*	479,933	401,786	416,394
Total current assets		5,170,631	4,328,700	4,408,176
Non-current assets held for sale	*5,15*	1,542	1,291	426
Total assets		₩ 8,348,732	$ 6,989,312	₩ 7,418,662

See accompanying notes to the consolidated interim financial statements.

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

As of September 30, 2015 and December 31, 2014

In millions of won and thousands of U.S. dollars	*Note*	September 30 2015 Korean won	September 30 2015 U.S. dollars (note 4)	December 31 2014 Korean won
Equity				
Ordinary shares	*1,17*	₩ 954,959	$ 799,464	₩ 954,959
Other capital surplus	*17*	(9,928)	(8,311)	(4,573)
Treasury shares	*18*	(337,062)	(282,178)	(339,059)
Gain on reissuance of treasury shares	*18*	494,648	414,105	492,032
Reserve	*19*	3,719,581	3,113,923	3,426,367
Retained earnings	*20*	1,237,109	1,035,671	1,100,876
Equity attributable to owners of the parent		6,059,307	5,072,674	5,630,602
Non-controlling interests		68,704	57,516	77,478
Total equity		6,128,011	5,130,190	5,708,080
Liabilities				
Long-term borrowings	*16,22,30,31*	113,268	94,824	137,795
Long-term trade and other payables	*16,21,30*	33,038	27,659	32,244
Long-term advance receipts		12,887	10,789	14,587
Net defined benefit liability	*23*	164,312	137,557	132,247
Provision		2,781	2,328	2,871
Deferred income tax liabilities		282,411	236,426	266,282
Total non-current liabilities		608,697	509,583	586,026
Short-term borrowings	*16,22,30,31*	154,271	129,151	141,861
Current portion of long-term borrowings	*16,22,30,31*	23,791	19,917	1,218
Trade and other payables	*21,30*	583,501	488,490	503,853
Advance receipts		32,754	27,421	37,533
Income tax payable		164,073	137,357	180,809
Tobacco excise and other taxes payable		653,634	547,203	259,282
Total current liabilities		1,612,024	1,349,539	1,124,556
Total liabilities		2,220,721	1,859,122	1,710,582
Total equity and liabilities		₩ 8,348,732	$ 6,989,312	₩ 7,418,662

See accompanying notes to the consolidated interim financial statements.

KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Statements of Comprehensive Income

(Unaudited)

For the nine-month periods ended September 30, 2015 and 2014

In millions of won and thousands of U.S. dollars, except earnings per share	*Note*	2015 Korean won	2015 U.S. dollars (note 4)	2014 Korean won
Sales	*5,32*	₩ 3,303,164	$ 2,765,311	₩ 3,062,403
Cost of sales	*24*	(1,336,742)	(1,119,080)	(1,362,077)
Gross profit		1,966,422	1,646,231	1,700,326
Selling, general and administrative expenses	*24*	(864,369)	(723,624)	(815,698)
Operating profit	*5*	1,102,053	922,607	884,628
Other income	*25*	124,889	104,554	38,262
Other expenses	*25*	(77,798)	(65,130)	(55,628)
Net finance income	*26,30*	37,852	31,688	26,961
Share of gain of associates	*9*	7,181	6,011	2,408
Profit before income tax		1,194,177	999,730	896,631
Income tax expense	*27*	(324,129)	(271,351)	(257,244)
Profit for the period		₩ 870,048	$ 728,379	₩ 639,387
Other comprehensive income (loss):				
Items that are or may be reclassified subsequently to profit or loss				
Unrealized net changes in fair value of available-for-sale financial assets, net of tax		₩ (8,712)	$ (7,294)	₩ 10,823
Exchange differences on translating foreign operations, net of tax		(7,245)	(6,065)	(21,559)
Items that will never be reclassified to profit or loss				
Remeasurements of net defined benefit liability, net of tax		(152)	(127)	(784)
Other comprehensive loss for the period, net of tax		(16,109)	(13,486)	(11,520)
Total comprehensive income for the period		₩ 853,939	$ 714,893	₩ 627,867
Profit attributable to:				
Owners of the Parent Company		₩ 872,824	$ 730,702	₩ 648,120
Non-controlling interests		(2,776)	(2,323)	(8,733)
		₩ 870,048	$ 728,379	₩ 639,387
Total comprehensive income attributable to:				
Owners of the Parent Company		₩ 857,503	$ 717,876	₩ 636,586
Non-controlling interests		(3,564)	(2,983)	(8,719)
		₩ 853,939	$ 714,893	₩ 627,867
Earnings per share in won and U.S. dollars:				
Basic and diluted	*28*	₩ 6,929	$ 5.80	₩ 5,148

See accompanying notes to the consolidated interim financial statements

KT&G CORPORATION AND SUBSIDIARIES
Consolidated Interim Statements of Comprehensive Income, Continued
(Unaudited)

For the three-month periods ended September 30, 2015 and 2014

In millions of won and thousands of U.S. dollars, except earnings per share	*Note*	2015 Korean won	2015 U.S. dollars (note 4)	2014 Korean won
Sales	*5,32*	₩ 1,134,351	$ 949,645	₩ 1,106,452
Cost of sales	*24*	(476,626)	(399,017)	(484,878)
Gross profit		657,725	550,628	621,574
Selling, general and administrative expenses	*24*	(287,180)	(240,419)	(283,345)
Operating profit	*5*	370,545	310,209	338,229
Other income	*25*	64,084	53,649	39,823
Other expenses	*25*	(25,684)	(21,502)	(10,085)
Net finance income	*26,30*	7,066	5,915	8,241
Share of gain of associates	*9*	4,391	3,676	726
Profit before income tax		420,402	351,947	376,934
Income tax expense	*27*	(119,838)	(100,325)	(110,070)
Profit for the period		₩ 300,564	$ 251,622	₩ 266,864
Other comprehensive income (loss):				
Items that are or may be reclassified subsequently to profit or loss				
Unrealized net changes in fair value of available-for-sale financial assets, net of tax		₩ (1,493)	$ (1,250)	₩ 6,516
Exchange differences on translating foreign operations, net of tax		(6,416)	(5,371)	(10,051)
Items that will never be reclassified to profit or loss				
Remeasurements of net defined benefit liability, net of tax		31	26	(143)
Other comprehensive loss for the period, net of tax		(7,878)	(6,595)	(3,678)
Total comprehensive income for the period		₩ 292,686	$ 245,027	₩ 263,186
Profit attributable to:				
Owners of the Parent Company		₩ 302,699	$ 253,410	₩ 269,278
Non-controlling interests		(2,135)	(1,788)	(2,414)
		₩ 300,564	$ 251,622	₩ 266,864
Total comprehensive income attributable to:				
Owners of the Parent Company		₩ 295,117	$ 247,063	₩ 265,387
Non-controlling interests		(2,431)	(2,036)	(2,201)
		₩ 292,686	$ 245,027	₩ 263,186
Earnings per share in won and U.S. dollars:				
Basic and diluted	*28*	₩ 2,403	$ 2.01	₩ 2,139

See accompanying notes to the consolidated interim financial statements.

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

For the nine-month period ended September 30, 2015

In millions of won		Ordinary shares	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2015	₩	954,959	(4,573)	(339,059)	492,032	3,426,367	1,100,876	5,630,602	77,478	5,708,080
Total comprehensive income for the period:										
Profit (loss) for the period		-	-	-	-	-	872,824	872,824	(2,776)	870,048
Other comprehensive loss:										
Unrealized net changes in fair value of available-for-sale financial assets, net of tax		-	-	-	-	(8,712)	-	(8,712)	-	(8,712)
Exchange differences on translating foreign operations, net of tax		-	-	-	-	(6,478)	-	(6,478)	(767)	(7,245)
Remeasurements of net defined benefit liability, net of tax		-	-	-	-	-	(131)	(131)	(21)	(152)
Total other comprehensive loss		-	-	-	-	(15,190)	(131)	(15,321)	(788)	(16,109)
Total comprehensive income (loss) for the period		-	-	-	-	(15,190)	872,693	857,503	(3,564)	853,939
Transactions with owners, recorded directly in equity:										
Dividends		-	-	-	-	-	(428,056)	(428,056)	-	(428,056)
In-kind donation of treasury shares		-	-	1,997	2,616	-	-	4,613	-	4,613
Transfer from reserve for research and human resource development		-	-	-	-	(12,522)	12,522	-	-	-
Transfer to unconditional reserve		-	-	-	-	320,926	(320,926)	-	-	-
Extinguishment of equity conversion option		-	(5,483)	-	-	-	-	(5,483)	(5,390)	(10,873)
Paid-in capital increase of subsidiary		-	128	-	-	-	-	128	117	245
Others		-	-	-	-	-	-	-	63	63
Total transactions with owners		-	(5,355)	1,997	2,616	308,404	(736,460)	(428,798)	(5,210)	(434,008)
Balance at September 30, 2015	₩	954,959	(9,928)	(337,062)	494,648	3,719,581	1,237,109	6,059,307	68,704	6,128,011

See accompanying notes to the consolidated interim financial statements.

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

For the nine-month period ended September 30, 2015

In thousands of U.S. dollars (note 4)	Ordinary shares	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2015	$ 799,464	(3,828)	(283,850)	411,915	2,868,453	921,621	4,713,775	64,862	4,778,637
Total comprehensive income for the period:									
Profit (loss) for the period	-	-	-	-	-	730,702	730,702	(2,323)	728,379
Other comprehensive loss:									
Unrealized net changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(7,294)	-	(7,294)	-	(7,294)
Exchange differences on translating foreign operations, net of tax	-	-	-	-	(5,423)	-	(5,423)	(642)	(6,065)
Remeasurements of net defined benefit liability, net of tax	-	-	-	-	-	(109)	(109)	(18)	(127)
Total other comprehensive loss	-	-	-	-	(12,717)	(109)	(12,826)	(660)	(13,486)
Total comprehensive income (loss) for the period	-	-	-	-	(12,717)	730,593	717,876	(2,983)	714,893
Transactions with owners, recorded directly in equity:									
Dividends	-	-	-	-	-	(358,356)	(358,356)	-	(358,356)
In-kind donation of treasury shares	-	-	1,672	2,190	-	-	3,862	-	3,862
Transfer from reserve for research and human resource development	-	-	-	-	(10,483)	10,483	-	-	-
Transfer to unconditional reserve	-	-	-	-	268,670	(268,670)	-	-	-
Extinguishment of equity conversion option	-	(4,590)	-	-	-	-	(4,590)	(4,513)	(9,103)
Paid-in capital increase of subsidiary	-	107	-	-	-	-	107	98	205
Others	-	-	-	-	-	-	-	52	52
Total transactions with owners	-	(4,483)	1,672	2,190	258,187	(616,543)	(358,977)	(4,363)	(363,340)
Balance at September 30, 2015	$ 799,464	(8,311)	(282,178)	414,105	3,113,923	1,035,671	5,072,674	57,516	5,130,190

See accompanying notes to the consolidated interim financial statements.

KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Statements of Changes in Equity, Continued

(Unaudited)

For the nine-month period ended September 30, 2014

In millions of won		Ordinary shares	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2014	₩	954,959	(4,573)	(339,059)	492,032	3,368,835	802,755	5,274,949	90,531	5,365,480
Total comprehensive income for the period:										
Profit (loss) for the period		-	-	-	-	-	648,120	648,120	(8,733)	639,387
Other comprehensive income (loss):										
Unrealized net changes in fair value of available-for-sale financial assets, net of tax		-	-	-	-	10,823	-	10,823	-	10,823
Exchange differences on translating foreign operations, net of tax		-	-	-	-	(21,582)	-	(21,582)	23	(21,559)
Remeasurements of net defined benefit liability, net of tax		-	-	-	-	-	(775)	(775)	(9)	(784)
Total other comprehensive income (loss)		-	-	-	-	(10,759)	(775)	(11,534)	14	(11,520)
Total comprehensive income (loss) for the period		-	-	-	-	(10,759)	647,345	636,586	(8,719)	627,867
Transactions with owners, recorded directly in equity:										
Dividends		-	-	-	-	-	(402,876)	(402,876)	-	(402,876)
Transfer from reserve for research and human resource development		-	-	-	-	(47,478)	47,478	-	-	-
Transfer to unconditional reserve		-	-	-	-	152,000	(152,000)	-	-	-
Others		-	-	-	-	-	-	-	55	55
Total transactions with owners		-	-	-	-	104,522	(507,398)	(402,876)	55	(402,821)
Balance at September 30, 2014	₩	954,959	(4,573)	(339,059)	492,032	3,462,598	942,702	5,508,659	81,867	5,590,526

See accompanying notes to the consolidated interim financial statements.

KT&G CORPORATION AND SUBSIDIARIES
Consolidated Interim Statements of Cash Flows
(Unaudited)

For the nine-month periods ended September 30, 2015 and 2014

In millions of won and thousands of U.S. dollars	*Note*	2015 Korean won	2015 U.S. dollars (note 4)	2014 Korean won
Cash flows from operating activities				
Cash generated from operations	*33*	₩ 1,442,903	$ 1,207,955	₩ 951,461
Income tax paid		(324,692)	(271,822)	(229,086)
Net cash provided by operating activities		1,118,211	936,133	722,375
Cash flows from investing activities				
Interest received		22,180	18,569	25,597
Investment income received from long-term deposits in MSA Escrow Fund		1,209	1,012	1,107
Dividends received		10,659	8,923	7,536
Proceeds from sale of property, plant and equipment		7,111	5,953	6,254
Proceeds from sale of intangible assets		1,841	1,541	130
Proceeds from sale of non-current assets held for sale		4,260	3,566	63
Proceeds from sale of available-for-sale financial assets		-	-	10,039
Collection of loans		8,187	6,854	9,955
Withdrawal of guarantee deposits		28,576	23,923	23,706
Settlement of derivatives, net		4	4	-
Acquisition of property, plant and equipment		(168,735)	(141,260)	(155,203)
Acquisition of intangible assets		(3,997)	(3,346)	(1,369)
Acquisition of investment property		(64)	(54)	(103)
Acquisition of available-for-sale financial assets		(28,200)	(23,608)	(25,210)
Increase in loans		(13)	(10)	(331)
Payments of guarantee deposits		(21,994)	(18,413)	(21,202)
Payments of long-term deposits in MSA Escrow Fund		(61,325)	(51,340)	(52,036)
Decrease (increase) in other financial assets, net		(395,584)	(331,172)	16,972
Net cash used in investing activities		(595,885)	(498,858)	(154,095)
Cash flows from financing activities				
Capital increase of subsidiary		245	205	-
Proceeds from borrowings		419,187	350,931	103,869
Increase in deposits received		1,541	1,290	2,425
Dividends paid		(428,056)	(358,356)	(402,876)
Payments of share issue costs		(249)	(209)	-
Interest paid		(5,359)	(4,487)	(1,500)
Redemption of borrowings		(443,196)	(371,031)	(129,345)
Decrease in deposits received		(3,943)	(3,300)	(2,535)
Net cash used in financing activities		(459,830)	(384,957)	(429,962)
Effect of exchange rate fluctuation on cash held		1,043	875	(48)
Net increase in cash and cash equivalents		63,539	53,193	138,270
Cash and cash equivalents at January 1		416,394	348,593	347,933
Cash and cash equivalents at September 30		₩ 479,933	$ 401,786	₩ 486,203

See accompanying notes to the consolidated interim financial statements.

1. Reporting Entity

(a) Description of the Controlling Company

KT&G Corporation (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 Act 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, 2015, the Parent Company has three manufacturing plants, including the Shintanjin plant, and 14 local headquarters and 123 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 71, Beotkkot-gil, 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, 2015 is held as follows:

Shareholder	Number of shares	Percentage of ownership
National Pension Service	11,098,167	8.08%
Industrial Bank of Korea	9,510,485	6.93%
Employee Share Ownership Association	2,473,696	1.80%
Treasury shares	11,326,605	8.25%
Others	102,883,544	74.94%
	137,292,497	100.00%

1. Reporting Entity, Continued

(b) Consolidated Subsidiaries

(i) List of consolidated subsidiaries

Next most senior parent	Subsidiary	Principal operation	Percentage of ownership	Reporting date	Location
KT&G Corporation	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00%	Sep. 30	Korea
	Yungjin Pharm. Ind. Co., Ltd.	Manufacturing and selling pharmaceuticals	53.00%	Sep. 30	Korea
	Tae-a Industry Co., Ltd.	Manufacturing tobacco materials	100.00%	Sep. 30	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99%	Sep. 30	Turkey
	Korea Tabacos do Brasil Ltda.	Processing leaf tobaccos	99.90%	Sep. 30	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99%	Sep. 30	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00%	Sep. 30	Russia
	KGC Life & Gin Co., Ltd.	Selling ginseng door-to-door	100.00%	Sep. 30	Korea
	Global Trading, Inc.	Selling tobaccos	100.00%	Sep. 30	USA
	Somang Cosmetics Co., Ltd.(*)	Manufacturing and selling cosmetics	97.73%	Sep. 30	Korea
	Renzoluc Pte., Ltd. (*)	Manufacturing and selling tobaccos	100.00%	Sep. 30	Singapore
	KT&G Life Sciences Corporation(*)	Research and development medicine	73.94%	Sep. 30	Korea
	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00%	Sep. 30	Korea
	K-Q HongKong I, Limited(*)	Manufacturing and selling ginseng	100.00%	Sep. 30	Hongkong
	PT KT&G Indonesia	Manufacturing and selling tobaccos	99.99%	Sep. 30	Indonesia
	K&I HK Co., Ltd.	Selling cosmetics	100.00%	Sep. 30	Hongkong
	K&I China Co., Ltd.	Selling cosmetics	100.00%	Sep. 30	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	60.17%	Sep. 30	Indonesia
	PT Mandiri Maha Mulia	Manufacturing and selling tobaccos	66.47%	Sep. 30	Indonesia
PT Trisakti Purwosari Makmur	PT Sentosa Ababi Purwosari	Manufacturing and selling tobaccos	99.24%	Sep. 30	Indonesia
	PT Purindo Ilufa	Manufacturing and selling tobaccos	100.00%	Sep. 30	Indonesia
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation	Manufacturing and selling ginseng	100.00%	Sep. 30	Taiwan
	Korean Red Ginseng Corp., Inc.	Manufacturing and selling ginseng	100.00%	Sep. 30	USA
	Korea Ginseng (China) Corp.	Manufacturing and selling ginseng	100.00%	Sep. 30	China
	Korea Ginseng Corporation Japan	Manufacturing and selling ginseng	100.00%	Sep. 30	Japan
	PT CKJ INDONESIA	Manufacturing and selling ginseng	99.88%	Sep. 30	Indonesia
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng	100.00%	Sep. 30	China

(*) The Group's percentage of ownership, shown above, excludes preferred shares. As of September 30, 2015, the Group's percentage of ownership would be 97.76%, 68.91%, 59.48% and 50.00% if preferred shares are included.

1. Reporting Entity, Continued

(b) Consolidated Subsidiaries, Continued

For the nine-month period ended September 30, 2015, the Parent Company purchased shares of Somang Cosmetics Co., Ltd. for ₩49,755 million, resulting in an increase of the Parent Company's percentage of ownership in Somang Cosmetics Co., Ltd. by 97.73%.

(ii) Financial information of subsidiaries

In millions of won

Subsidiary		Total assets	Total liabilities	Revenue	Net profit (loss)	Total comprehensive income (loss)
Korea Ginseng Corporation	₩	1,729,613	235,187	737,013	101,142	99,971
Yungjin Pharm. Ind. Co., Ltd.		191,044	88,236	123,506	2,032	2,019
Tae-a Industry Co., Ltd.		14,709	3,771	10,362	723	722
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		52,031	43,361	18,489	2,908	1,501
Korea Tabacos do Brasil Ltda.		1,099	11	-	-	-
KT&G Pars		29,055	48,035	5,792	408	409
KT&G Rus L.L.C.		110,056	49,368	34,674	5,203	(446)
KGC Life & Gin Co., Ltd.		27,542	8,519	36,743	(2,042)	(2,042)
Global Trading, Inc.		40,955	20,622	211,071	3,658	5,211
Somang Cosmetics Co., Ltd.		101,109	63,846	53,397	125	87
Renzoluc Pte., Ltd.		101,390	47,107	-	(2,344)	2,035
KT&G Life Sciences Corporation		22,316	17,986	1,233	(3,535)	(3,535)
KGC Yebon Corporation		49,983	3,055	10,094	576	570
K-Q HongKong I, Limited		43,512	-	-	783	4,238
PT KT&G Indonesia		16,365	32,458	11,858	(10,844)	(9,941)
K&I HK Co., Ltd.		371	301	887	(77)	(70)
K&I China Co., Ltd.		5,654	372	712	(240)	(152)
PT Trisakti Purwosari Makmur, etc.		79,404	61,033	25,957	(2,497)	(4,160)
PT Mandiri Maha Mulia		10,000	6,301	6,042	80	(230)
Cheong Kwan Jang Taiwan Corporation		19,942	18,000	14,983	516	579
Korean Red Ginseng Corp., Inc.		13,467	9,497	10,293	420	728
Korea Ginseng (China) Corp.		68,301	65,025	26,740	(2,901)	(2,663)
Korea Ginseng Corporation Japan		4,384	3,315	5,519	274	355
PT CKJ INDONESIA		945	1,085	-	(191)	(187)
Jilin Hanzheng Ginseng Co., Ltd.		82,345	51,384	4,295	(11,694)	(10,268)

(c) Change in Consolidated Group

For the nine-month period ended September 30, 2015, there is no change in consolidated group.

2. Basis of Preparation

(a) Statement of Compliance

The consolidated interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"). These consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034 *Interim Financial Reporting* as part of the period covered by the Group's K-IFRS annual consolidated financial statements.

The consolidated interim financial statements were authorized for issue by the Board of Directors on October 22, 2015.

(b) Basis of Measurement

The consolidated interim financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated interim statements of financial position:

- Derivative financial instruments measured at fair value
- Available-for-sale financial assets measured at fair value
- Liabilities for defined benefit plans recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(c) Functional and Presentation Currency

These consolidated interim financial statements are presented in Korean won, which is the Group's functional currency and the currency of the primary economic environment in which the Group operates.

(d) Use of Estimates and Judgments

The preparation of the consolidated interim financial statements in conformity with K-IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as of and for the year ended December 31, 2014.

3. Significant Accounting Policies

(a) Changes in Accounting Policies

The accounting policies applied in these consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements as of and for the year ended December 31, 2014, except for the adoption of amendments to K-IFRS 1019 *Employee Benefits*.

Amendments to K-IFRS 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits.

The Group retrospectively applied the amendments in accordance with the transitional requirements of K-IFRS 1019. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as of and for the year ending December 31, 2015.

(b) Basis of Consolidation

(i) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Interests in equity-accounted investees

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint venture are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

3. Significant Accounting Policies, Continued

(b) Basis of Consolidation, Continued

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Property, Plant and Equipment

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Property, plant and equipment, except for land and other tangible fixed assets, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

The estimated useful lives of the Group's assets are as follows:

	Useful lives (years)		Useful lives (years)
Buildings	10 ~ 60	Vehicles	4 ~ 10
Structures	5 ~ 40	Tools	4 ~ 5
Machinery	5 ~ 20	Furniture and fixtures	2 ~ 5

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 in other income and expense in the statement of comprehensive income.

(d) Borrowing Costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

3. Significant Accounting Policies, Continued

(d) Borrowing Costs, Continued

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

(e) Government Grants

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received. Government grants which are intended to compensate the Group for expenses incurred are recognized as other income in profit or loss over the periods in which the Group recognizes the related costs as expenses.

(f) Intangible Assets except for Goodwill

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets consist of industrial property rights, facility usage rights and intangible assets under development. 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 some of industrial property rights and facility usage 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 were as follows:

	Useful lives (years)
Industrial property rights	5 ~ 20 or indefinite
Facility usage rights	indefinite
Other intangible assets	3 ~ 5 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 estimate.

3. Significant Accounting Policies, Continued

(g) Investment Property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

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

Investment property except for land, are depreciated on a straight-line basis over 10 ~ 60 years as estimated useful lives.

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

(h) Non-current Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 *Impairment of Assets*.

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

(i) 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.

3. Significant Accounting Policies, Continued

(i) Inventories, Continued

Tobacco leaf inventories which have an operating cycle that exceeds 12 months are classified as current assets, consistent with recognized industry practice. The estimated amounts of inventories in current assets which are not expected to be realized within 12 months are ₩257,374 million and ₩272,649 million, respectively, as of September 30, 2015 and December 31, 2014.

(j) Impairment of Non-financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories, deferred tax assets, assets arising from employee benefits and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

(k) Non-derivative Financial Assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

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

3. Significant Accounting Policies, Continued

(k) Non-derivative Financial Assets, Continued

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

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

3. Significant Accounting Policies, Continued

(l) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes in the fair value of derivative financial instrumnets are recognized immediately in profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

(m) Impairment of Financial Assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

3. Significant Accounting Policies, Continued

(m) Impairment of Financial Assets, Continued

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged.

(n) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares when it has a short maturity with a specified redemption date.

(o) Non-derivative Financial Liabilities

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

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

3. Significant Accounting Policies, Continued

(o) Non-derivative Financial Liabilities, Continued

(ii) Financial guarantee liabilities

Financial guarantee liability is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified term of a debt instrument. Upon initial recognition, financial guarantee liabilities are measured at their fair value plus, transaction costs that are directly attributable to the acquisition or issue of the financial guarantee liability.

After initial recognition, an issuer of such a contract measures it at the higher of the amount determined in accordance with K-IFRS No. 1037 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with K-IFRS No. 1018 *Revenue.*

(iii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss or financial guarantee liabilities are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(p) Employee Benefits

(i) Short-term employee benefits

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

(ii) Retirement benefits: defined contribution plans

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

3. Significant Accounting Policies, Continued

(p) Employee Benefits, Continued

(iii) Retirement benefits: defined benefit plans

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(q) Provisions

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

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

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

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

3. Significant Accounting Policies, Continued

(r) Equity Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(s) 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, 2015 and 2014 were ₩4,146,227 million and ₩2,750,938 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 completions is assessed by reference to surveys of work performed. Meanwhile, profits from an apartment house for self-instalment sales is recognized on percentage-of-completion method according to Q&A of Korea Accounting Institute, called 2011-I-KQA. This accounting standard is effective upon Korean Corporation Financial Reporting Standards of Laws on External Audit of Corporation (Article 13, Section 1, Paragraph 1)

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.

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

3. Significant Accounting Policies, Continued

(t) Finance Income and Finance Costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and investment income on long-term deposits in MSA Escrow Fund. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs is interest expense on borrowings and unwinding of the discount on trade and other payables which is recognized in profit or loss using the effective interest method.

(u) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. The Group recognizes a deferred tax asset for all deductible temporary differences to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

3. Significant Accounting Policies, Continued

(v) Foreign Currencies

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(w) Earnings per Share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

4. Basis of Translating Financial Statements

The consolidated interim financial statements are expressed in Korean won and have been translated into U.S. dollars at the rate of ₩1,194.50 to $1, the basic exchange rate on September 30, 2015 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.

5. Operating Segments

(a) The Group's operating segments are summarized as follows:

Operating segments	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

5. Operating Segments, Continued

(b) Segment information on sales and operating profit for the nine-month period ended September 30, 2015 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Sales:								
Total segment sales	₩	2,317,041	801,170	99,798	280,513	3,498,522	(195,358)	3,303,164
Less: Inter-segment sales		96,684	52,274	5,193	41,207	195,358	(195,358)	-
External sales	₩	2,220,357	748,896	94,605	239,306	3,303,164	-	3,303,164
Segment profit:								
Operating profit	₩	960,420	121,582	12,667	17,793	1,112,462	(10,409)	1,102,053

(c) Segment information on sales and operating profit for the nine-month period ended September 30, 2014 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Sales:								
Total segment sales	₩	2,140,021	690,638	111,546	276,537	3,218,742	(156,339)	3,062,403
Less: Inter-segment sales		63,639	47,984	5,149	39,567	156,339	(156,339)	-
External sales	₩	2,076,382	642,654	106,397	236,970	3,062,403	-	3,062,403
Segment profit:								
Operating profit	₩	745,554	106,508	28,058	12,464	892,584	(7,956)	884,628

(d) Segment information on assets and liabilities as of September 30, 2015 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets:								
Segment assets	₩	3,929,159	1,756,663	138,576	349,404	6,173,802	(289,611)	5,884,191
Investments in associates		-	-	60,327	2,300	62,627	-	62,627
Non-current assets held for sale		1,542	-	-	-	1,542	-	1,542
		3,930,701	1,756,663	198,903	351,704	6,237,971	(289,611)	5,948,360
Unallocated assets								2,400,372
Total assets	₩							8,348,732
Liabilities:								
Segment liabilities	₩	1,360,761	185,326	-	71,974	1,618,061	(161,033)	1,457,028
Unallocated liabilities								763,693
Total liabilities	₩							2,220,721

5. Operating Segments, Continued

(e) Segment information on assets and liabilities as of December 31, 2014 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets:								
Segment assets	₩	3,620,656	1,682,186	141,938	347,494	5,792,274	(278,945)	5,513,329
Investments in associates		-	-	55,842	2,061	57,903	-	57,903
Non-current assets held for sale		426	-	-	-	426	-	426
		3,621,082	1,682,186	197,780	349,555	5,850,603	(278,945)	5,571,658
Unallocated assets								1,847,004
Total assets	₩							7,418,662
Liabilities:								
Segment liabilities	₩	867,391	184,385	-	77,175	1,128,951	(173,338)	955,613
Unallocated liabilities								754,969
Total liabilities	₩							1,710,582

(f) Revenues from major customers which amount to more than 10 percent of the details of the Group's consolidated total revenues for the nine-month periods ended September 30, 2015 and 2014 were as follows:

In millions of won		2015	2014
Alokozay International Limited	₩	335,234	287,386

6. Property, Plant and Equipment

(a) Details of property, plant and equipment as of September 30, 2015 and December 31, 2014 are summarized as follows:

				September 30 2015			December 31 2014
In millions of won		Cost	Accumulated depreciation and impairment	Carrying amount	Cost	Accumulated depreciation and impairment	Carrying amount
Land	₩	583,851	-	583,851	574,429	-	574,429
Buildings		962,504	(381,481)	581,023	878,145	(357,630)	520,515
Structures		72,759	(39,161)	33,598	66,192	(37,624)	28,568
Machinery		1,249,728	(918,680)	331,048	1,224,507	(875,701)	348,806
Vehicles		12,775	(10,291)	2,484	13,383	(10,533)	2,850
Tools		62,632	(51,751)	10,881	59,753	(50,097)	9,656
Furniture and fixtures		241,915	(192,242)	49,673	230,065	(176,229)	53,836
Others		1,508	-	1,508	1,454	-	1,454
Construction-in-progress		199,182	-	199,182	213,298	-	213,298
	₩	3,386,854	(1,593,606)	1,793,248	3,261,226	(1,507,814)	1,753,412

6. Property, Plant and Equipment, Continued

(b) Changes in property, plant and equipment for the nine-month period ended September 30, 2015 were as follows:

In millions of won		January 1 2015	Acquisition	Disposal	Depreciation	Transfer of construction -in-progress	Net exchange difference and others	September 30 2015
Land	₩	574,429	7,151	(568)	-	5,293	(2,454)	583,851
Buildings		520,515	18,778	(311)	(26,026)	73,015	(4,948)	581,023
Structures		28,568	3,294	(66)	(2,583)	4,360	25	33,598
Machinery		348,806	10,634	(649)	(55,596)	29,371	(1,518)	331,048
Vehicles		2,850	455	(159)	(762)	153	(53)	2,484
Tools		9,656	4,580	(79)	(3,356)	48	32	10,881
Furniture and fixtures		53,836	16,127	(279)	(20,173)	98	64	49,673
Others		1,454	54	-	-	-	-	1,508
Construction-in-progress		213,298	98,220	-	-	(112,338)	2	199,182
	₩	1,753,412	159,293	(2,111)	(108,496)	-	(8,850)	1,793,248

For the nine-month period ended September 30, 2015, land and buildings with a carrying amount of ₩2,732 million were transferred to investment property and land, buildings and structures with a carrying amount of ₩1,542 million were transferred to non-current assets held for sale.

For the nine-month period ended September 30, 2015, borrowing costs of ₩82 million were capitalized as part of the cost of machinery and others with the capitalization rate of 3.75%.

(c) Changes in property, plant and equipment for the year ended December 31, 2014 were as follows:

In millions of won		January 1 2014	Acquisition	Disposal	Depreciation	Transfer of construction -in-progress	Net exchange difference and others	December 31 2014
Land	₩	528,983	1,643	(716)	-	75,028	(30,509)	574,429
Buildings		535,055	3,201	(1,132)	(32,481)	30,313	(14,441)	520,515
Structures		29,299	2,264	(75)	(3,281)	826	(465)	28,568
Machinery		348,643	10,476	(2,258)	(73,891)	70,553	(4,717)	348,806
Vehicles		3,392	439	(61)	(1,023)	208	(105)	2,850
Tools		8,710	4,037	(86)	(3,993)	1,015	(27)	9,656
Furniture and fixtures		60,254	20,651	(3,088)	(28,580)	4,799	(200)	53,836
Others		1,304	150	-	-	-	-	1,454
Construction-in-progress		106,649	293,893	(58)	-	(182,742)	(4,444)	213,298
	₩	1,622,289	336,754	(7,474)	(143,249)	-	(54,908)	1,753,412

For the year ended December 31, 2014, land and construction-in-progress with a carrying amount of ₩32,682 million was transferred to inventories.

7. Intangible Assets

(a) Details of intangible assets as of September 30, 2015 and December 31, 2014 are summarized as follows:

				September 30 2015			December 31 2014
In millions of won		Cost	Accumulated amortization and impairment	Carrying amount	Cost	Accumulated amortization and impairment	Carrying amount
Goodwill	₩	88,543	(54,900)	33,643	87,061	(54,900)	32,161
Industrial property rights		46,555	(30,270)	16,285	46,203	(29,203)	17,000
Facility usage rights		27,697	(2,731)	24,966	27,230	(3,680)	23,550
Other intangible assets		117,097	(44,568)	72,529	116,532	(37,446)	79,086
Intangible assets under development		6,031	(2,340)	3,691	5,480	(2,340)	3,140
	₩	285,923	(134,809)	151,114	282,506	(127,569)	154,937

(b) Changes in intangible assets for the nine-month period ended September 30, 2015 were as follows:

In millions of won		January 1 2015	Acquisition	Disposal	Transfer of Intangible assets under development	Amortization	Impairment	Net exchange difference	September 30 2015
Goodwill	₩	32,161	-	-	-	-	-	1,482	33,643
Industrial property rights		17,000	777	(104)	82	(999)	(161)	(310)	16,285
Facility usage rights		23,550	2,368	(952)	-	-	-	-	24,966
Other intangible assets		79,086	219	-	-	(7,129)	-	353	72,529
Intangible assets under development		3,140	633	-	(82)	-	-	-	3,691
	₩	154,937	3,997	(1,056)	-	(8,128)	(161)	1,525	151,114

(c) Changes in intangible assets for the year ended December 31, 2014 were as follows:

In millions of won		January 1 2014	Acquisition	Disposal	Transfer of Intangible assets under development	Amortization	Impairment	Net exchange difference	December 31 2014
Goodwill	₩	83,370	-	-	-	-	(54,900)	3,691	32,161
Industrial property rights		31,733	397	(6)	326	(2,652)	(12,654)	(144)	17,000
Facility usage rights		25,757	455	(4)	-	-	(2,658)	-	23,550
Other intangible assets		89,285	261	(177)	-	(9,979)	(433)	129	79,086
Intangible assets under development		2,485	981	-	(326)	-	-	-	3,140
	₩	232,630	2,094	(187)	-	(12,631)	(70,645)	3,676	154,937

(d) Expenditures not capitalized for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows:

			2015		2014
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Cost of sales	₩	485	2,192	123	710
Selling, general and administrative expenses		8,327	24,141	8,271	25,093
	₩	8,812	26,333	8,394	25,803

8. Investment Property

(a) Details of investment property as of September 30, 2015 and December 31, 2014 are summarized as follows:

				September 30 2015			December 31 2014
In millions of won		Cost	Accumulated depreciation and impairment	Carrying amount	Cost	Accumulated depreciation and impairment	Carrying amount
Land	₩	49,123	-	49,123	48,293	-	48,293
Buildings		179,948	(63,013)	116,935	177,315	(57,640)	119,675
	₩	229,071	(63,013)	166,058	225,608	(57,640)	167,968

(b) Changes in investment property for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 were as follows:

				2015			2014
In millions of won		Land	Buildings	Total	Land	Buildings	Total
Beginning balance	₩	48,293	119,675	167,968	48,303	125,672	173,975
Acquisition		-	64	64	-	248	248
Depreciation		-	(4,706)	(4,706)	-	(6,168)	(6,168)
Transfer from (to) property, plant and equipment		830	1,902	2,732	(10)	(77)	(87)
Ending balance	₩	49,123	116,935	166,058	48,293	119,675	167,968

(c) The amounts recognized in profit or loss from investment property for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows:

			2015		2014
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Rental income	₩	8,588	26,181	8,453	25,471
Direct operating expense		(1,653)	(4,958)	(1,622)	(4,853)
	₩	6,935	21,223	6,831	20,618

(d) The carrying amount and the fair value of investment property as of September 30, 2015 and December 31, 2014 were as follows:

			September 30 2015		December 31 2014
In millions of won		Fair value	Carrying amount	Fair value	Carrying amount
Land	₩	312,670	49,123	309,002	48,293
Buildings		192,500	116,935	186,337	119,675
	₩	505,170	166,058	495,339	167,968

The fair value of investment property was determined based on the yield capitalization method by external, independent valuers. The fair value measurement for all of the investment properties has been categorized as a level 3 fair value based on the inputs to the valuation techniques used.

9. Investments in Associates

(a) Investments in associates as of September 30, 2015 and December 31, 2014 are summarized as follows:

In millions of won, except percentage of ownership

Associate	Location	Principal operation	September 30 2015 Percentage of ownership	September 30 2015 Carrying amount	December 31 2014 Percentage of ownership	December 31 2014 Carrying amount
Lite Pharm Tech, Inc.	Korea	Manufacturing medical supplies	27.97%	₩ 2,300	25.34%	₩ 2,061
JR CR-REIT IV Co., Ltd.	Korea	Renting of real estate	49.02%	17,607	49.02%	12,900
KVG REIT 1 Co., Ltd.	Korea	Renting of real estate	29.67%	6,511	29.67%	6,848
KOCREF REIT 17 Co., Ltd.	Korea	Renting of real estate	22.06%	6,667	22.06%	6,619
JR REIT V Co., Ltd.	Korea	Renting of real estate	34.63%	5,635	34.63%	5,524
JR REIT VIII Co., Ltd.	Korea	Renting of real estate	21.74%	9,907	21.74%	9,858
LSK Global Pharma Services Co., Ltd.	Korea	Research and development medicine	23.15%	-	23.15%	-
JR REIT X Co., Ltd.	Korea	Renting of real estate	28.79%	8,977	28.79%	9,114
JR REIT XIII Co., Ltd.	Korea	Renting of real estate	27.03%	5,023	27.03%	4,979
				₩ 62,627		₩ 57,903

(b) Financial information of associates, which represents 100% of the entities' balances as of and for the nine-month period ended September 30, 2015 are summarized as follows:

In millions of won

Associate	Total assets	Total liabilities	Revenue	Total comprehensive income
Lite Pharm Tech, Inc.	₩ 9,904	1,680	6,948	2,255
JR CR-REIT IV Co., Ltd.	39,575	3,656	3,235	8,208
KVG REIT 1 Co., Ltd.	50,001	28,055	4,419	1,260
KOCREF REIT 17 Co., Ltd.	66,590	36,370	4,626	1,634
JR REIT V Co., Ltd.	31,460	15,187	1,876	1,166
JR REIT VIII Co., Ltd.	108,607	63,035	5,306	2,184
LSK Global Pharma Services Co., Ltd.	6,053	6,963	12,628	1,324
JR REIT X Co., Ltd.	87,818	56,635	2,893	82
JR REIT XIII Co., Ltd.	47,097	28,518	2,171	687

(c) Financial information of associates, which represents 100% of the entities' balances as of and for the year ended December 31, 2014 are summarized as follows:

In millions of won

Associate	Total assets	Total liabilities	Revenue	Total comprehensive income
Lite Pharm Tech, Inc.	₩ 9,028	894	9,795	2,734
JR CR-REIT IV Co., Ltd.	63,325	35,139	3,540	196
KVG REIT 1 Co., Ltd.	51,094	28,016	5,784	1,661
KOCREF REIT 17 Co., Ltd.	66,270	36,266	5,457	1,820
JR REIT V Co., Ltd.	31,127	15,175	2,412	1,494
JR REIT VIII Co., Ltd.	108,441	63,097	7,619	3,093
LSK Global Pharma Services Co., Ltd.	5,322	6,007	13,988	1,892
JR REIT X Co., Ltd.	87,739	56,095	4,223	130
JR REIT XIII Co., Ltd.	46,965	28,543	2,911	921

9. Investments in Associates, Continued

(d) Changes in investments in associates for the nine-month period ended September 30, 2015 were as follows:

In millions of won

Associate		January 1 2015	Share of gain	Dividends	September 30 2015
Lite Pharm Tech, Inc.	₩	2,061	239	-	2,300
JR CR-REIT IV Co., Ltd.		12,900	4,938	(231)	17,607
KVG REIT 1 Co., Ltd.		6,848	395	(732)	6,511
KOCREF REIT 17 Co., Ltd.		6,619	360	(312)	6,667
JR REIT V Co., Ltd.		5,524	508	(397)	5,635
JR REIT VIII Co., Ltd.		9,858	475	(426)	9,907
LSK Global Pharma Services Co., Ltd.		-	-	-	-
JR REIT X Co., Ltd.		9,114	48	(185)	8,977
JR REIT XIII Co., Ltd.		4,979	218	(174)	5,023
	₩	57,903	7,181	(2,457)	62,627

(e) Changes in investments in associates for the year ended December 31, 2014 were as follows:

In millions of won

Associate		January 1 2014	Share of gain	Dividends	December 31 2014
Lite Pharm Tech, Inc.	₩	1,476	585	-	2,061
JR CR-REIT IV Co., Ltd.		12,953	27	(80)	12,900
KVG REIT 1 Co., Ltd.		7,047	511	(710)	6,848
KOCREF REIT 17 Co., Ltd.		6,745	387	(513)	6,619
JR REIT V Co., Ltd.		5,573	735	(784)	5,524
JR REIT VIII Co., Ltd.		9,948	669	(759)	9,858
LSK Global Pharma Services Co., Ltd.		-	-	-	-
JR REIT X Co., Ltd.		9,334	79	(299)	9,114
JR REIT XIII Co., Ltd.		5,000	253	(274)	4,979
	₩	58,076	3,246	(3,419)	57,903

(f) Reconciliation of the summarized financial information presented to the carrying amount of the Group's interest in the associate as of September 30, 2015 are summarized as follows:

In millions of won

Associate	Percentage of ownership		Equity attributable to owners of the parent	Share of net assets	Share of loss not recognized	Carrying amount
Lite Pharm Tech, Inc.	27.97%	₩	8,224	2,300	-	2,300
JR CR-REIT IV Co., Ltd.	49.02%		35,919	17,607	-	17,607
KVG REIT 1 Co., Ltd.	29.67%		21,946	6,511	-	6,511
KOCREF REIT 17 Co., Ltd.	22.06%		30,220	6,667	-	6,667
JR REIT V Co., Ltd.	34.63%		16,273	5,635	-	5,635
JR REIT VIII Co., Ltd.	21.74%		45,572	9,907	-	9,907
LSK Global Pharma Services Co., Ltd.	23.15%		(910)	(210)	210	-
JR REIT X Co., Ltd.	28.79%		31,183	8,977	-	8,977
JR REIT XIII Co., Ltd.	27.03%		18,579	5,023	-	5,023
		₩				62,627

10. Available-for-sale Financial Assets

(a) Changes in available-for-sale financial assets for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 were as follows:

In millions of won		2015	2014
Beginning balance	₩	326,833	296,601
Acquisitions		28,200	56,392
Net changes in fair value		(11,589)	(11,655)
Disposals		-	(14,505)
Ending balance	₩	343,444	326,833
Statement of financial position:			
Current	₩	-	1,000
Non-current		343,444	325,833
	₩	343,444	326,833

(b) Available-for-sale financial assets as of September 30, 2015 and December 31, 2014 are summarized as follows:

In millions of won		September 30 2015	December 31 2014
Available-for-sale debt instruments:			
Government and municipal bonds	₩	96	96
Corporate bonds		1,500	2,500
Total available-for-sale debt instruments		1,596	2,596
Available-for-sale equity instruments:			
Listed			
– YTN Co., Ltd.		20,782	22,291
– Oscotech, Inc.		2,957	1,030
– Shinhan Financial Group Co., Ltd.		165,946	178,171
– Rexahn Pharmaceuticals, Inc.		3,970	4,917
		193,655	206,409
Unlisted		148,193	117,828
Total available-for-sale equity instruments		341,848	324,237
Total available-for-sale financial assets	₩	343,444	326,833

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

As of September 30, 2015 and December 31, 2014, ₩41,698 million and ₩29,698 million of available-for-sale financial assets that do not have a market price in an active market and whose fair value cannot be reliably measured or is similar to their carrying amount are measured at cost, respectively.

11. Long-term Deposits in MSA Escrow Fund

Long-term deposits in MSA Escrow Fund as of September 30, 2015 and December 31, 2014 are summarized as follows:

In millions of won		September 30 2015	December 31 2014
MMF	₩	26,132	19,269
Treasury note		368,445	282,539
	₩	394,577	301,808

As discussed in note 32 to the consolidated interim 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, 2015 and 2014 are ₩61,325 million and ₩52,036 million, respectively.

Investment income on long-term deposits in MSA Escrow Fund for the nine-month periods ended September 30, 2015 and 2014 are ₩1,796 million and ₩559 million, respectively.

12. Trade and Other Receivables

(a) Trade and other receivables as of September 30, 2015 and December 31, 2014 are summarized as follows:

		September 30 2015		December 31 2014	
In millions of won		Current	Non-current	Current	Non-current
Loans to employees	₩	6,728	13,853	7,816	20,221
Loans		645	3,416	645	3,707
Other receivables		69,730	308	77,067	276
Guarantee deposits		-	57,178	-	62,531
Accrued income		5,050	-	5,595	-
Trade receivables		1,212,831	-	898,654	-
	₩	1,294,984	74,755	989,777	86,735

(b) Trade and other receivables as of September 30, 2015 and December 31, 2014 have been reported in the consolidated statements of financial position net of allowances as follows:

		September 30 2015		December 31 2014	
In millions of won		Current	Non-current	Current	Non-current
Gross trade and other receivables	₩	1,334,866	74,755	1,029,436	86,735
Allowance:					
Loans		(197)	-	(197)	-
Other receivables		(2,297)	-	(2,286)	-
Trade receivables		(37,388)	-	(37,176)	-
		(39,882)	-	(39,659)	-
Net trade and other receivables	₩	1,294,984	74,755	989,777	86,735

12. Trade and Other Receivables, Continued

(c) Changes in the allowance account for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 were as follows:

In millions of won		2015	2014
Beginning balance	₩	39,659	51,838
Impairment loss		159	-
Reversal of impairment loss		(3)	(8,155)
Net exchange difference		67	(4,024)
Ending balance	₩	39,882	39,659

Impairment loss (reversal of impairment loss) on trade and other receivables is included as part of selling, general and administrative expenses and other expense (income) in the consolidated interim statements of comprehensive income.

(d) The aging schedule of trade and other receivables which were past due but not impaired as of September 30, 2015 and December 31, 2014 is as follows:

In millions of won		September 30 2015	December 31 2014
Within 1 month	₩	69,820	80,369
Between 1 and 2 months		42,945	42,870
Beyond 2 months		193,255	239,153
	₩	306,020	362,392

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 pledged assets and guarantees in respect of some of the past due debtor balances.

(e) Details of trade and other receivables that are measured at amortized cost as of September 30, 2015 and December 31, 2014 were as follows:

	September 30 2015				December 31 2014			
In millions of won	Effective interest rate		Current	Non-current	Effective interest rate		Current	Non-current
Loans to employees	3.00~5.68%	₩	6,728	13,853	3.00~5.68%	₩	7,816	20,221
Loans	1.70~7.29%		-	3,408	1.70~7.29%		-	3,665
Other receivables	-		-	-	3.79%		8,300	-
Guarantee deposits	1.70~8.47%		-	54,387	1.70~8.47%		-	60,123
		₩	6,728	71,648		₩	16,116	84,009

13. Inventories

(a) Inventories as of September 30, 2015 and December 31, 2014 are summarized as follows:

In millions of won		September 30 2015	December 31 2014
Merchandise, net of loss on the write-down of inventories	₩	8,166	12,271
Finished goods, net of loss on the write-down of inventories		617,785	503,761
Work-in-progress, net of loss on the write-down of inventories		358,811	545,090
Raw materials, net of loss on the write-down of inventories		743,178	797,696
Supplies		27,673	26,936
By-products		8,180	8,646
Buildings under construction		1,977	1,185
Sites for lotting-out construction		28,935	31,179
Goods-in-transit		1,191	55,739
	₩	1,795,896	1,982,503

(b) The amount of inventories recognized as an expense for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows:

		2015		2014	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Cost of sales:					
Write-down (reversal of write-down) of inventories	₩	152	(739)	110	383
Loss on retirement of inventories		1,306	3,270	467	3,845
Other expense:					
Loss on retirement of inventories		479	2,624	879	1,279
	₩	1,937	5,155	1,456	5,507

14. Cash and Cash Equivalents and Other Financial Assets

(a) Cash and cash equivalents as of September 30, 2015 and December 31, 2014 are summarized as follows:

In millions of won		September 30 2015	December 31 2014
Cash on hand	₩	12,063	11,854
Demand deposits		163,949	157,138
Short-term investment assets		303,921	247,402
	₩	479,933	416,394

(b) Other financial assets as of September 30, 2015 and December 31, 2014 are summarized as follows:

		September 30 2015		December 31 2014	
In millions of won		Current	Non-current	Current	Non-current
Time deposits	₩	19,598	11	35,337	11
Certificates of deposit		31,433	-	31,099	-
Money trust		1,013,052	281	602,000	236
Security deposits for checking accounts		-	12	-	12
	₩	1,064,083	304	668,436	259

(c) Financial assets restricted in use as of September 30, 2015 and December 31, 2014 were as follows:

In millions of won		September 30 2015	December 31 2014
Long-term other financial assets	₩	12	12
Current other financial assets		3,543	3,209
Cash and cash equivalents		-	527
	₩	3,555	3,748

15. Non-current Assets Held for Sale

Changes in non-current assets held for sale for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 were as follows:

In millions of won		2015	2014
Beginning balance	₩	426	153
Transfer from property, plant and equipment		1,542	426
Disposal		(426)	(153)
Ending balance	₩	1,542	426

16. Pledged Assets

(a) The followings assets were pledged as collateral for borrowings as of September 30, 2015.

In millions of won

Asset		Carrying amount	Type		Received amount	Collateralized amount	Holder
Investment property	₩	71,043	Leasehold deposits received	₩	8,668	9,145	Metlife Insurance Korea Co., Ltd., etc.
Property, plant and equipment and investment property		81,880	Short-term borrowings		17,600	47,174	KEB Hana Bank, etc.
			Long-term borrowings		15,226	17,826	KEB Hana Bank, etc.
Property, plant and equipment		28,820	Investment subsidy		-	660	Chungju-si
			Short-term borrowings		1,500	4,200	KEB Hana Bank
Property, plant and equipment		23	Long-term borrowings		175	273	The Korea Development Bank
Property, plant and equipment and other financial assets		18,212	Long-term borrowings		5,000	5,000	KEB Hana Bank
			Short-term borrowings		9,405	7,992	KEB Hana Bank
Other financial assets		100	Short-term borrowings		1,500	100	KEB Hana Bank
Other financial assets		1,410	Contract fulfilment		-	1,410	Haitai Beverage Co., Ltd., etc.
Other financial assets		1,433	ACH pledged		-	1,433	Bank of Oklahoma
	₩	202,921		₩	59,074	95,213	

(b) The followings assets were pledged as collateral for borrowings as of December 31, 2014.

In millions of won

Asset		Carrying amount	Type		Received amount	Collateralized amount	Holder
Investment property	₩	71,677	Leasehold deposits received	₩	7,901	8,683	Metlife Insurance Korea Co., Ltd., etc.
Property, plant and equipment and investment property		71,005	Short-term borrowings		12,000	28,934	KEB Hana Bank
			Long-term borrowings		6,890	20,466	KEB Hana Bank, etc.
Property, plant and equipment		28,882	Investment subsidy		-	660	Chungju-si
			Short-term borrowings		1,554	3,000	KEB Hana Bank
Property, plant and equipment		56	Long-term borrowings		204	294	The Korea Development Bank
Property, plant and equipment and other financial assets			Long-term borrowings		5,000	5,000	KEB Hana Bank
		18,213	Short-term borrowings		8,423	8,052	KEB Hana Bank
Other financial assets		100	Short-term borrowings		1,500	110	KEB Hana Bank
Other financial assets		1,410	Contract fulfilment		-	1,410	Haitai Beverage Co., Ltd., etc.
Other financial assets		1,099	ACH pledged		-	1,099	Bank of Oklahoma
	₩	192,442		₩	43,472	77,708	

17. Share Capital and Other Capital Surplus

(a) Details of share capital as of September 30, 2015 and December 31, 2014 were as follows:

		September 30 2015	December 31 2014
Number of ordinary shares:			
Authorized		800,000,000	800,000,000
Issued		137,292,497	137,292,497
Outstanding		125,965,892	125,898,800
Par value in won	₩	5,000	5,000

The Parent Company has, thus far, reacquired and retired 53,699,400 shares of treasury share. Accordingly, as of September 30, 2015, the Parent Company's ordinary share differs from the aggregate par value of issued shares by ₩268,497 million.

(b) Changes in the number of shares for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 were as follows:

	2015			2014		
	Ordinary shares	Treasury shares	Total	Ordinary shares	Treasury shares	Total
Beginning balance	137,292,497	(11,393,697)	125,898,800	137,292,497	(11,393,697)	125,898,800
In-kind donation of treasury shares	-	67,092	67,092	-	-	-
Ending balance	137,292,497	(11,326,605)	125,965,892	137,292,497	(11,393,697)	125,898,800

(c) Changes in other capital surplus for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 were as follows:

In millions of won		2015	2014
Beginning balance	₩	(4,573)	(4,573)
Extinguishment of equity conversion options		(5,483)	-
Paid-in capital increase of subsidiary		128	-
Ending balance	₩	(9,928)	(4,573)

During the nine-month period ended September 30, 2015, the Group early redeemed the redeemable convertible preferred shares issued by Somang Cosmetics Co., Ltd. With regard to the early redemption, the Group recognized the consideration paid for the repurchase of equity conversion options as other capital surplus.

During the nine-month period ended September 30, 2015, the Group recognized changes in controlling interests in other surplus due to paid-in capital increase of Somang Cosmetics Co., Ltd.

18. Treasury Shares

(a) Changes in the treasury shares for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 were as follows:

	2015		2014	
In millions of won, except number of shares	Number of shares	Carrying amount	Number of shares	Carrying amount
Beginning balance	11,393,697	₩ 339,059	11,393,697	₩ 339,059
In-kind donation of treasury shares	(67,092)	(1,997)	-	-
Ending balance	11,326,605	₩ 337,062	11,393,697	₩ 339,059

(b) Changes in gain on reissuance of treasury shares for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 were as follows:

In millions of won		2015	2014
Beginning balance	₩	492,032	492,032
In-kind donation of treasury shares, net of tax		2,616	-
Ending balance	₩	494,648	492,032

19. Reserves

(a) Details of reserves as of September 30, 2015 and December 31, 2014 were as follows:

In millions of won		September 30 2015	December 31 2014
Available-for-sale financial assets - net change in fair value	₩	(23,015)	(14,303)
Foreign operations - foreign currency translation differences		(87,207)	(80,729)
Legal reserve		603,145	603,145
Voluntary reserve		3,226,658	2,918,254
	₩	3,719,581	3,426,367

(b) Available-for-sale financial assets - net change in fair value as of September 30, 2015 and December 31, 2014 are summarized as follows:

In millions of won		September 30 2015	December 31 2014
Available-for-sale financial assets - net change in fair value before tax	₩	(30,363)	(18,869)
Tax effect		7,348	4,566
	₩	(23,015)	(14,303)

(c) Legal Reserve

The Korean Commercial Act 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.

19. Reserves, Continued

(d) Details of voluntary reserve as of September 30, 2015 and December 31, 2014 were as follows:

In millions of won		September 30 2015	December 31 2014
Reserve for business rationalization	₩	12,851	12,851
Reserve for research and human resource development		30,000	42,522
Reserve for business expansion		698,881	698,881
Unconditional reserve		2,484,926	2,164,000
	₩	3,226,658	2,918,254

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

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

Reserve for 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.

Reserve for business expansion and other reserves
Reserves without specific purposes are restored to retained earnings by the Parent Company. Those reserves can be used for other purposes afterwards upon a resolution at a general meeting of shareholders.

20. Retained Earnings

Changes in retained earnings for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 were as follows:

In millions of won		2015	2014
Beginning balance	₩	1,100,876	802,755
Dividends		(428,056)	(402,876)
Transfer from reserve for research and human resource development		12,522	47,478
Transfer to unconditional reserve		(320,926)	(152,000)
Profit for the period		870,048	813,801
- Less: non-controlling interests		2,776	11,805
Remeasurements of net defined benefit liability, net of tax		(152)	(21,654)
- Less: non-controlling interests		21	1,567
Ending balance	₩	1,237,109	1,100,876

Dividend distribution to the Parent Company's shareholders amounting to ₩428,056 million for the year ended December 31, 2014 was paid during the nine-month period ended September 30, 2015.

21. Trade and Other Payables

Trade and other payables as of September 30, 2015 and December 31, 2014 are summarized as follows:

In millions of won		September 30 2015 Current	September 30 2015 Non-current	December 31 2014 Current	December 31 2014 Non-current
Leasehold deposits received	₩	-	25,884	-	27,007
Trade payables		54,885	-	95,936	-
Withholdings		245,596	193	158,480	258
Accrued expenses		185,946	-	156,231	-
Other payables		97,074	6,961	93,206	4,979
	₩	583,501	33,038	503,853	32,244

22. Borrowings

(a) Short-term borrowings as of September 30, 2015 and December 31, 2014 are summarized as follows:

In millions of won	Lender	Annual interest rate		September 30 2015	December 31 2014
Borrowings	Shinhan Bank, etc.	5.39%,etc.	₩	5,561	87,231
	KEB Hana Bank	2.78%~5.79%		29,074	28,420
	KEB Hana Bank	3M LIBOR+1.45%		45,015	-
	The Korea Development Bank	2.20%		20,000	-
Customer credit contracts(*)	Nonghyup Bank, etc.	6.64%,etc.		54,621	26,210
			₩	154,271	141,861

(*) The Group has entered into a customer credit contract with Nonghyup Bank, etc. The financial institutions pay trade receivables on behalf of customers and the Group has provided guarantees to the financial institutions for customers.

(b) Long-term borrowings as of September 30, 2015 and December 31, 2014 are summarized as follows:

In millions of won	Lender	Maturity	Annual interest rate		September 30 2015	December 31 2014
Borrowings	Nonghyup Bank	Jun.2020	0.00%	₩	34,595	23,852
	KEB Hana Bank	Sep.2017	2.13%~4.20%		7,226	8,096
	Kookmin Bank	Sep.2023	3.02%~3.57%		13,000	3,794
	The Korea Development Bank	Jun.2018	3.33%		175	204
Convertible bond					8,046	8,326
Redeemable convertible preferred shares					55,048	76,890
Redeemable preferred shares					18,969	17,851
				₩	137,059	139,013
Statement of financial position:						
Current				₩	23,791	1,218
Non-current					113,268	137,795
				₩	137,059	139,013

22. Borrowings, Continued

Details of convertible bond and preferred shares as of September 30, 2015 are summarized as follows:

Description	Issuing company	Details
Convertible bond(*)	PT Trisakti Purwosari Makmur	Issue date: Dec.2011 Par value: IDR 100,000 million Issued value: IDR 100,000 million Carrying amount: ₩8,046 million (IDR 100,000 million) Interest rate: 9.5% The bonds will mature four years from the issue date and become convertible into shares at the rate of IDR 9,659 per share.
Redeemable convertible preferred shares	KT&G Life Sciences Corporation	Issue date: Nov.2011 Issued value: ₩18,000 million Carrying amount: ₩17,573 million The convertible instrument will mature ten years from the issue date. The instrument can be converted into 1,090,909 ordinary shares at any time, and automatically converts upon maturity. If KT&G Life Sciences Corporation will be not listed by the end of 2015, recourse is available.
	Renzoluc Pte, Ltd.	Issue date: Sep.2012 Issued value: USD 31,373 thousand Carrying amount: ₩37,475 million (USD 31,373 thousand) The convertible instrument will mature ten years from the date of establishment of QCP 2011 Corporate Partnership Private Equity Fund (the "PEF"). The instrument can be converted into 6,978,948 ordinary shares at any time after five years from the issue date. Payable on demand from 270 days prior to the expiration of the PEF
Redeemable preferred shares	K-Q HongKong I, Limited	Issue date: Aug.2012, Sep.2012, Dec.2012 Issued value: USD 15,880 thousand Carrying amount: ₩18,969 million (USD 15,880 thousand) The convertible instrument will mature ten years from the date of establishment of the PEF. Payable on demand from 270 days prior to the expiration of the PEF

(*) The fair value of the liability component was calculated using the market interest rate for an equivalent non-convertible bond. The fair value of the equity component was determined by deducting the fair value of the liability component from the fair value of the compound financial instrument as a whole.

During the nine-month period ended September 30, 2015, the Group early redeemed the redeemable convertible preferred shares issued by Somang Cosmetics Co., Ltd. With regard to the early redemption, the Group recognized ₩11,962 million of gain on debt redemption and ₩(5,483) million of other capital surplus, respectively.

(c) As discussed in note 16 to the consolidated interim financial statements, the Group provided collateral for the above borrowings as of September 30, 2015.

23. Retirement Benefits Plan

(a) The components of retirement benefits for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows:

In millions of won		2015 Three-month	2015 Nine-month	2014 Three-month	2014 Nine-month
Defined benefit plans:					
Current service cost	₩	11,030	33,079	10,584	32,359
Net Interest on the net defined benefit liability		837	2,512	986	2,959
Past service cost and loss on settlement		-	-	462	1,386
		11,867	35,591	12,032	36,704
Defined contribution plans:					
Contributions recognized as expense		1,024	3,130	783	2,094
	₩	12,891	38,721	12,815	38,798

The Group recognized termination benefits amounting to ₩8,012 million and ₩5,152 million as an expense for the nine-month periods ended September 30, 2015 and 2014, respectively.

(b) Net defined benefit liability as of September 30, 2015 and December 31, 2014 is summarized as follows:

In millions of won		September 30 2015	December 31 2014
Present value of defined benefit obligations	₩	381,494	364,717
Fair value of plan assets		(217,182)	(232,470)
	₩	164,312	132,247

24. Result from Operating Activities

(a) Details of expenses classified by nature for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows:

In millions of won		2015 Three-month	2015 Nine-month	2014 Three-month	2014 Nine-month
Changes in inventories	₩	45,391	186,607	(169,962)	13,228
Raw materials and consumables purchased		292,250	781,987	574,584	1,062,017
Salaries		121,649	388,844	135,557	378,954
Retirement and termination benefits		14,069	46,733	17,504	43,950
Depreciation		38,576	113,202	36,891	111,551
Amortization		2,678	8,128	3,237	9,846
Employee welfare		20,928	74,604	15,901	46,350
Advertising		66,032	173,662	56,238	162,290
Commissions		79,644	208,790	69,058	190,468
Other expenses		82,589	218,555	29,215	159,121
	₩	763,806	2,201,112	768,223	2,177,775

24. Result from Operating Activities, Continued

(b) Details of selling, general and administrative expenses for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows:

		2015		2014	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Salaries	₩	80,185	257,944	90,731	253,552
Retirement and termination benefits		8,534	30,896	11,181	28,296
Employee welfare		14,481	53,648	11,370	33,040
Travel		3,075	8,401	2,700	7,961
Communications		1,259	3,907	1,346	4,134
Utilities		2,325	7,223	2,297	6,919
Taxes and dues		1,001	16,026	2,424	15,278
Supplies		690	2,471	818	2,485
Rent		5,604	17,659	6,297	19,054
Depreciation		11,175	33,117	11,360	34,095
Amortization		2,628	7,979	3,165	9,627
Repairs and maintenance		1,157	3,389	1,670	5,082
Vehicles		1,707	5,024	2,164	6,752
Insurance		509	1,478	496	1,402
Commissions		60,317	168,493	55,357	156,952
Freight and custody		14,940	39,630	12,076	35,398
Conferences		789	2,537	791	2,617
Advertising		66,011	173,559	56,213	162,188
Training		1,607	4,484	1,704	4,842
Prizes and rewards		489	1,684	354	1,225
Cooperation		220	533	379	925
Normal research and development		8,327	24,141	8,271	25,093
Impairment loss (reversal of impairment loss) on trade receivables		150	146	181	(1,219)
	₩	287,180	864,369	283,345	815,698

25. Other Income and Expenses

(a) Details of other income for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows:

In millions of won		2015 Three-month	2015 Nine-month	2014 Three-month	2014 Nine-month
Foreign currency transaction gain	₩	14,202	22,838	1,703	6,240
Foreign currency translation gain		44,747	76,412	27,684	12,782
Reversal of impairment loss on other receivables		-	3	-	13
Gain on sale of property, plant and equipment		1,947	9,069	4,339	5,588
Gain on sale of intangible assets		36	789	-	54
Others		3,152	15,778	6,097	13,585
	₩	64,084	124,889	39,823	38,262

(b) Details of other expenses for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows:

In millions of won		2015 Three-month	2015 Nine-month	2014 Three-month	2014 Nine-month
Foreign currency transaction loss	₩	2,541	9,632	4,294	13,173
Foreign currency translation loss		15,803	30,587	-	17,218
Impairment loss on other receivables		-	13	-	-
Donations		2,638	24,399	1,674	9,996
Loss on sale of property, plant and equipment		166	812	559	2,354
Loss on sale of intangible assets		-	4	-	17
Impairment loss on intangible assets		4	161	581	600
Others		4,532	12,190	2,977	12,270
	₩	25,684	77,798	10,085	55,628

26. Net Finance Income

(a) Details of net finance income for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows:

		2015		2014	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Finance income:					
Interest income	₩	8,467	23,999	10,522	28,994
Dividend income		540	8,387	268	5,466
Investment income on long-term deposits in MSA Escrow Fund		729	1,796	234	559
Gain on transactions of derivative instruments		-	7	-	-
Gain on debt redemption		-	11,962	-	-
		9,736	46,151	11,024	35,019
Finance costs:					
Interest expense		(2,573)	(8,202)	(2,783)	(8,044)
Impairment loss on available-for-sale financial assets		(95)	(95)	-	-
Loss on transactions of derivative instruments		(2)	(2)	-	(14)
		(2,670)	(8,299)	(2,783)	(8,058)
Net finance income	₩	7,066	37,852	8,241	26,961

(b) Details of interest income for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows:

		2015		2014	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Deposits	₩	8,284	21,949	8,385	22,464
Available-for-sale financial assets		7	32	47	91
Trade and other receivables		176	2,018	2,090	6,439
	₩	8,467	23,999	10,522	28,994

(c) Details of interest expense for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows:

		2015		2014	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Borrowings	₩	1,261	3,768	1,108	3,320
Trade and other payables		669	1,556	1,032	2,948
Others		643	2,878	643	1,776
	₩	2,573	8,202	2,783	8,044

27. Income Tax

(a) Income tax expense was recognized as current tax expense adjusted to current adjustments for prior periods, deferred tax expense (income) by origination and reversal of deferred tax assets (liabilities) and temporary differences, and income tax recognized in other comprehensive income. The average effective tax rate was 27.14% and 28.69% for the nine-month periods ended September 30, 2015 and 2014, respectively.

(b) Deferred tax assets have been recognized to the extent the Group has determined it is probable that future profits will be available against which the Group can utilize the related benefit.

28. Earnings per Share

Basic and diluted earnings per share for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows:

		2015		2014	
		Three-month	Nine-month	Three-month	Nine-month
Profit for the period attributable to owners of the parent in millions of won	₩	302,699	872,824	269,278	648,120
Weighted-average number of ordinary shares outstanding		125,965,892	125,960,485	125,898,800	125,898,800
Basic and diluted earnings per share in won	₩	2,403	6,929	2,139	5,148

29. Transactions and Balances with Related Companies

(a) The Group has no significant transactions, receivables and liabilities with related parties, as of and for the nine-month period ended September 30, 2015.

(b) There is no guarantee being provided by related parties as of September 30, 2015.

(c) Details of key management personnel compensation for the three- and nine-month periods ended September 30, 2015 and 2014 are summarized as follows:

		2015		2014	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Short-term employee benefits	₩	3,810	16,677	6,124	17,421
Post-employment benefits		440	1,896	528	2,229
	₩	4,250	18,573	6,652	19,650

30. Risk Management and Fair Value of Financial Instruments

(a) Overview

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

- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk including quantitative disclosures.

(b) Risk Management Framework

The purpose of managing financial risks is to identify the potential risk factors that may affect the Group's financial performance, and minimize, eliminate and avoid it to the extent that is acceptable. One of the principal responsibilities of the treasury department is to manage the financial risks arising from the Group's underlying operations. The treasury department monitors and manages the financial risk arising from the Group's underlying operations in accordance with the risk management policies and procedures authorized by the board of directors. Also, the treasury department provides an internal report analyzing the nature and exposure level of financial risks to Risk Management Committee of the Group. The Risk Management Committee prepares the overall strategy for financial risk management, and evaluates the effectiveness of the financial risk management strategy. In addition, the Parent Company's audit committee consistently observes the compliance of the risk management policy and procedure, and reviews the risk exposure limit of the Group. The Group applied the same financial risk management strategy that was applied in the previous period.

(c) Management of Financial Risks

(i) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the Group's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency 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.

30. Risk Management and Fair Value of Financial Instruments, Continued

(c) Management of Financial Risks, Continued

The carrying amounts of monetary assets and liabilities denominated in a currency other than the functional currency as of September 30, 2015 and December 31, 2014 were as follows:

In millions of won		September 30 2015 Assets	Liabilities	December 31 2014 Assets	Liabilities
USD	₩	899,003	147,905	837,834	180,646
EUR		1,129	2,363	24,735	10,443
Others		9,581	2,073	10,878	2,036
	₩	909,713	152,341	873,447	193,125

As of September 30, 2015 and December 31, 2014, the effects of a 10% weakening or strengthening of functional currency against foreign currencies on profit before tax were as follows:

In millions of won		September 30 2015 10% weakening	10% strengthening	December 31 2014 10% weakening	10% strengthening
Increase (decrease) in profit before tax	₩	75,737	(75,737)	68,032	(68,032)

Equity 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, 2015 and December 31, 2014, the effects of a 5% fluctuation of the price index of stocks on other comprehensive income were as follows:

In millions of won		September 30 2015 5% increase	5% decrease	December 31 2014 5% increase	5% decrease
Increase (decrease) in comprehensive income before tax	₩	(2,305)	2,305	5,676	(5,676)

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, 2015, there is no significant effect on cash flows or the fair value of financial liabilities from the interest rate fluctuation, considering the amounts of interest bearing liabilities.

30. Risk Management and Fair Value of Financial Instruments, Continued

(c) Management of Financial Risks, Continued

(ii) Credit risk

The Group has exposure to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. 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 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, 2015 and December 31, 2014 is as follows:

In millions of won		September 30 2015	December 31 2014
Available-for-sale debt instruments	₩	1,596	2,596
Long-term deposits in MSA Escrow Fund		394,577	301,808
Trade and other receivables		1,369,739	1,076,512
Other financial assets		1,064,387	668,695
Cash and cash equivalents (excluding cash on hand)		467,870	404,540
Financial guarantee contract		38,276	150,063
	₩	3,336,445	2,604,214

(iii) 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.

30. Risk Management and Fair Value of Financial Instruments, Continued

(c) Management of Financial Risks, Continued

The maturity analysis with a residual contractual maturity of financial liabilities as of September 30, 2015 and December 31, 2014 is as follows:

				Residual contractual maturity			
In millions of won		Carrying amount	Contractual cash flow	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	Beyond 5 years
As of September 30, 2015:							
Trade and other payables	₩	370,750	372,477	282,524	56,142	33,285	526
Long-term borrowings		113,268	119,030	105	315	104,510	14,100
Current portion of long-term borrowings		23,791	24,381	412	23,969	-	-
Short-term borrowings		154,271	156,459	79,021	77,438	-	-
Financial guarantee contract		-	38,276	-	-	38,276	-
	₩	662,080	710,623	362,062	157,864	176,071	14,626
As of December 31, 2014:							
Trade and other payables	₩	377,359	379,047	328,406	17,414	33,227	-
Long-term borrowings		137,795	144,266	720	2,171	33,953	107,422
Current portion of long-term borrowings		1,218	1,248	302	946	-	-
Short-term borrowings		141,861	143,438	115,604	27,834	-	-
Financial guarantee contract		-	150,063	-	150,063	-	-
	₩	658,233	818,062	445,032	198,428	67,180	107,422

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

30. Risk Management and Fair Value of Financial Instruments, Continued

(d) Fair value of Financial Instruments

The carrying amount of each category of financial assets and liabilities as of September 30, 2015 and December 31, 2014 are as follows:

In millions of won		September 30 2015	December 31 2014
Financial assets:			
Available-for-sale financial assets	₩	343,444	326,833
Loans and receivables			
- Trade and other receivables		1,369,739	1,076,512
- Long-term deposits in MSA Escrow Fund		394,577	301,808
- Other financial assets		1,064,387	668,695
- Cash and cash equivalents		479,933	416,394
		3,308,636	2,463,409
	₩	3,652,080	2,790,242
Financial liabilities:			
Financial liabilities measured at amortized cost			
- Trade and other payables	₩	370,750	377,359
- Long-term borrowings		113,268	137,795
- Current portion of long-term borrowings		23,791	1,218
- Short-term borrowings		154,271	141,861
	₩	662,080	658,233

30. Risk Management and Fair Value of Financial Instruments, Continued

(d) Fair value of Financial Instruments, Continued

The fair value measurements classified by fair value hierarchy as of September 30, 2015 and December 31, 2014 were as follows:

			Fair value		
In millions of won		Carrying amount	Level I	Level II	Level III
As of September 30, 2015:					
Financial assets					
Available-for-sale financial assets	₩	301,746	193,655	-	108,091
As of December 31, 2014:					
Financial assets					
Available-for-sale financial assets	₩	297,135	206,409	-	90,726

There is no transfer between fair value hierarchy levels of recurring fair value measurements for the nine-month period ended September 30, 2015 and the year ended December 31, 2014.

The fair value measurements for available-for-sale equity instruments in real estate trust fund have been categorized as a level 3 fair value based on the inputs to the valuation techniques used. Changes in fair value classified as level 3 for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 were as follows:

In millions of won		2015	2014
Beginning balance	₩	90,726	62,467
Acquisition		16,200	38,992
Disposal		-	(14,411)
Changes in fair value		1,165	3,678
Ending balance	₩	108,091	90,726

30. Risk Management and Fair Value of Financial Instruments, Continued

(e) Finance income (costs)

(i) Details of finance income (costs) by categories for the nine-month period ended September 30, 2015 were as follows:

In millions of won		Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Financial liabilities measured at amortized cost	Total
Profit or loss:						
Interest income	₩	-	32	23,967	-	23,999
Dividend income		-	8,387	-	-	8,387
Investment income on long-term deposits in MSA Escrow Fund		-	-	1,796	-	1,796
Gain on transactions of derivative instruments		7	-	-	-	7
Gain on debt redemption		-	-	-	11,962	11,962
Impairment loss on available-for-sale financial assets		-	(95)	-	-	(95)
Interest expense		-	-	-	(8,202)	(8,202)
Loss on transactions of derivative instruments		(2)	-	-	-	(2)
	₩	5	8,324	25,763	3,760	37,852
Other comprehensive loss before tax						
Net change in fair value	₩	-	(11,589)	-	-	(11,589)
Reclassification adjustments upon impairment		-	95	-	-	95
	₩	-	(11,494)	-	-	(11,494)

(ii) Details of finance income (costs) by categories for the nine-month period ended September 30, 2014 were as follows:

In millions of won		Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Financial liabilities measured at amortized cost	Total
Profit or loss:						
Interest income	₩	-	91	28,903	-	28,994
Dividend income		-	5,466	-	-	5,466
Investment income on long-term deposits in MSA Escrow Fund		-	-	559	-	559
Interest expense		-	-	-	(8,044)	(8,044)
Loss on transactions of derivative instruments		(14)	-	-	-	(14)
	₩	(14)	5,557	29,462	(8,044)	26,961
Other comprehensive income before tax						
Net change in fair value	₩	-	14,144	-	-	14,144

31. Capital Management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group monitors capital using net debt deducting cash and cash equivalents and current financial instruments from borrowings and equity. The Group applied the same capital management strategy that was applied in the previous year.

As of September 30, 2015 and December 31, 2014, the Group's capital structure was as follows:

In millions of won		September 30 2015	December 31 2014
Net debt:			
Debt (borrowings)	₩	291,330	280,874
Less:			
Cash and cash equivalents		(479,933)	(416,394)
Current other financial assets		(1,064,083)	(668,436)
		(1,252,686)	(803,956)
Equity	₩	6,128,011	5,708,081

32. Contingent Liabilities and Commitments

(a) 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.

(b) As of September 30, 2015, the tobacco lawsuits claiming damages of ₩100 million and a lawsuit by National Health Insurance Service claiming damages of ₩53,742 million are filed against the Group. Additionally, as of September 30, 2015, the Group is involved in twelve lawsuits as a plaintiff for alleged damages totalling ₩14,173 million and ten lawsuits as a defendant for alleged damages totalling ₩2,933 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, 2015.

(c) As of September 30, 2015, the Group has entered into letter of credit agreements with KEB Hana Bank and other banks with limits in the aggregate of USD 63,500 thousand.

(d) As of September 30, 2015, the Group's trade receivables from the export of cigarettes are insured against non-payment up to USD 18,580 thousand by an export guarantee insurance with the Korea Export Insurance Corporation.

32. Contingent Liabilities and Commitments, Continued

(e) The Group has been provided with a foreign currency payment guarantee for local dealers in Russia and other countries up to USD 40,000 thousand by KEB Hana Bank. Details of guarantees exercised as of September 30, 2015, are summarized as follows:

In thousands of USD, THB and millions of IDR		Exercised amount
Customs bond and L/C opening of Global Trading, Inc.	USD	14,542
Performance guarantee for export of tobacco sheet to Thailand Tobacco Monopoly	THB	12,808
Payment guarantee for purchase of certificate stamp of PT Mandiri Maha Mulia	IDR	88,410

(f) 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 ₩209,591 million and ₩170,524 million as of September 30, 2015 and December 31, 2014, respectively.

(g) As of September 30, 2015, the Group has an accounts receivable loan agreement with a limit of ₩104,000 million with KEB Hana Bank and other financial institutions.

(h) As of September 30, 2015, the Group has a trade bill loan agreement with a limit of ₩10,000 million with KEB Hana Bank and other financial institutions.

(i) As of September 30, 2015, the Group has a loan agreement with a limit of ₩134,543 million with Shinhan Bank and other financial institutions.

(j) As of September 30, 2015, the Group has provided one blank note, five notes amounting to ₩4,000 million and two blank checks to Nara Credit and other financial institutions. Besides, as of September 30, 2015, the Group lost seven blank notes and one blank check and expects to proceed a judgment of nullification.

(k) On March 17, 2011, the Group signed the memorandum of understanding ("MOU") on global investment partnership with National Pension Service to jointly invest in foreign assets with a limit of ₩800,000 million.

(l) With relation 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 ("Individual Shareholder"). Details of the contract are as follows:

Description	Details
Right of first refusal held by the Parent Company	Individual Shareholder shall not be permitted to make any transfer of its shares, in whole or in part, unless Individual Shareholder has offered them first to the Parent Company.
Tag-along right held by 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 Individual Shareholder shall elect to participate in such disposition upon the terms and conditions no less favorable than those applicable to the Parent Company.

32. Contingent Liabilities and Commitments, Continued

(m) With relation to the acquisition of KT&G Life Sciences Corporation, 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:

Description	Details
Restriction of disposal	Individual Shareholder shall not be permitted to dispose of its shares, in whole or in part, within one year after KT&G Life Sciences Corporation is listed.
Right of first refusal held by the Parent Company	Individual Shareholder shall not be permitted to make any transfer of its shares, in whole or in part, unless Individual Shareholder has offered them first to the Parent Company.
Tag-along right held by 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 Individual Shareholder shall elect to participate in such disposition upon the terms and conditions no less favorable than those applicable to the Parent Company.

(n) As of September 30, 2015, the Company has provided payment guarantees up to ₩225,600 million with an exercised amount of ₩38,276 million for the buyers of apartments in respect of their borrowings from Shinhan Bank and other financial institutions.

(o) As of September 30, 2015, the Group is insured by performance guarantee insurance up to ₩3,135 million with the Seoul Guarantee Insurance.

(p) The Group sold its property, plant and equipment and intangible assets relating to the drink business of Iksan factory to Haitai Beverage Co., Ltd. and LG Household & Health Care Co., Ltd., as approved by the Board of Directors on October 16, 2013. In connection, the Group entered into an agreement to refrain from engaging in a business such as beverage manufacture or pharmacy distribution, that could result in a competition with the buyer for three years from the transaction date.

33. Cash Flows from Operating Activities

(a) Details of cash generated from operations for the nine-month periods ended September 30, 2015 and 2014 were as follows:

In millions of won		2015	2014
Profit for the period	₩	870,048	639,387
Adjustments for:			
Income tax expense		324,129	257,244
Finance costs		8,299	8,058
Finance income		(46,151)	(35,019)
Depreciation		113,202	111,551
Amortization		8,128	9,846
Retirement and termination benefits		46,733	36,673
Foreign currency translations loss		30,587	17,218
Impairment loss on trade and other receivables		159	-
Write-down (reversal of write-down) of inventories		(739)	383
Loss on sale of property, plant and equipment		812	2,354
Loss on sale of intangible assets		4	17
Impairment loss on intangible assets		161	600
Other expense		11,030	5,658
Share of gain of associates		(7,181)	(2,408)
Foreign currency translations gain		(76,412)	(12,782)
Reversal of impairment loss on trade and other receivables		(3)	(1,232)
Gain on sale of property, plant and equipment		(9,069)	(5,588)
Gain on sale of intangible assets		(789)	(54)
		1,272,948	1,031,906
Changes in working capital:			
Trade and other receivables		(255,614)	(128,367)
Advance payments		(67,681)	(54,341)
Prepaid expenses		(1,321)	2,351
Prepaid tobacco excise and other taxes		(145,374)	(115,753)
Inventories		182,620	193,519
Trade and other payables		82,700	(53,792)
Advance receipts		(6,011)	(16,648)
Tobacco excise and other taxes payable		395,129	100,158
Payment of retirement and termination benefits		(14,493)	(7,572)
Cash generated from operations	₩	1,442,903	951,461

(b) Details of material transactions without cash inflow and outflow for the nine-month periods ended September 30, 2015 and 2014 were as follows:

In millions of won		2015	2014
Decrease in other payables related with acquisition of property, plant and equipment	₩	9,524	-
Increase in advance receipts related with disposal of property, plant and equipment and non-current assets held for sale		758	-
Increase in other receivables related with disposal of property, plant and equipment		181	-