KT&G CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Review Report Thereon)

Contents

KPMG SAMJONG

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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
KT&G Corporation:

We have audited the accompanying consolidated financial statements of KT&G Corporation (the "Parent Company") and its subsidiaries (collectively the "Group") which comprise the consolidated statement of financial position as of December 31, 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2015 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Korea International Financial Reporting Standards.

Other matters

The accompanying statement of financial position of the Group as of December 31, 2014, and the related statements of comprehensive income, changes in equity and cash flows for the year then ended, were audited by other auditors, whose report thereon dated February 5, 2015, expressed an unqualified opinion in accordance with the previous auditing standards generally accepted in the Republic of Korea.

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

The accompanying consolidated financial statements as of and for the year ended December 31, 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 audited the translation and, in our opinion, the consolidated financial statements expressed in Korean won have been translated into dollars on the basis set forth in note 5 to the consolidated financial statements.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 25, 2016

This report is effective as of February 25, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KT&G CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Position

As of December 31, 2015 and 2014

In millions of won and thousands of U.S. dollars	*Note*	2015 Korean won	2015 U.S. dollars (note 5)	2014 Korean won
Assets				
Property, plant and equipment	*7,17*	₩ 1,789,779	$ 1,527,115	₩ 1,753,412
Intangible assets	*8*	105,428	89,956	154,937
Investment property	*9,17*	164,489	140,349	167,968
Investments in associates	*6,10*	51,521	43,959	57,903
Available-for-sale financial assets	*11,32*	364,681	311,161	325,833
Other financial assets	*15,17,32*	12	10	259
Long-term deposits in MSA Escrow Fund	*12,32,34*	403,966	344,681	301,808
Long-term advance payments	*34*	107,723	91,914	127,855
Long-term prepaid expenses		7,128	6,082	4,625
Long-term trade and other receivables	*13,32*	75,071	64,054	86,735
Deferred income tax assets	*29*	32,696	27,898	28,725
Total non-current assets		3,102,494	2,647,179	3,010,060
Inventories	*14*	2,119,114	1,808,118	1,982,503
Current available-for-sale financial assets	*11,32*	-	-	1,000
Current other financial assets	*15,17,32,33*	1,136,906	970,056	668,436
Prepaid tobacco excise and other taxes		447,771	382,057	260,773
Trade and other receivables	*13,32*	1,217,938	1,039,196	989,777
Advance payments	*34*	75,710	64,599	68,491
Prepaid expenses		20,519	17,508	20,802
Cash and cash equivalents	*15,32,33*	546,213	466,052	416,394
Total current assets		5,564,171	4,747,586	4,408,176
Non-current assets held for sale	*6,16*	6,692	5,710	426
Total assets		₩ 8,673,357	$ 7,400,475	₩ 7,418,662

See accompanying notes to the consolidated financial statements.

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

As of December 31, 2015 and 2014

In millions of won and thousands of U.S. dollars	*Note*	2015 Korean won	2015 U.S. dollars (note 5)	2014 Korean won
Equity				
Ordinary shares	*1,18*	₩ 954,959	$ 814,812	₩ 954,959
Other capital surplus	*18*	(9,928)	(8,471)	(4,573)
Treasury shares	*19*	(337,062)	(287,596)	(339,059)
Gain on reissuance of treasury shares	*19*	494,648	422,055	492,032
Reserve	*20*	3,704,315	3,160,679	3,426,367
Retained earnings	*21*	1,401,975	1,196,224	1,100,876
Equity attributable to owners of the parent		6,208,907	5,297,703	5,630,602
Non-controlling interests		66,592	56,819	77,478
Total equity		6,275,499	5,354,522	5,708,080
Liabilities				
Long-term borrowings	*17,24,32,33*	102,242	87,237	137,795
Long-term trade and other payables	*17,23,32*	13,647	11,644	32,244
Long-term advance receipts		10,390	8,865	14,587
Net defined benefit liability	*25*	120,648	102,942	132,247
Provision		2,765	2,360	2,871
Deferred income tax liabilities	*29*	276,472	235,898	266,282
Total non-current liabilities		526,164	448,946	586,026
Short-term borrowings	*17,24,32,33*	206,373	176,086	141,861
Current portion of long-term borrowings	*17,24,32,33*	27,659	23,600	1,218
Trade and other payables	*23,32*	606,355	517,367	503,853
Advance receipts		28,650	24,445	37,533
Income tax payable	*29*	224,836	191,839	180,809
Tobacco excise and other taxes payable		777,821	663,670	259,282
Total current liabilities		1,871,694	1,597,007	1,124,556
Total liabilities		2,397,858	2,045,953	1,710,582
Total equity and liabilities		₩ 8,673,357	$ 7,400,475	₩ 7,418,662

See accompanying notes to the consolidated financial statements.

KT&G CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

For the years ended December 31, 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 5)	2014 Korean won
Sales	*6,34*	₩ 4,169,839	$ 3,557,883	₩ 4,112,855
Cost of sales	*26*	(1,630,601)	(1,391,298)	(1,840,819)
Gross profit		2,539,238	2,166,585	2,272,036
Selling, general and administrative expenses	*26*	(1,173,334)	(1,001,138)	(1,100,174)
Operating profit	*6*	1,365,904	1,165,447	1,171,862
Other income	*27*	118,752	101,325	90,432
Other expenses	*27*	(160,161)	(136,657)	(151,767)
Net finance income	*28,32*	74,762	63,790	44,139
Share of gain of associates	*10*	15,137	12,916	3,245
Profit before income tax		1,414,394	1,206,821	1,157,911
Income tax expense	*29*	(382,174)	(326,087)	(344,110)
Profit for the year		₩ 1,032,220	$ 880,734	₩ 813,801
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		₩ (16,076)	$ (13,716)	₩ (8,733)
Exchange differences on translating foreign operations, net of tax		(14,770)	(12,602)	(37,993)
Items that will never be reclassified to profit or loss				
Remeasurements of net defined benefit liability, net of tax		38	31	(21,655)
Other comprehensive loss for the year, net of tax		(30,808)	(26,287)	(68,381)
Total comprehensive income for the year		₩ 1,001,412	$ 854,447	₩ 745,420
Profit attributable to:				
Owners of the Parent Company		₩ 1,035,717	$ 883,718	₩ 825,606
Non-controlling interests		(3,497)	(2,984)	(11,805)
		₩ 1,032,220	$ 880,734	₩ 813,801
Total comprehensive income attributable to:				
Owners of the Parent Company		₩ 1,007,103	$ 859,303	₩ 758,529
Non-controlling interests		(5,691)	(4,856)	(13,109)
		₩ 1,001,412	$ 854,447	₩ 745,420
Earnings per share in won and U.S. dollars:				
Basic and diluted	*30*	₩ 8,222	$ 7.02	₩ 6,558

See accompanying notes to the consolidated financial statements.

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

For the year ended December 31, 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 year:									
Profit (loss) for the year	-	-	-	-	-	1,035,717	1,035,717	(3,497)	1,032,220
Other comprehensive income (loss):									
Unrealized net changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(16,076)	-	(16,076)	-	(16,076)
Exchange differences on translating foreign operations, net of tax	-	-	-	-	(14,380)	-	(14,380)	(390)	(14,770)
Remeasurements of net defined benefit liability, net of tax	-	-	-	-	-	1,842	1,842	(1,804)	38
Total other comprehensive income (loss)	-	-	-	-	(30,456)	1,842	(28,614)	(2,194)	(30,808)
Total comprehensive income (loss) for the year	-	-	-	-	(30,456)	1,037,559	1,007,103	(5,691)	1,001,412
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	-	-	-	-	-	-	-	78	78
Total transactions with owners	-	(5,355)	1,997	2,616	308,404	(736,460)	(428,798)	(5,195)	(433,993)
Balance at December 31, 2015	₩ 954,959	(9,928)	(337,062)	494,648	3,704,315	1,401,975	6,208,907	66,592	6,275,499

See accompanying notes to the consolidated financial statements.

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

For the year ended December 31, 2015

In thousands of U.S. dollars	Ordinary shares	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2015	$ 814,812	(3,902)	(289,299)	419,823	2,923,521	939,314	4,804,269	66,107	4,870,376
Total comprehensive income for the year:									
Profit (loss) for the year	-	-	-	-	-	883,718	883,718	(2,984)	880,734
Other comprehensive income (loss):									
Unrealized net changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(13,716)	-	(13,716)	-	(13,716)
Exchange differences on translating foreign operations, net of tax	-	-	-	-	(12,270)	-	(12,270)	(332)	(12,602)
Remeasurements of net defined benefit liability, net of tax	-	-	-	-	-	1,571	1,571	(1,540)	31
Total other comprehensive income (loss)	-	-	-	-	(25,986)	1,571	(24,415)	(1,872)	(26,287)
Total comprehensive income (loss) for the year	-	-	-	-	(25,986)	885,289	859,303	(4,856)	854,447
Transactions with owners, recorded directly in equity:									
Dividends	-	-	-	-	-	(365,235)	(365,235)	-	(365,235)
In-kind donation of treasury shares	-	-	1,703	2,232	-	-	3,935	-	3,935
Transfer from reserve for research and human resource development	-	-	-	-	(10,684)	10,684	-	-	-
Transfer to unconditional reserve	-	-	-	-	273,828	(273,828)	-	-	-
Extinguishment of equity conversion option	-	(4,678)	-	-	-	-	(4,678)	(4,599)	(9,277)
Paid-in capital increase of subsidiary	-	109	-	-	-	-	109	100	209
Others	-	-	-	-	-	-	-	67	67
Total transactions with owners	-	(4,569)	1,703	2,232	263,144	(628,379)	(365,869)	(4,432)	(370,301)
Balance at December 31, 2015	$ 814,812	(8,471)	(287,596)	422,055	3,160,679	1,196,224	5,297,703	56,819	5,354,522

See accompanying notes to the consolidated financial statements.

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

For the year ended December 31, 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 year:										
Profit (loss) for the year		-	-	-	-	-	825,606	825,606	(11,805)	813,801
Other comprehensive income (loss):										
Unrealized net changes in fair value of available-for-sale financial assets, net of tax		-	-	-	-	(8,733)	-	(8,733)	-	(8,733)
Exchange differences on translating foreign operations, net of tax		-	-	-	-	(38,257)	-	(38,257)	264	(37,993)
Remeasurements of net defined benefit liability, net of tax		-	-	-	-	-	(20,087)	(20,087)	(1,568)	(21,655)
Total other comprehensive loss		-	-	-	-	(46,990)	(20,087)	(67,077)	(1,304)	(68,381)
Total comprehensive income (loss) for the year		-	-	-	-	(46,990)	805,519	758,529	(13,109)	745,420
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		-	-	-	-	-	-	-	56	56
Total transactions with owners		-	-	-	-	104,522	(507,398)	(402,876)	56	(402,820)
Balance at December 31, 2014	₩	954,959	(4,573)	(339,059)	492,032	3,426,367	1,100,876	5,630,602	77,478	5,708,080

See accompanying notes to the consolidated financial statements.

KT&G CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

In millions of won and thousands of U.S. dollars	*Note*	2015 Korean won	2015 U.S. dollars (note 5)	2014 Korean won
Cash flows from operating activities				
Cash generated from operations	*35*	₩ 1,585,600	$ 1,352,901	₩ 1,059,122
Income tax paid		(326,365)	(278,468)	(293,934)
Net cash provided by operating activities		1,259,235	1,074,433	765,188
Cash flows from investing activities				
Interest received		30,173	25,745	32,087
Interest income received from long-term deposits in MSA Escrow Fund		1,486	1,268	1,346
Dividends received		19,196	16,379	20,259
Proceeds from sale of property, plant and equipment		10,314	8,800	11,480
Proceeds from sale of intangible assets		2,878	2,455	218
Proceeds from sale of non-current assets held for sale		4,260	3,635	63
Proceeds from sale of available-for-sale financial assets		233	199	14,515
Proceeds from sale of equity accounted investments		13,625	11,625	-
Collection of loans		11,866	10,124	13,446
Withdrawal of guarantee deposits		28,425	24,253	27,392
Settlement of derivatives, net		4	4	-
Acquisition of property, plant and equipment		(210,247)	(179,392)	(330,395)
Acquisition of intangible assets		(6,076)	(5,184)	(2,094)
Acquisition of investment property		(64)	(55)	(248)
Acquisition of available-for-sale financial assets		(34,200)	(29,181)	(53,592)
Increase in loans		(51,336)	(43,802)	(360)
Payments of guarantee deposits		(21,437)	(18,291)	(24,185)
Payments of long-term deposits in MSA Escrow Fund		(78,492)	(66,973)	(70,094)
Decrease (increase) in other financial assets, net		(468,183)	(399,473)	17,281
Net cash used in investing activities		(747,575)	(637,864)	(342,881)
Cash flows from financing activities				
Interest paid		(6,946)	(5,927)	(3,221)
Paid-in capital increase of subsidiary		245	209	-
Payments of capital share issue cost		(249)	(213)	-
Dividends paid		(428,056)	(365,235)	(402,876)
Proceeds from borrowings		702,040	599,010	302,078
Increase in deposits received		3,191	2,722	4,113
Redemption of borrowings		(646,030)	(551,220)	(251,296)
Decrease in deposits received		(5,157)	(4,400)	(2,559)
Net cash used in financing activities		(380,962)	(325,054)	(353,761)
Effect of exchange rate fluctuation on cash held		(879)	(748)	(85)
Net increase in cash and cash equivalents		129,819	110,767	68,461
Cash and cash equivalents at January 1		416,394	355,285	347,933
Cash and cash equivalents at December 31		₩ 546,213	$ 466,052	₩ 416,394

See accompanying notes to the consolidated financial statements.

For the years ended December 31, 2015 and 2014

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 December 31, 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 December 31, 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	2,603,918	1.90%
Treasury shares	11,326,605	8.25%
Others	102,753,322	74.84%
	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%	Dec. 31	Korea
	Yungjin Pharm. Ind. Co., Ltd.	Manufacturing and selling pharmaceuticals	53.00%	Dec. 31	Korea
	Tae-a Industry Co., Ltd.	Manufacturing tobacco materials	100.00%	Dec. 31	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99%	Dec. 31	Turkey
	Korea Tabacos do Brasil Ltda.	Processing leaf tobaccos	99.99%	Dec. 31	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99%	Dec. 31	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00%	Dec. 31	Russia
	KGC Life & Gin Co., Ltd.	Selling ginseng door-to-door	100.00%	Dec. 31	Korea
	Global Trading, Inc.	Selling tobaccos	100.00%	Dec. 31	USA
	Somang Cosmetics Co., Ltd.(*)	Manufacturing and selling cosmetics	97.73%	Dec. 31	Korea
	Renzoluc Pte., Ltd. (*)	Manufacturing and selling tobaccos	100.00%	Dec. 31	Singapore
	KT&G Life Sciences Corporation(*)	Research and development medicine	73.94%	Dec. 31	Korea
	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00%	Dec. 31	Korea
	K-Q HongKong I, Limited(*)	Manufacturing and selling ginseng	100.00%	Dec. 31	Hongkong
	PT KT&G Indonesia	Manufacturing and selling tobaccos	99.99%	Dec. 31	Indonesia
	K&I HK Co., Ltd.	Selling cosmetics	100.00%	Dec. 31	Hongkong
	K&I China Co., Ltd.	Selling cosmetics	100.00%	Dec. 31	China
	SangSang Stay, Inc.	Hotel	100.00%	Dec. 31	Korea
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	60.17%	Dec. 31	Indonesia
	PT Mandiri Maha Mulia	Manufacturing and selling tobaccos	66.47%	Dec. 31	Indonesia
PT Trisakti Purwosari Makmur	PT Sentosa Ababi Purwosari	Manufacturing and selling tobaccos	99.24%	Dec. 31	Indonesia
	PT Purindo Ilufa	Manufacturing and selling tobaccos	100.00%	Dec. 31	Indonesia
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation	Manufacturing and selling ginseng	100.00%	Dec. 31	Taiwan
	Korean Red Ginseng Corp., Inc.	Manufacturing and selling ginseng	100.00%	Dec. 31	USA
	Korea Ginseng (China) Corp.	Manufacturing and selling ginseng	100.00%	Dec. 31	China
	Korea Ginseng Corporation Japan	Manufacturing and selling ginseng	100.00%	Dec. 31	Japan
	PT CKJ INDONESIA	Manufacturing and selling ginseng	99.88%	Dec. 31	Indonesia
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng	100.00%	Dec. 31	China

(*) The Group's percentage of ownership, shown above, excludes preferred shares. As of December 31, 2015, the Group's percentage of ownership would be 97.76%, 68.91%, 59.48% and 50.00% if preferred shares are included.

For the years ended December 31, 2015 and 2014

1. Reporting Entity, Continued

(b) Consolidated Subsidiaries, Continued

For the year ended December 31, 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%.

For the year ended December 31, 2015, the Parent Company made an additional investment of ₩2,356 million and ₩5,096 million in Korean Tobacos do Brasil Ltda. and K&I China Co., Ltd., respectively.

(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	₩	1,761,926	299,561	917,786	69,256	67,909
Yungjin Pharm. Ind. Co., Ltd.		193,695	93,271	170,203	3,386	(365)
Tae-a Industry Co., Ltd.		14,897	4,134	13,727	606	547
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		54,318	44,442	22,802	3,933	2,708
Korea Tabacos do Brasil Ltda.		2,615	6	-	(481)	(835)
KT&G Pars		30,166	48,108	5,792	1,483	1,447
KT&G Rus L.L.C.		108,993	56,844	50,825	3,266	(8,986)
KGC Life & Gin Co., Ltd.		27,959	8,831	52,468	(1,901)	(1,937)
Global Trading, Inc.		40,652	21,990	126,200	2,445	3,540
Somang Cosmetics Co., Ltd.		80,716	46,157	76,037	(1,529)	(2,616)
Renzoluc Pte., Ltd.		46,178	75,262	-	(40,190)	(44,705)
KT&G Life Sciences Corporation		19,235	18,334	1,237	(6,971)	(6,980)
KGC Yebon Corporation		49,860	2,798	13,072	719	704
K-Q HongKong I, Limited		41,792	-	-	(80)	2,518
PT KT&G Indonesia		16,023	36,533	15,217	(14,519)	(14,358)
K&I HK Co., Ltd.		744	571	1,562	25	35
K&I China Co., Ltd.		5,026	243	879	(467)	(652)
SangSang Stay, Inc.		19,611	37	-	(138)	(138)
PT Trisakti Purwosari Makmur, etc.		84,349	65,214	35,808	(2,543)	(3,397)
PT Mandiri Maha Mulia		10,612	6,857	8,682	(28)	(175)
Cheong Kwan Jang Taiwan Corporation		14,545	13,137	20,256	12	44
Korean Red Ginseng Corp., Inc.		9,634	6,056	15,864	125	336
Korea Ginseng (China) Corp.		59,257	59,226	36,249	(5,998)	(5,908)
Korea Ginseng Corporation Japan		4,416	3,469	8,956	185	233
PT CKJ INDONESIA		987	1,067	-	(125)	(127)
Jilin Hanzheng Ginseng Co., Ltd.		72,426	49,352	6,253	(18,027)	(18,154)

(c) Change in Consolidated Group

For the year ended December 31, 2015, the Parent Company established SangSang Stay, Inc.

2. Basis of Preparation

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS").

The consolidated financial statements were authorized for issue by the Board of Directors on January 21, 2016, which will be submitted for approval to the shareholders' meeting to be held on March 18, 2016.

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated 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 financial statements are presented in Korean won, which is the Parent Company'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 financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

(i) Judgements

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following note:

- Note 4 – classification of financial instruments

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 8 – impairment test: key assumptions underlying recoverable amounts
- Note 25 – measurement of defined benefit obligations: key actuarial assumptions
- Note 29 – Recognition of deferred tax assets: availability of future taxable profit against which temporary differences can be utilized
- Notes 34 – recognition and measurement of contingencies: key assumptions about likelihood and magnitude of an outflow of resources

2. Basis of Preparation, Continued

(d) Use of Estimates and Judgments, Continued

(iii) Measurement of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 9 – investment property
- Note 32 – financial instruments

3. Changes in Accounting Policies

The accounting policies applied in these consolidated 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 do not have a significant impact on the Group's consolidated financial statements.

4. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes in accounting policies as explained in note 3.

(a) 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.

(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.

4. Significant Accounting Policies, Continued

(b) 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.

(c) 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.

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.

4. Significant Accounting Policies, Continued

(d) 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.

(e) 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.

(f) 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.

4. Significant Accounting Policies, Continued

(g) 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).

(h) Inventories

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

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

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

Tobacco leaf inventories which have an operating cycle that exceeds 12 months are classified as current assets, consistent with recognized industry practice. The estimated amounts of inventories in current assets which are not expected to be realized within 12 months are ₩310,043 million and ₩272,649 million, respectively, as of December 31, 2015 and 2014.

(i) 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.

4. Significant Accounting Policies, Continued

(i) Impairment of Non-financial Assets, Continued

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.

Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(j) 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.

(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.

4. Significant Accounting Policies, Continued

(j) Non-derivative Financial Assets, Continued

(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.

(k) 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.

4. Significant Accounting Policies, Continued

(l) 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.

(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.

(m) 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.

4. Significant Accounting Policies, Continued

(n) 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.

(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).

(o) 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.

4. Significant Accounting Policies, Continued

(o) Employee Benefits, Continued

(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.

(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.

(p) 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.

4. Significant Accounting Policies, Continued

(p) Provisions, Continued

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.

(q) 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.

(r) Revenue Recognition

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

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of tobacco excise and other taxes, trade discounts and volume rebates. Revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Tobacco excise and other taxes deducted from revenue for the years ended December 31, 2015 and 2014 were ₩5,514,613 million and ₩3,732,429 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.

4. Significant Accounting Policies, Continued

(s) Finance Income and Finance Costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and interest 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.

(t) 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.

4. Significant Accounting Policies, Continued

(u) Foreign Currencies

(i) Foreign currency transactions

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.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve. On the partial disposal of a subsidiary that includes a foreign operation, the entity re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity reclassify to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.

(v) 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.

5. Basis of Translating Financial Statements

The consolidated financial statements are expressed in Korean won and have been translated into U.S. dollars at the rate of ₩1,172.00 to $1, the basic exchange rate on December 31, 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.

6. 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

(b) Segment information on sales and operating profit for the year ended December 31, 2015 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Sales:								
Total segment sales	₩	2,879,091	1,007,593	143,619	391,242	4,421,545	(251,706)	4,169,839
Less: Inter-segment sales		127,575	65,263	6,864	52,004	251,706	(251,706)	-
External sales	₩	2,751,516	942,330	136,755	339,238	4,169,839	-	4,169,839
Depreciation and amortization:								
Depreciation	₩	107,388	29,202	6,277	8,226	151,093	-	151,093
Amortization		4,012	1,548	-	5,199	10,759	-	10,759
Segment profit:								
Operating profit	₩	1,074,722	114,952	30,481	152,130	1,372,285	(6,381)	1,365,904
Other expense, net								(41,409)
Net finance income								74,762
Share of gain of associates								15,137
Income tax expense								(382,174)
Profit for the year	₩							1,032,220

6. Operating Segments, Continued

(c) Segment information on sales and operating profit for the year ended Decemner 31, 2014 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Sales:								
Total segment sales	₩	2,899,357	887,778	161,112	381,165	4,329,412	(216,557)	4,112,855
Less: Inter-segment sales		87,001	67,070	6,957	55,529	216,557	(216,557)	-
External sales	₩	2,812,356	820,708	154,155	325,636	4,112,855	-	4,112,855
Depreciation and amortization:								
Depreciation	₩	108,234	26,478	6,168	8,537	149,417	-	149,417
Amortization		4,056	2,091	-	6,484	12,631	-	12,631
Segment profit:								
Operating profit	₩	1,002,760	117,748	38,689	19,749	1,178,946	(7,084)	1,171,862
Other expense, net								(61,335)
Net finance income								44,139
Share of gain of associates								3,245
Income tax expense								(344,110)
Profit for the year	₩							813,801

(d) Segment information on assets and liabilities as of December 31, 2015 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets:								
Segment assets	₩	3,990,313	1,831,157	149,522	365,152	6,336,144	(319,032)	6,017,112
Investments in associates		-	-	48,800	2,721	51,521	-	51,521
Non-current assets held for sale		1,542	-	-	5,150	6,692	-	6,692
		3,991,855	1,831,157	198,322	373,023	6,394,357	(319,032)	6,075,325
Unallocated assets								2,598,032
Total assets	₩							8,673,357
Acquisition of non-current assets	₩	144,008	55,708	-	16,671	216,387	-	216,387
Liabilities:								
Segment liabilities	₩	1,443,132	161,563	-	84,536	1,689,231	(155,384)	1,533,847
Unallocated liabilities								864,011
Total liabilities	₩							2,397,858

(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
Acquisition of non-current assets	₩	239,599	80,533	-	12,958	333,090	(354)	332,736
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

6. Operating Segments, Continued

(f) Geographical information determined by customer's and branch's location as of and for the year ended December 31, 2015 were as follows:

In millions of won		Korea	Foreign country	Total
External sales	₩	3,138,878	1,030,961	4,169,839
Non-current assets		2,125,865	100,203	2,226,068

(g) Revenues from major customers which amount to more than 10 percent of the details of the Group's consolidated total revenues for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Alokozay International Limited	₩	443,183	385,338

7. Property, Plant and Equipment

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

		2015			2014		
In millions of won		Cost	Accumulated depreciation and impairment	Carrying amount	Cost	Accumulated depreciation and impairment	Carrying amount
Land	₩	583,481	-	583,481	574,429	-	574,429
Buildings		963,700	(389,526)	574,174	878,145	(357,630)	520,515
Structures		72,949	(39,770)	33,179	66,192	(37,624)	28,568
Machinery		1,278,124	(933,159)	344,965	1,224,507	(875,701)	348,806
Vehicles		12,907	(10,572)	2,335	13,383	(10,533)	2,850
Tools		63,467	(52,664)	10,803	59,753	(50,097)	9,656
Furniture and fixtures		245,349	(195,912)	49,437	230,065	(176,229)	53,836
Others		1,508	-	1,508	1,454	-	1,454
Construction-in-progress		189,897	-	189,897	213,298	-	213,298
	₩	3,411,382	(1,621,603)	1,789,779	3,261,226	(1,507,814)	1,753,412

(b) Changes in property, plant and equipment for the year ended December 31, 2015 were as follows:

In millions of won		January 1 2015	Acquisition	Disposal	Depreciation	Transfer of construction -in-progress	Net exchange difference and others	December 31 2015
Land	₩	574,429	7,271	(823)	-	5,293	(2,689)	583,481
Buildings		520,515	19,685	(398)	(34,617)	76,931	(7,942)	574,174
Structures		28,568	3,722	(86)	(3,455)	4,588	(158)	33,179
Machinery		348,806	29,847	(740)	(74,567)	48,891	(7,272)	344,965
Vehicles		2,850	481	(107)	(982)	156	(63)	2,335
Tools		9,656	5,502	(144)	(4,568)	351	6	10,803
Furniture and fixtures		53,836	22,493	(384)	(26,629)	108	13	49,437
Others		1,454	54	-	-	-	-	1,508
Construction-in-progress		213,298	112,914	-	-	(136,318)	3	189,897
	₩	1,753,412	201,969	(2,682)	(144,818)	-	(18,102)	1,789,779

7. Property, Plant and Equipment, Continued

For the year ended December 31, 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 ₩6,692 million were transferred to non-current assets held for sale.

For the year ended December 31, 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.

8. Intangible Assets

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

				2015			2014
In millions of won		Cost	Accumulated amortization and impairment	Carrying amount	Cost	Accumulated amortization and impairment	Carrying amount
Goodwill	₩	87,902	(72,841)	15,061	87,061	(54,900)	32,161
Industrial property rights		46,806	(32,015)	14,791	46,203	(29,203)	17,000
Facility usage rights		28,282	(2,731)	25,551	27,230	(3,680)	23,550
Other intangible assets		116,349	(70,150)	46,199	116,230	(37,144)	79,086
Intangible assets under development		6,180	(2,354)	3,826	5,480	(2,340)	3,140
	₩	285,519	(180,091)	105,428	282,204	(127,267)	154,937

8. Intangible Assets, Continued

(b) Changes in intangible assets for the year ended December 31, 2015 were as follows:

In millions of won		January 1 2015	Acquisition	Disposal	Transfer of Intangible assets under development	Amortization	Impairment	Net exchange difference and others	December 31 2015
Goodwill	₩	32,161	-	-	-	-	(17,941)	841	15,061
Industrial property rights		17,000	1,030	(104)	82	(1,330)	(1,575)	(312)	14,791
Facility usage rights		23,550	4,042	(2,041)	-	-	-	-	25,551
Other intangible assets		79,086	221	-	-	(9,429)	(23,694)	15	46,199
Intangible assets under development		3,140	783	-	(82)	-	(14)	(1)	3,826
	₩	154,937	6,076	(2,145)	-	(10,759)	(43,224)	543	105,428

For the year ended December 31, 2015, the Group recognized ₩43,224 million of impairment losses on goodwill, industrial property rights, other intangible assets and intangible assets under development since the carrying amounts exceeded their recoverable amounts.

(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 and others	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

For the year ended December 31, 2014, the Group recognized ₩70,645 million of impairment losses on goodwill, industrial property rights, facility usage rights and other intangible assets since the carrying amounts exceeded their recoverable amounts.

(d) Expenditures not capitalized for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Cost of sales	₩	1,972	925
Selling, general and administrative expenses		36,032	35,747
	₩	38,004	36,672

8. Intangible Assets, Continued

(e) The following is a summary of impairment tests for goodwill allocation for each operating segment as of December 31, 2015 and 2014.

In millions of won		2015	2014
Tobacco	₩	-	17,100
Others		15,061	15,061
	₩	15,061	32,161

The recoverable amounts of all CGUs have been determined based on value-in-use calculations, and the key assumptions used for value-in-use calculations for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Gross margin	6.3%	5.4 ~ 28.7%
Perpetual growth rate	2.0%	0.0 ~ 2.0%
Discount rate (weighted average cost of capital)	12.2%	8.8 ~ 12.1%

As a result of the impairment test, the Group recognized ₩17,941 million and ₩54,900 million of impairment loss on goodwill for the years ended December 31, 2015 and 2014, respectively.

9. Investment Property

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

				2015			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		179,949	(64,583)	115,366	177,315	(57,640)	119,675
	₩	229,072	(64,583)	164,489	225,608	(57,640)	167,968

(b) Changes in investment property for the years ended December 31, 2015 and 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		-	(6,275)	(6,275)	-	(6,168)	(6,168)
Transfer from (to) property, plant and equipment		830	1,902	2,732	(10)	(77)	(87)
Ending balance	₩	49,123	115,366	164,489	48,293	119,675	167,968

(c) The amounts recognized in profit or loss from investment property for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Rental income	₩	34,764	33,839
Direct operating expense		(6,377)	(6,477)
	₩	28,387	27,362

9. Investment Property, Continued

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

In millions of won		2015 Fair value	2015 Carrying amount	2014 Fair value	2014 Carrying amount
Land	₩	435,034	49,123	309,002	48,293
Buildings		177,756	115,366	186,337	119,675
	₩	612,790	164,489	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.

10. Investments in Associates

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

In millions of won, except percentage of ownership

Associate	Location	Principal operation	2015 Percentage of ownership	2015 Carrying amount	2014 Percentage of ownership	2014 Carrying amount
Lite Pharm Tech, Inc.	Korea	Manufacturing medical supplies	20.24%	₩ 2,720	25.34%	₩ 2,061
JR CR-REIT IV Co., Ltd.	Korea	Renting of real estate	-	-	49.02%	12,900
KVG REIT 1 Co., Ltd.	Korea	Renting of real estate	29.67%	6,635	29.67%	6,848
KOCREF REIT 17 Co., Ltd.	Korea	Renting of real estate	22.06%	13,208	22.06%	6,619
JR REIT V Co., Ltd.	Korea	Renting of real estate	34.63%	5,470	34.63%	5,524
JR REIT VIII Co., Ltd.	Korea	Renting of real estate	21.74%	9,693	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%	8,907	28.79%	9,114
JR REIT XIII Co., Ltd.	Korea	Renting of real estate	27.03%	4,888	27.03%	4,979
				₩ 51,521		₩ 57,903

In 2015, the Group received ₩13,625 million of dividend related with liquidation of JR CR-REIT IV Co., Ltd.

In 2015, the Group's ownership of Lite Pharm Tech, Inc. has decreased to 20.24% due to their paid-in capital increase.

10. Investments in Associates, Continued

(b) Financial information of associates, which represents 100% of the entities' balances as of and for the year ended December 31, 2015 are summarized as follows:

In millions of won

Associate		Total assets	Total liabilities	Revenue	Total comprehensive income
Lite Pharm Tech, Inc.	₩	14,638	1,199	9,405	2,255
JR CR-REIT IV Co., Ltd.		-	-	3,235	8,208
KVG REIT 1 Co., Ltd.		50,386	28,023	5,892	1,678
KOCREF REIT 17 Co., Ltd.		72,473	12,601	5,875	32,677
JR REIT V Co., Ltd.		30,967	15,170	2,508	1,555
JR REIT VIII Co., Ltd.		107,646	63,060	7,167	3,007
LSK Global Pharma Services Co., Ltd.		5,078	7,562	15,703	(251)
JR REIT X Co., Ltd.		87,412	56,473	3,962	272
JR REIT XIII Co., Ltd.		47,178	29,097	2,887	777

(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

(d) Changes in investments in associates for the year ended December 31, 2015 were as follows:

In millions of won

Associate		January 1 2015	Disposal	Share of gain	Dividends	December 31 2015
Lite Pharm Tech, Inc.	₩	2,061	-	659	-	2,720
JR CR-REIT IV Co., Ltd.		12,900	(13,625)	4,955	(4,230)	-
KVG REIT 1 Co., Ltd.		6,848	-	519	(732)	6,635
KOCREF REIT 17 Co., Ltd.		6,619	-	7,208	(619)	13,208
JR REIT V Co., Ltd.		5,524	-	758	(812)	5,470
JR REIT VIII Co., Ltd.		9,858	-	654	(819)	9,693
LSK Global Pharma Services Co., Ltd.		-	-	-	-	-
JR REIT X Co., Ltd.		9,114	-	126	(333)	8,907
JR REIT XIII Co., Ltd.		4,979	-	258	(349)	4,888
	₩	57,903	(13,625)	15,137	(7,894)	51,521

10. Investments in Associates, Continued

(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	252	(273)	4,979
	₩	58,076	3,245	(3,418)	57,903

(f) Reconciliation of the summarized financial information presented to the carrying amount of the Group's interest in the associate as of December 31, 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.	20.24%	₩	13,439	2,720	-	2,720
KVG REIT 1 Co., Ltd.	29.67%		22,363	6,635	-	6,635
KOCREF REIT 17 Co., Ltd.	22.06%		59,872	13,208	-	13,208
JR REIT V Co., Ltd.	34.63%		15,797	5,470	-	5,470
JR REIT VIII Co., Ltd.	21.74%		44,586	9,693	-	9,693
LSK Global Pharma Services Co., Ltd.	23.15%		(2,484)	(575)	575	-
JR REIT X Co., Ltd.	28.79%		30,939	8,907	-	8,907
JR REIT XIII Co., Ltd.	27.03%		18,081	4,888	-	4,888
		₩				51,521

11. Available-for-sale Financial Assets

(a) Changes in available-for-sale financial assets for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Beginning balance	₩	326,833	296,601
Acquisitions		63,190	56,392
Net changes in fair value		3,881	(11,655)
Disposals and exercise of convertible right		(29,223)	(14,505)
Ending balance	₩	364,681	326,833
Statement of financial position:			
Current	₩	-	1,000
Non-current		364,681	325,833
	₩	364,681	326,833

In 2015, the Group acquired ₩28,990 million of ordinary shares of U&I Corporation by exercising conversion options embedded in their convertible bonds and convertible preference shares. The Group recognized ₩24,990 million of difference between the fair value of ordinary shares acquired and the carrying amount of bonds and preference shares converted as gain on sale of available-for-sale financial assets for the year ended December 31, 2015.

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

In millions of won		2015	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.		24,428	22,291
– Oscotech, Inc.		3,696	1,030
– Shinhan Financial Group Co., Ltd.		158,530	178,171
– Rexahn Pharmaceuticals, Inc.		2,696	4,917
– U&I Corporation		22,564	-
		211,914	206,409
Unlisted		151,171	117,828
Total available-for-sale equity instruments		363,085	324,237
Total available-for-sale financial assets	₩	364,681	326,833

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

As of December 31, 2015 and 2014, ₩37,659 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.

12. Long-term Deposits in MSA Escrow Fund

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

In millions of won		2015	2014
MMF	₩	43,309	19,269
Treasury note		360,657	282,539
	₩	403,966	301,808

As discussed in note 34 to the consolidated financial statements, long-term deposits in MSA Escrow Fund are deposited to the United States government related to the export of tobacco to the United States. The payments of long-term deposits in MSA Escrow Fund for the years ended December 31, 2015 and 2014 are ₩78,492 million and ₩70,094 million, respectively.

Interest income on long-term deposits in MSA Escrow Fund for the years ended December 31, 2015 and 2014 are ₩1,287 million and ₩877 million, respectively.

13. Trade and Other Receivables

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

		2015		2014	
In millions of won		Current	Non-current	Current	Non-current
Loans to employees	₩	15,774	52,275	7,816	20,221
Loans		2,504	315	645	3,707
Other receivables		127,369	323	77,067	276
Guarantee deposits		34,730	22,158	-	62,531
Accrued income		5,943	-	5,595	-
Trade receivables		1,031,618	-	898,654	-
	₩	1,217,938	75,071	989,777	86,735

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

		2015		2014	
In millions of won		Current	Non-current	Current	Non-current
Gross trade and other receivables	₩	1,251,180	75,071	1,029,436	86,735
Allowance:					
Loans		(197)	-	(197)	-
Other receivables		(2,296)	-	(2,286)	-
Trade receivables		(30,749)	-	(37,176)	-
		(33,242)	-	(39,659)	-
Net trade and other receivables	₩	1,217,938	75,071	989,777	86,735

13. Trade and Other Receivables, Continued

(c) Changes in the allowance account for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Beginning balance	₩	39,659	51,838
Impairment loss		12	509
Reversal of impairment loss		(5,465)	(8,664)
Net exchange difference		(964)	(4,024)
Ending balance	₩	33,242	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 statements of comprehensive income.

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

In millions of won		2015	2014
Within 1 month	₩	67,309	80,369
Between 1 and 2 months		64,851	42,870
Beyond 2 months		198,982	239,153
	₩	331,142	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 December 31, 2015 and 2014 were as follows:

	2015				2014			
In millions of won	Effective interest rate		Current	Non-current	Effective interest rate		Current	Non-current
Loans to employees	1.89~5.68%	₩	15,774	52,275	3.00~5.68%	₩	7,816	20,221
Loans	1.70~7.29%		1,863	315	1.70~7.29%		-	3,665
Other receivables	-		-	-	3.79%		8,300	-
Guarantee deposits	1.70~8.47%		33,787	20,260	1.70~8.47%		-	60,123
		₩	51,424	72,850		₩	16,116	84,009

14. Inventories

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

In millions of won		2015	2014
Merchandise, net of loss on the write-down of inventories	₩	7,677	12,271
Finished goods, net of loss on the write-down of inventories		610,309	503,761
Work-in-progress, net of loss on the write-down of inventories		608,280	545,090
Raw materials, net of loss on the write-down of inventories		770,561	797,696
Supplies		27,367	26,936
By-products		7,051	8,646
Buildings under construction		3,618	1,185
Sites for lotting-out construction		25,815	31,179
Goods-in-transit		58,436	55,739
	₩	2,119,114	1,982,503

(b) The amount of inventories recognized as an expense for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Cost of sales:			
Write-down (reversal of write-down) of inventories	₩	(565)	1,540
Loss on retirement of inventories		4,706	7,143
Other expense:			
Loss on retirement of inventories		3,798	1,379
	₩	7,939	10,062

15. Cash and Cash Equivalents and Other Financial Assets

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

In millions of won		2015	2014
Cash on hand	₩	2,788	11,854
Demand deposits		161,627	157,138
Short-term investment assets		381,798	247,402
	₩	546,213	416,394

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

		2015		2014	
In millions of won		Current	Non-current	Current	Non-current
Time deposits	₩	120,141	-	35,337	11
Certificates of deposit		31,406	-	31,099	-
Money trust		985,359	-	602,000	236
Security deposits for checking accounts		-	12	-	12
	₩	1,136,906	12	668,436	259

15. Cash and Cash Equivalents and Other Financial Assets, Continued

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

In millions of won		2015	2014
Long-term other financial assets	₩	12	12
Current other financial assets		1,406	3,209
	₩	1,418	3,221

16. Non-current Assets Held for Sale

Changes in non-current assets held for sale for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Beginning balance	₩	426	153
Transfer from property, plant and equipment		6,692	426
Disposal		(426)	(153)
Ending balance	₩	6,692	426

17. Pledged Assets

(a) The followings assets were pledged as collateral for borrowings as of December 31, 2015.

In millions of won

Asset		Carrying amount	Type		Received amount	Collateralized amount	Holder
Investment property	₩	70,769	Leasehold deposits received	₩	8,975	9,225	Metlife Insurance Korea Co., Ltd., etc.
Property, plant and equipment and investment property		81,465	Short-term borrowings		12,000	48,009	KEB Hana Bank
			Long-term borrowings		14,936	16,991	KEB Hana Bank, etc.
Property, plant and equipment		28,780	Investment subsidy		-	660	Chungju-si
			Short-term borrowings		1,500	4,440	KEB Hana Bank
Other financial assets		1,406	ACH pledged		-	1,406	Bank of Oklahoma
	₩	182,420		₩	37,411	80,731	

(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, etc.
Property, plant and equipment		56	Long-term borrowings		204	294	The Korea Development Bank
Property, plant and equipment and other financial assets		18,213	Long-term borrowings		5,000	5,000	KEB Hana Bank
			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	

18. Share Capital and Other Capital Surplus

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

In won, except number of shares		2015	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	₩	5,000	5,000

The Parent Company has, thus far, reacquired and retired 53,699,400 shares of treasury share. Accordingly, as of December 31, 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 years ended December 31, 2015 and 2014 were as follows:

	2015			2014		
Number of share	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 years ended December 31, 2015 and 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)

For the year ended December 31, 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.

For the year ended December 31, 2015, the Group recognized changes in controlling interests in other surplus due to paid-in capital increase of Somang Cosmetics Co., Ltd.

19. Treasury Shares

(a) Changes in the treasury shares for the years ended December 31, 2015 and 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

19. Treasury Shares, Continued

(b) Changes in gain on reissuance of treasury shares for the years ended December 31, 2015 and 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

20. Reserves

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

In millions of won		2015	2014
Available-for-sale financial assets - net change in fair value	₩	(30,378)	(14,303)
Foreign operations - foreign currency translation differences		(95,110)	(80,729)
Legal reserve		603,145	603,145
Voluntary reserve		3,226,658	2,918,254
	₩	3,704,315	3,426,367

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

In millions of won		2015	2014
Available-for-sale financial assets - net change in fair value before tax	₩	(40,077)	(18,869)
Tax effect		9,699	4,566
	₩	(30,378)	(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.

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

In millions of won		2015	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 Restriction of Special Taxation 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.

20. Reserves, Continued

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
According to *the Restriction of Special Taxation Act*, certain taxable deductions are required to be transferred from retained earnings to reserve for research and human resource development. This reserve may be used for each purpose and their remaining amounts could be reclassified as a voluntary reserve.

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.

21. Retained Earnings

(a) Changes in retained earnings for the years ended December 31, 2015 and 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 year		1,032,220	813,801
- Less: non-controlling interests		3,497	11,805
Remeasurements of net defined benefit liability, net of tax		38	(21,655)
- Less: non-controlling interests		1,804	1,568
Ending balance	₩	1,401,975	1,100,876

(b) Statements of appropriation of retained earnings of the Parent Company for the years ended December 31, 2015 and 2014 are as follows:

Date of appropriation for 2015: March 18, 2016
Date of appropriation for 2014: February 27, 2015

In millions of won		2015	2014
Unappropriated retained earnings:			
Balance at beginning of year	₩	-	2,422
Profit for the year		987,924	747,054
Remeasurements of net defined benefit liability, net of tax		7,962	(13,016)
		995,886	736,460
Transfer from voluntary reserves		10,000	12,522
Unappropriated retained earnings available for appropriation		1,005,886	748,982
Appropriation of retained earnings:			
Dividends		(428,284)	(428,056)
Unconditional reserve		(577,602)	(320,926)
		(1,005,886)	(748,982)
Unappropriated retained earnings to be carried over to subsequent year	₩	-	-

22. Dividends

The following dividends were declared and paid by the Parent Company for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Dividends in millions of won	₩	428,056	402,876
Dividends per share in won		3,400	3,200
Dividend rate as a percentage of par value		68.00%	64.00%

Dividends of ₩428,284 million (₩3,400 per share) will be proposed at the shareholders' meeting to be held on March 18, 2016. The dividends have not been recognized as liabilities.

23. Trade and Other Payables

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

		2015		2014	
In millions of won		Current	Non-current	Current	Non-current
Leasehold deposits received	₩	19,404	7,030	-	27,007
Trade payables		103,591	-	95,936	-
Withholdings		212,891	171	158,480	258
Accrued expenses		180,172	-	156,231	-
Other payables		90,297	6,446	93,206	4,979
	₩	606,355	13,647	503,853	32,244

24. Borrowings

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

In millions of won	Lender	Annual interest rate		2015	2014
Borrowings	Kookmin Bank, etc.	2.12 ~ 2.49%	₩	23,469	87,231
	KEB Hana Bank	2.78 ~ 3.32%		13,500	28,420
	KEB Hana Bank	3M LIBOR+1.45%		44,252	-
	The Korea Development Bank	2.23%		100,000	-
	PT Bank Woori Saudara	10.66%		2,550	-
Customer credit contracts(*)	Nonghyup Bank, etc.	6.64%, etc.		22,602	26,210
			₩	206,373	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.

24. Borrowings, Continued

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

In millions of won	Lender	Maturity	Annual interest rate		2015	2014
Borrowings	Nonghyup Bank	Jun.2020	0.00%	₩	34,514	23,852
	KEB Hana Bank	Sep.2017	1.98 ~ 4.20%		1,936	8,096
	KEB Hana Bank	Sep.2023	2.60 ~ 3.15%		13,000	3,794
	The Korea Development Bank	-	-		-	204
Convertible bond					8,500	8,326
Redeemable convertible preferred shares					53,340	76,890
Redeemable preferred shares					18,611	17,851
				₩	129,901	139,013
Statement of financial position:						
Current				₩	27,659	1,218
Non-current					102,242	137,795
				₩	129,901	139,013

Details of convertible bond and preferred shares as of December 31, 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: ₩8,500 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: ₩18,000 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 not be listed by the end of 2015, recourse is available.
	Renzoluc Pte, Ltd.	Issue date: Sep.2012 Issued value: ₩35,340 million Carrying amount: ₩35,340 million 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: ₩18,611 million Carrying amount: ₩18,611 million 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.

24. Borrowings, Continued

For the year ended December 31, 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 17 to the consolidated financial statements, the Group provided collateral for the above borrowings as of December 31, 2015.

25. Retirement Benefits Plan

(a) The components of retirement benefits for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Defined benefit plans:			
Current service cost	₩	44,227	42,430
Net Interest on the net defined benefit liability		3,351	3,882
Past service cost and loss on settlement		-	(19)
		47,578	46,293
Defined contribution plans:			
Contributions recognized as expense		4,300	3,219
	₩	51,878	49,512

The Group recognized termination benefits amounting to ₩15,332 million and ₩5,318 million as an expense for the years ended December 31, 2015 and 2014, respectively.

(b) Changes in net defined benefit liabilities for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Balance at beginning of year	₩	132,247	111,137
Current service cost		44,227	42,411
Net interest on the net defined benefit liabilities		3,351	3,882
Remeasurements of the net defined benefit liabilities before tax		(553)	28,196
Payments		(9,224)	(11,059)
Payments into plan assets		(49,224)	(42,440)
Net exchange difference		(176)	120
Balance at end of year	₩	120,648	132,247
Statements of financial position:			
- Present value of defined benefit obligations	₩	373,590	364,717
- Fair value of plan assets		(252,942)	(232,470)
Net Defined benefit liabilities	₩	120,648	132,247

25. Retirement Benefits Plan, Continued

(c) Changes in defined benefit obligations for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Balance at beginning of year	₩	364,717	315,593
Current service costs		44,227	42,430
Interest costs		9,230	11,054
Past service cost and any gains or losses on settlement		-	(19)
Remeasurements before tax		(1,075)	26,868
Payments		(43,333)	(31,329)
Net exchange difference		(176)	120
Balance at end of year	₩	373,590	364,717

(d) Changes in plan assets for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Balance at beginning of year	₩	232,470	204,456
Interest income		5,879	7,172
Remeasurements before tax		(522)	(1,328)
Payments		(34,109)	(20,270)
Payments into plan assets		49,224	42,440
Balance at end of year	₩	252,942	232,470

Actual returns on plan assets for the years ended December 31, 2015 and 2014 are ₩5,357 million and ₩ 5,844 million, respectively.

(e) The amount of remeasurements of the net defined benefit liabilities for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Actuarial gains and losses before tax:			
- Demographic assumptions	₩	1,705	-
- Financial assumptions		(9,170)	(3,172)
- Experience adjustments		8,540	(23,696)
The return on plan assets, excluding interest income on plan assets		(522)	(1,328)
Remeasurements of the net defined benefit liabilities before tax		553	(28,196)
Tax effect		(515)	6,541
Remeasurements of the net defined benefit liabilities, net of tax	₩	38	(21,655)

(f) The components of plan assets as of December 31, 2015 and 2014 are as follows:

In millions of won		2015	2014
Deposits	₩	27,551	54,310
Other		225,391	178,160
	₩	252,942	232,470

25. Retirement Benefits Plan, Continued

(g) The principal actuarial assumptions as of December 31, 2015 and 2014 were as follows:

	2015	2014
Discount rate	1.93 ~ 2.54%	2.24 ~ 3.70%
Rate of salary increases	3.00 ~ 5.00%	2.00 ~ 5.38%

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

As of December 31, 2015 and 2014, the weighted average duration of the defined benefit obligations were 9.46 and 11.49 years, respectively.

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

In millions of won		1 percentage point increase	1 percentage point decrease
Discount rate	₩	(22,404)	48,434
Rate of salary increases		47,663	(22,462)

The effect on defined benefit obligations is as of December 31, 2015.

26. Result from Operating Activities

(a) Details of expenses classified by nature for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Changes in inventories	₩	(136,611)	(88,650)
Raw materials and consumables purchased		1,299,921	1,664,086
Salaries		517,604	515,539
Retirement and termination benefits		67,210	54,830
Depreciation		151,093	149,417
Amortization		10,759	12,631
Employee welfare		94,725	64,866
Advertising		248,137	232,042
Commissions		264,302	248,535
Other expenses		286,795	87,697
	₩	2,803,935	2,940,993

26. Result from Operating Activities, Continued

(b) Details of selling, general and administrative expenses for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Salaries	₩	346,393	339,238
Retirement and termination benefits		46,263	34,491
Employee welfare		67,978	45,806
Travel		11,338	10,714
Communications		5,226	5,500
Utilities		9,044	8,867
Taxes and dues		19,293	18,407
Supplies		3,683	3,575
Rent		22,872	25,093
Depreciation		43,609	45,585
Amortization		10,561	12,436
Repairs and maintenance		4,476	7,112
Vehicles		6,606	8,723
Insurance		1,928	1,807
Commissions		228,990	210,817
Freight and custody		52,510	48,365
Conferences		3,493	3,632
Advertising		247,985	232,432
Training		6,465	6,304
Prizes and rewards		3,238	2,337
Cooperation		813	1,328
Normal research and development		36,032	35,747
Reversal of impairment loss on trade receivables		(5,462)	(8,142)
	₩	1,173,334	1,100,174

27. Other Income and Expenses

(a) Details of other income for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Foreign currency transaction gain	₩	32,055	17,337
Foreign currency translation gain		53,337	45,809
Reversal of impairment loss on other receivables		3	522
Gain on sale of property, plant and equipment		12,912	8,584
Gain on sale of intangible assets		789	54
Others		19,656	18,126
	₩	118,752	90,432

(b) Details of other expenses for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Foreign currency transaction loss	₩	14,022	16,771
Foreign currency translation loss		34,087	30,177
Impairment loss on other receivables		12	509
Donations		46,189	13,578
Loss on sale of property, plant and equipment		963	4,645
Loss on sale of intangible assets		57	17
Impairment loss on intangible assets		43,224	70,645
Others		21,607	15,425
	₩	160,161	151,767

28. Net Finance Income

(a) Details of net finance income for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Finance income:			
Interest income	₩	33,803	37,372
Dividend income		12,098	16,842
Interest income on long-term deposits in MSA Escrow Fund		1,287	877
Gain on sale of available-for-sale financial assets		25,184	11
Gain on transactions of derivative instruments		7	-
Gain on debt redemption		11,962	-
		84,341	55,102
Finance costs:			
Interest expense		(9,482)	(10,949)
Impairment loss on available-for-sale financial assets		(95)	-
Loss on transactions of derivative instruments		(2)	(14)
		(9,579)	(10,963)
Net finance income	₩	74,762	44,139

(b) Details of interest income for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Deposits	₩	30,597	31,841
Available-for-sale financial assets		40	112
Trade and other receivables		3,166	5,419
	₩	33,803	37,372

(c) Details of interest expense for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Borrowings	₩	4,261	4,998
Trade and other payables		2,168	1,632
Others		3,053	4,319
	₩	9,482	10,949

29. Income Tax

(a) The components of income tax expense for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Current income tax expense	₩	368,953	307,635
Adjustments recognized in the period for current tax of prior periods		216	5,695
Changes in temporary difference		6,219	16,518
Cash reserve tax		2,881	-
Total income tax expense		378,269	329,848
Tax expense recognized outside profit or loss		3,905	14,262
Income tax expense	₩	382,174	344,110

29. Income Tax, Continued

(b) Current and deferred tax expense (benefit) that were recognized outside profit or loss for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Current:			
- Gain on reissuance of treasury shares	₩	835	-
Deferred:			
- Net changes in fair value of available-for-sale financial assets		(5,133)	(7,720)
- Remeasurements of the net defined benefit liabilities		515	(6,542)
- Exchange differences on translating foreign operations		(122)	-
		(4,740)	(14,262)
Tax expense recognized outside profit or loss	₩	(3,905)	(14,262)

Income tax related to gain on reissuance of treasury shares was recognized directly in equity and income tax related to remeasurements of the net defined benefit liabilities, net changes in fair value of available-for-sale financial assets and exchange differences on translating foreign operations was recognized in other comprehensive income.

(c) The income tax expense calculated by applying statutory tax rates to the Group's profit before tax for the year differs from the actual tax expense in the statements of comprehensive income for the years ended December 31, 2015 and 2014 for the following reasons:

In millions of won, except tax rate information		2015	2014
Profit before tax	₩	1,414,394	1,157,911
Statutory tax rate		24.7%	24.3%
Expense for income taxes at statutory tax rate		349,489	281,018
Adjustment:			
Non-taxable income		(353)	(1,888)
Non-deductible expenses		7,966	7,870
Changes in unrecognized deferred tax		24,206	20,114
Tax credits and deduction		(1,250)	(1,197)
Adjustments recognized in the period for current tax of prior periods		216	4,535
Other		1,900	33,658
Income tax expense	₩	382,174	344,110
Effective tax rate		27.0%	29.7%

29. Income Tax, Continued

(d) Changes in deferred tax assets(liabilities) for the years ended December 31, 2015 and 2014 were as follows:

(i) For the year ended December 31, 2015

In millions of won		January 1 2015	Profit or loss	Other comprehensive income	December 31 2015
Accumulated depreciation	₩	3,140	8,173	-	11,313
Allowance for bad debts		11,481	(2,281)	-	9,200
Available-for-sale financial assets		15,339	(10,720)	5,133	9,752
Accrued expense		28,847	3,200	-	32,047
Defined benefit liability		9,700	9,380	(515)	18,565
Treasury shares		(8,808)	52	-	(8,756)
Investments in subsidiaries		(283,739)	(24,723)	122	(308,340)
Provision for advanced depreciation		(14,493)	(4,763)	-	(19,256)
Reserve		(12,320)	4,818	-	(7,502)
Others		13,296	5,905	-	19,201
	₩	(237,557)	(10,959)	4,740	(243,776)

(ii) For the year ended December 31, 2014

In millions of won		January 1 2014	Profit or loss	Other comprehensive income	December 31 2014
Accumulated depreciation	₩	4,999	(1,859)	-	3,140
Allowance for bad debts		15,627	(4,146)	-	11,481
Available-for-sale financial assets		16,524	(8,905)	7,720	15,339
Accrued expense		26,422	2,425	-	28,847
Defined benefit liability		3,609	(451)	6,542	9,700
Treasury shares		(8,808)	-	-	(8,808)
Investments in subsidiaries		(263,625)	(20,114)	-	(283,739)
Provision for advanced depreciation		(14,493)	-	-	(14,493)
Reserve		(17,689)	5,369	-	(12,320)
Others		16,395	(3,099)	-	13,296
	₩	(221,039)	(30,780)	14,262	(237,557)

(e) As of December 31, 2015 and 2014, the aggregate amounts of temporary differences associated with undistributed earnings of subsidiaries and associates for which deferred tax liabilities have not been recognized were ₩391,655 million and ₩290,242 million, respectively.

(f) Details of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized as of December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Deductible temporary differences	₩	29,728	29,757
Unused tax losses		118,042	116,224
Unused tax credits		4,826	2,653
	₩	152,596	148,634

30. Earnings per Share

Basic and diluted earnings per share for the years ended December 31, 2015 and 2014 were as follows:

		2015	2014
Profit for the year attributable to owners of the Parent Company in millions of won	₩	1,035,717	825,606
Weighted-average number of ordinary shares outstanding		125,961,848	125,898,800
Basic and diluted earnings per share in won	₩	8,222	6,558

31. Transactions and Balances with Related Companies

(a) The Group has no significant transactions, receivables and liabilities with related parties, as of and for the year ended December 31, 2015.

(b) There is no guarantee being provided by related parties as of December 31, 2015.

(c) Details of key management personnel compensation for the years ended December 31, 2015 and 2014 are summarized as follows:

In millions of won		2015	2014
Short-term employee benefits	₩	22,550	23,577
Retirement benefits		3,112	2,839
	₩	25,662	26,416

32. 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.

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

(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.

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

		2015		2014	
In millions of won		Assets	Liabilities	Assets	Liabilities
USD	₩	797,656	46,905	837,834	180,646
EUR		541	1,695	24,735	10,443
Others		7,645	21,151	10,878	2,036
	₩	805,842	69,751	873,447	193,125

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

		2015		2014	
In millions of won		10% weakening	10% strengthening	10% weakening	10% strengthening
Increase (decrease) in profit before tax	₩	73,609	(73,609)	68,032	(68,032)

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

(c) Management of Financial Risks, Continued

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

In millions of won		2015 5% increase	2015 5% decrease	2014 5% increase	2014 5% decrease
Increase (decrease) in comprehensive income before tax	₩	1,780	(1,780)	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 December 31, 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.

(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 December 31, 2015 and 2014 is as follows:

In millions of won		2015	2014
Available-for-sale debt instruments	₩	1,596	2,596
Long-term deposits in MSA Escrow Fund		403,966	301,808
Trade and other receivables		1,293,009	1,076,512
Other financial assets		1,136,918	668,695
Cash and cash equivalents (excluding cash on hand)		543,425	404,540
Financial guarantee contract		76,566	150,063
	₩	3,455,480	2,604,214

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

(c) Management of Financial Risks, Continued

(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.

The maturity analysis with a residual contractual maturity of financial liabilities as of December 31, 2015 and 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 December 31, 2015:							
Trade and other payables	₩	406,940	408,593	368,074	27,043	11,042	2,434
Long-term borrowings		102,242	104,044	98	293	43,557	60,096
Current portion of long-term borrowings		27,659	27,676	296	27,380	-	-
Short-term borrowings		206,373	208,593	122,917	85,676	-	-
Financial guarantee contract		-	76,566	-	-	76,566	-
	₩	743,214	825,472	491,385	140,392	131,165	62,530
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.

For the years ended December 31, 2015 and 2014

32. 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 December 31, 2015 and 2014 are as follows:

In millions of won		2015	2014
Financial assets:			
Available-for-sale financial assets	₩	364,681	326,833
Loans and receivables			
- Long-term deposits in MSA Escrow Fund		403,966	301,808
- Trade and other receivables		1,293,009	1,076,512
- Other financial assets		1,136,918	668,695
- Cash and cash equivalents		546,213	416,394
		3,380,106	2,463,409
	₩	3,744,787	2,790,242
Financial liabilities:			
Financial liabilities measured at amortized cost			
- Trade and other payables	₩	406,940	377,359
- Long-term borrowings		102,242	137,795
- Current portion of long-term borrowings		27,659	1,218
- Short-term borrowings		206,373	141,861
	₩	743,214	658,233

32. 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 December 31, 2015 and 2014 were as follows:

In millions of won		Carrying amount	Fair value Level I	Level II	Level III
As of December 31, 2015:					
Financial assets					
Available-for-sale financial assets	₩	327,022	211,914	-	115,108
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 years ended December 31, 2015 and 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 years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Beginning balance	₩	90,726	62,467
Acquisition		22,200	38,992
Disposal		-	(14,411)
Changes in fair value		2,182	3,678
Ending balance	₩	115,108	90,726

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

(e) Finance income (costs)

(i) Details of finance income (costs) by categories for the year ended December 31, 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	₩	-	40	33,763	-	33,803
Dividend income		-	12,098	-	-	12,098
Interest income on long-term deposits in MSA Escrow Fund		-	-	1,287	-	1,287
Gain on sale of available-for-sale financial assets		-	25,184	-	-	25,184
Gain on transactions of derivative instruments		7	-	-	-	7
Gain on debt redemption		-	-	-	11,962	11,962
Interest expense		-	-	-	(9,482)	(9,482)
Impairment loss on available-for-sale financial assets		-	(95)	-	-	(95)
Loss on transactions of derivative instruments		(2)	-	-	-	(2)
	₩	5	37,227	35,050	2,480	74,762
Comprehensive income (loss) before tax						
Net change in fair value	₩	-	3,881	-	-	3,881
Disposal		-	(25,184)	-	-	(25,184)
Impairment		-	95	-	-	95
	₩	-	(21,208)	-	-	(21,208)

(ii) Details of finance income (costs) by categories for the year ended December 31, 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	₩	-	112	37,260	-	37,372
Dividend income		-	16,842	-	-	16,842
Interest income on long-term deposits in MSA Escrow Fund		-	-	877	-	877
Gain on sale of available-for-sale financial assets		-	11	-	-	11
Interest expense		-	-	-	(10,949)	(10,949)
Loss on transactions of derivative instruments		(14)	-	-	-	(14)
	₩	(14)	16,965	38,137	(10,949)	44,139
Comprehensive income (loss) before tax						
Net change in fair value	₩	-	(11,510)	-	-	(11,510)
Disposal		-	(11)	-	-	(11)
	₩	-	(11,521)	-	-	(11,521)

33. 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 December 31, 2015 and 2014, the Group's capital structure was as follows:

In millions of won		2015	2014
Net debt:			
Debt (borrowings)	₩	336,274	280,874
Less:			
Cash and cash equivalents		(546,213)	(416,394)
Current other financial assets		(1,136,906)	(668,436)
		(1,346,845)	(803,956)
Equity	₩	6,275,499	5,708,080

34. 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 December 31, 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 December 31, 2015, the Group is involved in thirteen lawsuits as a plaintiff for alleged damages totalling ₩15,479 million and ten lawsuits as a defendant for alleged damages totalling ₩2,851 million. The amount of the liability the Group may ultimately be liable for with respect to the litigation cannot be reasonably estimated as of December 31, 2015.

(c) As of December 31, 2015, the Group has entered into letter of credit agreements with KEB Hana Bank and other banks with limits in the aggregate of USD 63,800 thousand.

(d) As of December 31, 2015, the Group's trade receivables from the export of cigarettes are insured against non-payment up to USD 20,380 thousand by an export guarantee insurance with the Korea Trade Insurance Corporation.

34. 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 December 31, 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	14,222
Performance guarantee for export of tobacco sheet to Thailand Tobacco Monopoly	THB	8,142
Payment guarantee for purchase of certificate stamp of PT Mandiri Maha Mulia, etc.	IDR	128,410

(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 ₩151,783 million and ₩170,524 million as of December 31, 2015 and 2014, respectively.

(g) As of December 31, 2015, the Group has an accounts receivable loan agreement with a limit of ₩107,000 million with KEB Hana Bank and other financial institutions.

(h) As of December 31, 2015, the Group has a trade bill loan agreement with a limit of ₩10,000 million with KEB Hana Bank

(i) As of December 31, 2015, the Group has a loan agreement with a limit of ₩162,652 million with Shinhan Bank and other financial institutions.

(j) As of December 31, 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 December 31, 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 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.

34. Contingent Liabilities and Commitments, Continued

(m) As of December 31, 2015, the Group has provided guarantees up to ₩225,600 million with an exercised amount of ₩76,566 million for the buyers of apartments in respect of their borrowings from Shinhan Bank.

(n) As of December 31, 2015, the Group is insured by performance guarantee insurance up to ₩2,281 million with the Seoul Guarantee Insurance.

(o) 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.

35. Cash Flows from Operating Activities

(a) Details of cash generated from operations for the years ended December 31, 2015 and 2014 were as follows:

In millions of won		2015	2014
Profit for the year	₩	1,032,220	813,801
Adjustments for:			
Income tax expense		382,174	344,110
Finance costs		9,579	10,963
Finance income		(84,341)	(55,102)
Depreciation		151,093	149,417
Amortization		10,759	12,631
Retirement and termination benefits		67,210	51,313
Foreign currency translations loss		34,087	30,177
Impairment loss on trade and other receivables		12	509
Write-down (reversal of write-down) of inventories		(565)	1,540
Loss on sale of property, plant and equipment		963	4,645
Loss on sale of intangible assets		57	17
Impairment loss on intangible assets		43,224	70,645
Other expense		13,952	6,624
Share of gain of associates		(15,137)	(3,245)
Foreign currency translations gain		(53,337)	(45,809)
Reversal of impairment loss on trade and other receivables		(5,465)	(8,664)
Gain on sale of property, plant and equipment		(12,912)	(8,584)
Gain on sale of intangible assets		(789)	(54)
		1,572,784	1,374,934
Changes in working capital:			
Trade and other receivables		(185,672)	(71,383)
Advance payments		12,626	29,412
Prepaid expenses		(2,522)	1,387
Prepaid tobacco excise and other taxes		(187,086)	1,883
Inventories		(145,968)	(65,640)
Trade and other payables		88,086	(72,032)
Advance receipts		(10,942)	4,414
Tobacco excise and other taxes payable		521,234	(89,803)
Payment of retirement and termination benefits		(76,940)	(54,050)
Cash generated from operations	₩	1,585,600	1,059,122

(b) Details of material transactions without cash inflow and outflow for the year ended December 31, 2015 were as follows:

In millions of won		2015
Increase in accrued expenses related with payment of retirement and termination benefits	₩	1,140
Decrease in other payables related with acquisition of property, plant and equipment		8,360
Decrease in advance receipts related with disposal of property, plant and equipment and non-current assets held for sale		298
Increase in other receivables related with disposal of property, plant and equipment		184

(c) The Group presented cash flows arising from short-term financial instruments on a net basis.