KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Financial Statements

March 31, 2016 and 2015

(Unaudited)

(With Independent Auditors' Review Report Thereon)

Contents

KPMG SAMJONG

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Independent Auditors' Review Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
KT&G Corporation:

Reviewed Financial Statements
We have reviewed the accompanying consolidated interim financial statements of KT&G Corporation (the "Parent Company") and its subsidiaries (collectively the "Group"), expressed in Korean won, which comprise the consolidated interim statement of financial position as of March 31, 2016, and the consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2016 and 2015 and notes to the consolidated interim financial statements.

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

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

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

Conclusion
Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements referred to above are not prepared, in all material respects, in accordance with K-IFRS No.1034.

The accompanying consolidated interim financial statements as of March 31, 2016 and for the three-month periods ended March 31, 2016 and 2015 have been translated into United States dollars solely for the convenience of the reader and such translation does not comply with K-IFRS. We have reviewed the translation and nothing came to our attention that cause us to believe that the consolidated interim financial statements expressed in Korean won have not been translated into dollars on the basis set forth in note 4 to the consolidated interim financial statements.

Other matters

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

The consolidated statement of financial position of the Group as of December 31, 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us and our report thereon, dated February 25, 2016, expressed an unqualified opinion. The accompanying consolidated statement of financial position of the Group as of December 31, 2015, presented for comparative purposes, is not different from that audited by us in all material respects.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
May 16, 2016

This report is effective as of May 16, 2016, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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

As of March 31, 2016 and December 31, 2015

In millions of won and thousands of U.S. dollars	*Note*	March 31 2016 Korean won	March 31 2016 U.S. dollars (note 4)	December 31 2015 Korean won
Assets				
Property, plant and equipment	*6,16*	₩ 1,779,014	$ 1,542,275	₩ 1,789,779
Intangible assets	*7*	104,151	90,292	105,428
Investment property	*8,16*	164,760	142,835	164,489
Investments in associates	*5,9*	38,550	33,420	51,521
Available-for-sale financial assets	*10,31*	371,067	321,688	364,681
Other financial assets	*14,16,31*	11	10	12
Long-term deposits in MSA Escrow Fund	*11,31,33*	419,107	363,335	403,966
Long-term advance payments	*33*	106,785	92,575	107,723
Long-term prepaid expenses		6,517	5,648	7,128
Long-term trade and other receivables	*12,31*	73,980	64,135	75,071
Deferred income tax assets		30,863	26,756	32,696
Total non-current assets		3,094,805	2,682,969	3,102,494
Inventories	*13*	2,038,765	1,767,460	2,119,114
Current available-for-sale financial assets	*10,31*	1,596	1,384	-
Current other financial assets	*14,31,32*	997,616	864,860	1,136,906
Prepaid tobacco excise and other taxes		444,409	385,270	447,771
Trade and other receivables	*12,31*	1,235,382	1,070,986	1,217,938
Advance payments	*33*	96,486	83,646	75,710
Prepaid expenses		20,584	17,844	20,519
Cash and cash equivalents	*14,31,32*	744,976	645,840	546,213
Total current assets		5,579,814	4,837,290	5,564,171
Non-current assets held for sale	*5,15*	6,692	5,802	6,692
Total assets		₩ 8,681,311	$ 7,526,061	₩ 8,673,357

See accompanying notes to the consolidated interim financial statements.

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

As of March 31, 2016 and December 31, 2015

In millions of won and thousands of U.S. dollars	*Note*	March 31 2016 Korean won	March 31 2016 U.S. dollars (note 4)	December 31 2015 Korean won
Equity				
Ordinary shares	*1,17*	₩ 954,959	$ 827,880	₩ 954,959
Other capital surplus	*17*	(10,069)	(8,729)	(9,928)
Treasury shares	*18*	(331,772)	(287,622)	(337,062)
Gain on reissuance of treasury shares	*18*	505,191	437,964	494,648
Reserve	*19*	4,284,201	3,714,089	3,704,315
Retained earnings	*20*	690,329	598,464	1,401,975
Equity attributable to owners of the parent		6,092,839	5,282,046	6,208,907
Non-controlling interests		67,271	58,319	66,592
Total equity		6,160,110	5,340,365	6,275,499
Liabilities				
Long-term borrowings	*16,22,31,32*	101,084	87,632	102,242
Long-term trade and other payables	*16,21,31*	9,759	8,460	13,647
Long-term advance receipts		10,373	8,993	10,390
Net defined benefit liability	*23*	130,186	112,862	120,648
Provision		2,724	2,362	2,765
Deferred income tax liabilities		296,983	257,462	276,472
Total non-current liabilities		551,109	477,771	526,164
Short-term borrowings	*16,22,31,32*	100,196	86,862	206,373
Current portion of long-term borrowings	*16,22,31,32*	27,869	24,160	27,659
Trade and other payables	*16,21,31*	1,087,863	943,097	606,355
Advance receipts	*24*	20,243	17,550	28,650
Income tax payable		88,883	77,055	224,836
Tobacco excise and other taxes payable		645,038	559,201	777,821
Total current liabilities		1,970,092	1,707,925	1,871,694
Total liabilities		2,521,201	2,185,696	2,397,858
Total equity and liabilities		₩ 8,681,311	$ 7,526,061	₩ 8,673,357

See accompanying notes to the consolidated interim financial statements.

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

For the three-month periods ended March 31, 2016 and 2015

In millions of won and thousands of U.S. dollars, except earnings per share	*Note*	2016 Korean won	2016 U.S. dollars (note 4)	2015 Korean won
Sales	*5,24,33*	₩ 1,091,343	$ 946,114	₩ 1,136,912
Cost of sales	*24,25*	(424,088)	(367,653)	(410,256)
Gross profit		667,255	578,461	726,656
Selling, general and administrative expenses	*25*	(274,290)	(237,790)	(298,121)
Operating profit	*5*	392,965	340,671	428,535
Other income	*26*	21,345	18,505	26,292
Other expenses	*26*	(38,272)	(33,178)	(46,870)
Net finance income	*27,31*	16,022	13,889	10,782
Share of gain of associates	*9*	604	524	821
Share of loss of associates	*9*	(113)	(98)	(169)
Profit before income tax		392,551	340,313	419,391
Income tax expense	*28*	(107,835)	(93,485)	(110,612)
Profit for the period		₩ 284,716	$ 246,828	₩ 308,779
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		₩ 6,051	$ 5,245	₩ (4,492)
Exchange differences on translating foreign operations, net of tax		6,426	5,572	(4,366)
		12,477	10,817	(8,858)
Items that will never be reclassified to profit or loss				
Remeasurements of net defined benefit liability, net of tax		(150)	(131)	(238)
Other comprehensive income (loss) for the period, net of tax		12,327	10,686	(9,096)
Total comprehensive income for the period		₩ 297,043	$ 257,514	₩ 299,683
Profit attributable to:				
- Owners of the Parent Company		₩ 284,389	$ 246,544	₩ 308,923
- Non-controlling interests		327	284	(144)
		₩ 284,716	$ 246,828	₩ 308,779
Total comprehensive income attributable to:				
- Owners of the Parent Company		₩ 296,524	$ 257,064	₩ 300,271
- Non-controlling interests		519	450	(588)
		₩ 297,043	$ 257,514	₩ 299,683
Earnings per share in won and U.S. dollars:				
Basic and diluted	*29*	₩ 2,255	$ 1.95	₩ 2,453

See accompanying notes to the consolidated interim financial statements.

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

For the three-month period ended March 31, 2016

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, 2016	₩	954,959	(9,928)	(337,062)	494,648	3,704,315	1,401,975	6,208,907	66,592	6,275,499
Total comprehensive income for the period:										
Profit for the period		-	-	-	-	-	284,389	284,389	327	284,716
Other comprehensive income (loss):										
Unrealized net changes in fair value of available-for-sale financial assets, net of tax		-	-	-	-	6,051	-	6,051	-	6,051
Exchange differences on translating foreign operations, net of tax		-	-	-	-	6,233	-	6,233	193	6,426
Remeasurements of net defined benefit liability, net of tax		-	-	-	-	-	(149)	(149)	(1)	(150)
Total other comprehensive income (loss)		-	-	-	-	12,284	(149)	12,135	192	12,327
Total comprehensive income for the period		-	-	-	-	12,284	284,240	296,524	519	297,043
Transactions with owners, recorded directly in equity:										
Dividends		-	-	-	-	-	(428,284)	(428,284)	-	(428,284)
In-kind donation of treasury shares		-	-	5,290	10,543	-	-	15,833	-	15,833
Transfer from reserve for research and human resource development		-	-	-	-	(10,000)	10,000	-	-	-
Transfer to unconditional reserve		-	-	-	-	577,602	(577,602)	-	-	-
Conversion of redeemable convertible preferred shares of subsidiaries		-	(141)	-	-	-	-	(141)	141	-
Others		-	-	-	-	-	-	-	19	19
Total transactions with owners		-	(141)	5,290	10,543	567,602	(995,886)	(412,592)	160	(412,432)
Balance at March 31, 2016	₩	954,959	(10,069)	(331,772)	505,191	4,284,201	690,329	6,092,839	67,271	6,160,110

See accompanying notes to the consolidated interim financial statements.

KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Statements of Changes in Equity, Continued

(Unaudited)

For the three-month period ended March 31, 2016

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, 2016	$ 827,880	(8,607)	(292,208)	428,824	3,211,370	1,215,409	5,382,668	57,730	5,440,398
Total comprehensive income for the period:									
Profit for the period	-	-	-	-	-	246,544	246,544	284	246,828
Other comprehensive income (loss):									
Unrealized net changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	5,245	-	5,245	-	5,245
Exchange differences on translating foreign operations, net of tax	-	-	-	-	5,405	-	5,405	167	5,572
Remeasurements of net defined benefit liability, net of tax	-	-	-	-	-	(130)	(130)	(1)	(131)
Total other comprehensive income (loss)	-	-	-	-	10,650	(130)	10,520	166	10,686
Total comprehensive income for the period	-	-	-	-	10,650	246,414	257,064	450	257,514
Transactions with owners, recorded directly in equity:									
Dividends	-	-	-	-	-	(371,290)	(371,290)	-	(371,290)
In-kind donation of treasury shares	-	-	4,586	9,140	-	-	13,726	-	13,726
Transfer from reserve for research and human resource development	-	-	-	-	(8,670)	8,670	-	-	-
Transfer to unconditional reserve	-	-	-	-	500,739	(500,739)	-	-	-
Conversion of redeemable convertible preferred shares of subsidiaries	-	(122)	-	-	-	-	(122)	122	-
Others	-	-	-	-	-	-	-	17	17
Total transactions with owners	-	(122)	4,586	9,140	492,069	(863,359)	(357,686)	139	(357,547)
Balance at March 31, 2016	$ 827,880	(8,729)	(287,622)	437,964	3,714,089	598,464	5,282,046	58,319	5,340,365

See accompanying notes to the consolidated interim financial statements.

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

For the three-month period ended March 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 period:										
Profit (loss) for the period		-	-	-	-	-	308,923	308,923	(144)	308,779
Other comprehensive income (loss):										
Unrealized net changes in fair value of available-for-sale financial assets, net of tax		-	-	-	-	(4,492)	-	(4,492)	-	(4,492)
Exchange differences on translating foreign operations, net of tax		-	-	-	-	(3,923)	-	(3,923)	(443)	(4,366)
Remeasurements of net defined benefit liability, net of tax		-	-	-	-	-	(237)	(237)	(1)	(238)
Total other comprehensive loss		-	-	-	-	(8,415)	(237)	(8,652)	(444)	(9,096)
Total comprehensive income (loss) for the period		-	-	-	-	(8,415)	308,686	300,271	(588)	299,683
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)	-	-	-
Others		-	-	-	-	-	-	-	20	20
Total transactions with owners		-	-	1,997	2,616	308,404	(736,460)	(423,443)	20	(423,423)
Balance at March 31, 2015	₩	954,959	(4,573)	(337,062)	494,648	3,726,356	673,102	5,507,430	76,910	5,584,340

See accompanying notes to the consolidated interim financial statements.

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

For the three-month periods ended March 31, 2016 and 2015

In millions of won and thousands of U.S. dollars	*Note*		2016 Korean won		2016 U.S. dollars (note 4)		2015 Korean won
Cash flows from operating activities							
Cash generated from operations	*34*	₩	279,827	$	242,590	₩	200,848
Income tax paid			(88,748)		(76,939)		(80,460)
Net cash provided by operating activities			191,079		165,651		120,388
Cash flows from investing activities	*34*						
Interest received			11,280		9,779		12,851
Interest income received from long-term deposits in MSA Escrow Fund			614		532		-
Dividends received			2,550		2,211		699
Proceeds from sale of property, plant and equipment			475		412		797
Proceeds from sale of intangible assets			50		43		348
Proceeds from sale of non-current assets held for sale			-		-		30
Proceeds from sale of equity accounted investments			13,095		11,352		-
Collection of loans			2,666		2,311		2,327
Withdrawal of guarantee deposits			7,523		6,522		9,845
Settlement of derivatives, net			-		-		7
Acquisition of property, plant and equipment			(25,972)		(22,516)		(51,984)
Acquisition of intangible assets			(197)		(170)		(833)
Acquisition of available-for-sale financial assets			-		-		(1,100)
Increase in loans			(201)		(174)		(275)
Payments of guarantee deposits			(14,572)		(12,633)		(13,478)
Payments of long-term deposits in MSA Escrow Fund			(21,793)		(18,893)		(17,087)
Decrease in other financial assets			139,270		120,737		350,565
Net cash provided by investing activities			114,788		99,513		292,712
Cash flows from financing activities							
Interest paid			(1,735)		(1,504)		(3,815)
Dividends paid			-		-		(428,056)
Proceeds from borrowings			233,937		202,806		274,907
Increase in deposits received			533		462		694
Repayment of borrowings			(338,871)		(293,777)		(275,524)
Decrease in deposits received			(1,491)		(1,292)		(1,804)
Net cash used in financing activities			(107,627)		(93,305)		(433,598)
Effect of exchange rate fluctuation on cash held			523		454		73
Net increase (decrease) in cash and cash equivalents			198,763		172,313		(20,425)
Cash and cash equivalents at January 1, 2016			546,213		473,527		416,394
Cash and cash equivalents at March 31, 2016		₩	744,976	$	645,840	₩	395,969

See accompanying notes to the consolidated interim financial statements.

1. Reporting Entity

(a) Description of the Controlling Company

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

As of March 31, 2016, 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 March 31, 2016 is held as follows:

Shareholder	Number of shares	Percentage of ownership
National Pension Service	11,793,134	8.59%
Industrial Bank of Korea	9,510,485	6.93%
Employee Share Ownership Association	2,915,287	2.12%
Treasury shares	11,148,827	8.12%
Others	101,924,764	74.24%
	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%	Mar. 31	Korea
	Yungjin Pharm. Ind. Co., Ltd.	Manufacturing and selling pharmaceuticals	53.00%	Mar. 31	Korea
	Tae-a Industry Co., Ltd.	Manufacturing tobacco materials	100.00%	Mar. 31	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99%	Mar. 31	Turkey
	Korea Tabacos do Brasil Ltda.	Processing leaf tobaccos	99.99%	Mar. 31	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99%	Mar. 31	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00%	Mar. 31	Russia
	KGC Life & Gin Co., Ltd.	Selling ginseng door-to-door	100.00%	Mar. 31	Korea
	Global Trading, Inc.	Selling tobaccos	100.00%	Mar. 31	USA
	Somang Cosmetics Co., Ltd.	Manufacturing and selling cosmetics	98.49%	Mar. 31	Korea
	Renzoluc Pte., Ltd.(*)	Manufacturing and selling tobaccos	100.00%	Mar. 31	Singapore
	KT&G Life Sciences Corporation(*)	Research and development medicine	73.94%	Mar. 31	Korea
	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00%	Mar. 31	Korea
	K-Q HongKong I, Limited(*)	Manufacturing and selling ginseng	100.00%	Mar. 31	Hongkong
	PT KT&G Indonesia	Manufacturing and selling tobaccos	99.99%	Mar. 31	Indonesia
	K&I HK Co., Ltd.	Selling cosmetics	100.00%	Mar. 31	Hongkong
	K&I China Co., Ltd.	Selling cosmetics	100.00%	Mar. 31	China
	SangSang Stay, Inc.	Hotel	100.00%	Mar. 31	Korea
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	60.17%	Mar. 31	Indonesia
	PT Mandiri Maha Mulia	Manufacturing and selling tobaccos	66.47%	Mar. 31	Indonesia
PT Trisakti Purwosari Makmur	PT Sentosa Ababi Purwosari	Manufacturing and selling tobaccos	99.24%	Mar. 31	Indonesia
	PT Purindo Ilufa	Manufacturing and selling tobaccos	100.00%	Mar. 31	Indonesia
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation	Manufacturing and selling ginseng	100.00%	Mar. 31	Taiwan
	Korean Red Ginseng Corp., Inc.	Manufacturing and selling ginseng	100.00%	Mar. 31	USA
	Korea Ginseng (China) Corp.	Manufacturing and selling ginseng	100.00%	Mar. 31	China
	Korea Ginseng Corporation Japan	Manufacturing and selling ginseng	100.00%	Mar. 31	Japan
	PT CKJ INDONESIA	Manufacturing and selling ginseng	99.88%	Mar. 31	Indonesia
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng	100.00%	Mar. 31	China

1. Reporting Entity, Continued

(b) Consolidated Subsidiaries, Continued

(*) The Group's percentage of ownership, shown above, excludes preferred shares. As of March 31, 2016, the Group's percentage of ownership would be 68.91%, 59.48% and 50.00% if preferred shares are included.

For the three-month period ended March 31, 2016, the Parent Company's ownership interest in Somang Cosmetics Co., Ltd. has increased to 98.49% from 97.73% as a result of the conversion of its redeemable convertible preference shares.

(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	₩	1,726,785	211,075	295,618	51,670	53,345
Yungjin Pharm. Ind. Co., Ltd.		192,511	91,119	46,187	970	968
Tae-a Industry Co., Ltd.		15,356	4,225	3,803	363	368
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		51,049	38,684	6,690	2,354	2,488
Korea Tabacos do Brasil Ltda.		2,615	6	-	-	-
KT&G Pars		28,579	47,651	-	(1,130)	(1,130)
KT&G Rus L.L.C.		103,587	45,838	-	2,354	5,600
KGC Life & Gin Co., Ltd.		26,834	8,706	13,233	(999)	(999)
Global Trading, Inc.		46,772	28,147	33,427	269	(37)
Somang Cosmetics Co., Ltd.		79,062	15,857	20,567	387	378
Renzoluc Pte., Ltd.		47,882	79,006	-	(1,422)	(2,040)
KT&G Life Sciences Corporation		18,019	18,294	-	(1,195)	(1,195)
KGC Yebon Corporation		49,605	2,633	2,156	(51)	(89)
K-Q HongKong I, Limited		42,207	-	-	1,119	415
PT KT&G Indonesia		14,498	35,455	3,305	11	(447)
K&I HK Co., Ltd.		666	313	593	189	179
K&I China Co., Ltd.		4,666	90	183	(192)	(207)
SangSang Stay, Inc.		19,525	478	-	(527)	(527)
PT Trisakti Purwosari Makmur, etc.		82,514	62,705	9,872	252	674
PT Mandiri Maha Mulia		12,722	8,466	2,620	427	501
Cheong Kwan Jang Taiwan Corporation		13,007	11,395	4,711	193	204
Korean Red Ginseng Corp., Inc.		10,117	6,584	3,077	13	(44)
Korea Ginseng (China) Corp.		53,127	54,435	5,399	(1,381)	(1,340)
Korea Ginseng Corporation Japan		4,052	2,860	2,620	195	244
PT CKJ INDONESIA		1,009	1,091	-	-	(2)
Jilin Hanzheng Ginseng Co., Ltd.		70,395	49,452	376	(2,092)	(2,132)

(c) Change in the Consolidated Group

For the three-month period ended March 31, 2016, there is no change in the consolidated group.

2. Basis of Preparation

(a) Statement of Compliance

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

The consolidated interim financial statements were authorized for issue by the Board of Directors on April 21, 2016.

(b) Basis of Measurement

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

- Financial assets at fair value through profit or loss measured at fair value
- Available-for-sale financial assets measured at fair value
- Liabilities for defined benefit plans recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgments

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

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

In preparing these consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as of and for the year ended December 31, 2015.

3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated interim financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements.

(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.

3. 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.

3. 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, other intangible assets 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.

3. 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 ₩312,112 million and ₩310,043 million, respectively, as of March 31, 2016 and December 31, 2015.

(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.

3. 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.

(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.

3. 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.

3. 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.

3. Significant Accounting Policies, Continued

(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.

(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).

3. Significant Accounting Policies, Continued

(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.

(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.

3. Significant Accounting Policies, Continued

(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.

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 three-month periods ended March 31, 2016 and 2015 were ₩1,484,469 million and ₩685,009 million, respectively.

3. Significant Accounting Policies, Continued

(r) Revenue Recognition, Continued

Revenue from sales of real estate where the Group transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses is recognized by reference to the stage of completion using the percentage of completion method, according to the Q&A of Korea Accounting Institute, called 2011-I-KQA, when it is probable that they will result in revenue and can be measured reliably. The stage of completion is determined as the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

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.

(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.

3. Significant Accounting Policies, Continued

(t) Income Taxes, Continued

(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.

(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.

3. Significant Accounting Policies, Continued

(u) Foreign Currencies, Continued

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.

4. Basis of Translating Financial Statements

The consolidated interim financial statements are expressed in Korean won and have been translated into U.S. dollars at the rate of ₩1,153.50 to $1, the basic exchange rate on March 31, 2016 posted by Seoul Money Brokerage Services, solely for the convenience of the reader. This translation should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

5. Operating Segments

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

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

5. Operating Segments, Continued

(b) Segment information on sales and operating profit for the three-month period ended March 31, 2016 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Sales:								
Total segment sales	₩	715,029	311,109	20,204	109,327	1,155,669	(64,326)	1,091,343
Less: Inter-segment sales		40,302	8,220	1,681	14,123	64,326	(64,326)	-
External sales	₩	674,727	302,889	18,523	95,204	1,091,343	-	1,091,343
Segment profit:								
Operating profit	₩	313,796	66,035	6,925	11,071	397,827	(4,862)	392,965

(c) Segment information on sales and operating profit for the three-month period ended March 31, 2015 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Sales:								
Total segment sales	₩	797,218	256,546	52,088	84,904	1,190,756	(53,844)	1,136,912
Less: Inter-segment sales		26,333	14,576	1,745	11,190	53,844	(53,844)	-
External sales	₩	770,885	241,970	50,343	73,714	1,136,912	-	1,136,912
Segment profit:								
Operating profit	₩	379,088	45,325	7,092	3,740	435,245	(6,710)	428,535

(d) Segment information on assets and liabilities as of March 31, 2016 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets:								
Segment assets	₩	3,960,847	1,787,424	156,427	258,189	6,162,887	(208,994)	5,953,893
Investments in associates		-	-	35,675	2,875	38,550	-	38,550
Non-current assets held for sale		1,542	5,150	-	-	6,692	-	6,692
		3,962,389	1,792,574	192,102	261,064	6,208,129	(208,994)	5,999,135
Unallocated assets								2,682,176
Total assets	₩							8,681,311
Liabilities:								
Segment liabilities	₩	1,355,568	179,734	-	81,105	1,616,407	(164,218)	1,452,189
Unallocated liabilities								1,069,012
Total liabilities	₩							2,521,201

5. Operating Segments, Continued

(e) 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	1,836,307	198,322	367,873	6,394,357	(319,032)	6,075,325
Unallocated assets								2,598,032
Total assets	₩							8,673,357
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

(f) Revenues from major customers which amount to more than 10 percent of the details of the Group's consolidated total revenues for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Alokozay International Limited	₩	127,707	97,210

6. Property, Plant and Equipment

(a) Details of property, plant and equipment as of March 31, 2016 and December 31, 2015 are summarized as follows:

		March 31 2016			December 31 2015		
In millions of won		Cost	Accumulated depreciation and impairment	Carrying amount	Cost	Accumulated depreciation and impairment	Carrying amount
Land	₩	622,375	-	622,375	583,481	-	583,481
Buildings		966,414	(397,841)	568,573	963,700	(389,526)	574,174
Structures		73,146	(40,649)	32,497	72,949	(39,770)	33,179
Machinery		1,283,037	(952,460)	330,577	1,278,124	(933,159)	344,965
Vehicles		12,791	(10,458)	2,333	12,907	(10,572)	2,335
Tools		64,002	(53,794)	10,208	63,467	(52,664)	10,803
Furniture and fixtures		247,912	(201,754)	46,158	245,349	(195,912)	49,437
Others		1,508	-	1,508	1,508	-	1,508
Construction-in-progress		164,785	-	164,785	189,897	-	189,897
	₩	3,435,970	(1,656,956)	1,779,014	3,411,382	(1,621,603)	1,789,779

(b) Changes in property, plant and equipment for the three-month period ended March 31, 2016 were as follows:

In millions of won		January 1 2016	Acquisition	Disposal	Depreciation	Transfer of construction -in-progress	Net exchange difference and others	March 31 2016
Land	₩	583,481	-	-	-	41,748	(2,854)	622,375
Buildings		574,174	71	-	(9,313)	1,313	2,328	568,573
Structures		33,179	76	-	(869)	139	(28)	32,497
Machinery		344,965	1,735	(21)	(18,678)	2,542	34	330,577
Vehicles		2,335	204	(64)	(216)	47	27	2,333
Tools		10,803	609	-	(1,203)	-	(1)	10,208
Furniture and fixtures		49,437	2,964	(215)	(6,059)	26	5	46,158
Others		1,508	-	-	-	-	-	1,508
Construction-in-progress		189,897	20,349	-	-	(45,815)	354	164,785
	₩	1,789,779	26,008	(300)	(36,338)	-	(135)	1,779,014

For the three-month period ended March 31, 2016, the Group received ₩289 million of government grant related with acquisition of buildings and furniture and fixtures.

For the three-month period ended March 31, 2016, land and buildings with a carrying amount of ₩1,829 million were transferred to investment property and construction-in-progress with a carrying amount of ₩36 million were transferred to intangible assets.

6. Property, Plant and Equipment, Continued

(c) 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

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%.

7. Intangible Assets

(a) Details of intangible assets as of March 31, 2016 and December 31, 2015 are summarized as follows:

				March 31 2016			December 31 2015
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	87,902	(72,841)	15,061
Industrial property rights		46,067	(31,448)	14,619	46,806	(32,015)	14,791
Facility usage rights		27,296	(1,708)	25,588	28,282	(2,731)	25,551
Other intangible assets		115,053	(70,000)	45,053	116,349	(70,150)	46,199
Intangible assets under development		6,184	(2,354)	3,830	6,180	(2,354)	3,826
	₩	282,502	(178,351)	104,151	285,519	(180,091)	105,428

7. Intangible Assets, Continued

(b) Changes in intangible assets for the three-month period ended March 31, 2016 were as follows:

In millions of won		January 1 2016	Acquisition	Amortization	Transfer from property, plant and equipment	Net exchange difference and others	March 31 2016
Goodwill	₩	15,061	-	-	-	-	15,061
Industrial property rights		14,791	122	(294)	-	-	14,619
Facility usage rights		25,551	-	-	36	1	25,588
Other intangible assets		46,199	71	(1,215)	-	(2)	45,053
Intangible assets under development		3,826	4	-	-	-	3,830
	₩	105,428	197	(1,509)	36	(1)	104,151

(c) 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.

(d) Expenditures not capitalized for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Cost of sales	₩	333	207
Selling, general and administrative expenses		7,259	7,885
	₩	7,592	8,092

8. Investment Property

(a) Details of investment property as of March 31, 2016 and December 31, 2015 are summarized as follows:

				March 31 2016			December 31 2015
In millions of won		Cost	Accumulated depreciation and impairment	Carrying amount	Cost	Accumulated depreciation and impairment	Carrying amount
Land	₩	52,117	-	52,117	49,123	-	49,123
Buildings		180,014	(67,371)	112,643	179,949	(64,583)	115,366
	₩	232,131	(67,371)	164,760	229,072	(64,583)	164,489

(b) Changes in investment property for the three-month period ended March 31, 2016 and the year ended December 31, 2015 were as follows:

				2016			2015
In millions of won		Land	Buildings	Total	Land	Buildings	Total
Beginning balance	₩	49,123	115,366	164,489	48,293	119,675	167,968
Acquisition		-	-	-	-	64	64
Depreciation		-	(1,558)	(1,558)	-	(6,275)	(6,275)
Transfer from property, plant and equipment		2,994	(1,165)	1,829	830	1,902	2,732
Ending balance	₩	52,117	112,643	164,760	49,123	115,366	164,489

(c) The amounts recognized in profit or loss from investment property for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Rental income	₩	9,154	9,304
Direct operating expense		(1,615)	(1,625)
	₩	7,539	7,679

(d) The carrying amount and the fair value of investment property as of March 31, 2016 and December 31, 2015 were as follows:

			March 31 2016		December 31 2015
In millions of won		Fair value	Carrying amount	Fair value	Carrying amount
Land	₩	437,385	52,117	435,034	49,123
Buildings		175,559	112,643	177,756	115,366
	₩	612,944	164,760	612,790	164,489

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

9. Investments in Associates

(a) Investments in associates as of March 31, 2016 and December 31, 2015 are summarized as follows:

In millions of won, except percentage of ownership

			March 31 2016		December 31 2015	
Associate	Location	Principal operation	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Lite Pharm Tech, Inc.	Korea	Manufacturing medical supplies	20.24%	₩ 2,875	20.24%	₩ 2,720
KVG REIT 1 Co., Ltd.	Korea	Renting of real estate	29.67%	6,403	29.67%	6,635
KOCREF REIT 17 Co., Ltd.	Korea	Renting of real estate	-	-	22.06%	13,208
JR REIT V Co., Ltd.	Korea	Renting of real estate	34.63%	5,534	34.63%	5,470
JR REIT VIII Co., Ltd.	Korea	Renting of real estate	21.74%	9,855	21.74%	9,693
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%	8,949	28.79%	8,907
JR REIT XIII Co., Ltd.	Korea	Renting of real estate	27.03%	4,934	27.03%	4,888
				₩ 38,550		₩ 51,521

For the three-month period ended March 31, 2016, the Group received W13,095 million of dividend related with liquidation of KOCREF REIT 17 Co., Ltd.

(b) Financial information of associates, which represents 100% of the entities' balances as of and for the three-month period ended March 31, 2016 are summarized as follows:

In millions of won

Associate		Total assets	Total liabilities	Revenue	Total comprehensive income(loss)
Lite Pharm Tech, Inc.	₩	15,207	1,004	2,352	757
KVG REIT 1 Co., Ltd.		49,682	28,102	1,499	418
JR REIT V Co., Ltd.		31,148	15,167	636	192
JR REIT VIII Co., Ltd.		108,410	63,077	1,832	734
LSK Global Pharma Services Co., Ltd.		4,470	7,776	2,863	(1,814)
JR REIT X Co., Ltd.		87,255	56,171	1,082	146
JR REIT XIII Co., Ltd.		46,693	28,439	607	174

(c) 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(loss)
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

9. Investments in Associates, Continued

(d) Changes in investments in associates for the three-month period ended March 31, 2016 were as follows:

In millions of won

Associate		January 1 2016	Disposal	Share of gain (loss)	Dividends	March 31 2016
Lite Pharm Tech, Inc.	₩	2,720	-	155	-	2,875
KVG REIT 1 Co., Ltd.		6,635	-	135	(367)	6,403
KOCREF REIT 17 Co., Ltd.		13,208	(13,095)	(113)	-	-
JR REIT V Co., Ltd.		5,470	-	64	-	5,534
JR REIT VIII Co., Ltd.		9,693	-	162	-	9,855
LSK Global Pharma Services Co., Ltd.		-	-	-	-	-
JR REIT X Co., Ltd.		8,907	-	42	-	8,949
JR REIT XIII Co., Ltd.		4,888	-	46	-	4,934
	₩	51,521	(13,095)	491	(367)	38,550

(e) 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

(f) Reconciliation of the summarized financial information presented to the carrying amount of the Group's interest in the associate as of March 31, 2016 are summarized as follows:

In millions of won, except percent of ownership

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%	₩	14,203	2,875	-	2,875
KVG REIT 1 Co., Ltd.	29.67%		21,580	6,403	-	6,403
JR REIT V Co., Ltd.	34.63%		15,981	5,534	-	5,534
JR REIT VIII Co., Ltd.	21.74%		45,333	9,855	-	9,855
LSK Global Pharma Services Co., Ltd.	23.15%		(3,306)	(765)	765	-
JR REIT X Co., Ltd.	28.79%		31,084	8,949	-	8,949
JR REIT XIII Co., Ltd.	27.03%		18,254	4,934	-	4,934
		₩				38,550

9. Investments in Associates, Continued

(g) 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, except percent of ownership

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

10. Available-for-sale Financial Assets

(a) Changes in available-for-sale financial assets for the three-month period ended March 31, 2016 and the year ended December 31, 2015 were as follows:

In millions of won		2016	2015
Beginning balance	₩	364,681	326,833
Acquisitions		-	63,190
Net changes in fair value		7,982	3,881
Disposals and exercise of convertible right		-	(29,223)
Ending balance	₩	372,663	364,681
Statements of financial position:			
Current	₩	1,596	-
Non-current		371,067	364,681
	₩	372,663	364,681

In 2015, the Group acquired ₩28,990 million of shares of U&I Corporation by exercising equity conversion options embedded in their convertible bonds and redeemable 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.

10. Available-for-sale Financial Assets, Continued

(b) Available-for-sale financial assets as of March 31, 2016 and December 31, 2015 are summarized as follows:

In millions of won		March 31 2016	December 31 2015
Available-for-sale debt instruments:			
Government and municipal bonds	₩	96	96
Corporate bonds		1,500	1,500
Total available-for-sale debt instruments		1,596	1,596
Available-for-sale equity instruments:			
Listed			
– YTN Co., Ltd.		26,690	24,428
– Oscotech, Inc.		4,900	3,696
– Shinhan Financial Group Co., Ltd.		162,338	158,530
– Rexahn Pharmaceuticals, Inc.		2,433	2,696
– U&I Corporation		22,322	22,564
		218,683	211,914
Unlisted		152,384	151,171
Total available-for-sale equity instruments		371,067	363,085
Total available-for-sale financial assets	₩	372,663	364,681

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

As of March 31, 2016 and December 31,2015, ₩37,659 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.

11. Long-term Deposits in MSA Escrow Fund

Long-term deposits in MSA Escrow Fund as of March 31, 2016 and December 31, 2015 are summarized as follows:

In millions of won		March 31 2016	December 31 2015
MMF	₩	63,643	43,309
Treasury note		355,464	360,657
	₩	419,107	403,966

As discussed in note 33 to the consolidated interim financial statements, long-term deposits in MSA Escrow Fund are deposited to the United States government related to the export of tobacco to the United States. The payments of long-term deposits in MSA Escrow Fund for the three-month periods ended March 31, 2016 and 2015 are ₩21,793 million and ₩17,087 million, respectively.

Interest income on long-term deposits in MSA Escrow Fund for the three-month periods ended March 31, 2016 and 2015 are ₩2,032 million and ₩1,051 million, respectively.

12. Trade and Other Receivables

(a) Trade and other receivables as of March 31, 2016 and December 31, 2015 are summarized as follows:

		March 31 2016		December 31 2015	
In millions of won		Current	Non-current	Current	Non-current
Loans to employees	₩	15,498	50,267	15,774	52,275
Loans		2,481	394	2,504	315
Other receivables		101,690	233	127,369	323
Guarantee deposits		40,514	23,086	34,730	22,158
Accrued income		3,786	-	5,943	-
Trade receivables		1,071,413	-	1,031,618	-
	₩	1,235,382	73,980	1,217,938	75,071

(b) Trade and other receivables as of March 31, 2016 and December 31, 2015 have been reported in the consolidated statements of financial position net of allowances as follows:

		March 31 2016		December 31 2015	
In millions of won		Current	Non-current	Current	Non-current
Gross trade and other receivables	₩	1,266,206	73,980	1,251,180	75,071
Allowance:					
Loans		(197)	-	(197)	-
Other receivables		(2,294)	-	(2,296)	-
Trade receivables		(28,333)	-	(30,749)	-
		(30,824)	-	(33,242)	-
Net trade and other receivables	₩	1,235,382	73,980	1,217,938	75,071

(c) Changes in the allowance account for the three-month period ended March 31, 2016 and the year ended December 31, 2015 were as follows:

In millions of won		2016	2015
Beginning balance	₩	33,242	39,659
Impairment loss		-	12
Reversal of impairment loss		(1,856)	(5,465)
Net exchange difference and others		(562)	(964)
Ending balance	₩	30,824	33,242

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

12. Trade and Other Receivables, Continued

(d) The aging schedule of trade and other receivables which were past due but not impaired as of March 31, 2016 and December 31, 2015 is as follows:

In millions of won		March 31 2016	December 31 2015
Within 1 month	₩	90,782	67,309
Between 1 and 2 months		56,042	64,851
Beyond 2 months		196,486	198,982
	₩	343,310	331,142

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 March 31, 2016 and December 31, 2015 were as follows:

In millions of won, except percentage of interest rate	March 31 2016				December 31 2015			
	Effective interest rate		Current	Non-current	Effective interest rate		Current	Non-current
Loans to employees	1.89~5.68%	₩	15,498	50,267	1.89~5.68%	₩	15,774	52,275
Loans	2.71~2.89%		1,840	394	2.71%		1,863	315
Guarantee deposits	1.40~5.68%		39,395	21,323	1.52~5.68%		33,787	20,260
		₩	56,733	71,984		₩	51,424	72,850

13. Inventories

(a) Inventories as of March 31, 2016 and December 31, 2015 are summarized as follows:

In millions of won		March 31 2016	December 31 2015
Merchandise, net of loss on the write-down of inventories	₩	1,285	7,677
Finished goods, net of loss on the write-down of inventories		651,946	610,309
Work-in-progress, net of loss on the write-down of inventories		511,842	608,280
Raw materials, net of loss on the write-down of inventories		778,091	770,561
Supplies		28,451	27,367
By-products		9,053	7,051
Buildings under construction		4,042	3,618
Sites for lotting-out construction		25,025	25,815
Goods-in-transit		29,030	58,436
	₩	2,038,765	2,119,114

13. Inventories, Continued

(b) The amount of inventories recognized as an expense for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Cost of sales:			
Reversal of the write-down of inventories	₩	(314)	(304)
Loss on retirement of inventories		1,043	1,313
Other expense:			
Loss on retirement of inventories		184	642
	₩	913	1,651

14. Cash and Cash Equivalents

(a) Cash and cash equivalents as of March 31, 2016 and December 31, 2015 are summarized as follows:

In millions of won		March 31 2016	December 31 2015
Cash on hand	₩	2,583	2,788
Demand deposits		174,799	161,627
Short-term investment assets		567,594	381,798
	₩	744,976	546,213

(b) Other financial assets as of March 31, 2016 and December 31, 2015 are summarized as follows:

		March 31 2016		December 31 2015	
In millions of won		Current	Non-current	Current	Non-current
Time deposits	₩	120,347	-	120,141	-
Certificates of deposit		41,384	-	31,406	-
Money trust		835,885	-	985,359	-
Security deposits for checking accounts		-	11	-	12
	₩	997,616	11	1,136,906	12

(c) Financial assets restricted in use as of March 31, 2016 and December 31, 2015 were as follows:

In millions of won			March 31 2016	December 31 2015
Long-term other financial assets	Security deposits for checking accounts	₩	11	12
Current other financial assets	Pledge for borrowings		1,384	1,406
		₩	1,395	1,418

15. Non-current Assets Held for Sale

Changes in non-current assets held for sale for the three-month period ended March 31, 2016 and the year ended December 31, 2015 were as follows:

In millions of won		2016	2015
Beginning balance	₩	6,692	426
Transfer from property, plant and equipment		-	6,692
Disposal		-	(426)
Ending balance	₩	6,692	6,692

16. Pledged Assets

(a) The followings assets were pledged as collateral for borrowings as of March 31, 2016.

In millions of won

Asset		Carrying amount	Type		Received amount	Collateralized amount	Holder
Investment property	₩	67,650	Leasehold deposits received	₩	9,005	9,254	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		14,648	16,991	KEB Hana Bank, etc.
Property, plant and equipment		28,644	Investment subsidy		-	660	Chungju-si
			Short-term borrowings		1,500	4,440	KEB Hana Bank
Other financial assets		1,384	ACH pledged		-	1,384	Bank of Oklahoma
	₩	179,143		₩	37,153	80,738	

(b) 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	

17. Share Capital and Other Capital Surplus

(a) Details of share capital as of March 31, 2016 and December 31, 2015 were as follows:

		March 31 2016	December 31 2015
Number of ordinary shares:			
Authorized		800,000,000	800,000,000
Issued		137,292,497	137,292,497
Outstanding		126,143,670	125,965,892
Par value in won	₩	5,000	5,000

The Parent Company has, thus far, reacquired and retired 53,699,400 shares of treasury share. Accordingly, as of March 31, 2016, 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 three-month period ended March 31, 2016 and the year ended December 31, 2015 were as follows:

	2016			2015		
Number of share	Ordinary shares	Treasury shares	Total	Ordinary shares	Treasury shares	Total
Beginning balance	137,292,497	(11,326,605)	125,965,892	137,292,497	(11,393,697)	125,898,800
In-kind donation of treasury shares	-	177,778	177,778	-	67,092	67,092
Ending balance	137,292,497	(11,148,827)	126,143,670	137,292,497	(11,326,605)	125,965,892

(c) Changes in other capital surplus for the three-month period ended March 31, 2016 and the year ended December 31, 2015 were as follows:

In millions of won		2016	2015
Beginning balance	₩	(9,928)	(4,573)
Extinguishment of equity conversion options		-	(5,483)
Paid-in capital increase of subsidiary		-	128
Conversion of redeemable convertible preference shares of subsidiary		(141)	-
Ending balance	₩	(10,069)	(9,928)

For the three-month period ended March 31, 2016, changes in the ownership interest in Somang Cosmetics Co., Ltd. resulting from the conversion of its redeemable convertible preference shares were recognized in other capital surplus.

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, changes in the ownership interest in Somang Cosmetics Co., Ltd. resulting from its paid-in capital increase were recognized in other capital surplus.

18. Treasury Shares

(a) Changes in treasury shares for the three-month period ended March 31, 2016 and the year ended December 31, 2015 were as follows:

	2016		2015	
In millions of won, except number of shares	Number of shares	Carrying amount	Number of shares	Carrying amount
Beginning balance	11,326,605	₩ 337,062	11,393,697	₩ 339,059
In-kind donation of treasury shares	(177,778)	(5,290)	(67,092)	(1,997)
Ending balance	11,148,827	₩ 331,772	11,326,605	₩ 337,062

(b) Changes in gain on reissuance of treasury shares for the three-month period ended March 31, 2016 and the year ended December 31, 2015 were as follows:

In millions of won		2016	2015
Beginning balance	₩	494,648	492,032
In-kind donation of treasury shares, net of tax		10,543	2,616
Ending balance	₩	505,191	494,648

19. Reserves

(a) Details of reserves as of March 31, 2016 and December 31, 2015 were as follows:

In millions of won		March 31 2016	December 31 2015
Available-for-sale financial assets - net change in fair value	₩	(24,327)	(30,378)
Foreign operations - foreign currency translation differences		(88,877)	(95,110)
Legal reserve		603,145	603,145
Voluntary reserve		3,794,260	3,226,658
	₩	4,284,201	3,704,315

(b) Available-for-sale financial assets - net change in fair value as of March 31, 2016 and December 31, 2015 are summarized as follows:

In millions of won		March 31 2016	December 31 2015
Available-for-sale financial assets - net change in fair value before tax	₩	(32,095)	(40,077)
Tax effect		7,768	9,699
	₩	(24,327)	(30,378)

(c) Legal Reserve

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

19. Reserves, Continued

(d) Details of voluntary reserve as of March 31, 2016 and December 31, 2015 were as follows:

In millions of won		March 31 2016	December 31 2015
Reserve for business rationalization	₩	12,851	12,851
Reserve for research and human resource development		20,000	30,000
Reserve for business expansion		698,881	698,881
Unconditional reserve		3,062,528	2,484,926
	₩	3,794,260	3,226,658

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.

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.

20. Retained Earnings

Changes in retained earnings for the three-month period ended March 31, 2016 and the year ended December 31, 2015 were as follows:

In millions of won		2016	2015
Beginning balance	₩	1,401,975	1,100,876
Dividends		(428,284)	(428,056)
Transfer from reserve for research and human resource development		10,000	12,522
Transfer to unconditional reserve		(577,602)	(320,926)
Profit for the periods		284,716	1,032,220
- Less: non-controlling interests		(327)	3,497
Remeasurements of net defined benefit liability, net of tax		(150)	38
- Less: non-controlling interests		1	1,804
Ending balance	₩	690,329	1,401,975

21. Trade and Other Payables

Trade and other payables as of March 31, 2016 and December 31, 2015 are summarized as follows:

		March 31 2016		December 31 2015	
In millions of won		Current	Non-current	Current	Non-current
Leasehold deposits received	₩	23,070	2,648	19,404	7,030
Trade payables		91,433	-	103,591	-
Withholdings		213,423	150	212,891	171
Accrued expenses		113,860	-	180,172	-
Other payables		217,793	6,961	90,297	6,446
Dividend payables		428,284	-	-	-
	₩	1,087,863	9,759	606,355	13,647

22. Borrowings

(a) Short-term borrowings as of March 31, 2016 and December 31, 2015 are summarized as follows:

In millions of won	Lender	Annual interest rate		March 31 2016	December 31 2015
Borrowings	Kookmin Bank, etc.	2.12%	₩	20,000	23,469
	KEB Hana Bank	2.78 ~ 3.30%		13,500	13,500
	KEB Hana Bank	3M LIBOR+1.3%, etc.		42,448	44,252
	The Korea Development Bank	2.21%		1,222	100,000
	PT Bank Woori Saudara	10.66%		1,738	2,550
Customer credit contracts(*)	Nonghyup Bank, etc.	6.09%, etc.		21,288	22,602
			₩	100,196	206,373

(*) 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.

22. Borrowings, Continued

(b) Long-term borrowings as of March 31, 2016 and December 31, 2015 are summarized as follows:

In millions of won	Lender	Maturity	Annual interest rate		March 31 2016	December 31 2015
Borrowings	Nonghyup Bank	Jun.2020	0.00%	₩	34,514	34,514
	KEB Hana Bank	Sep.2017	1.88 ~ 4.20%		1,648	1,936
	KEB Hana Bank	Sep.2023	2.60 ~ 3.15%		13,000	13,000
Convertible bond					8,690	8,500
Redeemable convertible preferred shares					53,340	53,340
Redeemable preferred shares					17,761	18,611
				₩	128,953	129,901
Statement of financial position:						
Current				₩	27,869	27,659
Non-current					101,084	102,242
				₩	128,953	129,901

Details of convertible bond and preferred shares as of March 31, 2016 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: ₩8,690 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: ₩17,761 million (USD 15,880 thousand) Carrying amount: ₩17,761 million (USD 15,880 thousand) The convertible instrument will mature ten years from the date of establishment of the PEF. Payable on demand from 270 days prior to the expiration of the PEF

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

22. 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 16 to the consolidated interim financial statements, the Group provided collateral for the above borrowings as of March 31, 2016.

23. Retirement Benefits Plan

(a) The components of retirement benefits for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Defined benefit plans:			
Current service cost	₩	10,416	11,014
Net interest on net defined benefit liability		736	838
		11,152	11,852
Defined contribution plans:			
Contributions recognized as expense		1,965	1,412
	₩	13,117	13,264

The Group recognized termination benefits amounting to ₩21 million and ₩6,729 million as an expense for the three-month periods ended March 31, 2016 and 2015, respectively.

(b) Net defined benefit liability as of March 31, 2016 and December 31, 2015 were summarized as follows:

In millions of won		March 31 2016	December 31 2015
Present value of defined benefit obligations	₩	376,024	373,590
Fair value of plan assets		(245,838)	(252,942)
	₩	130,186	120,648

24. Revenue from Real Estate Sales

(a) Details of agreements for real estate sales under construction as of March 31, 2016 were as follows:

In millions of won	Construction period		Total revenue estimated	Total revenue contracted
Daegu Station Central-Xi	Dec.2014 ~ Oct.2017	₩	342,666	318,525

(b) Changes in the balance of contract amount for the three-month period ended March 31, 2016 were as follows:

In millions of won		2016
Beginning balance	₩	246,340
Revenue recognition		(8,444)
Ending balance:	₩	237,896

(c) Recognized profits and related balances for agreements under construction as of March 31, 2016 were as follows:

In millions of won	Stage of completion		Cumulative revenue	Cumulative cost	Due to customers for contract work
Daegu Station Central-Xi	25.31%	₩	80,628	62,990	14,956

(d) There was no change in the estimates of total revenue and total costs during the three-month period ended March 31, 2016. The total revenue and the total costs are estimated based on the information and circumstances available at the end of the reporting period and actual results may differ from these estimates.

25. Result from Operating Activities

(a) Details of expenses classified by nature for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Changes in inventories	₩	80,349	52,668
Raw materials and consumables purchased		243,343	227,966
Salaries		126,065	137,604
Retirement and termination benefits		13,138	19,993
Depreciation		37,896	37,048
Amortization		1,509	2,749
Employee welfare		19,943	30,275
Advertising		51,399	57,058
Commissions		78,876	69,682
Other expenses		45,860	73,334
	₩	698,378	708,377

25. Result from Operating Activities, Continued

(b) Details of selling, general and administrative expenses for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won	2016	2015
Salaries	83,751	92,806
Retirement and termination benefits	8,619	13,880
Employee welfare	14,822	21,011
Travel	2,422	2,417
Communications	1,271	1,334
Utilities	2,628	3,036
Taxes and dues	1,936	2,444
Supplies	838	828
Rent	5,639	6,093
Depreciation	10,090	10,876
Amortization	1,459	2,702
Repairs and maintenance	908	784
Vehicles	1,349	1,605
Insurance	507	499
Commissions	66,785	57,602
Freight and custody	12,286	12,242
Conferences	447	828
Advertising	51,384	57,031
Training	1,327	1,480
Prizes and rewards	245	553
Cooperation	171	177
Normal research and development	7,259	7,885
Impairment loss (reversal of impairment loss) on trade receivables	(1,853)	8
	274,290	298,121

26. Other Income and Expenses

(a) Details of other income for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Foreign currency transaction gain	₩	9,266	4,243
Foreign currency translation gain		8,836	10,668
Reversal of impairment loss on other receivables		3	3
Gain on sale of property, plant and equipment		93	809
Gain on sale of intangible assets		50	86
Others		3,097	10,483
	₩	21,345	26,292

26. Other Income and Expenses, Continued

(b) Details of other expenses for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Foreign currency transaction loss	₩	5,783	3,207
Foreign currency translation loss		26,445	11,611
Impairment loss on other receivables		-	12
Donations		2,577	26,897
Loss on sale of property, plant and equipment		167	448
Loss on sale of intangible assets		-	3
Others		3,300	4,692
	₩	38,272	46,870

27. Net Finance Income

(a) Details of net finance income for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Finance cost:			
Interest expenses	₩	(1,704)	(3,320)
Finance income:			
Interest income		9,497	8,815
Dividend income		6,197	4,229
Interest income on long-term deposits in MSA Escrow Fund		2,032	1,051
Gain on transactions of derivative instruments		-	7
		17,726	14,102
Net finance income	₩	16,022	10,782

(b) Details of interest expenses for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Borrowings	₩	1,033	1,566
Trade and other payables		670	630
Others		1	1,124
	₩	1,704	3,320

(c) Details of interest income for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Deposits	₩	8,647	7,958
Available-for-sale financial assets		7	12
Trade and other receivables		843	845
	₩	9,497	8,815

28. Income Tax

(a) Income tax expense was recognized as current tax expense adjusted to current adjustments for prior periods, deferred tax expense (income) by origination and reversal of deferred tax assets (liabilities) and temporary differences, and income tax recognized in other comprehensive income. The average effective tax rate was 27.47% and 26.37% for the three-month periods ended March 31, 2016 and 2015, respectively.

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

29. Earnings per Share

Basic and diluted earnings per share for the three-month periods ended March 31, 2016 and 2015 were as follows:

		2016	2015
Profit for the period attributable to owners of the parent in millions of won	₩	284,389	308,923
Weighted-average number of ordinary shares outstanding		126,124,134	125,949,492
Basic and diluted earnings per share in won	₩	2,255	2,453

30. Transactions and Balances with Related Companies

(a) The Group has no significant transactions, receivables and liabilities with related parties, as of and for the three-month period ended March 31, 2016.

(b) There is no guarantee provided by or providing to related parties as of March 31, 2016.

(c) Details of key management personnel compensation for the three-month periods ended March 31, 2016 and 2015 are summarized as follows:

In millions of won		2016	2015
Short-term employee benefits	₩	5,555	7,485
Retirement benefits		882	1,286
	₩	6,437	8,771

31. Risk Management and Fair Value of Financial Instruments

(a) Overview

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

- Market risk
- Credit risk
- Liquidity risk

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

(b) Risk Management Framework

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

(c) Management of Financial Risks

(i) Market Risk

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

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

The carrying amounts of monetary assets and liabilities denominated in a currency other than the functional currency as of March 31, 2016 and December 31, 2015 were as follows:

		March 31 2016		December 31 2015	
In millions of won		Assets	Liabilities	Assets	Liabilities
USD	₩	845,074	9,648	797,656	46,905
EUR		892	1,371	541	1,695
Others		8,855	15,414	7,645	21,151
	₩	854,821	26,433	805,842	69,751

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

(c) Management of Financial Risks, Continued

As of March 31, 2016 and December 31, 2015, the effects of a 10% strengthening or weakening of functional currency against foreign currencies on profit before tax were as follows:

In millions of won		March 31 2016		December 31 2015	
		10% weakening	10% strengthening	10% weakening	10% strengthening
Increase (decrease) in profit before tax	₩	82,839	(82,839)	73,609	(73,609)

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 March 31, 2016 and December 31, 2015, the effects of a 5% fluctuation of the price index of stocks on other comprehensive income were as follows:

In millions of won		March 31 2016		December 31 2015	
		5% increase	5% decrease	5% increase	5% decrease
Increase (decrease) in comprehensive income before tax	₩	5,070	(5,070)	1,780	(1,780)

Interest Rate Risk
The Group has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's management has monitored the level of interest rates regularly and has maintained the balance of borrowings at variable rates and fixed rates. As of March 31, 2016, 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.

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

(c) Management of Financial Risks, Continued

(ii) Credit Risk

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

The carrying amount of financial assets is maximum exposure to credit risk. The maximum exposure to credit risk as of March 31, 2016 and December 31, 2015 is as follows:

In millions of won		March 31 2016	December 31 2015
Available-for-sale debt instruments	₩	1,596	1,596
Long-term deposits in MSA Escrow Fund		419,107	403,966
Trade and other receivables		1,309,362	1,293,009
Other financial assets		997,627	1,136,918
Cash and cash equivalents (excluding cash on hand)		742,393	543,425
Financial guarantee contracts		76,566	76,566
	₩	3,546,651	3,455,480

31. 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 March 31, 2016 and December 31, 2015 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 March 31, 2016:							
Trade and other payables	₩	884,049	884,681	843,585	31,256	6,954	2,886
Long-term borrowings		101,084	102,867	98	295	43,769	58,705
Current portion of long-term borrowings		27,869	27,894	299	27,595	-	-
Short-term borrowings		100,196	100,549	24,471	76,078	-	-
Financial guarantee contracts		-	76,566	-	-	76,566	-
	₩	1,113,198	1,192,557	868,453	135,224	127,289	61,591
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 contracts		-	76,566	-	-	76,566	-
	₩	743,214	825,472	491,385	140,392	131,165	62,530

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.

31. 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 March 31, 2016 and December 31, 2015 are as follows:

In millions of won		March 31 2016	December 31 2015
Financial assets:			
Available-for-sale financial assets	₩	372,663	364,681
Loans and receivables:			
- Long-term deposits in MSA Escrow Fund		419,107	403,966
- Trade and other receivables		1,309,362	1,293,009
- Other financial assets		997,627	1,136,918
- Cash and cash equivalents		744,976	546,213
		3,471,072	3,380,106
Total financial assets	₩	3,843,735	3,744,787
Financial liabilities:			
Financial liabilities measured at amortized cost:			
- Trade and other payables	₩	884,049	406,940
- Long-term borrowings		101,084	102,242
- Current portion of long-term borrowings		27,869	27,659
- Short-term borrowings		100,196	206,373
Total financial liabilities	₩	1,113,198	743,214

The fair value measurements classified by fair value hierarchy as of March 31, 2016 and December 31, 2015 were as follows

In millions of won		Carrying amount	Fair value Level I	Level II	Level III
As of March 31, 2016:					
- Available-for-sale financial assets	₩	335,004	218,683	-	116,321
As of December 31, 2015:					
- Available-for-sale financial assets	₩	327,022	211,914	-	115,108

There is no transfer between fair value hierarchy levels of recurring fair value measurements for the three-month period ended March 31, 2016 and the year ended December 31, 2015.

The fair value measurements for available-for-sale equity instruments in real estate trust fund have been measured using the adjusted net asset method and 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 three-month period ended March 31, 2016 and the year ended December 31, 2015 were as follows:

In millions of won		2016	2015
Beginning balance	₩	115,108	90,726
Acquisition		-	22,200
Changes in fair value		1,213	2,182
Ending balance	₩	116,321	115,108

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

(e) Finance income (costs)

(i) Details of finance income (costs) by categories for the three-month period ended March 31, 2016 were as follows:

In millions of won		Available-for-sale financial assets	Loans and receivables	Financial liabilities measured at amortized cost	Total
Profit or loss:					
- Interest income	₩	7	9,490	-	9,497
- Dividend income		6,197	-	-	6,197
- Interest income on long-term deposits in MSA Escrow Fund		-	2,032	-	2,032
- Interest expense		-	-	(1,704)	(1,704)
	₩	6,204	11,522	(1,704)	16,022
Comprehensive income before tax					
- Net change in fair value	₩	7,982	-	-	7,982

(ii) Details of finance income (costs) by categories for the three-month period ended March 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	₩	-	12	8,803	-	8,815
- Dividend income		-	4,229	-	-	4,229
- Interest income on long-term deposits in MSA Escrow Fund		-	-	1,051	-	1,051
- Gain on transactions of derivative instruments		7	-	-	-	7
- Interest expense		-	-	-	(3,320)	(3,320)
	₩	7	4,241	9,854	(3,320)	10,782
Comprehensive loss before tax						
- Net change in fair value	₩	-	(5,926)	-	-	(5,926)

32. 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 March 31, 2016 and December 31, 2015, the Group's capital structure was as follows:

In millions of won		March 31 2016	December 31 2015
Net debt:			
Debt (borrowings)	₩	229,149	336,274
Less:			
- Cash and cash equivalents		(744,976)	(546,213)
- Current other financial assets		(997,616)	(1,136,906)
		(1,513,443)	(1,346,845)
Equity	₩	6,160,110	6,275,499

33. 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 March 31, 2016, a lawsuit by National Health Insurance Service claiming damages of ₩53,742 million is filed against the Group. Additionally, as of March 31, 2016, the Group is involved in twelve lawsuits as a plaintiff for alleged damages totalling ₩15,441 million and ten lawsuits as a defendant for alleged damages totalling ₩2,380 million. The amount of the liability the Group may ultimately be liable for with respect to the litigation cannot be reasonably estimated as of March 31, 2016.

(c) As of March 31, 2016, 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.

33. Contingent Liabilities and Commitments, Continued

(d) As of March 31, 2016, the Group's trade receivables from the export of cigarettes are insured against non-payment up to USD 20,250 thousand by a short-term export insurance with the Korea Trade Insurance Corporation.

(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 March 31, 2016, 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	14,307
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	IDR	137,524

(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 ₩179,175 million and ₩151,783 million as of March 31, 2016 and December 31, 2015, respectively.

(g) As of March 31, 2016, 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 March 31, 2016, the Group has a trade bill loan agreement with a limit of ₩10,000 million with KEB Hana Bank.

(i) As of March 31, 2016, the Group has a loan agreement with a limit of ₩162,652 million with Shinhan Bank and other financial institutions.

(j) As of March 31, 2016, 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 March 31, 2016, 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.

33. Contingent Liabilities and Commitments, Continued

(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.

(m) As of March 31, 2016, 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 March 31, 2016, the Group is insured by performance bond insurance up to ₩ 2,793 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.

34. Cash Flows

(a) Details of cash generated from operations for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Profit for the period	₩	284,716	308,779
Adjustments for:			
- Income tax expense		107,835	110,612
- Finance costs		1,704	3,320
- Finance income		(17,726)	(14,102)
- Depreciation		37,896	37,048
- Amortization		1,509	2,749
- Retirement and termination benefits		13,138	19,993
- Foreign currency translations loss		26,445	11,611
- Impairment loss on trade and other receivables		-	20
- Reversal of the write-down of inventories		(314)	(304)
- Loss on sale of property, plant and equipment		167	448
- Loss on sale of intangible assets		-	3
- Other expense		20,397	7,240
- Share of gain of associates		(604)	(821)
- Share of loss of associates		113	169
- Foreign currency translations gain		(8,836)	(10,668)
- Reversal of impairment loss on trade and other receivables		(1,856)	(3)
- Gain on sale of property, plant and equipment		(93)	(809)
- Gain on sale of intangible assets		(50)	(86)
		464,441	475,199
Changes in working capital:			
- Trade and other receivables		(14,110)	(78,520)
- Advance payments		(19,339)	(33,810)
- Prepaid expenses		1,447	(781)
- Prepaid tobacco excise and other taxes		3,362	(295,564)
- Inventories		80,678	48,515
- Trade and other payables		(90,571)	(42,292)
- Advance receipts		(8,675)	(14,353)
- Tobacco excise and other taxes payable		(133,137)	151,982
- Payment of retirement and termination benefits		(4,269)	(9,528)
Cash generated from operations	₩	279,827	200,848

34. Cash Flows, Continued

(b) Details of material transactions without cash inflow and outflow for the three-month periods ended March 31, 2016 and 2015 were as follows:

In millions of won		2016	2015
Transfer of retained earnings to dividend payable	₩	428,284	-
In-kind donation of treasury shares		19,200	5,448
Decrease in accrued expenses related with payment of retirement and termination benefits		(407)	(265)
Increase in other payables related with acquisition of property, plant and equipment		36	1,145
Increase (decrease) in advance receipts related with disposal of property, plant and equipment and non-current assets held for sale		150	(97)
Decrease in other receivables related with disposal of property, plant and equipment		99	-

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