KT&G CORPORATION AND SUBSIDIARIES

Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010 and 2009

(With Independent Accountants' Review Report Thereon)

Contents

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Independent Accountants' Review Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
KT&G Corporation:

We have reviewed the accompanying consolidated statement of financial position of KT&G Corporation and its subsidiaries (the "Group") as of March 31, 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2010 and 2009. Management is responsible for the preparation and fair presentation of these consolidated financial statements. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the Review Standards for Semi-Annual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. These Standards require that we plan and perform the review to obtain moderate assurance as to whether the consolidated financial statements are free of material misstatement. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data and, thus, provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the consolidated financial statements referred to above are not presented fairly, in all material respects, in accordance with Korean International Financial Reporting Standards.

The consolidated statement of financial position of the Group as of December 31, 2009, 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 11, 2010, expressed an unqualified opinion. The accompanying consolidated statement of financial position of the Group as of December 31, 2009, presented for comparative purposes, is not different from that audited by us in all material respects.

The accompanying consolidated financial statements as of and for the three-month period ended March 31, 2010 have been translated into United States dollars solely for the convenience of the reader. We have reviewed the translation and, in our opinion, the consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in note 4 to the consolidated financial statements.

The following matters may be helpful to the readers in their understanding of the consolidated financial statements:

As discussed in note 31 to the consolidated financial statements, the Group and the Korean government are defendants in lawsuits claiming damages of ₩ 584 million for the effects of smoking. The final outcome of these lawsuits cannot be predicted. Accordingly, no provisions have been made in accompanying consolidated financial statements.

As discussed in note 31 to the consolidated financial statements, the Group maintains a contract with the farmers under which they are to grow green ginseng and, once the product becomes six years old, sell the ginseng to the Group. The amount paid to the farmers in accordance with the contract is recognized in long-term advance payment and advance payment.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
May 10, 2010

This report is effective as of May 10, 2010, 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 financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

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

As of March 31, 2010 and December 31, 2009

In millions of Won and thousands of U.S. dollars	*Note*	2010 Korean Won	2010 U.S. dollars (note 4)	2009 Korean Won
Assets				
Property, plant and equipment	*6, 15*	₩ 1,462,503	$ 1,293,335	₩ 1,471,555
Intangible assets	*7*	56,175	49,677	55,700
Investment property	*8, 15*	103,227	91,287	104,115
Equity accounted investment	*5, 9*	1,751	1,548	1,584
Available-for-sale financial assets	*5, 10, 30*	518,296	458,344	442,083
Other financial assets	*15, 30*	376	333	286
Long-term deposits in MSA Escrow Fund	*11, 30, 31*	116,482	103,009	118,121
Long-term advance payments	*31*	133,474	118,035	133,362
Long-term prepaid expenses		6,729	5,950	6,412
Long-term trade and other receivables	*12, 29, 30*	118,929	105,173	130,047
Deferred income tax assets	*27*	7,603	6,724	8,169
Total non-current assets		2,525,545	2,233,415	2,471,434
Inventories	*13*	1,454,385	1,286,155	1,509,079
Current available-for-sale financial assets	*5, 10, 30*	1,910	1,689	1,957
Current other financial assets	*30*	3,926	3,472	926
Prepaid tobacco excise and other taxes		228,004	201,631	169,440
Trade and other receivables	*12, 29, 30*	590,529	522,223	600,804
Advance payments	*31*	84,866	75,050	43,614
Prepaid expenses		20,947	18,523	11,805
Cash and cash equivalents	*14, 30*	197,583	174,729	316,672
		2,582,150	2,283,472	2,654,297
Assets held for sale	*5, 15, 32*	46,152	40,813	46,152
Total current assets		2,628,302	2,324,285	2,700,449
Total assets	*5*	₩ 5,153,847	$ 4,557,700	₩ 5,171,883

See accompanying notes to consolidated financial statements.

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

As of March 31, 2010 and December 31, 2009

In millions of Won and thousands of U.S. dollars	*Note*	2010 Korean Won	2010 U.S. dollars (note 4)	2009 Korean Won
Equity				
Ordinary shares	*1, 16*	₩ 954,959	$ 844,499	₩ 954,959
Other capital surplus	*16*	5,321	4,705	5,321
Treasury shares	*17*	(226,945)	(200,694)	(226,945)
Gain on reissuance of treasury shares	*17*	468,274	414,109	468,274
Reserve	*18*	2,351,382	2,079,397	2,075,269
Retained earnings	*19*	310,978	275,008	704,012
Equity attributable to owners of the parent	*30*	3,863,969	3,417,024	3,980,890
Non-controlling interests		25,175	22,263	27,112
Total equity		3,889,144	3,439,287	4,008,002
Liabilities				
Long-term borrowings	*15, 20, 30*	1,901	1,681	2,026
Long-term trade and other payables	*21, 29, 30*	21,726	19,213	23,028
Long-term advance receipts	*24*	10,270	9,082	10,216
Defined benefit liabilities	*23*	32,849	29,049	35,445
Provision		2,344	2,073	2,258
Deferred income tax liabilities	*27*	207,458	183,461	167,345
Total non-current liabilities		276,548	244,559	240,318
Short-term borrowings	*15, 22, 29, 30*	82,432	72,897	94,532
Current portion of long-term borrowings	*15, 20, 30*	504	445	448
Trade and other payables	*21, 30*	413,293	365,487	326,598
Advance receipts		46,815	41,400	23,516
Income taxes payable	*27*	53,834	47,607	128,419
Tobacco excise and other taxes payable		391,277	346,018	350,050
Total current liabilities		988,155	873,854	923,563
Total liabilities	*5*	1,264,703	1,118,413	1,163,881
Total equity and liabilities		₩ 5,153,847	$ 4,557,700	₩ 5,171,883

See accompanying notes to consolidated financial statements.

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

For the three-month periods ended March 31, 2010 and 2009

In millions of Won and thousands of U.S. dollars, except earnings per share	*Note*	2010 Korean Won	2010 U.S. dollars (note 4)	2009 Korean Won
Sales	*5, 29*	₩ 780,936	$ 690,605	₩ 853,446
Cost of Sales	*29*	(321,752)	(284,535)	(359,798)
Gross profit		459,184	406,070	493,648
Other income	*25*	13,224	11,695	54,016
Selling expenses	*25*	(139,852)	(123,675)	(129,870)
General and administrative expenses	*25*	(54,977)	(48,618)	(58,717)
Other expense	*25*	(26,719)	(23,629)	(13,550)
Profit from operations	*5*	250,860	221,843	345,527
Net finance income (costs)	*26*	6,205	5,487	966
Share of loss of associates	*9*	(133)	(118)	(120)
Profit before income taxes		256,932	227,212	346,373
Income tax expense	*27*	(77,860)	(68,854)	(89,604)
Profit for the period		₩ 179,072	$ 158,358	₩ 256,769
Other comprehensive income:				
Available-for-sale financial assets, net of tax	*10, 26, 27*	59,399	52,529	51,346
Exchange differences on translating foreign operations, net of tax	*27*	(4,640)	(4,104)	2,142
Actuarial gains, net of tax	*23, 27*	3,468	3,067	1,018
Other comprehensive income for the period, net of tax		58,227	51,492	54,506
Total comprehensive income for the period		₩ 237,299	$ 209,850	₩ 311,275
Profit attributable to:				
- Owners of the parent		180,916	159,990	256,243
- Non-controlling interests		(1,844)	(1,632)	526
		₩ 179,072	$ 158,358	₩ 256,769
Total comprehensive income attributable to:				
- Owners of the parent		239,236	211,563	310,746
- Non-controlling interests		(1,937)	(1,713)	529
		₩ 237,299	$ 209,850	₩ 311,275
Earnings per share in Won:				
Basic and diluted	*28*	₩ 1,422	$ 1.00	₩ 1,991

See accompanying notes to consolidated financial statements.

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

For the three-month period ended March 31, 2010

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 interest	Total equity
Balance at January 1, 2010	₩	954,959	5,321	(226,945)	468,274	2,075,269	704,012	3,980,890	27,112	4,008,002
Total comprehensive income for the period:										
Profit for the period		-	-	-	-	-	180,916	180,916	(1,844)	179,072
Other comprehensive income:										
Available-for-sale financial assets, net of tax		-	-	-	-	59,399	-	59,399	-	59,399
Exchange differences on translating foreign operations, net of tax		-	-	-	-	(4,640)	-	(4,640)	-	(4,640)
Actuarial gains, net of tax		-	-	-	-	-	3,561	3,561	(93)	3,468
Total other comprehensive income		-	-	-	-	54,759	3,561	58,320	(93)	58,227
Total comprehensive income for the period		-	-	-	-	54,759	184,477	239,236	(1,937)	237,299
Transactions with owners and others, recorded directly in equity:										
Dividends		-	-	-	-	-	(356,157)	(356,157)	-	(356,157)
Transfer from reserve for research and human resource development		-	-	-	-	(15,000)	15,000	-	-	-
Transfer from reserve for loss on reissuance of treasury shares		-	-	-	-	(26,646)	26,646	-	-	-
Transfer to reserve for research and human resource development		-	-	-	-	60,000	(60,000)	-	-	-
Transfer to unconditional reserve		-	-	-	-	203,000	(203,000)	-	-	-
Total transactions with owners and others		-	-	-	-	221,354	(577,511)	(356,157)	-	(356,157)
Balance at March 31, 2010	₩	954,959	5,321	(226,945)	468,274	2,351,382	310,978	3,863,969	25,175	3,889,144

See accompanying notes to consolidated financial statements.

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

For the three-month period ended March 31, 2010

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 interest	Total equity
Balance at January 1, 2010	$	844,499	4,705	(200,694)	414,109	1,835,222	622,579	3,520,420	23,976	3,544,396
Total comprehensive income for the period:										
Profit for the period		-	-	-	-	-	159,990	159,990	(1,632)	158,358
Other comprehensive income:										
Available-for-sale financial assets, net of tax		-	-	-	-	52,529	-	52,529	-	52,529
Exchange differences on translating foreign operations, net of tax		-	-	-	-	(4,104)	-	(4,104)	-	(4,104)
Actuarial gains, net of tax		-	-	-	-	-	3,148	3,148	(81)	3,067
Total other comprehensive income		-	-	-	-	48,425	3,148	51,573	(81)	51,492
Total comprehensive income for the period		-	-	-	-	48,425	163,138	211,563	(1,713)	209,850
Transactions with owners and others, recorded directly in equity:										
Dividends		-	-	-	-	-	(314,959)	(314,959)	-	(314,959)
Transfer from reserve for research and human resource development		-	-	-	-	(13,265)	13,265	-	-	-
Transfer from reserve for loss on reissuance of treasury shares		-	-	-	-	(23,564)	23,564	-	-	-
Transfer to reserve for research and human resource development		-	-	-	-	53,060	(53,060)	-	-	-
Transfer to unconditional reserve		-	-	-	-	179,519	(179,519)	-	-	-
Total transactions with owners and others		-	-	-	-	195,750	(510,709)	(314,959)	-	(314,959)
Balance at March 31, 2010	$	844,499	4,705	(200,694)	414,109	2,079,397	275,008	3,417,024	22,263	3,439,287

See accompanying notes to consolidated financial statements.

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

For the three-month period ended March 31, 2009

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 interest	Total equity
Balance at January 1, 2009	₩	954,959	2,869	(226,945)	468,274	1,825,710	451,406	3,476,273	27,564	3,503,837
Total comprehensive income for the period:										
Profit for the period		-	-	-	-	-	256,243	256,243	526	256,769
Other comprehensive income:										
Available-for-sale financial assets, net of tax		-	-	-	-	51,346	-	51,346	-	51,346
Exchange differences on translating foreign operations, net of tax		-	-	-	-	2,142	-	2,142	-	2,142
Actuarial gains, net of tax		-	-	-	-	-	1,015	1,015	3	1,018
Total other comprehensive income		-	-	-	-	53,488	1,015	54,503	3	54,506
Total comprehensive income for the period		-	-	-	-	53,488	257,258	310,746	529	311,275
Transactions with owners and others, recorded directly in equity:										
Dividends		-	-	-	-	-	(360,357)	(360,357)	-	(360,357)
Transfer to unconditional reserve		-	-	-	-	169,000	(169,000)	-	-	-
Transfer from reserve for research and human resource development		-	-	-	-	(15,000)	15,000	-	-	-
Expiration of employee share options		-	2,452	-	-	(2,452)	-	-	-	-
Total transactions with owners and others		-	2,452	-	-	151,548	(514,357)	(360,357)	-	(360,357)
Balance at March 31, 2009	₩	954,959	5,321	(226,945)	468,274	2,030,746	194,307	3,426,662	28,093	3,454,755

See accompanying notes to consolidated financial statements.

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

For the three-month periods ended March 31, 2010 and 2009

In millions of Won and thousands of U.S. dollars	*Note*	2010 Korean Won	2010 U.S. dollars (note 4)	2009 Korean Won
Cash flows from operating activities				
Cash generated from operations	*33*	₩ 311,648	$ 275,600	₩ 282,818
Income tax paid		(51,907)	(45,903)	(82,370)
Net cash from operating activities		259,741	229,697	200,448
Cash flows from investing activities				
Interest received		4,395	3,886	2,906
Proceeds from sale of property, plant and equipment		8,437	7,461	3,304
Proceeds from sale of intangible assets		538	476	61
Proceeds from sale of available-for-sale financial assets		967	855	4
Collection of loans		18,872	16,689	4,845
Withdrawal of guarantee deposits		7,634	6,751	5,345
Purchases of property, plant and equipment		(34,233)	(30,274)	(24,610)
Acquisition of intangible assets		(1,441)	(1,274)	(1,023)
Acquisition of investment property		-	-	(48)
Purchases of equity accounted investment		-	-	(500)
Purchases of available-for-sale financial assets		(623)	(551)	(8,550)
Increase in loans		(2,724)	(2,409)	(1,256)
Payments for guarantee deposits		(13,118)	(11,600)	(9,546)
Payments for long-term deposits in MSA Escrow Fund		(1,732)	(1,532)	(4,434)
Settlement of financial derivatives		-	-	(4,410)
Cash flows from other investing activities		(3,078)	(2,721)	978
Net cash used in investing activities		(16,106)	(14,243)	(36,934)
Cash flows from financing activities				
Interest paid		(1,226)	(1,084)	(1,144)
Dividends paid		(356,157)	(314,960)	-
Proceeds from short-term borrowings		15,813	13,984	21,770
Increase in deposits received		452	399	191
Repayment of long-term borrowings		(70)	(62)	-
Repayment of short-term borrowings		(18,595)	(16,444)	(42,495)
Decrease in deposits received		(1,901)	(1,681)	(1,127)
Net cash used in financing activities		(361,684)	(319,848)	(22,805)
Net increase (decrease) in cash and cash equivalents		(118,049)	(104,394)	140,709
Cash and cash equivalents at beginning of period		316,672	280,042	110,245
Effect of exchange rate fluctuation on cash held		(1,040)	(919)	1,153
Cash and cash equivalents at end of period		₩ 197,583	$ 174,729	₩ 252,107

See accompanying notes to consolidated financial statements.

March 31, 2010 and 2009

1 Organization and Description of Business

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

As of March 31, 2010, the Parent Company has four manufacturing plants, including the Shin Tan Jin plant, and 14 local headquarters and 168 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Chunahn printing plant for the manufacturing of packaging, and has its head office in Pyeongchon-dong, Daedeok-gu, Daejeon.

Pursuant to the Korean Government's privatization program and management reorganization plan, on December 28, 1998, the shareholders approved a plan to separate the Parent Company into two companies by setting up a subsidiary for its red ginseng business segment effective January 1, 1999. The separation was accomplished by the Parent Company's contribution of the assets and liabilities in the red ginseng business segment into a wholly-owned subsidiary, Korea Ginseng Corporation.

On October 17, 2002 and October 31, 2001, the Parent Company listed 35,816,658 and 45,400,000 Global Depositary Receipts ("GDR") (each GDR representing the right to receive one-half share of 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 share at March 31, 2010 is held as follows:

Shareholder	Number of shares	Percentage of ownership
Industrial Bank of Korea	9,510,485	6.93%
Employee Share Ownership Association	5,271,558	3.84%
Treasury shares	10,093,697	7.35%
Others	112,416,757	81.88%
	137,292,497	100.00%

2 Basis of Preparation

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audit of Corporations. K-IFRS is effective from the fiscal year beginning on or after January 1, 2011 and the Group early-adopted K-IFRS from 2009.

The consolidated financial statements have been prepared in accordance with K-IFRS No.1034 *Interim Financial Reporting*.

(b) Basis of Measurement

The consolidated financial statements have been prepared under the historical cost basis except as described in the accounting policy below on financial instruments, inventories valued at net realizable value and share-based payments.

(c) Use of Estimates and Judgments

The preparation of the consolidated 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.

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

- Classification of investment property – note 3 (e)
- Deferred revenue – note 3 (s).

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

- Measurement of defined benefit obligations – note 23
- Provisions and contingencies – note 31.

3 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies

(a) Basis of Consolidation

Subsidiaries
A subsidiary is an entity controlled by the Group, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing the control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Profit or loss and each component of other comprehensive income are attributed to owners of the Parent Company and to non-controlling interests. Total comprehensive income is attributed to owners of the Parent Company and to non-controlling interests even if this results in non-controlling interests having a deficit balance.

Associate
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate after the date of acquisition. If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign Currencies

These consolidated financial statements are presented in Korean Won, which is the Parent Company's functional currency that is the currency of the primary economic environment in which the Group operates.

Foreign currency transactions are initially recorded using the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated using the closing rate. 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. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise. When gains or losses on non-monetary items are recognized in other comprehensive income, exchange components of that gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on non-monetary items are recognized in profit or loss, exchange components of that gains or losses are recognized in profit or loss.

3 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies (continued)

(b) Foreign Currencies (continued)

If the functional currency of foreign operations differs from the Group's presentation currency, assets and liabilities for each statement of financial position presented (including comparatives) are translated using the exchange rate at the date of that statement of financial position and income and expenses for each statement of comprehensive income presented (including comparatives) are translated using the exchange rates at the dates of the transactions. All resulting exchange differences are recognized in other comprehensive income.

(c) Property, Plant and Equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditure arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for them to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which they are located. In addition, in the preparation of the opening K-IFRS consolidated statement of financial position on the date of transition to K-IFRS, the Group measures some land at deemed cost which is fair value at the date of transition in accordance with K-IFRS No.1101.

Subsequent costs are recognized in the carrying amount of property, plant and equipment 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.

Property, plant and equipment, except for land and other tangible fixed assets, are depreciated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

	Useful lives (years)
Buildings and structures	4 ~ 60
Machinery and vehicles	2 ~ 20
Tools, furniture and fixtures	4 ~ 5

Each part of property, plant and equipment with a cost that is significant in relation to the total cost is depreciated separately.

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

3 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies (continued)

(d) Intangible Assets

Intangible assets are measured initially at cost and after initial recognition, are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets consist of industrial property rights, rights to facility usage and other intangible asset. 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 rights to facility usage and some of industrial property right 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	10 ~ 20 or indefinite
Rights to facility usage	indefinite
Other intangible assets	15

The amortization period and the amortization method for intangible assets with a finite useful life are reviewed at each financial year-end. The useful lives of intangible assets that are not being amortized are reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for those assets. If it is appropriate to change, such a change is accounted for as a change in an accounting estimate.

(e) Investment Property

Properties held to earn rental or for capital appreciation are classified as investment properties. Investment properties are measured initially at its cost including transaction costs and after initial recognition, are carried at cost less accumulated depreciation and 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 properties, except for land, are depreciated on a straight-line basis over 10 ~ 60 years, the estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The change is accounted for as a change in an accounting estimate.

(f) 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.

3 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies (continued)

(f) Inventories (continued)

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 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 ₩357,601 million and ₩362,594 million, respectively, as of March 31, 2010 and December 31, 2009.

(g) Non-Derivative Financial Assets

The Group classifies a non-derivative financial asset into the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables or available-for-sale financial assets, relating to recognition and measurement of financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial asset. The Group derecognizes financial assets from the consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire or the Group transfers the contractual rights to receive the cash flows on the financial asset in a transaction in which and all the risks and rewards of ownership of the financial asset are substantially transferred. 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 asset and recognizes financial liabilities for the consideration received.

Non-derivative financial assets comprise investments in equity and debt securities, long-term deposits in MSA Escrow Fund, trade and other receivables and cash and cash equivalents. When non-derivative financial assets are recognized initially, the Group measures it at its fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Financial Assets at Fair Value through Profit or Loss
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.

Held-to-maturity Investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity investments. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

3 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies (continued)

(g) Non-Derivative Financial Assets (continued)

Loans and Receivables
Loans and receivables are trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for short-term receivables of which the effect of discounting is immaterial.

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 and changes therein are recognized directly in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary available-for-sale financial asset. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When the financial asset is derecognized or impairment losses is recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date. Bank overdrafts are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(h) Non-Derivative Financial Liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or 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 consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability and removes financial liabilities from the consolidated statement of financial position when the financial liability is extinguished.

Non-derivative financial liabilities comprise borrowings and trade and other payables. When non-derivative financial liabilities are recognized initially, the Group measures it at its fair value minus, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

Financial Liabilities at Fair Value through Profit or Loss
Financial liabilities 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 liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

3 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies (continued)

(h) Non-Derivative Financial Liabilities (continued)

Other Financial Liabilities
Other financial liabilities are those non-derivative financial liabilities that are not classified as financial liabilities at fair value through profit or loss. After initial recognition, other financial liabilities are measured at amortized cost using the effective interest method except for short-term liabilities of which the effect of discounting is immaterial.

(i) Derivative Financial Instruments

Derivatives are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss when incurred.

A hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment that is attributable to a particular risk is accounted for as a fair value hedge. A hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction is accounted for cash flow hedge.

At the inception of the hedge, the Group formally designates the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge and documents identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness. The Group assesses the hedge effectiveness on an ongoing basis throughout the financial reporting periods for which the hedge was designated.

Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Fair value hedges
The gain or loss from remeasuring the hedging instrument designated as a fair value hedge at fair value and the gain or loss on the hedged item attributable to the hedged risk is recognized in profit or loss.

Cash flow hedges
The portion of the gain or loss on the hedging instrument designated as a cash value hedge that is determined to be an effective hedge is recognized in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss. The associated gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed and included in the initial cost or other carrying amount of the asset or liability.

If the hedging instrument expires or is sold, terminated or exercised or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation, the hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified from equity to profit or loss when the forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss that had been recognized in other comprehensive income is immediately reclassified from equity to profit or loss.

3 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies (continued)

(i) Derivative Financial Instruments (continued)

Changes in the fair value of derivatives that are not designated as hedging instrument or do not meet the criteria for hedge accounting are recognized immediately in profit or loss.

As of March 31, 2010, the Group does not have derivative financial instruments.

(j) Non-current Assets Held for Sale

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use, and measures it at the lower of its carrying amount and fair value less costs to sell.

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

The Group recognizes an impairment loss for write-down of the asset (or disposal group) to fair value less costs to sell and a gain for increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized previously in accordance with K-IFRS No.1036 *Impairment of Assets*.

(k) 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, 2010 and 2009 were ₩750,231 million and ₩887,274 million, respectively.

Revenue from the building lotting-out construction contracts is recognized upon delivery when the significant risks and rewards of ownership of the goods are transferred to the buyer.

Revenue associated with the transaction involving the rendering of services is recognized by reference to the stage of completion of the transaction at the end of the reporting period when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Revenue arising from the use by others of the Group assets yielding interest, royalties and dividends is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

3 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies (continued)

(k) Revenue Recognition (continued)

In addition, interest is recognized using the effective interest method, royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement and dividends are recognized when the shareholder's right to receive is established.

(l) Impairment of Non-financial Assets

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that it may be impaired. If there is any indication that an asset may be impaired, recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

The recoverable amount is measured as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. If the recoverable amount of an asset or cash-generating unit is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognized in profit or loss.

(m) Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired, except a financial asset at fair value through profit or loss. A financial asset or group of financial assets is considered to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. For specific financial assets such as trade receivables, if the Group determines that no objective evidence of impairment exists for and individually assessed financial asset, it collectively assesses them for impairment. The objective evidence that the group of loans and receivables is impaired includes an increased number of delayed payments and an adverse change in national or local economic conditions that correlate with defaults on the assets in the group.

The amount of the impairment loss on financial assets carried at amortized cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognized in profit or loss. 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. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

The amount of the impairment loss on financial assets carried at cost 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 be reversed.

3 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies (continued)

(m) Impairment of Financial Assets (continued)

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 equity 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.

(n) Income Taxes

Income tax expense comprises current tax expense and deferred tax expense. Current and deferred taxes are recognized as an expense included in profit or loss for the period, except to the extent that the tax arises from a transaction which is recognized in other comprehensive income or directly in equity.

Current tax expense is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized for temporary differences which are differences between the carrying amount of an asset or liability in the consolidated statement of financial position and its tax base, the carryforward of unused tax losses and unused tax credits. 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 that have been enacted or substantively enacted by the end of the reporting period.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates, except to the extent that the Group is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that, and only 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. The Group reduces the carrying amount of a deferred tax asset 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 these deferred tax assets to be utilized. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

3 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies (continued)

(o) Dividends

The dividends declared to holders of equity instruments after the reporting period are not recognized as a liability at the end of the reporting period.

(p) Equity Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the equity transaction are recognized as a deduction from equity, net of any tax effects.

If the Group reacquires its own equity instruments, those instruments ("treasury shares") are presented as a deduction from total equity. The gain or loss on the purchase, sale, issue or cancellation of treasury shares is not recognized in profit or loss but recognized directly in equity.

(q) Provisions, Contingent Assets and Contingent Liabilities

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 amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. 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, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. 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.

In addition, with regard to returns, the Group recognizes revenue, net of estimated returns and provides for the estimated liability at the time revenue is recognized. The related estimated cost of returns is added to the cost of sales or selling, general and administrative expenses. At the point of return, differences arising from estimates are recognized as cost of sales or selling, general and administrative expenses.

(r) Employee Benefits

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.

3 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies (continued)

(r) Employee Benefits (continued)

The Group recognizes the expected cost of profit-sharing and bonus payments if the Group has a present legal or constructive obligation to make such payments as a result of past events; and a reliable estimate of the obligation can be made.

Retirement Benefits: Defined Contribution Plans
With regard to the defined contribution plan, 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.

Retirement Benefits: Defined Benefit Plans
The Group classifies retirement benefits plans other than defined contribution plans as defined benefit plans. The defined benefit liabilities are calculated at the present value of the defined benefit obligations less the fair value of the plan assets at the end of the reporting period.

In determining the present value of its defined benefit obligations and the related current service cost, the Group uses the projected unit credit method.

With regard to actuarial gains and losses which arise from application of actuarial assumptions, the Group recognizes all actuarial gains and losses in other comprehensive income. Actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings and are not reclassified to profit or loss in a subsequent period.

(s) Deferred Revenue

With regard to ginseng sales, the Group uses a customer loyalty program to provide customers with incentives to buy goods. The Group has provided points to the customers, who can redeem them in the future for free or discounted goods. The fair value of points is estimated by considering the fair value of ginseng provided to customers for the redemption of points and expected rate and timing of redemption. The fair value of points provided to the customers among the consideration received or receivable from the sales transaction is deferred and recognized as revenue over the period during which the service is performed.

(t) Share-based Payment

For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

3 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies (continued)

(t) Share-based Payment (continued)

For share-based payment transactions in which the terms of the arrangement provide either the Group or the counterparty with the choice of whether the Group settles the transaction in cash or by issuing equity instruments, the Group accounts for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

(u) Earning per Share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss for the period attributable to owners of the Parent Company by the weighted-average number of shares outstanding during the period.

Diluted earnings per share are determined by adjusting the profit or loss for the period attributable to owners of the Parent Company and the weighted-average number of shares outstanding for the effects of all dilutive potential shares, which comprise employee share options.

(v) Segments Reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services, which is determined based on the Group's internal report that is regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group has four operating segments - manufacturing and selling tobacco (the "Tobacco" segment), manufacturing and selling ginseng products (the "Ginseng" segment), sales or rent of real estate (the "Real Estate" segment) and other operations. The Group's geographical segment information is not included in the consolidated financial statements since segment revenues, segment assets and segment liabilities from external customers attributed to an individual foreign country are immaterial. The prices agreed between the Group companies for intra-group transactions are based on normal commercial practices which would apply between independent businesses.

4 Basis of Translating Financial Statements

The consolidated financial statements are expressed in Korean Won and have been translated into U.S. dollars at the rate of ₩1,130.80 to $1, the basic exchange rate on March 31, 2010, 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 United States dollars at this or any other rate.

March 31, 2010 and 2009

5 Segment Information

(a) Details of the Group's operating segment are summarized as follows:

Operating segments	Principal operation
Tobacco	Manufacturing and selling of tobacco
Ginseng	Manufacturing and selling of red ginseng
Real estate	Selling and renting of real estate
Others	Manufacturing and selling of medicines and others

(b) Segment information on revenue and profit from operations for the three-month period ended March 31, 2010 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩	507,542	224,472	33,189	39,440	804,643	(23,707)	780,936
Less: Inter-segment sales		2,874	16,392	874	3,567	23,707	(23,707)	-
External sales	₩	504,668	208,080	32,315	35,873	780,936	-	780,936
Profit from operations	₩	178,231	61,027	9,019	166	248,443	2,417	250,860

(c) Segment information on revenue and profit from operations for the three-month period ended March 31, 2009 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩	567,945	175,604	104,072	31,663	879,284	(25,838)	853,446
Less: Inter-segment sales		4,490	16,599	1,058	3,691	25,838	(25,838)	-
External sales	₩	563,455	159,005	103,014	27,972	853,446	-	853,446
Profit from operations	₩	251,191	53,556	35,288	5,492	345,527	-	345,527

(d) Segment information on assets and liabilities as of March 31, 2010 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets:								
Segment assets	₩	3,375,757	835,749	138,173	110,686	4,460,365	(84,117)	4,376,248
Equity accounted investments		723,160	8,253	-	-	731,413	(729,662)	1,751
Available-for-sale financial assets		519,965	-	-	241	520,206	-	520,206
Assets held-for-sale		23,246	-	-	22,906	46,152	-	46,152
		4,642,128	844,002	138,173	133,833	5,758,136	(813,779)	4,944,357
Unallocated assets								209,490
Total assets	₩							5,153,847
Liabilities:								
Segment liabilities	₩	932,533	122,440	-	80,822	1,135,795	(78,549)	1,057,246
Unallocated liabilities								207,457
Total liabilities	₩							1,264,703

5 Segment Information (continued)

(e) Segment information on assets and liabilities as of December 31, 2009 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets:								
Segment assets	₩	3,305,202	841,364	157,932	112,558	4,417,056	(63,006)	4,354,050
Equity accounted investments		723,160	8,252	-	-	731,412	(729,828)	1,584
Available-for-sale financial assets		443,800	-	-	240	444,040	-	444,040
Assets held-for-sale		23,245	-	-	22,907	46,152	-	46,152
		4,495,407	849,616	157,932	135,705	5,638,660	(792,834)	4,845,826
Unallocated assets								326,057
Total assets	₩							5,171,883
Liabilities:								
Segment liabilities	₩	863,367	113,692	-	76,455	1,053,514	(56,978)	996,536
Unallocated liabilities								167,345
Total liabilities	₩							1,163,881

(f) The extent of reliance on major customers

Revenues from major customers of which revenues amount to 10 percent or more of the Group's total revenues for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won Segment	Major customers		2010	2009
Tobacco	Alokozay International Ltd.	₩	80,529	99,233

6 Property, Plant and Equipment

(a) Changes in property, plant and equipment for the three-month period ended March 31, 2010 were as follows:

In millions of Won		Land, buildings and structures	Machinery and vehicles	Tools, furniture, fixtures and other	Construction-in-progress	Total
Cost:						
Balance at January 1, 2010	₩	1,196,109	981,089	271,729	69,340	2,518,267
Additions		402	1,239	6,429	26,163	34,233
Disposals		(163)	(21,310)	(6,856)	(66)	(28,395)
Net exchange difference		(995)	(1,034)	(87)	(652)	(2,768)
Other		-	768	464	(1,665)	(433)
Balance at March 31, 2010	₩	1,195,353	960,752	271,679	93,120	2,520,904
Accumulated depreciation and impairment:						
Balance at January 1, 2010	₩	(266,932)	(585,791)	(193,989)	-	(1,046,712)
Disposals		78	19,485	5,408	-	24,971
Depreciation		(8,407)	(18,558)	(9,981)	-	(36,946)
Net exchange difference		47	208	31	-	286
Balance at March 31, 2010	₩	(275,214)	(584,656)	(198,531)	-	(1,058,401)
Carrying amount:						
Balance at January 1, 2010	₩	929,177	395,298	77,740	69,340	1,471,555
Balance at March 31, 2010	₩	920,139	376,096	73,148	93,120	1,462,503

Other changes for the three-month period ended March 31, 2010 include the carrying amount of construction-in-progress transferred to operating expenditures amounting to ₩433 million.

For the three-month period ended March 31, 2009, the Group purchased and disposed of property, plant and equipment amounting to ₩24,610 million and ₩1,680 million, respectively.

March 31, 2010 and 2009

6 Property, Plant and Equipment (continued)

(b) Changes in property, plant and equipment for the year ended December 31, 2009 were as follows:

In millions of Won		Land, buildings and structures	Machinery and vehicles	Tools, furniture, fixtures and other	Construction-in-progress	Total
Cost:						
Balance at January 1, 2009	₩	1,169,943	972,038	244,203	57,120	2,443,304
Additions		20,980	18,138	26,030	87,100	152,248
Disposals		(14,458)	(20,802)	(3,922)	-	(39,182)
Net exchange difference		(1,760)	(2,011)	(116)	(2,343)	(6,230)
Other		21,404	13,726	5,534	(72,537)	(31,873)
Balance at December 31, 2009	₩	1,196,109	981,089	271,729	69,340	2,518,267
Accumulated depreciation and impairment:						
Balance at January 1, 2009	₩	(238,505)	(545,099)	(155,709)	-	(939,313)
Disposals		3,153	18,111	3,551	-	24,815
Depreciation		(32,486)	(73,923)	(41,937)	-	(148,346)
Impairment		-	(657)	-	-	(657)
Net exchange difference		66	243	48	-	357
Other		840	15,534	58	-	16,432
Balance at December 31, 2009	₩	(266,932)	(585,791)	(193,989)	-	(1,046,712)
Carrying amount:						
Balance at January 1, 2009	₩	931,438	426,939	88,494	57,120	1,503,991
Balance at December 31, 2009	₩	929,177	395,298	77,740	69,340	1,471,555

Other changes for the year ended December 31, 2009 include the amount transferred to non-current assets held for sale amounting to ₩23,245 million. The Group recognized ₩657 million of impairment loss on the machinery of the Wanju plant relating to discontinuing production of medicine products for the year ended December 31, 2009.

7 Intangible Assets

(a) Changes in intangible assets for the three-month period ended March 31, 2010 were as follows:

In millions of Won		Industrial property rights	Rights to facility usage	Other intangible assets	Intangible assets under development	Total
Cost:						
Balance at January 1, 2010	₩	9,299	20,750	9,733	31,135	70,917
Additions		116	-	387	938	1,441
Disposals		(105)	(386)	-	(171)	(662)
Net exchange difference		-	-	(20)	-	(20)
Others		(36)	-	275	(239)	-
Balance at March 31, 2010	₩	9,274	20,364	10,375	31,663	71,676
Accumulated amortization and impairment:						
Balance at January 1, 2010	₩	(7,818)	-	(6,752)	(647)	(15,217)
Amortization		(16)	-	(278)	-	(294)
Net exchange difference		-	-	10	-	10
Others		275	-	(275)	-	-
Balance at March 31, 2010	₩	(7,559)	-	(7,295)	(647)	(15,501)
Carrying amount:						
Balance at January 1, 2010	₩	1,481	20,750	2,981	30,488	55,700
Balance at March 31, 2010	₩	1,715	20,364	3,080	31,016	56,175

The Group purchased and disposed intangible assets amounting to ₩1,023 million and ₩62 million for the three-month period ended March 31, 2009.

7 Intangible Assets (continued)

(b) Changes in intangible assets for the year ended December 31, 2009 were as follows:

In millions of Won		Industrial property rights	Rights to facility usage	Other intangible assets	Intangible assets under development	Total
Cost:						
Balance at January 1, 2009	₩	9,404	19,964	8,527	27,172	65,067
Additions		159	764	1,006	3,963	5,892
Disposals		-	(64)	-	-	(64)
Net exchange difference		-	-	(27)	-	(27)
Other		(264)	86	227	-	49
Balance at December 31, 2009	₩	9,299	20,750	9,733	31,135	70,917
Accumulated amortization and impairment:						
Balance at January 1, 2009	₩	(7,557)	-	(5,576)	-	(13,133)
Amortization		(263)	-	(1,229)	-	(1,492)
Impairment		-	-	-	(647)	(647)
Net exchange difference		-	-	17	-	17
Other		2	-	36	-	38
Balance at December 31, 2009	₩	(7,818)	-	(6,752)	(647)	(15,217)
Carrying amount:						
Balance at January 1, 2009	₩	1,847	19,964	2,951	27,172	51,934
Balance at December 31, 2009	₩	1,481	20,750	2,981	30,488	55,700

The Group recognized ₩647 million of impairment loss on the intangible assets under development due to the relinquishment of the industrial property rights for the year ended December 31, 2009.

(c) Expenditures not capitalized for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Cost of sales	₩	178	141
Selling expenses		1,610	1,231
General and administrative expenses		1,644	2,432
	₩	3,432	3,804

8 Investment Property

(a) Changes in investment property for the three-month period ended March 31, 2010 were as follows:

In millions of Won		Land	Buildings	Total
Cost:				
Balance at January 1, 2010	₩	15,385	117,885	133,270
Subsequent expenditure		-	-	-
Balance at March 31, 2010	₩	15,385	117,885	133,270
Accumulated depreciation and impairment:				
Balance at January 1, 2010	₩	-	(29,155)	(29,155)
Depreciation		-	(888)	(888)
Balance at March 31, 2010	₩	-	(30,043)	(30,043)
Carrying amount:				
Balance at January 1, 2010	₩	15,385	88,730	104,115
Balance at March 31, 2010	₩	15,385	87,842	103,227

(b) Changes in investment property for the year ended December 31, 2009 were as follows:

In millions of Won		Land	Buildings	Total
Cost:				
Balance at January 1, 2009	₩	15,385	117,562	132,947
Subsequent expenditure		-	323	323
Balance at December 31, 2009	₩	15,385	117,885	133,270
Accumulated depreciation and impairment:				
Balance at January 1, 2009	₩	-	(25,617)	(25,617)
Depreciation		-	(3,538)	(3,538)
Balance at December 31, 2009	₩	-	(29,155)	(29,155)
Carrying amount:				
Balance at January 1, 2009	₩	15,385	91,945	107,330
Balance at December 31, 2009	₩	15,385	88,730	104,115

8 Investment Property (continued)

(c) The amounts recognized in profit or loss from investment property for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Rental income	₩	4,400	5,658
Direct operating expense		(888)	(882)
	₩	3,512	4,776

(d) The carrying amount and the fair value of investment property as of March 31, 2010 and December 31, 2009 were as follows:

		March 31 2010		December 31 2009	
In millions of Won		Fair value	Carrying amount	Fair value	Carrying amount
Land	₩	207,717	15,385	207,717	15,385
Buildings		111,184	87,842	111,184	88,730
	₩	318,901	103,227	318,901	104,115

9 Equity Accounted Investment

(a) Equity accounted investments as of March 31, 2010 and December 31, 2009 are summarized as follows:

In millions of Won, except percentage of ownership			March 31 2010			December 31 2009		
Associate	Location	Principal operation	Percentage of ownership		Carrying amount	Percentage of ownership		Carrying amount
Cosmo Tabacco Co., Ltd.	Mongolia	Manufacturing and selling tobacco	40.00%	₩	-	40.00%	₩	-
Lite Pharm Tech, Inc.	Korea	Manufacturing medical supplies	25.34%		783	29.46%		572
Korean Carbon Finance, Inc.	Korea	Emissions trading	20.00%		968	20.00%		1,012
				₩	1,751		₩	1,584

Cosmo Tabacco Co., Ltd. was in the process of liquidation as of March 31, 2010 and December 31, 2009. The Group has discontinued application of the equity method to Cosmo Tabacco Co., Ltd. as the carrying amount of investment in Cosmo Tabacco Co., Ltd. has reduced to zero due to accumulated deficit.

In 2010, Lite Pharm Tech, Inc. exercised asymmetric paid-in capital increase and consequently, the Group's percentage of ownership decreased from 29.46% to 25.34%. With relation to the transaction, the Group recognized gain in the amount of ₩300 million for the three-month period ended March 31, 2010.

9 Equity Accounted Investment (continued)

(b) Changes in equity accounted investments for the year ended March 31, 2010 were as follows:

In millions of Won

Associate		Balance at beginning of period	Acquisition	Share of profit or loss of associates	Other	Balance at end of period
Lite Pharm Tech, Inc.	₩	572	-	(89)	300	783
Korean Carbon Finance, Inc.		1,012	-	(44)	-	968
	₩	1,584	-	(133)	300	1,751

(c) Changes in equity accounted investments for the year ended December 31, 2009 were as follows:

In millions of Won

Associate		Balance at beginning of period	Acquisition	Share of profit or loss of associates	Disposal	Balance at end of period
Korea Islet Transplantation, Inc.	₩	72	-	(71)	(1)	-
Lite Pharm Tech, Inc.		692	-	(120)	-	572
Korean Carbon Finance, Inc.		506	500	6	-	1,012
	₩	1,270	500	(185)	(1)	1,584

(d) Summarized financial information on associates as of and for the three-month period ended March 31, 2010 was as follows:

In millions of Won

Associate		Total assets	Total liabilities	Revenue	Profit or loss
Lite Pharm Tech, Inc.	₩	4,384	1,295	46	(352)
Korean Carbon Finance, Inc.		4,873	33	-	(223)

(e) Summarized financial information on associates as of and for the year ended December 31, 2009 was as follows:

In millions of Won

Associate		Total assets	Total liabilities	Revenue	Profit or loss
Lite Pharm Tech, Inc.	₩	3,366	1,425	902	(409)
Korean Carbon Finance, Inc.		5,108	45	764	46

10 Available-for-sale Financial Assets

(a) Changes in available-for-sale financial assets for the three-month period ended March 31, 2010 and the year ended December 31, 2009 were as follows:

In millions of Won		2010	2009
Balance at beginning of period	₩	444,040	304,270
Acquisitions		623	11,995
Net changes in fair value before tax		76,153	129,558
Disposals		(610)	(1,783)
Balance at end of period	₩	520,206	444,040
Current	₩	1,910	1,957
Non-current		518,296	442,083
	₩	520,206	444,040

(b) Available-for-sale financial assets as of March 31, 2010 and December 31, 2009 are summarized as follows:

In millions of Won		March 31 2010	December 31 2009
Available-for-sale debt instruments:			
- Government and municipal bonds	₩	2,150	2,196
- Corporate bonds		2,040	2,040
Total available-for-sale debt instruments		4,190	4,236
Available-for-sale equity instruments:			
Listed			
- Yonhap Television News (YTN)		40,350	38,967
- Crystal Genomics Co., Ltd.		1,615	1,748
- Oscotech, Inc.		1,241	780
- Shinhan Financial Group Co., Ltd.		178,171	173,161
- Rexahn Pharmaceuticals, Inc.		11,254	4,878
- Celltrion, Inc.		258,662	195,462
- Genematrix, Inc.		-	708
		491,293	415,704
Unlisted			
- Dream Hub PFV Co., Ltd.		15,975	15,975
- Migami, Inc.		3,988	3,365
- Other unlisted available-for-sale equity instruments		4,760	4,760
		24,723	24,100
Total available-for-sale equity instruments		516,016	439,804
Total available-for-sale financial assets	₩	520,206	444,040

10 Available-for-sale Financial Assets (continued)

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

The fair value of Dream Hub PFV Co., Ltd. that does not have market price in an active market is established by the independent rating agency using a valuation method. The fair value of Dream Hub PFV Co., Ltd. is established on the basis of the value per share determined by using discounted cash flow model and net asset valuation model and estimation of probability distribution of the value per share.

The other unlisted available-for-sale equity instruments that do not have market price in an active market and whose fair value cannot be reliably measured and available-for-sale debt instruments whose fair value is similar to their carrying amount, are measured at cost.

11 Long-term Deposits in MSA Escrow Fund

(a) Long-term deposits in MSA Escrow Fund as of March 31, 2010 and December 31, 2009 are summarized as follows:

In millions of Won		March 31 2010	December 31 2009
MMF	₩	6,452	4,874
T-Bill		55,524	57,287
T-Note		54,506	55,960
	₩	116,482	118,121

(b) As discussed in notes 31 to consolidated financial statements, long-term deposits in MSA Escrow Fund are deposited to the United States government related to the export of tobacco to the United States. The payments of long-term deposits in MSA Escrow Fund for the three-month periods ended March 31, 2010 and 2009 are ₩1,732 million and ₩4,434 million, respectively.

(c) Investment income on long-term deposits in MSA Escrow Fund for the three-month periods ended March 31, 2010 and 2009 are ₩352 million and ₩3 million, respectively.

(d) Long-term deposits in MSA Escrow Fund are measured at quoted prices in an active market.

12 Trade and Other Receivables

(a) Trade and other receivables as of March 31, 2010 and December 31, 2009 are summarized as follows:

		March 31 2010		December 31 2009	
In millions of Won		Current	Non-current	Current	Non-current
Loans to employees	₩	24,045	52,154	24,031	68,176
Loans		1,242	6,578	1,242	6,669
Other receivables		51,883	-	53,461	-
Guarantee deposits		-	60,197	-	55,202
Accrued income		361	-	573	-
Trade receivables		512,998	-	521,497	-
	₩	590,529	118,929	600,804	130,047

(b) Trade and other receivables as of March 31, 2010 and December 31, 2009 have been reported in the consolidated statements of financial position net of allowances as follows:

		March 31 2010		December 31 2009	
In millions of Won		Current	Non-current	Current	Non-current
Gross trade and other receivables	₩	598,939	118,929	611,041	130,047
Allowance account:					
- Other receivables		(1,916)	-	(2,202)	-
- Trade receivables		(6,494)	-	(8,035)	-
		(8,410)	-	(10,237)	-
Net trade and other receivables	₩	590,529	118,929	600,804	130,047

(c) Changes in the allowance account for the three-month period ended March 31, 2010 and the year ended December 31, 2009 were as follows:

In millions of Won		2010	2009
Balance at Beginning of period	₩	10,237	9,575
Impairment loss		10	720
Reversal of impairment		(236)	(46)
Write-off		(1,601)	(12)
Balance at end of period	₩	8,410	10,237

Impairment loss on trade and other receivables is included as part of other expense and income in the consolidated statements of comprehensive income.

12 Trade and Other Receivables (continued)

(d) The age schedule of trade and other receivables which were past due but not impaired as of March 31, 2010 and December 31, 2009 is as follows:

In millions of Won		March 31 2010	December 31 2009
Within 1 month	₩	44,923	62,770
Between 1 and 2 months		47,836	71,921
Beyond 2 months		103,345	15,536
	₩	196,104	150,227

There is no significant concentration of credit risk with respect to trade receivables as the Group has a large number widely dispersed of customers, except for export trade receivables, and the Group holds bank guarantees, other guarantees and credit insurance 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, 2010 and December 31, 2009 were as follows:

	March 31 2010				December 31 2009			
In millions of Won	Effective interest rate		Current	Non-current	Effective interest rate		Current	Non-current
Loans to employees	3.00~5.68%	₩	24,010	52,053	3.00~5.68%	₩	23,985	68,067
Loans	6.56~8.47%		1,242	2,806	7.29~8.47%		1,242	2,885
Guarantee deposits	3.00~8.47%		-	57,921	3.00~8.47%		-	53,059
		₩	25,252	112,780		₩	25,227	124,011

There is no material difference between the carrying amount and their fair value except the above trade and other receivables, due to the short-term duration of the majority of trade and other receivables.

13 Inventories

(a) Inventories as of March 31, 2010 and December 31, 2009 are summarized as follows:

In millions of Won		March 31 2010	December 31 2009
Merchandise, net of loss on the write-down of inventories	₩	2,628	2,623
Finished goods, net of loss on the write-down of inventories		240,454	207,308
Work-in-progress, net of loss on the write-down of inventories		260,614	318,780
Raw materials, net of loss on the write-down of inventories		820,281	878,360
Supplies		25,480	25,256
By-products		5,891	5,650
Completed buildings		34,945	53,816
Goods-in-transit		64,092	17,286
	₩	1,454,385	1,509,079

(b) The amount of inventories recognized as an expense for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Cost of sales:			
- Loss on the write-down of inventories	₩	164	-
- Reversal of loss on the write-down of inventories		-	(2,687)
Other expense:			
- Loss on retirement of inventories		1,562	581
	₩	1,726	(2,106)

14 Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2010 and December 31, 2009 are summarized as follows:

In millions of Won		March 31 2010	December 31 2009
Cash on hand	₩	6,109	6,796
Demand deposits		96,003	76,983
Short-term investment assets		95,471	232,893
	₩	197,583	316,672

Cash equivalents mainly include short-term deposits with an original maturity of three months or less. The carrying amount of cash and cash equivalents approximates their fair value.

15 Pledged Assets

(a) The following assets were pledged as collateral for the Group's borrowings and others as of March 31, 2010:

In millions of Won

Asset		Carrying amount	Type of borrowings		Borrowing amount	Collateralized amount	Lender
Land, buildings and structures, investment property and non-current assets held for sale	₩	80,341	Short-term Long-term	₩	41,063 2,405	60,150	Hana Bank and others
	₩	80,341		₩	43,468	60,150	

(b) The following assets were pledged as collateral for the Group's borrowings and others as of December 31, 2009:

In millions of Won

Asset		Carrying amount	Type of borrowings		Borrowing amount	Collateralized amount	Lender
Land, buildings and structures, investment property and non-current assets held for sale	₩	70,087	Short-term Long-term	₩	40,914 2,474	60,150	Hana Bank and others
	₩	70,087		₩	43,388	60,150	

(c) Other financial assets restricted in use as of March 31, 2010 and December 31, 2009 were as follows.

In millions of Won		March 31 2010	December 31 2009
Security deposits for checking accounts		6	6
Collateral for borrowings		130	100
	₩	136	106

16 Share Capital

(a) Details of share capital as of March 31, 2010 and December 31, 2009 were as follows:

In Won, except number of shares		March 31 2010	December 31 2009
Number of ordinary shares:			
- Authorized		800,000,000	800,000,000
- Issued		137,292,497	137,292,497
- Outstanding		127,198,800	127,198,800
Par value	₩	5,000	5,000

The Parent Company has, thus far, reacquired and retired 53,699,400 shares of treasury share. Accordingly, as of March 31, 2010, the Parent Company's ordinary share differs from the aggregate par value of issued shares by ₩268,497 million.

16 Share Capital (continued)

(b) Changes in the number of shares for the three-month period ended March 31, 2010 and the year ended December 31, 2009 were as follows:

	2010			2009		
Number of shares	Ordinary share	Treasury share	Total	Ordinary share	Treasury share	Total
Beginning of period	137,292,497	(10,093,697)	127,198,800	138,792,497	(10,093,697)	128,698,800
Reacquisition of treasury shares	-	-	-	-	(1,500,000)	(1,500,000)
Retirement of treasury shares	-	-	-	(1,500,000)	1,500,000	-
End of period	137,292,497	(10,093,697)	127,198,800	137,292,497	(10,093,697)	127,198,800

(c) Changes in the other capital surplus for the three-month period ended March 31, 2010 and the year ended December 31, 2009 were as follows:

In millions of Won		2010	2009
Balance at beginning of period	₩	5,321	2,869
Expiration of employee share options		-	2,452
Balance at end of period	₩	5,321	5,321

The employee share options were settled in cash and terminated for the year ended December 31, 2009. Consequently, the employee share option reserve was reclassified to the other capital surplus.

17 Treasury Share

Changes in the treasury shares for the three-month period ended March 31, 2010 and the year ended December 31, 2009 were as follows:

	2010			2009		
In millions of Won, except number of shares	Number of share		Carrying amount	Number of share		Carrying amount
Balance at beginning of period	10,093,697	₩	226,945	10,093,697	₩	226,945
Reacquisition of treasury shares	-		-	1,500,000		103,999
Retirement of treasury shares	-		-	(1,500,000)		(103,999)
Balance at end of period	10,093,697	₩	226,945	10,093,697	₩	226,945

18 Reserves

(a) Details of reserves as of March 31, 2010 and December 31, 2009 were as follows:

In millions of Won		March 31 2010	December 31 2009
Available-for-sale financial assets reserve	₩	188,192	128,793
Exchange differences on translating foreign operations		(3,479)	1,161
Legal reserve		602,937	602,937
Voluntary reserve		1,563,732	1,342,378
	₩	2,351,382	2,075,269

18 Reserves (continued)

(b) Available-for-sale financial assets reserve as of March 31, 2010 and December 31, 2009 are summarized as follows:

In millions of Won		March 31 2010	December 31 2009
Available-for-sale financial assets reserve before tax	₩	241,272	165,119
Tax effect		(53,080)	(36,326)
	₩	188,192	128,793

(c) Legal Reserve

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

(d) Details of voluntary reserve as of March 31, 2010 and December 31, 2009 were as follows:

In millions of Won		March 31 2010	December 31 2009
Reserve for business rationalization	₩	12,851	12,851
Reserve for research and human resource development		60,000	15,000
Reserve for loss on reissuance of treasury shares		-	26,646
Reserve for business expansion		698,881	698,881
Unconditional reserve		792,000	589,000
	₩	1,563,732	1,342,378

Reserve for Business Rationalization
Until December 10, 2002 under the Special Tax Treatment Control Law, 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 Business Expansion
Reserve for business expansion was a legal reserve under the Korea Tobacco and Ginseng Corporation Act, which was abrogated on September 1, 1997, consequently, the existing balance has been regarded as a voluntary reserve since then.

Other Reserves
Reserves for research and human resource development and loss on reissuance of treasury shares were appropriated in order to utilize certain tax deduction benefits through the early recognition of future expenditures. These reserves are restored to retained earnings in accordance with the relevant tax laws. Such reserves are taken back into taxable income in the year of restoration. Reserves without specific purposes are restored to retained earnings by a resolution at a general meeting of shareholders.

19 Retained Earnings

Changes in retained earnings for the three-month period ended March 31, 2010 and the year ended December 31, 2009 were as follows:

In millions of Won		2010	2009
Balance at beginning of period	₩	704,012	451,406
Transfer from reserve for research and human resource development		15,000	15,000
Transfer from reserve for loss on reissuance of treasury shares		26,646	-
Transfer to reserve for research and human resource development		(60,000)	-
Transfer to unconditional reserve		(203,000)	(169,000)
Profit for the period		179,072	850,094
- Less: non-controlling interests		1,844	997
Actuarial gains (losses), net of tax		3,468	20,416
- Less: non-controlling interests		93	(545)
Dividends		(356,157)	(360,357)
Retirement of treasury shares		-	(103,999)
Balance at end of period	₩	310,978	704,012

20 Long-term Borrowings

Long-term borrowings as of March 31, 2010 and December 31, 2009 are summarized as follows:

In millions of Won	Maturity	Annual interest rate		March 31 2010 Current	March 31 2010 Non-current	December 31 2009 Current	December 31 2009 Non-current
Borrowings for energy facilities	March 15, 2013	3.25%	₩	280	561	280	631
Borrowings for environmental facilities	March 31, 2017	4.77%		224	1,340	168	1,395
			₩	504	1,901	448	2,026

The Group has been guaranteed by Facilities Management Corporation relating to the above borrowings.

21 Trade and Other Payables

(a) Trade and other payables as of March 31, 2010 and December 31, 2009 are summarized as follows:

In millions of Won		March 31 2010 Current	March 31 2010 Non-current	December 31 2009 Current	December 31 2009 Non-current
Leasehold deposits received	₩	-	21,726	25	23,028
Trade payables		81,444	-	46,346	-
Withholdings		128,563	-	134,784	-
Accrued expenses		87,277	-	103,941	-
Other payables		116,009	-	41,502	-
	₩	413,293	21,726	326,598	23,028

21 Trade and Other Payables (continued)

(b) Details of trade and other payables that are measured at amortized cost as of December 31, 2009 and 2008 are as follows:

	March 31 2010		December 31 2009	
In millions of Won	Effective interest rate	Amortized cost	Effective interest rate	Amortized cost
Leasehold deposits received	3.00~5.68%	₩ 21,726	3.00~5.68%	₩ 23,028

There is no material difference between the carrying amount and their fair value except the above trade and other payables, due to the short-term duration of the majority of trade and other payables.

22 Short-term Borrowings

Short-term borrowings as of March 31, 2010 and December 31, 2009 are summarized as follows:

In millions of Won	Description of borrowings	Annual interest rate		March 31 2010	December 31 2009
Local currency	Customer credit contracts	-		30,563	43,863
	General purpose borrowings	3.00~7.85%		44,063	41,914
	Borrowings on notes	6.80%		3,000	3,000
	Discount on commercial note	-		4,806	4,589
Foreign currency	General purpose borrowings	-		-	1,166
			₩	82,432	94,532

The Group has entered into a customer credit contract with the National Agricultural Cooperative Federation ("NACF") and other financial institutions. The financial institutions pay past-due trade receivables for customers and the Group has provided guarantees to the financial institutions for customers. The amount paid by the financial institutions is recognized as short-term borrowings on the consolidated statement of financial position.

The Group has entered into a discount on the commercial note agreement with Hana Bank and other financial institutions. Trade receivables discounted in respect of which the Group remained contingently liable are recognized as short-term borrowings on the consolidated statement of financial position.

23 Retirement Benefits Plan

The Group operates both defined benefit and defined contribution plans. According to these defined benefit plans, the Group pays retirement benefits calculated under the plan's benefit formula at the time employees leave the Group. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

(a) The components of retirement benefit costs for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Defined benefit costs:			
Current service costs	₩	8,580	10,115
Interest costs		2,191	1,815
Expected returns on plan assets		(1,841)	(1,568)
		8,930	10,362
Defined contribution costs:			
Contributions recognized as expense		1,856	-
	₩	10,786	10,362

(b) Changes in defined benefit liabilities for the three-month period ended March 31, 2010 and the year ended December 31, 2009 were as follows:

In millions of Won		2010	2009
Balance at beginning of period	₩	35,445	73,994
Retirement benefit costs		8,930	41,176
Actuarial losses (gains) before tax		(4,505)	(25,829)
Payments into plan assets		-	(32,926)
Payments, including the amount transferred to the defined contribution plan		(7,020)	(20,969)
Net exchange difference		(1)	(1)
Balance at end of period	₩	32,849	35,445
Consolidated statements of financial position:			
- Present value of retirement benefit obligations	₩	158,291	163,006
- Fair value of plan assets		(125,442)	(127,561)
Defined benefit liabilities	₩	32,849	35,445

The Group recognized contributions payable amounting to ₩1,881 million and ₩74 million as accrued expenses in the consolidated statements of financial position as of March 31, 2010 and December 31, 2009, respectively.

23 Retirement Benefits Plan (continued)

(c) Changes in defined benefit obligations for the three-month period ended March 31, 2010 and the year ended December 31, 2009 were as follows:

In millions of Won		2010	2009
Balance at beginning of period	₩	163,006	175,939
Current service costs		8,580	40,468
Interest costs		2,191	7,257
Actuarial losses (gains) before tax		(4,005)	(25,159)
Payments, including the amount transferred to the defined contribution plan		(11,480)	(35,219)
Gains on the settlement of the plan		-	(279)
Net exchange difference		(1)	(1)
Balance at end of period	₩	158,291	163,006

Some of employees have transferred from the defined benefit plan to the defined contribution plan. The Group recognized ₩279 million of the gains on the settlement of defined benefit plan in profit or loss for the year ended December 31, 2009.

(d) Changes in plan assets for the three-month period ended March 31, 2010 and the year ended December 31, 2009 were as follows:

In millions of Won		2010	2009
Balance at beginning of period	₩	127,561	101,945
Expected return on plan assets		1,841	6,270
Actuarial gains before tax		500	670
Payments into plan assets		-	32,926
Payments, including the amount transferred to the defined contribution plan		(4,460)	(14,250)
Balance at end of period	₩	125,442	127,561

Actual returns on plan assets for the three-month periods ended March 31, 2010 and 2009 are ₩2,341million and ₩2,872 million, respectively.

Expected rates of return are determined taking into account the current level of expected returns on risk-free investments, the historical level of risk premium associated with other invested assets, and the expectations for future returns on such assets.

(e) The amount of actuarial gains for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Actuarial gains before tax	₩	4,505	1,304
Tax effect		(1,037)	(286)
	₩	3,468	1,018

23 Retirement Benefits Plan (continued)

(f) The components of plan assets as of March 31, 2010 and December 31, 2009 were as follows:

In millions of Won		March 31 2010	December 31 2009
Short-term trading financial assets	₩	69,566	109,511
Available-for-sale financial assets		55,225	8,590
Others		651	9,460
	₩	125,442	127,561

As of March 31, 2010 and December 31, 2009, the amounts of severance insurance and National Pension Fund in plan assets which continue to be covered by the existing retirement benefits plan are ₩3,533 million and ₩12,405 million, respectively.

(g) The principal actuarial assumptions as of March 31, 2010 and December 31, 2009 were as follows:

	March 31 2010	December 31 2009
Rate of salary increases	4.00~6.00%	4.00~6.00%
Discount rate	4.81~5.80%	4.81~5.80%
Expected rate of return on plan assets	4.48~6.00%	4.48~6.00%

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

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

In millions of Won		1 percentage point increase	1 percentage point decrease
Rate of salary increases:			
- Increase (decrease) in defined benefit obligations	₩	12,385	(11,054)
- Increase (decrease) in retirement benefit costs		892	(786)
Discount rate:			
- Increase (decrease) in defined benefit obligations		(11,418)	13,367
- Increase (decrease) in retirement benefit costs		(403)	471
Expected rate of return on plan assets:			
- Increase (decrease) in retirement benefit costs		(310)	310

The effect on defined benefit obligations is as of March 31, 2010. The effect on retirement benefit costs before tax is for the three-month period ended March 31, 2010.

24 Deferred Revenue

Changes in deferred revenue included in long-term advance receipts for the three-month period ended March 31, 2010 and the year ended December 31, 2009 were as follows:

In millions of Won		2010	2009
Balance at beginning of period	₩	9,682	7,764
Revenue deferred		1,869	9,092
Revenue recognized		(1,696)	(7,174)
Balance at end of period	₩	9,855	9,682

25 Profit from Operations

(a) Employee benefit costs for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Salaries	₩	91,185	98,873
Retirement benefit costs		10,786	10,362
Employee welfare		8,654	8,004
	₩	110,625	117,239

(b) Depreciation and amortization for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Depreciation	₩	37,834	36,922
Amortization		294	506
	₩	38,128	37,428

(c) Details of other income for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Foreign currency transaction gain	₩	3,265	14,634
Foreign currency translation gain		1,951	24,012
Reversal of impairment loss on trade and other receivables		236	15
Gain on sale of property, plant and equipment		5,231	10,185
Gain on sale of intangible assets		1	-
Others		2,540	5,170
	₩	13,224	54,016

25 Profit from Operations (continued)

(d) Details of selling expenses for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Salaries	₩	42,713	42,665
Retirement benefit costs		3,326	3,710
Employee welfare		4,359	3,841
Travel		1,634	1,729
Communications		617	599
Utilities		1,711	1,316
Taxes and dues		3,506	3,744
Supplies		397	417
Rent		3,259	1,662
Depreciation		8,248	9,427
Amortization		64	107
Repairs and maintenance		1,287	297
Vehicles		1,664	1,766
Insurance		220	238
Commissions		26,849	22,087
Freight and custody		9,360	8,996
Conferences		379	497
Advertising		28,067	25,282
Training		352	251
Prizes and rewards		230	8
Normal research and development		1,610	1,231
	₩	139,852	129,870

25 Profit from Operations (continued)

(e) Details of general and administrative expenses for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Salaries	₩	12,893	15,307
Retirement benefit costs		4,260	2,939
Employee welfare		739	1,415
Travel		461	436
Communications		552	667
Utilities		682	611
Taxes and dues		512	167
Supplies		697	618
Rent		1,463	2,247
Depreciation		4,042	3,745
Amortization		218	343
Repairs and maintenance		214	246
Vehicles		332	376
Insurance		217	216
Commissions		7,198	8,244
Freight and custody		213	236
Conferences		592	455
Advertising		16,644	16,483
Training		1,195	1,301
Prizes and rewards		209	233
Normal research and development		1,644	2,432
	₩	54,977	58,717

(f) Details of other expenses for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Foreign currency transaction loss	₩	4,199	4,282
Foreign currency translation loss		11,628	1,210
Impairment loss on trade and other receivables		10	76
Donations		4,083	2,014
Loss on sale of property, plant and equipment		217	3,285
Loss on sale of intangible assets		125	-
Loss on retirement of inventories		1,562	581
Others		4,895	2,102
	₩	26,719	13,550

26 Net Finance Costs

(a) Details of net finance costs (income) for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Finance costs:			
- Interest costs	₩	1,023	1,296
- Loss on transaction of financial derivatives		-	1,711
		1,023	3,007
Finance income:			
- Interest income		(4,365)	(3,755)
- Dividend income		(1,855)	(215)
- Investment income on long-term deposits in MSA Escrow Fund		(352)	(3)
- Gain on sale of available-for-sale financial assets		(356)	-
- Others		(300)	-
		(7,228)	(3,973)
Net finance costs (income)	₩	(6,205)	(966)

(b) Details of interest costs for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Related financial liabilities:			
Borrowings	₩	729	1,036
Trade and other payables		48	172
Others		246	88
	₩	1,023	1,296

(c) Details of interest income for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Related financial assets:			
Deposits	₩	3,554	2,500
Available-for-sale financial assets		20	106
Trade and other receivables		791	1,149
	₩	4,365	3,755

(d) Details of finance income recognized in other comprehensive income for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Gain on valuation available-for-sale financial assets, before tax	₩	76,153	65,828
Tax effect		(16,754)	(14,482)
Gain on valuation available-for-sale financial assets, net of tax	₩	59,399	51,346

27 Income Taxes

(a) The Group was subject to income taxes on taxable income at the following normal tax rates.

Taxable income		Tax rate			
Prior to 2008	Thereafter	2008	2009	2010 & 2011	Thereafter
Up to ₩100 million	Up to ₩200 million	12.1%	12.1%	11.0%	11.0%
Over ₩100 million	Over ₩200 million	27.5%	24.2%	24.2%	22.0%

In December 2008, the Korean Government reduced the corporate income tax rate (including resident tax) and increased the tax base from ₩100 million to ₩200 million beginning in 2008. Effective January 1, 2008, the income tax rate for those having their taxable income less than ₩200 million was reduced from 14.3 % to 12.1%. In December 2009, the Korean government postponed the reduction of the corporate income tax rate from 24.2% to 22% until 2012.

(b) The components of income tax expense (benefit) for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Current income tax expense	₩	54,371	75,194
Adjustments recognized in the period for current tax of prior periods		551	894
Changes in temporary difference		40,679	28,450
Total income tax expense		95,601	104,538
Tax expense (benefit) recognized outside profit or loss		(17,741)	(14,934)
Income tax expense	₩	77,860	89,604

(c) Current and deferred tax expense that were recognized outside profit or loss for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Current	₩	-	-
Deferred:			
- Net changes in fair value of available-for-sale financial assets		(16,754)	(14,482)
- Exchange differences on translating foreign operations		50	(166)
- Actuarial gains (losses)		(1,037)	(286)
		(17,741)	(14,934)
Tax expense (benefit) recognized outside profit or loss	₩	(17,741)	(14,934)

The Group recognized deferred tax expense related to other comprehensive income in other comprehensive income.

27 Income Taxes (continued)

(d) The income tax expense calculated by applying statutory tax rates to the Group's profit before tax for the period differs from the actual tax expense in the consolidated statement of comprehensive income for the three-month periods ended March 31, 2010 and 2009 for the following reasons:

In millions of Won, except tax rate information		2010	2009
Profit before tax	₩	256,931	346,373
Normal tax rate		24.2%	24.2%
Expense for income taxes at normal tax rate		62,171	83,816
Adjustment:			
- Tax effects of permanent differences		2,126	249
- Investment tax credits		(1,950)	(1,134)
- Additional income taxes for prior period		1,641	928
- Tax effects of profit of subsidiaries		14,901	5,991
- Others		(1,029)	(246)
Income tax expense	₩	77,860	89,604
Effective tax rate		30.3%	25.9%

(e) Deferred tax expense (benefit) relating to the origination and reversal of temporary differences for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Deferred tax liabilities at end of period	₩	(199,855)	(128,103)
Deferred tax liabilities at beginning of period		(159,176)	(99,653)
Deferred tax expense	₩	40,679	28,450

(f) Deferred tax assets and liabilities are measured using the tax rate to be applied for the period in which temporary differences are expected to be realized.

(g) The net deferred tax liabilities are reflected in the consolidated statements of financial position after offsetting assets and liabilities where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred income taxes relate to the same fiscal authority.

27 Income Taxes (continued)

(h) Changes in deferred tax assets and liabilities for the three-month period ended March 31, 2010 were as follows:

In millions of Won		Balance at beginning of period	Credited to profit (charged to loss)	Charged to other comprehensive income	Balance at end of period
Available-for-sale financial assets	₩	9,448	-	-	9,448
Accrued expense		22,917	(8,626)	-	14,291
Donations in excess of tax limit		89	(89)	-	-
Retirement benefit costs		(1,284)	1,559	(1,037)	(762)
Undistributed earnings of associates and subsidiaries		(141,131)	(14,901)	-	(156,032)
Foreign currency translations		3,907	(1,308)	-	2,599
Treasury shares		(8,565)	-	-	(8,565)
Changes in fair value of available-for-sale financial assets		(36,326)	-	(16,754)	(53,080)
Voluntary reserve		(16,348)	402	-	(15,946)
Provision for advanced depreciation		(4,722)	-	-	(4,722)
Others		12,839	25	50	12,914
	₩	(159,176)	(22,938)	(17,741)	(199,855)

(i) Changes in deferred tax assets and liabilities for the year ended December 31, 2009 were as follows:

In millions of Won		Balance at beginning of period	Credited to profit (charged to loss)	Charged to other comprehensive income	Balance at end of period
Available-for-sale financial assets	₩	8,800	648	-	9,448
Accrued expense		22,012	905	-	22,917
Sales		7,157	(7,157)	-	-
Donations in excess of tax limit		8,606	(8,517)	-	89
Retirement benefit costs		6,119	(1,990)	(5,413)	(1,284)
Undistributed earnings of associates and subsidiaries		(120,954)	(20,177)	-	(141,131)
Foreign currency translations		(6,055)	9,962	-	3,907
Treasury shares		(8,565)	-	-	(8,565)
Changes in fair value of available-for-sale financial assets		(7,823)	-	(28,503)	(36,326)
Voluntary reserve		(12,070)	(4,278)	-	(16,348)
Provision for advanced depreciation		(4,722)	-	-	(4,722)
Others		7,842	4,598	399	12,839
	₩	(99,653)	(26,006)	(33,517)	(159,176)

(j) As of March 31, 2010 and December 31, 2009, the aggregate amounts of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognized were ₩4,026 million and ₩4,191 million, respectively.

28 Earnings per Share

Basic and diluted earnings per share for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won, except share information		2010	2009
Profit for the period	₩	180,916	256,243
Weighted-average number of ordinary shares outstanding		127,198,800	128,698,800
Basic and diluted earnings per share in Won	₩	1,422	1,991

29 Transactions and Balances with Related Companies

(a) Details of parent and subsidiary relationships as of March 31, 2010 and December 31, 2009 were as follows:

			Percentage of ownership					
			March 31 2010			December 31 2009		
Subsidiary	Location	Next most senior parent	Parent	Sub-sidiary	Total	Parent	Sub-sidiary	Total
Korea Ginseng Corporation	Korea	KT&G Corporation	100.00%	-	100.00%	100.00%	-	100.00%
Yungjin Pharm. Ind. Co., Ltd.	Korea	KT&G Corporation	55.50%	-	55.50%	55.50%	-	55.50%
Tae-a Industry Co., Ltd.	Korea	KT&G Corporation	100.00%	-	100.00%	100.00%	-	100.00%
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	KT&G Corporation	99.99%	-	99.99%	99.99%	-	99.99%
Korea Tabacos do Brasil Ltda.	Brazil	KT&G Corporation	99.90%	-	99.90%	99.90%	-	99.90%
KT&G Pars	Iran	KT&G Corporation	99.99%	-	99.99%	99.99%	-	99.99%
KT&G Rus L.L.C.	Russia	KT&G Corporation	100.00%	-	100.00%	100.00%	-	100.00%
KT&G Bio Corp.	Korea	KT&G Corporation	100.00%	-	100.00%	100.00%	-	100.00%
Korea Ginseng HK, Ltd.	Hong Kong	Korea Ginseng Corporation	-	99.99%	99.99%	-	99.99%	99.99%
KGC Sales Co., Ltd.	Korea	Korea Ginseng Corporation	-	100.00%	100.00%	-	100.00%	100.00%
Cheong Kwan Jang Taiwan Corporation	Taiwan	Korea Ginseng Corporation	-	100.00%	100.00%	-	100.00%	100.00%
Korea Red Ginseng Corporation	United States	Korea Ginseng Corporation	-	100.00%	100.00%	-	100.00%	100.00%
Korea Ginseng (China) Corp.	China	Korea Ginseng Corporation	-	100.00%	100.00%	-	100.00%	100.00%

KT&G Bio Corp., Cheong Kwan Jang Taiwan Corporation, Korea Red Ginseng Corporation and Korea Ginseng (China) Corp. were established and included in consolidation for the year ended December 31, 2009.

29 Transactions and Balances with Related Companies (continued)

(b) Significant transactions which occurred in the normal course of business with related companies for the three-month periods ended March 31, 2010 and 2009 are summarized as follows:

In millions of Won

Sales company	Purchase company		2010	2009
KT&G Corporation	Korea Ginseng Corporation	₩	1,286	3,971
KT&G Corporation	Yungjin Pharm. Ind. Co., Ltd.		48	8
KT&G Corporation	Tae-a Industry Co., Ltd.		3	-
KT&G Corporation	KGC Sales Co., Ltd.		7	-
KT&G Corporation	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		997	213
KT&G Corporation	KT&G Pars		1,067	1,440
KT&G Corporation	KT&G Rus L.L.C.		43	42
Korea Ginseng Corporation	KT&G Corporation		449	352
Korea Ginseng Corporation	Yungjin Pharm. Ind. Co., Ltd.		306	421
Korea Ginseng Corporation	Tae-a Industry Co., Ltd.		11	4
Korea Ginseng Corporation	Korea Ginseng HK, Ltd.		8,480	12,944
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation		4,379	-
Korea Ginseng Corporation	Korea Red Ginseng Corporation		339	-
Korea Ginseng Corporation	Korea Ginseng (China) Corp.		709	-
Korea Ginseng Corporation	KGC Sales Co., Ltd.		1,748	2,909
Yungjin Pharm. Ind. Co., Ltd.	KT&G Corporation		-	10
Yungjin Pharm. Ind. Co., Ltd.	KGC Sales Co., Ltd.		-	3
Tae-a Industry Co., Ltd.	KT&G Corporation		2,874	3,624
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	KT&G Pars		1,753	817
Korea Tabacos do Brasil Ltda.	KT&G Corporation		-	48
		₩	24,499	26,806

The Parent Company received dividends from Korea Ginseng Corporation amounting to ₩30,000 million and ₩30,000 million for the three-month periods ended March 31, 2010 and 2009, respectively. Korea Ginseng Corporation received dividends from KGC Sales Co., Ltd. amounting to ₩700 million for the three-month period ended March 31, 2009.

Intra-group transactions among above transactions are eliminated in preparing the consolidated financial statements.

29 Transactions and Balances with Related Companies (continued)

(c) Account balances with related companies as of March 31, 2010 and December 31, 2009 were as follows:

In millions of Won

Creditor	Debtor		March 31 2010	December 31 2009
KT&G Corporation	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	₩	13,570	13,437
KT&G Corporation	KT&G Pars		19,113	18,883
KT&G Corporation	KT&G Rus L.L.C.		26,083	5,487
Korea Ginseng Corporation	KT&G Corporation		2,311	2,238
Korea Ginseng Corporation	Yungjin Pharm. Ind. Co., Ltd.		82	82
Korea Ginseng Corporation	Korea Ginseng HK, Ltd.		8,319	5,511
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation		6,341	5,998
Korea Ginseng Corporation	Korean Red Ginseng Corp., Inc.		1,495	1,641
Korea Ginseng Corporation	Korea Ginseng (China) Corp.		710	-
Korea Ginseng Corporation	KGC Sales Co., Ltd.		1,033	1,378
Yungjin Pharm. Ind. Co., Ltd.	Korea Ginseng Corporation		212	212
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	KT&G Pars		-	1,623
		₩	79,269	56,490

Intra-group balances among above balances are eliminated in preparing the consolidated financial statements.

(d) Details of guarantees provided for related companies as of March 31, 2010 and December 31, 2009 were as follows:

In thousands of U.S. dollars and Euro

			March 31 2010		December 31 2009	
Guarantee provider	Guarantee recipient	Type of guarantee	Limit	Exercise	Limit	Exercise
Korea Ginseng Corporation	Korea Ginseng HK, Ltd.	Payment guarantee on borrowing	$ 7,500	-	$ 7,500	1,000
KT&G Corporation	KT&G Rus L.L.C.	Guarantee on foreign currency letter of credit opened	€ 7,267	-	€ 7,267	-

(e) Details of key management personnel compensation for the three-month periods ended March 31, 2010 and 2009 are summarized as follows:

In millions of Won		2010	2009
Short-term employee benefits	₩	2,806	999
Post-employment benefits		1,483	1,625
	₩	4,289	2,624

30 Risk Management

(a) Overview

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

- credit risk
- liquidity risk
- currency risk
- interest rate risk
- other market price 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 and the Group's management of capital 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 on 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. In addition, the internal auditor consistently observes the compliance of the risk management policy and procedure, and reviews the risk exposure limit of the Group. The Group holds derivative financial instruments to hedge its specific financial risks such as currency risk.

Credit Risk
The Group has transacted with customers with high credit ratings to manage credit risk, and has implemented and operated policies and procedures for credit enhancements of the financial assets. Counterparty credit risk is managed by evaluating its credit rating and limiting the aggregate amount and duration of exposure before sales commence, and the Group has been provided collaterals and guarantees. The credit ratings of all counterparties and the level of collaterals 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.

30 Risk Management (continued)

(c) Management of Financial Risks

The carrying amount of financial assets is maximum exposure to credit risk. The maximum exposure to credit risk as of March 31, 2010 and December 31, 2009 is as follows:

In millions of Won		March 31 2010	December 31 2009
Available-for-sale financial assets	₩	520,206	444,040
Long-term deposits in MSA Escrow Fund		116,482	118,121
Trade and other receivables		709,458	730,851
Other financial assets		4,302	1,212
Cash and cash equivalents		197,583	316,672

Export trade receivables to overseas clients, including Alokozay International Limited are ₩235,405 million and ₩229,096 million, and equal to 45.9% and 43.9% of the aggregate trade receivables, respectively, as of March 31, 2010 and December 31, 2009. The Group's trade receivables mentioned above were insured against non-payment up to USD36,200 thousand and USD36,200 thousand by export guarantee insurance with the Korea Export Insurance Corporation, respectively, as of March 31, 2010 and December 31, 2009. The Group has no significant concentrations of customer credit risk except for the above export trade receivables; on the other hand, there are a large number widely dispersed of customers with trade and other receivables.

The Group has made deposits on cash, cash equivalents and long-term deposits in NACF and several financial institutions with high credit ratings, thus the credit risks from theses financial institutions are very limited.

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 plan 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 the financial liabilities are repayable with the operating cash flows and cash inflows from financial assets. The Group entered into an overdraft agreement with the NACF to manage the temporary liquidity risk.

30 Risk Management (continued)

(c) Management of Financial Risks (continued)

The maturity analysis with a residual contractual maturity of financial liabilities as of March 31, 2010 and December 31, 2009 is as follows:

In millions of Won		Carrying amount	Contractual cash flow	Residual contractual maturity: Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	Beyond 5 years
As of March 31, 2010:							
Derivative financial liabilities	₩	-	-	-	-	-	-
Non-derivative financial liabilities		391,293	392,919	288,083	96,037	6,328	2,471
	₩	391,293	392,919	288,083	96,037	6,328	2,471
As of December 31, 2009:							
Derivative financial liabilities	₩	-	-	-	-	-	-
Non-derivative financial liabilities		311,848	313,983	178,668	123,591	9,192	2,532
	₩	311,848	313,983	178,668	123,591	9,192	2,532

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.

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 contract 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, 2010 and December 31, 2009 were as follows:

		March 31 2010			December 31 2009		
In millions of Won		USD	EUR	Other currency	USD	EUR	Other currency
Assets:							
Cash and cash equivalents	₩	5,881	6,290	1,269	3,889	1,673	264
Trade and other receivables		265,938	9,899	2,712	324,358	8,946	2
Long-term deposits in MSA Escrow Fund		116,482	-	-	118,121	-	-
	₩	388,301	16,189	3,981	446,368	10,619	266
Liabilities:							
Trade and other payables	₩	29,588	11,626	124	21,923	24,853	-
Short-term borrowings		-	-	-	479	16,934	-
	₩	29,588	11,626	124	22,402	41,787	-

30 Risk Management (continued)

(c) Management of Financial Risks (continued)

As of March 31, 2010 and December 31, 2009, the effects of 10% strengthening or weakening of functional currency against foreign currencies other than functional currency on profit before tax were as follows:

		March 31 2010		December 31 2009	
In millions of Won		10% strengthening	10% weakening	10% strengthening	10% weakening
USD	₩	35,871	(35,871)	42,397	(42,397)
EUR		456	(456)	(3,117)	3,117
Other currency		386	(386)	27	(27)
	₩	36,713	(36,713)	39,307	(39,307)

The above sensitivity analysis was applied to monetary assets and liabilities denominated in foreign currencies other than the functional currency at the end of the reporting period.

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, 2010 and December 31, 2009, the amount of borrowings issued at variable rates is ₩39,567 million and ₩40,655 million, respectively. There is no significant effect on cash flows or the fair value of financial liabilities from the interest rate fluctuation.

Other market 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, 2010 and December 31, 2009, the effects of 5% fluctuation of the price index of stocks on other comprehensive income were as follows:

		March 31 2010		December 31 2009	
In millions of Won		5% Increase	5% Decrease	5% Increase	5% Decrease
Other comprehensive income before tax	₩	27,870	(27,870)	25,536	(25,536)
Tax effect		(6,131)	6,131	(5,618)	5,618
	₩	21,739	(21,739)	19,918	(19,918)

(d) Management of Capital Risk

The fundamental goal of capital management is the maximization of shareholders' value by means of the stable dividend policy and the retirement of treasury shares. The capital structure of the Group consists of equity and net debt deducting cash and cash equivalents and current financial instruments from borrowings. The Group applied the same financial risk management strategy that was applied in the previous period.

30 Risk Management (continued)

(d) Management of Capital Risk (continued)

As of March 31, 2010 and December 31, 2009, the Group defines net debt and equity as follows:

In millions of Won		March 31 2010	December 31 2009
Net debt:			
Debts (Short-term and long-term borrowings)	₩	84,837	97,006
Less:			
- Cash and cash equivalents		(197,583)	(316,672)
- Current other financial assets		(3,926)	(926)
- Current available-for-sale financial assets		(1,910)	(1,957)
	₩	(118,582)	(222,549)
Equity	₩	3,863,970	3,980,890

(e) Fair Value of Financial Instruments

The carrying amount and the fair value of financial instruments as of March 31, 2010 and December 31, 2009 are summarized as follows:

		March 31 2010		December 31 2009	
In millions of Won		Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Financial assets measured at fair value					
- Available-for-sale financial assets	₩	520,206	520,206	444,040	444,040
- Other financial assets		4,302	4,302	1,212	1,212
- Long-term deposits in MSA Escrow Fund		116,482	116,482	118,121	118,121
- Cash and cash equivalents		197,583	197,583	316,672	316,672
	₩	838,573	838,573	880,045	880,045
Financial assets measured at amortized cost					
- Trade and other receivables	₩	709,458	709,458	730,851	730,851
	₩	1,548,031	1,548,031	1,610,896	1,610,896
Liabilities:					
Financial liabilities measured at fair value	₩	-	-	-	-
Financial liabilities measured at amortized cost					
- Trade and other payables	₩	(306,456)	(306,456)	(214,842)	(214,842)
- Long-term borrowings		(1,901)	(1,901)	(2,026)	(2,026)
- Short-term borrowings		(82,432)	(82,432)	(94,532)	(94,532)
- Current portion of long-term borrowings		(504)	(504)	(448)	(448)
	₩	(391,293)	(391,293)	(311,848)	(311,848)
	₩	(391,293)	(391,293)	(311,848)	(311,848)

30 Risk Management (continued)

(e) Fair Value of Financial Instruments (continued)

The fair value hierarchy
The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level of fair value hierarchy is as follows:

- Level Ⅰ — The quoted prices in active markets for identical assets or liabilities
- Level Ⅱ — The inputs that are observable for the asset or liability, either directly or indirectly
- Level Ⅲ — The inputs for the asset or liability that are not based on observable market data

The fair value measurements classified by fair value hierarchy as of March 31, 2010 and December 31, 2009 were as follows:

In millions of Won		Level Ⅰ	Level Ⅱ	Level Ⅲ	Total
As of March 31, 2010:					
Financial assets					
- Available-for-sale financial assets	₩	482,189	13,294	24,723	520,206
- Other financial assets		4,302	-	-	4,302
- Long-term deposits in MSA Escrow Fund		116,482	-	-	116,482
- Cash and cash equivalents		197,583	-	-	197,583
	₩	800,556	13,294	24,723	838,573
As of December 31, 2009:					
Financial assets					
- Available-for-sale financial assets	₩	413,022	6,918	24,100	444,040
- Other financial assets		1,212	-	-	1,212
- Long-term deposits in MSA Escrow Fund		118,121	-	-	118,121
- Cash and cash equivalents		316,672	-	-	316,672
	₩	849,027	6,918	24,100	880,045

As Genematrix, Inc. was listed on KOSDAQ in the year ended December 31, 2009, available-for-sale equity instruments in Genematrix, Inc. was transferred from Level Ⅲ to Level Ⅰ.

31 Contingent Liabilities and Financial Commitments

(a) The Group deposited some proportion of sales in accordance with Tobacco Master Settlement Agreement ("MSA") under the Escrow Statute of the United States Government, related to the export of tobacco to the United States. The MSA Escrow Funds is 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 that the fund was established. 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, 2010, tobacco lawsuits claiming damages of ₩584 million were filed against the Group and the Korean government. The plaintiffs have asserted that the Group and the Korean government did not perform their obligations to notify smokers of the potential health hazards of smoking. Additionally, the Group is involved in 10 lawsuits and claims for alleged damages totalling ₩4,868 million as a dependent as of March 31, 2010. The amount of the liability the Group may ultimately have with respect to the litigation cannot be reasonably estimated as of March 31, 2010.

(c) As of March 31, 2010, the Group has entered into Letter of Credit Agreements with Korea Exchange Bank and other banks with a limit set at USD50,600 thousand.

(d) As of March 31, 2010, the Group's trade receivables from the export of cigarettes were insured against non-payment up to USD36,200 thousand by an export guarantee insurance with the Korea Export Insurance Corporation.

(e) As of March 31, 2010, the Group has been provided with a foreign currency payment guarantee for local dealers in Russia and other countries up to USD70,000 thousand by Korea Exchange Bank and others.

(f) As of March 31, 2010, the Group maintains a contract with the farmers who grow six-year old green ginseng for purchase volume guarantees and recorded advance payments to the farmers in accordance with the contract amounted to ₩195,365 million.

(g) As of March 31, 2010, the Group and 28 other companies, which form the Samsung Corporation-National Pension Service Joint Consortium, were guaranteed ₩240,000 million by Seoul Guarantee Insurance Co., Ltd. in relation to the Yongsan International Commercial Development Project.

(h) The Group entered into a discount on the commercial note agreement with a limit of ₩16,000 million with Hana Bank and other financial institutions as of March 31, 2010.

(i) As of March 31, 2010, the Group provided 2 blank notes, 15 notes amounting to ₩17,200 million and 5 blank checks to Tong Yang Securities Inc. and others as collateral for its short-term borrowings and trade agreements. The Group is in the process of having 1 lost note provided as collateral as of March 31, 2010 nullified.

32 Non-current Assets Held for Sale

In 2006, the Group determined to dispose the land located in Pyeongtaek City, Gyeonggi-do for the purposes of improving its financial structure and investments in property, and entered into a contract to sell the land. The transacting party may terminate the contract if the land is not included in the area for development by Pyeongtaek City. Also, the Group entered into a contract to sell the land located in Yongsan and Eulji-ro, Seoul for the year ended December 31, 2009.

The Group recognized non-current assets held for sale at the lowers of its carrying amount and fair value less costs to sell. Non-current assets held for sale as of March 31, 2010 and December 31, 2009 are as follows:

In millions of Won		March 31 2010	December 31 2009
The land located in Pyeongtaek City, Gyeonggi-do	₩	22,906	22,906
The land located in Yongsan, Seoul		2,521	2,521
The land located in Eulji-ro, Seoul		20,725	20,725
	₩	46,152	46,152

March 31, 2010 and 2009

33 Cash Flows from Operating Activities

Details of cash generated from operations for the three-month periods ended March 31, 2010 and 2009 were as follows:

In millions of Won		2010	2009
Profit for the periods	₩	179,072	256,769
Adjustments for:			
- Income tax expense		77,860	89,604
- Finance costs		1,023	3,007
- Finance income		(7,228)	(3,973)
- Depreciation		37,834	36,922
- Amortization		294	506
- Retirement benefit costs		10,786	10,362
- Foreign currency translations loss		11,628	1,210
- Loss on the write-down of inventories		164	-
- Impairment loss on trade and other receivables		10	76
- Loss on sale of property, plant and equipment		217	3,285
- Loss on sale of intangible assets		125	-
- Other expense		2,023	581
- Share of loss of associates		133	120
- Foreign currency translations gain		(1,951)	(24,012)
- Reversal of loss on the write-down of inventories		-	(2,687)
- Reversal of impairment loss on trade and other receivables		(236)	(15)
- Gain on sale of property, plant and equipment		(5,231)	(10,185)
- Gain on sale of intangible assets		(1)	-
- Other income		-	(261)
		306,522	361,309
Changes in working capital:			
- Trade and other receivables		(8,403)	(1,788)
- Advance payments		(41,403)	(34,824)
- Prepaid expenses		(6,227)	(8,416)
- Prepaid tobacco excise and other taxes		(58,564)	(16,574)
- Inventories		51,584	59,206
- Trade and other payables		10,504	(24,958)
- Advance receipts		23,475	(54,367)
- Tobacco excise and other taxes payable		41,228	10,833
- Payment of retirement benefits		(7,068)	(7,603)
Cash generated from operations	₩	311,648	282,818

34 Date of Authorization for Issue

The consolidated financial statements were authorized for issue on April 21, 2010, at the Board of Directors Meeting.