KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Financial Statements

(Unaudited)

September 30, 2011 and 2010

(With Independent Auditors' Review Report Thereon)

Contents

Independent Auditors' Review Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
KT&G Corporation:

Reviewed Financial Statements

We have reviewed the accompanying consolidated interim financial statements of KT&G Corporation and its subsidiaries (the "Group"), which comprise the consolidated interim statement of financial position as of September 30, 2011, and the related consolidated interim statements of comprehensive income for the three- and nine-month periods and changes in equity and cash flows for the nine-month periods, all of which ended September 30, 2011 and 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility

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

Auditors' Review Responsibility

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

Conclusion

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

Highlights

The following matter may be helpful to the readers in their understanding of this review report of the consolidated interim financial statements:

As discussed in note 31 to the consolidated interim 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.

Other Matters

The consolidated statement of financial position of the Group as of December 31, 2010, 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 22, 2011, expressed an unqualified opinion. The accompanying consolidated statement of financial position of the Group as of December 31, 2010, presented for comparative purposes, is not different from that audited by us in all material respects.

The accompanying consolidated interim financial statements as of and for the three- and nine-month periods ended September 30, 2011 have been translated into United States dollars solely for the convenience of the reader. We have reviewed the translation and nothing has come to our attention to suggest that the consolidated interim financial statements expressed in Korean won have not been translated into dollars on the basis set forth in note 4 to the consolidated interim financial statements.

KPMG Samjong Accounting Corp.
Seoul, Korea
November 11, 2011

This report is effective as of November 11, 2011, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that 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 Interim Statements of Financial Position
(Unaudited)

As of September 30, 2011 and December 31, 2010

In millions of won and thousands of U.S. dollars	*Note*	2011 Korean won	2011 U.S. dollars (note 4)	2010 Korean won
Assets				
Property, plant and equipment	*6,15*	₩ 1,568,751	$ 1,330,014	₩ 1,510,838
Intangible assets	*7*	147,074	124,692	63,145
Investment property	*8,15*	147,354	124,929	121,483
Equity accounted investments	*5,9*	31,640	26,825	1,597
Available-for-sale financial assets	*10,30*	258,754	219,376	314,177
Other financial assets	*15,30*	1,214	1,029	646
Long-term deposits in MSA Escrow Fund	*11,30,31*	146,363	124,089	132,414
Long-term advance payments	*31*	194,622	165,004	138,895
Long-term prepaid expenses		6,169	5,229	6,280
Long-term trade and other receivables	*12,29,30*	115,452	97,882	114,540
Deferred tax assets	*27*	16,325	13,842	11,067
Total non-current assets		2,633,718	2,232,911	2,415,082
Inventories	*13*	1,283,473	1,088,150	1,497,034
Current available-for-sale financial assets	*10,30*	-	-	1,000
Current other financial assets	*15,30*	11,397	9,663	15,273
Prepaid tobacco excise and other taxes		179,264	151,983	177,043
Trade and other receivables	*12,29,30*	855,203	725,055	626,409
Advance payments	*31*	90,355	76,605	41,544
Prepaid expenses		15,819	13,411	22,360
Cash and cash equivalents	*14,30*	971,737	823,855	981,314
		3,407,248	2,888,722	3,361,977
Assets held for sale	*32*	8,955	7,592	-
Total current assets		3,416,203	2,896,314	3,361,977
Total assets	*5*	₩ 6,049,921	$ 5,129,225	₩ 5,777,059

See accompanying notes to the consolidated interim financial statements.

KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Statements of Financial Position, Continued

(Unaudited)

As of September 30, 2011 and December 31, 2010

In millions of won and thousands of U.S. dollars	*Note*	2011 Korean won	2011 U.S. dollars (note 4)	2010 Korean won
Equity				
Ordinary shares	*1,16*	₩ 954,959	$ 809,631	₩ 954,959
Other capital surplus	*16*	5,333	4,521	5,333
Treasury shares	*17*	(346,498)	(293,767)	(216,827)
Gain on reissuance of treasury shares	*17*	482,129	408,757	482,129
Reserve	*18*	2,684,130	2,275,651	2,179,227
Retained earnings	*19*	904,436	766,796	1,151,358
Equity attributable to owners of the parent	*30*	4,684,489	3,971,589	4,556,179
Non-controlling interests		62,575	53,052	42,130
Total equity		4,747,064	4,024,641	4,598,309
Liabilities				
Long-term borrowings	*15,20,30*	4,853	4,114	1,540
Long-term trade and other payables	*15,21,29,30*	24,536	20,802	22,880
Long-term advance receipts	*24*	14,518	12,309	10,935
Defined benefit liabilities	*23*	72,366	61,353	48,324
Provision		3,416	2,896	2,220
Deferred tax liabilities	*27*	187,692	159,129	167,503
Total non-current liabilities		307,381	260,603	253,402
Short-term borrowings	*15,22,30*	89,381	75,779	66,507
Current portion of long-term borrowings	*15,20,30*	2,055	1,743	506
Trade and other payables	*21,29,30*	399,109	338,371	301,211
Advance receipts		13,075	11,084	9,335
Income tax payable	*27*	112,247	95,165	222,932
Tobacco excise and other taxes payable		379,609	321,839	324,857
Total current liabilities		995,476	843,981	925,348
Total liabilities	*5*	1,302,857	1,104,584	1,178,750
Total equity and liabilities		₩ 6,049,921	$ 5,129,225	₩ 5,777,059

See accompanying notes to the consolidated interim financial statements.

KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Statements of Comprehensive Income

(Unaudited)

For the nine-month periods ended September 30, 2011 and 2010

In millions of won and thousands of U.S. dollars, except earnings per share	*Note*	2011 Korean won	2011 U.S. dollars (note 4)	2010 Korean won
Sales	*5,29*	₩ 2,768,911	$ 2,347,530	₩ 2,579,166
Cost of sales	*29*	(1,181,096)	(1,001,353)	(1,071,316)
Gross profit		1,587,815	1,346,177	1,507,850
Other income	*25*	77,320	65,553	92,086
Selling expenses	*25*	(495,219)	(419,855)	(446,020)
General and administrative expenses	*25*	(214,663)	(181,995)	(183,342)
Employee welfare fund		-	-	(3,027)
Other expense	*25*	(49,559)	(42,017)	(46,983)
Profit from operations	*5*	905,694	767,863	920,564
Net finance income	*26*	32,378	27,450	261,153
Share of gain of associates	*9*	1,002	850	-
Share of loss of associates	*9*	(20)	(17)	(205)
Profit before income tax		939,054	796,146	1,181,512
Income tax expense	*27*	(258,869)	(219,474)	(315,196)
Profit for the period		₩ 680,185	$ 576,672	₩ 866,316
Other comprehensive income (loss):				
Available-for-sale financial assets, net of tax	*10,26,27*	₩ (35,433)	$ (30,040)	₩ (137,162)
Exchange differences on translating foreign operations, net of tax	*27*	(3,664)	(3,107)	(2,915)
Actuarial gains (losses), net of tax	*23,27*	(110)	(93)	3,157
Other comprehensive loss for the period, net of tax		(39,207)	(33,240)	(136,920)
Total comprehensive income for the period		₩ 640,978	$ 543,432	₩ 729,396
Profit attributable to:				
- Owners of the parent		₩ 680,117	$ 576,614	₩ 866,785
- Non-controlling interests		68	58	(469)
		₩ 680,185	$ 576,672	₩ 866,316
Total comprehensive income attributable to:				
- Owners of the parent		₩ 640,927	$ 543,389	₩ 729,974
- Non-controlling interests		51	43	(578)
		₩ 640,978	$ 543,432	₩ 729,396
Earnings per share in won and U.S. dollars:				
Basic and diluted	*28*	₩ 5,364	$ 4.55	₩ 6,814

See accompanying notes to the consolidated interim financial statements.

KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Statements of Comprehensive Income, Continued

(Unaudited)

For the three-month periods ended September 30, 2011 and 2010

In millions of won and thousands of U.S. dollars, except earnings per share	*Note*	2011 Korean won	2011 U.S. dollars (note 4)	2010 Korean won
Sales	*5,29*	₩ 1,045,871	$ 886,707	₩ 943,044
Cost of sales	*29*	(453,868)	(384,797)	(391,639)
Gross profit		592,003	501,910	551,405
Other income	*25*	68,934	58,444	11,884
Selling expenses	*25*	(189,049)	(160,279)	(148,585)
General and administrative expenses	*25*	(78,029)	(66,154)	(57,747)
Employee welfare fund		-	-	(3,027)
Other expense	*25*	(18,980)	(16,092)	(39,338)
Profit from operations	*5*	374,879	317,829	314,592
Net finance income	*26*	14,948	12,674	7,027
Share of gain of associates	*9*	321	271	-
Share of loss of associates	*9*	-	-	(14)
Profit before income tax		390,148	330,774	321,605
Income tax expense	*27*	(108,367)	(91,875)	(85,738)
Profit for the period		₩ 281,781	$ 238,899	₩ 235,867
Other comprehensive income (loss):				
Available-for-sale financial assets, net of tax	*10,26,27*	₩ (21,931)	$ (18,594)	₩ (11,095)
Exchange differences on translating foreign operations, net of tax	*27*	(3,651)	(3,095)	(36)
Actuarial losses, net of tax	*23,27*	(24)	(21)	(309)
Other comprehensive loss for the period, net of tax		(25,606)	(21,710)	(11,440)
Total comprehensive income for the period		₩ 256,175	$ 217,189	₩ 224,427
Profit attributable to:				
- Owners of the parent		₩ 282,671	$ 239,654	₩ 235,441
- Non-controlling interests		(890)	(755)	426
		₩ 281,781	$ 238,899	₩ 235,867
Total comprehensive income attributable to:				
- Owners of the parent		₩ 257,074	$ 217,951	₩ 224,007
- Non-controlling interests		(899)	(762)	420
		₩ 256,175	$ 217,189	₩ 224,427
Earnings per share in won and U.S. dollars:				
Basic and diluted	*28*	₩ 2,249	$ 1.91	₩ 1,851

See accompanying notes to the consolidated interim financial statements.

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

For the nine-month period ended September 30, 2011

In millions of won		Ordinary shares	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2011	₩	954,959	5,333	(216,827)	482,129	2,179,227	1,151,358	4,556,179	42,130	4,598,309
Total comprehensive income for the period:										
Profit for the period		-	-	-	-	-	680,117	680,117	68	680,185
Other comprehensive income (loss):										
Available-for-sale financial assets, net of tax		-	-	-	-	(35,433)	-	(35,433)	-	(35,433)
Exchange differences on translating foreign operations, net of tax		-	-	-	-	(3,664)	-	(3,664)	-	(3,664)
Actuarial losses, net of tax		-	-	-	-	-	(93)	(93)	(17)	(110)
Total other comprehensive loss		-	-	-	-	(39,097)	(93)	(39,190)	(17)	(39,207)
Total comprehensive income (loss) for the period		-	-	-	-	(39,097)	680,024	640,927	51	640,978
Transactions with owners and others, recorded directly in equity:										
Dividends		-	-	-	-	-	(382,946)	(382,946)	-	(382,946)
Acquisition of treasury shares		-	-	(129,671)	-	-	-	(129,671)	-	(129,671)
Transfer to unconditional reserve		-	-	-	-	544,000	(544,000)	-	-	-
Acquisition of non-controlling interests		-	-	-	-	-	-	-	20,394	20,394
Total transactions with owners and others		-	-	(129,671)	-	544,000	(926,946)	(512,617)	20,394	(492,223)
Balance at September 30, 2011	₩	954,959	5,333	(346,498)	482,129	2,684,130	904,436	4,684,489	62,575	4,747,064

See accompanying notes to the consolidated interim financial statements.

KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Statements of Changes in Equity, Continued

(Unaudited)

For the nine-month period ended September 30, 2011

In thousands of U.S. dollars	Ordinary shares	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2011	$ 809,631	4,521	(183,830)	408,757	1,847,586	976,141	3,862,806	35,718	3,898,524
Total comprehensive income for the period:									
Profit for the period	-	-	-	-	-	576,614	576,614	58	576,672
Other comprehensive income (loss):									
Available-for-sale financial assets, net of tax	-	-	-	-	(30,040)	-	(30,040)	-	(30,040)
Exchange differences on translating foreign operations, net of tax	-	-	-	-	(3,107)	-	(3,107)	-	(3,107)
Actuarial losses, net of tax	-	-	-	-	-	(78)	(78)	(15)	(93)
Total other comprehensive loss	-	-	-	-	(33,147)	(78)	(33,225)	(15)	(33,240)
Total comprehensive income (loss) for the period	-	-	-	-	(33,147)	576,536	543,389	43	543,432
Transactions with owners and others, recorded directly in equity:									
Dividends	-	-	-	-	-	(324,669)	(324,669)	-	(324,669)
Acquisition of treasury shares	-	-	(109,937)	-	-	-	(109,937)	-	(109,937)
Transfer to unconditional reserve	-	-	-	-	461,212	(461,212)	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	-	17,291	17,291
Total transactions with owners and others	-	-	(109,937)	-	461,212	(785,881)	(434,606)	17,291	(417,315)
Balance at September 30, 2011	$ 809,631	4,521	(293,767)	408,757	2,275,651	766,796	3,971,589	53,052	4,024,641

See accompanying notes to the consolidated interim financial statements.

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

For the nine-month period ended September 30, 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 interests	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		-	-	-	-	-	866,785	866,785	(469)	866,316
Other comprehensive income (loss):										
Available-for-sale financial assets, net of tax		-	-	-	-	(137,162)	-	(137,162)	-	(137,162)
Exchange differences on translating foreign operations, net of tax		-	-	-	-	(2,915)	-	(2,915)	-	(2,915)
Actuarial gains (losses), net of tax		-	-	-	-	-	3,266	3,266	(109)	3,157
Total other comprehensive income (loss)		-	-	-	-	(140,077)	3,266	(136,811)	(109)	(136,920)
Total comprehensive income (loss) for the period		-	-	-	-	(140,077)	870,051	729,974	(578)	729,396
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)	-	-	-
Issuance of subsidiaries' share capital		-	12	-	-	-	-	12	16,676	16,688
Total transactions with owners and others		-	12	-	-	221,354	(577,511)	(356,145)	16,676	(339,469)
Balance at September 30, 2010	₩	954,959	5,333	(226,945)	468,274	2,156,546	996,552	4,354,719	43,210	4,397,929

See accompanying notes to the consolidated interim financial statements.

KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Statements of Cash Flows

(Unaudited)

For the nine-month periods ended September 30, 2011 and 2010

In millions of won and thousands of U.S. dollars	*Note*	2011 Korean won	2011 U.S. dollars (note 4)	2010 Korean won
Cash flows from operating activities				
Cash generated from operations	*33*	₩ 1,093,877	$ 927,407	₩ 974,497
Income tax paid		(351,625)	(298,113)	(252,549)
Net cash from operating activities		742,252	629,294	721,948
Cash flows from investing activities				
Interest received		25,061	21,247	12,583
Investment income received from long-term deposits in MSA Escrow Fund		10,582	8,972	1,244
Dividends received		5,057	4,287	1,945
Proceeds from sale of property, plant and equipment		14,470	12,268	15,165
Proceeds from sale of intangible assets		4,610	3,909	1,005
Proceeds from sale of assets held for sale		-	-	59,000
Proceeds from sale of available-for-sale financial assets		2,570	2,179	265,678
Proceeds from disposal of subsidiaries		113	96	-
Collection of loans		14,414	12,221	35,864
Withdrawal of guarantee deposits		32,696	27,720	33,512
Acquisition of property, plant and equipment		(205,631)	(174,337)	(151,839)
Acquisition of intangible assets		(14,701)	(12,463)	(10,632)
Acquisition of investment property		(2,109)	(1,788)	-
Acquisition of equity accounted investments		(12,600)	(10,682)	-
Acquisition of subsidiaries		(52,905)	(44,854)	-
Acquisition of available-for-sale financial assets		(12,220)	(10,360)	(21,623)
Increase in loans		(4,048)	(3,432)	(8,647)
Payments for guarantee deposits		(42,409)	(35,955)	(41,562)
Payments for long-term deposits in MSA Escrow Fund		(10,954)	(9,287)	(10,289)
Others, net		6,468	5,481	(6,287)
Net cash provided by (used in) investing activities		(241,536)	(204,778)	175,117
Cash flows from financing activities				
Interest paid		(2,824)	(2,395)	(3,143)
Dividends paid		(382,946)	(324,669)	(356,157)
Proceeds from long-term borrowings		756	641	-
Proceeds from short-term borrowings		24,164	20,486	32,103
Increase in deposits received		8,140	6,901	4,381
Issuance of subsidiaries' share capital		-	-	16,688
Repayment of long-term borrowings		(1,393)	(1,181)	(304)
Repayment of short-term borrowings		(27,685)	(23,471)	(45,948)
Decrease in deposits received		(5,788)	(4,906)	(5,872)
Acquisition of treasury shares		(129,671)	(109,937)	-
Net cash used in financing activities		(517,247)	(438,531)	(358,252)
Net increase (decrease) in cash and cash equivalents		(16,531)	(14,015)	538,813
Cash and cash equivalents at beginning of period		981,314	831,974	316,672
Effect of exchange rate fluctuation on cash held		6,954	5,896	(1,932)
Cash and cash equivalents at end of period		₩ 971,737	$ 823,855	₩ 853,553

See accompanying notes to the consolidated interim financial statements.

September 30, 2011 and 2010

1. Organization and Description of Business

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

As of September 30, 2011, the Parent Company has four manufacturing plants, including the Shintanjin plant, and 14 local headquarters and 139 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for the manufacturing of packaging. The head office of the Parent Company is located in Pyeongchon-dong, Daedeok-gu, Daejeon.

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

On October 17, 2002 and October 31, 2001, the Parent Company listed 35,816,658 and 45,400,000 Global Depositary Receipts ("GDR") (each GDR representing the right to receive one-half share of an ordinary share of the Parent Company), respectively, on the Luxembourg Stock Exchange pursuant to the Korean government's privatization program. Also, on June 25, 2009, the market of the Parent Company's GDR was changed from the BdL market to the Euro MTF in the Luxembourg Stock Exchange.

The ownership of the Parent Company's issued ordinary shares as of September 30, 2011 is held as follows:

In millions of won,
except number of shares and percentage of ownership

Shareholder	Number of shares	Percentage of ownership	Amount
Industrial Bank of Korea	9,510,485	6.93%	47,552
Employee Share Ownership Association	3,583,219	2.61%	17,916
Treasury shares	11,643,697	8.48%	58,218
Others	112,555,096	81.98%	562,776
Retirement of treasury shares	-	-	268,497
	137,292,497	100.00%	954,959

2. Basis of Preparation

(a) Statement of Compliance

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

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

(b) Basis of Measurement

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

(c) Use of Estimates and Judgments

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

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

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

- Classification of investment property – note 8
- Deferred revenue – note 24.

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. 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 control. The financial statements of subsidiaries are included in the consolidated interim 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 interim financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated interim 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.

Associates
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.

Business Combination
A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

The Group recognizes goodwill as of the acquisition date as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree in a business combination achieved in stages, less the net recognized amount (generally fair value) of the identifiable assets acquired and the liabilities assumed, all measured as of the acquisition date. When the excess is negative, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognizes any additional assets or liabilities that are identified in that review. If the excess remains negative after the review, a bargain purchase gain is recognized in profit or loss on the acquisition date.

The Group measures components of non-controlling interests in the acquiree at the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition-date fair values.

3. Significant Accounting Policies, Continued

(a) Basis of Consolidation, Continued

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 interim financial statements.

(b) Foreign Currencies

These consolidated interim 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 those 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 those gains or losses are recognized in profit or loss.

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 expenditures 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 measured 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.

3. Significant Accounting Policies, Continued

(c) Property, Plant and Equipment, Continued

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.

(d) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. The Group recognizes goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Goodwill is regarded as having an indefinite useful life and is not amortized but tested for impairment annually and when there is any indication that it may be impaired. Goodwill is carried at cost less accumulated impairment losses.

(e) Intangible Assets Other than Goodwill

Intangible assets are measured initially at cost and after initial recognition, are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets consist of industrial property rights, facility usage rights and other intangible assets. Intangible assets are amortized on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is assumed to be zero. However, as there are no foreseeable limits to the periods over which facility usage rights and some of the industrial property rights are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized.

The estimated useful lives were as follows:

	Useful lives (years)
Industrial property rights	10 ~ 20 or indefinite
Facility usage rights	indefinite
Other intangible assets	4 ~ 15 or indefinite

3. Significant Accounting Policies, Continued

(e) Intangible Assets Other than Goodwill, Continued

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.

(f) Investment Property

Properties held to earn rental or for capital appreciation are classified as investment properties. Investment properties are measured initially at their 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, if any, is accounted for as a change in an accounting estimate.

(g) Inventories

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

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

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

Tobacco leaf inventories which have an operating cycle that exceeds 12 months are classified as current assets, consistent with recognized industry practice. The estimated amounts of inventories in current assets which are not expected to be realized within 12 months are ₩332,444 million and ₩403,082 million as of September 30, 2011 and December 31, 2010, respectively.

3. Significant Accounting Policies, Continued

(h) 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 interim statements 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 interim statements 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 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.

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 assets. 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.

3. Significant Accounting Policies, Continued

(h) Non-derivative Financial Assets, Continued

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 change 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 interim statements of cash flows.

(i) 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 interim statements of financial position when the Group becomes a party to the contractual provisions of the financial liability and removes financial liabilities from the consolidated interim statements 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 issuance 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 they are held for trading or 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.

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.

(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-downs of the asset (or disposal group) to fair value less costs to sell and a gain for increases 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*.

3. Significant Accounting Policies, Continued

(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 nine-month periods ended September 30, 2011 and 2010 were ₩2,572,507 million and ₩2,546,207 million, respectively.

Revenue from the construction of real estate includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed.

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

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

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

(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, the 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.

3. Significant Accounting Policies, Continued

(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 for financial assets 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 an individually assessed financial asset, it collectively assesses them for impairment. The objective evidence that the group of loans and receivables are 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 the 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 reversed.

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.

3. Significant Accounting Policies, Continued

(n) Income tax

Income tax expense comprises current tax expense and deferred tax expense. Current and deferred taxes are recognized as an expense and 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 tax 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 interim statements 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 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.

(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.

3. Significant Accounting Policies, Continued

(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, and only 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.

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.

3. Significant Accounting Policies, Continued

(r) Employee Benefits, Continued

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.

Termination Benefits
The Group recognizes termination benefits as a liability and an expense when, and only when, the Group is demonstrably committed to terminating the employment of an employee or group of employees before the normal retirement date or providing termination benefits as a result of an offer made in order to encourage voluntary redundancy.

(s) Deferred Revenue

With regard to ginseng sales, the Group uses the customer loyalty program to provide customers with incentives to buy its goods. If a customer buys goods, the Group awards the customer points which can be redeemed in the future for free or discounted goods. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the points and the other components of the sale. The consideration allocated to the 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 Group recognizes the consideration allocated to the points as revenue when the points are redeemed and the Group fulfils its obligations to supply awards.

(t) Earnings per Share

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

Diluted EPS is 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.

3. Significant Accounting Policies, Continued

(u) Operating Segments

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 tobaccos (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 interim 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.

(v) New Standards and Interpretations Not Yet Adopted

The new and amended standards and interpretations that have been issued but are not yet effective as of September 30, 2011 have not been applied in preparing the consolidated interim financial statements. None of these are expected to have a significant effect on the consolidated interim financial statement of the Group, except for K-IFRS No. 1109 *Financial Instruments*. The extent of the impact of adopting this standard on the consolidated financial statements has not been determined.

4. Basis of Translating Financial Statements

The consolidated interim financial statements are expressed in Korean won and have been translated into U.S. dollars at the rate of ₩1,179.50 to $1, the basic exchange rate on September 30, 2011, 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.

5. Operating Segments

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

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

(b) Segment information on revenue and profit from operations for the nine-month period ended September 30, 2011 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩	1,924,786	823,584	22,100	150,434	2,920,904	(151,993)	2,768,911
Less: Inter-segment sales		36,501	84,666	3,787	27,039	151,993	(151,993)	-
External sales	₩	1,888,285	738,918	18,313	123,395	2,768,911	-	2,768,911
Profit from operations	₩	712,839	191,840	9,579	9,691	923,949	(18,255)	905,694

(c) Segment information on revenue and profit from operations for the nine-month period ended September 30, 2010 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩	1,771,698	683,638	65,839	111,365	2,632,540	(53,374)	2,579,166
Less: Inter-segment sales		8,424	34,957	2,842	7,151	53,374	(53,374)	-
External sales	₩	1,763,274	648,681	62,997	104,214	2,579,166	-	2,579,166
Profit (loss) from operations	₩	735,000	189,945	(13,511)	9,832	921,266	(702)	920,564

(d) Segment information on revenue and profit from operations for the three-month period ended September 30, 2011 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩	715,828	306,286	8,577	65,018	1,095,709	(49,838)	1,045,871
Less: Inter-segment sales		13,049	27,532	1,388	7,869	49,838	(49,838)	-
External sales	₩	702,779	278,754	7,189	57,149	1,045,871	-	1,045,871
Profit (loss) from operations	₩	305,757	69,237	7,373	(1,308)	381,059	(6,180)	374,879

(e) Segment information on revenue and profit from operations for the three-month period ended September 30, 2010 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩	664,439	240,127	18,508	34,421	957,495	(14,451)	943,044
Less: Inter-segment sales		2,472	9,459	986	1,534	14,451	(14,451)	-
External sales	₩	661,967	230,668	17,522	32,887	943,044	-	943,044
Profit (loss) from operations	₩	327,992	65,797	(82,599)	3,693	314,883	(291)	314,592

5. Operating Segments, Continued

(f) Segment information on assets and liabilities as of September 30, 2011 was as follows:

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets:								
Segment assets	₩	3,232,390	1,024,643	124,784	238,182	4,619,999	(153,787)	4,466,212
Equity accounted investments		-	-	30,064	1,576	31,640	-	31,640
Assets held for sale		8,955	-	-	-	8,955	-	8,955
	₩	3,241,345	1,024,643	154,848	239,758	4,660,594	(153,787)	4,506,807
Unallocated assets								1,543,114
Total assets	₩							6,049,921
Liabilities:								
Segment liabilities	₩	798,793	147,280	-	61,289	1,007,362	(124,690)	882,672
Unallocated liabilities								420,185
Total liabilities	₩							1,302,857

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

In millions of won		Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets:								
Segment assets	₩	3,120,200	893,430	131,313	110,090	4,255,033	(72,563)	4,182,470
Equity accounted investments		-	-	-	1,597	1,597	-	1,597
	₩	3,120,200	893,430	131,313	111,687	4,256,630	(72,563)	4,184,067
Unallocated assets								1,592,992
Total assets	₩							5,777,059
Liabilities:								
Segment liabilities	₩	652,318	73,426	-	33,807	759,551	(61,545)	698,006
Unallocated liabilities								480,744
Total liabilities	₩							1,178,750

(h) Revenues from major customers of which revenues amount to 10 percent or more of the Group's total revenues for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

In millions of won			2011		2010	
Segment	Major customers		Three-month	Nine-month	Three-month	Nine-month
Tobacco	Alokozay International Limited	₩	104,050	309,550	148,304	337,748

6. Property, Plant and Equipment

(a) Changes in property, plant and equipment for the nine-month period ended September 30, 2011 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, 2011	₩	1,262,597	1,003,435	239,277	89,389	2,594,698
Business combination		1,467	9,580	12,036	-	23,083
Additions		2,443	5,830	17,696	179,662	205,631
Disposals		(8,098)	(9,815)	(1,709)	-	(19,622)
Net exchange difference		(3,284)	(2,713)	112	389	(5,496)
Others		45,787	16,727	2,126	(102,600)	(37,960)
Balance at September 30, 2011	₩	1,300,912	1,023,044	269,538	166,840	2,760,334
Accumulated depreciation and impairment:						
Balance at January 1, 2011	₩	(297,247)	(620,266)	(166,347)	-	(1,083,860)
Business combination		(1,120)	(7,261)	(7,815)	-	(16,196)
Disposals		1,268	8,445	1,350	-	11,063
Depreciation		(25,472)	(56,927)	(27,077)	-	(109,476)
Net exchange difference		245	564	9	-	818
Others		5,313	755	-	-	6,068
Balance at September 30, 2011	₩	(317,013)	(674,690)	(199,880)	-	(1,191,583)
Carrying amount:						
Balance at January 1, 2011	₩	965,350	383,169	72,930	89,389	1,510,838
Balance at September 30, 2011	₩	983,899	348,354	69,658	166,840	1,568,751

Other changes for the nine-month period ended September 30, 2011 include assets with a carrying amount of ₩27,740 million transferred to investment property, those of ₩8,955 million transferred to assets held for sale, those of ₩559 million transferred from investment property, and those of ₩4,244 million transferred from inventories (sites for lotting-out construction).

For the nine-month period ended September 30, 2010, the Group acquired and disposed of property, plant and equipment amounting to ₩151,839 million and ₩7,456 million, respectively.

6. Property, Plant and Equipment, Continued

(b) Changes in property, plant and equipment for the year ended December 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		5,859	41,263	33,774	130,740	211,636
Disposals		(6,315)	(46,123)	(67,565)	(123)	(120,126)
Net exchange difference		(2,374)	(2,321)	(46)	(252)	(4,993)
Others		69,318	29,527	1,385	(110,316)	(10,086)
Balance at December 31, 2010	₩	1,262,597	1,003,435	239,277	89,389	2,594,698
Accumulated depreciation and impairment:						
Balance at January 1, 2010	₩	(266,932)	(585,791)	(193,989)	-	(1,046,712)
Disposals		1,879	38,457	65,979	-	106,315
Depreciation		(32,173)	(73,281)	(38,364)	-	(143,818)
Net exchange difference		82	349	27	-	458
Others		(103)	-	-	-	(103)
Balance at December 31, 2010	₩	(297,247)	(620,266)	(166,347)	-	(1,083,860)
Carrying amount:						
Balance at January 1, 2010	₩	929,177	395,298	77,740	69,340	1,471,555
Balance at December 31, 2010	₩	965,350	383,169	72,930	89,389	1,510,838

Other changes for the year ended December 31, 2010 include assets with a carrying amount of ₩957 million transferred to operating expenditures, those of ₩9,449 million transferred to inventories (sites for lotting-out construction) and those of ₩247 million transferred from investment property.

7. Intangible Assets

(a) Changes in intangible assets for the nine-month period ended September 30, 2011 were as follows:

In millions of won		Goodwill	Industrial property rights	Facility usage rights	Other intangible assets	Intangible assets under development	Total
Cost:							
Balance at January 1, 2011	₩	-	9,944	24,189	15,757	33,360	83,250
Business combination		32,131	859	33	43,215	-	76,238
Additions		-	407	3,763	9,369	1,162	14,701
Disposals		-	(17)	(4,371)	(66)	-	(4,454)
Net exchange difference		-	-	-	547	-	547
Others		-	92	-	-	(92)	-
Balance at September 30, 2011	₩	32,131	11,285	23,614	68,822	34,430	170,282
Accumulated amortization and impairment:							
Balance at January 1, 2011	₩	-	(7,895)	-	(11,563)	(647)	(20,105)
Business combination		-	(700)	-	(7)	-	(707)
Disposals		-	1	-	22	-	23
Amortization		-	(52)	-	(2,500)	-	(2,552)
Net exchange difference		-	-	-	133	-	133
Balance at September 30, 2011	₩	-	(8,646)	-	(13,915)	(647)	(23,208)
Carrying amount:							
Balance at January 1, 2011	₩	-	2,049	24,189	4,194	32,713	63,145
Balance at September 30, 2011	₩	32,131	2,639	23,614	54,907	33,783	147,074

Other intangible assets include customer relationships and brand value acquired as part of a business combination. Details of intangible assets acquired as part of a business combination are described in note 35 to the consolidated interim financial statements.

The fair values of customer relationships and brand value are measured by the multi-period-excess-earnings method and relief-from-royalty method, respectively, as determined by the valuation of an independent external institution.

For the nine-month period ended September 30, 2010, the Group acquired and disposed of intangible assets amounting to ₩10,632 million and ₩1,140 million, respectively.

7. Intangible Assets, Continued

(b) Changes in intangible assets for the year ended December 31, 2010 were as follows:

In millions of won		Industrial property rights	Facility usage rights	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		485	4,303	5,028	3,790	13,606
Disposals		(200)	(864)	-	(181)	(1,245)
Net exchange difference		-	-	(28)	-	(28)
Others		360	-	1,024	(1,384)	-
Balance at December 31, 2010	₩	9,944	24,189	15,757	33,360	83,250
Accumulated amortization and impairment:						
Balance at January 1, 2010	₩	(7,818)	-	(6,752)	(647)	(15,217)
Disposals		94	-	-	-	94
Amortization		(88)	-	(1,236)	-	(1,324)
Impairment		(83)	-	(3,598)	-	(3,681)
Net exchange difference		-	-	23	-	23
Balance at December 31, 2010	₩	(7,895)	-	(11,563)	(647)	(20,105)
Carrying amount:						
Balance at January 1, 2010	₩	1,481	20,750	2,981	30,488	55,700
Balance at December 31, 2010	₩	2,049	24,189	4,194	32,713	63,145

The Group recognized ₩3,415 million of impairment loss on the intangible assets relating to the acquisition of the sales network in the United States and ₩266 million of impairment loss on the intangible assets relating to the development of synthesis technology for the year ended December 31, 2010.

(c) Research and development expenditures not capitalized for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

		2011		2010	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Cost of sales	₩	268	687	428	564
Selling expenses		3,652	8,231	2,597	7,074
General and administrative expenses		3,837	10,618	2,016	7,110
	₩	7,757	19,536	5,041	14,748

8. Investment Property

(a) Changes in investment property for the nine-month period ended September 30, 2011 were as follows:

In millions of won		Land	Buildings	Total
Cost:				
Balance at January 1, 2011	₩	36,550	121,890	158,440
Subsequent expenditure		-	2,109	2,109
Transfer to property, plant and equipment		(268)	(465)	(733)
Transfer from property, plant and equipment		1,481	26,259	27,740
Balance at September 30, 2011	₩	37,763	149,793	187,556
Accumulated depreciation and impairment:				
Balance at January 1, 2011	₩	-	(36,957)	(36,957)
Depreciation		-	(3,419)	(3,419)
Transfer to property, plant and equipment		-	174	174
Balance at September 30, 2011	₩	-	(40,202)	(40,202)
Carrying amount:				
Balance at January 1, 2011	₩	36,550	84,933	121,483
Balance at September 30, 2011	₩	37,763	109,591	147,354

(b) Changes in investment property for the year ended December 31, 2010 were as follows:

In millions of won		Land	Buildings	Total
Cost:				
Balance at January 1, 2010	₩	15,385	117,885	133,270
Transfer to property, plant and equipment		-	(350)	(350)
Transfer from assets held for sale		21,165	4,355	25,520
Balance at December 31, 2010	₩	36,550	121,890	158,440
Accumulated depreciation and impairment:				
Balance at January 1, 2010	₩	-	(29,155)	(29,155)
Depreciation		-	(3,855)	(3,855)
Impairment		-	(1,437)	(1,437)
Transfer to property, plant and equipment		-	103	103
Transfer from assets held for sale		-	(2,613)	(2,613)
Balance at December 31, 2010	₩	-	(36,957)	(36,957)
Carrying amount:				
Balance at January 1, 2010	₩	15,385	88,730	104,115
Balance at December 31, 2010	₩	36,550	84,933	121,483

For the year ended December 31, 2010, the Group recognized ₩1,437 million of impairment loss on the investment property transferred from assets held for sale due to the cancellation of a contract.

8. Investment Property, Continued

(c) The amounts recognized in profit or loss from investment property for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

		2011		2010	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Rental income	₩	5,931	15,154	4,586	13,010
Direct operating expense		(1,199)	(3,419)	(915)	(2,953)
	₩	4,732	11,735	3,671	10,057

(d) The carrying amount and the fair value of investment property as of September 30, 2011 and December 31, 2010 were as follows:

		September 30 2011		December 31 2010	
In millions of won		Fair value	Carrying amount	Fair value	Carrying amount
Land	₩	188,833	37,763	187,620	36,550
Buildings		119,575	109,591	91,498	84,933
	₩	308,408	147,354	279,118	121,483

9. Equity Accounted Investments

(a) Equity accounted investments as of September 30, 2011 and December 31, 2010 are summarized as follows:

In millions of won, except percentage of ownership			September 30 2011		December 31 2010	
Associate	Location	Principal operation	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Cosmo Tabacco Co., Ltd.	Mongolia	Manufacturing and selling tobaccos	40.00%	₩ -	40.00%	₩ -
Lite Pharm Tech, Inc.	Korea	Manufacturing medical supplies	25.34%	630	25.34%	645
Korean Carbon Finance, Inc.	Korea	Emissions trading	20.00%	947	20.00%	952
JR CR-REIT IV Co., Ltd.	Korea	Selling and renting of real estate	32.68%	10,049	-	-
KVG REIT 1 Co., Ltd.	Korea	Selling and renting of real estate	29.67%	7,277	-	-
KOCREF REIT 17 Co., Ltd.	Korea	Selling and renting of real estate	22.06%	6,955	-	-
JR REIT V Co., Ltd.	Korea	Selling and renting of real estate	34.63%	5,782	-	-
				₩31,640		₩ 1,597

Cosmo Tabacco Co., Ltd. was in the process of liquidation as of September 30, 2011. 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 been reduced to zero due to accumulated deficit.

9. Equity Accounted Investments, Continued

(b) Changes in equity accounted investments for the nine-month period ended September 30, 2011 were as follows:

In millions of won

Associate		Balance at beginning of period	Acquisition	Share of profit or loss of associates	Others	Balance at end of period
Lite Pharm Tech, Inc.	₩	645	-	(15)	-	630
Korean Carbon Finance, Inc.		952	-	(5)	-	947
JR CR-REIT IV Co., Ltd.		-	-	448	9,601	10,049
KVG REIT 1 Co., Ltd.		-	-	207	7,070	7,277
KOCREF REIT 17 Co., Ltd.		-	7,000	165	(210)	6,955
JR REIT V Co., Ltd.		-	5,600	182	-	5,782
	₩	1,597	12,600	982	16,461	31,640

The Group reclassified ₩17,300 million of available-for-sale financial assets to equity accounted investments and received ₩839 million of dividends from those associates for the nine-month period ended September 30, 2011.

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

In millions of won

Associate		Balance at beginning of period	Acquisition	Share of profit or loss of associates	Others	Balance at end of period
Lite Pharm Tech, Inc.	₩	572	-	(227)	300	645
Korean Carbon Finance, Inc.		1,012	-	(60)	-	952
	₩	1,584	-	(287)	300	1,597

(d) Summarized financial information on associates as of and for the nine-month period ended September 30, 2011 was as follows:

In millions of won

Associate		Total assets	Total liabilities	Revenue	Profit or loss
Lite Pharm Tech, Inc.	₩	3,918	1,433	1,025	(60)
Korean Carbon Finance, Inc.		4,805	72	605	(26)
JR CR-REIT IV Co., Ltd.		66,258	35,508	5,487	1,312
KVG REIT 1 Co., Ltd.		52,607	28,081	4,160	735
KOCREF REIT 17 Co., Ltd.		59,623	28,098	-	818
JR REIT V Co., Ltd.		31,922	15,224	1,202	614

(e) Summarized financial information on associates as of and for the year ended December 31, 2010 was as follows:

In millions of won

Associate		Total assets	Total liabilities	Revenue	Profit or loss
Lite Pharm Tech, Inc.	₩	3,887	1,342	938	(896)
Korean Carbon Finance, Inc.		4,858	100	1,213	(305)

10. Available-for-sale Financial Assets

(a) Changes in available-for-sale financial assets for the nine-month period ended September 30, 2011 and the year ended December 31, 2010 were as follows:

In millions of won		2011	2010
Balance at beginning of period	₩	315,177	444,040
Acquisitions		12,220	39,923
Net changes in fair value before tax		(45,428)	(141,998)
Transfer to equity accounted investments		(17,300)	-
Impairment		(3,988)	-
Disposals		(1,927)	(26,788)
Balance at end of period	₩	258,754	315,177
Consolidated statements of financial position:			
- Current	₩	-	1,000
- Non-current		258,754	314,177
	₩	258,754	315,177

The Group recognized ₩3,988 million of impairment loss on the available-for-sale equity instruments of Migami, Inc. for the nine-month period ended September 30, 2011.

(b) Available-for-sale financial assets as of September 30, 2011 and December 31, 2010 are summarized as follows:

In millions of won		September 30 2011	December 31 2010
Available-for-sale debt instruments:			
- Government and municipal bonds	₩	240	240
- Corporate bonds		2,040	20,340
Total available-for-sale debt instruments		2,280	20,580
Available-for-sale equity instruments:			
Listed			
- YTN Co., Ltd.		28,743	30,839
- Oscotech, Inc.		1,548	1,022
- Shinhan Financial Group Co., Ltd.		168,351	212,042
- Rexahn Pharmaceuticals, Inc.		7,538	8,152
		206,180	252,055
Unlisted			
- Dream Hub PFV Co., Ltd.		12,732	12,732
- Migami, Inc.		-	3,988
- Other unlisted available-for-sale equity instruments		37,562	25,822
		50,294	42,542
Total available-for-sale equity instruments		256,474	294,597
Total available-for-sale financial assets	₩	258,754	315,177

10. Available-for-sale Financial Assets, Continued

(c) 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. which does not have a market price in an active market is measured at the value per share determined by the net asset valuation model.

The other unlisted available-for-sale equity instruments that do not have a market price in an active market and whose fair value cannot be reliably measured 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 September 30, 2011 and December 31, 2010 are summarized as follows:

In millions of won		September 30 2011	December 31 2010
MMF	₩	146,363	74,167
Treasury note		-	58,247
	₩	146,363	132,414

(b) As discussed in note 31 to the consolidated interim financial statements, long-term deposits in MSA Escrow Fund are deposited to the United States government related to the export of tobacco to the United States. The payments of long-term deposits in MSA Escrow Fund for the nine-month periods ended September 30, 2011 and 2010 are ₩10,954 million and ₩10,289 million, respectively.

(c) Investment income on long-term deposits in MSA Escrow Fund for the nine-month periods ended September 30, 2011 and 2010 are ₩8,574 million and ₩7,656 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 September 30, 2011 and December 31, 2010 are summarized as follows:

		September 30 2011		December 31 2010	
In millions of won		Current	Non-current	Current	Non-current
Loans to employees	₩	17,898	32,777	19,300	43,092
Loans		2,250	7,564	898	7,130
Other receivables		49,789	100	67,093	-
Guarantee deposits		-	75,011	-	64,318
Accrued income		1,718	-	2,204	-
Trade receivables		783,548	-	536,914	-
	₩	855,203	115,452	626,409	114,540

(b) Trade and other receivables as of September 30, 2011 and December 31, 2010 have been reported in the consolidated interim statements of financial position net of allowances as follows:

		September 30 2011		December 31 2010	
In millions of won		Current	Non-current	Current	Non-current
Gross trade and other receivables	₩	871,206	115,452	635,218	114,540
Allowance account:					
- Loans		(197)	-	-	-
- Other receivables		(2,183)	-	(1,934)	-
- Trade receivables		(13,623)	-	(6,875)	-
		(16,003)	-	(8,809)	-
Net trade and other receivables	₩	855,203	115,452	626,409	114,540

(c) Changes in the allowance account for the nine-month period ended September 30, 2011 and the year ended December 31, 2010 were as follows:

In millions of won		2011	2010
Balance at beginning of period	₩	8,809	10,237
Business combination		6,817	-
Impairment		1,318	473
Reversal of impairment		(223)	(216)
Write-off		(707)	(1,682)
Net exchange difference		(11)	(3)
Balance at end of period	₩	16,003	8,809

Impairment loss and reversal of impairment loss on trade and other receivables are included as part of other expense and income in the consolidated interim statements of comprehensive income.

12. Trade and Other Receivables, Continued

(d) The aging schedule of trade and other receivables which were past due but not impaired as of September 30, 2011 and December 31, 2010 is as follows:

In millions of won		September 30 2011	December 31 2010
Within one month	₩	65,111	48,739
Between one and two months		27,669	64,936
Beyond two months		170,291	17,131
	₩	263,071	130,806

There is no significant concentration of credit risk with respect to trade and other receivables since trade and other receivables, excluding export trade receivables, are widely dispersed amongst a number of customers. The Group holds bank guarantees, other guarantees and credit insurance in respect of some of the past due debtor balances.

(e) Details of trade and other receivables that are measured at amortized cost as of September 30, 2011 and December 31, 2010 were as follows:

	September 30 2011				December 31 2010			
In millions of won	Effective interest rate		Current	Non-current	Effective interest rate		Current	Non-current
Loans to employees	3.00~5.68%	₩	17,894	32,761	3.00~5.68%	₩	19,287	43,066
Loans	3.29~8.47%		1,935	5,354	3.29~8.47%		898	3,554
Guarantee deposits	3.00~8.47%		-	72,246	3.00~8.47%		-	61,719
		₩	19,829	110,361		₩	20,185	108,339

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 September 30, 2011 and December 31, 2010 are summarized as follows:

In millions of won		September 30 2011	December 31 2010
Merchandise, net of loss on the write-down of inventories	₩	7,993	7,914
Finished goods, net of loss on the write-down of inventories		248,236	238,009
Work-in-progress, net of loss on the write-down of inventories		206,913	312,920
Raw materials, net of loss on the write-down of inventories		755,714	869,053
Supplies		26,433	25,941
By-products		7,653	7,542
Buildings under construction		2,110	381
Sites for lotting-out construction		5,221	9,449
Goods-in-transit		23,200	25,825
	₩	1,283,473	1,497,034

(b) The amounts of inventories recognized as an expense for the nine-month periods ended September 30, 2011 and 2010 were as follows:

In millions of won		2011	2010
Cost of sales:			
- Loss on the write-down of inventories	₩	484	-
- Reversal of the write-down of inventories		-	(127)
Other expense:			
- Loss on retirement of inventories		4,458	4,117
	₩	4,942	3,990

14. Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2011 and December 31, 2010 are summarized as follows:

In millions of won		September 30 2011	December 31 2010
Cash on hand	₩	6,781	5,079
Demand deposits		270,068	110,260
Short-term investment assets		694,888	865,975
	₩	971,737	981,314

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 September 30, 2011:

In millions of won

Asset	Carrying amount	Type	Received amount	Collateralized amount	Lender/Leaseholder
Land, buildings and structures and investment property	₩ 83,415	Short-term borrowings	₩ 24,175		
		Long-term borrowings	1,665	93,627	Hana Bank and 2 others
Investment property	55,716	Leasehold deposits received	6,045	6,863	Metlife Insurance Korea Co., Ltd. and 24 others
	₩139,131		₩ 31,885	100,490	

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

In millions of won

Asset	Carrying amount	Type	Received amount	Collateralized amount	Lender/Leaseholder
Land, buildings and structures and investment property	₩ 67,018	Short-term borrowings	₩ 25,900		
		Long-term borrowings	2,045	60,150	Hana Bank and 2 others
Investment property	32,722	Leasehold deposits received	2,583	3,429	Korea Life Insurance Co., Ltd. and 18 others
	₩ 99,740		₩ 30,528	63,579	

(c) Other financial assets restricted in use as of September 30, 2011 and December 31, 2010 were as follows:

In millions of won	September 30 2011	December 31 2010
Security deposits for checking accounts	₩ 20	6
Collateral for borrowings	10,891	640
	₩ 10,911	646

16. Share Capital

(a) Details of share capital as of September 30, 2011 and December 31, 2010 were as follows:

In won, except number of shares		September 30 2011	December 31 2010
Number of ordinary shares:			
- Authorized		800,000,000	800,000,000
- Issued		137,292,497	137,292,497
- Outstanding		125,648,800	127,648,800
Par value	₩	5,000	5,000

The Parent Company has, thus far, reacquired and retired 53,699,400 shares of treasury shares. Accordingly, as of September 30, 2011, the Parent Company's ordinary shares differ from the aggregate par value of issued shares by ₩268,497 million.

(b) Changes in the number of shares for the nine-month period ended September 30, 2011 and the year ended December 31, 2010 were as follows:

	2011			2010		
Number of shares	Ordinary shares	Treasury shares	Total	Ordinary shares	Treasury shares	Total
Beginning of period	137,292,497	(9,643,697)	127,648,800	137,292,497	(10,093,697)	127,198,800
Acquisition of treasury shares	-	(2,000,000)	(2,000,000)	-	-	-
Disposal of treasury shares	-	-	-	-	450,000	450,000
End of period	137,292,497	(11,643,697)	125,648,800	137,292,497	(9,643,697)	127,648,800

(c) Changes in the other capital surplus for the nine-month period ended September 30, 2011 and the year ended December 31, 2010 were as follows:

In millions of won		2011	2010
Balance at beginning of period	₩	5,333	5,321
Issuance of subsidiaries' share capital		-	12
Balance at end of period	₩	5,333	5,333

17. Treasury Shares

(a) Changes in the treasury shares for the nine-month period ended September 30, 2011 and the year ended December 31, 2010 were as follows:

In millions of won, except number of shares	2011 Number of shares		2011 Carrying amount	2010 Number of shares		2010 Carrying amount
Balance at beginning of period	9,643,697	₩	216,827	10,093,697	₩	226,945
Acquisition of treasury shares	2,000,000		129,671	-		-
Disposal of treasury shares	-		-	(450,000)		(10,118)
Balance at end of period	11,643,697	₩	346,498	9,643,697	₩	216,827

(b) Changes in gain on reissuance of treasury shares for the nine-month period ended September 30, 2011 and the year ended December 31, 2010 were as follows:

In millions of won		2011	2010
Balance at beginning of period	₩	482,129	468,274
Gain on reissuance of treasury shares before tax		-	18,278
Less: tax at 24.2%		-	(4,423)
Gain on reissuance of treasury shares, net of tax		-	13,855
Balance at end of period	₩	482,129	482,129

18. Reserves

(a) Details of reserves as of September 30, 2011 and December 31, 2010 were as follows:

In millions of won		September 30 2011	December 31 2010
Available-for-sale financial assets reserve	₩	(17,399)	18,034
Exchange differences on translating foreign operations		(9,140)	(5,476)
Legal reserve		602,937	602,937
Voluntary reserve		2,107,732	1,563,732
	₩	2,684,130	2,179,227

(b) Available-for-sale financial assets reserve as of September 30, 2011 and December 31, 2010 are summarized as follows:

In millions of won		September 30 2011	December 31 2010
Available-for-sale financial assets reserve before tax	₩	(22,307)	23,121
Tax effect		4,908	(5,087)
	₩	(17,399)	18,034

18. Reserves, Continued

(c) Legal Reserve

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

(d) Details of the Group's voluntary reserve as of September 30, 2011 and December 31, 2010 were as follows:

In millions of won		September 30 2011	December 31 2010
Reserve for business rationalization	₩	12,851	12,851
Reserve for research and human resource development		60,000	60,000
Reserve for business expansion		698,881	698,881
Unconditional reserve		1,336,000	792,000
	₩	2,107,732	1,563,732

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
Reserve for research and human resource development was appropriated in order to utilize certain tax deduction benefits through the early recognition of future expenditures. This reserve is restored to retained earnings in accordance with the relevant tax laws. Such reserve is 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 nine-month period ended September 30, 2011 and the year ended December 31, 2010 were as follows:

In millions of won		2011	2010
Balance at beginning of period	₩	1,151,358	704,012
Transfer from reserve for research and human resource development		-	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		(544,000)	(203,000)
Dividends		(382,946)	(356,157)
Profit for the period		680,185	1,030,789
- Less: non-controlling interests		(68)	1,035
Actuarial losses, net of tax		(110)	(7,590)
- Less: non-controlling interests		17	623
Balance at end of period	₩	904,436	1,151,358

20. Long-term Borrowings

(a) Long-term borrowings as of September 30, 2011 and December 31, 2010 are summarized as follows:

In millions of won Lender	Annual interest rate		September 30 2011 Current	September 30 2011 Non-current	December 31 2010 Current	December 31 2010 Non-current
Hana Bank	2.25%	₩	280	140	281	351
	4.02%		223	1,022	225	1,189
National Agricultural Cooperative Federation	1.50%		-	756	-	-
Korea Development Bank	3.92%		-	291	-	-
	7.57%		52	144	-	-
SMI 22nd ABS Securitization Specialty Co.	8.10%		1,500	2,500	-	-
		₩	2,055	4,853	506	1,540

Korea Energy Management Corporation and Korea Environment Corporation have guaranteed the Group's borrowings from Hana Bank. In addition, Kang, Seok-Chang, the former owner of Somang Cosmetics Co., Ltd., has guaranteed the Group's borrowings from Korea Development Bank in the amount of ₩487 million.

(b) Repayment schedule for long-term borrowings as of September 30, 2011 is as follows:

In millions of won		Amount
Within one year	₩	2,055
Between one and two years		2,916
Between two and three years		333
Between three and four years		320
Between four and five years		1,037
Beyond five years		247
	₩	6,908

21. Trade and Other Payables

(a) Trade and other payables as of September 30, 2011 and December 31, 2010 are summarized as follows:

		September 30 2011		December 31 2010	
In millions of won		Current	Non-current	Current	Non-current
Leasehold deposits received	₩	85	23,874	60	21,697
Trade payables		66,033	-	44,381	-
Withholdings		169,306	662	126,793	1,183
Accrued expenses		111,990	-	110,866	-
Other payables		51,695	-	19,111	-
	₩	399,109	24,536	301,211	22,880

(b) Details of trade and other payables that are measured at amortized cost as of September 30, 2011 and December 31, 2010 were as follows:

	September 30 2011				December 31 2010			
In millions of won	Effective interest rate		Current	Non-current	Effective interest rate		Current	Non-current
Leasehold deposits received	3.00~5.68%	₩	-	23,874	3.00~5.68%	₩	-	21,697

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 September 30, 2011 and December 31, 2010 are summarized as follows:

In millions of won	Annual interest rate		September 30 2011	December 31 2010
Customer credit contracts:				
National Agricultural Cooperative Federation and others	7.23%	₩	6,189	25,918
Kookmin Bank and others	3M CD+1.25~2.50%		39,193	7,042
General purpose borrowings:				
Hana Bank and others	3.00~8.26%		43,999	33,547
		₩	89,381	66,507

The Group has entered into a customer credit contract with 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 in the consolidated interim statements 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 interim statements of financial position.

Kang, Seok-Chang, the former owner of Somang Cosmetics Co., Ltd., has guaranteed part of the Group's general purpose borrowings in the amount of ₩12,371 million.

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 for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

		2011		2010	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Defined benefit plan:					
- Current service costs	₩	8,142	24,005	7,116	24,271
- Interest costs		2,021	5,991	1,850	6,232
- Expected returns on plan assets		(1,469)	(4,371)	(1,841)	(5,524)
- Gains on the settlement of the plan		-	-	314	(3,432)
		8,694	25,625	7,439	21,547
Defined contribution plan:					
- Contributions recognized as expense		323	894	215	740
	₩	9,017	26,519	7,654	22,287

The Group recognized contributions payable amounting to ₩130 million and ₩83 million as trade and other payables (accrued expenses) in the consolidated interim statements of financial position as of September 30, 2011 and December 31, 2010.

The Group recognized termination benefits amounting to ₩2,905 million and ₩47,920 million as an expense for the nine-month periods ended September 30, 2011 and 2010. With regard to the termination benefits, the Group recognized trade and other payables (accrued expenses) amounting to ₩2,550 million and ₩1,695 million in the consolidated interim statements of financial position as of September 30, 2011 and December 31, 2010.

(b) Changes in defined benefit liabilities for the nine-month period ended September 30, 2011 and the year ended December 31, 2010 were as follows:

In millions of won		2011	2010
Balance at beginning of period	₩	48,324	35,445
Business combination		2,721	-
Retirement benefits		25,625	35,977
Actuarial losses before tax		142	9,353
Payments into plan assets		-	(17,558)
Payments, including the amount transferred to the defined contribution plan		(4,421)	(14,420)
Changes in accrued expenses		(26)	(470)
Net exchange difference		1	(3)
Balance at end of period	₩	72,366	48,324
Consolidated statements of financial position:			
- Present value of retirement benefit obligations	₩	203,200	176,811
- Fair value of plan assets		(130,834)	(128,487)
Defined benefit liabilities	₩	72,366	48,324

23. Retirement Benefits Plan, Continued

(c) Changes in defined benefit obligations for the nine-month period ended September 30, 2011 and the year ended December 31, 2010 were as follows:

In millions of won		2011	2010
Balance at beginning of period	₩	176,811	163,006
Business combination		5,364	-
Current service costs		24,005	34,296
Interest costs		5,991	8,758
Losses on the settlement of the plan		-	287
Actuarial losses before tax		-	8,745
Payments, including the amount transferred to the defined contribution plan		(9,170)	(36,784)
Changes in accrued expenses		198	(1,494)
Net exchange difference		1	(3)
Balance at end of period	₩	203,200	176,811

Some of employees have transferred from the defined benefit plan to the defined contribution plan. The Group recognized ₩287 million of the losses on the settlement of the defined benefit plan in profit or loss for the year ended December 31, 2010.

(d) Changes in plan assets for the nine-month period ended September 30, 2011 and the year ended December 31, 2010 were as follows:

In millions of won		2011	2010
Balance at beginning of period	₩	128,487	127,561
Business combination		2,643	-
Expected return on plan assets		4,371	7,364
Actuarial losses before tax		(142)	(608)
Payments into plan assets		-	17,558
Payments, including the amount transferred to the defined contribution plan		(4,749)	(22,364)
Changes in accrued expenses		224	(1,024)
Balance at end of period	₩	130,834	128,487

Actual returns on plan assets for the nine-month periods ended September 30, 2011 and 2010 are ₩4,229 million and ₩5,634 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 (losses) for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

		2011		2010	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Actuarial gains (losses) before tax	₩	(31)	(142)	(392)	4,116
Tax effect		7	32	83	(959)
	₩	(24)	(110)	(309)	3,157

23. Retirement Benefits Plan, Continued

(f) The components of plan assets as of September 30, 2011 and December 31, 2010 were as follows:

In millions of won		September 30 2011	December 31 2010
Short-term trading financial assets	₩	74,617	94,192
Available-for-sale financial assets		53,035	33,680
Others		3,182	615
	₩	130,834	128,487

As of September 30, 2011 and December 31, 2010, short-term trading financial assets include severance insurance of ₩2,980 million and ₩3,272 million, respectively, which continue to be covered by the existing retirement benefits plan.

(g) The principal actuarial assumptions as of September 30, 2011 and December 31, 2010 were as follows:

In millions of won	September 30 2011	December 31 2010
Rate of salary increases	4.00%~7.00%	3.00%~6.00%
Discount rate	4.61%~5.50%	4.30%~5.00%
Expected rate of return on plan assets	3.78%~6.00%	3.78%~5.44%

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	₩	16,932	(14,820)
- Increase (decrease) in retirement benefits before tax		3,038	(2,639)
Discount rate:			
- Increase (decrease) in defined benefit obligations		(15,591)	18,193
- Increase (decrease) in retirement benefits before tax		(1,431)	1,625
Expected rate of return on plan assets:			
- Increase (decrease) in retirement benefits before tax		(945)	948

The effect on defined benefit obligations is as of September 30, 2011. The effect on retirement benefits before tax is for the nine-month period ended September 30, 2011.

24. Deferred Revenue

Changes in deferred revenue included in long-term advance receipts for the nine-month period ended September 30, 2011 and the year ended December 31, 2010 were as follows:

In millions of won		2011	2010
Balance at beginning of period	₩	10,420	9,682
Revenue deferred		9,390	5,672
Revenue recognized		(6,810)	(4,934)
Balance at end of period	₩	13,000	10,420

25. Profit from Operations

(a) Employee benefit costs for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

		2011		2010	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Salaries	₩	119,751	329,681	95,721	281,854
Retirement benefits		9,017	26,519	7,654	22,287
Termination benefits		2,881	2,905	2,394	47,920
Employee welfare		13,774	36,496	9,952	29,341
	₩	145,423	395,601	115,721	381,402

(b) Depreciation and amortization for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

		2011		2010	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Depreciation	₩	39,439	112,895	36,545	109,702
Amortization		1,611	2,552	325	935
	₩	41,050	115,447	36,870	110,637

(c) Details of other income for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

		2011		2010	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Foreign currency transaction gain	₩	7,994	14,187	6,783	17,098
Foreign currency translation gain		55,895	45,095	-	1,413
Reversal of impairment loss on trade and other receivables		208	223	-	296
Gain on sale of equity accounted investments		-	1,139	-	-
Gain on sale of property, plant and equipment		1,342	8,057	3,069	65,835
Gain on sale of intangible assets		37	826	22	24
Others		3,458	7,793	2,010	7,420
	₩	68,934	77,320	11,884	92,086

25. Profit from Operations, Continued

(d) Details of selling expenses for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

		2011		2010	
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Salaries	₩	51,569	143,435	40,794	121,031
Retirement and termination benefits		6,103	13,233	3,764	31,310
Employee welfare		5,839	16,669	5,094	14,974
Travel		2,048	5,786	2,042	5,601
Communications		763	1,923	599	1,814
Utilities		1,365	4,211	1,466	4,300
Taxes and dues		3,720	11,396	4,024	11,128
Supplies		780	1,865	593	1,268
Rent		5,189	13,465	3,063	9,635
Depreciation		7,821	20,872	7,944	24,115
Amortization		1,386	1,546	177	460
Repairs and maintenance		1,854	4,387	1,003	3,070
Vehicles		2,318	6,374	1,916	5,324
Insurance		329	1,122	227	737
Commissions		35,371	91,444	32,087	86,255
Freight and custody		9,770	28,561	8,090	24,272
Conferences		244	1,169	335	1,382
Advertising		47,377	116,821	30,799	89,187
Training		599	1,412	1,628	2,430
Prizes and rewards		952	1,297	343	653
Normal research and development		3,652	8,231	2,597	7,074
	₩	189,049	495,219	148,585	446,020

25. Profit from Operations, Continued

(e) Details of general and administrative expenses for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

In millions of won		2011 Three-month	2011 Nine-month	2010 Three-month	2010 Nine-month
Salaries	₩	26,320	66,481	19,431	52,800
Retirement and termination benefits		2,021	5,896	3,514	12,495
Employee welfare		3,729	7,827	1,519	4,526
Travel		1,176	2,822	694	1,866
Communications		563	1,979	652	2,088
Utilities		469	1,610	352	1,331
Taxes and dues		404	1,294	556	1,584
Supplies		325	998	261	1,246
Rent		2,529	6,484	1,688	4,562
Depreciation		4,138	11,999	3,942	11,951
Amortization		71	761	154	439
Repairs and maintenance		564	1,971	600	1,484
Vehicles		480	1,337	427	1,267
Insurance		160	442	26	267
Commissions		8,738	29,781	4,164	20,901
Freight and custody		500	1,166	271	914
Conferences		349	1,848	415	1,331
Advertising		19,521	54,203	14,617	49,791
Training		1,479	4,078	2,190	4,649
Prizes and rewards		656	1,068	258	740
Normal research and development		3,837	10,618	2,016	7,110
	₩	78,029	214,663	57,747	183,342

(f) Details of other expenses for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

In millions of won		2011 Three-month	2011 Nine-month	2010 Three-month	2010 Nine-month
Foreign currency transaction loss	₩	11,115	26,892	3,069	13,640
Foreign currency translation loss		-	6,271	28,101	11,773
Impairment loss on trade and other receivables		1,068	1,318	390	412
Donations		3,382	5,963	1,867	6,445
Loss on sale of property, plant and equipment		1,447	2,146	1,185	1,646
Loss on sale of intangible assets		471	647	1	159
Impairment loss on intangible assets		-	-	3,415	3,415
Loss on retirement of inventories		1,107	4,458	1,244	4,117
Others		390	1,864	66	5,376
	₩	18,980	49,559	39,338	46,983

26. Net Finance Income

(a) Details of net finance income for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

In millions of won		2011 Three-month	2011 Nine-month	2010 Three-month	2010 Nine-month
Financial cost:					
- Interest costs	₩	1,433	3,268	997	2,666
- Loss on sale of available-for-sale financial assets		-	-	1,214	1,214
- Impairment loss on available-for-sale financial assets		-	3,988	-	-
		1,433	7,256	2,211	3,880
Financial income:					
- Interest income		(9,660)	(26,199)	(7,041)	(15,328)
- Dividend income		(218)	(4,218)	(90)	(1,945)
- Investment income on long-term deposits in MSA Escrow Fund		(6,503)	(8,574)	(2,107)	(7,656)
- Gain on sale of available-for-sale financial assets		-	(643)	-	(240,104)
		(16,381)	(39,634)	(9,238)	(265,033)
Net finance income	₩	(14,948)	(32,378)	(7,027)	(261,153)

(b) Details of interest costs for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

In millions of won		2011 Three-month	2011 Nine-month	2010 Three-month	2010 Nine-month
Related financial liabilities:					
- Borrowings	₩	1,014	2,346	568	1,825
- Trade and other payables		370	724	289	384
- Others		49	198	140	457
	₩	1,433	3,268	997	2,666

(c) Details of interest income for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

In millions of won		2011 Three-month	2011 Nine-month	2010 Three-month	2010 Nine-month
Related financial assets:					
- Deposits	₩	8,586	24,111	6,713	13,286
- Available-for-sale financial assets		5	64	8	37
- Trade and other receivables		1,069	2,024	320	2,005
	₩	9,660	26,199	7,041	15,328

26. Net Finance Income, Continued

(d) Details of finance income recognized in other comprehensive income for the nine-month periods ended September 30, 2011 and 2010 were as follows:

				2011			2010
In millions of won		Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Available-for-sale financial assets:							
Net changes in fair value	₩	(45,428)	9,995	(35,433)	64,255	(14,136)	50,119
Less: reclassified to profit or loss		-	-	-	(240,104)	52,823	(187,281)
	₩	(45,428)	9,995	(35,433)	(175,849)	38,687	(137,162)

27. Income tax

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

Taxable income			Tax rate
2009 and thereafter	2009	2010 & 2011	Thereafter
Up to ₩200 million	12.1%	11.0%	11.0%
Over ₩200 million	24.2%	24.2%	22.0%

In December 2009, the Korean government postponed the reduction of the corporate income tax rate (including resident tax) from 24.2% to 22%, until 2012.

(b) The components of income tax expense for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

			2011		2010
In millions of won		Three-month	Nine-month	Three-month	Nine-month
Current income tax expense	₩	101,616	237,868	85,489	284,266
Adjustments recognized					
in the period for current tax of prior periods		95	3,094	(16)	154
Changes in temporary difference		1,126	8,170	(3,035)	(6,972)
Total income tax expense		102,837	249,132	82,438	277,448
Tax expense recognized outside profit or loss		5,530	9,737	3,300	37,748
Income tax expense	₩	108,367	258,869	85,738	315,196

27. Income tax, Continued

(c) Current and deferred tax expense that were recognized outside profit or loss for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

In millions of won		2011 Three-month	2011 Nine-month	2010 Three-month	2010 Nine-month
Current:					
- Actuarial gains (losses)	₩	7	32	83	(959)
Deferred:					
- Net changes in fair value of available-for-sale financial assets		6,186	9,995	3,129	38,687
- Exchange differences on translating foreign operations		(663)	(290)	88	20
		5,523	9,705	3,217	38,707
Tax expense recognized outside profit or loss	₩	5,530	9,737	3,300	37,748

Current and deferred tax expense relating to each component of other comprehensive income is recognized in other comprehensive income.

(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 interim statements of comprehensive income for the three- and nine-month periods ended September 30, 2011 and 2010 for the following reasons:

In millions of won, except tax rate information		2011 Three-month	2011 Nine-month	2010 Three-month	2010 Nine-month
Profit before tax	₩	390,148	939,054	321,605	1,181,512
Normal tax rate		24.2%	24.2%	24.2%	24.2%
Expense for income tax at normal tax rate		94,416	227,225	77,822	285,914
Adjustment:					
- Tax effects of permanent differences		1,324	3,210	824	3,599
- Investment tax credits		(465)	(1,585)	(1,193)	(2,447)
- Additional income tax for prior period		(330)	2,405	94	(440)
- Tax effects of profit of subsidiaries		8,231	24,934	6,776	28,367
- Others		5,191	2,680	1,415	203
Income tax expense	₩	108,367	258,869	85,738	315,196
Effective tax rate		27.8%	27.6%	26.7%	26.7%

27. Income tax, Continued

(e) Deferred tax expense (benefit) relating to the origination and reversal of temporary differences for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

In millions of won		2011 Three-month	2011 Nine-month	2010 Three-month	2010 Nine-month
Deferred tax liabilities at end of period	₩	(171,367)	(171,367)	(152,204)	(152,204)
Business combination		(6,761)	(6,761)	-	-
Deferred tax liabilities at beginning of period		(163,480)	(156,436)	(155,239)	(159,176)
Deferred tax expense (benefit)	₩	1,126	8,170	(3,035)	(6,972)

(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 interim 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 tax relates to the same fiscal authority.

(h) Changes in deferred tax assets and liabilities for the nine-month period ended September 30, 2011 were as follows:

In millions of won		Balance at beginning of period	Acquisition as part of business combination	Credited to profit (charged to loss)	Charged comprehensive income	Balance at end of period
Available-for-sale financial assets	₩	9,861	-	877	-	10,738
Accrued expense		20,708	138	(485)	-	20,361
Defined benefit liabilities		966	204	1,094	-	2,264
Undistributed earnings of associates and subsidiaries		(172,123)	-	(24,934)	-	(197,057)
Foreign currency translations		1,313	86	(1,313)	-	86
Treasury shares		(8,183)	-	-	-	(8,183)
Changes in fair value of available-for-sale financial assets		(5,087)	-	-	9,995	4,908
Voluntary reserve		(9,190)	(361)	(8,137)	-	(17,688)
Provision for advanced depreciation		(4,722)	-	-	-	(4,722)
Others		10,021	(6,828)	15,023	(290)	17,926
	₩	(156,436)	(6,761)	(17,875)	9,705	(171,367)

27. Income tax, Continued

(i) Changes in deferred tax assets and liabilities for the year ended December 31, 2010 were as follows:

In millions of won		Balance at beginning of period	Credited to profit (charged to loss)	Charged comprehensive income	Balance at end of period
Available-for-sale financial assets	₩	9,448	413	-	9,861
Accrued expense		22,917	(2,209)	-	20,708
Donations in excess of tax limit		89	(89)	-	-
Defined benefit liabilities		(1,284)	2,250	-	966
Undistributed earnings of associates and subsidiaries		(141,131)	(30,992)	-	(172,123)
Foreign currency translations		3,907	(2,594)	-	1,313
Treasury shares		(8,565)	382	-	(8,183)
Changes in fair value of available-for-sale financial assets		(36,326)	-	31,239	(5,087)
Voluntary reserve		(16,348)	7,158	-	(9,190)
Provision for advanced depreciation		(4,722)	-	-	(4,722)
Others		12,839	(3,801)	983	10,021
	₩	(159,176)	(29,482)	32,222	(156,436)

(j) As of September 30, 2011 and December 31, 2010, the aggregate amounts of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognized were ₩13,695 million and ₩4,216 million, respectively.

28. Earnings per Share

Basic and diluted earnings per share for the three- and nine-month periods ended September 30, 2011 and 2010 were as follows:

In millions of won, except share information		2011 Three-month	2011 Nine-month	2010 Three-month	2010 Nine-month
Profit attributable to owners of the Parent Company	₩	282,671	680,117	235,441	866,785
Weighted average number of ordinary shares outstanding		125,666,441	126,787,459	127,198,800	127,198,800
Basic and diluted earnings per share in won	₩	2,249	5,364	1,851	6,814

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor.

29. Transactions and Balances with Related Companies

(a) Details of parent and subsidiary relationships as of September 30, 2011 and December 31, 2010 were as follows:

			Percentage of ownership					
			September 30 2011			December 31 2010		
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	53.00%	-	53.00%	53.00%	-	53.00%
Tae-a Industry Co., Ltd. (*1)	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%
KGC Life & Gin Co., Ltd. (formerly, KGC Sales Co., Ltd.)	Korea	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%
Global Trading, Inc.	USA	KT&G Corporation	100.00%	-	100.00%	100.00%	-	100.00%
Purpleland Development Co., Ltd. (*2)	Korea	KT&G Corporation	-	-	-	100.00%	-	100.00%
Jilin Hanzheng Ginseng Co., Ltd. (*3)	China	KT&G Corporation	100.00%	-	100.00%	-	-	-
Somang Cosmetics Co., Ltd. (*4)	Korea	KT&G Corporation	60.00%	-	60.00%	-	-	-
Rosee Cosmetics Co., Ltd. (*4)	Korea	Somang Cosmetics Co., Ltd.	-	100.00%	100.00%	-	-	-
Korea Ginseng HK, Ltd. (*5)	Hong Kong	Korea Ginseng Corporation	-	-	-	-	99.99%	99.99%
Cheong Kwan Jang Taiwan Corporation	Taiwan	Korea Ginseng Corporation	-	100.00%	100.00%	-	100.00%	100.00%
Korea Red Ginseng Corporation	USA	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%
Korea Ginseng Corporation Japan (*6)	Japan	Korea Ginseng Corporation	-	100.00%	100.00%	-	-	-

(*1) Tae-a Industry Co., Ltd. increased paid-in capital by way of shareholder allocation and the Parent Company's investments in subsidiaries increased by ₩1,500 million for the nine-month period ended September 30, 2011.

(*2) Purpleland Development Co., Ltd. was liquidated in 2011.

(*3) The Parent Company established Jilin Hanzheng Ginseng Co., Ltd. in 2011.

(*4) The Parent Company acquired a 60% share of Somang Cosmetics Co., Ltd. and obtained control of Somang Cosmetics Co., Ltd. and Rosee Cosmetics Co., Ltd., which is a subsidiary of Somang Cosmetics Co., Ltd., in 2011.

(*5) Korea Ginseng HK, Ltd. was liquidated in 2011.

(*6) Korea Ginseng Corporation, which is a subsidiary of the Parent Company, established Korea Ginseng Corporation Japan in 2011.

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- and nine-month periods ended September 30, 2011 and 2010 are summarized as follows:

In millions of won			2011		2010	
Sales company	Purchase company		Three-month	Nine-month	Three-month	Nine-month
KT&G Corporation	Korea Ginseng Corporation	₩	1,389	3,785	1,049	3,452
KT&G Corporation	Yungjin Pharm. Ind. Co., Ltd.		105	253	61	149
KT&G Corporation	Tae-a Industry Co., Ltd.		3	7	4	10
KT&G Corporation	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		1,243	5,024	466	3,106
KT&G Corporation	KT&G Pars		1,906	5,846	193	2,057
KT&G Corporation	KT&G Rus L.L.C.		2,455	14,954	1,368	1,830
KT&G Corporation	KGC Life & Gin Co., Ltd.		218	565	6	19
KT&G Corporation	Global Trading, Inc.		8,590	24,957	6	6
KT&G Corporation	Purpleland Development Co., Ltd.		-	7	4	4
Korea Ginseng Corporation	KT&G Corporation		1,283	1,930	321	960
Korea Ginseng Corporation	Yungjin Pharm. Ind. Co., Ltd.		477	1,343	324	830
Korea Ginseng Corporation	Tae-a Industry Co., Ltd.		4	16	9	21
Korea Ginseng Corporation	Korea Ginseng HK, Ltd.		-	-	-	8,741
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation		10,969	31,046	5,140	12,832
Korea Ginseng Corporation	Korea Red Ginseng Corporation		1,165	4,956	717	2,617
Korea Ginseng Corporation	Korea Ginseng (China) Corp.		10,526	39,637	1,448	3,885
Korea Ginseng Corporation	KGC Life & Gin Co., Ltd.		2,907	6,369	1,529	5,159
Korea Ginseng Corporation	Korea Ginseng Japan		604	604	-	-
Yungjin Pharm. Ind. Co., Ltd.	KT&G Corporation		8	17	-	-
Yungjin Pharm. Ind. Co., Ltd.	Korea Ginseng Corporation		1,842	2,630	-	-
Tae-a Industry Co., Ltd.	KT&G Corporation		4,574	11,884	2,472	8,424
KGC Life & Gin Co., Ltd.	KT&G Corporation		303	312	-	-
Somang Cosmetics Co., Ltd.	KT&G Corporation		119	119	-	-
Somang Cosmetics Co., Ltd.	Rosee Cosmetics Co., Ltd.		37	37	-	-
Rosee Cosmetics Co., Ltd.	Somang Cosmetics Co., Ltd.		11	11	-	-
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	KT&G Pars		147	147	-	1,733
		₩	50,885	156,456	15,117	55,835

The Parent Company received dividends from Korea Ginseng Corporation, which is a subsidiary of the Parent Company, amounting to ₩50,000 million and ₩30,000 million for the nine-month periods ended September 30, 2011 and 2010, respectively.

The above intra-group transactions are eliminated in preparing the consolidated interim financial statements.

29. Transactions and Balances with Related Companies, Continued

(c) Account balances with related companies as of September 30, 2011 and December 31, 2010 were as follows:

In millions of won Creditor	Debtor		September 30 2011	December 31 2010
KT&G Corporation	Korea Ginseng Corporation	₩	71	-
KT&G Corporation	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		23,356	17,642
KT&G Corporation	KT&G Pars		29,160	22,114
KT&G Corporation	KT&G Rus L.L.C.		33,118	8,159
KT&G Corporation	Global Trading, Inc.		13,889	11,248
Korea Ginseng Corporation	KT&G Corporation		2,463	2,289
Tae-a Industry Co., Ltd.	KT&G Corporation		1,513	-
KGC Life & Gin Co., Ltd.	KT&G Corporation		100	-
Korea Ginseng Corporation	Yungjin Pharm. Ind. Co., Ltd.		1,093	330
Korea Ginseng Corporation	KGC Life & Gin Co., Ltd.		1,853	1,023
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation		17,789	9,288
Korea Ginseng Corporation	Korea Red Ginseng Corp., Inc.		2,967	2,284
Korea Ginseng Corporation	Korea Ginseng (China) Corp.		28,936	8,641
Korea Ginseng Corporation	Korea Ginseng Japan		390	-
Yungjin Pharm. Ind. Co., Ltd.	Korea Ginseng Corporation		983	212
Korea Ginseng HK, Ltd.	Korea Ginseng Corporation		-	2,939
Somang Cosmetics Co., Ltd.	Rosee Cosmetics Co., Ltd.		2,158	-
Rosee Cosmetics Co., Ltd.	Somang Cosmetics Co., Ltd.		438	-
		₩	160,277	86,169

The above intra-group balances are eliminated in preparing the consolidated interim financial statements.

(d) Details of guarantees provided for related companies as of September 30, 2011 and December 31, 2010 were as follows:

In millions of won and thousands of euro			September 30 2011		December 31 2010	
Guarantee provider	Guarantee recipient	Type of guarantee	Limit	Exercise	Limit	Exercise
KT&G Corporation	KT&G Rus L.L.C.	Guarantee on foreign currency letter of credit opened	₩ -	-	€ 2,063	2,063
Somang Cosmetics Co., Ltd.	Rosee Cosmetics Co., Ltd.	General working capital and others	3,250	2,064	-	-
Kang, Seok-Chang	Somang Cosmetics Co., Ltd.	General working capital and others	21,351	12,858	-	-
			₩ 24,601	14,922	€ 2,063	2,063

(e) Details of key management personnel compensation for the three- and nine-month periods ended September 30, 2011 and 2010 are summarized as follows:

In millions of won		2011 Three-month	2011 Nine-month	2010 Three-month	2010 Nine-month
Short-term employee benefits	₩	4,537	13,389	5,015	12,147
Post-employment benefits		413	1,272	414	907
	₩	4,950	14,661	5,429	13,054

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 financial risk including quantitative disclosures.

(b) Risk Management Framework

The purpose of managing financial risks is to identify the potential risk factors that may affect the Group's financial performance, and minimize, eliminate and avoid it to the extent that is acceptable. One of the principal responsibilities of the treasury department is to manage the financial risks arising from the Group's underlying operations. The treasury department monitors and manages the financial risk arising from the Group's underlying operations in accordance with the risk management policies and procedures authorized by the board of directors. Also, the treasury department provides an internal report analyzing the nature and exposure level on financial risks to the Risk Management Committee of the Group. The Risk Management Committee prepares the overall strategy for financial risk management, and evaluates the effectiveness of the financial risk management strategy. In addition, the internal auditor consistently observes the compliance of the risk management policy and procedures, 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 collateral and guarantees. The credit ratings of all counterparties and the level of collateral and guarantees are reviewed regularly. Analysis of financial assets past due has been reported quarterly and appropriate measures have been taken to secure the Group's assets.

The carrying amount of financial assets is maximum exposure to credit risk. The maximum exposure to credit risk as of September 30, 2011 and December 31, 2010 is as follows:

In millions of won		September 30 2011	December 31 2010
Available-for-sale financial assets	₩	258,754	315,177
Long-term deposits in MSA Escrow Fund		146,363	132,414
Trade and other receivables		970,655	740,949
Other financial assets		12,611	15,919
Cash and cash equivalents		971,737	981,314

30. Risk Management, Continued

(c) Management of Financial Risks

Export trade receivables to overseas clients, including Alokozay International Limited are ₩298,800 million and ₩235,636 million, and equal to 38.1% and 43.9% of the aggregate trade receivables, respectively, as of September 30, 2011 and December 31, 2010. The Group's trade receivables mentioned above were insured against non-payment up to USD 39,050 thousand and USD 38,525 thousand by export guarantee insurance with the Korea Export Insurance Corporation, respectively, as of September 30, 2011 and December 31, 2010. The Group has no significant concentration of customer credit risk since trade and other receivables, excluding the above export trade receivables, are widely dispersed amongst a number of customers.

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 these 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 plans to manage the liquidity risk, and analyzed cash outflows occurred and cash outflows budgeted, so as to match the maturity structure of financial assets and financial liabilities. The Group's management determines whether or not the financial liabilities are repayable with the operating cash flows and cash inflows from financial assets. The Group entered into an overdraft agreement with the NACF to manage the temporary liquidity risk.

The maturity analysis with a residual contractual maturity of financial liabilities as of September 30, 2011 and December 31, 2010 is as follows:

				Residual contractual maturity			
In millions of won		Carrying amount	Contractual cash flow	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	Beyond 5 years
As of September 30, 2011:							
Derivative financial liabilities	₩	-	-	-	-	-	-
Non-derivative financial liabilities		350,627	352,918	97,995	216,169	36,700	2,054
	₩	350,627	352,918	97,995	216,169	36,700	2,054
As of December 31, 2010:							
Derivative financial liabilities	₩	-	-	-	-	-	-
Non-derivative financial liabilities		265,852	267,607	135,650	117,221	14,428	308
	₩	265,852	267,607	135,650	117,221	14,428	308

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

30. Risk Management, Continued

(c) Management of Financial Risks, Continued

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

The carrying amounts of monetary assets and liabilities denominated in a currency other than the functional currency as of September 30, 2011 and December 31, 2010 were as follows:

In millions of won		September 30 2011 USD	September 30 2011 EUR	September 30 2011 Other currency	December 31 2010 USD	December 31 2010 EUR	December 31 2010 Other currency
Assets:							
Cash and cash equivalents	₩	103,154	2	995	11,461	1,340	477
Trade and other receivables		405,202	15,663	1,681	285,230	9,877	988
Long-term deposits in MSA Escrow Fund		146,363	-	-	132,414	-	-
	₩	654,719	15,665	2,676	429,105	11,217	1,465
Liabilities:							
Trade and other payables	₩	9,413	4,098	3,692	11,199	18,774	231
Short-term borrowings		-	-	-	77	-	-
	₩	9,413	4,098	3,692	11,276	18,774	231

As of September 30, 2011 and December 31, 2010, the effects of a 10% strengthening or weakening of functional currency against foreign currencies other than functional currency on profit before tax were as follows:

In millions of won		September 30 2011 10% strengthening	September 30 2011 10% weakening	December 31 2010 10% strengthening	December 31 2010 10% weakening
USD	₩	64,531	(64,531)	41,783	(41,783)
EUR		1,157	(1,157)	(756)	756
Other currency		(102)	102	123	(123)
	₩	65,586	(65,586)	41,150	(41,150)

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 September 30, 2011 and December 31, 2010, the amount of borrowings issued at variable rates is ₩38,523 million and ₩24,045 million, respectively. There is no significant effect on cash flows or the fair value of financial liabilities from the interest rate fluctuation.

30. Risk Management, Continued

(c) Management of Financial Risks, Continued

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 September 30, 2011 and December 31, 2010, the effects of a 5% fluctuation of the price index of stocks on other comprehensive income were as follows:

		September 30 2011		December 31 2010	
In millions of won		5% increase	5% decrease	5% increase	5% decrease
Other comprehensive income before tax	₩	7,948	(7,948)	13,338	(13,338)
Tax effect		(1,749)	1,749	(2,934)	2,934
	₩	6,199	(6,199)	10,404	(10,404)

(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.

As of September 30, 2011 and December 31, 2010, the Group defines net debt and equity attributable to owners of the Parent as follows:

In millions of won		September 30 2011	December 31 2010
Net debt:			
Debt (borrowings)	₩	96,289	68,552
Less:			
- Cash and cash equivalents		(971,737)	(981,314)
- Current other financial assets		(11,397)	(15,273)
- Current available-for-sale financial assets		-	(1,000)
	₩	(886,845)	(929,035)
Equity attributable to owners of the Parent	₩	4,684,489	4,556,179

30. Risk Management, Continued

(e) Fair Value of Financial Instruments

The carrying amount and the fair value of financial instruments as of September 30, 2011 and December 31, 2010 are summarized as follows:

		September 30 2011		December 31 2010	
In millions of won		Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Financial assets measured at fair value					
- Available-for-sale financial assets	₩	251,642	251,642	284,849	284,849
- Long-term deposits in MSA Escrow Fund		146,363	146,363	132,414	132,414
- Other financial assets		12,611	12,611	15,919	15,919
- Cash and cash equivalents		971,737	971,737	981,314	981,314
	₩	1,382,353	1,382,353	1,414,496	1,414,496
Financial assets measured at amortized cost					
- Trade and other receivables	₩	970,655	970,655	740,949	740,949
Other financial assets					
- Available-for-sale financial assets		7,112	-	30,328	-
	₩	2,360,120	2,353,008	2,185,773	2,155,445
Liabilities:					
Financial liabilities measured at fair value	₩	-	-	-	-
Financial liabilities measured at amortized cost					
- Trade and other payables	₩	(254,338)	(254,338)	(197,299)	(197,299)
- Long-term borrowings		(4,853)	(4,853)	(1,540)	(1,540)
- Short-term borrowings		(89,381)	(89,381)	(66,507)	(66,507)
- Current portion of long-term borrowings		(2,055)	(2,055)	(506)	(506)
	₩	(350,627)	(350,627)	(265,852)	(265,852)
	₩	(350,627)	(350,627)	(265,852)	(265,852)

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 September 30, 2011 and December 31, 2010 were as follows:

In millions of won		Level Ⅰ	Level Ⅱ	Level Ⅲ	Total
As of September 30, 2011:					
Financial assets					
- Available-for-sale financial assets	₩	206,180	32,730	12,732	251,642
- Long-term deposits in MSA Escrow Fund		146,363	-	-	146,363
- Other financial assets		12,611	-	-	12,611
- Cash and cash equivalents		971,737	-	-	971,737
	₩	1,336,891	32,730	12,732	1,382,353
As of December 31, 2010:					
Financial assets					
- Available-for-sale financial assets	₩	252,054	20,063	12,732	284,849
- Long-term deposits in MSA Escrow Fund		132,414	-	-	132,414
- Other financial assets		15,919	-	-	15,919
- Cash and cash equivalents		981,314	-	-	981,314
	₩	1,381,701	20,063	12,732	1,414,496

31. Contingent Liabilities and Financial Commitments

(a) Each year the Group deposits a proportion of sales of tobacco products in the United States in accordance with the Tobacco Master Settlement Agreement ("MSA") under the Escrow Statute of the United States government. The MSA Escrow Funds are maintained to pay the medical expenses of tobacco purchasers who have suffered health effects as a result of smoking. The unused portion of this fund will be refunded to the Group 25 years from the date of each annual funding. The Group recorded as long-term deposits the amounts paid into the MSA Escrow Funds of state governments in the United States against potential litigation and damages related to the export of tobacco into the United States.

(b) As of September 30, 2011, tobacco lawsuits claiming damages of ₩584 million are 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, as of September 30, 2011, the Group is involved in eight lawsuits as a defendant for alleged damages totalling ₩4,551 million. The amount of the liability the Group may ultimately be liable for with respect to the litigation cannot be reasonably estimated as of September 30, 2011.

(c) As of September 30, 2011, the Group has entered into letter of credit agreements with Korea Exchange Bank and other banks with limits in the aggregate of USD 45,700 thousand.

(d) As of September 30, 2011, the Group's trade receivables from the export of cigarettes are insured against non-payment up to USD 39,050 thousand by an export guarantee insurance with the Korea Export Insurance Corporation.

(e) As of September 30, 2011, 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) The Group has maintained a contract with the farmers who grow six-year old green ginseng for purchase volume guarantees and recorded contractual amounts paid to the farmers as advance payments in the amount of ₩232,950 million (non-current: ₩190,025 million, current: ₩42,925 million) and ₩170,518 million (non-current: ₩136,500 million, current: ₩34,018 million) as of September 30, 2011 and December 31, 2010, respectively.

(g) As of September 30, 2011, the Group has entered into a discount agreement on a commercial note with a limit of ₩3,000 million with Hana Bank.

(h) As of September 30, 2011, the Group has entered into an account receivable loan agreement with a limit of ₩2,870 million with Koomin Bank and other financial institutions.

(i) As of September 30, 2011, the Group has entered into a loan agreement with a limit of ₩18,630 million with Shinhan Bank and other financial institutions.

(j) As of September 30, 2011, the Group has provided two blank notes, 13 notes amounting to ₩14,200 million and five blank checks to Dae Han Investment Banking Corporation and others as collateral for its borrowings and trade agreements. As of September 30, 2011, one lost note provided as collateral is in the process of nullification.

31. Contingent Liabilities and Financial Commitments, Continued

(k) As of September 30, 2011, the Group and 28 other companies, which form the Samsung Corporation – National Pension Service Joint Consortium, are guaranteed ₩240,000 million by Seoul Guarantee Insurance Co., Ltd. related to the Yongsan International Commercial Development Project.

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

(m) With relation to the acquisition of Somang Cosmetics Co., Ltd., the Parent Company entered into a contract with a former owner of the acquiree, Kang, Seok-Chang ("Individual Shareholder"). Details of the contract are as follows:

Description	Details
Conditional put option granted to Individual Shareholder	The Parent Company shall be required to purchase Individual Shareholder's shares, in whole or in part, at the agreed price if the following conditions are met: • Somang Cosmetics Co., Ltd. satisfies all the listing requirements. • Notwithstanding the written request of Individual Shareholder, Somang Cosmetics Co., Ltd. is not able to undertake the necessary procedures for listing, due to the Parent Company's objection, within three years after the Parent Company acquired Somang Cosmetics Co., Ltd.
Right of first refusal held by the Parent Company	Individual shareholder shall not be permitted to make any transfer of its shares, in whole or in part, unless Individual Shareholder has offered them first to the Parent Company.
Tag-along right held by Individual Shareholder	In the event that the Parent Company proposes to enter into a transaction or a series of related transactions with a third party purchaser to dispose of 50% or more of its shares, then Individual Shareholder shall elect to participate in such disposition upon the terms and conditions no less favorable than those applicable to the Parent Company.

32. Non-current Assets Held for Sale

In 2011, the Group entered into a contract to sell the land, buildings and others in Cheongju plant to Cheongju City for the purpose of business rationalization. Also, the Group entered into a contract to sell the land, buildings and others of Jeonbuk headquarters to Inwoo AD Co., Ltd. and other in 2011.

The Group recognized non-current assets held for sale at the lower of its carrying amount and fair value less costs to sell. Non-current assets held for sale as of September 30, 2011 and December 31, 2010 was as follows:

In millions of won		September 30 2011	December 31 2010
Assets in Cheongju plant	₩	5,759	-
Assets of Jeonbuk headquarters		3,196	-
	₩	8,955	-

33. Cash Flows from Operating Activities

Details of cash generated from operations for the nine-month periods ended September 30, 2011 and 2010 were as follows:

In millions of won		2011	2010
Profit for the periods	₩	680,185	866,316
Adjustments for:			
- Income tax expense		258,869	315,196
- Finance costs		7,256	3,880
- Finance income		(39,634)	(265,033)
- Depreciation		112,895	109,702
- Amortization		2,552	935
- Retirement benefits		26,519	22,287
- Termination benefits		2,905	47,920
- Foreign currency translations loss		6,271	11,773
- Loss on the write-down of inventories		484	-
- Impairment loss on trade and other receivables		1,318	412
- Loss on sale of property, plant and equipment		2,146	1,646
- Loss on sale of intangible assets		647	159
- Impairment loss on intangible assets		-	3,415
- Other expense		4,476	4,581
- Share of loss of associates		20	205
- Share of gain of associates		(1,002)	-
- Reversal of write-down of inventories		-	(127)
- Foreign currency translations gain		(45,095)	(1,413)
- Reversal of impairment loss on trade and other receivables		(223)	(296)
- Gain on sale of property, plant and equipment		(8,057)	(65,835)
- Gain on sale of intangible assets		(826)	(24)
- Gain on disposal of subsidiaries		(1,139)	-
- Other income		-	(300)
	₩	1,010,567	1,055,399
Changes in working capital:			
- Trade and other receivables		(147,982)	(104,658)
- Advance payments		(106,967)	(89,886)
- Prepaid expenses		(2,784)	(4,760)
- Prepaid tobacco excise and other taxes		(2,238)	(7,162)
- Inventories		222,755	188,515
- Trade and other payables		71,731	31,433
- Advance receipts		7,407	1,650
- Tobacco excise and other taxes payable		48,706	(34,840)
- Payment of retirement and termination benefits		(7,318)	(61,194)
Cash generated from operations	₩	1,093,877	974,497

34. Date of Authorization for Issuance

The consolidated interim financial statements were authorized for issuance on October 19, 2011, at the Board of Directors meeting.

35. Business Combinations and Disposals

(a) The Parent Company resolved to acquire the cosmetic segment of Somang Cosmetics Co., Ltd. at the Board of Directors meeting held on June 24, 2011. Accordingly, Somang Cosmetics Co., Ltd. spun off the non-cosmetic segment into a separate non-cosmetic company and the Parent Company acquired a 60% share of the surviving cosmetic company for ₩60,721 million and obtained control of Somang Cosmetics Co., Ltd. as of September 1, 2011.

The goodwill of ₩32,131 million was recognized as a result of the acquisition as follows:

In millions of won		Book value	Fair value adjustments	Fair value
Property, plant and equipment	₩	6,887	-	6,887
Intangible assets		200	43,200	43,400
Inventories		15,636	-	15,636
Trade and other receivables		28,253	-	28,253
Other assets		4,423	-	4,423
Cash and cash equivalent		7,816	-	7,816
Deferred tax assets		2,743	-	2,743
Trade and other payables		(25,499)	-	(25,499)
Borrowings		(18,865)	-	(18,865)
Other liabilities		(3,585)	-	(3,585)
Defined benefit liabilities		(2,721)	-	(2,721)
Deferred tax liabilities		-	(9,504)	(9,504)
Fair value of identifiable net assets	₩	15,288	33,696	48,984
Less: non-controlling interests of net assets acquired				(20,394)
Fair value of identifiable net assets attributable to owners of the Parent Company	₩			28,590
Goodwill				32,131
Total consideration transferred	₩			60,721

The book values of the identifiable assets acquired and the liabilities assumed have been remeasured to their acquisition-date fair values. The main adjustments relate to the recognition of customer relationships of ₩17,600 million, brand value of ₩25,600 million and the related deferred tax liabilities of ₩9,504 million, including non-controlling interests.

The goodwill of ₩32,131 million is attributable mainly to the anticipated synergies and economy of scale to be achieved from this business combination.

The Group recognized acquisition-related costs of ₩108 million related to external legal fees and due diligence costs as commissions in the consolidated interim statement of comprehensive income for the nine-month period ended September 31, 2011.

In the period from September 1, 2011 to September 31, 2011, the acquired business contributed revenue of ₩17,288 million and loss for the period of ₩2,439 million to the Group's results. If the acquisition had occurred on January 1, 2011, management estimates that consolidated revenue would have been ₩2,839,773 million and profit would have been ₩679,809 million for the nine-month period ended September 30, 2011.

35. Business Combinations and Disposals, Continued

(b) Korea Ginseng HK, Ltd. and Purpleland Development Co., Ltd., both of which were subsidiaries of the Parent Company, were liquidated in 2011. With relation to those liquidations, the Group recognized ₩1,139 million of gain on disposal of subsidiaries in the consolidated interim statement of comprehensive income for the nine-month period ended September 30, 2011.

36. Event after the Reporting Period

(a) As of October 7, 2011, the Group acquired the entire share of Renzoluc Pte., Ltd., based in Singapore, which has a 51% share of the tobacco manufacturing company PT Trisakti Purworsari Makmur, based in Indonesia. The financial effect of the business acquisition is not presented due to the acquiree's unfinished account closing as of the date of authorization for issue of the consolidated interim financial statements.

(b) As of November 11, 2011, the Group entered into a joint investment agreement with Q Capital Partners Co., Ltd. which is a general partner of private equity fund established in accordance with the MOU on global investment partnership with National Pension Service.