

KT&G Corporation and Subsidiaries

**Interim Consolidated Financial Statements
June 30, 2014 and 2013**

KT&G Corporation and Subsidiaries
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June 30, 2014 and 2013

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Report on Review of Interim Financial Statements

To the Board of Directors and Shareholders of
KT&G Corporation

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements of KT&G Corporation. These financial statements consist of consolidated statement of financial position of KT&G Corporation (the "Parent Company") and its subsidiaries (collectively referred to "the Group") as of June 30, 2014, and the related consolidated statements of comprehensive income for the three-month and six month periods ended June 30, 2014 and 2013, and the statements of changes in equity and cash flows for the six-month periods ended June 30, 2014 and 2013, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ('Korean IFRS') 1034, *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe the accompanying interim separate financial statements do not present fairly, in all material respects, in accordance with the Korean IFRS 1034, *Interim Financial Reporting*.

Other Matters

We have audited the consolidated statement of financial position of KT&G Corporation as of December 31, 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those financial statements in our audit report dated February 12, 2014. These financial statements are not included in this review report. The consolidated statement of financial position as of December 31, 2013, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as of December 31, 2013.

The accompanying interim consolidated financial statements as of and for the six-month period ended June 30, 2014, have been translated into US dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 34 to the interim consolidated financial statements.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean review standards and their application in practice.



Seoul, Korea
August 11, 2014

The report is effective as of August 11, 2014, 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
Interim Consolidated Statements of Financial Position
June 30, 2014 and 2013

<i>(in millions of Korean won and thousands of U.S. dollars)</i>	Notes	June 30, 2014 Korean won	June 30, 2014 U.S. dollars (Note 34)	December 31, 2013 Korean won
Assets				
Non-current assets				
Property, plant and equipment	10,14	₩ 1,621,753	\$ 1,598,731	₩ 1,622,289
Intangible assets	11	224,634	221,445	232,630
Investment property	12,14	170,882	168,457	173,975
Investments in associates	5,15	58,057	57,233	58,076
Available-for-sale financial assets	6,7	320,977	316,421	296,601
Other financial assets	6,17	1,770	1,745	1,740
Long-term deposits in MSA Escrow Fund	6,9,32	245,198	241,718	219,760
Long-term advance payments	32	140,837	138,837	140,692
Long-term prepaid expenses		5,465	5,387	5,966
Long-term trade and other receivables	6,8	103,635	102,164	108,898
Deferred income tax assets	28	25,944	25,574	25,731
		<u>2,919,152</u>	<u>2,877,712</u>	<u>2,886,358</u>
Current assets				
Inventories	16	1,710,663	1,686,379	1,893,853
Available-for-sale financial assets	6,7	1,800	1,774	-
Other financial assets	6,17	664,341	654,910	684,132
Prepaid tobacco excise and other taxes		252,977	249,386	262,769
Trade and other receivables	6,8	921,558	908,476	915,618
Advance payments	32	125,574	123,792	65,007
Prepaid expenses		25,946	25,578	19,135
Cash and cash equivalents	6,17	383,665	378,218	347,933
		<u>4,086,524</u>	<u>4,028,513</u>	<u>4,188,447</u>
Assets held for sale	5,13	<u>3</u>	<u>3</u>	<u>153</u>
Total assets		<u>₩ 7,005,679</u>	<u>\$ 6,906,228</u>	<u>₩ 7,074,958</u>
Equity				
Capital stock	1,18	₩ 954,959	\$ 941,403	₩ 954,959
Other capital surplus		(4,572)	(4,508)	(4,572)
Treasury shares	19	(339,059)	(334,245)	(339,059)
Gain on reissuance of treasury shares	19	492,032	485,047	492,032
Reserve	20	3,466,348	3,417,141	3,368,835
Retained earnings	21	673,565	664,004	802,755
Equity attributable to equity holders of the Company		<u>5,243,273</u>	<u>5,168,842</u>	<u>5,274,950</u>
Non-controlling interests		<u>84,046</u>	<u>82,853</u>	<u>90,531</u>
Total equity		<u>5,327,319</u>	<u>5,251,695</u>	<u>5,365,481</u>
Liabilities				
Non-current liabilities				
Long-term borrowings	6,23	127,639	125,826	117,639
Long-term trade and other payables	6,22	30,326	29,895	29,597
Long-term advance receipts		17,208	16,964	18,837
Net defined benefit liability	24	131,608	129,739	111,137
Provisions for other liabilities and charges		2,877	2,836	2,981
Deferred income tax liabilities	28	252,348	248,765	247,043
		<u>562,006</u>	<u>554,025</u>	<u>527,234</u>
Current liabilities				
Borrowings	6,23	52,344	51,601	96,240
Current portion of long-term borrowings	6,23	4,833	4,765	4,424
Trade and other payables	6,22	492,903	485,906	542,908
Advance receipts		15,367	15,149	28,077
Income taxes payable	28	138,391	136,427	156,277
Tobacco excise and other taxes payable		412,516	406,660	354,317
		<u>1,116,354</u>	<u>1,100,508</u>	<u>1,182,243</u>
Total liabilities		<u>1,678,360</u>	<u>1,654,533</u>	<u>1,709,477</u>
Total liabilities and equity		<u>₩ 7,005,679</u>	<u>\$ 6,906,228</u>	<u>₩ 7,074,958</u>

The accompanying notes are an integral part of these interim consolidated financial statements.

The US dollar figures are provided for information purposes only and do not form part of the consolidated financial statements. Refer to Note 34.

KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Comprehensive Income
Three-Month Periods Ended June 30, 2014 and 2013

(in millions of Korean won and thousands of U.S. dollars, except per share amounts)	Notes	Period Ended June 30		
		2014 Korean won	2014 U.S. dollars (Note 34)	2013 Korean won
Sales	5	₩ 992,285	\$ 978,199	₩ 914,520
Cost of sales	16,26	<u>(443,000)</u>	<u>(436,713)</u>	<u>(401,057)</u>
Gross profit		549,285	541,486	513,463
Selling and administrative expenses	25,26	(263,029)	(259,295)	(264,759)
Operating income		<u>286,256</u>	<u>282,191</u>	<u>248,704</u>
Other income	25	6,162	6,075	35,884
Other expenses	25	<u>(51,465)</u>	<u>(50,735)</u>	<u>(21,714)</u>
Net other income(expenses)		<u>(45,303)</u>	<u>(44,660)</u>	<u>14,170</u>
Finance income	27	10,742	10,590	8,632
Finance expense	27	<u>(2,579)</u>	<u>(2,543)</u>	<u>(5,925)</u>
Net finance income		<u>8,163</u>	<u>8,047</u>	<u>2,707</u>
Income from jointly controlled entities and associates	15	946	933	670
Expense from jointly controlled entities and associates	15	-	-	(105)
Profit before income tax		250,062	246,511	266,146
Income tax expense	28	<u>(65,730)</u>	<u>(64,797)</u>	<u>(73,468)</u>
Profit for the period		<u>₩ 184,332</u>	<u>\$ 181,714</u>	<u>₩ 192,678</u>
Other comprehensive income(loss), net of tax				
Items that will not be reclassified to profit or loss:				
Remeasurements of the net defined benefit liability	24	₩ (143)	₩ (141)	₩ 1,214
Items that will be reclassified subsequently to profit or loss:				
Change in value of available-for-sale financial assets	7	(2,561)	(2,524)	(13,907)
Loss(gain) on currency translation of foreign operations		<u>(5,462)</u>	<u>(5,384)</u>	<u>980</u>
Other comprehensive loss for the period, net of tax		<u>(8,166)</u>	<u>(8,049)</u>	<u>(11,713)</u>
Total comprehensive income for the period		<u>₩ 176,166</u>	<u>\$ 173,665</u>	<u>₩ 180,965</u>
Profit for the period attributable to:				
Equity holders of the Parent Company		₩ 186,786	\$ 184,134	₩ 195,135
Non-controlling interests		<u>(2,455)</u>	<u>(2,420)</u>	<u>(2,457)</u>
		<u>₩ 184,331</u>	<u>\$ 181,714</u>	<u>₩ 192,678</u>
Total comprehensive income for the period attributable to:				
Equity holders of the Parent Company		₩ 179,825	\$ 177,272	₩ 182,243
Non-controlling interests		<u>(3,659)</u>	<u>(3,607)</u>	<u>(1,278)</u>
		<u>₩ 176,166</u>	<u>\$ 173,665</u>	<u>₩ 180,965</u>
Earnings per share attributable to the equity holders of the Parent Company during the period (in won)				
Basic and diluted earnings per share	29	₩ 1,484	\$ -	₩ 1,550

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KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Comprehensive Income
Six-Month Periods Ended June 30, 2014 and 2013

(in millions of Korean won and thousands of U.S. dollars, except per share amounts)	Notes	Period Ended June 30		
		2014 Korean won	2014 U.S. dollars (Note 34)	2013 Korean won
Sales	5	₩ 1,955,951	\$ 1,928,185	₩ 1,810,557
Cost of sales	16,26	<u>(877,198)</u>	<u>(864,747)</u>	<u>(777,801)</u>
Gross profit		1,078,753	1,063,438	1,032,755
Selling and administrative expenses	25,26	<u>(532,353)</u>	<u>(524,796)</u>	<u>(535,226)</u>
Operating income		<u>546,400</u>	<u>538,642</u>	<u>497,529</u>
Other income	25	19,940	19,657	81,091
Other expenses	25	<u>(67,044)</u>	<u>(66,092)</u>	<u>(32,208)</u>
Net other income(expenses)		<u>(47,104)</u>	<u>(46,435)</u>	<u>48,883</u>
Finance income	27	23,994	23,653	21,529
Finance expense	27	<u>(5,274)</u>	<u>(5,199)</u>	<u>(20,982)</u>
Net finance income		<u>18,720</u>	<u>18,454</u>	<u>547</u>
Income from jointly controlled entities and associates	15	1,682	1,658	1,082
Expense from jointly controlled entities and associates	15	-	-	(1,098)
Profit before income tax		519,698	512,319	546,943
Income tax expense	28	<u>(147,175)</u>	<u>(145,085)</u>	<u>(155,916)</u>
Profit for the period		<u>₩ 372,523</u>	<u>\$ 367,234</u>	<u>₩ 391,027</u>
Other comprehensive income(loss), net of tax				
Items that will not be reclassified to profit or loss:				
Remeasurements of the net defined benefit liability	24	₩ (641)	₩ (632)	₩ 1,033
Items that will be reclassified subsequently to profit or loss:				
Change in value of available-for-sale financial assets	7	4,307	4,246	(5,056)
Loss(gain) on currency translation of foreign operations		<u>(11,506)</u>	<u>(11,343)</u>	<u>7,428</u>
Other comprehensive income (loss) for the period, net of tax		<u>(7,840)</u>	<u>(7,729)</u>	<u>3,405</u>
Total comprehensive income for the period		<u>₩ 364,683</u>	<u>\$ 359,505</u>	<u>₩ 394,432</u>
Profit for the period attributable to:				
Equity holders of the Parent Company		₩ 378,843	\$ 373,465	₩ 398,234
Non-controlling interests		<u>(6,320)</u>	<u>(6,230)</u>	<u>(7,207)</u>
		<u>₩ 372,523</u>	<u>\$ 367,235</u>	<u>₩ 391,027</u>
Total comprehensive income for the period attributable to:				
Equity holders of the Parent Company		₩ 371,200	\$ 365,930	₩ 400,463
Non-controlling interests		<u>(6,517)</u>	<u>(6,425)</u>	<u>(6,031)</u>
		<u>₩ 364,683</u>	<u>\$ 359,505</u>	<u>₩ 394,432</u>
Earnings per share attributable to the equity holders of the Parent Company during the period (in won)				
Basic and diluted earnings per share	29	₩ 3,009	\$ -	₩ 3,163

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KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Changes in Equity
Six-Month Periods Ended June 30, 2014 and 2013

Attributable to equity holders of the Parent Company

(in millions of Korean won)

Notes	Capital stock	Other Capital Surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2013	₩ 954,959	₩ (4,573)	₩ (339,059)	₩ 492,032	₩ 3,011,110	₩ 976,425	₩ 5,090,894	₩ 103,524	₩ 5,194,418
Total comprehensive income									
Profit for the period	-	-	-	-	-	398,234	398,234	(7,207)	391,027
Change in value of available-for-sale financial assets	-	-	-	-	(5,056)	-	(5,056)	-	(5,056)
Gain on currency translation of foreign operations	-	-	-	-	6,722	-	6,722	706	7,428
Remeasurements of the net defined benefit liability	-	-	-	-	-	563	563	470	1,033
Total comprehensive income (loss)	-	-	-	-	1,666	398,797	400,463	(6,031)	394,432
Transactions with equity holders of the Company									
Cash dividends	-	-	-	-	-	(402,876)	(402,876)	-	(402,876)
Other reserve	-	-	-	-	317,000	(317,000)	-	-	-
Reserve for research and human resource development	-	-	-	-	30,000	(30,000)	-	-	-
Changes in investments in subsidiaries	-	-	-	-	-	-	-	1,049	1,049
Total transactions with equity holders of the Company	-	-	-	-	347,000	(749,876)	(402,876)	1,049	(401,827)
Balance at June 30, 2013	₩ 954,959	₩ (4,573)	₩ (339,059)	₩ 492,032	₩ 3,359,776	₩ 625,346	₩ 5,088,481	₩ 98,542	₩ 5,187,023
Balance at January 1, 2014	₩ 954,959	₩ (4,572)	₩ (339,059)	₩ 492,032	₩ 3,368,835	₩ 802,755	₩ 5,274,950	₩ 90,531	₩ 5,365,481
Total comprehensive income									
Profit for the period	-	-	-	-	-	378,843	378,843	(6,320)	372,523
Change in value of available-for-sale financial assets	-	-	-	-	4,307	-	4,307	-	4,307
Loss on currency translation of foreign operations	-	-	-	-	(11,316)	-	(11,316)	(190)	(11,506)
Remeasurements of the net defined benefit liability	-	-	-	-	-	(635)	(635)	(6)	(641)
Total comprehensive income (loss)	-	-	-	-	(7,009)	378,208	371,199	(6,516)	364,683
Transactions with equity holders of the Parent Company									
Cash dividends	-	-	-	-	-	(402,876)	(402,876)	-	(402,876)
Reserve for research and human resource development	-	-	-	-	(47,478)	47,478	-	-	-
Other reserve	-	-	-	-	152,000	(152,000)	-	-	-
Others	-	-	-	-	-	-	-	31	31
Total transactions with equity holders of the Company	-	-	-	-	104,522	(507,398)	(402,876)	31	(402,845)
Balance at June 30, 2014	₩ 954,959	₩ (4,572)	₩ (339,059)	₩ 492,032	₩ 3,466,348	₩ 673,565	₩ 5,243,273	₩ 84,046	₩ 5,327,319

The accompanying notes are an integral part of these interim consolidated financial statements.

KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Changes in Equity
Six-Month Period Ended June 30, 2014

Attributable to equity holders of the Parent Company

(in thousands of U.S. dollars) (Note 34)

Notes	Capital stock	Other Capital Surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2014	\$ 941,403	\$ (4,508)	\$ (334,245)	\$ 485,047	\$ 3,321,012	\$ 791,360	\$ 5,200,069	\$ 89,246	\$ 5,289,315
Total comprehensive income									
Profit for the period	-	-	-	-	-	373,465	373,465	(6,230)	367,235
Change in value of available-for-sale financial assets	-	-	-	-	4,246	-	4,246	-	4,246
Loss on currency translation of foreign operations	-	-	-	-	(11,155)	-	(11,155)	(188)	(11,343)
Remeasurements of the net defined benefit liability	-	-	-	-	-	(626)	(626)	(6)	(632)
Total comprehensive income (loss)	-	-	-	-	(6,909)	372,839	365,930	(6,424)	359,506
Transactions with equity holders of the Parent Company									
Cash dividends	-	-	-	-	-	(397,157)	(397,157)	-	(397,157)
Reserve for research and human resource development	-	-	-	-	(46,804)	46,804	-	-	-
Other reserve	-	-	-	-	149,842	(149,842)	-	-	-
Others	-	-	-	-	-	-	-	31	31
Total transactions with equity holders of the Company	-	-	-	-	103,038	(500,195)	(397,157)	31	(397,126)
Balance at June 30, 2014	\$ 941,403	\$ (4,508)	\$ (334,245)	\$ 485,047	\$ 3,417,141	\$ 664,004	\$ 5,168,842	\$ 82,853	\$ 5,251,695

The accompanying notes are an integral part of these interim consolidated financial statements.
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KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Cash Flows
Six-Month Periods Ended June 30, 2014 and 2013

<i>(in millions of Korean won and thousands of U.S. dollars)</i>	Notes	2014 Korean won	2014 U.S. dollars (Note 34)	2013 Korean won
Cash flows from operating activities				
Cash generated from operations	31	₩ 716,533	\$ 706,362	₩ 866,614
Income tax paid		<u>(162,917)</u>	<u>(160,604)</u>	<u>(154,120)</u>
Net cash generated from operating activities		<u>553,616</u>	<u>545,758</u>	<u>712,494</u>
Cash flows from investing activities				
Interest received		17,426	17,176	16,555
Investment income received from long-term deposits in MSA Escrow Fund		636	627	400
Dividends received		6,902	6,804	6,206
Proceeds from sale of property, plant and equipment		1,979	1,951	5,286
Proceeds from sale of intangible assets		130	128	334
Proceeds from sale of non-current asset held for sale		8	8	6,182
Proceeds from sale of available-for-sale financial assets		5,505	5,427	-
Decrease in loans		6,652	6,558	6,011
Decrease in guarantee deposits		16,156	15,927	13,270
Decrease in other financial assets		19,804	19,523	419,413
Acquisition of property, plant and equipment		(80,172)	(79,033)	(72,682)
Acquisition of intangible assets		(1,248)	(1,230)	(2,693)
Acquisition of investment property		(77)	(76)	(1,422)
Acquisition of available-for-sale financial assets		(23,200)	(22,871)	-
Increase in loans		(260)	(256)	(20,015)
Increase in guarantee deposits		(16,515)	(16,281)	(14,873)
Increase in long-term deposits in MSA Escrow Fund		<u>(35,413)</u>	<u>(34,911)</u>	<u>(26,123)</u>
Net cash provided by(used in) investing activities		<u>(81,687)</u>	<u>(80,529)</u>	<u>335,849</u>
Cash flows from financing activities				
Interest paid		(1,294)	(1,275)	(323)
Dividends paid	30	(402,876)	(397,157)	(402,876)
Proceeds from borrowings		81,156	80,004	60,585
Increase in deposits received		2,052	2,023	2,733
Repayments of borrowings		(113,330)	(111,722)	(86,479)
Decrease in deposits received		<u>(1,757)</u>	<u>(1,732)</u>	<u>(2,919)</u>
Net cash used in financing activities		<u>(436,049)</u>	<u>(429,859)</u>	<u>(429,279)</u>
Net increase in cash and cash equivalents		35,880	35,370	619,064
Cash and cash equivalents at the beginning of period		347,933	342,994	372,260
Exchange gains(losses) on cash and cash equivalents		<u>(148)</u>	<u>(146)</u>	<u>106</u>
Cash and cash equivalents at the end of period		<u>₩ 383,665</u>	<u>\$ 378,218</u>	<u>₩ 991,430</u>

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KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

June 30, 2014 and 2013, and December 31, 2013

1. General Information

General information about KT&G Corporation (the "Parent Company") and its subsidiaries (collectively referred to "the Group") in accordance with Korean IFRS 1110, *Consolidated Financial Statements*, is as follows.

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 June 30, 2014, the Parent Company has two manufacturing plants, including the Shintanjin plant, and 14 local headquarters and 133 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.

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The ownership of the Parent Company's issued ordinary shares as of June 30, 2014, is held as follows:

Shareholders	Number of shares	Percentage of ownership
Industrial Bank of Korea	9,510,485	6.93%
Employee share ownership association	2,668,309	1.94%
Others	113,720,006	82.83%
	<u>125,898,800</u>	<u>91.70%</u>
Treasury shares	11,393,697	8.30%
	<u>137,292,497</u>	<u>100.00%</u>

The Parent Company's consolidated subsidiaries as of June 30, 2014, are as follows:

Immediate Parent	Subsidiaries	Location	Percentage of ownership (%)
			2014
KT&G Corporation	Korea Ginseng Corporation	Korea	100.00
	Yungjin Pharm. Ind. Co., Ltd.	Korea	53.00
	Tae-a Industry Co., Ltd.	Korea	100.00
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	99.99
	Korea Tabacos do Brasil Ltda.	Brazil	99.90
	KT&G Pars	Iran	99.99
	KT&G Rus L.L.C.	Russia	100.00
	KGC Life & Gin Co., Ltd	Korea	100.00
	Global Trading, Inc.	USA	100.00
	Jilin Hanzheng Ginseng Co., Ltd.	China	100.00
	Somang Cosmetics Co., Ltd. ¹	Korea	60.00
	Renzoluc Pte., Ltd. ²	Singapore	100.00
	KT&G Life Science ³	Korea	73.94
	Yebon Nongwon Agriculture Co., Ltd	Korea	90.00
	KGC Yebon	Korea	100.00
	K-Q HongKong I,Limited ⁴	Hong Kong	100.00
	PT KT&G Indonesia	Indonesia	99.98
	K&I HK Co., Ltd	Hong Kong	100.00
	Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Indonesia
PT Mandiri Maha Mulia		Indonesia	66.47
PT Trisakti Purwosari Makmur	PT Sentosa Ababi Purwosari	Indonesia	99.24
	PT Purindo Ilufa	Indonesia	100.00
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation	Taiwan	100.00
	Korean Red Ginseng Corp., Inc.	USA	100.00
	Korea Ginseng (China) Corp.	China	100.00
	Korea Ginseng Corporation Japan	Japan	100.00
	PT CKJ INDONESIA	Indonesia	99.88

¹ The Parent Company's percentage of ownership, shown above, excludes convertible preferred shares. As of June 30, 2014, the Group's percentage of ownership would be 50.00% if convertible

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preferred shares are included.

² The Parent Company's percentage of ownership, shown above, excludes convertible preferred shares. As of June 30, 2014, the Group's percentage of ownership would be 68.91% if convertible preferred shares are included.

³ The Parent Company's percentage of ownership, shown above, excludes convertible preferred shares. As of June 30, 2014, the Group's percentage of ownership would be 59.48% if convertible preferred shares are included.

⁴ The Parent Company's percentage of ownership, shown above, excludes convertible preferred shares. As of June 30, 2014, the Group's percentage of ownership would be 50.00% if convertible preferred shares are included.

Summarized financial information of subsidiaries as of June 30, 2014, is as follows:

(In millions of Korean won)

Subsidiaries	Total assets	Total liabilities	Revenue	Profit (loss)	Total comprehensive income(loss)
Korea Ginseng Corporation	₩ 1,435,538	₩ 144,793	₩ 394,385	₩ 45,381	₩ 45,283
Yungjin Pharm. Ind. Co., Ltd.	164,566	63,377	79,345	(1,241)	(1,256)
Tae-a industry Co., Ltd.	13,763	3,519	7,866	539	534
KT&G Tutun Mamulleri Sanayive Ticaret A.S.	37,946	32,552	5,338	(1,923)	(2,191)
Korea Tabacos do Brasil Ltda.	1,099	11	-	-	-
KT&G Pars	21,650	44,230	1,844	(982)	(982)
KT&G Rus L.L.C.	151,739	48,504	23,295	8,149	1,449
KGC Life & Gin Co., Ltd	30,306	7,165	21,326	(4,085)	(4,091)
Global Trading, Inc.	36,286	25,793	119,214	2,499	2,091
Jilin Hanzheng Ginseng Co., Ltd.	75,308	41,945	-	(2,491)	(4,771)
Somang Cosmetics Co., Ltd.	61,536	66,395	37,287	(5,986)	(5,986)
Renzoluc Pte., Ltd.	94,423	46,391	-	(21)	(1,958)
KT&G Life science	31,195	16,578	72	(3,892)	(3,892)
Yebon Nongwon Agriculture Co., Ltd	97	-	-	(2)	(2)
KGC Yebon	48,715	2,127	2,281	(344)	(362)
PT Trisakti Purwosari Makmur	89,271	66,251	17,611	(2,414)	(2,817)
Cheong Kwan Jang Taiwan Corporation	15,603	13,598	8,507	341	403
Korean Red Ginseng Corp., Inc.	6,772	3,937	5,472	(227)	(343)
Korea Ginseng (China) Corp.	46,915	38,837	14,245	(1,654)	(2,229)
Korea Ginseng Corporation Japan	3,295	2,443	3,877	84	78
K-Q HongKong I,Limited	35,336	-	-	31	(1,394)
PT CKJ INDONESIA	3,097	2,780	2,509	(15)	(21)
PT KT&G Indonesia	6,869	9,239	3,705	(3,329)	(3,408)
PT Mandiri Maha Mulia	8,717	4,762	2,997	148	59
K&I HK Co., Ltd	11	-	-	-	-

There has been no change in consolidation scope for the six month period ended 30 June, 2014.

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2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

These consolidated interim financial statements as of and for the six-month period ended June 30, 2014, has been prepared in accordance with Korean IFRS 1034, *Interim financial reporting*. The principles used in the preparation of these financial statements are based on Korean IFRS and interpretations effective as of June 30, 2014, or early adopted.

(a) New and amended standards adopted by the Group

The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2014:

- Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*

Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. There is no significant impact of the application of this amendment on the financial statements.

- Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*

Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*, allows the continuation of hedge accounting for a derivative that has been designated as a hedging instrument in a circumstance in which that derivative is novated to a central counterparty (CCP) as a consequence of laws or regulations. There is no significant impact of the application of this amendment on the financial statements.

- Enactment of Korean IFRS 2121, *Levies*

Korean IFRS 2121, *Levies*, are applied to a liability to pay a levy imposed by a government in accordance with the legislation. The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation (the obligating event). There is no significant impact of the application of this enactment on the financial statements.

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2.2 Consolidation

Significant accounting policy and estimating method applied in preparing interim financial statements agree with those applied in preparing prior period consolidated financial statements, except for the changes in the application of amended and enacted standards described in Note 2.1(1) and policies and methods described below.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company loses control of the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

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(c) Joint Arrangements

A joint arrangement of which two or more parties have joint control is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

2.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 5). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions. Operating segments for the consolidation reporting consist of tobacco, ginseng, real estate and others.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

2.5 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

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2.6 Financial Instruments

(a) Classification and Measurement

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on trade date.

For hybrid (combined) instruments, the Group is unable to measure an embedded derivative separately from its host contract and therefore, the entire hybrid (combined) contract is classified as at fair value through profit or loss. The financial assets designated as at fair value through profit or loss by the Group are foreign convertible bonds and securitized derivatives.

Regular purchases and sales of financial assets are recognized on the trade date. At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

(b) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments; or the disappearance of an active market for that financial asset because of financial difficulties.

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(c) Derecognition

If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially of all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the statement of financial position.

2.7 Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for doubtful accounts.

2.8 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 ₩ 279,427 million and ₩ 316,168 million as of June 30, 2014 and December 31, 2013, respectively.

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2.9 Non-current Assets (or disposal group) Held for Sale

Non-current assets (or disposal group) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.10 Property, Plant and Equipment

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Buildings	10 - 60	years
Structures	4 - 40	years
Machinery	2 - 20	years
Vehicle	4 - 5	years
Tools and equipment	4 - 5	years
Supplies	4 - 5	years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other income and expenses, net' in the statement of comprehensive income.

2.11 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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2.12 Government Grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attaching to it. Government grants related to assets are presented by deducting the grants in arriving at the carrying amount of the assets, and grants related to income are deferred and presented by deducting the related expenses for the purpose of the government grants.

2.13 Intangible Assets

(a) Goodwill

Goodwill is measured as explained in Note 2.2(1) and goodwill arises on the acquisition of subsidiaries, associates and business are included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or group of CGUs, that is expected to benefit from the synergies of the combination. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Other intangible assets

Intangible assets are measured initially at cost and after initial recognition, are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets consist of industrial property rights, 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 are as follows:

Industrial property rights	10 - 20 years or indefinite
Facility usage rights	Indefinite
Other intangible assets	4 - 15 years or indefinite

Amortization periods and amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessment for those assets. The change is accounted for as a change in an accounting.

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2.14 Investment Property

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. Investment property, except for land, is depreciated using the straight-line method over their useful lives from 10 to 60 years.

2.15 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.16 Financial Liabilities

(a) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade and other payables', 'borrowings' in the statement of financial position.

Preferred shares that provide for a mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares calculated using the effective interest method are recognized in the statement of income as 'finance costs', together with interest expenses recognized on other financial liabilities.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

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2.17 Financial Guarantee Contracts

Financial guarantees contracts provided by the Group are initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the amounts below and recognized as 'other financial liabilities':

- the amount determined in accordance with Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*; or
- the initial amount, less accumulated amortization recognized in accordance with Korean IFRS1018, *Revenue*.

2.18 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.19 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method. The Group recognizes borrowings as current assets unless it has an unconditional right to delay the settlement of the borrowing.

2.20 Compound Financial Instruments

Compound financial instruments are convertible bonds that can be converted into equity instruments at the option of the holder. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially on the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

2.21 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

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2.22 Income Tax Expense

Interim period income tax expense is accrued based on the best estimate of the weighted average annual income tax rate expected for the full financial year, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

2.23 Employee Benefits

(a) Defined benefit liability

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income, while costs are amortized over the vesting period.

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(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal and in the case of an offer made to encourage voluntary redundancy.

2.24 Share Capital

Where the Parent Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

2.25 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 six-month periods ended June 30, 2014 and 2013, were ₩ 1,739,135 million and ₩ 1,756,718 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. Meanwhile, profits from an apartment house for self-installment sales is recognized on percentage-of-completion method according to Q&A of Korea Accounting Institute, called 2011-I-KQA. This accounting standard is effective upon Korean Corporation Financial Reporting Standards of Laws on External Audit of Corporation (Article 13, Section 1, Paragraph 1)

Revenue from rendering of services is recognized by reference to the stage of completion of the transaction at the end of the reporting period when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the costs incurred for the transaction and the costs to complete the

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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.

2.26 Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

2.27 Dividend Distribution

Dividend distribution to the Parent Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

3. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Significant accounting estimates and assumptions made in preparing interim consolidated financial statements, except for the estimating method used in deriving income tax expenses, agree with those made in preparing the prior period consolidated financial statements.

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4. Financial Risk Management

4.1 Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (Group treasury) under policies approved by the board of directors. The Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

i) Foreign exchange 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 June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014			December 31, 2013		
	USD	EUR	JPY and Others	USD	EUR	JPY and Others
Assets						
Cash and cash equivalents	₩ 34,228	₩ 13	₩ 7	₩ 17,191	₩ 30	₩ 468
Trade and other receivables	498,208	23,631	3,652	365,453	1,605	2,479
Long-term deposits	245,198	-	-	219,760	-	-
	<u>₩ 777,634</u>	<u>₩ 23,644</u>	<u>₩ 3,659</u>	<u>₩ 602,404</u>	<u>₩ 1,635</u>	<u>₩ 2,947</u>
Liabilities						
Trade and other payables	₩ 49,705	₩ 12,777	₩ 263	₩ 56,514	₩ 11,564	₩ 1,030
Short-term borrowings	1,332	-	-	1,386	-	-
	<u>₩ 51,037</u>	<u>₩ 12,777</u>	<u>₩ 263</u>	<u>₩ 57,900</u>	<u>₩ 11,564</u>	<u>₩ 1,030</u>

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As of June 30, 2014 and December 31, 2013, the effects of a 10% strengthening or weakening of functional currency against the US dollar other than functional currency on profit before tax are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
	10% strengthening	10% weakening	10% strengthening	10% weakening
US dollar	₩ 72,660	₩ (72,660)	₩ 54,450	₩ (54,450)

ii) 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 June 30, 2014 and December 31, 2013, the effects of a 5% fluctuation of the price index of stocks on other comprehensive income are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
	5% increase	5% decrease	5% increase	5% decrease
Other comprehensive income before tax	₩ 7,598	₩ (7,598)	₩ 6,811	₩ (6,811)
Tax effect	(1,839)	1,839	(1,648)	1,648
Other comprehensive income after tax	₩ 5,759	₩ (5,759)	₩ 5,163	₩ (5,163)

iii) 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 June 30, 2014 and December 31, 2013, the amount of borrowings issued at variable rates is ₩ 57,530 million and ₩ 58,564 million, respectively. There is no significant effect on cash flows or the fair value of financial liabilities from the interest rate fluctuation.

(b) 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 with 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.

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The carrying amounts of financial assets are maximum exposure to credit risk. The maximum exposure to credit risk as of June 30, 2014 and December 31, 2013, is as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
Available-for-sale financial assets	₩	4,396	₩	2,702
Long-term deposits in MSA Escrow Fund		245,198		219,760
Trade and other receivables		1,025,194		1,024,516
Other financial assets		666,111		685,872
Cash and cash equivalents		383,665		347,933
Financial guarantee contracts		152,263		152,263

(c) Liquidity Risk

The Group has exposure to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's management has established short-term and long-term financial management plans to manage the liquidity risk, and analyzed cash outflows occurred and cash outflows budgeted, so as to match the maturity structure of financial assets and financial liabilities. The Group's management determines whether or not the financial liabilities are repayable with the operating cash flows and cash inflows from financial assets.

The maturity analysis with a residual contractual maturity of financial liabilities as of June 30, 2014 and December 31, 2013, is as follows:

<i>(in millions of Korean won)</i>		June 30, 2014					
	Carrying amount	Contractual cash flow	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	Beyond 5 years	
Trade and other payables	₩ 361,922	₩ 363,122	₩ 316,448	₩ 15,473	₩ 31,201	₩ -	
Short-term borrowings	52,344	52,771	37,884	14,887	-	-	
Long-term borrowings	127,638	135,326	167	500	35,966	98,693	
Current portion of long-term borrowings	4,834	4,921	137	4,784	-	-	
Financial guarantee contracts ¹	-	152,263	-	-	152,263	-	

<i>(in millions of Korean won)</i>		December 31, 2013					
	Carrying amount	Contractual cash flow	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	Beyond 5 years	
Trade and other payables	₩ 427,466	₩ 428,700	₩ 379,796	₩ 18,441	₩ 30,463	₩ -	
Short-term borrowings	96,240	97,472	38,820	58,652	-	-	
Long-term borrowings	117,639	126,283	60	256	67,461	58,506	
Current portion of long-term borrowings	4,424	4,514	87	4,427	-	-	
Financial guarantee contracts ¹	-	152,263	-	-	152,263	-	

¹ The maximum guaranteed amount of financial guarantee contracts (Note 32)

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.

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4.2 Capital Management

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 June 30, 2014 and December 31, 2013, the Group defines net debt and equity attributable to owners of the Parent as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
Total borrowings	₩	184,816	₩	218,303
Less:				
Cash and cash equivalents		(383,665)		(347,933)
Other financial assets, current		(664,341)		(684,132)
Available-for-sale financial assets, current		(1,800)		-
Net debt(asset)		(864,990)		(813,762)
Equity attributable to owners of the parent	₩	<u>5,327,319</u>	₩	<u>5,365,481</u>

4.3 Fair Value Estimation

There are no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities for the six-month period ended June 30, 2014.

(a) Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Available-for-sale financial assets, non-current ¹	₩ 301,279	₩ 301,279	₩ 279,797	₩ 279,797
Other financial assets, non-current	1,770	1,770	1,740	1,740
Long-term deposit	245,198	245,198	219,760	219,760
Long-term trade and other receivables	103,636	103,636	108,898	108,898
Other financial assets, current	664,341	664,341	684,132	684,132
Trade and other receivables	921,558	921,558	915,618	915,618
Cash and cash equivalents	383,665	383,665	347,933	347,933
	<u>₩ 2,621,447</u>	<u>₩ 2,621,447</u>	<u>₩ 2,557,878</u>	<u>₩ 2,557,878</u>

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<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Long-term borrowings	₩ 127,638	₩ 127,638	₩ 117,639	₩ 117,639
Long-term trade and other payables	30,026	30,026	29,254	29,254
Short-term borrowings	52,344	52,344	96,240	96,240
Current portion of long-term borrowings	4,834	4,834	4,424	4,424
Trade and other payables	331,896	331,896	398,212	398,212
	<u>₩ 546,738</u>	<u>₩ 546,738</u>	<u>₩ 645,769</u>	<u>₩ 645,769</u>

¹ Equity instruments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably and excluded from the fair value disclosures.

(b) Financial Instruments Measured at Cost

Details of financial instruments measured at cost as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Available-for-sale financial assets		
MASTERN REIT 2 Co., Ltd.	₩ 10,000	₩ 10,000
U&i Corp.	3,000	3,000
SJ BIOMED Inc.	1,000	1,000
Ktoto Co., Ltd	3,000	-
Others	4,498	2,804
	<u>₩ 21,498</u>	<u>₩ 16,804</u>

MASTERN 2 REIT and others are unlisted equity instruments and measured at cost because their fair value cannot be measured reliably.

(c) Fair Value Hierarchy

Assets measured at fair value or for which the fair value is disclosed are categorized within the fair value hierarchy, and the defined levels are as follows:

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

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Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value or its fair value is disclosed as of June 30, 2014, are as follows:

<i>(in millions of Korean won)</i>	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Available-for-sale financial assets	₩ 219,262	₩ 82,017	₩ -	₩ 301,279
Disclosed fair value				
Investment property	-	-	495,339	495,339

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 consist primarily of KOSPI and KOSDAQ equity investments classified as trading securities or available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(d) Valuation Technique and the Inputs

Valuation techniques and inputs used in the recurring, non-recurring fair value measurements and disclosed fair values categorized within Level 2 and Level 3 of the fair value hierarchy as of June 30, 2014, are as follows:

<i>(in millions of Korean won)</i>	Fair Value	Level	Valuation Technique
Available-for-sale assets			
Real Estate Investment Trust	₩ 82,017	2	Market approach
Investment property			
Investment property	495,339	3	Yield capitalization method and other method

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5. Operating Segments

The Group's reportable segments and details are as follows:

Operating segment	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

Segment information on revenue and profit from operations for the six-month periods ended June 30, 2014 and 2013, is as follows:

<i>(in millions of Korean won)</i>	2014						
	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩ 1,363,785	₩ 428,276	₩ 81,625	₩ 179,964	₩ 2,053,650	₩ (97,699)	₩ 1,955,951
Less: Inter-segment sales	42,568	28,180	3,501	23,450	97,699	(97,699)	-
External sales	₩ 1,321,217	₩ 400,096	₩ 78,124	₩ 156,514	₩ 1,955,951	₩ -	₩ 1,955,951
Profit(loss) from operations	459,274	65,541	19,984	6,660	551,459	(5,060)	546,399

<i>(in millions of Korean won)</i>	2013						
	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩ 1,270,314	₩ 413,860	₩ 38,623	₩ 176,472	₩ 1,899,269	₩ (88,712)	₩ 1,810,557
Less: Inter-segment sales	35,734	28,202	4,083	20,693	88,712	(88,712)	-
External sales	₩ 1,234,580	₩ 385,658	₩ 34,540	₩ 155,779	₩ 1,810,557	₩ -	₩ 1,810,557
Profit(loss) from operations	427,811	63,434	11,414	(5,370)	497,289	241	497,530

Segment information on assets and liabilities as of June 30, 2014 and December 31, 2013, is as follows:

<i>(in millions of Korean won)</i>	June 30, 2014						
	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets							
Segment assets	₩ 3,535,803	₩ 1,440,493	₩ 117,125	₩ 338,025	₩ 5,431,446	₩ (242,700)	₩ 5,188,746
Equity accounted investments	-	-	56,287	1,770	58,057	-	58,057
Assets held for sale	3	-	-	-	3	-	3
	₩ 3,535,806	₩ 1,440,493	₩ 173,412	₩ 339,795	₩ 5,489,506	₩ (242,700)	₩ 5,246,806
Unallocated assets							1,758,872
Total assets							₩ 7,005,678
Liabilities							
Segment liabilities	₩ 996,145	₩ 168,905	₩ -	₩ 60,079	₩ 1,225,129	₩ (148,261)	₩ 1,076,868
Unallocated liabilities							601,491
Total liabilities							₩ 1,678,359

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<i>(in millions of Korean won)</i>	December 31, 2013						
	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets							
Segment assets	₩ 3,571,643	₩ 1,518,023	₩ 122,852	₩ 342,760	₩ 5,555,278	₩ (233,917)	₩ 5,321,361
Equity accounted investments	-	-	56,600	1,476	58,076	-	58,076
Assets held for sale	3	150	-	-	153	-	153
	₩ 3,571,646	₩ 1,518,173	₩ 179,452	₩ 344,236	₩ 5,613,507	₩ (233,917)	₩ 5,379,590
Unallocated assets							1,695,368
Total assets							<u>₩ 7,074,958</u>
Liabilities							
Segment liabilities	₩ 985,942	₩ 167,277	₩ -	₩ 63,414	₩ 1,216,633	₩ (154,259)	₩ 1,062,374
Unallocated liabilities							647,103
Total liabilities							<u>₩ 1,709,477</u>

6. Financial Instruments by Category

Categorizations of financial assets as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		
	Loans and receivables	Assets classified as available-for-sale	Total
Financial assets as available-for-sale, non-current	₩ -	₩ 320,977	₩ 320,977
Other financial assets, non-current	1,770	-	1,770
Long-term deposits	245,198	-	245,198
Long-term trade and other receivables	103,636	-	103,636
Financial assets as available-for-sale, current	-	1,800	1,800
Other financial assets, current	664,341	-	664,341
Trade and other receivables	921,558	-	921,558
Cash and cash equivalents	383,665	-	383,665
	<u>₩ 2,320,168</u>	<u>₩ 322,777</u>	<u>₩ 2,642,945</u>

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	December 31, 2013		
	Loans and receivables	Assets classified as available-for-sale	Total
Financial assets as available-for-sale, non-current	₩ -	₩ 296,601	₩ 296,601
Other financial assets, non-current	1,740	-	1,740
Long-term deposits	219,760	-	219,760
Long-term trade and other receivables	108,898	-	108,898
Other financial assets, current	684,132	-	684,132
Trade and other receivables	915,618	-	915,618
Cash and cash equivalents	347,933	-	347,933
	<u>₩ 2,278,081</u>	<u>₩ 296,601</u>	<u>₩ 2,574,682</u>

Categorizations of financial liabilities as of June 30, 2014 and December 31, 2013, are as follows:

(in millions of Korean won)

	June 30, 2014		
	Other financial liabilities at amortized cost	Other financial liabilities	Total
Long-term borrowings	₩ 127,638	₩ -	₩ 127,638
Long-term trade and other payables	30,026	-	30,026
Short-term borrowings	32,806	19,538	52,344
Current portion of long-term borrowings	4,834	-	4,834
Trade and other payables	331,896	-	331,896
	<u>₩ 527,200</u>	<u>₩ 19,538</u>	<u>₩ 546,738</u>

(in millions of Korean won)

	December 31, 2013		
	Other financial liabilities at amortized cost	Other financial liabilities	Total
Long-term borrowings	₩ 117,639	₩ -	₩ 117,639
Long-term trade and other payables	29,254	-	29,254
Short-term borrowings	75,748	20,492	96,240
Current portion of long-term borrowings	4,424	-	4,424
Trade and other payables	398,212	-	398,212
	<u>₩ 625,277</u>	<u>₩ 20,492</u>	<u>₩ 645,769</u>

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Income and loss of financial instruments by category for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Available-for-sale financial assets				
Gain on valuation (Other comprehensive income)	₩ (2,561)	₩ 4,307	₩ (13,907)	₩ (5,056)
Interest income	20	44	8	15
Dividend income	2,101	5,198	1,340	4,666
Impairment	-	-	(3,000)	(15,000)
Cash and cash equivalents				
Interest income	6,451	14,079	5,367	13,035
Gain on foreign currency translation	28	52	72	120
Gain on foreign currency transaction	(719)	(508)	591	774
Trade and other receivables				
Interest income	2,143	4,349	1,713	3,401
Gain on foreign currency translation	(42,969)	(36,720)	24,207	46,986
Gain on foreign currency transaction	(5,420)	(4,468)	5,563	8,735
Other financial liabilities at amortized cost				
Interest costs	(2,402)	(4,859)	(2,722)	(5,545)
Gain on foreign currency translation	3,150	4,549	(4,784)	(2,387)
Loss on foreign currency transaction	966	633	(5,445)	(6,733)
Financial assets at fair value through profit or loss				
Loss on transactions	-	(14)	142	142
Loss on valuation (profit or loss)	-	-	62	52
Other financial liabilities				
Interest costs	(177)	(401)	(203)	(437)

7. Available-for-sale Financial Assets

The changes in available-for-sale financial assets for the six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014	2013
Beginning	₩ 296,601	₩ 264,884
Additions	23,200	-
Gain on valuation (before tax)	5,681	(9,457)
Net gains transfer from equity	-	2,787
Impairment	-	(15,000)
Disposal	(2,705)	-
Ending	322,777	243,214
Less: current portion	(1,800)	(1,000)
Non-current portion	₩ 320,977	₩ 242,214

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Available-for-sale financial assets as of June 30, 2014 and December 31, 2013 consist of:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
Available-for-sale debt instruments:				
Government and municipal bonds	₩	96	₩	162
Corporate bonds		4,300		2,540
Total available-for-sale debt instruments		<u>4,396</u>		<u>2,702</u>
Available-for-sale equity instruments:				
Listed				
Yonhap Television News(YTN)		24,931		23,380
Oscotech, Inc.		900		916
Shinhan Financial Group Co., Ltd.		187,791		189,595
Rexahn Pharmaceuticals, Inc.		5,640		3,440
		<u>219,262</u>		<u>217,331</u>
Unlisted		99,119		76,568
Total available-for-sale equity instruments		<u>318,381</u>		<u>293,899</u>
Total available-for-sale financial assets	₩	<u>322,777</u>	₩	<u>296,601</u>

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

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.

8. Trade and Other Receivables

Trade and other receivables as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Loans to employees	₩ 8,600	₩ 24,291	₩ 8,688	₩ 29,957
Loans	607	5,218	562	5,508
Other receivables	71,144	8,114	96,426	7,705
Guarantee deposits	-	66,012	-	65,728
Accrued income	2,642	-	4,276	-
Trade receivables	838,565	-	805,666	-
	<u>₩ 921,558</u>	<u>₩ 103,635</u>	<u>₩ 915,618</u>	<u>₩ 108,898</u>

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Trade and other receivables as of June 30, 2014 and December 31, 2013, reported in the consolidated statements of financial position, net of allowances, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Gross trade and other receivables	₩ 971,860	₩ 103,636	₩ 967,456	₩ 108,898
Allowance account				
Loans	(198)	-	(210)	-
Other receivables	(2,280)	-	(2,303)	-
Trade receivables	(47,824)	-	(49,325)	-
	<u>(50,302)</u>	<u>-</u>	<u>(51,838)</u>	<u>-</u>
Net amount	₩ 921,558	₩ 103,636	₩ 915,618	₩ 108,898

Changes in the allowance account for the six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Beginning	₩	51,838	₩	28,728
Impairment		-		260
Reversal of impairment		(1,414)		(73)
Write-off		(93)		(251)
Net exchange difference		(29)		-
Ending	₩	<u>50,302</u>	₩	<u>28,664</u>

The aging schedule of trade and other receivables as of June 30, 2014 and December 31, 2013, is as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
Not past due	₩	<u>510,366</u>	₩	<u>510,821</u>
Past due but not impaired				
Within 1 month		36,555		56,442
Between 1 and 2 months		29,391		26,073
Beyond 2 months		<u>307,128</u>		<u>255,138</u>
		<u>373,074</u>		<u>337,653</u>
Impaired		2,949		6,517
	₩	<u>886,389</u>	₩	<u>854,991</u>

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.

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Details of trade and other receivables that are measured at amortized cost using effective interest rate method as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014			December 31, 2013		
	Effective interest rate(%)	Current	Non-current	Effective interest rate(%)	Current	Non-current
Loans to employees	3.00~5.68	₩ 8,599	₩ 24,290	3.00~5.68	₩ 8,681	₩ 29,884
Loans	1.7~ 7.29	-	5,106	1.7~ 7.29	-	5,032
Other receivables	3.79	-	7,850	3.79	7,997	7,705
Guarantee deposits	1.7~ 8.47	-	63,560	1.7~ 8.47	-	62,845
		<u>₩ 8,599</u>	<u>₩ 100,806</u>		<u>₩ 16,678</u>	<u>₩ 105,466</u>

Transferred trade receivables

The Group discounted its trade receivables through trade receivable factoring agreements with National Agricultural Cooperative Federation and other financial institutions in relation with the collecting sales payments with tobacco card and sales of red ginseng.

In case the customers default, the Group has an obligation to pay the related amount to the bank. As a result, this transaction treated as a transaction with recourse, has been accounted for as collateralized borrowings. The borrowings recognized in relation to the said transaction as of June 30, 2014 and December 31, 2013, are ₩ 19,538 million and ₩ 20,492 million, respectively (Note 14 and 23).

9. Long-term Deposits

Long-term deposits as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
MMF	₩ 20,048	₩ 15,080
T-note	225,150	204,680
	<u>₩ 245,198</u>	<u>₩ 219,760</u>

As discussed in Note 32 to the consolidated financial statements, long-term deposits in MSA Escrow Fund are deposited to the United States government related to the export of tobacco to the United States. The payments of long-term deposits in MSA Escrow Fund for the six-month periods ended June 30, 2014 and 2013, are ₩ 35,413 million and ₩ 26,123 million, respectively.

Investment income on long-term deposits in MSA Escrow Fund for the six-month periods ended June 30, 2014 and 2013, is ₩ 325 million and ₩ 218 million, respectively.

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10. Property, Plant and Equipment

Changes in property, plant and equipment for the six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		
	Acquisition cost	Accumulated depreciation and impairment cost	Net book value
Land	₩ 528,748	₩ -	₩ 528,748
Buildings	883,793	(350,622)	533,171
Structures	66,520	(37,133)	29,387
Machinery	1,189,294	(864,660)	324,634
Vehicles	13,368	(10,344)	3,024
Tools	58,533	(49,967)	8,566
Furniture and fixture	221,811	(166,594)	55,217
Others	1,454	-	1,454
Construction-in-progress	137,552	-	137,552
	<u>₩ 3,101,073</u>	<u>₩ (1,479,320)</u>	<u>₩ 1,621,753</u>

<i>(in millions of Korean won)</i>	2013		
	Acquisition cost	Accumulated depreciation and impairment cost	Net book value
Land	₩ 531,159	₩ -	₩ 531,159
Buildings	866,520	(317,775)	548,745
Structures	65,357	(35,065)	30,292
Machinery	1,165,931	(805,688)	360,243
Vehicles	15,146	(11,303)	3,843
Tools	55,105	(46,387)	8,718
Furniture and fixture	237,060	(174,648)	62,412
Others	1,270	-	1,270
Construction-in-progress	79,492	-	79,492
	<u>₩ 3,017,040</u>	<u>₩ (1,390,866)</u>	<u>₩ 1,626,174</u>

<i>(in millions of Korean won)</i>	2014								
	Opening net book value	Additions	Disposal	Transfer	Depreciation	Exchange difference	Other changes ¹	Net book amount	
Land	₩ 528,983	₩ 34	₩ (94)	₩ 147	₩ -	₩ (332)	₩ 10	₩ 528,748	
Buildings	535,055	12,242	-	5,995	(16,021)	(4,177)	77	533,171	
Structures	29,299	1,490	(36)	532	(1,627)	(271)	-	29,387	
Machinery	348,643	4,043	(499)	11,718	(37,318)	(1,953)	-	324,634	
Vehicles	3,392	243	(2)	58	(536)	(131)	-	3,024	
Tools	8,710	1,026	(86)	926	(1,969)	(41)	-	8,566	
Furniture and fixture	60,254	7,433	(1,576)	3,461	(14,106)	(249)	-	55,217	
Others	1,304	150	-	-	-	-	-	1,454	
Construction-in-progress	106,649	53,818	20	(22,837)	-	(98)	-	137,552	
	<u>₩ 1,622,289</u>	<u>₩80,479</u>	<u>₩ (2,273)</u>	<u>₩ -</u>	<u>₩ (71,577)</u>	<u>₩ (7,252)</u>	<u>₩ 87</u>	<u>₩ 1,621,753</u>	

¹ Other changes represent the reclassified amount from investment property to property, plant and equipment.

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<i>(in millions of Korean won)</i>	2013								
	Opening net book value	Additions	Disposal	Transfer	Depreciation	Exchange difference	Other changes ¹	Net book amount	
Land	₩ 518,056	₩ 135	₩ (798)	₩ 13,780	₩ -	₩ (28)	₩ 14	₩ 531,159	
Buildings	528,715	23,097	(92)	11,228	(17,842)	825	2,814	548,745	
Structures	26,999	3,566	(36)	1,240	(1,648)	134	37	30,292	
Machinery	372,565	13,200	(3,711)	20,382	(43,990)	1,797	-	360,243	
Vehicles	2,950	213	(2)	90	(688)	1,280	-	3,843	
Tools	8,856	2,090	(165)	58	(2,306)	185	-	8,718	
Furniture and fixture	65,856	6,573	(383)	4,965	(14,717)	118	-	62,412	
Others	1,266	-	(9)	13	-	-	-	1,270	
Construction-in-progress	106,173	25,574	-	(51,756)	-	(499)	-	79,492	
	<u>₩ 1,631,436</u>	<u>₩ 74,448</u>	<u>₩ (5,196)</u>	<u>₩ -</u>	<u>₩ (81,191)</u>	<u>₩ 3,812</u>	<u>₩ 2,865</u>	<u>₩ 1,626,174</u>	

¹ Other changes represent the reclassified amount from investment property to property, plant and equipment.

11. Intangible Assets

Changes in intangible assets for the six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014					
	Goodwill	Industrial property rights	Facility usage rights	Other intangible assets	Intangible assets under development	Total
At January 1, 2014	₩ 83,370	₩ 31,733	₩ 25,757	₩ 89,285	₩ 2,485	₩ 232,630
Additions	-	94	447	75	632	1,248
Disposals	-	-	(2)	(91)	-	(93)
Transfer-in(out)	-	71	-	-	(71)	-
Amortization	-	(1,493)	-	(5,116)	-	(6,609)
Impairment	-	(19)	-	-	-	(19)
Exchange differences	(1,892)	(151)	-	(480)	-	(2,523)
Acquisition cost	81,478	46,254	27,256	116,218	5,386	276,592
Accumulated depreciation and impairment cost	-	(16,019)	(1,054)	(32,545)	(2,340)	(51,958)
Net book amount	<u>₩ 81,478</u>	<u>₩ 30,235</u>	<u>₩ 26,202</u>	<u>₩ 83,673</u>	<u>₩ 3,046</u>	<u>₩ 224,634</u>

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<i>(in millions of Korean won)</i>	2013					
	Goodwill	Industrial property rights	Facility usage rights	Other intangible assets	Intangible assets under development	Total
At January 1, 2013	₩ 84,100	₩ 34,086	₩ 26,042	₩ 98,337	₩ 4,228	₩ 246,793
Additions	-	129	773	1,332	463	2,697
Disposals	-	(4)	(33)	(324)	(13)	(374)
Transfer-in(out)	-	285	-	-	(285)	-
Amortization	-	(1,505)	-	(4,914)	-	(6,419)
Exchange differences	3,636	2	-	341	(3)	3,976
Acquisition cost	87,736	45,696	26,814	117,205	4,791	282,242
Accumulated depreciation and impairment cost	-	(12,703)	(32)	(22,433)	(401)	(35,569)
Net book amount	₩ 87,736	₩ 32,993	₩ 26,782	₩ 94,772	₩ 4,390	₩ 246,673

Research and development expenses for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Three months	Six months	Three months	Six months
Cost of goods sold	₩ 101	₩ 587	₩ 1,564	₩ 2,177
Selling and administrative expenses	8,484	16,822	8,050	13,756
	₩ 8,585	₩ 17,409	₩ 9,614	₩ 15,933

Exchange loss of ₩ 1,892 million arising from the translation of goodwill of PT Trisakti Purwosari Makmur, one of subsidiaries, is accounted for as a deduction from goodwill and loss on currency translation of foreign operations.

12. Investment Property

Changes in investment property for the six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		
	Land	Building	Total
Beginning net book value	₩ 48,303	₩ 125,672	₩ 173,975
Additions	-	77	77
Transfers to property, plant and equipment	(10)	(77)	(87)
Depreciation	-	(3,083)	(3,083)
Acquisition cost	48,293	177,144	225,437
Accumulated depreciation and impairment cost	-	(54,555)	(54,555)
Net book amount	₩ 48,293	₩ 122,589	₩ 170,882

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(in millions of Korean won)

	2013		
	Land	Building	Total
Beginning net book value	₩ 48,177	₩ 133,809	₩ 181,986
Additions	559	862	1,421
Transfers to property, plant and equipment	(433)	(2,952)	(3,385)
Depreciation	-	(3,075)	(3,075)
Acquisition cost	48,303	177,082	225,385
Accumulated depreciation and impairment cost	-	(48,438)	(48,438)
Net book amount	₩ 48,303	₩ 128,644	₩ 176,947

The amounts recognized in profit or loss from investment property for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Rental income	₩ 8,290	₩ 17,018	₩ 8,022	₩ 16,748
Direct operating expense	(1,690)	(3,231)	(1,538)	(3,075)
	₩ 6,600	₩ 13,787	₩ 6,484	₩ 13,673

Fair values and book values of investment property as of June 30, 2014 and December 31, 2013, are as follows:

(in millions of Korean won)

	June 30, 2014		December 31, 2013	
	Fair value	Book value	Fair value	Book value
Land	₩ 309,002	₩ 48,293	₩ 309,207	₩ 48,303
Building	186,337	122,589	186,426	125,672
	₩ 495,339	₩ 170,882	₩ 495,633	₩ 173,975

13. Non-current Assets Held for Sale

The Group accounts for the smaller amount the fair value and book value of assets held for sale as Non-current Assets Held for sale. Changes in non-current assets held for sale for the six-month period ended June 30, 2014, are as follows:

(in millions of Korean won)

	2014		
	Land	Others	Total
At January 1, 2014			
Acquisition cost	₩ 3	₩ 150	₩ 153
Accumulated depreciation	-	-	-
Net book amount	₩ 3	₩ 150	₩ 153
Changes			
Disposals	₩ -	₩ (150)	₩ (150)
At June 30, 2014			
Acquisition cost	₩ 3	₩ -	₩ 3
Accumulated depreciation	-	-	-
Net book amount	₩ 3	₩ -	₩ 3

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14. Pledged Assets

The following assets are pledged as collaterals for the Group's borrowings and others as of June 30, 2014:

(in millions of Korean won)

Asset	Book amount	Reason	Borrowings	Collateralized amount	Lender /Leaseholder
Investment Property	₩ 72,726	Leasehold deposits received	₩ 9,346	₩ 9,458	Metlife Insurance Co., Ltd. and 28 others
		Short-term borrowings	12,500		
Property, plant and equipment /investment property	72,041	Current portion of long-term borrowings	4,776	59,984	Hana Bank and 2 others & Small & medium Business Coporation
		Long-term borrowings	2,807		
	1,069	ACH pledged	-	1,069	Bank of Oklahoma
	29,158	Investment subsidy	-	660	Chung ju Si
Property, plant and equipment		Short-term borrowings	170	3,000	
	18,513	Long-term/ short-term borrowings	7,500	14,400	
		Purchasing fund	8,773	4,026	Hana Bank
Short-term financial instruments	600			660	
	100	Short-term borrowings	1,500	110	
Other financial assets	1,410	Performance bond	-	1,410	HAITAI BEVERAGE CO.,LTD. and LG HOUSEHOLD & HEALTH CARE LTD
Trade receivables	19,538	Short-term borrowings	19,538	19,538	Citibank Korea Inc. and 2 other financial institution
Total	₩ 215,155		₩ 66,910	₩ 114,315	

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The following assets were pledged as collateral for the Group's borrowings and others as of December 31, 2013:

(in millions of Korean won)

Asset	Book amount	Reason	Borrowings	Collateralized amount	Lender /Leaseholder
Investment Property	₩ 74,555	Leasehold deposits received	₩ 9,020	₩ 9,123	Metlife Insurance Co., Ltd. and 26 others
		Short-term borrowings	13,000		
Property, plant and equipment /investment property	72,326	Current portion of long-term borrowings	4,366	59,984	Hana Bank and 2 others & Small & medium Business Coporation
		Long-term borrowings	3,387		
	1,055	ACH pledged	-	1,055	Bank of Oklahoma
Property, plant and equipment	29,464	Investment subsidy	-	660	Chung ju Si
		Long-term/ short-term borrowings	7,500	14,400	
	17,771		6,914	3,240	
		Purchasing fund			Hana Bank
Short-term financial instruments	600			660	
	700	Short-term borrowings	1,500	110	
Trade receivables	20,492	Short-term borrowings	20,492	20,492	Citibank Korea Inc. and 2 others
Total	₩ 216,963		₩ 66,179	₩ 109,724	

15. Investments in Associates

Investments in associates as of June 30, 2014 and December 31, 2013, are as follows:

(in millions of Korean won)

Associates	Location	Principal operation	June 30, 2014		December 31, 2013	
			Interest (%)	Carrying Amount	Interest (%)	Carrying Amount
Lite Pharm Tech, Inc	Korea	Manufacturing Medical supplies	25.34	₩ 1,770	25.34	₩ 1,476
JR CR-REIT IV Co., Ltd.	Korea	Selling and renting of real estate	49.02	13,002	49.02	12,953
KVG REIT 1 Co., Ltd.	Korea	Selling and renting of real estate	29.67	6,955	29.67	7,047
KOCREF REIT 17 Co., Ltd.	Korea	Selling and renting of real estate	22.06	6,658	22.06	6,745
JR REIT V Co., Ltd.	Korea	Selling and renting of real estate	34.63	5,557	34.63	5,573
JR REIT VIII Co., Ltd.	Korea	Selling and renting of real estate	21.74	9,906	21.74	9,948
LSK Global Pharma Services Co., Ltd.	Korea	Research and developing new drug	23.15	-	23.15	-
JR REIT X Co., Ltd.	Korea	Selling and renting of real estate	28.79	9,191	28.78	9,334
JR REIT XIII Co., Ltd.	Korea	Selling and renting of real estate	27.03	5,018	27.03	5,000
Total				₩ 58,057		₩ 58,076

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Changes in investments in associates for the six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014				
	Beginning balance	Acquisition	Share of profit(loss)	Other changes	Ending balance
Associates					
Lite Pharm Tech, Inc	₩ 1,476	₩ -	₩ 294	₩ -	₩ 1,770
JR CR-REIT IV Co., Ltd.	12,953	-	129	(80)	13,002
KVG REIT 1 Co., Ltd.	7,047	-	255	(347)	6,955
KOCREF REIT 17 Co., Ltd.	6,745	-	188	(275)	6,658
JR REIT V Co., Ltd.	5,573	-	373	(389)	5,557
JR REIT VIII Co., Ltd.	9,948	-	308	(350)	9,906
JR REIT X Co., Ltd.	9,334	-	19	(162)	9,191
JR REIT XIII Co., Ltd.	5,000	-	116	(98)	5,018
	<u>₩ 58,076</u>	<u>₩ -</u>	<u>₩ 1,682</u>	<u>₩ (1,701)</u>	<u>₩ 58,057</u>

<i>(in millions of Korean won)</i>	2013				
	Beginning balance	Acquisition	Share of profit(loss)	Other changes	Ending balance
Associates					
Lite Pharm Tech, Inc	₩ 857	₩ -	₩ 134	₩ -	₩ 991
Korean Carbon Finance, Inc.	932	-	(162)	-	770
JR CR-REIT IV Co., Ltd.	13,570	-	140	(494)	13,216
KVG REIT 1 Co., Ltd.	7,160	-	198	(265)	7,093
KOCREF REIT 17 Co., Ltd.	6,827	-	160	(207)	6,780
JR REIT V Co., Ltd.	5,581	-	182	(197)	5,566
JR REIT VIII Co., Ltd.	10,008	-	268	(279)	9,997
LSK Global Pharma Services Co., Ltd	1,343	-	(807)	-	536
JR REIT X Co., Ltd.	9,500	-	(130)	(98)	9,272
	<u>₩ 55,778</u>	<u>₩ -</u>	<u>₩ (17)</u>	<u>₩ (1,540)</u>	<u>₩ 54,221</u>

Summary of the associates' financial information as of June 30, 2014 and December 31, 2013, is as follows:

<i>(in millions of Korean won)</i>	June 30, 2014			
	Assets	Liabilities	Revenues	Profit/(loss)
Lite Pharm Tech, Inc.	₩ 7,625	₩ 640	₩ 4,993	₩ 1,523
JR CR-REIT IV Co., Ltd.	63,016	34,621	1,644	167
KVG REIT 1 Co., Ltd.	51,531	28,090	2,891	837
KOCREF REIT 17 Co., Ltd.	66,113	35,935	2,736	920
JR REIT V Co., Ltd.	31,259	15,212	1,197	745
JR REIT VIII Co., Ltd.	108,698	63,133	3,870	1,418
LSK Global Pharma Services Co., Ltd.	2,830	5,065	5,604	342
JR REIT X Co., Ltd.	88,392	56,481	2,071	(15)
JR REIT XIII Co., Ltd.	47,166	28,603	1,556	489

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<i>(in millions of Korean won)</i>	December 31, 2013			
	Assets	Liabilities	Revenues	Profit/(loss)
Lite Pharm Tech, Inc.	₩ 6,581	₩ 756	₩ 8,969	₩ 3,208
JR CR-REIT IV Co., Ltd.	62,917	34,622	3,449	957
KVG REIT 1 Co., Ltd.	51,770	28,021	5,680	1,453
KOCREF REIT 17 Co., Ltd.	66,527	35,956	5,776	1,685
JR REIT V Co., Ltd.	31,253	15,160	2,319	1,235
JR REIT VIII Co., Ltd.	108,936	63,286	6,547	2,255
LSK Global Pharma Services Co., Ltd.	2,815	4,694	10,006	(710)
JR REIT X Co., Ltd.	88,590	56,179	2,001	916

16. Inventories

Inventories as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014			December 31, 2013		
	Acquisition cost	Allowance	Book amount	Acquisition cost	Allowance	Book amount
Merchandise	₩ 12,077	₩ (820)	₩ 11,257	₩ 10,585	₩ (354)	₩ 10,231
Finished goods	486,580	(2,452)	484,128	427,403	(3,402)	424,001
Work in progress	345,538	(31)	345,507	529,683	(151)	529,532
Raw materials	809,833	(893)	808,940	809,545	(1,331)	808,214
Supplies	27,049	-	27,049	26,901	-	26,901
By-products	9,426	-	9,426	7,793	-	7,793
Unfinished housing	837	-	837	840	-	840
Lots	3,800	-	3,800	6,432	-	6,432
Goods-in-transit	19,719	-	19,719	79,909	-	79,909
	<u>₩ 1,714,859</u>	<u>₩ (4,196)</u>	<u>₩ 1,710,663</u>	<u>₩ 1,899,091</u>	<u>₩ (5,238)</u>	<u>₩ 1,893,853</u>

The costs related inventories for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Three months	Six months	Three months	Six months
Cost of sales				
Loss on inventory valuation	₩ 1,329	₩ 273	₩ 529	₩ 1,090
Loss on retirement of inventories	1,835	3,378	1,121	1,817
Other expenses				
Loss on retirement of inventories	280	400	333	581
	<u>₩ 3,444</u>	<u>₩ 4,051</u>	<u>₩ 1,983</u>	<u>₩ 3,488</u>

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17. Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
Cash on hand	₩	10,325	₩	5,107
Demand deposits		160,604		174,700
Short-term investment assets		212,736		168,126
	₩	<u>383,665</u>	₩	<u>347,933</u>

Other financial assets as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
Long-term financial assets				
Time deposits	₩	1,553	₩	1,553
Deposit in current account		12		12
Money trust		205		175
	₩	<u>1,770</u>	₩	<u>1,740</u>
Short-term Financial assets				
Time deposits	₩	43,327	₩	38,077
Money trust		585,000		625,000
Certificate of deposit		36,014		21,055
		<u>664,341</u>		<u>684,132</u>
	₩	<u>666,111</u>	₩	<u>685,872</u>

Restricted financial assets as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	Description	June 30, 2014		December 31, 2013	
Cash and cash equivalents	Specific research purpose and others	₩	383	₩	703
Other financial assets	Pledge for borrowings		3,124		1,755
Long-term other financial assets	Deposits		12		12
Long-term other financial assets	Pledge		-		1,410
		₩	<u>3,519</u>	₩	<u>3,880</u>

18. Equity and Share Premium

Details of share capital as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in Korean won, except number of shares)</i>	June 30, 2014		December 31, 2013	
Number of ordinary shares				
Authorized		800,000,000		800,000,000
Issued		137,292,497		137,292,497
Par value per share	₩	5,000	₩	5,000
Ordinary shares	₩	954,959,485,000	₩	954,959,485,000

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The Parent Company has reacquired and retired 53,699,400 shares of treasury shares. Accordingly, as of June 30, 2014, the Parent Company's ordinary shares differ from the aggregate par value of issued shares by ₩ 268,497 million.

There is no change in the number of shares issued by the Group for the six-month period ended June 30, 2014 and the year ended December 31, 2013. Details of the number of shares are as follows:

	2014			2013		
	Ordinary shares	Treasury shares	Total	Ordinary shares	Treasury shares	Total
Number of shares	137,292,497	(11,393,697)	125,898,800	137,292,497	(11,393,697)	125,898,800

19. Treasury Shares

There is no change in the treasury shares of the Group for the six-month period ended June 30, 2014 and the year ended December 31, 2013. Details of the number of treasury shares and carrying amount are as follows:

<i>(in millions of Korean Won, except number of shares)</i>	2014		2013	
	Number of shares	Carrying amount	Number of shares	Carrying amount
Issuance of Treasury shares	11,393,697	₩ 339,059	11,393,697	₩ 339,059

There is no change in gain on reissuance of treasury shares for the six-month period ended June 30, 2014 and the year ended December 31, 2013. Details of the carrying amount are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Gain on reissuance of treasury shares	₩ 492,032	₩ 492,032

20. Reserves

Details of reserves as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Available-for-sale financial assets reserve	₩ (1,263)	₩ (5,570)
Exchange differences on translating foreign operations	(53,788)	(42,472)
Legal reserve	603,145	603,145
Voluntary reserve	2,918,254	2,813,732
	<u>₩ 3,466,348</u>	<u>₩ 3,368,835</u>

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Available-for-sale financial assets reserve as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Available-for-sale financial assets reserve before tax	₩ (1,666)	₩ (7,348)
Tax effect	403	1,778
Available-for-sale financial assets reserve after tax	<u>₩ (1,263)</u>	<u>₩ (5,570)</u>

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.

Details of the Group's voluntary reserve as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Reserve for business rationalization ¹	₩ 12,851	₩ 12,851
Reserve for research and human resource development ²	42,522	90,000
Reserve for business expansion ³	698,881	698,881
Other reserve ³	2,164,000	2,012,000
	<u>₩ 2,918,254</u>	<u>₩ 2,813,732</u>

Reserve for Business Rationalization

Until December 10, 2002, under the Special Tax Treatment Control Law, investment tax credits were allowed for certain investments. The Group 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 Group was no longer required to establish a reserve for business rationalization despite tax benefits received for certain investments and, consequently, the existing balance is now regarded as a voluntary reserve.

Reserve for research and human resource development

Reserve for research and human resource development was appropriated in order to utilize certain tax deduction benefits through the early recognition of future expenditures. This reserve is restored to retained earnings in accordance with the relevant tax laws. Such reserves are taken back into taxable income in the year of restoration.

Reserve for Business Expansion and other reserve

Reserves without specific purposes are restored to retained earnings by The Group. Those reserves can be used for other purposes afterwards upon a resolution at a general meeting of shareholders.

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21. Retained Earnings

Changes in retained earnings for the six-month period ended June 30, 2014 and the year ended December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Beginning	₩	802,755	₩	976,425
Transfer to reserve for research and human resource development		47,478		-
Accumulation of other reserve		(152,000)		(317,000)
Legal reserves		-		(208)
Transfer from reserve for research and human resource development		-		(30,000)
Dividends		(402,876)		(402,876)
Profit for the period		372,523		559,304
Less: non-controlling interests		6,320		11,363
Remeasurements of the net defined benefit liability (after tax)		(641)		5,604
Less: non-controlling interests		6		143
Ending	₩	<u>673,565</u>	₩	<u>802,755</u>

22. Trade and Other Payables

Trade and other payables as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Leasehold deposits received	₩ -	₩ 25,936	₩ -	₩ 25,480
Accounts payable	71,282	-	83,073	-
Withholdings	161,007	300	144,696	343
Accrued expenses	170,575	-	169,971	-
Other payables	90,039	4,090	145,168	3,774
	₩ <u>492,903</u>	₩ <u>30,326</u>	₩ <u>542,908</u>	₩ <u>29,597</u>

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23. Borrowings

Details of borrowings as of June 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
Current				
Bank borrowings ¹	₩	52,344	₩	88,593
Other borrowings		-		7,647
Bank borrowings (Current portion of long-term borrowings)		4,774		4,305
Other borrowings (Current portion of long-term borrowings)		59		119
	₩	57,177	₩	100,664
Non-current				
Bank borrowings	₩	30,687	₩	20,279
Convertible bonds		8,366		8,546
Convertible redeemable preference shares		72,477		72,056
Redeemable preference shares		16,109		16,758
		127,639		117,639
	₩	184,816	₩	218,303

¹ Out of the above borrowings, ₩19,538 million and ₩20,492 million as of June 30, 2014 and December 31, 2013, respectively, are related to trade receivable factoring contract. In case the customers default, the Group has an obligation to pay the related amounts to the bank. As a result, this transaction, treated as a transaction with recourse, has been accounted for as a collateralized borrowing (Note 8). In addition, bank borrowings are collateralized with the Group's property, plant and equipment (Note 14).

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Details of bank borrowings as of June 30, 2014 and December 31, 2013, are as follows:

(in millions of Korean won)

Currency	Creditor	Latest maturity date	Annual interest rate(%) June 30, 2014	June 30, 2014	December 31, 2013
Korean won	National Agricultural Cooperative Federation, Korea Exchange Bank, Shinhan Bank and Korea Development Bank	Short-term Borrowings	4.87	₩ 14,978	₩ 50,720
Korean won	Citibank	Short-term Borrowings	CD(91)+1.15	15,060	15,572
Korean won	Hana Bank	Short-term Borrowings	3.4~4.58	26,275	26,300
Korean won	National Agricultural Cooperative Federation	2015-06-13	1.50	30	-
Korean won	National Agricultural Cooperative Federation	2016-07-20	1.50	720	720
Korean won	National Agricultural Cooperative Federation	2017-06-22	1.50	1,257	1,257
Korean won	National Agricultural Cooperative Federation	2018-07-02	1.50	10,002	10,002
Korean won	National Agricultural Cooperative Federation	2019-06-19	1.50	11,017	-
Korean won	Hana Bank	2017-03-31	3.19	633	744
Korean won	Korea Development Bank	2018-06-09	3.69	233	262
Korean won	Hana Bank	2017-09-06	4.58	2,600	2,600
Korean won	Hana Bank	2016-05-15	4.15	5,000	5,000
				₩ 87,805	₩ 113,177

Convertible Bond

The Group issued 9.5% convertible bonds at a par value of ₩12,410 million on December 14, 2011. The bonds will mature four years from the issue date and become convertible into shares at the rate of ₩1,199 per share.

The fair value of the liability component, included in non-current borrowings, was calculated using the market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves, net of income taxes.

Convertible Redeemable Preference Shares

The Group issued convertible redeemable preference shares at ₩18,000 million on November 19, 2011. The convertible instrument will mature ten years from the issue date. The instrument can be converted into 1,090,909 ordinary shares at any time, and automatically converts upon maturity. If KT&G Life Sciences will be not listed by the end of 2015, recourse is available.

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The Group issued convertible redeemable preferred shares at ₩26,000 million on January 9, 2012. The convertible instrument will mature five years from the issue date. The instrument can be converted into 94,079 ordinary shares at any time before maturity, and automatically converts upon maturity. If Somang Cosmetics Co., Ltd. will be not listed by the end of 2016, recourse is available.

The Group issued convertible redeemable preferred shares at ₩ 35,216 million on September 14, 2012. The convertible instrument will mature ten years from the date of establishment of QCP 2011 Corporate Partnership Private Equity Fund. The instrument can be converted into 6,978,948 ordinary shares at any time after five years from its issuance. If this SPC will not be liquidated and apportioned in ten years, recourse is available.

Redeemable Preference Shares

The Group issued redeemable preference shares at ₩ 17,761 million during 2012. Recourse will be available ten years from the date of establishment of QCP 2011 Corporate Partnership Private Equity Fund. If this SPC will not be liquidated and apportioned in ten years, recourse is available.

24. Net Defined Benefit Liability

The amounts recognized on the statements of income for the six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Defined benefit plans :				
Current service cost	₩	21,775	₩	21,690
Interest cost		5,648		4,608
Expected return on plan assets		(3,675)		(2,879)
Past service cost and gains and loss on settlement		924		-
		24,672		23,419
Defined contribution plans :				
Contributions recognized as current expense		1,311		1,132
Total	₩	25,983	₩	24,551

Termination benefits for the six-month period ended June 30, 2014, were ₩ 417 million (2013: ₩ 1,288 million). Out of total expenses, ₩ 9,091 million (2013: ₩ 8,011 million) and ₩16,892 million (2013: ₩ 16,540 million) were included in 'cost of sales' and 'selling and administrative expenses', respectively.

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Net defined benefit liability recognized on the statements of financial position as of June 30, 2014 and December 31, 2013, are as follows:

<i>(In millions of Korean won)</i>	June 30, 2014		December 31, 2013	
Present value of funded defined benefit liability	₩	303,849	₩	291,246
Present value of unfunded defined benefit liability		25,247		24,347
Fair value of plan assets		<u>(197,488)</u>		<u>(204,456)</u>
Liability in the statement of financial position	₩	<u>131,608</u>	₩	<u>111,137</u>

Plan assets as of June 30, 2014, include amounts from the previous pension plan which consist of retirement insurance of ₩ 2,139 million and contributions to the National Pension Fund of ₩179 million.

25. Operating Income and Other Income

Material items of operating income and expense

Operating income is calculated as gross profit net of selling and administrative expenses and other income and expenses were excluded.

Employee benefit costs for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Three months	Six months	Three months	Six months
Salaries	₩ 117,104	₩ 242,934	₩ 122,643	₩ 243,812
Retirement benefits	13,117	25,983	12,266	24,551
Termination benefits	194	463	1,168	1,658
Employee welfare	<u>16,606</u>	<u>30,449</u>	<u>17,479</u>	<u>31,244</u>
	₩ 147,021	₩ 299,829	₩ 153,556	₩ 301,265

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Selling and administrative expenses for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Salaries	₩ 79,621	₩ 162,821	₩ 79,830	₩ 159,406
Retirement and termination benefits	8,404	17,115	8,992	17,617
Employee welfare	12,047	21,670	12,208	21,706
Travel	2,800	5,261	3,309	5,681
Communications	1,370	2,788	1,368	2,749
Utilities	1,782	4,621	1,878	4,923
Taxes and dues	8,804	12,854	3,952	9,242
Supplies	855	1,667	786	1,622
Rent	5,925	12,758	7,057	13,705
Depreciation	11,434	22,735	11,740	23,570
Amortization	3,226	6,462	3,220	6,419
Repairs and maintenance	2,641	3,412	1,972	2,698
Vehicles	2,154	4,587	2,910	5,699
Insurance	496	906	408	860
Commissions	49,495	101,594	47,582	97,166
Freight and custody	11,936	23,322	8,467	19,101
Conferences	865	1,827	1,016	2,089
Advertising	50,575	105,975	57,842	122,684
Training	1,813	3,138	1,658	3,048
Prizes and rewards	314	871	488	904
Cooperation	367	547	214	412
Normal research and development	8,484	16,822	8,050	13,755
Bad debts expense	(2,379)	(1,400)	(188)	170
	₩ 263,029	₩ 532,353	₩ 264,759	₩ 535,226

Details of other income for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Foreign currency transaction gain	₩ 1,575	₩ 4,537	₩ 8,037	₩ 12,997
Foreign currency translation gain	-	6,600	20,659	49,717
Reversal of impairment loss on other receivables	1	13	-	-
Gain on disposal of property, plant and equipment	306	1,249	5,302	10,895
Gain on disposal of intangible assets	-	54	-	-
Miscellaneous revenues	4,280	7,487	1,886	7,482
	₩ 6,162	₩ 19,940	₩ 35,884	₩ 81,091

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Details of other expenses for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Foreign currency transaction loss	₩ 6,747	₩ 8,879	₩ 7,328	₩ 10,222
Foreign currency translation loss	39,791	38,719	1,164	4,998
Donations	2,030	8,321	6,530	6,953
Loss on disposal of property, plant and equipment	775	1,795	1,801	1,958
Loss on disposal of intangible assets	-	17	41	41
Impairment loss on intangible assets	-	19	-	-
Miscellaneous expenses	2,122	9,294	4,850	8,020
Other bad debt expenses	-	-	-	16
	₩ 51,465	₩ 67,044	₩ 21,714	₩ 32,208

26. Expenses by Nature

Expenses by nature for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Changes in inventories	₩ 103,719	₩ 183,190	₩ 54,040	₩ 59,332
Raw materials and consumables purchased	248,931	487,433	291,231	557,646
Salary and wage	117,298	243,397	123,811	245,470
Retirement and termination benefits	13,580	26,446	12,266	24,551
Depreciation charges	37,402	74,660	42,392	84,266
Amortization charges	3,373	6,609	3,220	6,419
Employee benefits	16,606	30,449	17,479	31,244
Advertising costs	50,627	106,052	57,902	122,760
Service fees	60,851	121,410	54,326	110,351
Other expenses	53,643	129,906	9,149	70,988
Total cost of sales and administrative expenses ¹	₩ 706,030	₩ 1,409,552	₩ 665,816	₩ 1,313,027

¹ The amount represents the sum of cost of sales and selling and administrative expenses in the separate statements of comprehensive income.

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27. Finance Income and Costs

Finance income and costs for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Financial income				
Interest income	₩ 8,614	₩ 18,471	₩ 7,088	₩ 16,451
Dividend income	2,101	5,198	1,340	4,666
Gain on valuation of derivative instruments	-	-	62	52
Gain on transactions of derivative instruments	-	-	142	142
Investment income on long-term deposits in MSA Escrow Fund	27	325	-	218
	<u>10,742</u>	<u>23,994</u>	<u>8,632</u>	<u>21,529</u>
Finance costs				
Interest costs	(2,579)	(5,260)	(2,925)	(5,982)
Impairment loss of available-for-sale financial assets	-	-	(3,000)	(15,000)
Loss on valuation of derivative instruments	-	(14)	-	-
	<u>(2,579)</u>	<u>(5,274)</u>	<u>(5,925)</u>	<u>(20,982)</u>
Net finance income	<u>₩ 8,163</u>	<u>₩ 18,720</u>	<u>₩ 2,707</u>	<u>₩ 547</u>

Details of interest costs for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Borrowings	₩ (1,128)	₩ (2,212)	₩ (928)	₩ (2,333)
Trade and other payables	(905)	(1,916)	(1,097)	(2,554)
Others	(547)	(1,132)	(900)	(1,095)
	<u>₩ (2,580)</u>	<u>₩ (5,260)</u>	<u>₩ (2,925)</u>	<u>₩ (5,982)</u>

Details of interest income for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Deposits	₩ 6,451	₩ 14,079	₩ 5,367	₩ 13,035
Available-for-sale financial assets	20	44	8	15
Trade and other receivables	2,143	4,349	1,713	3,401
	<u>₩ 8,614</u>	<u>₩ 18,472</u>	<u>₩ 7,088</u>	<u>₩ 16,451</u>

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28. Income Tax

Income tax expense was calculated based on the best weighted average annual corporate tax rate for the entire fiscal period. Estimated average annual tax rate of the year ending December 31, 2014, is 28.3%. (The estimated tax rate for the six-month period ended June 30, 2013, was 28.5%).

29. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Group and held as treasury shares (Note 19).

Basic earnings per ordinary share for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in Korean won, except number of shares)</i>	2014		2013	
	Three months	Six months	Three months	Six months
Profit for the period	₩ 186,786 million	₩ 378,842 million	₩ 195,135 million	₩ 398,234 million
Weighted-average number of ordinary shares outstanding	<u>125,898,800</u>	<u>125,898,800</u>	<u>125,898,800</u>	<u>125,898,800</u>
Basic and diluted earnings per share (in won)	<u>₩ 1,484</u>	<u>₩ 3,009</u>	<u>₩ 1,550</u>	<u>₩ 3,163</u>

30. Dividends

Dividend distribution to the Group's shareholders amounting to ₩ 402,876 million for the year ended December 31, 2013, was made as of June 30, 2014.

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31. Cash Generated from Operations

Cash generated from operations for the six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Profit	₩	372,523	₩	391,027
Adjustments for				
Income tax expense		147,175		155,916
Finance costs		5,274		20,982
Finance income		(23,994)		(21,529)
Depreciation		74,660		84,266
Amortization		6,609		6,419
Retirement and termination benefits		24,665		23,457
Foreign currency translations loss		38,719		4,998
Loss on valuation of inventories		1,509		1,090
Bad debt expenses on trade and other receivables		-		186
Loss on sale of property, plant and equipment		1,795		1,958
Loss on sale of intangible assets		17		41
Impairment loss on intangible assets		19		-
Other expenses		3,239		6,024
Share of gain of associates		(1,682)		(1,082)
Share of loss of associates		-		1,098
Foreign currency translations gain		(6,600)		(49,717)
Reversal of allowance for doubtful accounts		(1,414)		-
Reversal of loss on valuation of inventories		(1,236)		-
Gain on sale of property, plant and equipment		(1,249)		(10,895)
Gain on sale of intangible assets		(54)		-
		<u>639,975</u>		<u>614,239</u>
Changes in working capital:				
Decrease(increase) in trade and other receivables		(21,074)		10,751
Increase in advance payments		(47,145)		(79,264)
Increase in prepaid expenses		(3,900)		(4,028)
Decrease in prepaid tobacco excise and other taxes		9,793		2,160
Decrease in inventories		165,974		63,763
Increase(decrease) in trade and other payables		(65,937)		40,578
Decrease in advance receipts		(14,764)		(2,760)
Increase in tobacco excise and other taxes payable		58,890		224,403
Payment of retirement benefits		(5,278)		(3,229)
Cash generated from operations	₩	<u>716,534</u>	₩	<u>866,613</u>

Non-cash transactions

<i>(in millions of Korean won)</i>	2014	
Reclassification of construction-in-progress to property, plant and equipment	₩	22,837

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32. Contingencies and Commitments

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.

As of June 30, 2014, the Group is involved in a lawsuit as a plaintiff claiming damages in relation to the development of Yongsan area with other companies. The aggregate litigation amount for this case amounts to ₩ 240,000 million, and the litigation amount of the Group is ₩ 5,136 million. Additionally, as of June 30, 2014, the Group is involved in three lawsuits as a plaintiff for alleged damages totaling ₩ 5,986 million.

As of June 30, 2014, tobacco lawsuits claiming damages of ₩ 100 million are filed against the Group and the Korean government. The amount of the liability with respect to the litigation cannot be reasonably estimated as of June 30, 2014. Additionally, as of June 30, 2014, the Group is involved in 15 lawsuits as a defendant for alleged damages totaling ₩ 57,037 million.

National Health Insurance Service filed a lawsuit seeking ₩ 53,742 million in damages against the Group on April 14, 2014.

As of June 30, 2014, the Group has letter of credit agreements with Korea Exchange Bank and other banks with limits in the aggregate of USD 61,500 thousand.

As of June 30, 2014, the Group's trade receivables from the export of cigarettes are insured against non-payment up to USD 15,400 thousand by an export guarantee insurance with the Korea Export Insurance Corporation.

As of June 30, 2014, the Group has been provided with a foreign currency payment guarantee for local dealers in Russia and other countries and also for an opening of L/C up to USD 40,000 thousand by Korea Exchange Bank and others. In addition, the Group provides Customs Bond with limits in the aggregate of USD 12,030 thousand to Korea Exchange Bank, regarding an opening of L/C for import and customs with relation to a subsidiary located in U.S.A (Global Trading Inc.).

The Group also provides Performance Bond with limits in the aggregate of THB 4,302 thousand in relation to an opening of L/C for export of tobacco sheet for Thailand Tobacco Monopoly, and payment guarantee with limits in the aggregate of IDR 63,287,756 thousand in relation to purchase of certificate stamp of tobacco of Trisakti Purwosari, as of June 30, 2014.

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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 ₩ 221,896 million (non-current: ₩ 138,881 million (December 31, 2013: ₩ 138,699 million) ; current: ₩ 83,015 million (December 31, 2013: ₩ 42,998 million) as of June 30, 2014.

As of June 30, 2014, the Group has an accounts receivable loan agreement with a limit of ₩ 64,053 million with Hana Bank and other financial institutions.

As of June 30, 2014, the Group has a trade bill loan agreement with a limit of ₩ 10,000 million with Korea Exchange Bank and other financial institutions.

As of June 30, 2014, the Group has a loan agreement with a limit of ₩ 185,665 million with Shinhan Bank and other financial institutions.

As of June 30, 2014, the Group has provided two blank notes, 10 notes amounting to ₩ 8,300 million and three blank checks to NARA CREDIT and others as collateral for its borrowings and trade agreements. As of June 30, 2014, the Group lost one blank note, one blank check and five notes amounting to ₩ 4,300 million, and expects to proceed a judgment of nullification. For the reporting period, the Group collected five pledged note and checks from Daihan Investment Banking Corporation.

As of June 30, 2014, the Group and 28 other companies are guaranteed ₩ 240,000 million by Seoul Guarantee Insurance Co., Ltd. related to the Yongsan International Commercial Development Project. Seoul Guarantee Insurance Co., Ltd. can request amounts for recourse to the Company and 28 other companies based on their ownership rate, if Seoul Guarantee Insurance Co., Ltd. paid the insurance proceeds to KORAIL. As KORAIL requested the corresponding payment to Seoul Guarantee Insurance Co., Ltd. during the reporting period, the Group paid the maximum amount ₩ 5,136 million on July 31, 2013 and recognized the amount as prior period expenses.

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. Following this MOU, the Group entered into a joint investment agreement with Q Capital Partners Co., Ltd., which is a general partner of private equity fund, on November 11, 2011.

Relative 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 ("the Individual Shareholder"). Details of the contract are as follows:

1) Conditional put option granted to the 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:

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-Somang Cosmetics Co., Ltd. satisfies all the listing requirements.

-Notwithstanding the written request of the 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 acquires Somang Cosmetics Co., Ltd.

2) Right of first refusal held by the Parent Company

The Individual shareholder shall not be permitted to make any transfer of its shares, in whole or in part, unless the Individual Shareholder has offered them first to the Parent Company.

3) 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 the Individual Shareholder shall elect to participate in such disposition upon the terms and conditions no less favorable than those applicable to the Parent Company.

In relation to the acquisition of Mazence, Inc., the Parent Company entered into a contract with a former owner of the acquiree, Gwak Tae-Hwan ("Individual Shareholder"). Details of the contract are as follows:

1) Restriction of disposal

The Individual shareholder shall not be permitted to dispose of its shares, in whole or in part, within one year after Mazence, Inc. is listed.

2) Right of first refusal held by the Parent Company

The Individual shareholder shall not be permitted to make any transfer of its shares, in whole or in part, unless the Individual Shareholder has offered them first to the Parent Company.

3) Tag-along right held by the Individual Shareholder

In the event that the Parent Company proposes to enter into a transaction or a series of related transactions with a third party purchaser to dispose of its shares, then the Individual Shareholder shall elect to participate in such disposition upon the terms and conditions no less favorable than those applicable to the Parent Company.

Upon the resolution of the Board of Directors on January 23, 2013, the Parent Company guarantees the principal and the related interest that buyers of Andong Central Xi Apartment have borrowed from the National Agricultural Cooperative Federation, as of June 30, 2014. The amount of guarantee is ₩152,263 million and the guarantee will expire on June 30, 2015.

As of June 30, 2014, the Parent Company is insured against non-payment to customs duty up to ₩5,000 million by tax bond insurance with the Seoul Guarantee Insurance, and the Group is insured by performance bond insurance up to ₩4,272 million with the Seoul Guarantee Insurance.

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

33. Related Party Transactions

The Group has no significant transactions and receivables, liabilities with related parties, for the six-month period ended June 30, 2014.

There is no guarantee being provided by related parties as of June 30, 2014

The compensation paid or payable to key management for employee services for three-month and six-month periods ended June 30, 2014 and 2013, consists of:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Short-term employee benefits	₩ 5,924	₩ 11,297	₩ 6,853	₩ 13,771
Retirement benefits	677	1,701	646	1,285
	<u>₩ 6,601</u>	<u>₩ 12,998</u>	<u>₩ 7,499</u>	<u>₩ 15,056</u>

34. Basis of Translating Financial Statements

The financial statements are expressed in Korean won and have been translated into U.S. dollars at the rate of ₩ 1014.40 to US\$1, the basic exchange rate on June 30, 2014, posted by Seoul Money Brokerage Services, solely for the convenience of the reader. This translation should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.