

KT&G Corporation and Subsidiaries

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

KT&G Corporation and Subsidiaries
Index
September 30, 2014 and 2013

	Page(s)
Report on Review of Interim Financial Statements	1 - 2
Interim Consolidated Financial Statements	
Interim Consolidated Statements of Financial Position	3
Interim Consolidated Statements of Comprehensive Income.....	4 - 5
Interim Consolidated Statements of Changes in Equity	6 - 7
Interim Consolidated Statements of Cash Flows	8
Notes to the Interim Consolidated Financial Statements.....	9 - 61



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 September 30, 2014, and the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2014 and 2013, and the statements of changes in equity and cash flows for the nine-month periods ended September 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 nine-month period ended September 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
November 13, 2014

The report is effective as of November 13, 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
September 30, 2014 and 2013

<i>(in millions of Korean won and thousands of U.S. dollars)</i>	Notes	September 30, 2014 Korean won	September 30, 2014 U.S. dollars (Note 34)	December 31, 2013 Korean won
Assets				
Non-current assets				
Property, plant and equipment	10,14	₩ 1,657,326	\$ 1,577,504	₩ 1,622,289
Intangible assets	11	222,914	212,178	232,630
Investment property	12,14	169,366	161,209	173,975
Investments in associates	5,15	58,419	55,605	58,076
Available-for-sale financial assets	6,7	330,340	314,430	296,601
Other financial assets	6,17	1,654	1,574	1,740
Long-term deposits in MSA Escrow Fund	6,9,32	270,794	257,751	219,760
Long-term advance payments	32	172,272	163,975	140,692
Long-term prepaid expenses		4,994	4,754	5,966
Long-term trade and other receivables	6,8	97,994	93,274	108,898
Deferred income tax assets	28	28,551	27,176	25,731
		<u>3,014,624</u>	<u>2,869,430</u>	<u>2,886,358</u>
Current assets				
Inventories	16	1,683,759	1,602,664	1,893,853
Other financial assets	6,17	665,677	633,616	684,132
Prepaid tobacco excise and other taxes		378,523	360,292	262,769
Trade and other receivables	6,8	1,053,540	1,002,798	915,618
Advance payments	32	103,324	98,347	65,007
Prepaid expenses		19,389	18,456	19,135
Cash and cash equivalents	6,17	486,203	462,786	347,933
		<u>4,390,415</u>	<u>4,178,959</u>	<u>4,188,447</u>
Assets held for sale	5,13	-	-	153
		<u>-</u>	<u>-</u>	<u>153</u>
Total assets		<u>₩ 7,405,039</u>	<u>\$ 7,048,389</u>	<u>₩ 7,074,958</u>
Equity				
Capital stock	1,18	₩ 954,959	\$ 908,966	₩ 954,959
Other capital surplus		(4,572)	(4,352)	(4,572)
Treasury shares	19	(339,059)	(322,729)	(339,059)
Gain on reissuance of treasury shares	19	492,032	468,334	492,032
Reserve	20	3,462,598	3,295,829	3,368,835
Retained earnings	21	942,702	897,298	802,755
		<u>5,508,660</u>	<u>5,243,346</u>	<u>5,274,950</u>
Equity attributable to equity holders of the Company		<u>5,508,660</u>	<u>5,243,346</u>	<u>5,274,950</u>
Non-controlling interests		<u>81,867</u>	<u>77,924</u>	<u>90,531</u>
Total equity		<u>5,590,527</u>	<u>5,321,270</u>	<u>5,365,481</u>
Liabilities				
Non-current liabilities				
Long-term borrowings	6,23	132,331	125,957	117,639
Long-term trade and other payables	6,22	30,200	28,746	29,597
Long-term advance receipts		16,337	15,550	18,837
Net defined benefit liability	24	141,584	134,765	111,137
Provisions for other liabilities and charges		2,809	2,673	2,981
Deferred income tax liabilities	28	273,503	260,330	247,043
		<u>596,764</u>	<u>568,021</u>	<u>527,234</u>
Current liabilities				
Borrowings	6,23	65,041	61,908	96,240
Current portion of long-term borrowings	6,23	5,038	4,795	4,424
Trade and other payables	6,22	515,849	491,005	542,908
Advance receipts		14,543	13,843	28,077
Income taxes payable	28	164,713	156,780	156,277
Tobacco excise and other taxes payable		452,564	430,767	354,317
		<u>1,217,748</u>	<u>1,159,098</u>	<u>1,182,243</u>
Total liabilities		<u>1,814,512</u>	<u>1,727,119</u>	<u>1,709,477</u>
Total liabilities and equity		<u>₩ 7,405,039</u>	<u>\$ 7,048,389</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 September 30, 2014 and 2013

(in millions of Korean won and thousands of U.S. dollars, except per share amounts)	Notes	Period Ended September 30		
		2014 Korean won	2014 U.S. dollars (Note 34)	2013 Korean won
Sales	5	₩ 1,106,452	\$ 1,053,162	₩ 1,024,031
Cost of sales	26	(484,878)	(461,525)	(458,665)
Gross profit		621,574	591,637	565,366
Selling and administrative expenses	25,26	(283,345)	(269,698)	(272,388)
Operating income		338,229	321,939	292,978
Other income	25	39,823	37,905	13,029
Other expenses	25	(10,086)	(9,600)	(116,885)
Net other income(expenses)		29,737	28,305	(103,856)
Finance income	27	11,025	10,494	10,312
Finance expense	27	(2,783)	(2,649)	(2,983)
Net finance income		8,242	7,845	7,329
Income from jointly controlled entities and associates	15	726	691	1,299
Expense from jointly controlled entities and associates	15	-	-	(98)
Profit before income tax		376,934	358,780	197,652
Income tax expense	28	(110,069)	(104,768)	(108,201)
Profit for the period		₩ 266,865	\$ 254,012	₩ 89,451
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)	₩ (136)	₩ (2,753)
Items that will be reclassified subsequently to profit or loss:				
Change in value of available-for-sale financial assets	7	6,516	6,202	18,730
Loss on currency translation of foreign operations		(10,052)	(9,568)	(19,495)
Other comprehensive loss for the period, net of tax		(3,679)	(3,502)	(3,518)
Total comprehensive income for the period		₩ 263,186	\$ 250,510	₩ 85,933
Profit for the period attributable to:				
Equity holders of the Parent Company		₩ 269,278	\$ 256,309	₩ 92,694
Non-controlling interests		(2,414)	(2,298)	(3,243)
		₩ 266,864	\$ 254,011	₩ 89,451
Total comprehensive income for the period attributable to:				
Equity holders of the Parent Company		₩ 265,387	\$ 252,605	₩ 92,304
Non-controlling interests		(2,201)	(2,095)	(6,371)
		₩ 263,186	\$ 250,510	₩ 85,933
Earnings per share attributable to the equity holders of the Parent Company during the period (in won)				
Basic and diluted earnings per share	29	₩ 2,139	\$ -	₩ 736

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

(in millions of Korean won and thousands of U.S. dollars, except per share amounts)	Notes	Period Ended September 30		
		2014 Korean won	2014 U.S. dollars (Note 34)	2013 Korean won
Sales	5	₩ 3,062,403	\$ 2,914,909	₩ 2,834,588
Cost of sales	26	(1,362,077)	(1,296,475)	(1,236,466)
Gross profit		1,700,326	1,618,434	1,598,122
Selling and administrative expenses	25,26	(815,698)	(776,412)	(807,614)
Operating income		884,628	842,022	790,508
Other income	25	38,262	36,419	51,745
Other expenses	25	(55,628)	(52,949)	(106,719)
Net other expenses		(17,366)	(16,530)	(54,974)
Finance income	27	35,019	33,332	31,788
Finance expense	27	(8,058)	(7,669)	(23,913)
Net finance income		26,961	25,663	7,875
Income from jointly controlled entities and associates	15	2,408	2,292	2,381
Expense from jointly controlled entities and associates	15	-	-	(1,196)
Profit before income tax		896,631	853,447	744,594
Income tax expense	28	(257,244)	(244,855)	(264,116)
Profit for the period		₩ 639,387	\$ 608,592	₩ 480,478
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	₩ (784)	₩ (747)	₩ (1,720)
Items that will be reclassified subsequently to profit or loss:				
Change in value of available-for-sale financial assets	7	10,823	10,302	13,674
Loss on currency translation of foreign operations		(21,558)	(20,520)	(12,067)
Other comprehensive loss for the period, net of tax		(11,519)	(10,965)	(113)
Total comprehensive income for the period		₩ 627,868	\$ 597,627	₩ 480,365
Profit for the period attributable to:				
Equity holders of the Parent Company		₩ 648,121	\$ 616,905	₩ 490,928
Non-controlling interests		(8,734)	(8,313)	(10,450)
Total comprehensive income for the period attributable to:		₩ 639,387	\$ 608,592	₩ 480,478
Equity holders of the Parent Company		₩ 636,586	\$ 605,926	₩ 492,768
Non-controlling interests		(8,718)	(8,298)	(12,403)
Total comprehensive income for the period attributable to:		₩ 627,868	\$ 597,628	₩ 480,365
Earnings per share attributable to the equity holders of the Parent Company during the period (in won)				
Basic and diluted earnings per share	29	₩ 5,148	\$ -	₩ 3,899

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KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Changes in Equity
Nine-Month Periods Ended September 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	₩ (4,572)	₩ (339,059)	₩ 492,032	₩ 3,011,109	₩ 976,425	₩ 5,090,894	₩ 103,524	₩ 5,194,417
Total comprehensive income									
Profit for the period (loss)	-	-	-	-	-	490,928	490,928	(10,450)	480,478
Change in value of available-for-sale financial assets	-	-	-	-	13,674	-	13,674	-	13,674
Loss on currency translation of foreign operations	-	-	-	-	(9,667)	-	(9,667)	(2,400)	(12,067)
Remeasurements of the net defined benefit liability	-	-	-	-	-	(2,167)	(2,167)	447	(1,720)
Total comprehensive income (loss)	-	-	-	-	4,007	488,761	492,768	(12,403)	480,365
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	-	-	-	-	-	-	-	868	868
Total transactions with equity holders of the Company	-	-	-	-	347,000	(749,876)	(402,876)	868	(402,008)
Balance at September 30, 2013	₩ 954,959	₩ (4,572)	₩ (339,059)	₩ 492,032	₩ 3,362,116	₩ 715,309	₩ 5,180,786	₩ 91,989	₩ 5,272,774
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 (loss)	-	-	-	-	-	648,121	648,121	(8,734)	639,387
Change in value of available-for-sale financial assets	-	-	-	-	10,823	-	10,823	-	10,823
Gain (loss) on currency translation of foreign operations	-	-	-	-	(21,582)	-	(21,582)	24	(21,558)
Remeasurements of the net defined benefit liability	-	-	-	-	-	(776)	(776)	(8)	(784)
Total comprehensive income (loss)	-	-	-	-	(10,759)	647,345	636,586	(8,718)	627,868
Transactions with equity holders of the Parent Company									
Cash dividends	-	-	-	-	-	(402,876)	(402,876)	-	(402,876)
Reserve for research and human resource development	-	-	-	-	152,000	(152,000)	-	-	-
Other reserve	-	-	-	-	(47,478)	47,478	-	-	-
Others	-	-	-	-	-	-	-	54	54
Total transactions with equity holders of the Company	-	-	-	-	104,522	(507,398)	(402,876)	54	(402,822)
Balance at September 30, 2014	₩ 954,959	₩ (4,572)	₩ (339,059)	₩ 492,032	₩ 3,462,598	₩ 942,702	₩ 5,508,660	₩ 81,867	₩ 5,590,527

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
Nine-Month Period Ended September 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	\$ 908,966	\$ (4,352)	\$ (322,729)	\$ 468,334	\$ 3,206,582	\$ 764,092	\$ 5,020,893	\$ 86,171	\$ 5,107,064
Total comprehensive income									
Profit for the period	-	-	-	-	-	616,905	616,905	(8,313)	608,592
Change in value of available-for-sale financial assets	-	-	-	-	10,302	-	10,302	-	10,302
Gain (loss) on currency translation of foreign operations	-	-	-	-	(20,542)	-	(20,542)	22	(20,520)
Remeasurements of the net defined benefit liability	-	-	-	-	-	(740)	(740)	(8)	(748)
Total comprehensive income (loss)	-	-	-	-	(10,240)	616,165	605,925	(8,299)	597,626
Transactions with equity holders of the Parent Company									
Cash dividends	-	-	-	-	-	(383,472)	(383,472)	-	(383,472)
Reserve for research and human resource development	-	-	-	-	144,679	(144,679)	-	-	-
Other reserve	-	-	-	-	(45,192)	45,192	-	-	-
Others	-	-	-	-	-	-	-	52	52
Total transactions with equity holders of the Company	-	-	-	-	99,487	(482,959)	(383,472)	52	(383,420)
Balance at September 30, 2014	\$ 908,966	\$ (4,352)	\$ (322,729)	\$ 468,334	\$ 3,295,829	\$ 897,298	\$ 5,243,346	\$ 77,924	\$ 5,321,270

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KT&G Corporation and Subsidiaries
Interim Consolidated Statements of Cash Flows
Nine-Month Periods Ended September 30, 2014 and 2013

(in millions of Korean won
and thousands of U.S. dollars)

	Notes	2014 Korean won	2014 U.S. dollars (Note 34)	2013 Korean won
Cash flows from operating activities				
Cash generated from operations	31	₩ 951,461	\$ 905,636	₩ 840,756
Income tax paid		(229,086)	(218,053)	(240,022)
Net cash generated from operating activities		<u>722,375</u>	<u>687,583</u>	<u>600,734</u>
Cash flows from investing activities				
Interest received		25,597	24,362	26,996
Investment income received from long-term deposits in MSA Escrow Fund		1,107	1,054	845
Dividends received		7,536	7,173	6,889
Proceeds from sale of property, plant and equipment		6,254	5,953	5,537
Proceeds from sale of intangible assets		130	124	311
Proceeds from sale of non-current asset held for sale		63	60	7,471
Proceeds from sale of available-for-sale financial assets		10,039	9,556	-
Decrease in loans		9,955	9,476	9,447
Decrease in guarantee deposits		23,706	22,565	17,423
Decrease in derivatives		-	-	244
Decrease in other financial assets		16,972	16,155	475,619
Acquisition of property, plant and equipment		(155,203)	(147,728)	(113,400)
Acquisition of intangible assets		(1,369)	(1,303)	(3,081)
Acquisition of investment property		(103)	(98)	(1,422)
Acquisition of available-for-sale financial assets		(25,210)	(23,996)	-
Increase in loans		(331)	(315)	(20,452)
Increase in guarantee deposits		(21,202)	(20,181)	(18,276)
Increase in long-term deposits in MSA Escrow Fund		(52,036)	(49,530)	(41,772)
Net cash provided by(used in) investing activities		<u>(154,095)</u>	<u>(146,673)</u>	<u>352,379</u>
Cash flows from financing activities				
Interest paid		(1,500)	(1,427)	(5,058)
Dividends paid	30	(402,876)	(383,472)	(402,876)
Proceeds from borrowings		103,869	98,866	111,943
Increase in deposits received		2,425	2,308	3,316
Repayments of borrowings		(129,345)	(123,115)	(120,595)
Decrease in deposits received		(2,535)	(2,413)	(3,269)
Net cash used in financing activities		<u>(429,962)</u>	<u>(409,253)</u>	<u>(416,539)</u>
Net increase in cash and cash equivalents		138,318	131,657	536,574
Cash and cash equivalents at the beginning of period		347,933	331,175	372,260
Exchange losses on cash and cash equivalents		(48)	(46)	(99)
Cash and cash equivalents at the end of period		<u>₩ 486,203</u>	<u>\$ 462,786</u>	<u>₩ 908,735</u>

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KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 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 September 30, 2014, the Parent Company has three manufacturing plants, including the Shintanjin plant, and 14 local headquarters and 131 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.

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

The ownership of the Parent Company's issued ordinary shares as of September 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	2,483,393	1.81%
Others	113,904,922	82.96%
	125,898,800	91.70%
Treasury shares	11,393,697	8.30%
	137,292,497	100.00%

The Parent Company's consolidated subsidiaries as of September 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
	KGC Yebon	Korea	100.00
	K-Q HongKong I, Limited ⁴	Hong Kong	100.00
	PT KT&G Indonesia	Indonesia	99.98
	Renzoluc Pte., Ltd.	K&I HK Co., Ltd	Hong Kong
K&I HK China Co., Ltd.		Hong Kong	100.00
PT Trisakti Purwosari Makmur	PT Trisakti Purwosari Makmur	Indonesia	60.17
	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 September 30, 2014, the Group's percentage of ownership would be 50.00% if

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

convertible preferred shares are included.

² The Parent Company's percentage of ownership, shown above, excludes convertible preferred shares. As of September 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 September 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 September 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 September 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	₩ 1,565,536	₩ 176,176	₩ 637,140	₩ 80,184	₩ 80,598
Yungjin Pharm. Ind. Co., Ltd.	171,771	69,883	121,656	(539)	(556)
Tae-a industry Co., Ltd.	13,785	3,495	11,406	587	580
KT&G Tutun Mamulleri Sanayive Ticaret A.S.	40,057	34,703	10,748	(1,752)	(2,231)
Korea Tabacos do Brasil Ltda.	1,099	11	-	-	-
KT&G Pars	23,667	44,516	4,063	712	749
KT&G Rus L.L.C.	130,782	41,022	41,504	6,128	(12,025)
KGC Life & Gin Co., Ltd	28,977	7,284	32,074	(5,527)	(5,539)
Global Trading, Inc.	36,761	24,869	186,645	3,495	3,490
Jilin Hanzheng Ginseng Co., Ltd.	76,967	44,000	245	(4,249)	(5,166)
Somang Cosmetics Co., Ltd.	58,782	66,677	53,325	(9,023)	(9,023)
Renzoluc Pte., Ltd.	98,002	48,170	-	64	(158)
KT&G Life science	29,684	16,633	351	(5,491)	(5,491)
KGC Yebon	49,840	2,958	4,909	(40)	(67)
PT Trisakti Purwosari Makmur	86,190	63,645	25,254	(3,357)	(3,292)
Cheong Kwan Jang Taiwan Corporation	15,933	13,825	13,227	412	507
Korean Red Ginseng Corp., Inc.	8,734	5,725	9,039	(153)	(168)
Korea Ginseng (China) Corp.	50,075	43,128	21,633	(3,100)	(3,359)
Korea Ginseng Corporation Japan	4,424	3,581	6,744	110	70
K-Q HongKong I, Limited	37,288	-	-	716	558
PT CKJ INDONESIA	1,671	1,596	3,589	(271)	(264)
PT KT&G Indonesia	8,821	13,955	5,492	(6,095)	(6,173)
PT Mandiri Maha Mulia	9,991	6,040	4,571	62	55
K&I HK Co., Ltd	252	263	242	(22)	(22)
K&I HK China Co., Ltd.	36	48	24	(44)	(44)

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

For the nine-month period ended September 30, 2014, K&I HK Co., Ltd. and K&I China Co., Ltd. were included in the consolidation and Yebon Nongwon Agriculture Co., Ltd. was excluded from the consolidation as a result of liquidation.

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 nine-month period ended September 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 September 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.

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

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(a) 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.

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

(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.

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

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.

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

(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 ₩ 251,425 million and ₩ 316,168 million as of September 30, 2014 and December 31, 2013, respectively.

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

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.

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

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(a) 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.

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

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.

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

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.

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

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.

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

(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 nine-month periods ended September 30, 2014 and 2013, were ₩ 2,750,938 million and ₩ 2,742,507 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

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

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

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

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.

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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 September 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2014			December 31, 2013		
	USD	EUR	JPY and Others	USD	EUR	JPY and Others
Assets						
Cash and cash equivalents	₩ 26,840	₩ 3	₩ 7	₩ 17,191	₩ 30	₩ 468
Trade and other receivables	540,059	23,768	4,797	365,453	1,605	2,479
Long-term deposits	270,794	-	-	219,760	-	-
	<u>₩ 837,693</u>	<u>₩ 23,771</u>	<u>₩ 4,804</u>	<u>₩ 602,404</u>	<u>₩ 1,635</u>	<u>₩ 2,947</u>
Liabilities						
Trade and other payables	₩ 1,379	₩ -	₩ -	₩ 56,514	₩ 11,564	₩ 1,030
Short-term borrowings	54,929	12,599	3,074	1,386	-	-
	<u>₩ 56,308</u>	<u>₩ 12,599</u>	<u>₩ 3,074</u>	<u>₩ 57,900</u>	<u>₩ 11,564</u>	<u>₩ 1,030</u>

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

As of September 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>	September 30, 2014		December 31, 2013	
	10% strengthening	10% weakening	10% strengthening	10% weakening
US dollar	₩ 78,138	₩ (78,138)	₩ 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 September 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>	September 30, 2014		December 31, 2013	
	5% increase	5% decrease	5% increase	5% decrease
Other comprehensive income before tax	₩ 8,441	₩ (8,441)	₩ 6,811	₩ (6,811)
Tax effect	(2,043)	2,043	(1,648)	1,648
Other comprehensive income after tax	₩ 6,398	₩ (6,398)	₩ 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 September 30, 2014 and December 31, 2013, the amount of borrowings issued at variable rates is ₩ 70,254 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.

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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

<i>(in millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Available-for-sale financial assets	₩	2,596	₩	2,702
Long-term deposits in MSA Escrow Fund		270,794		219,760
Trade and other receivables		1,151,534		1,024,516
Other financial assets		667,331		685,872
Cash and cash equivalents		486,203		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 by a residual contractual maturity of financial liabilities as of September 30, 2014 and December 31, 2013, is as follows:

<i>(in millions of Korean won)</i>	September 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	₩ 371,590	₩ 374,005	₩ 315,440	₩ 26,565	₩ 32,000	₩ -
Short-term borrowings	65,041	63,082	41,607	21,475	-	-
Long-term borrowings	132,331	139,562	171	514	137,926	951
Current portion of long-term borrowings	5,038	5,215	4,185	1,030	-	-
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.

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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 September 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>	September 30, 2014		December 31, 2013	
Total borrowings	₩	202,410	₩	218,303
Less:				
Cash and cash equivalents		(486,203)		(347,933)
Other financial assets, current		(665,677)		(684,132)
Net debt(asset)		(949,470)		(813,762)
Equity attributable to owners of the parent	₩	<u>5,590,527</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 nine-month period ended September 30, 2014.

(a) Fair Value of Financial Instruments by Category

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

<i>(in millions of Korean won)</i>	September 30, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Available-for-sale financial assets, non-current ¹	₩ 310,643	₩ 310,643	₩ 279,797	₩ 279,797
Other financial assets, non-current	1,654	1,654	1,740	1,740
Long-term deposit	270,794	270,794	219,760	219,760
Long-term trade and other receivables	97,994	97,994	108,898	108,898
Other financial assets, current	665,677	665,677	684,132	684,132
Trade and other receivables	1,053,540	1,053,540	915,618	915,618
Cash and cash equivalents	486,203	486,203	347,933	347,933
	<u>₩ 2,886,505</u>	<u>₩ 2,886,505</u>	<u>₩ 2,557,878</u>	<u>₩ 2,557,878</u>

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

(in millions of Korean won)

	September 30, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Long-term borrowings	₩ 132,331	₩ 132,331	₩ 117,639	₩ 117,639
Long-term trade and other payables	29,922	29,922	29,254	29,254
Short-term borrowings	65,041	65,041	96,240	96,240
Current portion of long-term borrowings	5,038	5,038	4,424	4,424
Trade and other payables	341,668	341,668	398,212	398,212
	<u>₩ 574,000</u>	<u>₩ 574,000</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 September 30, 2014 and December 31, 2013, are as follows:

(in millions of Korean won)

	September 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		2,697		2,804
	<u>₩</u>	<u>19,697</u>	<u>₩</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).

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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 September 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	₩ 227,379	₩ 83,264	₩ -	₩ 310,643
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 September 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	₩ 83,264	2	Market approach
Investment property			
Investment property	495,339	3	Yield capitalization method and other method

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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 nine-month periods ended September 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	₩ 2,140,021	₩ 690,638	₩ 111,546	₩ 276,538	₩ 3,218,743	₩ (156,339)	₩ 3,062,404
Less: Inter-segment sales	63,639	47,984	5,149	39,567	156,339	(156,339)	-
External sales	₩ 2,076,382	₩ 642,654	₩ 106,397	₩ 236,971	₩ 3,062,404	₩ -	₩ 3,062,404
Profit(loss) from operations	745,554	106,508	28,058	12,464	892,584	(7,956)	884,628

<i>(in millions of Korean won)</i>	2013						
	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩ 1,972,303	₩ 673,943	₩ 71,549	₩ 255,926	₩ 2,973,721	₩ (139,133)	₩ 2,834,588
Less: Inter-segment sales	53,163	49,870	6,129	29,971	139,133	(139,133)	-
External sales	₩ 1,919,140	₩ 624,073	₩ 65,420	₩ 225,955	₩ 2,834,588	₩ -	₩ 2,834,588
Profit(loss) from operations	662,112	112,279	20,454	(9,687)	785,158	5,350	790,508

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

<i>(in millions of Korean won)</i>	September 30, 2014						
	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets							
Segment assets	₩ 3,744,297	₩ 1,576,442	₩ 114,667	₩ 342,592	₩ 5,777,998	₩ (321,547)	₩ 5,456,451
Equity accounted investments	-	-	56,510	1,910	58,420	-	58,420
Assets held for sale	-	-	-	-	-	-	-
	3,744,297	1,576,442	171,177	344,502	5,836,418	(321,547)	5,514,871
Unallocated assets							1,890,168
Total assets							₩ 7,405,039

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

Liabilities							
Segment liabilities	₩1,053,934	₩ 190,793	₩ -	₩ 63,831	₩1,308,558	₩ (159,938)	₩ 1,148,620
Unallocated liabilities							665,892
Total liabilities							<u>₩ 1,814,512</u>
December 31, 2013							
<i>(in millions of Korean won)</i>	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
	<u>₩ 3,571,646</u>	<u>₩ 1,518,173</u>	<u>₩ 179,452</u>	<u>₩ 344,236</u>	<u>₩ 5,613,507</u>	<u>₩ (233,917)</u>	<u>₩ 5,379,590</u>
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>

The major customer who contributes 10% or more of the Group's total revenues for the nine-month periods ended September 30, 2014 and 2013, is as follows:

Segment	Major customer	2014	2013
Tobacco	Alokozay International Limited	₩ 287,386	₩ 204,350

6. Financial Instruments by Category

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

<i>(in millions of Korean won)</i>	September 30, 2014		
	Loans and receivables	Assets classified as available-for-sale	Total
Financial assets as available-for-sale, non-current	₩ -	₩ 330,340	₩ 330,340
Other financial assets, non-current	1,654	-	1,654
Long-term deposits	270,794	-	270,794
Long-term trade and other receivables	97,994	-	97,994
Other financial assets, current	665,677	-	665,677
Trade and other receivables	1,053,540	-	1,053,540
Cash and cash equivalents	486,203	-	486,203
	<u>₩ 2,575,862</u>	<u>₩ 330,340</u>	<u>₩ 2,906,202</u>

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

(in millions of Korean won)

	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 September 30, 2014 and December 31, 2013, are as follows:

(in millions of Korean won)

	September 30, 2014		
	Other financial liabilities at amortized cost	Other financial liabilities	Total
Long-term borrowings	₩ 132,331	₩ -	₩ 132,331
Long-term trade and other payables	29,922	-	29,922
Short-term borrowings	35,330	29,711	65,041
Current portion of long-term borrowings	5,038	-	5,038
Trade and other payables	341,668	-	341,668
	<u>₩ 544,289</u>	<u>₩ 29,711</u>	<u>₩ 574,000</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>

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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

(in millions of Korean won)

	2014		2013	
	Three months	Nine months	Three months	Nine months
Available-for-sale financial assets				
Gain on valuation (Other comprehensive income)	₩ 6,516	₩ 10,823	₩ 18,730	₩ 13,674
Interest income	47	91	7	22
Dividend income	268	5,466	413	5,079
Impairment	-	-	-	(15,000)
Cash and cash equivalents				
Interest income	8,385	22,464	7,725	20,760
Gain (loss) on foreign currency translation	99	151	(175)	(55)
Gain (loss) on foreign currency transaction	442	(66)	(765)	9
Trade and other receivables				
Interest income	2,090	6,439	1,323	4,724
Gain (loss) on foreign currency translation	24,628	(12,092)	(86,235)	(39,249)
Gain (loss) on foreign currency transaction	(3,358)	(7,826)	1,699	10,434
Other financial liabilities at amortized cost				
Interest costs	(2,519)	(7,378)	(2,615)	(8,160)
Gain on foreign currency translation	2,957	7,506	5,120	2,733
Gain (loss) on foreign currency transaction	326	959	(2,003)	(8,736)
Financial assets at fair value through profit or loss				
Gain (loss) on transactions	-	(14)	102	244
Loss on valuation (profit or loss)	-	-	(52)	-
Other financial liabilities				
Interest costs	(264)	(665)	(316)	(753)

7. Available-for-sale Financial Assets

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

(in millions of Korean won)

	2014	2013
Beginning	₩ 296,601	₩ 264,884
Additions	24,100	-
Gain on valuation (before tax)	14,144	15,253
Net gains transfer from equity	-	2,787
Impairment	-	(15,000)
Disposal	(4,505)	-
Ending	330,340	267,924
Less: current portion	-	(1,000)
Non-current portion	₩ 330,340	₩ 266,924

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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

<i>(in millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Available-for-sale debt instruments:				
Government and municipal bonds	₩	96	₩	162
Corporate bonds		2,500		2,540
Total available-for-sale debt instruments		<u>2,596</u>		<u>2,702</u>
Available-for-sale equity instruments:				
Listed				
Yonhap Television News(YTN)		26,062		23,380
Oscotech, Inc.		1,072		916
Shinhan Financial Group Co., Ltd.		194,806		189,595
Rexahn Pharmaceuticals, Inc.		5,439		3,440
		<u>227,379</u>		<u>217,331</u>
Unlisted		100,365		76,568
Total available-for-sale equity instruments		<u>327,744</u>		<u>293,899</u>
Total available-for-sale financial assets	₩	<u>330,340</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 September 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Loans to employees	₩ 8,350	₩ 22,011	₩ 8,688	₩ 29,957
Loans	648	4,693	562	5,508
Other receivables	77,477	8,193	96,426	7,705
Guarantee deposits	-	63,097	-	65,728
Accrued income	4,116	-	4,276	-
Trade receivables	962,949	-	805,666	-
	<u>₩ 1,053,540</u>	<u>₩ 97,994</u>	<u>₩ 915,618</u>	<u>₩ 108,898</u>

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

Trade and other receivables as of September 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>	September 30, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Gross trade and other receivables	₩ 1,104,024	₩ 97,994	₩ 967,456	₩ 108,898
Allowance account				
Loans	(198)	-	(210)	-
Other receivables	(2,280)	-	(2,303)	-
Trade receivables	(48,006)	-	(49,325)	-
	<u>(50,484)</u>	<u>-</u>	<u>(51,838)</u>	<u>-</u>
Net amount	<u>₩ 1,053,540</u>	<u>₩ 97,994</u>	<u>₩ 915,618</u>	<u>₩ 108,898</u>

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

<i>(in millions of Korean won)</i>	2014		2013	
Beginning	₩	51,838	₩	28,728
Impairment		-		279
Reversal of impairment		(1,233)		-
Write-off		(93)		(650)
Net exchange difference		(28)		(6)
Ending	<u>₩</u>	<u>50,484</u>	<u>₩</u>	<u>28,351</u>

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

<i>(in millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Not past due	₩	623,360	₩	510,821
Past due but not impaired				
Within 1 month		35,456		56,442
Between 1 and 2 months		29,747		26,073
Beyond 2 months		317,050		255,138
		<u>382,253</u>		<u>337,653</u>
Impaired		5,342		6,517
	<u>₩</u>	<u>1,010,955</u>	<u>₩</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.

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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

<i>(in millions of Korean won)</i>	September 30, 2014			December 31, 2013		
	Effective interest rate(%)	Current	Non-current	Effective interest rate(%)	Current	Non-current
Loans to employees	3.00~5.68	₩ 8,349	₩ 22,010	3.00~5.68	₩ 8,681	₩ 29,884
Loans	1.7~ 7.29	-	4,643	1.7~ 7.29	-	5,032
Other receivables	3.79	-	7,923	3.79	7,997	7,705
Guarantee deposits	1.7~ 8.47	-	60,646	1.7~ 8.47	-	62,845
		<u>₩ 8,349</u>	<u>₩ 95,222</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 September 30, 2014 and December 31, 2013, are ₩ 29,711 million and ₩ 20,492 million, respectively (Note 14 and 23).

9. Long-term Deposits

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

<i>(in millions of Korean won)</i>	September 30, 2014	December 31, 2013
MMF	₩ 416	₩ 15,080
T-note	269,872	204,680
Cash	506	-
	<u>₩ 270,794</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 nine-month periods ended September 30, 2014 and 2013, are ₩ 52,036 million and ₩ 41,772 million, respectively.

Investment income on long-term deposits in MSA Escrow Fund for the nine-month periods ended September 30, 2014 and 2013, is ₩ 559 million and ₩ 959 million, respectively.

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

10. Property, Plant and Equipment

Changes in property, plant and equipment for the nine-month periods ended September 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	₩ 549,734	₩ -	₩ 549,734
Buildings	881,070	(358,378)	522,692
Structures	66,995	(37,852)	29,143
Machinery	1,198,823	(880,532)	318,291
Vehicles	13,336	(10,474)	2,862
Tools	59,678	(50,748)	8,930
Furniture and fixture	225,092	(171,256)	53,836
Others	1,454	-	1,454
Construction-in-progress	170,384	-	170,384
	<u>₩ 3,166,566</u>	<u>₩ (1,509,240)</u>	<u>₩ 1,657,326</u>

<i>(in millions of Korean won)</i>	2013		
	Acquisition cost	Accumulated depreciation and impairment cost	Net book value
Land	₩ 530,722	₩ -	₩ 530,722
Buildings	862,933	(326,022)	536,911
Structures	65,419	(35,856)	29,563
Machinery	1,176,840	(820,706)	356,134
Vehicles	13,751	(10,506)	3,245
Tools	56,847	(47,415)	9,432
Furniture and fixture	241,693	(181,376)	60,317
Others	1,270	-	1,270
Construction-in-progress	89,896	-	89,896
	<u>₩ 3,039,371</u>	<u>₩ (1,421,881)</u>	<u>₩ 1,617,490</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	₩ 1,524	₩ (264)	₩ 20,301	₩ -	₩ (820)	₩ 10	₩ 549,734
Buildings	535,055	13,180	(9)	6,308	(24,248)	(7,671)	77	522,692
Structures	29,299	2,118	(35)	532	(2,462)	(309)	-	29,143
Machinery	348,643	6,136	(227)	22,001	(55,355)	(2,907)	-	318,291
Vehicles	3,392	335	(29)	58	(801)	(93)	-	2,862
Tools	8,710	2,379	(86)	933	(2,988)	(18)	-	8,930
Furniture and fixture	60,254	13,380	(2,089)	3,594	(21,087)	(216)	-	53,836
Others	1,304	150	-	-	-	-	-	1,454
Construction-in-progress	106,649	117,554	19	(53,727)	-	(111)	-	170,384
	<u>1,622,289</u>	<u>156,756</u>	<u>(2,720)</u>	<u>-</u>	<u>(106,941)</u>	<u>(12,145)</u>	<u>87</u>	<u>1,657,326</u>

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

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

<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	₩ 141	₩ (798)	₩ 13,630	₩ -	₩ (471)	₩ 164	₩ 530,722	
Buildings	528,715	25,392	(92)	12,251	(27,188)	(4,909)	2,742	536,911	
Structures	26,999	3,941	(37)	1,299	(2,507)	(169)	37	29,563	
Machinery	372,565	21,632	(2,379)	31,167	(63,112)	(3,739)	-	356,134	
Vehicles	2,950	428	(22)	199	(1,003)	693	-	3,245	
Tools	8,856	4,244	(274)	61	(3,528)	73	-	9,432	
Furniture and fixture	65,856	12,153	(508)	5,063	(22,156)	(91)	-	60,317	
Others	1,266	-	(9)	13	-	-	-	1,270	
Construction-in-progress	106,173	48,141	(1,053)	(63,683)	-	468	(150)	89,896	
	₩ 1,631,436	₩ 116,072	₩ (5,172)	₩ -	₩ (119,494)	₩ (8,145)	₩ 2,793	₩ 1,617,490	

¹ Other changes include ₩ 3,463 million of reclassification from investment property to property, plant equipment and ₩ 150 million of reclassification from property, plant and equipment to investment property and ₩ 520 million of reclassification from property, plant and equipment to held-for-sale non-current assets.

11. Intangible Assets

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

<i>(in millions of Korean won)</i>	2014						Total
	Goodwill	Industrial property rights	Facility usage rights	Other intangible assets	Intangible assets under development		
At January 1, 2014	₩ 83,370	₩ 31,733	₩ 25,757	₩ 89,285	₩ 2,485	₩ 232,630	
Additions	-	128	455	110	676	1,369	
Additions in a business combination	-	15	-	-	-	15	
Disposals	-	(21)	(3)	(91)	-	(115)	
Transfer-in(out)	-	221	-	-	(221)	-	
Amortization	-	(2,241)	-	(7,605)	-	(9,846)	
Impairment	-	(167)	-	(433)	-	(600)	
Exchange differences	(218)	(144)	-	(177)	-	(539)	
Acquisition cost	83,152	46,437	27,263	116,446	5,279	278,577	
Accumulated depreciation and impairment cost	-	(16,913)	(1,054)	(35,357)	(2,339)	(55,663)	
Net book amount	₩ 83,152	₩ 29,524	₩ 26,209	₩ 81,089	₩ 2,940	₩ 222,914	

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

<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	-	165	773	1,397	746	3,081
Disposals	-	(4)	(33)	(302)	(13)	(352)
Transfer-in(out)	-	306	-	-	(306)	-
Amortization	-	(2,256)	-	(7,380)	-	(9,636)
Impairment	-	-	-	-	(19)	(19)
Exchange differences	209	(5)	(3)	(619)	(2)	(420)
Acquisition cost	84,309	45,744	26,811	116,523	5,054	278,441
Accumulated depreciation and impairment cost	-	(13,452)	(32)	(25,090)	(420)	(38,994)
Net book amount	₩ 84,309	₩ 32,292	₩ 26,779	₩ 91,433	₩ 4,634	₩ 239,447

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

<i>(in millions of Korean won)</i>	2014		2013	
	Three months	Nine months	Three months	Nine months
Cost of goods sold	₩ 123	₩ 710	₩ 270	₩ 2,447
Selling and administrative expenses	8,271	25,093	7,447	21,204
	₩ 8,394	₩ 25,803	₩ 7,717	₩ 23,651

Exchange loss of ₩ 217 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 nine-month periods ended September 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	-	103	103
Transfers to property, plant and equipment	(10)	(77)	(87)
Depreciation	-	(4,625)	(4,625)
Acquisition cost	48,293	177,170	225,463
Accumulated depreciation and impairment cost	-	(56,097)	(56,097)
Net book amount	₩ 48,293	₩ 121,073	₩ 169,366

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

(in millions of Korean won)

	2013		
	Land	Building	Total
Beginning net book value	₩ 48,177	₩ 133,809	₩ 181,986
Additions	559	863	1,422
Transfers to property, plant and equipment	(433)	(2,880)	(3,313)
Depreciation	-	(4,614)	(4,614)
Acquisition cost	48,303	177,154	225,457
Accumulated depreciation and impairment cost	-	(49,976)	(49,976)
Net book amount	₩ 48,303	₩ 127,178	₩ 175,481

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

(in millions of Korean won)

	2014		2013	
	Three months	Nine months	Three months	Nine months
Rental income	₩ 8,453	₩ 25,471	₩ 8,270	₩ 25,018
Direct operating expense	(1,622)	(4,853)	(1,538)	(4,613)
	₩ 6,831	₩ 20,618	₩ 6,732	₩ 20,405

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

(in millions of Korean won)

	September 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	121,073	186,426	125,672
	₩ 495,339	₩ 169,366	₩ 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 nine-month period ended September 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	₩ (3)	₩ (150)	₩ (153)
At September 30, 2014			
Acquisition cost	₩ -	₩ -	₩ -
Accumulated depreciation	-	-	-
Net book amount	₩ -	₩ -	₩ -

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

14. Pledged Assets

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

(in millions of Korean won)

Asset	Book amount	Reason	Borrowings	Collateralized amount	Lender /Leaseholder
Investment Property	₩ 71,773	Leasehold deposits received	₩ 8,746	₩ 8,838	Metlife Insurance Co., Ltd. and 25 others
		Short-term borrowings	12,500		
Property, plant and equipment /investment property	71,596	Current portion of long-term borrowings	4,980	59,985	Hana Bank and 2 others & Small & medium Business Coporation
		Long-term borrowings	3,841		
	1,051	ACH pledged	-	1,051	Bank of Oklahoma
	29,158	Investment subsidy	-	660	Chung ju Si
Property, plant and equipment		Short-term borrowings	-	3,000	
	18,428	Long-term/ short-term borrowings	5,000	5,000	
		Purchasing fund	9,920	8,178	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	29,711	Short-term borrowings	29,711	29,711	Citibank Korea Inc. and 2 other financial institution
Total	<u>₩ 223,827</u>		<u>₩ 76,198</u>	<u>₩ 118,603</u>	

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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				
		Purchasing fund	6,914	3,240	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 September 30, 2014 and December 31, 2013, are as follows:

(in millions of Korean won)

Associates	Location	Principal operation	September 30, 2014		December 31, 2013	
			Interest (%)	Carrying Amount	Interest (%)	Carrying Amount
Lite Pharm Tech, Inc	Korea	Manufacturing Medical supplies	25.34	₩ 1,910	25.34	₩ 1,476
JR CR-REIT IV Co., Ltd.	Korea	Selling and renting of real estate	49.02	12,988	49.02	12,953
KVG REIT 1 Co., Ltd.	Korea	Selling and renting of real estate	29.67	6,726	29.67	7,047
KOCREF REIT 17 Co., Ltd.	Korea	Selling and renting of real estate	22.06	6,726	22.06	6,745
JR REIT V Co., Ltd.	Korea	Selling and renting of real estate	34.63	5,686	34.63	5,573
JR REIT VIII Co., Ltd.	Korea	Selling and renting of real estate	21.74	10,088	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	9,210	28.78	9,334
JR REIT XIII Co., Ltd.	Korea	Selling and renting of real estate	27.03	5,085	27.03	5,000
Total				₩ 58,419		₩ 58,076

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

Changes in investments in associates for the nine-month periods ended September 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	₩ -	₩ 434	₩ -	₩ 1,910
JR CR-REIT IV Co., Ltd.	12,953	-	115	(80)	12,988
KVG REIT 1 Co., Ltd.	7,047	-	388	(709)	6,726
KOCREF REIT 17 Co., Ltd.	6,745	-	256	(275)	6,726
JR REIT V Co., Ltd.	5,573	-	502	(389)	5,686
JR REIT VIII Co., Ltd.	9,948	-	491	(351)	10,088
JR REIT X Co., Ltd.	9,334	-	39	(163)	9,210
JR REIT XIII Co., Ltd.	5,000	-	183	(98)	5,085
	<u>₩ 58,076</u>	<u>₩ -</u>	<u>₩ 2,408</u>	<u>₩ (2,065)</u>	<u>₩ 58,419</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	₩ 856	₩ -	₩ 356	₩ -	₩ 1,212
Korean Carbon Finance, Inc.	931	-	(286)	-	645
JR CR-REIT IV Co., Ltd.	13,571	-	543	(494)	13,620
KVG REIT 1 Co., Ltd.	7,160	-	306	(535)	6,931
KOCREF REIT 17 Co., Ltd.	6,827	-	244	(207)	6,864
JR REIT V Co., Ltd.	5,581	-	304	(197)	5,688
JR REIT VIII Co., Ltd.	10,008	-	393	(279)	10,122
LSK Global Pharma Services Co., Ltd	1,343	-	(910)	-	433
JR REIT X Co., Ltd.	9,500	-	235	(97)	9,638
	<u>₩ 55,777</u>	<u>₩ -</u>	<u>₩ 1,185</u>	<u>₩ (1,809)</u>	<u>₩ 55,153</u>

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

<i>(in millions of Korean won)</i>	September 30, 2014			
	Assets	Liabilities	Revenues	Profit
Lite Pharm Tech, Inc.	₩ 8,401	₩ 864	₩ 7,323	₩ 2,075
JR CR-REIT IV Co., Ltd.	63,555	35,189	2,593	138
KVG REIT 1 Co., Ltd.	50,732	28,068	4,338	1,246
KOCREF REIT 17 Co., Ltd.	66,439	35,952	3,938	1,229
JR REIT V Co., Ltd.	31,604	15,182	1,804	1,119
JR REIT VIII Co., Ltd.	109,423	63,018	5,736	2,257
LSK Global Pharma Services Co., Ltd.	3,498	4,769	9,298	1,306
JR REIT X Co., Ltd.	88,294	56,314	3,145	55
JR REIT XIII Co., Ltd.	47,362	28,549	2,299	739

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

<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 September 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2014			December 31, 2013		
	Acquisition cost	Allowance	Book amount	Acquisition cost	Allowance	Book amount
Merchandise	₩ 14,147	₩ (1,050)	₩ 13,097	₩ 10,585	₩ (354)	₩ 10,231
Finished goods	512,084	(2,793)	509,291	427,403	(3,402)	424,001
Work in progress	345,840	(44)	345,796	529,683	(151)	529,532
Raw materials	753,882	(836)	753,046	809,545	(1,331)	808,214
Supplies	26,538	-	26,538	26,901	-	26,901
By-products	8,415	-	8,415	7,793	-	7,793
Unfinished housing	754	-	754	840	-	840
Lots	2,941	-	2,941	6,432	-	6,432
Goods-in-transit	23,881	-	23,881	79,909	-	79,909
	<u>₩ 1,688,482</u>	<u>₩ (4,723)</u>	<u>₩ 1,683,759</u>	<u>₩ 1,899,091</u>	<u>₩ (5,238)</u>	<u>₩ 1,893,853</u>

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

<i>(in millions of Korean won)</i>	2014		2013	
	Three months	Nine months	Three months	Nine months
Cost of sales				
Loss on inventory valuation	₩ 110	₩ 383	₩ 59	₩ 1,149
Loss on retirement of inventories	467	3,845	724	2,541
Other expenses				
Loss on retirement of inventories	879	1,279	123	704
	<u>₩ 1,456</u>	<u>₩ 5,507</u>	<u>₩ 906</u>	<u>₩ 4,394</u>

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

17. Cash and Cash Equivalents

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

<i>(in millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Cash on hand	₩	9,894	₩	5,107
Demand deposits		210,298		174,700
Short-term investment assets		266,011		168,126
	₩	<u>486,203</u>	₩	<u>347,933</u>

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

<i>(in millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Long-term financial assets				
Time deposits	₩	1,422	₩	1,553
Deposit in current account		12		12
Money trust		220		175
		<u>1,654</u>		<u>1,740</u>
Short-term Financial assets				
Time deposits		34,627		38,077
Money trust		600,000		625,000
Certificate of deposit		31,050		21,055
		<u>665,677</u>		<u>684,132</u>
	₩	<u>667,331</u>	₩	<u>685,872</u>

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

<i>(in millions of Korean won)</i>	Description	September 30, 2014		December 31, 2013	
Cash and cash equivalents	Specific research purpose and others	₩	354	₩	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>3,490</u>	₩	<u>3,880</u>

18. Equity and Share Premium

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

<i>(in Korean won, except number of shares)</i>	September 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
Capital stock	₩	954,959,485,000	₩	954,959,485,000

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

The Parent Company has reacquired and retired 53,699,400 shares of treasury shares. Accordingly, as of September 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 nine-month period ended September 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 nine-month period ended September 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 nine-month period ended September 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 September 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2014	December 31, 2013
Available-for-sale financial assets reserve	₩ 5,253	₩ (5,570)
Exchange differences on translating foreign operations	(64,054)	(42,472)
Legal reserve	603,145	603,145
Voluntary reserve	2,918,254	2,813,732
	<u>₩ 3,462,598</u>	<u>₩ 3,368,835</u>

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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

<i>(in millions of Korean won)</i>	September 30, 2014	December 31, 2013
Available-for-sale financial assets reserve before tax	₩ 6,930	₩ (7,348)
Tax effect	(1,677)	1,778
Available-for-sale financial assets reserve after tax	<u>₩ 5,253</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 September 30, 2014 and December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	September 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.

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

21. Retained Earnings

Changes in retained earnings for the nine-month period ended September 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 from reserve for research and human resource development		47,478		-
Accumulation of other reserve		(152,000)		(317,000)
Legal reserves		-		(208)
Transfer to reserve for research and human resource development		-		(30,000)
Dividends		(402,876)		(402,876)
Profit for the period		639,387		559,304
Less: non-controlling interests		8,734		11,363
Remeasurements of the net defined benefit liability (after tax)		(784)		5,604
Less: non-controlling interests		8		143
Ending	₩	942,702	₩	802,755

22. Trade and Other Payables

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

<i>(in millions of Korean won)</i>	September 30, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Leasehold deposits received	₩ -	₩ 25,269	₩ -	₩ 25,480
Accounts payable	77,115	-	83,073	-
Withholdings	174,181	278	144,696	343
Accrued expenses	166,620	-	169,971	-
Other payables	97,933	4,653	145,168	3,774
	₩ 515,849	₩ 30,200	₩ 542,908	₩ 29,597

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

23. Borrowings

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

<i>(in millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Current				
Bank borrowings ¹	₩	65,041	₩	88,593
Other borrowings		-		7,647
Bank borrowings (Current portion of long-term borrowings)		5,008		4,305
Other borrowings (Current portion of long-term borrowings)		30		119
	₩	<u>70,079</u>	₩	<u>100,664</u>
Non-current				
Bank borrowings	₩	32,634	₩	20,279
Convertible bonds		8,536		8,546
Convertible redeemable preference shares		74,477		72,056
Redeemable preference shares		16,684		16,758
		<u>132,331</u>		<u>117,639</u>
	₩	<u>202,410</u>	₩	<u>218,303</u>

¹ Out of the above borrowings, ₩29,711 million and ₩20,492 million as of September 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).

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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

(in millions of Korean won)

Currency	Creditor	Latest maturity date	Annual interest rate(%) September 30, 2014	September 30, 2014	December 31, 2013
Korean won	National Agricultural Cooperative Federation, Korea Exchange Bank, Shinhan Bank and Korea Development Bank	Short-term Borrowings	5.85	₩ 10,873	₩ 50,720
Korean won	Samsung card	Short-term Borrowings	CD(91)+0.90	24,869	-
Korean won	Citibank	Short-term Borrowings	CD(91)+1.15	-	15,572
Korean won	Hana Bank	Short-term Borrowings	3.63~4.71	29,299	26,300
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	National Agricultural Cooperative Federation	2019-07-18	1.50	856	-
Korean won	Hana Bank	2017-03-31	2.77	576	744
Korean won	Korea Development Bank	2014-11-07	4.33	4,000	4,000
Korean won	Korea Development Bank	2018-06-09	3.52	233	262
Korean won	Hana Bank	2017-09-06	4.58	2,600	2,600
Korean won	Hana Bank	2016-05-15	3.67	5,000	5,000
Korean won	Kookmin Bank	2023-09-11	4.31	1,381	-
				₩ 102,683	₩ 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.

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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.

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 January 9, 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 nine-month periods ended September 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Defined benefit plans :		
Current service cost	₩ 32,359	₩ 32,431
Interest cost	8,472	6,914
Expected return on plan assets	(5,513)	(4,318)
Past service cost and gains and loss on settlement	1,386	-
	36,704	35,027
Defined contribution plans :		
Contributions recognized as current expense	2,094	1,734
Total	₩ 38,798	₩ 36,761

Termination benefits for the nine-month period ended September 30, 2014, were ₩ 5,152 million (2013: ₩ 1,658 million). Out of total expenses, ₩ 13,096 million (2013: ₩ 11,982 million) and ₩25,392 million (2013: ₩ 24,779 million) were included in 'cost of sales' and 'selling and

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

administrative expenses', respectively.

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

<i>(In millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Present value of funded defined benefit liability	₩	311,638	₩	291,246
Present value of unfunded defined benefit liability		25,796		24,347
Fair value of plan assets		<u>(195,850)</u>		<u>(204,456)</u>
Liability in the statement of financial position	₩	<u>141,584</u>	₩	<u>111,137</u>

Plan assets as of September 30, 2014, include amounts from the previous pension plan which consist of retirement insurance of ₩ 2,130 million and contributions to the National Pension Fund of ₩177 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 nine-month periods ended September 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Three months	Nine months	Three months	Nine months
Salaries	₩ 136,013	₩ 378,947	₩ 105,790	₩ 349,602
Share-based payment	33	33	-	-
Retirement benefits	12,815	38,798	12,210	36,761
Termination benefits	4,689	5,152	-	1,658
Employee welfare	<u>16,023</u>	<u>46,472</u>	<u>12,748</u>	<u>43,992</u>
	<u>₩ 169,573</u>	<u>₩ 469,402</u>	<u>₩ 130,748</u>	<u>₩ 432,013</u>

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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

(in millions of Korean won)

	2014				2013			
	Three months		Nine months		Three months		Nine months	
Salaries	₩	90,731	₩	253,552	₩	85,861	₩	245,267
Retirement and termination benefits		11,181		28,296		8,161		25,777
Employee welfare		11,370		33,040		10,902		32,608
Travel		2,700		7,961		3,091		8,773
Communications		1,346		4,134		1,361		4,110
Utilities		2,298		6,919		2,152		7,075
Taxes and dues		2,424		15,278		3,949		13,191
Supplies		818		2,485		675		2,297
Rent		6,296		19,054		6,953		20,658
Depreciation		11,360		34,095		11,882		35,452
Amortization		3,165		9,627		3,217		9,636
Repairs and maintenance		1,670		5,082		1,934		4,632
Vehicles		2,164		6,752		2,968		8,666
Insurance		496		1,402		447		1,307
Commissions		55,357		156,952		51,839		149,004
Freight and custody		12,076		35,398		9,590		28,691
Conferences		791		2,617		935		3,024
Advertising		56,213		162,188		56,740		179,424
Training		1,704		4,842		1,585		4,632
Prizes and rewards		354		1,225		377		1,281
Cooperation		378		925		226		639
Normal research and development		8,272		25,093		7,447		21,204
Bad debts expense		181		(1,219)		96		266
	₩	<u>283,345</u>	₩	<u>815,698</u>	₩	<u>272,388</u>	₩	<u>807,614</u>

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

(in millions of Korean won)

	2014				2013			
	Three months		Nine months		Three months		Nine months	
Foreign currency transaction gain	₩	1,704	₩	6,240	₩	4,994	₩	17,991
Foreign currency translation gain		27,683		12,782		-		7,346
Reversal of impairment loss on other receivables		-		13		3		-
Gain on disposal of property, plant and equipment		4,339		5,588		5,192		16,087
Gain on disposal of intangible assets		-		54		-		-
Miscellaneous revenues		6,097		13,585		2,840		10,321
	₩	<u>39,823</u>	₩	<u>38,262</u>	₩	<u>13,029</u>	₩	<u>51,745</u>

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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

(in millions of Korean won)

	2014		2013	
	Three months	Nine months	Three months	Nine months
Foreign currency transaction loss	₩ 4,293	₩ 13,172	₩ 6,061	₩ 16,284
Foreign currency translation loss	-	17,218	81,290	43,917
Donations	1,675	9,996	1,346	8,299
Loss on disposal of property, plant and equipment	559	2,354	61	2,019
Loss on disposal of intangible assets	-	17	-	41
Impairment loss on intangible assets	581	600	19	19
Miscellaneous expenses	2,978	12,271	28,108	36,127
Other bad debt expenses	-	-	-	13
	<u>₩ 10,086</u>	<u>₩ 55,628</u>	<u>₩ 116,885</u>	<u>₩ 106,719</u>

26. Expenses by Nature

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

(in millions of Korean won)

	2014		2013	
	Three months	Nine months	Three months	Nine months
Changes in inventories	₩ (169,962)	₩ 13,228	₩ 11,025	₩ 70,357
Raw materials and consumables purchased	574,584	1,062,017	391,964	949,610
Salary and wage	135,557	378,954	104,132	349,602
Retirement and termination benefits	17,504	43,950	13,868	38,419
Depreciation charges	36,891	111,551	39,842	124,108
Amortization charges	3,237	9,846	3,217	9,636
Employee benefits	15,901	46,350	12,748	43,992
Advertising costs	56,238	162,290	56,785	179,545
Service fees	69,058	190,468	58,075	168,426
Other expenses	29,215	159,121	39,397	110,385
Total cost of sales and administrative expenses ¹	<u>₩ 768,223</u>	<u>₩ 2,177,775</u>	<u>₩ 731,053</u>	<u>₩ 2,044,080</u>

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

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

27. Finance Income and Costs

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

(in millions of Korean won)

	2014		2013	
	Three months	Nine months	Three months	Nine months
Financial income				
Interest income	₩ 10,522	₩ 28,994	₩ 9,055	₩ 25,506
Dividend income	268	5,466	413	5,079
Gain on transactions of derivative instruments	-	-	103	244
Investment income on long-term deposits in MSA Escrow Fund	234	559	741	959
	<u>11,024</u>	<u>35,019</u>	<u>10,312</u>	<u>31,788</u>
Finance costs				
Interest costs	2,783	8,043	2,931	8,913
Impairment loss of available-for-sale financial assets	-	-	-	15,000
Loss on valuation of derivative instruments	-	14	52	-
	<u>2,783</u>	<u>8,057</u>	<u>2,983</u>	<u>23,913</u>
Net finance income	<u>₩ 8,241</u>	<u>₩ 26,961</u>	<u>₩ 7,329</u>	<u>₩ 7,875</u>

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

(in millions of Korean won)

	2014		2013	
	Three months	Nine months	Three months	Nine months
Borrowings	₩ 1,108	₩ 3,320	₩ 1,166	₩ 3,499
Trade and other payables	1,032	2,948	1,102	3,656
Others	643	1,775	663	1,758
	<u>₩ 2,783</u>	<u>₩ 8,043</u>	<u>₩ 2,931</u>	<u>₩ 8,913</u>

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

(in millions of Korean won)

	2014		2013	
	Three months	Nine months	Three months	Nine months
Deposits	₩ 8,385	₩ 22,464	₩ 7,725	₩ 20,760
Available-for-sale financial assets	47	91	7	22
Trade and other receivables	2,090	6,439	1,323	4,724
	<u>₩ 10,522</u>	<u>₩ 28,994</u>	<u>₩ 9,055</u>	<u>₩ 25,506</u>

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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 28.7%. (The estimated tax rate for the nine-month period ended September 30, 2013, was 35.5%).

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 nine-month periods ended September 30, 2014 and 2013, are as follows:

<i>(in Korean won, except number of shares)</i>	2014		2013	
	Three months	Nine months	Three months	Nine months
Profit for the period	₩ 269,278 million	₩ 648,120 million	₩ 92,694 million	₩ 490,928 million
Weighted-average number of ordinary shares outstanding	125,898,800	125,898,800	125,898,800	125,898,800
Basic and diluted earnings per share (<i>in won</i>)	₩ 2,139	₩ 5,148	₩ 736	₩ 3,899

30. Dividends

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

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

31. Cash Generated from Operations

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

<i>(in millions of Korean won)</i>	2014		2013	
Profit for the period	₩	639,387	₩	480,478
Adjustments for				
Income tax expense		257,244		264,117
Finance costs		8,058		23,913
Finance income		(35,019)		(31,789)
Depreciation		111,551		124,108
Amortization		9,846		9,636
Retirement and termination benefits		36,673		35,083
Foreign currency translations loss		17,218		43,917
Loss on valuation of inventories		1,224		1,149
Bad debt expenses on trade and other receivables		(1,219)		279
Loss on sale of property, plant and equipment		2,354		2,019
Loss on sale of intangible assets		17		41
Impairment loss on intangible assets		600		19
Other expenses		5,658		10,007
Share of gain of associates		(2,408)		(2,381)
Share of loss of associates		-		1,196
Foreign currency translations gain		(12,782)		(7,346)
Reversal of allowance for doubtful accounts		(13)		-
Reversal of loss on valuation of inventories		(841)		-
Gain on sale of property, plant and equipment		(5,588)		(16,087)
Gain on sale of intangible assets		(54)		-
		<u>1,031,906</u>		<u>938,359</u>
Changes in working capital:				
Increase in trade and other receivables		(128,366)		(70,672)
Increase in advance payments		(54,341)		(80,476)
Decrease(increase) in prepaid expenses		2,351		(1,740)
Increase in prepaid tobacco excise and other taxes		(115,753)		(13,250)
Decrease in inventories		193,519		53,824
Increase(decrease) in trade and other payables		(53,793)		59,542
Increase (decrease) in advance receipts		(16,648)		2,731
Increase (decrease) in tobacco excise and other taxes payable		100,158		(43,324)
Payment of retirement benefits		(7,572)		(4,238)
Cash generated from operations	₩	<u>951,461</u>	₩	<u>840,756</u>

Non-cash transactions

<i>(in millions of Korean won)</i>	2014	
Reclassification of construction-in-progress to property, plant and equipment	₩	53,727

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

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 September 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 September 30, 2014, the Group is involved in four lawsuits as a plaintiff for alleged damages totaling ₩ 6,033 million.

As of September 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 September 30, 2014. Additionally, as of September 30, 2014, the Group is involved in 12 lawsuits as a defendant for alleged damages totaling ₩ 57,190 million.

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

As of September 30, 2014, the Group has letter of credit agreements with Korea Exchange Bank and other banks with limits in the aggregate of USD 63,500 thousand.

As of September 30, 2014, the Group's trade receivables from the export of cigarettes are insured against non-payment up to USD 14,900 thousand by an export guarantee insurance with the Korea Export Insurance Corporation.

As of September 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 12,078 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 23,657,100 thousand in relation to purchase of certificate stamp of tobacco of MMM, as of September 30, 2014.

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

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 ₩ 228,538 million (non-current: ₩ 170,307 million (December 31, 2013: ₩ 138,699 million) ; current: ₩ 58,231 million (December 31, 2013: ₩ 42,998 million) as of September 30, 2014.

As of September 30, 2014, the Group has an accounts receivable loan agreement with a limit of ₩ 64,049 million with Hana Bank and other financial institutions.

As of September 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 September 30, 2014, the Group has a loan agreement with a limit of ₩ 188,212 million with Shinhan Bank and other financial institutions.

As of September 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 September 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 September 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:

KT&G Corporation and Subsidiaries

Notes to Interim Consolidated Financial Statements

September 30, 2014 and 2013, and December 31, 2013

-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 September 30, 2014. The amount of guarantee is ₩152,263 million and the guarantee will expire on June 30, 2015.

As of September 30, 2014, the Group is insured by performance bond insurance up to ₩1,853 million with the Seoul Guarantee Insurance.

KT&G Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2014 and 2013, and December 31, 2013

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 nine-month period ended September 30, 2014.

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

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

(in millions of Korean won)

	2014		2013	
	Three months	Nine months	Three months	Nine months
Short-term employee benefits	₩ 6,124	₩ 17,421	₩ 6,994	₩ 20,765
Retirement benefits	528	2,229	729	2,014
	<u>₩ 6,652</u>	<u>₩ 19,650</u>	<u>₩ 7,723</u>	<u>₩ 22,779</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 ₩1,050.60 to US\$1, the basic exchange rate on September 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.