

KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Financial Statements

June 30, 2015 and 2014

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
KT&G Corporation:

Reviewed Financial Statements

We have reviewed the accompanying consolidated interim financial statements of KT&G Corporation (the "Parent Company") and its subsidiaries (collectively the "Group"), expressed in Korean won, which comprise the consolidated interim statement of financial position as of June 30, 2015, and the consolidated interim statements of comprehensive income for the three- and six-month periods ended June 30, 2015 and the consolidated interim statements of changes in equity and cash flows for the six-month period ended June 30, 2015 and notes to the consolidated interim financial statements.

Management's Responsibility

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

Auditors' Review Responsibility

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

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

Conclusion

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

The accompanying consolidated interim financial statements as of June 30, 2015 and for the three- and six-month periods ended June 30, 2015 have been translated into United States dollars solely for the convenience of the reader and such translation does not comply with K-IFRS. We have reviewed the translation and nothing came to our attention that cause us to believe that the consolidated interim financial statements expressed in Korean won have not been translated into dollars on the basis set forth in note 4 to the consolidated interim financial statements.



Other matters

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

The consolidated interim statements of comprehensive income for the three- and six-month periods ended June 30, 2014 and the consolidated interim statements of changes in equity and cash flows for the six-month period ended June 30, 2014 were reviewed by other auditors whose review report thereon dated August 11, 2014, expressed that nothing came to their attention that caused them to believe that the consolidated interim financial statements referred to above were not prepared, in all material respects, in accordance with K-IFRS No.1034.

The consolidated statement of financial position of the Group as of December 31, 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by other auditors, whose report thereon dated February 5, 2015, expressed an unqualified opinion. The accompanying consolidated statement of financial position of the Group as of December 31, 2014 presented for comparative purposes, is not different from that audited by other auditors in all material respects.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
August 13, 2015

This report is effective as of August 13, 2015, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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

As of June 30, 2015 and December 31, 2014

| <i>In millions of won and thousands of U.S. dollars</i> | <i>Note</i> | June 30 2015 Korean won | June 30 2015 U.S. dollars (note 4) | December 31 2014 Korean won |
|---|-------------|----------------------------------|---|--------------------------------------|
| Assets | | | | |
| Property, plant and equipment | 6,16 | ₩ 1,786,268 | \$ 1,589,065 | ₩ 1,753,412 |
| Intangible assets | 7 | 151,182 | 134,492 | 154,937 |
| Investment property | 8,16 | 167,572 | 149,072 | 167,968 |
| Investments in associates | 5,9 | 58,605 | 52,135 | 57,903 |
| Available-for-sale financial assets | 10,30 | 317,509 | 282,456 | 325,833 |
| Other financial assets | 14,16,30 | 289 | 257 | 259 |
| Long-term deposits in MSA Escrow Fund | 11,30,32 | 351,331 | 312,545 | 301,808 |
| Long-term advance payments | 32 | 140,857 | 125,307 | 127,855 |
| Long-term prepaid expenses | | 4,497 | 4,000 | 4,625 |
| Long-term trade and other receivables | 12,30 | 80,148 | 71,299 | 86,735 |
| Deferred income tax assets | | 30,325 | 26,977 | 28,725 |
| Total non-current assets | | 3,088,583 | 2,747,605 | 3,010,060 |
| Inventories | 13 | 1,841,287 | 1,638,010 | 1,982,503 |
| Current available-for-sale financial assets | 10,30 | 1,000 | 890 | 1,000 |
| Current other financial assets | 14,16,30,31 | 799,386 | 711,134 | 668,436 |
| Prepaid tobacco excise and other taxes | | 445,510 | 396,326 | 260,773 |
| Trade and other receivables | 12,30 | 1,087,915 | 967,810 | 989,777 |
| Advance payments | 32 | 137,840 | 122,623 | 68,491 |
| Prepaid expenses | | 21,878 | 19,463 | 20,802 |
| Cash and cash equivalents | 14,30,31 | 443,916 | 394,908 | 416,394 |
| Total current assets | | 4,778,732 | 4,251,164 | 4,408,176 |
| Non-current assets held for sale | 5,15 | 1,542 | 1,372 | 426 |
| Total assets | | ₩ 7,868,857 | \$ 7,000,141 | ₩ 7,418,662 |

See accompanying notes to the consolidated interim financial statements.

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

As of June 30, 2015 and December 31, 2014

| <i>In millions of won and thousands of U.S. dollars</i> | <i>Note</i> | June 30 2015 Korean won | June 30 2015 U.S. dollars (note 4) | December 31 2014 Korean won |
|---|-------------|----------------------------------|---|--------------------------------------|
| Equity | | | | |
| Ordinary shares | 1,17 | ₩ 954,959 | \$ 849,533 | ₩ 954,959 |
| Other capital surplus | 17 | (10,055) | (8,945) | (4,573) |
| Treasury shares | 18 | (337,062) | (299,851) | (339,059) |
| Gain on reissuance of treasury shares | 18 | 494,648 | 440,039 | 492,032 |
| Reserve | 19 | 3,727,201 | 3,315,721 | 3,426,367 |
| Retained earnings | 20 | 934,372 | 831,218 | 1,100,876 |
| Equity attributable to owners of the parent | | 5,764,063 | 5,127,715 | 5,630,602 |
| Non-controlling interests | | 70,996 | 63,157 | 77,478 |
| Total equity | | 5,835,059 | 5,190,872 | 5,708,080 |
| Liabilities | | | | |
| Long-term borrowings | 16,22,30,31 | 103,684 | 92,237 | 137,795 |
| Long-term trade and other payables | 16,21,30 | 32,654 | 29,049 | 32,244 |
| Long-term advance receipts | | 12,500 | 11,120 | 14,587 |
| Net defined benefit liability | 23 | 153,780 | 136,802 | 132,247 |
| Provision | | 3,032 | 2,697 | 2,871 |
| Deferred income tax liabilities | | 271,387 | 241,426 | 266,282 |
| Total non-current liabilities | | 577,037 | 513,331 | 586,026 |
| Short-term borrowings | 16,22,30,31 | 103,465 | 92,043 | 141,861 |
| Current portion of long-term borrowings | 16,22,30,31 | 23,375 | 20,795 | 1,218 |
| Trade and other payables | 21,30 | 562,893 | 500,750 | 503,853 |
| Advance receipts | | 39,234 | 34,903 | 37,533 |
| Income tax payable | | 193,230 | 171,898 | 180,809 |
| Tobacco excise and other taxes payable | | 534,564 | 475,549 | 259,282 |
| Total current liabilities | | 1,456,761 | 1,295,938 | 1,124,556 |
| Total liabilities | | 2,033,798 | 1,809,269 | 1,710,582 |
| Total equity and liabilities | | ₩ 7,868,857 | \$ 7,000,141 | ₩ 7,418,662 |

See accompanying notes to the consolidated interim financial statements.

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

For the six-month periods ended June 30, 2015 and 2014

| <i>In millions of won and thousands of U.S. dollars, except earnings per share</i> | <i>Note</i> | 2015 Korean won | 2015 U.S. dollars (note 4) | 2014 Korean won |
|--|-------------|-----------------------|----------------------------------|-----------------------|
| Sales | 5,32 | ₩ 2,168,813 | \$ 1,929,378 | ₩ 1,955,951 |
| Cost of sales | 24 | (860,116) | (765,159) | (877,198) |
| Gross profit | | 1,308,697 | 1,164,219 | 1,078,753 |
| Selling, general and administrative expenses | 24 | (577,189) | (513,468) | (532,353) |
| Operating profit | 5 | 731,508 | 650,751 | 546,400 |
| Other income | 25 | 60,805 | 54,092 | 19,940 |
| Other expenses | 25 | (52,114) | (46,360) | (67,044) |
| Net finance income | 26,30 | 30,786 | 27,387 | 18,720 |
| Share of gain of associates | 9 | 2,789 | 2,481 | 1,682 |
| Profit before income tax | | 773,774 | 688,351 | 519,698 |
| Income tax expense | 27 | (204,290) | (181,737) | (147,175) |
| Profit for the period | | ₩ 569,484 | \$ 506,614 | ₩ 372,523 |
| Other comprehensive income (loss): | | | | |
| Items that are or may be reclassified subsequently to profit or loss | | | | |
| Unrealized net changes in fair value of available-for-sale financial assets, net of tax | | ₩ (7,219) | \$ (6,422) | ₩ 4,307 |
| Exchange differences on translating foreign operations, net of tax | | (829) | (738) | (11,507) |
| Items that will never be reclassified to profit or loss | | | | |
| Remeasurements of net defined benefit liability, net of tax | | (183) | (162) | (641) |
| Other comprehensive loss for the period, net of tax | | (8,213) | (7,322) | (7,841) |
| Total comprehensive income for the period | | ₩ 561,253 | \$ 499,292 | ₩ 364,682 |
| Profit attributable to: | | | | |
| Owners of the Parent Company | | ₩ 570,125 | \$ 507,184 | ₩ 378,842 |
| Non-controlling interests | | (641) | (570) | (6,319) |
| | | ₩ 569,484 | \$ 506,614 | ₩ 372,523 |
| Total comprehensive income attributable to: | | | | |
| Owners of the Parent Company | | ₩ 562,386 | \$ 500,300 | ₩ 371,199 |
| Non-controlling interests | | (1,133) | (1,008) | (6,517) |
| | | ₩ 561,253 | \$ 499,292 | ₩ 364,682 |
| Earnings per share in won and U.S. dollars: | | | | |
| Basic and diluted | 28 | ₩ 4,526 | \$ 4.03 | ₩ 3,009 |

See accompanying notes to the consolidated interim financial statements

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

For the three-month periods ended June 30, 2015 and 2014

| <i>In millions of won and thousands of U.S. dollars, except earnings per share</i> | <i>Note</i> | 2015 Korean won | 2015 U.S. dollars (note 4) | 2014 Korean won |
|--|-------------|-----------------------|----------------------------------|-----------------------|
| Sales | 5,32 | ₩ 1,031,902 | \$ 917,980 | ₩ 992,285 |
| Cost of sales | 24 | (449,862) | (400,196) | (443,002) |
| Gross profit | | 582,040 | 517,784 | 549,283 |
| Selling, general and administrative expenses | 24 | (273,068) | (242,922) | (263,029) |
| Operating profit | 5 | 308,972 | 274,862 | 286,254 |
| Other income | 25 | 34,513 | 30,703 | 6,163 |
| Other expenses | 25 | (11,243) | (10,002) | (51,465) |
| Net finance income | 26,30 | 20,004 | 17,796 | 8,163 |
| Share of gain of associates | 9 | 2,137 | 1,901 | 946 |
| Profit before income tax | | 354,383 | 315,260 | 250,061 |
| Income tax expense | 27 | (93,678) | (83,336) | (65,730) |
| Profit for the period | | ₩ 260,705 | \$ 231,924 | ₩ 184,331 |
| Other comprehensive income (loss): | | | | |
| Items that are or may be reclassified subsequently to profit or loss | | | | |
| Unrealized net changes in fair value of available-for-sale financial assets, net of tax | | ₩ (2,727) | \$ (2,426) | ₩ (2,561) |
| Exchange differences on translating foreign operations, net of tax | | 3,537 | 3,147 | (5,461) |
| Items that will never be reclassified to profit or loss | | | | |
| Remeasurements of net defined benefit liability, net of tax | | 55 | 49 | (143) |
| Other comprehensive income (loss) for the period, net of tax | | 865 | 770 | (8,165) |
| Total comprehensive income for the period | | ₩ 261,570 | \$ 232,694 | ₩ 176,166 |
| Profit attributable to: | | | | |
| Owners of the Parent Company | | ₩ 261,202 | \$ 232,366 | ₩ 186,786 |
| Non-controlling interests | | (497) | (442) | (2,455) |
| | | ₩ 260,705 | \$ 231,924 | ₩ 184,331 |
| Total comprehensive income attributable to: | | | | |
| Owners of the Parent Company | | ₩ 262,116 | \$ 233,178 | ₩ 179,825 |
| Non-controlling interests | | (546) | (484) | (3,659) |
| | | ₩ 261,570 | \$ 232,694 | ₩ 176,166 |
| Earnings per share in won and U.S. dollars: | | | | |
| Basic and diluted | 28 | ₩ 2,074 | \$ 1.84 | ₩ 1,484 |

See accompanying notes to the consolidated interim financial statements.

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

For the six-month period ended June 30, 2015

| <i>In millions of won</i> | Ordinary shares | Other capital surplus | Treasury shares | Gain on reissuance of treasury shares | Reserve | Retained earnings | Owners of the parent | Non- controlling interests | Total equity |
|--|--------------------|-----------------------------|--------------------|--|-----------|----------------------|-------------------------|----------------------------------|-----------------|
| Balance at January 1, 2015 | ₩ 954,959 | (4,573) | (339,059) | 492,032 | 3,426,367 | 1,100,876 | 5,630,602 | 77,478 | 5,708,080 |
| Total comprehensive income for the period: | | | | | | | | | |
| Profit (loss) for the period | - | - | - | - | - | 570,125 | 570,125 | (641) | 569,484 |
| Other comprehensive income (loss): | | | | | | | | | |
| Unrealized net changes in fair value of available-for-sale financial assets, net of tax | - | - | - | - | (7,219) | - | (7,219) | - | (7,219) |
| Exchange differences on translating foreign operations, net of tax | - | - | - | - | (351) | - | (351) | (478) | (829) |
| Remeasurements of net defined benefit liability, net of tax | - | - | - | - | - | (169) | (169) | (14) | (183) |
| Total other comprehensive loss | - | - | - | - | (7,570) | (169) | (7,739) | (492) | (8,231) |
| Total comprehensive income (loss) for the period | - | - | - | - | (7,570) | 569,956 | 562,386 | (1,133) | 561,253 |
| Transactions with owners, recorded directly in equity: | | | | | | | | | |
| Dividends | - | - | - | - | - | (428,056) | (428,056) | - | (428,056) |
| In-kind donation of treasury shares | - | - | 1,997 | 2,616 | - | - | 4,613 | - | 4,613 |
| Transfer from reserve for research and human resource development | - | - | - | - | (12,522) | 12,522 | - | - | - |
| Transfer to unconditional reserve | - | - | - | - | 320,926 | (320,926) | - | - | - |
| Extinguishment of equity conversion option | - | (5,482) | - | - | - | - | (5,482) | (5,390) | (10,872) |
| Others | - | - | - | - | - | - | - | 41 | 41 |
| Total transactions with owners | - | (5,482) | 1,997 | 2,616 | 308,404 | (736,460) | (428,925) | (5,349) | (434,274) |
| Balance at June 30, 2015 | ₩ 954,959 | (10,055) | (337,062) | 494,648 | 3,727,201 | 934,372 | 5,764,063 | 70,996 | 5,835,059 |

See accompanying notes to the consolidated interim financial statements.

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

For the six-month period ended June 30, 2015

| <i>In thousands of U.S. dollars</i> | Ordinary shares | Other capital surplus | Treasury shares | Gain on reissuance of treasury shares | Reserve | Retained earnings | Owners of the parent | Non- controlling interests | Total equity |
|--|--------------------|-----------------------------|--------------------|--|-----------|----------------------|-------------------------|----------------------------------|-----------------|
| Balance at January 1, 2015 | \$ 849,533 | (4,068) | (301,627) | 437,712 | 3,048,098 | 979,340 | 5,008,988 | 68,924 | 5,077,912 |
| Total comprehensive income for the period: | | | | | | | | | |
| Profit (loss) for the period | - | - | - | - | - | 507,184 | 507,184 | (570) | 506,614 |
| Other comprehensive income (loss): | | | | | | | | | |
| Unrealized net changes in fair value of available-for-sale financial assets, net of tax | - | - | - | - | (6,422) | - | (6,422) | - | (6,422) |
| Exchange differences on translating foreign operations, net of tax | - | - | - | - | (312) | - | (312) | (426) | (738) |
| Remeasurements of net defined benefit liability, net of tax | - | - | - | - | - | (150) | (150) | (12) | (162) |
| Total other comprehensive loss | - | - | - | - | (6,734) | (150) | (6,884) | (438) | (7,322) |
| Total comprehensive income (loss) for the period | - | - | - | - | (6,734) | 507,034 | 500,300 | (1,008) | 499,292 |
| Transactions with owners, recorded directly in equity: | | | | | | | | | |
| Dividends | - | - | - | - | - | (380,799) | (380,799) | - | (380,799) |
| In-kind donation of treasury shares | - | - | 1,776 | 2,327 | - | - | 4,103 | - | 4,103 |
| Transfer from reserve for research and human resource development | - | - | - | - | (11,139) | 11,139 | - | - | - |
| Transfer to unconditional reserve | - | - | - | - | 285,496 | (285,496) | - | - | - |
| Extinguishment of equity conversion option | - | (4,877) | - | - | - | - | (4,877) | (4,795) | (9,672) |
| Others | - | - | - | - | - | - | - | 36 | 36 |
| Total transactions with owners | - | (4,877) | 1,776 | 2,327 | 274,357 | (655,156) | (381,573) | (4,759) | (386,332) |
| Balance at June 30, 2015 | \$ 849,533 | (8,945) | (299,851) | 440,039 | 3,315,721 | 831,218 | 5,127,715 | 63,157 | 5,190,872 |

See accompanying notes to the consolidated interim financial statements.

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

For the six-month period ended June 30, 2014

| <i>In millions of won</i> | Ordinary shares | Other capital surplus | Treasury shares | Gain on reissuance of treasury shares | Reserve | Retained earnings | Owners of the parent | Non- controlling interests | Total equity |
|--|--------------------|-----------------------------|--------------------|--|-----------|----------------------|-------------------------|----------------------------------|-----------------|
| Balance at January 1, 2014 | ₩ 954,959 | (4,573) | (339,059) | 492,032 | 3,368,835 | 802,755 | 5,274,949 | 90,531 | 5,365,480 |
| Total comprehensive income for the period: | | | | | | | | | |
| Profit (loss) for the period | - | - | - | - | - | 378,842 | 378,842 | (6,319) | 372,523 |
| Other comprehensive income (loss): | | | | | | | | | |
| Unrealized net changes in fair value of available-for-sale financial assets, net of tax | - | - | - | - | 4,307 | - | 4,307 | - | 4,307 |
| Exchange differences on translating foreign operations, net of tax | - | - | - | - | (11,316) | - | (11,316) | (191) | (11,507) |
| Remeasurements of net defined benefit liability, net of tax | - | - | - | - | - | (634) | (634) | (7) | (641) |
| Total other comprehensive loss | - | - | - | - | (7,009) | (634) | (7,643) | (198) | (7,841) |
| Total comprehensive income (loss) for the period | - | - | - | - | (7,009) | 378,208 | 371,199 | (6,517) | 364,682 |
| Transactions with owners, recorded directly in equity: | | | | | | | | | |
| Dividends | - | - | - | - | - | (402,876) | (402,876) | - | (402,876) |
| Transfer from reserve for research and human resource development | - | - | - | - | (47,478) | 47,478 | - | - | - |
| Transfer to unconditional reserve | - | - | - | - | 152,000 | (152,000) | - | - | - |
| Others | - | - | - | - | - | - | - | 33 | 33 |
| Total transactions with owners | - | - | - | - | 104,522 | (507,398) | (402,876) | 33 | (402,843) |
| Balance at June 30, 2014 | ₩ 954,959 | (4,573) | (339,059) | 492,032 | 3,466,348 | 673,565 | 5,243,272 | 84,047 | 5,327,319 |

See accompanying notes to the consolidated interim financial statements.

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

For the six-month periods ended June 30, 2015 and 2014

| <i>In millions of won and thousands of U.S. dollars</i> | <i>Note</i> | 2015 Korean won | 2015 U.S. dollars (note 4) | 2014 Korean won |
|---|-------------|-----------------------|----------------------------------|-----------------------|
| Cash flows from operating activities | | | | |
| Cash generated from operations | 33 | ₩ 944,870 | \$ 840,557 | ₩ 716,533 |
| Income tax paid | | (186,152) | (165,601) | (162,917) |
| Net cash provided by operating activities | | 758,718 | 674,956 | 553,616 |
| Cash flows from investing activities | | | | |
| Interest received | | 16,496 | 14,675 | 17,425 |
| Investment income received | | | | |
| from long-term deposits in MSA Escrow Fund | | - | - | 636 |
| Dividends received | | 9,039 | 8,041 | 6,902 |
| Proceeds from sale of property, plant and equipment | | 4,002 | 3,560 | 1,979 |
| Proceeds from sale of intangible assets | | 1,080 | 961 | 130 |
| Proceeds from sale of non-current assets held for sale | | 4,630 | 4,119 | 8 |
| Proceeds from sale of available-for-sale financial assets | | - | - | 5,505 |
| Collection of loans | | 5,974 | 5,315 | 6,652 |
| Withdrawal of guarantee deposits | | 17,398 | 15,477 | 16,156 |
| Settlement of derivatives, net | | 7 | 6 | - |
| Acquisition of property, plant and equipment | | (113,739) | (101,182) | (80,172) |
| Acquisition of intangible assets | | (2,698) | (2,400) | (1,248) |
| Acquisition of investment property | | (8) | (7) | (77) |
| Acquisition of available-for-sale financial assets | | (1,200) | (1,068) | (23,200) |
| Increase in loans | | - | - | (260) |
| Payments of guarantee deposits | | (14,358) | (12,773) | (16,515) |
| Payments of long-term deposits in MSA Escrow Fund | | (40,379) | (35,922) | (35,413) |
| Decrease (increase) in other financial assets, net | | (130,950) | (116,493) | 19,804 |
| Net cash used in investing activities | | (244,706) | (217,691) | (81,688) |
| Cash flows from financing activities | | | | |
| Interest paid | | (3,821) | (3,399) | (1,294) |
| Dividends paid | | (428,056) | (380,799) | (402,876) |
| Proceeds from borrowings | | 359,047 | 319,409 | 81,156 |
| Increase in deposits received | | 1,070 | 952 | 2,052 |
| Redemption of borrowings | | (411,588) | (366,149) | (113,330) |
| Decrease in deposits received | | (3,136) | (2,791) | (1,757) |
| Net cash used in financing activities | | (486,484) | (432,777) | (436,049) |
| Effect of exchange rate fluctuation on cash held | | (6) | (5) | (148) |
| Net increase in cash and cash equivalents | | 27,522 | 24,483 | 35,731 |
| Cash and cash equivalents at January 1 | | 416,394 | 370,425 | 347,933 |
| Cash and cash equivalents at June 30 | | ₩ 443,916 | \$ 394,908 | ₩ 383,664 |

See accompanying notes to the consolidated interim financial statements.

KT&G CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

1. Reporting Entity

(a) Description of the Controlling Company

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

As of June 30, 2015, the Parent Company has three manufacturing plants, including the Shintanjin plant, and 14 local headquarters and 123 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for the manufacturing of packaging. The head office of the Parent Company is located in 71, Beotkkot-gil, Daedeok-gu, Daejeon.

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

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

The ownership of the Parent Company's issued ordinary shares as of June 30, 2015 is held as follows:

| Shareholder | Number of shares | Percentage of ownership |
|--------------------------------------|------------------|-------------------------|
| National Pension Service | 9,685,381 | 7.05% |
| Industrial Bank of Korea | 9,510,485 | 6.93% |
| Employee Share Ownership Association | 2,514,238 | 1.83% |
| Treasury shares | 11,326,605 | 8.25% |
| Others | 104,255,788 | 75.94% |
| | 137,292,497 | 100.00% |

KT&G CORPORATION AND SUBSIDIARIES
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For the six-month periods ended June 30, 2015 and 2014

1. Reporting Entity, Continued

(b) Consolidated Subsidiaries

(i) List of consolidated subsidiaries

| Next most senior parent | Subsidiary | Principal operation | Percentage of ownership | Reporting date | Location |
|------------------------------|---|---|-------------------------|----------------|-----------|
| KT&G Corporation | Korea Ginseng Corporation | Manufacturing and selling ginseng | 100.00% | Jun. 30 | Korea |
| | Yungjin Pharm. Ind. Co., Ltd. | Manufacturing and selling pharmaceuticals | 53.00% | Jun. 30 | Korea |
| | Tae-a Industry Co., Ltd. | Manufacturing tobacco materials | 100.00% | Jun. 30 | Korea |
| | KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. | Manufacturing and selling tobaccos | 99.99% | Jun. 30 | Turkey |
| | Korea Tabacos do Brasil Ltda. | Processing leaf tobaccos | 99.90% | Jun. 30 | Brazil |
| | KT&G Pars | Manufacturing and selling tobaccos | 99.99% | Jun. 30 | Iran |
| | KT&G Rus L.L.C. | Manufacturing and selling tobaccos | 100.00% | Jun. 30 | Russia |
| | KGC Life & Gin Co., Ltd. | Selling ginseng door-to-door | 100.00% | Jun. 30 | Korea |
| | Global Trading, Inc. | Selling tobaccos | 100.00% | Jun. 30 | USA |
| | Somang Cosmetics Co., Ltd. (*) | Manufacturing and selling cosmetics | 60.00% | Jun. 30 | Korea |
| | Renzoluc Pte., Ltd. (*) | Manufacturing and selling tobaccos | 100.00% | Jun. 30 | Singapore |
| | KT&G Life Sciences Corporation (*) | Research and development medicine | 73.94% | Jun. 30 | Korea |
| | KGC Yebon Corporation | Manufacturing and selling medical herbs | 100.00% | Jun. 30 | Korea |
| | K-Q HongKong I, Limited (*) | Manufacturing and selling ginseng | 100.00% | Jun. 30 | Hongkong |
| | PT KT&G Indonesia | Manufacturing and selling tobaccos | 99.99% | Jun. 30 | Indonesia |
| | K&I HK Co., Ltd. | Selling cosmetics | 100.00% | Jun. 30 | Hongkong |
| | K&I China Co., Ltd. | Selling cosmetics | 100.00% | Jun. 30 | China |
| Renzoluc Pte., Ltd. | PT Trisakti Purwosari Makmur | Manufacturing and selling tobaccos | 60.17% | Jun. 30 | Indonesia |
| | PT Mandiri Maha Mulia | Manufacturing and selling tobaccos | 66.47% | Jun. 30 | Indonesia |
| PT Trisakti Purwosari Makmur | PT Sentosa Ababi Purwosari | Manufacturing and selling tobaccos | 99.24% | Jun. 30 | Indonesia |
| | PT Purindo Ilufa | Manufacturing and selling tobaccos | 100.00% | Jun. 30 | Indonesia |
| Korea Ginseng Corporation | Cheong Kwan Jang Taiwan Corporation | Manufacturing and selling ginseng | 100.00% | Jun. 30 | Taiwan |
| | Korean Red Ginseng Corp., Inc. | Manufacturing and selling ginseng | 100.00% | Jun. 30 | USA |
| | Korea Ginseng (China) Corp. | Manufacturing and selling ginseng | 100.00% | Jun. 30 | China |
| | Korea Ginseng Corporation Japan | Manufacturing and selling ginseng | 100.00% | Jun. 30 | Japan |
| | PT CKJ INDONESIA | Manufacturing and selling ginseng | 99.88% | Jun. 30 | Indonesia |
| | Jilin Hanzheng Ginseng Co., Ltd. | Manufacturing and selling ginseng | 100.00% | Jun. 30 | China |

(*) The Group's percentage of ownership, shown above, excludes preferred shares. As of June 30, 2015, the Group's percentage of ownership would be 66.67%, 68.91%, 59.48% and 50.00% if preferred shares are included.

KT&G CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements
(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

1. Reporting Entity, Continued

(b) Consolidated Subsidiaries, Continued

(ii) Financial information of subsidiaries

In millions of won

| Subsidiary | | Total assets | Total liabilities | Revenue | Net comprehensive profit (loss) | Total income (loss) |
|---|---|-----------------|----------------------|---------|------------------------------------|------------------------|
| Korea Ginseng Corporation | ₩ | 1,623,839 | 169,849 | 453,733 | 59,371 | 59,534 |
| Yungjin Pharm. Ind. Co., Ltd. | | 188,424 | 86,208 | 80,199 | 1,435 | 1,427 |
| Tae-a Industry Co., Ltd. | | 14,483 | 3,700 | 7,069 | 567 | 567 |
| KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. | | 52,475 | 39,388 | 12,366 | 7,005 | 5,918 |
| Korea Tabacos do Brasil Ltda. | | 1,099 | 11 | - | - | - |
| KT&G Pars | | 28,440 | 46,507 | 5,792 | 1,323 | 1,323 |
| KT&G Rus L.L.C. | | 97,949 | 29,956 | 16,337 | 5,352 | 6,859 |
| KGC Life & Gin Co., Ltd. | | 28,647 | 9,129 | 22,968 | (1,547) | (1,546) |
| Global Trading, Inc. | | 44,133 | 26,090 | 139,133 | 2,515 | 2,921 |
| Somang Cosmetics Co., Ltd. | | 55,074 | 66,079 | 37,994 | 1,596 | 1,571 |
| Renzoluc Pte., Ltd. | | 102,141 | 49,698 | - | (965) | 196 |
| KT&G Life Sciences Corporation | | 22,916 | 18,058 | 250 | (2,985) | (2,985) |
| KGC Yebon Corporation | | 50,181 | 3,861 | 6,360 | (36) | (38) |
| K-Q HongKong I, Limited | | 41,312 | - | - | 1,123 | 2,038 |
| PT KT&G Indonesia | | 20,388 | 31,653 | 7,813 | (5,436) | (5,112) |
| K&I HK Co., Ltd. | | 342 | 300 | 561 | (98) | (97) |
| K&I China Co., Ltd. | | 1,956 | 1,537 | 683 | 71 | 81 |
| PT Trisakti Purwosari Makmur, etc. | | 85,421 | 63,756 | 16,553 | 181 | (866) |
| PT Mandiri Maha Mulia | | 10,217 | 6,430 | 4,216 | 41 | (142) |
| Cheong Kwan Jang Taiwan Corporation | | 17,040 | 14,861 | 8,066 | 725 | 815 |
| Korean Red Ginseng Corp., Inc. | | 10,522 | 7,009 | 6,171 | 193 | 270 |
| Korea Ginseng (China) Corp. | | 58,810 | 54,088 | 17,285 | (1,327) | (1,217) |
| Korea Ginseng Corporation Japan | | 3,603 | 2,767 | 2,698 | 123 | 121 |
| PT CKJ INDONESIA | | 977 | 1,021 | - | (89) | (91) |
| Jilin Hanzheng Ginseng Co., Ltd. | | 71,326 | 48,583 | 1,500 | (5,496) | (4,967) |

(c) Change in Consolidated Group

For the six-month period ended June 30, 2015, there is no change in consolidated group.

2. Basis of Preparation

(a) Statement of Compliance

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

The consolidated interim financial statements were authorized for issue by the Board of Directors on July 23, 2015.

KT&G CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

2. Basis of Preparation, Continued

(b) Basis of Measurement

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

- Derivative financial instruments measured at fair value
- Available-for-sale financial assets measured at fair value
- Liabilities for defined benefit plans recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgments

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

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

In preparing these consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as of and for the year ended December 31, 2014.

3. Significant Accounting Policies

(a) Changes in Accounting Policies

The accounting policies applied in these consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements as of and for the year ended December 31, 2014, except for the adoption of amendments to K-IFRS 1019 *Employee Benefits*.

Amendments to K-IFRS 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits.

The Group retrospectively applied the amendments in accordance with the transitional requirements of K-IFRS 1019. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as of and for the year ending December 31, 2015.

KT&G CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements
(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

3. Significant Accounting Policies, Continued

(b) Basis of Consolidation

(i) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Interests in equity-accounted investees

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint venture are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

KT&G CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements
(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

3. Significant Accounting Policies, Continued

(c) Property, Plant and Equipment

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Property, plant and equipment, except for land and other tangible fixed assets, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

The estimated useful lives of the Group's assets are as follows:

| | Useful lives (years) | | Useful lives (years) |
|------------|-------------------------|------------------------|-------------------------|
| Buildings | 10 ~ 60 | Vehicles | 4 ~ 10 |
| Structures | 5 ~ 40 | Tools | 4 ~ 5 |
| Machinery | 5 ~ 20 | Furniture and fixtures | 2 ~ 5 |

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

(d) Borrowing Costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

KT&G CORPORATION AND SUBSIDIARIES

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(Unaudited)

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3. Significant Accounting Policies, Continued

(e) Government Grants

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received. Government grants which are intended to compensate the Group for expenses incurred are recognized as other income in profit or loss over the periods in which the Group recognizes the related costs as expenses.

(f) Intangible Assets except for Goodwill

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

The estimated useful lives were as follows:

| | Useful lives (years) |
|----------------------------|-------------------------|
| Industrial property rights | 5 ~ 20 or indefinite |
| Facility usage rights | indefinite |
| Other intangible assets | 3 ~ 5 or indefinite |

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

(g) Investment Property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over 10 ~ 60 years as estimated useful lives.

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

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3. Significant Accounting Policies, Continued

(h) Non-current Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 *Impairment of Assets*.

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

(i) 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 ₩296,041 million and ₩272,649 million, respectively, as of June 30, 2015 and December 31, 2014.

(j) Impairment of Non-financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories, deferred tax assets, assets arising from employee benefits and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

KT&G CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

3. Significant Accounting Policies, Continued

(j) Impairment of Non-financial Assets, Continued

The Group estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

(k) Non-derivative Financial Assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

KT&G CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements
(Unaudited)

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3. Significant Accounting Policies, Continued

(k) Non-derivative Financial Assets, Continued

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(l) Impairment of Financial Assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account.

KT&G CORPORATION AND SUBSIDIARIES

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(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

3. Significant Accounting Policies, Continued

(I) Impairment of Financial Assets, Continued

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged.

(m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares when it has a short maturity with a specified redemption date.

(n) Non-derivative Financial Liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss, financial guarantee liabilities and other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

KT&G CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(Unaudited)

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3. Significant Accounting Policies, Continued

(n) Non-derivative Financial Liabilities, Continued

(ii) Financial guarantee liabilities

Financial guarantee liability is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified term of a debt instrument. Upon initial recognition, financial guarantee liabilities are measured at their fair value plus, transaction costs that are directly attributable to the acquisition or issue of the financial guarantee liability.

After initial recognition, an issuer of such a contract measures it at the higher of the amount determined in accordance with K-IFRS No. 1037 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with K-IFRS No. 1018 *Revenue*.

(iii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss or financial guarantee liabilities are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(o) Employee Benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

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3. Significant Accounting Policies, Continued

(o) Employee Benefits, Continued

(iii) Retirement benefits: defined benefit plans

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(p) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

KT&G CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(Unaudited)

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3. Significant Accounting Policies, Continued

(q) Equity Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(r) Revenue Recognition

The Group's revenue categories consist of goods sold, services and other income.

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of tobacco excise and other taxes, trade discounts and volume rebates. Revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Tobacco excise and other taxes deducted from revenue for the six-month periods ended June 30, 2015 and 2014 were ₩2,447,063 million and ₩1,739,135 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 completions is assessed by reference to surveys of work performed. Meanwhile, profits from an apartment house for self-installment sales is recognized on percentage-of-completion method according to Q&A of Korea Accounting Institute, called 2011-I-KQA. This accounting standard is effective upon Korean Corporation Financial Reporting Standards of Laws on External Audit of Corporation (Article 13, Section 1, Paragraph 1)

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

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

KT&G CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

3. Significant Accounting Policies, Continued

(s) Finance Income and Finance Costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and investment income on long-term deposits in MSA Escrow Fund. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs is interest expense on borrowings and unwinding of the discount on trade and other payables which is recognized in profit or loss using the effective interest method.

(t) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. The Group recognizes a deferred tax asset for all deductible temporary differences to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

KT&G CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

3. Significant Accounting Policies, Continued

(u) Foreign Currencies

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(v) Earnings per Share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

4. Basis of Translating Financial Statements

The consolidated interim financial statements are expressed in Korean won and have been translated into U.S. dollars at the rate of ₩1,124.10 to \$1, the basic exchange rate on June 30, 2015 posted by Seoul Money Brokerage Services, solely for the convenience of the reader. This translation should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

5. Operating Segments

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

| <u>Operating segments</u> | <u>Principal operation</u> |
|---------------------------|---|
| 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 |

KT&G CORPORATION AND SUBSIDIARIES
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(Unaudited)

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5. Operating Segments, Continued

(b) Segment information on sales and operating profit for the six-month period ended June 30, 2015 was as follows:

| <i>In millions of won</i> | Tobacco | Ginseng | Real estate | Others | Segment total | Elimination | Consolidated |
|-------------------------------|-------------|---------|-------------|---------|---------------|-------------|--------------|
| Sales: | | | | | | | |
| Total segment sales | ₩ 1,540,586 | 490,763 | 79,740 | 182,719 | 2,293,808 | (124,995) | 2,168,813 |
| Less: Inter-segment sales | 63,985 | 31,936 | 3,483 | 25,591 | 124,995 | (124,995) | - |
| External sales | ₩ 1,476,601 | 458,827 | 76,257 | 157,128 | 2,168,813 | - | 2,168,813 |
| Segment profit (loss): | | | | | | | |
| Operating profit | ₩ 643,910 | 74,409 | 12,401 | 11,120 | 741,840 | (10,332) | 731,508 |

(c) Segment information on sales and operating profit for the six-month period ended June 30, 2014 was as follows:

| <i>In millions of won</i> | Tobacco | Ginseng | Real estate | Others | Segment total | Elimination | Consolidated |
|-------------------------------|-------------|---------|-------------|---------|---------------|-------------|--------------|
| Sales: | | | | | | | |
| Total segment sales | ₩ 1,363,785 | 428,276 | 81,625 | 179,964 | 2,053,650 | (97,699) | 1,955,951 |
| Less: Inter-segment sales | 42,568 | 28,180 | 3,501 | 23,450 | 97,699 | (97,699) | - |
| External sales | ₩ 1,321,217 | 400,096 | 78,124 | 156,514 | 1,955,951 | - | 1,955,951 |
| Segment profit (loss): | | | | | | | |
| Operating profit | ₩ 459,274 | 65,541 | 19,984 | 6,661 | 551,460 | (5,060) | 546,400 |

(d) Segment information on assets and liabilities as of June 30, 2015 was as follows:

| <i>In millions of won</i> | Tobacco | Ginseng | Real estate | Others | Segment total | Elimination | Consolidated |
|----------------------------------|-------------|-----------|-------------|---------|---------------|-------------|--------------|
| Assets: | | | | | | | |
| Segment assets | ₩ 3,924,257 | 1,643,471 | 140,509 | 344,746 | 6,052,983 | (283,760) | 5,769,223 |
| Investments in associates | - | - | 56,492 | 2,113 | 58,605 | - | 58,605 |
| Non-current assets held for sale | 1,542 | - | - | - | 1,542 | - | 1,542 |
| | 3,925,799 | 1,643,471 | 197,001 | 346,859 | 6,113,130 | (283,760) | 5,829,370 |
| Unallocated assets | | | | | | | 2,039,487 |
| Total assets | ₩ | | | | | | 7,868,857 |
| Liabilities: | | | | | | | |
| Segment liabilities | ₩ 1,227,607 | 159,160 | - | 74,956 | 1,461,723 | (149,404) | 1,312,319 |
| Unallocated liabilities | | | | | | | 721,479 |
| Total liabilities | ₩ | | | | | | 2,033,798 |

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5. Operating Segments, Continued

(e) Segment information on assets and liabilities as of December 31, 2014 was as follows:

| <i>In millions of won</i> | Tobacco | Ginseng | Real estate | Others | Segment total | Elimination | Consolidated |
|----------------------------------|-------------|-----------|-------------|---------|---------------|-------------|--------------|
| Assets: | | | | | | | |
| Segment assets | ₩ 3,620,656 | 1,682,186 | 141,938 | 347,494 | 5,792,274 | (278,945) | 5,513,329 |
| Investments in associates | - | - | 55,842 | 2,061 | 57,903 | - | 57,903 |
| Non-current assets held for sale | 426 | - | - | - | 426 | - | 426 |
| | 3,621,082 | 1,682,186 | 197,780 | 349,555 | 5,850,603 | (278,945) | 5,571,658 |
| Unallocated assets | | | | | | | 1,847,004 |
| Total assets | ₩ | | | | | | 7,418,662 |
| Liabilities: | | | | | | | |
| Segment liabilities | ₩ 867,391 | 184,385 | - | 77,175 | 1,128,951 | (173,338) | 955,613 |
| Unallocated liabilities | | | | | | | 754,969 |
| Total liabilities | ₩ | | | | | | 1,710,582 |

(f) Revenues from major customers which amount to more than 10 percent of the details of the Group's consolidated total revenues for the six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | 2015 | 2014 |
|--------------------------------|-----------|---------|
| Alokozay International Limited | ₩ 221,082 | 185,834 |

6. Property, Plant and Equipment

(a) Details of property, plant and equipment as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | | June 30 2015 | | December 31 2014 | | | |
|---------------------------|---|-----------------|---|---------------------|---|-----------------|-----------|
| | | Cost | Accumulated depreciation and impairment | Cost | Accumulated depreciation and impairment | Carrying amount | |
| Land | ₩ | 577,380 | - | 577,380 | 574,429 | - | 574,429 |
| Buildings | | 962,482 | (372,599) | 589,883 | 878,145 | (357,630) | 520,515 |
| Structures | | 72,829 | (38,463) | 34,366 | 66,192 | (37,624) | 28,568 |
| Machinery | | 1,231,568 | (902,074) | 329,494 | 1,224,507 | (875,701) | 348,806 |
| Vehicles | | 13,037 | (10,419) | 2,618 | 13,383 | (10,533) | 2,850 |
| Tools | | 61,458 | (51,561) | 9,897 | 59,753 | (50,097) | 9,656 |
| Furniture and fixtures | | 238,468 | (188,362) | 50,106 | 230,065 | (176,229) | 53,836 |
| Others | | 1,508 | - | 1,508 | 1,454 | - | 1,454 |
| Construction-in-progress | | 191,016 | - | 191,016 | 213,298 | - | 213,298 |
| | ₩ | 3,349,746 | (1,563,478) | 1,786,268 | 3,261,226 | (1,507,814) | 1,753,412 |

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6. Property, Plant and Equipment, Continued

(b) Changes in property, plant and equipment for the six-month period ended June 30, 2015 were as follows:

| <i>In millions of won</i> | January 1 2015 | Acquisition | Disposal | Depreciation | Transfer of construction -in-progress | Others | Net exchange difference | June 30 2015 |
|---------------------------|-------------------|-------------|----------|--------------|---|---------|-------------------------------|-----------------|
| Land | ₩ 574,429 | 81 | (312) | - | 5,293 | (1,978) | (133) | 577,380 |
| Buildings | 520,515 | 691 | (271) | (16,740) | 88,388 | (2,237) | (463) | 589,883 |
| Structures | 28,568 | 600 | (54) | (1,703) | 6,962 | (59) | 52 | 34,366 |
| Machinery | 348,806 | 3,413 | (459) | (36,879) | 15,629 | - | (1,016) | 329,494 |
| Vehicles | 2,850 | 321 | (91) | (527) | 126 | - | (61) | 2,618 |
| Tools | 9,656 | 2,423 | (79) | (2,130) | 15 | - | 12 | 9,897 |
| Furniture and fixtures | 53,836 | 8,810 | (178) | (13,511) | 1,122 | - | 27 | 50,106 |
| Others | 1,454 | 54 | - | - | - | - | - | 1,508 |
| Construction-in-progress | 213,298 | 95,255 | - | - | (117,535) | - | (2) | 191,016 |
| | ₩ 1,753,412 | 111,648 | (1,444) | (71,490) | - | (4,274) | (1,584) | 1,786,268 |

For the six-month period ended June 30, 2015, land and buildings with a carrying amount of ₩2,732 million were transferred to investment property and land, buildings and structures with a carrying amount of ₩1,542 million were transferred to non-current assets held for sale.

For the six-month period ended June 30, 2015, borrowing costs of ₩82 million were capitalized as part of the cost of machinery and others with the capitalization rate of 3.75%.

(c) Changes in property, plant and equipment for the year ended December 31, 2014 were as follows:

| <i>In millions of won</i> | January 1 2014 | Acquisition | Disposal | Depreciation | Transfer of construction -in-progress | Net exchange difference | Others | December 31 2014 |
|---------------------------|-------------------|-------------|----------|--------------|---|-------------------------------|----------|---------------------|
| Land | ₩ 528,983 | 1,643 | (716) | - | 75,028 | (1,650) | (28,859) | 574,429 |
| Buildings | 535,055 | 3,201 | (1,132) | (32,481) | 30,313 | (14,518) | 77 | 520,515 |
| Structures | 29,299 | 2,264 | (75) | (3,281) | 826 | (465) | - | 28,568 |
| Machinery | 348,643 | 10,476 | (2,258) | (73,891) | 70,553 | (4,717) | - | 348,806 |
| Vehicles | 3,392 | 439 | (61) | (1,023) | 208 | (105) | - | 2,850 |
| Tools | 8,710 | 4,037 | (86) | (3,993) | 1,015 | (27) | - | 9,656 |
| Furniture and fixtures | 60,254 | 20,651 | (3,088) | (28,580) | 4,799 | (200) | - | 53,836 |
| Others | 1,304 | 150 | - | - | - | - | - | 1,454 |
| Construction-in-progress | 106,649 | 293,893 | (58) | - | (182,742) | (206) | (4,238) | 213,298 |
| | ₩ 1,622,289 | 336,754 | (7,474) | (143,249) | - | (21,888) | (33,020) | 1,753,412 |

For the year ended December 31, 2014, land and construction-in-progress with a carrying amount of ₩32,682 million was transferred to inventories.

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7. Intangible Assets

(a) Details of intangible assets as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | | June 30 2015 | | | December 31 2014 | | |
|--|---|-----------------|---|--------------------|---------------------|---|--------------------|
| | | Cost | Accumulated amortization and impairment | Carrying amount | Cost | Accumulated amortization and impairment | Carrying amount |
| Goodwill | ₩ | 87,448 | (54,900) | 32,548 | 87,061 | (54,900) | 32,161 |
| Industrial property rights | | 46,365 | (29,933) | 16,432 | 46,203 | (29,203) | 17,000 |
| Facility usage rights | | 26,891 | (2,731) | 24,160 | 27,230 | (3,680) | 23,550 |
| Other intangible assets | | 116,836 | (42,236) | 74,600 | 116,532 | (37,446) | 79,086 |
| Intangible assets under development | | 5,782 | (2,340) | 3,442 | 5,480 | (2,340) | 3,140 |
| | ₩ | 283,322 | (132,140) | 151,182 | 282,506 | (127,569) | 154,937 |

(b) Changes in intangible assets for the six-month period ended June 30, 2015 were as follows:

| <i>In millions of won</i> | January 1 2015 | Acquisition | Disposal | Transfer of Intangible assets under development | Amortization | Impairment | Net exchange difference | June 30 2015 |
|--|-------------------|-------------|----------|--|--------------|------------|-------------------------------|-----------------|
| Goodwill | ₩ 32,161 | - | - | - | - | - | 387 | 32,548 |
| Industrial property rights | 17,000 | 587 | (413) | 82 | (666) | (157) | (1) | 16,432 |
| Facility usage rights | 23,550 | 1,536 | (926) | - | - | - | - | 24,160 |
| Other intangible assets | 79,086 | 191 | - | - | (4,784) | - | 107 | 74,600 |
| Intangible assets under development | 3,140 | 384 | - | (82) | - | - | - | 3,442 |
| | ₩ 154,937 | 2,698 | (1,339) | - | (5,450) | (157) | 493 | 151,182 |

(c) Changes in intangible assets for the year ended December 31, 2014 were as follows:

| <i>In millions of won</i> | January 1 2014 | Acquisition | Disposal | Transfer of Intangible assets under development | Amortization | Impairment | Net exchange difference | December 31 2014 |
|--|-------------------|-------------|----------|--|--------------|------------|-------------------------------|---------------------|
| Goodwill | ₩ 83,370 | - | - | - | - | (54,900) | 3,691 | 32,161 |
| Industrial property rights | 31,733 | 397 | (6) | 326 | (2,652) | (12,654) | (144) | 17,000 |
| Facility usage rights | 25,757 | 455 | (4) | - | - | (2,658) | - | 23,550 |
| Other intangible assets | 89,285 | 261 | (177) | - | (9,979) | (433) | 129 | 79,086 |
| Intangible assets under development | 2,485 | 981 | - | (326) | - | - | - | 3,140 |
| | ₩ 232,630 | 2,094 | (187) | - | (12,631) | (70,645) | 3,676 | 154,937 |

(d) Expenditures not capitalized for the three- and six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | | 2015 | | 2014 | |
|--|---|-------------|-----------|-------------|-----------|
| | | Three-month | Six-month | Three-month | Six-month |
| Cost of sales | ₩ | 1,500 | 1,707 | 101 | 587 |
| Selling, general and administrative expenses | | 7,929 | 15,814 | 8,484 | 16,822 |
| | ₩ | 9,429 | 17,521 | 8,585 | 17,409 |

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8. Investment Property

(a) Details of investment property as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | June 30 2015 | | | December 31 2014 | | |
|---------------------------|-----------------|---|--------------------|---------------------|---|--------------------|
| | Cost | Accumulated depreciation and impairment | Carrying amount | Cost | Accumulated depreciation and impairment | Carrying amount |
| Land | ₩ 49,123 | - | 49,123 | 48,293 | - | 48,293 |
| Buildings | 179,892 | (61,443) | 118,449 | 177,315 | (57,640) | 119,675 |
| | ₩ 229,015 | (61,443) | 167,572 | 225,608 | (57,640) | 167,968 |

(b) Changes in investment property for the six-month period ended June 30, 2015 and the year ended December 31, 2014 were as follows:

| <i>In millions of won</i> | 2015 | | | 2014 | | |
|---|----------|-----------|---------|--------|-----------|---------|
| | Land | Buildings | Total | Land | Buildings | Total |
| Beginning balance | ₩ 48,293 | 119,675 | 167,968 | 48,303 | 125,672 | 173,975 |
| Acquisition | - | 8 | 8 | - | 248 | 248 |
| Depreciation | - | (3,136) | (3,136) | - | (6,168) | (6,168) |
| Transfer from (to) property, plant and equipment | 830 | 1,902 | 2,732 | (10) | (77) | (87) |
| Ending balance | ₩ 49,123 | 118,449 | 167,572 | 48,293 | 119,675 | 167,968 |

(c) The amounts recognized in profit or loss from investment property for the three- and six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | 2015 | | 2014 | |
|---------------------------|-------------|-----------|-------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Rental income | ₩ 8,289 | 17,593 | 8,290 | 17,018 |
| Direct operating expense | (1,680) | (3,305) | (1,690) | (3,231) |
| | ₩ 6,609 | 14,288 | 6,600 | 13,787 |

(d) The carrying amount and the fair value of investment property as of June 30, 2015 and December 31, 2014 were as follows:

| <i>In millions of won</i> | June 30 2015 | | December 31 2014 | |
|---------------------------|-----------------|--------------------|---------------------|--------------------|
| | Fair value | Carrying amount | Fair value | Carrying amount |
| Land | ₩ 312,670 | 49,123 | 309,002 | 48,293 |
| Buildings | 192,501 | 118,449 | 186,337 | 119,675 |
| | ₩ 505,171 | 167,572 | 495,339 | 167,968 |

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

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9. Investments in Associates

(a) Investments in associates as of June 30, 2015 and December 31, 2014 are summarized as follows:

In millions of won, except percentage of ownership

| Associate | Location | Principal operation | June 30 2015 | | December 31 2014 | |
|---|----------|-----------------------------------|-------------------------------|--------------------|-------------------------------|--------------------|
| | | | Percentage of ownership | Carrying amount | Percentage of ownership | Carrying amount |
| Lite Pharm Tech, Inc. | Korea | Manufacturing medical supplies | 27.97% | ₩ 2,113 | 25.34% | ₩ 2,061 |
| JR CR-REIT IV Co., Ltd. | Korea | Renting of real estate | 49.02% | 13,910 | 49.02% | 12,900 |
| KVG REIT 1 Co., Ltd. | Korea | Renting of real estate | 29.67% | 6,746 | 29.67% | 6,848 |
| KOCREF REIT 17 Co., Ltd. | Korea | Renting of real estate | 22.06% | 6,585 | 22.06% | 6,619 |
| JR REIT V Co., Ltd. | Korea | Renting of real estate | 34.63% | 5,501 | 34.63% | 5,524 |
| JR REIT VIII Co., Ltd. | Korea | Renting of real estate | 21.74% | 9,787 | 21.74% | 9,858 |
| LSK Global Pharma Services Co., Ltd. | Korea | Research and development medicine | 23.15% | - | 23.15% | - |
| JR REIT X Co., Ltd. | Korea | Renting of real estate | 28.79% | 9,008 | 28.79% | 9,114 |
| JR REIT XIII Co., Ltd. | Korea | Renting of real estate | 27.03% | 4,955 | 27.03% | 4,979 |
| | | | | ₩ 58,605 | | ₩ 57,903 |

(b) Financial information of associates, which represents 100% of the entities' balances as of and for the six-month period ended June 30, 2015 are summarized as follows:

In millions of won

| Associate | Total assets | Total liabilities | Revenue | Total comprehensive income |
|--------------------------------------|-----------------|----------------------|---------|----------------------------------|
| Lite Pharm Tech, Inc. | ₩ 9,504 | 1,949 | 4,754 | 1,587 |
| JR CR-REIT IV Co., Ltd. | 63,648 | 35,272 | 2,348 | 666 |
| KVG REIT 1 Co., Ltd. | 50,816 | 28,079 | 2,944 | 846 |
| KOCREF REIT 17 Co., Ltd. | 66,181 | 36,329 | 3,148 | 1,265 |
| JR REIT V Co., Ltd. | 31,103 | 15,218 | 1,245 | 778 |
| JR REIT VIII Co., Ltd. | 108,157 | 63,138 | 3,696 | 1,632 |
| LSK Global Pharma Services Co., Ltd. | 5,539 | 7,226 | 8,291 | 546 |
| JR REIT X Co., Ltd. | 87,930 | 56,641 | 2,143 | 189 |
| JR REIT XIII Co., Ltd. | 46,906 | 28,577 | 2,525 | 480 |

(c) Financial information of associates, which represents 100% of the entities' balances as of and for the year ended December 31, 2014 are summarized as follows:

In millions of won

| Associate | Total assets | Total liabilities | Revenue | Total comprehensive income |
|--------------------------------------|-----------------|----------------------|---------|----------------------------------|
| Lite Pharm Tech, Inc. | ₩ 9,028 | 894 | 9,795 | 2,734 |
| JR CR-REIT IV Co., Ltd. | 63,325 | 35,139 | 3,540 | 196 |
| KVG REIT 1 Co., Ltd. | 51,094 | 28,016 | 5,784 | 1,661 |
| KOCREF REIT 17 Co., Ltd. | 66,270 | 36,266 | 5,457 | 1,820 |
| JR REIT V Co., Ltd. | 31,127 | 15,175 | 2,412 | 1,494 |
| JR REIT VIII Co., Ltd. | 108,441 | 63,097 | 7,619 | 3,093 |
| LSK Global Pharma Services Co., Ltd. | 5,322 | 6,007 | 13,988 | 1,892 |
| JR REIT X Co., Ltd. | 87,739 | 56,095 | 4,223 | 130 |
| JR REIT XIII Co., Ltd. | 46,965 | 28,543 | 2,911 | 921 |

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9. Investments in Associates, Continued

(d) Changes in investments in associates for the six-month period ended June 30, 2015 were as follows:

In millions of won

| Associate | | January 1 2015 | Share of gain | Dividends | June 30 2015 |
|--------------------------------------|---|-------------------|------------------|-----------|-----------------|
| Lite Pharm Tech, Inc. | ₩ | 2,061 | 52 | - | 2,113 |
| JR CR-REIT IV Co., Ltd. | | 12,900 | 1,241 | (231) | 13,910 |
| KVG REIT 1 Co., Ltd. | | 6,848 | 260 | (362) | 6,746 |
| KOCREF REIT 17 Co., Ltd. | | 6,619 | 279 | (313) | 6,585 |
| JR REIT V Co., Ltd. | | 5,524 | 373 | (396) | 5,501 |
| JR REIT VIII Co., Ltd. | | 9,858 | 354 | (425) | 9,787 |
| LSK Global Pharma Services Co., Ltd. | | - | - | - | - |
| JR REIT X Co., Ltd. | | 9,114 | 79 | (185) | 9,008 |
| JR REIT XIII Co., Ltd. | | 4,979 | 151 | (175) | 4,955 |
| | ₩ | 57,903 | 2,789 | (2,087) | 58,605 |

(e) Changes in investments in associates for the year ended December 31, 2014 were as follows:

In millions of won

| Associate | | January 1 2014 | Share of gain | Dividends | December 31 2014 |
|--------------------------------------|---|-------------------|------------------|-----------|---------------------|
| Lite Pharm Tech, Inc. | ₩ | 1,476 | 585 | - | 2,061 |
| JR CR-REIT IV Co., Ltd. | | 12,953 | 27 | (80) | 12,900 |
| KVG REIT 1 Co., Ltd. | | 7,047 | 511 | (710) | 6,848 |
| KOCREF REIT 17 Co., Ltd. | | 6,745 | 387 | (513) | 6,619 |
| JR REIT V Co., Ltd. | | 5,573 | 735 | (784) | 5,524 |
| JR REIT VIII Co., Ltd. | | 9,948 | 669 | (759) | 9,858 |
| LSK Global Pharma Services Co., Ltd. | | - | - | - | - |
| JR REIT X Co., Ltd. | | 9,334 | 79 | (299) | 9,114 |
| JR REIT XIII Co., Ltd. | | 5,000 | 253 | (274) | 4,979 |
| | ₩ | 58,076 | 3,246 | (3,419) | 57,903 |

(f) Reconciliation of the summarized financial information presented to the carrying amount of the Group's interest in the associate as of June 30, 2015 are summarized as follows:

In millions of won

| Associate | Percentage of ownership | | Equity attributable to owners of the parent | Share of net assets | Share of loss not recognized | Carrying amount |
|--------------------------------------|----------------------------|---|--|------------------------|------------------------------------|--------------------|
| Lite Pharm Tech, Inc. | 27.97% | ₩ | 7,555 | 2,113 | - | 2,113 |
| JR CR-REIT IV Co., Ltd. | 49.02% | | 28,376 | 13,910 | - | 13,910 |
| KVG REIT 1 Co., Ltd. | 29.67% | | 22,737 | 6,746 | - | 6,746 |
| KOCREF REIT 17 Co., Ltd. | 22.06% | | 29,852 | 6,585 | - | 6,585 |
| JR REIT V Co., Ltd. | 34.63% | | 15,885 | 5,501 | - | 5,501 |
| JR REIT VIII Co., Ltd. | 21.74% | | 45,019 | 9,787 | - | 9,787 |
| LSK Global Pharma Services Co., Ltd. | 23.15% | | (1,687) | (390) | 390 | - |
| JR REIT X Co., Ltd. | 28.79% | | 31,289 | 9,008 | - | 9,008 |
| JR REIT XIII Co., Ltd. | 27.03% | | 18,329 | 4,955 | - | 4,955 |
| | | ₩ | | | | 58,605 |

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10. Available-for-sale Financial Assets

- (a) Changes in available-for-sale financial assets for the six-month period ended June 30, 2015 and the year ended December 31, 2014 were as follows:

| <i>In millions of won</i> | | 2015 | 2014 |
|---|---|---------|----------|
| Beginning balance | ₩ | 326,833 | 296,601 |
| Acquisitions | | 1,200 | 56,392 |
| Net changes in fair value | | (9,524) | (11,655) |
| Disposals | | - | (14,505) |
| Ending balance | ₩ | 318,509 | 326,833 |
| Statement of financial position: | | | |
| Current | ₩ | 1,000 | 1,000 |
| Non-current | | 317,509 | 325,833 |
| | ₩ | 318,509 | 326,833 |

- (b) Available-for-sale financial assets as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | | June 30 2015 | December 31 2014 |
|--|---|-----------------|---------------------|
| Available-for-sale debt instruments: | | | |
| Government and municipal bonds | ₩ | 96 | 96 |
| Corporate bonds | | 2,500 | 2,500 |
| Total available-for-sale debt instruments | | 2,596 | 2,596 |
| Available-for-sale equity instruments: | | | |
| Listed | | | |
| – YTN Co., Ltd. | | 22,542 | 22,291 |
| – Oscotech, Inc. | | 2,606 | 1,030 |
| – Shinhan Financial Group Co., Ltd. | | 166,547 | 178,171 |
| – Rexahn Pharmaceuticals, Inc. | | 4,382 | 4,917 |
| | | 196,077 | 206,409 |
| Unlisted | | 119,836 | 117,828 |
| Total available-for-sale equity instruments | | 315,913 | 324,237 |
| Total available-for-sale financial assets | ₩ | 318,509 | 326,833 |

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

As of June 30, 2015 and December 31, 2014, ₩29,798 million and ₩29,699 million of available-for-sale financial assets that do not have a market price in an active market and whose fair value cannot be reliably measured or is similar to their carrying amount are measured at cost, respectively.

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11. Long-term Deposits in MSA Escrow Fund

Long-term deposits in MSA Escrow Fund as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | | June 30 2015 | December 31 2014 |
|---------------------------|---|-----------------|---------------------|
| MMF | ₩ | 4,500 | 19,269 |
| Treasury note | | 346,831 | 282,539 |
| | ₩ | 351,331 | 301,808 |

As discussed in note 32 to the consolidated interim financial statements, long-term deposits in MSA Escrow Fund are deposited to the United States government related to the export of tobacco to the United States. The payments of long-term deposits in MSA Escrow Fund for the six-month periods ended June 30, 2015 and 2014 are ₩40,379 million and ₩35,413 million, respectively.

Investment income on long-term deposits in MSA Escrow Fund for the six-month periods ended June 30, 2015 and 2014 are ₩1,066 million and ₩325 million, respectively.

12. Trade and Other Receivables

(a) Trade and other receivables as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | | June 30 2015 | | December 31 2014 | |
|---------------------------|---|-----------------|-------------|---------------------|-------------|
| | | Current | Non-current | Current | Non-current |
| Loans to employees | ₩ | 6,643 | 15,742 | 7,816 | 20,221 |
| Loans | | 641 | 3,634 | 645 | 3,707 |
| Other receivables | | 99,510 | 319 | 77,067 | 276 |
| Guarantee deposits | | - | 60,453 | - | 62,531 |
| Accrued income | | 3,713 | - | 5,595 | - |
| Trade receivables | | 977,408 | - | 898,654 | - |
| | ₩ | 1,087,915 | 80,148 | 989,777 | 86,735 |

(b) Trade and other receivables as of June 30, 2015 and December 31, 2014 have been reported in the consolidated statements of financial position net of allowances as follows:

| <i>In millions of won</i> | | June 30 2015 | | December 31 2014 | |
|-----------------------------------|---|-----------------|-------------|---------------------|-------------|
| | | Current | Non-current | Current | Non-current |
| Gross trade and other receivables | ₩ | 1,127,580 | 80,148 | 1,029,436 | 86,735 |
| Allowance: | | | | | |
| Loans | | (197) | - | (197) | - |
| Other receivables | | (2,297) | - | (2,286) | - |
| Trade receivables | | (37,171) | - | (37,176) | - |
| | | (39,665) | - | (39,659) | - |
| Net trade and other receivables | ₩ | 1,087,915 | 80,148 | 989,777 | 86,735 |

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12. Trade and Other Receivables, Continued

- (c) Changes in the allowance account for the six-month period ended June 30, 2015 and the year ended December 31, 2014 were as follows:

| <i>In millions of won</i> | | 2015 | 2014 |
|-----------------------------|---|--------|---------|
| Beginning balance | ₩ | 39,659 | 51,838 |
| Impairment loss | | 12 | - |
| Reversal of impairment loss | | (7) | (8,155) |
| Net Exchange difference | | 1 | (4,024) |
| Ending balance | ₩ | 39,665 | 39,659 |

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

- (d) The aging schedule of trade and other receivables which were past due but not impaired as of June 30, 2015 and December 31, 2014 is as follows:

| <i>In millions of won</i> | | June 30 2015 | December 31 2014 |
|---------------------------|---|-----------------|---------------------|
| Within 1 month | ₩ | 74,532 | 80,369 |
| Between 1 and 2 months | | 28,938 | 42,870 |
| Beyond 2 months | | 224,942 | 239,153 |
| | ₩ | 328,412 | 362,392 |

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

- (e) Details of trade and other receivables that are measured at amortized cost as of June 30, 2015 and December 31, 2014 were as follows:

| <i>In millions of won</i> | Effective interest rate | Current | June 30 2015 | | Effective interest rate | Current | December 31 2014 | |
|---------------------------|----------------------------|---------|-----------------|-------------|----------------------------|---------|---------------------|-------------|
| | | | Current | Non-current | | | Current | Non-current |
| Loans to employees | 3.00~5.68% | ₩ 6,637 | 15,409 | 3.00~5.68% | ₩ 7,816 | 20,221 | | |
| Loans | 1.70~7.29% | - | 3,633 | 1.70~7.29% | - | 3,665 | | |
| Other receivables | - | - | - | 3.79% | 8,300 | - | | |
| Guarantee deposits | 1.70~8.47% | - | 58,062 | 1.70~8.47% | - | 60,123 | | |
| | | ₩ 6,637 | 77,104 | | ₩ 16,116 | 84,009 | | |

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13. Inventories

(a) Inventories as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | | June 30 2015 | December 31 2014 |
|--|---|-----------------|---------------------|
| Merchandise, net of loss on the write-down of inventories | ₩ | 8,038 | 12,271 |
| Finished goods, net of loss on the write-down of inventories | | 596,070 | 503,761 |
| Work-in-progress, net of loss on the write-down of inventories | | 355,753 | 545,090 |
| Raw materials, net of loss on the write-down of inventories | | 810,465 | 797,696 |
| Supplies | | 27,989 | 26,936 |
| By-products | | 9,484 | 8,646 |
| Buildings under construction | | 1,513 | 1,185 |
| Sites for lotting-out construction | | 29,820 | 31,179 |
| Goods-in-transit | | 2,155 | 55,739 |
| | ₩ | 1,841,287 | 1,982,503 |

(b) The amount of inventories recognized as an expense for the three- and six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | | 2015 | | 2014 | |
|--|---|-------------|-----------|-------------|-----------|
| | | Three-month | Six-month | Three-month | Six-month |
| Cost of sales: | | | | | |
| Write-down (reversal of write-down) of inventories | ₩ | (587) | (890) | 1,329 | 273 |
| Loss on retirement of inventories | | 2,156 | 3,470 | 1,835 | 3,378 |
| Other expense: | | | | | |
| Loss on retirement of inventories | | - | 641 | 280 | 400 |
| | ₩ | 1,569 | 3,221 | 3,444 | 4,051 |

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14. Cash and Cash Equivalents

(a) Cash and cash equivalents as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | | June 30 2015 | December 31 2014 |
|------------------------------|---|-----------------|---------------------|
| Cash on hand | ₩ | 10,745 | 11,854 |
| Demand deposits | | 165,027 | 157,138 |
| Short-term investment assets | | 268,144 | 247,402 |
| | ₩ | 443,916 | 416,394 |

(b) Other financial assets as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | | June 30 2015 | | December 31 2014 | |
|---|---|-----------------|-------------|---------------------|-------------|
| | | Current | Non-current | Current | Non-current |
| Time deposits | ₩ | 19,037 | 11 | 35,337 | 11 |
| Certificates of deposit | | 21,349 | - | 31,099 | - |
| Money trust | | 759,000 | 266 | 602,000 | 236 |
| Security deposits for checking accounts | | - | 12 | - | 12 |
| | ₩ | 799,386 | 289 | 668,436 | 259 |

(c) Financial assets restricted in use as of June 30, 2015 and December 31, 2014 were as follows:

| <i>In millions of won</i> | | June 30 2015 | December 31 2014 |
|----------------------------------|---|-----------------|---------------------|
| Long-term other financial assets | ₩ | 12 | 12 |
| Other financial assets | | 3,459 | 3,209 |
| Cash and cash equivalents | | - | 527 |
| | ₩ | 3,471 | 3,748 |

15. Non-current Assets Held for Sale

Changes in non-current assets held for sale for the six-month period ended June 30, 2015 and the year ended December 31, 2014 were as follows:

| <i>In millions of won</i> | | 2015 | 2014 |
|---|---|-------|-------|
| Beginning balance | ₩ | 426 | 153 |
| Transfer from property, plant and equipment | | 1,542 | 426 |
| Disposal | | (426) | (153) |
| Ending balance | ₩ | 1,542 | 426 |

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16. Pledged Assets

(a) The followings assets were pledged as collateral for borrowings as of June 30, 2015.

In millions of won

| Asset | Carrying amount | Type | Received amount | Collateralized amount | Holder |
|---|-----------------|-----------------------------|-----------------|-----------------------|---|
| Investment property | ₩ 72,027 | Leasehold deposits received | ₩ 9,003 | 9,337 | Metlife Insurance Korea Co., Ltd., etc. |
| Property, plant and equipment and investment property | 81,823 | Short-term borrowings | 17,000 | 65,273 | Hana Bank, etc. |
| | | Long-term borrowings | 11,865 | | |
| Property, plant and equipment | 29,003 | Investment subsidy | - | 660 | Chungju-si |
| | | Short-term borrowings | 2,154 | 3,000 | Hana Bank |
| | 17,908 | Long-term borrowings | 5,000 | 5,000 | |
| | | Purchasing fund | 7,204 | 7,392 | |
| Other financial assets | 600 | Purchasing fund | 600 | 600 | |
| | 100 | Short-term borrowings | 1,500 | 100 | |
| | 1,410 | Contract fulfilment | - | 1,410 | Haitai Beverage Co., Ltd., etc. |
| | 1,349 | ACH pledged | - | 1,349 | Bank of Oklahoma |
| | ₩ 204,220 | | ₩ 54,326 | 94,121 | |

(b) The followings assets were pledged as collateral for borrowings as of December 31, 2014.

In millions of won

| Asset | Carrying amount | Type | Received amount | Collateralized amount | Holder |
|---|-----------------|-----------------------------|-----------------|-----------------------|---|
| Investment property | ₩ 71,677 | Leasehold deposits received | ₩ 7,901 | 8,683 | Metlife Insurance Korea Co., Ltd., etc. |
| Property, plant and equipment and investment property | 71,061 | Short-term borrowings | 12,000 | 49,694 | Hana Bank, etc. |
| | | Long-term borrowings | 7,094 | | |
| Property, plant and equipment | 28,882 | Investment subsidy | - | 660 | Chungju-si |
| | | Short-term borrowings | 1,554 | 3,000 | Hana Bank |
| | 17,613 | Long-term borrowings | 5,000 | 5,000 | |
| | | Purchasing fund | 7,823 | 7,392 | |
| Other financial assets | 600 | Purchasing fund | 600 | 660 | |
| | 100 | Short-term borrowings | 1,500 | 110 | |
| | 1,410 | Contract fulfilment | - | 1,410 | Haitai Beverage Co., Ltd., etc. |
| | 1,099 | ACH pledged | - | 1,099 | Bank of Oklahoma |
| | ₩ 192,442 | | ₩ 43,472 | 77,708 | |

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17. Share Capital and Other Capital Surplus

(a) Details of share capital as of June 30, 2015 and December 31, 2014 were as follows:

| <i>In won, except number of shares</i> | June 30 2015 | December 31 2014 |
|--|-----------------|---------------------|
| Number of ordinary shares: | | |
| Authorized | 800,000,000 | 800,000,000 |
| Issued | 137,292,497 | 137,292,497 |
| Outstanding | 125,965,892 | 125,898,800 |
| Par value | ₩ 5,000 | 5,000 |

The Parent Company has, thus far, reacquired and retired 53,699,400 shares of treasury share. Accordingly, as of June 30, 2015, the Parent Company's ordinary share differs from the aggregate par value of issued shares by ₩268,497 million.

(b) Changes in the number of shares for the six-month period ended June 30, 2015 and the year ended December 31, 2014 were as follows:

| <i>Number of share</i> | 2015 | | | 2014 | | |
|-------------------------------------|--------------------|--------------------|-------------|--------------------|--------------------|-------------|
| | Ordinary shares | Treasury shares | Total | Ordinary shares | Treasury shares | Total |
| Beginning balance | 137,292,497 | (11,393,697) | 125,898,800 | 137,292,497 | (11,393,697) | 125,898,800 |
| In-kind donation of treasury shares | - | 67,092 | 67,092 | - | - | - |
| Ending balance | 137,292,497 | (11,326,605) | 125,965,892 | 137,292,497 | (11,393,697) | 125,898,800 |

(c) Changes in other capital surplus for the six-month period ended June 30, 2015 and the year ended December 31, 2014 were as follows:

| <i>In millions of won</i> | 2015 | 2014 |
|---|------------|---------|
| Beginning balance | ₩ (4,573) | (4,573) |
| Extinguishment of equity conversion options | (5,482) | - |
| Ending balance | ₩ (10,055) | (4,573) |

During the six-month period ended June 30, 2015, the Group early redeemed the redeemable convertible preferred shares issued by Somang Cosmetics Co., Ltd. With regard to the early redemption, the Group recognized the consideration paid for the repurchase of equity conversion options as other capital surplus.

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18. Treasury Shares

- (a) Changes in the treasury shares for the six-month period ended June 30, 2015 and the year ended December 31, 2014 were as follows:

| <i>In millions of won, except number of shares</i> | 2015 | | 2014 | |
|--|------------------|-----------------|------------------|-----------------|
| | Number of shares | Carrying amount | Number of shares | Carrying amount |
| Beginning balance | 11,393,697 | ₩ 339,059 | 11,393,697 | ₩ 339,059 |
| In-kind donation of treasury shares | (67,092) | (1,997) | - | - |
| Ending balance | 11,326,605 | ₩ 337,062 | 11,393,697 | ₩ 339,059 |

- (b) Changes in gain on reissuance of treasury shares for the six-month period ended June 30, 2015 and the year ended December 31, 2014 were as follows:

| <i>In millions of won</i> | 2015 | 2014 |
|---|-----------|---------|
| Beginning balance | ₩ 492,032 | 492,032 |
| In-kind donation of treasury shares, net of tax | 2,616 | - |
| Ending balance | ₩ 494,648 | 492,032 |

19. Reserves

- (a) Details of reserves as of June 30, 2015 and December 31, 2014 were as follows:

| <i>In millions of won</i> | June 30 2015 | December 31 2014 |
|--|-----------------|---------------------|
| Available-for-sale financial assets - net change in fair value | ₩ (21,522) | (14,303) |
| Foreign operations - foreign currency translation differences | (81,080) | (80,729) |
| Legal reserve | 603,145 | 603,145 |
| Voluntary reserve | 3,226,658 | 2,918,254 |
| | ₩ 3,727,201 | 3,426,367 |

- (b) Available-for-sale financial assets - net change in fair value as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | June 30 2015 | December 31 2014 |
|---|-----------------|---------------------|
| Available-for-sale financial assets - net change in fair value before tax | ₩ (28,393) | (18,869) |
| Tax effect | 6,871 | 4,566 |
| | ₩ (21,522) | (14,303) |

- (c) Legal Reserve

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

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19. Reserves, Continued

(d) Details of voluntary reserve as of June 30, 2015 and December 31, 2014 were as follows:

| <i>In millions of won</i> | | June 30 2015 | December 31 2014 |
|---|---|-----------------|---------------------|
| Reserve for business rationalization | ₩ | 12,851 | 12,851 |
| Reserve for research and human resource development | | 30,000 | 42,522 |
| Reserve for business expansion | | 698,881 | 698,881 |
| Unconditional reserve | | 2,484,926 | 2,164,000 |
| | ₩ | 3,226,658 | 2,918,254 |

Reserve for business rationalization

Until December 10, 2002 under *the Special Tax Treatment Control Act*, investment tax credits were allowed for certain investments. The Parent Company was, however, required to appropriate from retained earnings, the amount of tax benefits received, and transfer such amount into a reserve for business rationalization.

Effective December 11, 2002, the Parent Company was no longer required to establish a reserve for business rationalization despite tax benefits received for certain investments and, consequently, the existing balance is now regarded as a voluntary reserve.

Reserve for research and human resource development

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 reserves

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

20. Retained Earnings

Changes in retained earnings for the six-month period ended June 30, 2015 and the year ended December 31, 2014 were as follows:

| <i>In millions of won</i> | | 2015 | 2014 |
|---|---|-----------|-----------|
| Beginning balance | ₩ | 1,100,876 | 802,755 |
| Dividends | | (428,056) | (402,876) |
| Transfer from reserve for research and human resource development | | 12,522 | 47,478 |
| Transfer to unconditional reserve | | (320,926) | (152,000) |
| Profit for the period | | 569,484 | 813,801 |
| - Less: non-controlling interests | | 641 | 11,805 |
| Remeasurements of net defined benefit liability, net of tax | | (183) | (21,654) |
| - Less: non-controlling interests | | 14 | 1,567 |
| Ending balance | ₩ | 934,372 | 1,100,876 |

Dividend distribution to the Parent Company's shareholders amounting to ₩428,056 million for the year ended December 31, 2014 was paid during the six-month period ended June 30, 2015.

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21. Trade and Other Payables

Trade and other payables as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | June 30 2015 | | December 31 2014 | |
|-----------------------------|-----------------|-------------|---------------------|-------------|
| | Current | Non-current | Current | Non-current |
| Leasehold deposits received | ₩ - | 26,341 | - | 27,007 |
| Trade payables | 64,382 | - | 95,936 | - |
| Withholdings | 206,997 | 214 | 158,480 | 258 |
| Accrued expenses | 179,803 | - | 156,231 | - |
| Other payables | 111,711 | 6,099 | 93,206 | 4,979 |
| | ₩ 562,893 | 32,654 | 503,853 | 32,244 |

22. Borrowings

(a) Short-term borrowings as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | Lender | Annual interest rate | June 30 2015 | December 31 2014 |
|--|---------------------|-------------------------|-----------------|---------------------|
| Borrowings | Shinhan Bank, etc. | 5.39%, etc. | ₩ 10,000 | 87,231 |
| | Hana Bank | 2.78%~5.79% | 27,434 | 28,420 |
| | Korea Exchange Bank | 3M Libor+1.45% | 40,089 | - |
| Customer credit contracts ^(*) | Nonghyup Bank, etc. | 6.64%, etc. | 25,942 | 26,210 |
| | | | ₩ 103,465 | 141,861 |

(*) The Group has entered into a customer credit contract with Nonghyup Bank, etc. The financial institutions pay past-due trade receivables for customers and the Group has provided guarantees to the financial institutions for customers.

(b) Long-term borrowings as of June 30, 2015 and December 31, 2014 are summarized as follows:

| <i>In millions of won</i> | Lender | Maturity | Annual interest rate | June 30 2015 | December 31 2014 |
|---|------------------------|----------|-------------------------|-----------------|---------------------|
| Borrowings | Nonghyup Bank | Jun.2020 | 0.00% | ₩ 31,593 | 23,852 |
| | Hana Bank | Sep.2017 | 2.13%~4.20% | 7,515 | 8,096 |
| | Kookmin Bank | Sep.2023 | 3.02%~3.57% | 9,175 | 3,794 |
| | Korea Development Bank | Jun.2018 | 3.33% | 175 | 204 |
| Convertible bond | | | | 8,326 | 8,326 |
| Redeemable | | | | | |
| convertible preferred shares | | | | 52,424 | 76,890 |
| Redeemable preferred shares | | | | 17,851 | 17,851 |
| | | | | ₩ 127,059 | 139,013 |
| Statement of financial position: | | | | | |
| Current | | | | ₩ 23,375 | 1,218 |
| Non-current | | | | 103,684 | 137,795 |
| | | | | ₩ 127,059 | 139,013 |

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22. Borrowings, Continued

(i) Details of convertible bond and other liabilities as of June 30, 2015 are summarized as follows:

| Description | | Details |
|---|--------------------------------|---|
| Convertible bond ^(*) | PT Trisakti Purwosari Makmur | Issue date: Dec.2011 Par value: IDR 100,000 million Issued value: IDR 100,000 million Carrying amount: W 8,326 million (IDR 100,000 million) Interest rate: 9.5% The bonds will mature four years from the issue date and become convertible into shares at the rate of IDR 9,659 per share. |
| Redeemable convertible preferred shares | KT&G Life Sciences Corporation | Issue date: Nov.2011 Issued value: W 18,000 million Carrying amount: W 17,158 million The convertible instrument will mature ten years from the issue date. The instrument can be converted into 1,090,909 ordinary shares at any time, and automatically converts upon maturity. If KT&G Life Sciences Corporation will be not listed by the end of 2015, recourse is available. |
| | Renzoluc Pte, Ltd. | Issue date: Sep.2012 Issued value: USD 31,373 thousand Carrying amount: W 35,266 million (USD 31,373 thousand) The convertible instrument will mature ten years from the date of establishment of QCP 2011 Corporate Partnership Private Equity Fund (the "PEF"). The instrument can be converted into 6,978,948 ordinary shares at any time after five years from the issue date. Payable on demand from 270 days prior to the expiration of the PEF |
| Redeemable preferred shares | K-Q HongKong I, Limited | Issue date: Aug.2012, Sep.2012, Dec.2012 Issued value: USD 15,880,000 Carrying amount: W 17,851 million (USD 15,880,000) The convertible instrument will mature ten years from the date of establishment of the PEF. Payable on demand from 270 days prior to the expiration of the PEF |

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

During the six-month period ended June 30, 2015, the Group early redeemed the redeemable convertible preferred shares issued by Somang Cosmetics Co., Ltd. With regard to the early redemption, the Group recognized ~~W~~11,962 million of gain on debt redemption and ~~W~~(5,482) million of other capital surplus, respectively.

(c) As discussed in note 16 to the consolidated interim financial statements, the Group provided collateral for the above borrowings as of June 30, 2015.

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23. Retirement Benefits Plan

- (a) The components of retirement benefits for the three- and six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | 2015 | | 2014 | |
|--|-------------|-----------|-------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Defined benefit plans: | | | | |
| Current service cost | ₩ 11,035 | 22,049 | 11,161 | 21,775 |
| Interest cost | 2,537 | 4,616 | 2,825 | 5,648 |
| Expected return on plan assets | (1,700) | (2,941) | (1,837) | (3,675) |
| Past service cost and loss on settlement | - | - | 461 | 924 |
| | 11,872 | 23,724 | 12,610 | 24,672 |
| Defined contribution plans: | | | | |
| Contributions recognized as expense | 694 | 2,106 | 507 | 1,311 |
| | ₩ 12,566 | 25,830 | 13,117 | 25,983 |

The Group recognized termination benefits amounting to ₩6,834 million and ₩417 million as an expense for the six-month periods ended June 30, 2015 and 2014, respectively.

- (b) Net defined benefit liability as of June 30, 2015 and December 31, 2014 is summarized as follows:

| <i>In millions of won</i> | June 30 2015 | December 31 2014 |
|--|-----------------|---------------------|
| Present value of defined benefit obligations | ₩ 373,435 | 364,717 |
| Fair value of plan assets | (219,655) | (232,470) |
| | ₩ 153,780 | 132,247 |

24. Result from Operating Activities

- (a) Details of expenses classified by nature for the three- and six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | 2015 | | 2014 | |
|---|-------------|-----------|-------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Changes in inventories | ₩ 88,548 | 141,216 | 103,719 | 183,190 |
| Raw materials and consumables purchased | 261,771 | 489,737 | 248,931 | 487,433 |
| Salaries | 129,592 | 267,195 | 117,298 | 243,397 |
| Retirement and termination benefits | 12,670 | 32,664 | 13,580 | 26,446 |
| Depreciation | 37,578 | 74,626 | 37,402 | 74,660 |
| Amortization | 2,701 | 5,450 | 3,373 | 6,609 |
| Employee welfare | 17,402 | 53,677 | 16,606 | 30,449 |
| Advertising | 50,571 | 107,629 | 50,627 | 106,052 |
| Commissions | 59,464 | 129,146 | 60,851 | 121,410 |
| Other expenses | 62,632 | 135,965 | 53,643 | 129,906 |
| | ₩ 722,929 | 1,437,305 | 706,030 | 1,409,552 |

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24. Result from Operating Activities, Continued

(b) Details of selling, general and administrative expenses for the three- and six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | 2015 | | 2014 | |
|---|-------------|-----------|-------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Salaries | ₩ 84,954 | 177,760 | 79,621 | 162,821 |
| Retirement and termination benefits | 8,482 | 22,362 | 8,404 | 17,115 |
| Employee welfare | 12,157 | 39,167 | 12,047 | 21,670 |
| Travel | 2,909 | 5,326 | 2,800 | 5,261 |
| Communications | 1,315 | 2,648 | 1,370 | 2,788 |
| Utilities | 1,859 | 4,898 | 1,782 | 4,621 |
| Taxes and dues | 12,581 | 15,025 | 8,804 | 12,854 |
| Supplies | 953 | 1,781 | 855 | 1,667 |
| Rent | 5,962 | 12,055 | 5,925 | 12,758 |
| Depreciation | 11,066 | 21,942 | 11,434 | 22,735 |
| Amortization | 2,650 | 5,351 | 3,226 | 6,462 |
| Repairs and maintenance | 1,449 | 2,233 | 2,641 | 3,412 |
| Vehicles | 1,713 | 3,317 | 2,154 | 4,587 |
| Insurance | 469 | 969 | 496 | 906 |
| Commissions | 50,574 | 108,175 | 49,495 | 101,594 |
| Freight and custody | 12,448 | 24,690 | 11,936 | 23,322 |
| Conferences | 919 | 1,748 | 865 | 1,827 |
| Advertising | 50,518 | 107,548 | 50,575 | 105,975 |
| Training | 1,397 | 2,877 | 1,813 | 3,138 |
| Prizes and rewards | 641 | 1,194 | 314 | 871 |
| Cooperation | 135 | 313 | 367 | 547 |
| Normal research and development | 7,929 | 15,814 | 8,484 | 16,822 |
| Impairment loss (reversal of impairment loss) on trade receivables | (12) | (4) | (2,379) | (1,400) |
| | ₩ 273,068 | 577,189 | 263,029 | 532,353 |

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25. Other Income and Expenses

(a) Details of other income for the three- and six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | 2015 | | 2014 | |
|--|-------------|-----------|-------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Foreign currency transaction gain | ₩ 4,393 | 8,636 | 1,574 | 4,537 |
| Foreign currency translation gain | 20,997 | 31,665 | - | 6,600 |
| Reversal of impairment loss on other receivables | - | 3 | 1 | 13 |
| Gain on sale of property, plant and equipment | 6,312 | 7,122 | 305 | 1,249 |
| Gain on sale of intangible assets | 668 | 753 | - | 54 |
| Others | 2,143 | 12,626 | 4,283 | 7,487 |
| | ₩ 34,513 | 60,805 | 6,163 | 19,940 |

(b) Details of other expenses for the three- and six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | 2015 | | 2014 | |
|---|-------------|-----------|-------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Foreign currency transaction loss | ₩ 3,884 | 7,091 | 6,747 | 8,879 |
| Foreign currency translation loss | 3,173 | 14,783 | 39,791 | 38,719 |
| Impairment loss on other receivables | - | 12 | - | - |
| Donations | 864 | 21,761 | 2,031 | 8,321 |
| Loss on sale of property, plant and equipment | 198 | 646 | 775 | 1,795 |
| Loss on sale of intangible assets | - | 3 | - | 17 |
| Impairment loss on intangible assets | 157 | 157 | - | 19 |
| Others | 2,967 | 7,661 | 2,121 | 9,294 |
| | ₩ 11,243 | 52,114 | 51,465 | 67,044 |

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26. Net Finance Income

- (a) Details of net finance income for the three- and six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | 2015 | | 2014 | |
|---|-------------|-----------|-------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Finance cost: | | | | |
| Interest expense | ₩ (2,309) | (5,628) | (2,579) | (5,260) |
| Loss on transactions of derivative instruments | - | - | - | (14) |
| | (2,309) | (5,628) | (2,579) | (5,274) |
| Finance income: | | | | |
| Interest income | 6,718 | 15,532 | 8,614 | 18,471 |
| Dividend income | 3,619 | 7,847 | 2,101 | 5,198 |
| Investment income on long-term deposits in MSA Escrow Fund | 14 | 1,066 | 27 | 325 |
| Gain on transactions of derivative instruments | - | 7 | - | - |
| Gain on debt redemption | 11,962 | 11,962 | - | - |
| | 22,313 | 36,414 | 10,742 | 23,994 |
| Net finance income | ₩ 20,004 | 30,786 | 8,163 | 18,720 |

- (b) Details of interest expense for the three- and six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | 2015 | | 2014 | |
|---------------------------|-------------|-----------|-------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Borrowings | ₩ 941 | 2,507 | 1,128 | 2,212 |
| Trade and other payables | 257 | 887 | 905 | 1,916 |
| Others | 1,111 | 2,234 | 546 | 1,132 |
| | ₩ 2,309 | 5,628 | 2,579 | 5,260 |

- (c) Details of interest income for the three- and six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | 2015 | | 2014 | |
|-------------------------------------|-------------|-----------|-------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Deposits | ₩ 5,707 | 13,665 | 6,451 | 14,079 |
| Available-for-sale financial assets | 13 | 25 | 20 | 44 |
| Trade and other receivables | 998 | 1,842 | 2,143 | 4,348 |
| | ₩ 6,718 | 15,532 | 8,614 | 18,471 |

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27. Income Tax

- (a) Income tax expense was recognized as current tax expense adjusted to current adjustments for prior periods, deferred tax expense (income) by origination and reversal of deferred tax assets (liabilities) and temporary differences, and income tax recognized in other comprehensive income. The average effective tax rate was 26.40% and 28.32% for the six-month periods ended June 30, 2015 and 2014, respectively.
- (b) Deferred tax assets have been recognized to the extent the Group has determined it is probable that future profits will be available against which the Group can utilize the related benefit.

28. Earnings per Share

Basic and diluted earnings per share for the three- and six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won, except share information</i> | 2015 | | 2014 | |
|---|-------------|-------------|-------------|-------------|
| | Three-month | Six-month | Three-month | Six-month |
| Profit for the period | ₩ 261,202 | 570,125 | 186,786 | 378,842 |
| Weighted-average number of ordinary shares outstanding | 125,965,892 | 125,957,737 | 125,898,800 | 125,898,800 |
| Basic and diluted earnings per share in won | ₩ 2,074 | 4,526 | 1,484 | 3,009 |

29. Transactions and Balances with Related Companies

- (a) The Group has no significant transactions, receivables and liabilities with related parties, as of and for the six-month period ended June 30, 2015.
- (b) There is no guarantee being provided by related parties as of June 30, 2015.
- (c) Details of key management personnel compensation for the three- and six-month periods ended June 30, 2015 and 2014 are summarized as follows:

| <i>In millions of won</i> | 2015 | | 2014 | |
|------------------------------|-------------|-----------|-------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Short-term employee benefits | ₩ 5,382 | 12,867 | 5,924 | 11,297 |
| Post-employment benefits | 744 | 1,456 | 677 | 1,701 |
| | ₩ 6,126 | 14,323 | 6,601 | 12,998 |

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30. Risk Management and Fair Value of Financial Instruments

(a) Overview

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

- Market risk
- Credit risk
- Liquidity risk

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

(b) Risk Management Framework

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

(c) Management of Financial Risks

(i) Market risk

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

Currency risk

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

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

(c) Management of Financial Risks, Continued

The carrying amounts of monetary assets and liabilities denominated in a currency other than the functional currency as of June 30, 2015 and December 31, 2014 were as follows:

| <i>In millions of won</i> | | June 30 2015 | | December 31 2014 | |
|---------------------------|---|-----------------|-------------|---------------------|-------------|
| | | Assets | Liabilities | Assets | Liabilities |
| USD | ₩ | 930,226 | 153,998 | 837,834 | 180,646 |
| EUR | | 29,159 | 7,847 | 24,735 | 10,443 |
| Others | | 9,837 | 3,880 | 10,878 | 2,036 |
| | ₩ | 969,222 | 165,725 | 873,447 | 193,125 |

As of June 30, 2015 and December 31, 2014, the effects of a 10% weakening or strengthening of functional currency against foreign currencies on profit before tax were as follows:

| <i>In millions of won</i> | | June 30 2015 | | December 31 2014 | |
|--|---|------------------|----------------------|---------------------|----------------------|
| | | 10% weakening | 10% strengthening | 10% weakening | 10% strengthening |
| Increase (decrease) in profit before tax | ₩ | 80,350 | (80,350) | 68,032 | (68,032) |

Equity price risk

The Group has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Other market price risk arises from available-for-sale equity instruments held for investments. The Group's management has monitored the mix of debt and equity instruments in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Group's management.

As of June 30, 2015 and December 31, 2014, the effects of a 5% fluctuation of the price index of stocks on other comprehensive income were as follows:

| <i>In millions of won</i> | | June 30 2015 | | December 31 2014 | |
|---------------------------------|---|-----------------|----------------|---------------------|----------------|
| | | 5% increase | 5% decrease | 5% increase | 5% decrease |
| Comprehensive income before tax | ₩ | (1,206) | 1,206 | 5,676 | (5,676) |

Interest rate risk

The Group has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's management has monitored the level of interest rates regularly and has maintained the balance of borrowings at variable rates and fixed rates. As of June 30, 2015, there is no significant effect on cash flows or the fair value of financial liabilities from the interest rate fluctuation, considering the amounts of interest bearing liabilities.

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

(c) Management of Financial Risks, Continued

(ii) Credit risk

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

The carrying amount of financial assets is maximum exposure to credit risk. The maximum exposure to credit risk as of June 30, 2015 and December 31, 2014 is as follows:

| <i>In millions of won</i> | June 30 2015 | December 31 2014 |
|--|-----------------|---------------------|
| Available-for-sale debt instruments | ₩ 2,596 | 2,596 |
| Long-term deposits in MSA Escrow Fund | 351,331 | 301,808 |
| Trade and other receivables | 1,168,063 | 1,076,512 |
| Other financial assets | 799,675 | 668,695 |
| Cash and cash equivalents (excluding cash on hand) | 433,171 | 404,540 |
| Financial guarantee contract | 38,905 | 150,063 |
| | ₩ 2,793,741 | 2,604,214 |

(iii) Liquidity risk

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

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

(c) Management of Financial Risks, Continued

The maturity analysis with a residual contractual maturity of financial liabilities as of June 30, 2015 and December 31, 2014 is as follows:

| <i>In millions of won</i> | Carrying amount | Contractual cash flow | Within 3 months | Residual contractual maturity | | | |
|---|-----------------|-----------------------|-----------------|-------------------------------|-----------------------|----------------|--|
| | | | | Between 3 months and 1 year | Between 1 and 5 years | Beyond 5 years | |
| As of June 30, 2015: | | | | | | | |
| Trade and other payables | ₩ 388,336 | 388,646 | 310,516 | 46,218 | 31,291 | 621 | |
| Long-term borrowings | 103,684 | 106,389 | 76 | 226 | 100,838 | 5,249 | |
| Current portion of long-term borrowings | 23,375 | 24,476 | 314 | 24,162 | - | - | |
| Short-term borrowings | 103,465 | 105,395 | 40,006 | 65,389 | - | - | |
| Financial guarantee contract | - | 38,905 | 629 | - | 38,276 | - | |
| | ₩ 618,860 | 663,811 | 351,541 | 135,995 | 170,405 | 5,870 | |
| As of December 31, 2014: | | | | | | | |
| Trade and other payables | ₩ 377,359 | 379,047 | 328,406 | 17,414 | 33,227 | - | |
| Long-term borrowings | 137,795 | 144,266 | 720 | 2,171 | 33,953 | 107,422 | |
| Current portion of long-term borrowings | 1,218 | 1,248 | 302 | 946 | - | - | |
| Short-term borrowings | 141,861 | 143,438 | 115,604 | 27,834 | - | - | |
| Financial guarantee contract | - | 150,063 | - | 150,063 | - | - | |
| | ₩ 658,233 | 818,062 | 445,032 | 198,428 | 67,180 | 107,422 | |

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

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

(d) Fair value of Financial Instruments

The carrying amount of each category of financial assets and liabilities as of June 30, 2015 and December 31, 2014 are as follows:

| <i>In millions of won</i> | June 30 2015 | December 31 2014 |
|--|-----------------|---------------------|
| Financial assets: | | |
| Available-for-sale financial assets | ₩ 318,509 | 326,833 |
| Loans and receivables | | |
| - Trade and other receivables | 1,168,063 | 1,076,512 |
| - Other financial assets | 799,675 | 668,695 |
| - Long-term deposits in MSA Escrow Fund | 351,331 | 301,808 |
| - Cash and cash equivalents | 443,916 | 416,394 |
| | 2,762,985 | 2,463,409 |
| | ₩ 3,081,494 | 2,790,242 |
| Financial liabilities: | | |
| Financial liabilities measured at amortized cost | | |
| - Trade and other payables | ₩ 388,336 | 377,359 |
| - Long-term borrowings | 103,684 | 137,795 |
| - Current portion of long-term borrowings | 23,375 | 1,218 |
| - Short-term borrowings | 103,465 | 141,861 |
| | ₩ 618,860 | 658,233 |

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

(d) Fair value of Financial Instruments, Continued

The fair value measurements classified by fair value hierarchy as of June 30, 2015 and December 31, 2014 were as follows:

| <i>In millions of won</i> | Carrying amount | Fair value | | |
|-------------------------------------|-----------------|------------|----------|-----------|
| | | Level I | Level II | Level III |
| As of June 30, 2015: | | | | |
| Financial assets | | | | |
| Available-for-sale financial assets | ₩ 288,711 | 196,077 | - | 92,634 |
| As of December 31, 2014: | | | | |
| Financial assets | | | | |
| Available-for-sale financial assets | ₩ 297,135 | 206,409 | - | 90,726 |

There is no transfer between fair value hierarchy levels of recurring fair value measurements for the six-month period ended June 30, 2015 and the year ended December 31, 2014.

The fair value measurements for available-for-sale equity instruments in real estate trust fund have been categorized as a level 3 fair value based on the inputs to the valuation techniques used. Changes in fair value classified as level 3 for the six-month period ended June 30, 2015 and the year ended December 31, 2014 were as follows:

| <i>In millions of won</i> | 2015 | 2014 |
|---------------------------|----------|----------|
| Beginning balance | ₩ 90,726 | 62,467 |
| Acquisition | 1,100 | 38,992 |
| Disposal | - | (14,411) |
| Changes in fair value | 808 | 3,678 |
| Ending balance | ₩ 92,634 | 90,726 |

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

(e) Finance income (costs)

(i) Details of finance income (costs) by categories for the six-month period ended June 30, 2015 were as follows:

| <i>In millions of won</i> | Financial assets at fair value through profit or loss | Available -for-sale financial assets | Loans and receivables | Financial liabilities measured at amortized cost | Total |
|--|--|---|-----------------------------|---|---------|
| Profit or loss: | | | | | |
| Interest income | ₩ - | 25 | 15,507 | - | 15,532 |
| Dividend income | - | 7,847 | - | - | 7,847 |
| Investment income on | | | | | |
| long-term deposits in MSA Escrow Fund | - | - | 1,066 | - | 1,066 |
| Gain on transactions of derivative instruments | 7 | - | - | - | 7 |
| Gain on debt redemption | - | - | - | 11,962 | 11,962 |
| Interest expense | - | - | - | (5,628) | (5,628) |
| | ₩ 7 | 7,872 | 16,573 | 6,334 | 30,786 |
| Comprehensive loss before tax | | | | | |
| Net change in fair value | ₩ - | (9,524) | - | - | (9,524) |

(ii) Details of finance income (costs) by categories for the six-month period ended June 30, 2014 were as follows:

| <i>In millions of won</i> | Financial assets at fair value through profit or loss | Available -for-sale financial assets | Loans and receivables | Financial liabilities measured at amortized cost | Total |
|--|--|---|-----------------------------|---|---------|
| Profit or loss: | | | | | |
| Interest income | ₩ - | 44 | 18,427 | - | 18,471 |
| Dividend income | - | 5,198 | - | - | 5,198 |
| Investment income on | | | | | |
| long-term deposits in MSA Escrow Fund | - | - | 325 | - | 325 |
| Interest expense | - | - | - | (5,260) | (5,260) |
| Loss on transactions of derivative instruments | (14) | - | - | - | (14) |
| | ₩ (14) | 5,242 | 18,752 | (5,260) | 18,720 |
| Comprehensive income before tax | | | | | |
| Net change in fair value | ₩ - | 5,682 | - | - | 5,682 |

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31. Capital Management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group monitors capital using net debt deducting cash and cash equivalents and current financial instruments from borrowings and equity. The Group applied the same capital management strategy that was applied in the previous year.

As of June 30, 2015 and December 31, 2014, the Group's capital structure was as follows:

| <i>In millions of won</i> | June 30 2015 | December 31 2014 |
|--------------------------------|-----------------|---------------------|
| Net debt: | | |
| Debt (borrowings) | ₩ 230,524 | 280,874 |
| Less: | | |
| Cash and cash equivalents | (443,916) | (416,394) |
| Current other financial assets | (799,386) | (668,436) |
| | (1,012,778) | (803,956) |
| Equity | ₩ 5,835,059 | 5,708,081 |

32. Contingent Liabilities and Commitments

- (a) Each year the Group deposits a proportion of sales of tobacco products in the United States in accordance with the Tobacco Master Settlement Agreement ("MSA") under the Escrow Statute of the United States government. The MSA Escrow Funds are maintained to pay the medical expenses of tobacco purchasers who have suffered health effects as a result of smoking. The unused portion of this fund will be refunded to the Group 25 years from the date of each annual funding. The Group recorded as long-term deposits the amounts paid into the MSA Escrow Funds of State governments in the United States against potential litigation and damages related to the export of tobacco into the United States.
- (b) As of June 30, 2015, the tobacco lawsuits claiming damages of ₩100 million and a lawsuit by National Health Insurance Service claiming damages of ₩53,742 million are filed against the Group. Additionally, as of June 30, 2015, the Group is involved in ten lawsuits as a plaintiff for alleged damages totalling ₩9,692 million and ten lawsuits as a defendant for alleged damages totalling ₩3,689 million. The amount of the liability the Group may ultimately be liable for with respect to the litigation cannot be reasonably estimated as of June 30, 2015.
- (c) As of June 30, 2015, the Group has entered into letter of credit agreements with Korea Exchange Bank and other banks with limits in the aggregate of USD 63,500 thousand.
- (d) As of June 30, 2015, the Group's trade receivables from the export of cigarettes are insured against non-payment up to USD 16,630 thousand by an export guarantee insurance with the Korea Export Insurance Corporation.

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32. Contingent Liabilities and Commitments, Continued

- (e) The Group has been provided with a foreign currency payment guarantee for local dealers in Russia and other countries up to USD 40,000 thousand by Korea Exchange Bank. Details of guarantees exercised as of June 30, 2015, are summarized as follows:

| <i>In thousands of USD, THB and millions of IDR</i> | | <i>Exercised amount</i> |
|--|-----|-------------------------|
| Customs bond and L/C opening of Global Trading, Inc. | USD | 13,442 |
| Performance guarantee for export of tobacco sheet to Thailand Tobacco Monopoly | THB | 3,766 |
| Payment guarantee for purchase of certificate stamp of PT Mandiri Maha Mulia | IDR | 89,328 |

- (f) The Group has maintained a contract with the farmers who grow six-year old green ginseng for purchase volume guarantees and recorded contractual amounts paid to the farmers as advance payments in the amount of ₩222,053 million and ₩170,524 million as of June 30, 2015 and December 31, 2014, respectively.
- (g) As of June 30, 2015, the Group has an accounts receivable loan agreement with a limit of ₩104,000 million with Hana Bank and other financial institutions.
- (h) As of June 30, 2015, the Group has a trade bill loan agreement with a limit of ₩10,000 million with Korea Exchange Bank and other financial institutions.
- (i) As of June 30, 2015, the Group has a loan agreement with a limit of ₩173,251 million with Shinhan Bank and other financial institutions.
- (j) As of June 30, 2015, the Group has provided one blank note, 5 notes amounting to ₩4,000 million and two blank checks to Nara Credit and other financial institutions. Besides, As of June 30, 2015, the Group lost seven blank notes and one blank check and expects to proceed a judgment of nullification.
- (k) On March 17, 2011, the Group signed the memorandum of understanding (“MOU”) on global investment partnership with National Pension Service to jointly invest in foreign assets with a limit of ₩800,000 million.
- (l) With relation to the acquisition of Somang Cosmetics Co., Ltd., the Parent Company entered into a contract with a former owner of the acquiree, Kang, Seok-Chang (“Individual Shareholder”). Details of the contract are as follows:

| <i>Description</i> | <i>Details</i> |
|---|---|
| Right of first refusal held by the Parent Company | Individual Shareholder shall not be permitted to make any transfer of its shares, in whole or in part, unless Individual Shareholder has offered them first to the Parent Company. |
| Tag-along right held by Individual Shareholder | In the event that the Parent Company proposes to enter into a transaction or a series of related transactions with a third party purchaser to dispose of 50% or more of its shares, then Individual Shareholder shall elect to participate in such disposition upon the terms and conditions no less favorable than those applicable to the Parent Company. |

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32. Contingent Liabilities and Commitments, Continued

- (m) With relation to the acquisition of KT&G Life Sciences Corporation, the Parent Company entered into a contract with a former owner of the acquiree, Gwak, Tae-Hwan ("Individual Shareholder"). Details of the contract are as follows:

| Description | Details |
|---|--|
| Restriction of disposal | Individual Shareholder shall not be permitted to dispose of its shares, in whole or in part, within one year after KT&G Life Sciences Corporation is listed. |
| Right of first refusal held by the Parent Company | Individual Shareholder shall not be permitted to make any transfer of its shares, in whole or in part, unless Individual Shareholder has offered them first to the Parent Company. |
| Tag-along right held by Individual Shareholder | In the event that the Parent Company proposes to enter into a transaction or a series of related transactions with a third party purchaser to dispose of its shares, then Individual Shareholder shall elect to participate in such disposition upon the terms and conditions no less favorable than those applicable to the Parent Company. |

- (n) As of June 30, 2015, the Company has provided guarantees of ₩38,905 million for the buyers of apartments in respect of their borrowings from Shinhan Bank and other financial institutions.
- (o) As of June 30, 2015, the Group is insured by performance bond insurance up to ₩2,902 million with the Seoul Guarantee Insurance.
- (p) The Group sold its property, plant and equipment and intangible assets relating to the drink business of Iksan factory to Haitai Beverage Co., Ltd. and LG Household & Health Care Co., Ltd., as approved by the Board of Directors on October 16, 2013. In connection, the Group entered into an agreement to refrain from engaging in a business such as beverage manufacture or pharmacy distribution, that could result in a competition with the buyer for three years from the transaction date.

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33. Cash Flows from Operating Activities

- (a) Details of cash generated from operations for the six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | | 2015 | 2014 |
|--|---|-----------|----------|
| Profit for the period | ₩ | 569,484 | 372,523 |
| Adjustments for: | | | |
| Income tax expense | | 204,290 | 147,175 |
| Finance costs | | 5,628 | 5,274 |
| Finance income | | (36,414) | (23,994) |
| Depreciation | | 74,626 | 74,660 |
| Amortization | | 5,450 | 6,609 |
| Retirement and termination benefits | | 32,664 | 24,665 |
| Foreign currency translations loss | | 14,783 | 38,719 |
| Impairment loss on trade and other receivables | | 12 | - |
| Write-down (reversal of write-down) of inventories | | (890) | 273 |
| Loss on sale of property, plant and equipment | | 646 | 1,795 |
| Loss on sale of intangible assets | | 3 | 17 |
| Impairment loss on intangible assets | | 157 | 19 |
| Other expense | | 9,826 | 3,239 |
| Share of gain of associates | | (2,789) | (1,682) |
| Foreign currency translations gain | | (31,665) | (6,600) |
| Reversal of impairment loss on trade and other receivables | | (7) | (1,414) |
| Gain on sale of property, plant and equipment | | (7,122) | (1,249) |
| Gain on sale of intangible assets | | (753) | (54) |
| | | 837,929 | 639,975 |
| Changes in working capital: | | | |
| Trade and other receivables | | (96,600) | (21,075) |
| Advance payments | | (81,958) | (47,145) |
| Prepaid expenses | | (2,170) | (3,900) |
| Prepaid tobacco excise and other taxes | | (184,799) | 9,793 |
| Inventories | | 137,533 | 165,974 |
| Trade and other payables | | 71,091 | (65,937) |
| Advance receipts | | (124) | (14,764) |
| Tobacco excise and other taxes payable | | 275,379 | 58,890 |
| Payment of retirement and termination benefits | | (11,411) | (5,278) |
| Cash generated from operations | ₩ | 944,870 | 716,533 |

- (b) Details of material transactions without cash inflow and outflow for the six-month periods ended June 30, 2015 and 2014 were as follows:

| <i>In millions of won</i> | | 2015 | 2014 |
|---|---|-------|------|
| Decrease in other payables related with acquisition of property, plant and equipment | ₩ | 2,173 | - |
| Increase in advance receipts related with disposal of property, plant and equipment and non-current assets held for sale | | 514 | - |
| Increase in other receivables related with disposal of property, plant and equipment and non-current assets held for sale | | 230 | - |
| Increase in other receivables related with disposal of property, plant and equipment | | 700 | - |