Korea Tomorrow & Global

KT&G CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

(Unaudited)

September 30, 2009 and 2008

(With Independent Accountants' Review Report)

Contents

	Page
Independent Accountants' Review Report	1
Consolidated Statements of Financial Position	3
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Changes in Equity	7
Consolidated Statements of Cash Flows	10
Notes to Consolidated Financial Statements	12

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Independent Accountants' Review Report

The Board of Directors and Shareholders
KT&G Corporation:

We have reviewed the accompanying consolidated financial statements of KT&G Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of September 30, 2009 and December 31, 2008, and the consolidated statements of comprehensive income for the three- and nine-month periods and changes in equity and cash flows for the nine-month periods all of which ended September 30, 2009 and 2008.

Management's responsibility
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards.

Our responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our reviews.

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

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

The accompanying consolidated financial statements as of and for the three- and nine-month period ended September 30, 2009 have been translated into United States dollars solely for the convenience of the reader. We have reviewed the translation and, in our opinion, the consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in note 3 to the consolidated financial statements.

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

As discussed in note 30 to the consolidated financial statements, the Group and the Korean government are defendants in lawsuits claiming damages of ₩584 million for the effects of smoking. The final outcome of these lawsuits cannot be predicted. Accordingly, no provisions have been made in the accompanying consolidated financial statements.

As discussed in note 30 to the consolidated financial statements, the Group maintains a contract with the farmers under which they are to grow green ginseng and, once the product becomes six years old, sell the ginseng to the Group. The amount paid to the farmers in accordance with the contract is recognized in long-term advance payment and advance payment.

As discussed in notes 2 and 32 to the consolidated financial statements, the Group has early-adopted Korean International Financial Reporting Standards as prescribed in the Act on External Audit of Corporation from 2009. Accordingly, the prior period consolidated financial statements presented for comparative purposes have been restated in accordance with Korean International Financial Reporting Standards No.1101 *First-time Adoption of Korean International Financial Reporting Standards*.

KPMG Samjong Accounting Corp.
Seoul, Korea
November 14, 2009

This report is effective as of November 14, 2009, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

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

As of September 30, 2009 and December 31, 2008

In millions of Won and thousands of U.S. dollars	*Note*		September 30 2009 Korean Won		September 30 2009 U.S. dollars (note 3)		December 31 2008 Korean Won
Assets							
Non-current assets							
Property, plant and equipment	*5, 14*	₩	1,458,176	$	1,226,698	₩	1,503,991
Intangible assets	*6*		54,503		45,851		51,934
Investment property	*7, 14*		105,003		88,334		107,331
Equity accounted investment	*4, 8*		1,620		1,363		1,270
Available-for-sale financial assets	*4, 9, 29*		465,593		391,682		302,121
Other financial assets	*14, 29*		196		165		6
Long-term deposits in MSA Escrow Fund	*10, 29, 30*		117,010		98,436		110,261
Long-term advance payments	*30*		165,332		139,086		118,240
Long-term prepaid expenses			6,461		5,436		6,282
Long-term trade and other receivables	*11, 29*		129,493		108,936		138,379
Deferred income tax assets	*26*		11,995		10,091		7,109
Total non-current assets			2,515,382		2,116,078		2,346,924
Current assets							
Inventories	*12*		1,395,024		1,173,571		1,558,885
Current available-for-sale financial assets	*4, 9, 29*		3,060		2,574		2,149
Current other financial assets	*29*		906		762		1,715
Prepaid tobacco excise and other taxes			158,751		133,550		201,774
Trade and other receivables	*11, 29*		787,975		662,888		633,640
Advance payments	*30*		98,190		82,602		30,989
Prepaid expenses			14,668		12,340		3,701
Cash and cash equivalents	*13, 29*		268,035		225,486		110,245
			2,726,609		2,293,773		2,543,098
Non-current asset held for sale	*4, 14, 31*		46,152		38,826		22,907
Total current assets			2,772,761		2,332,599		2,566,005
Total assets	*4*	₩	5,288,143	$	4,448,677	₩	4,912,929

See accompanying notes to consolidated financial statements.

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

As of September 30, 2009 and December 31, 2008

In millions of Won and thousands of U.S. dollars	*Note*		September 30 2009 Korean Won		September 30 2009 U.S. dollars (note 3)		December 31 2008 Korean Won
Equity							
Ordinary shares	*15*	₩	954,959	$	803,365	₩	954,959
Other capital surplus	*15*		5,321		4,476		2,869
Treasury shares	*16*		(262,498)		(220,827)		(226,945)
Gain on reissuance of treasury shares	*16, 26*		468,274		393,938		468,274
Reserve	*17*		2,097,559		1,764,582		1,825,709
Retained earnings	*18*		620,053		521,622		451,407
Equity attributable to owners of the parent	*29*		3,883,668		3,267,156		3,476,273
Non-controlling interests			26,720		22,478		27,564
Total equity			3,910,388		3,289,634		3,503,837
Liabilities							
Non-current liabilities							
Long-term borrowings	*14, 21, 29*		2,152		1,811		2,474
Long-term trade and other payables	*19, 29*		23,069		19,407		23,580
Long-term advance receipts	*23*		10,454		8,794		8,386
Defined benefit liabilities	*22*		91,802		77,229		73,994
Provision			1,548		1,302		1,957
Deferred income tax liabilities	*26*		147,839		124,370		106,762
Total non-current liabilities			276,864		232,913		217,153
Current liabilities							
Short-term borrowings	*14, 20, 29*		113,758		95,699		104,113
Current portion of long-term borrowings	*14, 21, 29*		392		330		280
Trade and other payables	*19, 29*		424,077		356,757		455,333
Advance receipts			34,667		29,164		71,707
Other financial liabilities	*29*		-		-		2,699
Income taxes payable	*26*		92,365		77,702		187,610
Tobacco excise and other taxes payable			435,632		366,478		370,197
Total current liabilities			1,100,891		926,130		1,191,939
Total liabilities	*4*		1,377,755		1,159,043		1,409,092
Total equity and liabilities		₩	5,288,143	$	4,448,677	₩	4,912,929

See accompanying notes to consolidated financial statements.

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

For the nine-month periods ended September 30, 2009 and 2008

In millions of Won and thousands of U.S. dollars, except earnings per share	*Note*		2009 Korean Won		2009 U.S. dollars (note 3)		2008 Korean Won
Sales	*4, 28*	₩	2,685,625	$	2,259,296	₩	2,432,660
Cost of sales	*28*		(1,115,687)		(938,578)		(968,340)
Gross profit			1,569,938		1,320,718		1,464,320
Other income	*24*		49,309		41,481		90,170
Selling, general and administrative expenses	*24*		(609,147)		(512,448)		(585,122)
Employee welfare fund			(3,000)		(2,524)		(21,000)
Other expense	*24*		(90,291)		(75,958)		(25,672)
Profit from operations	*4*		916,809		771,269		922,696
Net finance income (costs)	*25*		4,015		3,377		8,277
Share of loss of associates	*8*		(150)		(124)		(186)
Profit before income taxes			920,674		774,522		930,787
Income tax expense	*26*		(239,289)		(201,303)		(269,994)
Profit for the period		₩	681,385	$	573,219	₩	660,793
Other comprehensive income:							
Available-for-sale financial assets, net of tax	*9*		121,388		102,119		43,436
Exchange differences on translating foreign operations, net of tax			(1,086)		(917)		7,515
Actuarial gains (losses), net of tax	*22*		774		653		(26,150)
Other comprehensive income for the period, net of tax			121,076		101,855		24,801
Total comprehensive income for the period		₩	802,461	$	675,074	₩	685,594
Profit attributable to:							
- Owners of the parent			682,229		573,929		660,784
- Non-controlling interests			(844)		(710)		9
		₩	681,385	$	573,219	₩	660,793
Total comprehensive income attributable to:							
- Owners of the parent			803,305		675,784		686,093
- Non-controlling interests			(844)		(710)		(499)
		₩	802,461	$	675,074	₩	685,594
Earnings per share in Won:							
Basic and diluted	*27*	₩	5,302	$	4.46	₩	5,061

See accompanying notes to consolidated financial statements.

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

For the three-month periods ended September 30, 2009 and 2008

In millions of Won and thousands of U.S. dollars, except earnings per share	*Note*		2009 Korean Won		2009 U.S. dollars (note 3)		2008 Korean Won
Sales	*4, 28*	₩	956,058	$	804,288	₩	843,885
Cost of sales	*28*		(399,933)		(336,446)		(336,708)
Gross profit			556,125		467,842		507,177
Other income	*24*		3,979		3,348		50,723
Selling, general and administrative expenses	*24*		(221,058)		(185,966)		(210,024)
Employee welfare fund			(3,000)		(2,524)		(6,000)
Other expense	*24*		(53,032)		(44,614)		(10,357)
Profit from operations	*4*		283,014		238,086		331,519
Net finance income (costs)	*25*		2,615		2,200		820
Share of loss of associates	*8*		(17)		(14)		(63)
Profit before income taxes			285,612		240,272		332,276
Income tax expense	*26*		(74,993)		(63,088)		(97,465)
Profit for the period		₩	210,619	$	177,184	₩	234,811
Other comprehensive income:							
Available-for-sale financial assets, net of tax	*9*		36,278		30,519		42,755
Exchange differences on translating foreign operations, net of tax			(2,968)		(2,496)		4,090
Actuarial gains (losses), net of tax	*22*		(260)		(219)		(8,759)
Other comprehensive income for the period, net of tax			33,050		27,804		38,086
Total comprehensive income for the period		₩	243,669	$	204,988	₩	272,897
Profit attributable to:							
- Owners of the parent			211,028		177,528		235,455
- Non-controlling interests			(409)		(344)		(644)
		₩	210,619	$	177,184	₩	234,811
Total comprehensive income attributable to:							
- Owners of the parent			244,079		205,333		273,711
- Non-controlling interests			(410)		(345)		(814)
		₩	243,669	$	204,988	₩	272,897
Earnings per share in Won:							
Basic and diluted	*27*	₩	1,641	$	1.38	₩	1,805

See accompanying notes to consolidated financial statements.

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

For the nine-month period ended September 30, 2009

In millions of Won		Ordinary shares	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interest	Total equity
Balance at January 1, 2009	₩	954,959	2,869	(226,945)	468,274	1,825,709	451,407	3,476,273	27,564	3,503,837
Total comprehensive income for the period:										
Profit for the period		-	-	-	-	-	682,229	682,229	(844)	681,385
Other comprehensive income:										
- Available-for-sale financial assets, net of tax		-	-	-	-	121,388	-	121,388	-	121,388
- Exchange differences on translating foreign operations, net of tax		-	-	-	-	(1,086)	-	(1,086)	-	(1,086)
- Actuarial gains, net of tax		-	-	-	-	-	774	774	-	774
Total other comprehensive income		-	-	-	-	120,302	774	121,076	-	121,076
Total comprehensive income for the period		-	-	-	-	120,302	683,003	803,305	(844)	802,461
Transactions with owners and others, recorded directly in equity:										
Dividends		-	-	-	-	-	(360,357)	(360,357)	-	(360,357)
Reacquisition of treasury shares		-	-	(35,553)	-	-	-	(35,553)	-	(35,553)
Transfer to unconditional reserve		-	-	-	-	169,000	(169,000)	-	-	-
Transfer from reserve for research and human resource development		-	-	-	-	(15,000)	15,000	-	-	-
Expiration of employee share options		-	2,452	-	-	(2,452)	-	-	-	-
Total transactions with owners and others		-	2,452	(35,553)	-	151,548	(514,357)	(395,910)	-	(395,910)
Balance at September 30, 2009	₩	954,959	5,321	(262,498)	468,274	2,097,559	620,053	3,883,668	26,720	3,910,388

See accompanying notes to consolidated financial statements.

KT&G CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity (Continued)

(Unaudited)

For the nine-month period ended September 30, 2009

In thousands of U.S. dollars		Ordinary shares	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interest	Total equity
Balance at January 1, 2009	$	803,365	2,414	(190,918)	393,938	1,535,887	379,748	2,924,434	23,188	2,947,622
Total comprehensive income for the period:										
Profit for the period		-	-	-	-	-	573,929	573,929	(710)	573,219
Other comprehensive income:										
- Available-for-sale financial assets, net of tax		-	-	-	-	102,119	-	102,119	-	102,119
- Exchange differences on translating foreign operations, net of tax		-	-	-	-	(917)	-	(917)	-	(917)
- Actuarial gains, net of tax		-	-	-	-	-	653	653	-	653
Total other comprehensive income		-	-	-	-	101,202	653	101,855	-	101,855
Total comprehensive income for the period		-	-	-	-	101,202	574,582	675,784	(710)	675,074
Transactions with owners and others, recorded directly in equity:										
Dividends		-	-	-	-	-	(303,153)	(303,153)	-	(303,153)
Reacquisition of treasury shares		-	-	(29,909)	-	-	-	(29,909)	-	(29,909)
Transfer to unconditional reserve		-	-	-	-	142,172	(142,172)	-	-	-
Transfer from reserve for research and human resource development		-	-	-	-	(12,617)	12,617	-	-	-
Expiration of employee share options		-	2,062	-	-	(2,062)	-	-	-	-
Total transactions with owners and others		-	2,062	(29,909)	-	127,493	(432,708)	(333,062)	-	(333,062)
Balance at September 30, 2009	$	803,365	4,476	(220,827)	393,938	1,764,582	521,622	3,267,156	22,478	3,289,634

See accompanying notes to consolidated financial statements.

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

For the nine-month period ended September 30, 2008

In millions of Won		Ordinary shares	Other capital surplus	Treasury shares	Gain on reissuance of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interest	Total equity
Balance at January 1, 2008	₩	954,959	2,869	(414,947)	463,900	1,739,067	363,171	3,109,019	30,890	3,139,909
Total comprehensive income for the period:										
Profit for the period		-	-	-	-	-	660,784	660,784	9	660,793
Other comprehensive income:										
- Available-for-sale financial assets, net of tax		-	-	-	-	43,436	-	43,436	-	43,436
- Exchange differences on translating foreign operations, net of tax		-	-	-	-	7,515	-	7,515	-	7,515
- Actuarial losses, net of tax		-	-	-	-	-	(25,642)	(25,642)	(508)	(26,150)
Total other comprehensive income		-	-	-	-	50,951	(25,642)	25,309	(508)	24,801
Total comprehensive income for the period		-	-	-	-	50,951	635,142	686,093	(499)	685,594
Transactions with owners and others, recorded directly in equity:										
Dividends		-	-	-	-	-	(340,449)	(340,449)	-	(340,449)
Reacquisition of treasury shares		-	-	(108,889)	-	-	-	(108,889)	-	(108,889)
Retirement of treasury shares		-	-	209,767	-	-	(209,767)	-	-	-
Share-based payment transaction		-		-	-	4,941	-	4,941	-	4,941
Employee benefits by treasury shares		-	-	2,377	4,374	-	-	6,751	-	6,751
Transfer to unconditional reserve		-	-	-	-	70,000	(70,000)	-	-	-
Transfer from reserve for research and human resource development		-	-	-	-	(15,000)	15,000	-	-	-
Total transactions with owners and others		-	-	103,255	4,374	59,941	(605,216)	(437,646)	-	(437,646)
Balance at September 30, 2008	₩	954,959	2,869	(311,692)	468,274	1,849,959	393,097	3,357,466	30,391	3,387,857

See accompanying notes to consolidated financial statements.

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

For the nine-month periods ended September 30, 2009 and 2008

In millions of Won and thousands of U.S. dollars	*Note*		2009 Korean Won		2009 U.S. dollars (note 3)		2008 Korean Won
Cash flows from operating activities							
Profit for the period		₩	681,385	$	573,219	₩	660,793
Adjustments for:							
Income taxes	*26*		239,289		201,303		269,994
Finance costs	*25*		5,245		4,413		9,095
Finance income	*25*		(9,260)		(7,790)		(17,372)
Depreciation	*5, 7, 24*		111,852		94,096		112,883
Amortization	*6, 24*		1,113		936		1,552
Retirement benefit costs	*22, 24*		31,087		26,152		31,272
Foreign currency translations loss	*24*		23,870		20,081		952
Loss on the write-down of inventories	*23, 24*		3,184		2,679		4,618
Impairment loss on trade and other receivables	*11, 24*		142		119		555
Share of loss of associates	*8*		158		131		186
Share of gain of associates	*8*		(8)		(7)		-
Loss on sale of property, plant and equipment	*24*		6,577		5,533		2,517
Impairment loss on property, plant and equipment	*5, 24*		657		552		429
Impairment loss on intangible assets	*6, 24*		647		544		-
Other expense	*12*		2,816		2,369		3,061
Reversal of loss on the write-down of inventories	*12*		(2,934)		(2,468)		(19,930)
Foreign currency translations gain	*24*		(1,123)		(944)		(47,375)
Gain on sale of property, plant and equipment	*24*		(11,006)		(9,259)		(14,318)
Gain on sale of intangible assets	*24*		-		-		(3)
Reversal of impairment loss on trade and other receivables	*11, 24*		(36)		(30)		(594)
Other income			(94)		(79)		-
			1,083,561		911,550		998,315
Changes in working capital:							
Trade and other receivables			(172,251)		(144,907)		(74,259)
Advance payments			(111,735)		(93,997)		(105,973)
Prepaid expenses			(5,874)		(4,942)		(12,543)
Prepaid tobacco excise and other taxes			43,023		36,193		(92,348)
Inventories			158,732		133,534		88,208
Trade and other payables			(29,089)		(24,471)		81,533
Advance receipts			(34,844)		(29,313)		4,008
Tobacco excise and other taxes payable			65,436		55,048		79,329
Payment of retirement benefits			(12,286)		(10,336)		(5,033)
Cash generated from operations			984,673		828,359		961,237
Income tax paid			(335,488)		(282,231)		(365,263)
Net cash from operating activities			649,185		546,128		595,974

See accompanying notes to consolidated financial statements.

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

For the nine-month periods ended September 30, 2009 and 2008

In millions of Won and thousands of U.S. dollars	2009 Korean Won	2009 U.S. dollars (note 3)	2008 Korean Won
Cash flows from investing activities			
Interest received	7,103	5,976	13,628
Dividends received	215	181	3,458
Proceeds from sale of property, plant and equipment	9,152	7,699	18,821
Proceeds from sale of intangible assets	64	54	35
Proceeds from sale of available-for-sale financial assets	757	637	146
Collection of loans	18,721	15,749	21,257
Withdrawal of guarantee deposits	14,368	12,088	12,821
Purchases of property, plant and equipment	(92,907)	(78,159)	(147,484)
Acquisition of intangible assets	(4,326)	(3,639)	(1,401)
Acquisition of investment property	(323)	(272)	-
Purchases of equity accounted investment	(500)	(421)	(500)
Purchases of available-for-sale financial assets	(9,514)	(8,004)	(18,756)
Increase in loans	(8,101)	(6,815)	(18,878)
Payments of guarantee deposits	(16,787)	(14,122)	(17,424)
Payments of long-term deposits in MSA Escrow Fund	(14,271)	(12,005)	(13,394)
Settlement of financial derivatives	(4,410)	(3,710)	(2,091)
Other, net	(445)	(374)	(2,806)
Net cash used in investing activities	(101,204)	(85,137)	(152,568)
Cash flows from financing activities			
Interest paid	(3,561)	(2,996)	(2,783)
Dividends paid	(360,357)	(303,153)	(340,449)
Proceeds from long-term borrowings	-	-	22
Proceeds from short-term borrowings	277,797	233,700	125,193
Increase in deposits received	2,072	1,743	3,477
Reacquisition of treasury shares	(35,553)	(29,909)	(108,889)
Repayment of long-term borrowings	(210)	(177)	(140)
Repayment of short-term borrowings	(267,861)	(225,340)	(115,041)
Decrease in deposits received	(2,699)	(2,271)	(5,171)
Net cash used in financing activities	(390,372)	(328,403)	(443,781)
Net increase in cash and cash equivalents	157,609	132,588	(375)
Cash and cash equivalents at beginning of period	110,245	92,744	146,218
Effect of exchange rate fluctuation on cash held	181	154	1,463
Cash and cash equivalents at end of period	₩ 268,035	$ 225,486	₩ 147,306

See accompanying notes to consolidated financial statements.

1 Organization and Description of Business

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

As of September 30, 2009, the Parent Company has four manufacturing plants, including the Shin Tan Jin plant, and 14 local headquarters and 168 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Chunahn printing plant for the manufacturing of packaging, and has its head office in Pyeongchon-dong, Daedeok-gu, Daejeon.

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

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

The ownership of the Parent Company's issued ordinary share at September 30, 2009 is held as follows:

Shareholder	Number of shares	Percentage of ownership
Industrial Bank of Korea	9,510,485	6.85%
Employee Share Ownership Association	6,378,879	4.60%
Treasury shares	10,613,297	7.65%
Others	112,289,836	80.90%
	138,792,497	100.00%

The Parent Company has, thus far, reacquired and retired 52,199,400 shares of treasury stock. Accordingly, as of September 30, 2009, the Parent Company's value of ordinary shares differs from the aggregate par value of issued shares by ₩260,997 million.

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

(a) Basis of Preparation

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

The consolidated financial statements have been prepared in accordance with K-IFRS No.1034 *Interim Financial Reporting*, and are the Group's first interim consolidated financial statements for part of the period covered by its first K-IFRS consolidated financial statements, with a transition date of January 1, 2008. The prior period consolidated financial statements presented for comparative purposes have been restated in accordance with the accounting policies described below. Also, these accounting policies are consistently applied in the consolidated statement of financial position as of January 1, 2008 which is not accompanying this report. The effect of the transition from the Generally Accepted Accounting Principles in the Republic of Korea to K-IFRS, affecting the Group's reported financial position, financial performance and cash flows is described in note 32 to consolidated financial statements.

The interim consolidated financial statements provide less information as compared with annual consolidated financial statements in accordance with K-IFRS No.1034. The accounting policies applied in the interim consolidated financial statements is consistent with those which will be applied in the first K-IFRS consolidated financial statements for the year to December 31, 2009.

Certain information included in the Korean language consolidated financial statements, but not required for a fair presentation of the Group's financial position, results of operations, changes in equity or cash flows, is not presented in the accompanying consolidated financial statements.

(b) Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention except as described in the accounting policy below on financial instruments.

(c) Basis of Consolidation

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

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

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(c) Basis of Consolidation, Continued

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

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

(d) Foreign Currencies

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

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

Foreign exchange differences resulting from the settlement of transactions and from the translation of foreign currency assets and liabilities at period end rates of exchange are recognized in profit or loss.

(e) Property, Plant and Equipment

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

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

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(e) Property, Plant and Equipment, Continued

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

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

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

(f) Intangible Assets

Intangible assets are measured initially at cost and after initial recognition, are carried at cost less any accumulated amortization and accumulated impairment losses. Intangible assets consist of industrial property rights, rights to facility usage, other intangible assets 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. Rights to facility usage and some of industrial property right which are deemed to have an indefinite useful life are not amortized, and are subject to an annual impairment test.

The estimated useful lives are as follows:

	Useful lives (years)
Industrial property rights	5 ~ 10 or indefinite
Rights to facility usage	indefinite
Other intangible assets	15

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

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(g) Investment Property

Properties held to earn rent or as capital investments are classified as investment properties. Investment properties are measured initially at its cost including transaction costs and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses.

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

Investment properties, except for land, are depreciated on a straight-line basis over 10 ~ 60 years, the estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at each financial year-end. If it is appropriate to change, such a change is accounted for as a change in an accounting estimate.

(h) Inventories

Inventories are stated 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 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 ₩268,654 million and ₩304,969 million, respectively, as of September 30, 2009 and December 31, 2008.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(i) Financial Instruments

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument and removes a financial asset or a financial liability from the consolidated statement of financial position when it is extinguished.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or when all the risks and rewards of ownership of the financial asset are substantially transferred. If the Group retains substantially all the risks and rewards of ownership of the transferred financial asset, the Group continues to recognize the transferred financial asset and recognizes a financial liability for the consideration received.

(i) Non-derivative Financial Instruments

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

A Financial Asset or Financial Liability at Fair Value through Profit or Loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Held-to-maturity Investments
If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

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

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(i) Financial Instruments, Continued

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

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

(ii) Derivative Financial Assets

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

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

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

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

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

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

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(i) Financial Instruments, Continued

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

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

(j) Non-current Assets Held for Sale

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

(k) Revenue Recognition

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

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of tobacco excise and other taxes, trade discounts and volume rebates. Revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Tobacco excise and other taxes deducted from revenue for the nine-month periods ended September 30, 2009 and 2008 were ₩2,933,340 million and ₩3,025,860 million, respectively.

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

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

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

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(l) Impairment of Non-financial Assets

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

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

(m) Impairment of Financial Instruments

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired, except a financial asset at fair value through profit or loss. A financial asset or group of financial assets is considered to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. If no objective evidence of impairment exists for an individually assessed loans and receivables, the Group includes the asset in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Future cash flows in a group of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

The amount of the impairment loss on financial assets carried at amortized cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

The amount of the impairment loss on financial assets carried at cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not be reversed.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(m) Impairment of Financial Instruments, Continued

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

(n) Income Taxes

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

Current tax assets and for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized for temporary differences which are differences between the carrying amount of an asset or liability in the consolidated statement of financial position and its tax base, the carryforward of unused tax losses and unused tax credits. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. When the tax rates or tax laws are changed or the recoverability of deferred tax assets are reassessed, the resulting deferred tax is recognized in profit or loss, except to the extent that it relates to items previously recognized outside profit or loss. Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

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

The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that, and only to the extent that it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilized.

(o) Dividends

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

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(p) Equity Capital

Ordinary shares are classified as equity. The transaction costs of an equity transaction are accounted for as a deduction from equity net of any related income tax benefit to the extent they are incremental costs directly attributable to the equity transaction.

If the Group reacquires its own equity instruments, those instruments ("treasury shares") are presented as a deduction from total equity. The transaction costs of an equity transaction are accounted for as a deduction from equity net of any related income tax benefit to the extent they are incremental costs directly attributable to the equity transaction. The gain or loss on the purchase, sale, issue or cancellation of treasury shares is not recognized in profit or loss but recognized directly in equity.

(q) Provisions, Contingent Assets and Contingent Liabilities

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

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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

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

(r) Employee Benefits

Short-term employee benefits
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.

Retirement benefits
The Group operates both defined benefit and defined contribution plans.

The defined benefit liabilities are calculated the present value of the defined benefit obligations less the fair value of the plan assets at the end of the reporting period.

In determining the present value of its defined benefit obligations and the related current service cost, the Group uses the projected unit credit method and attributes benefit to periods of service on a straight-line basis under the plan's benefit formula.

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(r) Retirement Benefits, Continued

Actuarial gains and losses may result from increases or decreases in either the present value of a defined benefit obligation or the fair value of any related plan assets. The Group recognizes all actuarial gains and losses in other comprehensive income. Actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings and are not reclassified to profit or loss in a subsequent period.

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

(s) Deferred Revenue

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

(t) Share-based Payment

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

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

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

2 Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies, Continued

(u) Earning per Share

Earnings per share are calculated by dividing profit for the period attributable to owners of the Parent Company by the weighted-average number of shares outstanding during the period.

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

(v) Operating Segments

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

(w) Use of Estimates and Judgments

The preparation of consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These include estimates about carrying amount of property, plant and equipment, financial instruments, defined benefit obligations and deferred tax assets and liabilities. Actual results may differ from these estimates.

3 Basis of Translating Consolidated Financial Statements

The consolidated financial statements are expressed in Korean Won and have been translated into U.S. dollars at the rate of ₩1,188.70 to $1, the basic exchange rate on September 30, 2009, solely for the convenience of the reader. This translation should not be construed as a representation that any or all of the amounts shown could be converted into United States dollars at this or any other rate.

4 Segment Information

(a) Details of the consolidated entity's business segment are summarized as follows:

Business segments	Principal operation
Tobacco	Manufacturing and selling of tobaccos
Ginseng	Manufacturing and selling of red ginseng
Real estate	Selling and renting of real estates
Others	Manufacturing and selling of medicines and others

(b) Segment information on revenue and profit from operations for the nine-month period ended September 30, 2009 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Elimination	Consolidated
Total segment sales	₩	1,917,857	596,854	146,053	107,596	(82,735)	2,685,625
Less: Inter-segment sales		13,610	50,244	1,754	17,127	(82,735)	-
External sales	₩	1,904,247	546,610	144,299	90,469	-	2,685,625
Profit from operations	₩	696,993	172,613	41,923	5,280	-	916,809

(c) Segment information on revenue and profit from operations for the three-month period ended September 30, 2009 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Elimination	Consolidated
Total segment sales	₩	686,628	237,124	24,396	35,394	(27,484)	956,058
Less: Inter-segment sales		4,167	17,756	719	4,842	(27,484)	-
External sales	₩	682,461	219,368	23,677	30,552	-	956,058
Profit from operations	₩	211,127	68,153	5,473	(1,739)	-	283,014

(d) Segment information on revenue and profit from operations for the nine-month period ended September 30, 2008 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Elimination	Consolidated
Total segment sales	₩	1,848,326	510,049	16,429	111,080	(53,224)	2,432,660
Less: Inter-segment sales		11,505	27,913	2,056	11,750	(53,224)	-
External sales	₩	1,836,821	482,136	14,373	99,330	-	2,432,660
Profit from operations	₩	760,276	163,034	(4,561)	3,947	-	922,696

September 30, 2009 and 2008

4 Segment Information, Continued

(e) Segment information on revenue and profit from operations for the three-month period ended September 30, 2008 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Elimination	Consolidated
Total segment sales	₩	631,787	190,309	5,283	35,987	(19,481)	843,885
Less: Inter-segment sales		3,544	10,861	959	4,117	(19,481)	-
External sales	₩	628,243	179,448	4,324	31,870	-	843,885
Profit from operations	₩	275,288	57,317	(2,434)	1,348	-	331,519

(f) Segment information on assets and liabilities as of September 30, 2009 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Elimination	Consolidated
Assets:							
Segment assets	₩	3,365,714	848,291	233,788	108,293	(65,502)	4,490,584
Equity accounted investments		712,594	6,387	-	-	(717,361)	1,620
Available-for-sale financial assets		468,413	-	-	240	-	468,653
Non-current assets classified as held-for-sale		23,245	-	-	22,907	-	46,152
		4,569,966	854,678	233,788	131,440	(782,863)	5,007,009
Unallocated assets							281,134
Total assets	₩						5,288,143
Liabilities:							
Segment liabilities	₩	1,043,561	168,398	-	73,075	(55,116)	1,229,918
Unallocated liabilities							147,837
Total liabilities	₩						1,377,755

(g) Segment information on assets and liabilities as of December 31, 2008 was as follows:

In millions of Won		Tobacco	Ginseng	Real estate	Others	Elimination	Consolidated
Assets:							
Segment assets	₩	3,317,602	779,100	307,003	117,119	(55,418)	4,465,406
Equity accounted investments		669,946	3,460	-	-	(672,136)	1,270
Available-for-sale financial assets		304,105	-	-	165	-	304,270
Non-current assets classified as held-for-sale		-	-	-	22,907	-	22,907
		4,291,653	782,560	307,003	140,191	(727,554)	4,793,853
Unallocated assets							119,076
Total assets	₩						4,912,929
Liabilities:							
Segment liabilities	₩	1,115,024	157,173	-	77,828	(47,692)	1,302,333
Unallocated liabilities							106,759
Total liabilities	₩						1,409,092

5 Property, Plant and Equipment

(a) Changes in property, plant and equipment for the nine-month period ended September 30, 2009 were as follows:

In millions of Won		Land, buildings and structures	Machinery and vehicles	Tools, furniture, fixtures and other	Construction-in-progress	Total
Cost:						
Balance at January 1, 2009	₩	1,169,943	972,038	244,203	57,120	2,443,304
Additions		16,926	9,604	17,234	49,143	92,907
Disposals		(10,317)	(16,042)	(3,864)	-	(30,223)
Net exchange difference		(970)	(199)	(92)	22	(1,239)
Other		21,369	216	4,316	(60,089)	(34,188)
Balance at September 30, 2009	₩	1,196,951	965,617	261,797	46,196	2,470,561
Accumulated depreciation and impairment:						
Balance at January 1, 2009	₩	(238,505)	(545,099)	(155,709)	-	(939,313)
Disposals		2,626	14,040	3,560	-	20,226
Depreciation		(23,796)	(53,675)	(31,730)	-	(109,201)
Impairment		-	(657)	-	-	(657)
Net exchange difference		65	120	31	-	216
Other		840	15,504	-	-	16,344
Balance at September 30, 2009	₩	(258,770)	(569,767)	(183,848)	-	(1,012,385)
Carrying amount:						
Balance at January 1, 2009	₩	931,438	426,939	88,494	57,120	1,503,991
Balance at September 30, 2009	₩	938,181	395,850	77,949	46,196	1,458,176

The Group purchased and disposed of property, plant and equipment amounting to ₩147,484 million and ₩7,020 million for the nine-month period ended September 30, 2008, respectively. Other changes for the nine-month period ended September 30, 2009 include the amount transferred to non-current asset held for sale amounting to ₩23,245 million.

5 Property, Plant and Equipment, Continued

(b) Changes in property, plant and equipment for the year ended December 31, 2008 were as follows:

In millions of Won		Land, buildings and structures	Machinery and vehicles	Tools, furniture, fixtures and other	Construction-in-progress	Total
Cost:						
Balance at January 1, 2008	₩	1,093,721	911,129	247,594	93,798	2,346,242
Additions		12,279	15,382	31,755	147,033	206,449
Disposals		(8,013)	(49,752)	(41,319)	-	(99,084)
Net exchange difference		(271)	(391)	126	(1,643)	(2,179)
Other		72,227	95,670	6,047	(182,068)	(8,124)
Balance at December 31, 2008	₩	1,169,943	972,038	244,203	57,120	2,443,304
Accumulated depreciation and impairment:						
Balance at January 1, 2008	₩	(212,431)	(515,666)	(151,328)	(1,094)	(880,519)
Disposals		2,182	45,194	40,834	-	88,210
Depreciation		(28,266)	(74,378)	(45,097)	-	(147,741)
Impairment		-	(429)	-	-	(429)
Net exchange difference		10	8	(93)	-	(75)
Other		-	172	(25)	1,094	1,241
Balance at December 31, 2008	₩	(238,505)	(545,099)	(155,709)	-	(939,313)
Carrying amount:						
Balance at January 1, 2008	₩	881,290	395,463	96,266	92,704	1,465,723
Balance at December 31, 2008	₩	931,438	426,939	88,494	57,120	1,503,991

Other changes for the year ended December 31, 2008 include the amount transferred to inventories and intangible assets amounting to ₩5,968 million and ₩791 million, respectively.

6 Intangible Assets

(a) Changes in intangible assets for the nine-month period ended September 30, 2009 were as follows:

In millions of Won		Industrial property rights	Rights to facility usage	Other intangible assets	Assets under development	Total
Cost:						
Balance at January 1, 2009	₩	9,404	19,964	8,527	27,172	65,067
Additions		66	-	802	3,458	4,326
Disposals		-	(64)	-	-	(64)
Net exchange difference		(2)	-	(14)	-	(16)
Other		-	73	-	-	73
Balance at September 30, 2009	₩	9,468	19,973	9,315	30,630	69,386
Accumulated amortization and impairment:						
Balance at January 1, 2009	₩	(7,557)	-	(5,576)	-	(13,133)
Amortization		(235)	-	(878)	-	(1,113)
Impairment		-	-	-	(647)	(647)
Net exchange difference		2	-	8	-	10
Balance at September 30, 2009	₩	(7,790)	-	(6,446)	(647)	(14,883)
Carrying amount:						
Balance at January 1, 2009	₩	1,847	19,964	2,951	27,172	51,934
Balance at September 30, 2009	₩	1,678	19,973	2,869	29,983	54,503

The Group purchased and disposed intangible assets amounting to ₩1,401 million and ₩33 million for the nine-month period ended September 30, 2008, respectively.

(b) Changes in intangible assets for the year ended December 31, 2008 were as follows:

In millions of Won		Industrial property rights	Rights to facility usage	Other intangible assets	Assets under development	Total
Cost:						
Balance at January 1, 2008	₩	9,039	19,128	7,399	23,035	58,601
Additions		168	849	541	4,137	5,695
Disposals		-	(13)	(23)	-	(36)
Net exchange difference		-	-	16	-	16
Other		197	-	594	-	791
Balance at December 31, 2008	₩	9,404	19,964	8,527	27,172	65,067
Accumulated amortization and impairment:						
Balance at January 1, 2008	₩	(6,815)	-	(4,279)	-	(11,094)
Amortization		(742)	-	(1,293)	-	(2,035)
Net exchange difference		-	-	(4)	-	(4)
Balance at December 31, 2008	₩	(7,557)	-	(5,576)	-	(13,133)
Carrying amount:						
Balance at January 1, 2008	₩	2,224	19,128	3,120	23,035	47,507
Balance at December 31, 2008	₩	1,847	19,964	2,951	27,172	51,934

6 Intangible Assets, Continued

Other changes for the year ended December 31, 2008 include the amount transferred from property, plant and equipment amounting to ₩791 million.

(c) Expenditures not capitalized for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

		2009		2008	
In millions of Won		Three-month	Nine-month	Three-month	Nine-month
Cost of sales	₩	268	540	276	544
Selling, general and administrative expenses		5,421	14,311	5,143	14,159
	₩	5,689	14,851	5,419	14,703

7 Investment Property

(a) Changes in investment property for the nine-month period ended September 30, 2009 were as follows:

In millions of Won		Land	Buildings	Total
Cost:				
Balance at January 1, 2009	₩	15,385	117,562	132,947
Subsequent expenditure		-	323	323
Balance at September 30, 2009	₩	15,385	117,885	133,270
Accumulated depreciation and impairment:				
Balance at January 1, 2009	₩	-	(25,616)	(25,616)
Depreciation		-	(2,651)	(2,651)
Balance at September 30, 2009	₩	-	(28,267)	(28,267)
Carrying amount:				
Balance at January 1, 2009	₩	15,385	91,946	107,331
Balance at September 30, 2009	₩	15,385	89,618	105,003

(b) Changes in investment property for the year ended December 31, 2008 were as follows:

In millions of Won		Land	Buildings	Total
Cost:				
Balance at January 1, 2008	₩	15,385	117,340	132,725
Subsequent expenditure		-	222	222
Balance at December 31, 2008	₩	15,385	117,562	132,947
Accumulated depreciation and impairment:				
Balance at January 1, 2008	₩	-	(22,166)	(22,166)
Depreciation		-	(3,450)	(3,450)
Balance at December 31, 2008	₩	-	(25,616)	(25,616)
Carrying amount:				
Balance at January 1, 2008	₩	15,385	95,174	110,559
Balance at December 31, 2008	₩	15,385	91,946	107,331

7 Investment Property, Continued

(c) The amounts recognized in profit or loss from investment property for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

In millions of Won		2009 Three-month	2009 Nine-month	2008 Three-month	2008 Nine-month
Rental income	₩	4,229	12,762	4,083	12,394
Direct operating expense		(886)	(2,651)	(862)	(2,587)
	₩	3,343	10,111	3,221	9,807

(d) The fair value of land in investment property cannot be reliably measured. The officially declared value of land as of September 30, 2009 and December 31, 2008, as announced by the Minister of Construction and Transportation, were ₩113,214 million and ₩114,040 million, respectively. The officially declared value, which is used for government purposes, is not intended to represent fair value.

8 Equity Accounted Investment

(a) Equity accounted investments as of September 30, 2009 and December 31, 2008 are summarized as follows:

In millions of Won, except percentage of ownership			September 30 2009		December 31 2008	
Associate	Location	Principal operation	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Cosmo Tabacco Co., Ltd.	Mongolia	Manufacturing and selling tobacco	40.00%	₩ -	40.00%	₩ -
Korea Islet Transplantation, Inc.	Korea	Research and development medicine	48.25%	16	48.25%	72
Lite Pharm Tech, Inc.	Korea	Manufacturing medical supplies	29.46%	590	29.46%	692
Korean Carbon Finance, Inc.	Korea	Emission trading	20.00%	1,014	20.00%	506
				₩ 1,620		₩ 1,270

Cosmo Tabacco Co., Ltd. was in the process of liquidation as of September 30, 2009 and December 31, 2008. The Group has discontinued application of the equity method to Cosmo Tabacco Co., Ltd. as the carrying amount of investment in Cosmo Tabacco Co., Ltd. has reduced to zero due to accumulated deficit.

(b) Changes in equity accounted investments for the nine-month period ended September 30, 2009 were as follows:

In millions of Won Associate		Balance at beginning of period	Acquisition	Share of profit or loss of associates	Balance at end of period
Korea Islet Transplantation, Inc.	₩	72	-	(56)	16
Lite Pharm Tech, Inc.		692	-	(102)	590
Korean Carbon Finance, Inc.		506	500	8	1,014
	₩	1,270	500	(150)	1,620

8 Equity Accounted Investment, Continued

(c) Changes in equity accounted investments for the year ended December 31, 2008 were as follows:

In millions of Won

Associate		Balance at beginning of period	Acquisition	Share of profit or loss of associates	Balance at end of period
Korea Islet Transplantation, Inc.	₩	229	-	(157)	72
Lite Pharm Tech, Inc.		859	-	(167)	692
Korean Carbon Finance, Inc.		-	500	6	506
	₩	1,088	500	(318)	1,270

(d) Summarized financial information on associates as of and for the nine-month period ended September 30, 2009 was as follows:

In millions of Won

Associate		Total assets	Total liabilities	Revenue	Profit or loss
Korea Islet Transplantation, Inc.	₩	48	15	-	(116)
Lite Pharm Tech, Inc.		3,631	1,628	664	(347)
Korean Carbon Finance, Inc.		5,144	72	512	56

(e) Summarized financial information on associates as of and for the year ended December 31, 2008 was as follows:

In millions of Won

Associate		Total assets	Total liabilities	Revenue	Profit or loss
Korea Islet Transplantation, Inc.	₩	174	25	-	(326)
Lite Pharm Tech, Inc.		3,913	1,563	514	(566)
Korean Carbon Finance, Inc.		2,618	87	258	30

9 Available-for-sale Financial Assets

(a) Changes in available-for-sale financial assets for the nine-month period ended September 30, 2009 and the year ended December 31, 2008 were as follows:

In millions of Won		September 30 2009	December 31 2008
Balance at beginning of period	₩	304,270	252,764
Acquisitions		9,514	19,091
Net changes in fair value before tax		155,626	32,664
Disposals		(757)	(249)
Balance at end of period	₩	468,653	304,270
Current	₩	3,060	2,149
Non-current		465,593	302,121
	₩	468,653	304,270

The fair value of available-for-sale assets is principally based on quoted prices in an active market with the exception of the unlisted available-for-sale equity instruments that do not have that market price in an active market and whose fair value cannot be reliably measured and available-for-sale debt instruments whose fair value is similar to their carrying amount, which are measured at cost.

(b) Available-for-sale financial assets as of September 30, 2009 and December 31, 2008 are summarized as follows:

In millions of Won		September 30 2009	December 31 2008
Available-for-sale debt instruments:			
- Government and municipal bonds	₩	2,301	2,280
- Corporate bonds		2,040	2,030
Total available-for-sale debt instruments		4,341	4,310
Available-for-sale equity instruments:			
Listed			
- Yonhap Television News (YTN)		42,570	37,249
- Crystal Genomics Co., Ltd.		1,980	1,722
- Oscotech, Inc.		1,511	748
- Shinhan Financial Group Co., Ltd.		188,393	103,950
- Rexhan Pharmaceuticals, Inc.		5,604	5,196
- Celltrion, Inc.		201,978	129,005
		442,036	277,870
Unlisted			
- Dream Hub PFV Co., Ltd.		15,000	15,000
- Migami, Inc.		3,017	2,831
- Genematrix, Inc.		1,500	1,500
- Other unlisted available-for-sale equity instruments		2,759	2,759
		22,276	22,090
Total available-for-sale equity instruments		464,312	299,960
Total available-for-sale financial assets	₩	468,653	304,270

10 Long-term Deposits in MSA Escrow Fund

(a) Changes in long-term deposits in MSA Escrow Fund for the nine-month period ended September 30, 2009 and the year ended December 31, 2008 were as follows:

In millions of Won		September 30 2009	December 31 2008
Balance at beginning of period	₩	110,261	66,633
Foreign currency translations		(7,522)	25,733
Payments		14,271	17,895
Balance at end of period	₩	117,010	110,261

There is no material difference between the carrying amount and their fair value of long-term deposits in MSA Escrow Fund, due to the short-term duration and the floating interest rate.

(b) Interest income on long-term deposits in MSA Escrow Fund for the nine-month periods ended September 30, 2009 and 2008 are ₩767 million and ₩1,080 million, respectively.

11 Trade and Other Receivables

(a) Trade and other receivables as of September 30, 2009 and December 31, 2008 are summarized as follows:

		September 30 2009		December 31 2008	
In millions of Won		Current	Non-current	Current	Non-current
Loans to employees	₩	27,934	68,568	28,036	78,605
Loans		1,242	3,502	1,073	3,360
Other investment assets		-	1,989	-	3,776
Other receivables		51,694	561	53,448	561
Guarantee deposits		-	54,873	-	52,077
Accrued income		870	-	384	-
Trade receivables		706,235	-	550,699	-
	₩	787,975	129,493	633,640	138,379

(b) Trade and other receivables as of September 30, 2009 and December 31, 2008 have been reported in the consolidated statements of financial position net of allowances as follows:

		September 30 2009		December 31 2008	
In millions of Won		Current	Non-current	Current	Non-current
Gross trade and other receivables	₩	797,640	129,493	643,215	138,379
Allowance account:					
- Other receivables		(1,670)	-	(1,706)	-
- Trade receivables		(7,995)	-	(7,869)	-
		(9,665)	-	(9,575)	-
Net trade and other receivables	₩	787,975	129,493	633,640	138,379

11 Trade and Other Receivables, Continued

(c) Changes in the allowance account for the nine-month period ended September 30, 2009 and the year ended December 31, 2008 were as follows:

In millions of Won		September 30 2009	December 31 2008
Balance at beginning of period	₩	9,575	18,219
Impairment		142	763
Reversal of impairment		(36)	(1,315)
Retirement		(16)	(8,092)
Balance at end of period	₩	9,665	9,575

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

(d) The age schedule of trade and other receivables which were past due but not impaired as of September 30, 2009 and December 31, 2008 is as follows:

In millions of Won		September 30 2009	December 31 2008
Within 1 month	₩	51,586	57,058
Between 1 and 2 months		36,856	60,826
Beyond 2 months		56,610	44,132
	₩	145,052	162,016

There is no significant concentration of credit risk with respect to trade receivables as the Group has a large number of widely dispersed customers, except for export trade receivables, and the Group holds bank guarantees, other guarantees and credit insurance in respect of some of the past due debtor balances.

(e) Details of trade and other receivables that are measured at amortized cost as of September 30, 2009 and December 31, 2008 are as follows:

	September 30 2009				December 31 2008			
In millions of Won	Effective interest rate		Current	Non-current	Effective interest rate		Current	Non-current
Loans to employees	3.00~7.38%	₩	27,912	68,424	5.38~7.29%	₩	27,993	78,437
Loans	7.29~7.38%		-	3,090	7.29%		-	3,360
Guarantee deposits	3.00~7.38%		-	52,814	5.38~7.29%		-	50,165
		₩	27,912	124,328		₩	27,993	131,962

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

12 Inventories

(a) Inventories as of September 30, 2009 and December 31, 2008 were summarized as follows:

In millions of Won		September 30 2009	December 31 2008
Merchandise, net of loss on the write-down of inventories	₩	1,891	793
Finished goods, net of loss on the write-down of inventories		171,100	183,668
Work-in-progress, net of loss on the write-down of inventories		232,755	296,072
Raw materials, net of loss on the write-down of inventories		801,123	842,193
Supplies		26,004	23,269
By-products		4,566	3,242
Completed buildings		105,210	-
Buildings under construction		20,472	182,059
Sites for building lotting-out construction		3,103	17,613
Goods-in-transit		28,800	9,976
	₩	1,395,024	1,558,885

(b) The amount of inventories recognized as an expense for the nine-month periods ended September 30, 2009 and 2008 are as follows:

In millions of Won		2009	2008
Cost of Sales:			
Loss on the write-down of inventories	₩	3,184	4,618
Reversal of loss on the write-down of inventories		(2,934)	(19,930)
Other expense		2,816	2,971
	₩	3,066	(12,341)

13 Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2009 and December 31, 2008 were summarized as follows:

In millions of Won		September 30 2009	December 31 2008
Cash on hand	₩	10,460	6,148
Demand deposits		107,869	85,197
Short-term investment assets		149,706	18,900
	₩	268,035	110,245

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

14 Pledged Assets

(a) The following assets were pledged as collateral for the Group's borrowings and others as of September 30, 2009:

In millions of Won

Asset		Carrying amount	Type of borrowings		Borrowing amount	Collateralized amount	Lender
Land, buildings and structures	₩	66,438	Short-term	₩	20,650	36,400	Hana Bank
Investment property			Long-term		2,544		Hana Bank
Non-current asset held for sale			Short-term		10,000	13,000	Korea Exchange Bank
			Payment guarantee		-	3,600	KT&G Corporation
	₩	66,438		₩	33,194	53,000	

(b) Financial assets restricted in use for security deposits for maintaining checking accounts as of September 30, 2009 and December 31, 2008 were ₩6 million.

15 Paid-in Capital

(a) Details of paid-in capital as of September 30, 2009 and December 31, 2008 are as follows:

In Won, except number of shares		September 30 2009	December 31 2008
Number of ordinary shares:			
- Authorized		800,000,000	800,000,000
- Issued		138,792,497	138,792,497
- Outstanding		128,179,200	128,698,800
Par value	₩	5,000	5,000

The Parent Company has, thus far, reacquired and retired 52,199,400 shares of treasury share. Accordingly, as of September 30, 2009, the Parent Company's ordinary share differs from the aggregate par value of issued shares by ₩260,997 million.

(b) Changes in the number of shares for the nine-month period ended September 30, 2009 and the year ended December 31, 2008 were as follows:

	September 30 2009			December 31 2008		
Number of shares	Ordinary share	Treasury share	Total	Ordinary share	Treasury share	Total
Beginning of period	138,792,497	(10,093,697)	128,698,800	143,442,497	(12,602,590)	130,839,907
Reacquisition of treasury shares	-	(519,600)	(519,600)	-	(2,254,082)	(2,254,082)
Employee benefits by treasury shares	-	-	-	-	112,975	112,975
Retirement of treasury shares	-	-	-	(4,650,000)	4,650,000	-
End of period	138,792,497	(10,613,297)	128,179,200	138,792,497	(10,093,697)	128,698,800

15 Paid-in Capital, Continued

(c) Changes in the other capital surplus for the nine-month period ended September 30, 2009 and the year ended December 31, 2008 were as follows:

In millions of Won		September 30 2009	December 31 2008
Balance at beginning of period	₩	2,869	2,869
Expiration of employee share options		2,452	-
Balance at end of period	₩	5,321	2,869

In 2009, employee share options were settled in cash and terminated. Consequently, the employee share option reserve was reclassified to other capital surplus.

16 Treasury Stock

(a) Changes in the treasury shares for the nine-month period ended September 30, 2009 and the year ended December 31, 2008 were as follows:

	September 30 2009			December 31 2008		
In millions of Won, except number of shares	Number of shares		Carrying amount	Number of shares		Carrying amount
Balance at beginning of period	10,093,697	₩	226,945	12,602,590	₩	414,947
Reacquisition of treasury shares	519,600		35,553	2,254,082		194,128
Employee benefits by treasury shares	-		-	(112,975)		(2,378)
Retirement of treasury shares	-		-	(4,650,000)		(379,752)
Balance at end of period	10,613,297	₩	262,498	10,093,697	₩	226,945

(b) Changes in gain on reissuance of treasury shares for the nine-month period ended September 30, 2009 and the year ended December 31, 2008 were as follows:

In millions of Won		September 30 2009	December 31 2008
Balance at beginning of period	₩	468,274	463,900
Gain on reissuance of treasury shares before tax		-	6,033
Less: Tax at 27.5%		-	(1,659)
Gain on reissuance of treasury shares after tax		-	4,374
Balance at end of period	₩	468,274	468,274

17 Reserve

(a) Details of reserves as of September 30, 2009 and December 31, 2008 are as follows:

In millions of Won		September 30 2009	December 31 2008
Available-for-sale financial assets reserve	₩	149,126	27,737
Employee share option reserve		-	2,452
Exchange differences on translating foreign operations		3,118	4,205
Legal reserve		602,937	602,937
Voluntary reserve		1,342,378	1,188,378
	₩	2,097,559	1,825,709

(b) Legal Reserve

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

(c) Details of voluntary reserve as of September 30, 2009 and December 31, 2008 are as follows:

In millions of Won		September 30 2009	December 31 2008
Reserve for business rationalization	₩	12,851	12,851
Reserve for research and human resource development		15,000	30,000
Reserve for loss on reissuance of treasury shares		26,646	26,646
Reserve for business expansion		698,881	698,881
Unconditional reserve		589,000	420,000
	₩	1,342,378	1,188,378

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

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

Reserve for Business Expansion
Reserve for business expansion was a legal reserve under the Korea Tobacco and Ginseng Corporation Act, which was abrogated on September 1, 1997, consequently, the existing balance has been regarded as a voluntary reserve since then.

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

18 Retained Earnings

Changes in retained earnings for the nine-month period ended September 30, 2009 and the year ended December 31, 2008 were as follows:

In millions of Won		September 30 2009	December 31 2008
Balance at beginning of period	₩	451,407	363,171
Transfer from reserve for research and human resource development		15,000	15,000
Transfer to unconditional reserve		(169,000)	(70,000)
Profit for the period		681,385	895,129
- Less: non-controlling interests		844	2,648
Actuarial gains (losses), net of tax		774	(35,017)
- Less: non-controlling interests		-	678
Dividends		(360,357)	(340,449)
Retirement of treasury shares		-	(379,753)
Balance at end of period	₩	620,053	451,407

19 Trade and Other Payables

(a) Trade and other payables as of September 30, 2009 and December 31, 2008 are summarized as follows:

		September 30 2009		December 31 2008	
In millions of Won		Current	Non-current	Current	Non-current
Leasehold deposits received	₩	25	23,069	45	23,580
Trade payables		24,251	-	39,945	-
Withholdings		167,959	-	139,617	-
Accrued expenses		99,878	-	120,513	-
Other payables		131,964	-	155,213	-
	₩	424,077	23,069	455,333	23,580

(b) Details of trade and other payables that are measured at amortized cost as of September 30, 2009 and December 31, 2008 are as follows:

	September 30 2009		December 31 2008	
In millions of Won	Effective interest rate	Amortized cost	Effective interest rate	Amortized cost
Leasehold deposits received	3.00~5.68%	₩ 23,069	5.38~5.68%	₩ 23,580

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

20 Short-term Borrowings

Short-term borrowings as of September 30, 2009 and December 31, 2008 are summarized as follows:

In millions of Won	Description of borrowings	Annual interest rate		September 30 2009	December 31 2008
Local currency	Customer credit contracts	2.05 ~ 8.50%	₩	64,770	45,371
	General purpose borrowings	5.63 ~ 7.29%		39,450	51,455
	Borrowings on notes	7.10%		3,000	3,000
	Discount on commercial note	-		-	4,287
Foreign currency	General purpose borrowings	3M Libor + 5.5%		6,538	-
			₩	113,758	104,113

As of September 30, 2009, the Group has entered into customer credit contract with the National Agricultural Cooperative Federation ("NACF") and other financial institutions. The financial institutions pay past-due trade receivables for customers and the Group has provided guarantees to the financial institutions for customers. The amount paid by the financial institutions is recognized as short-term borrowings on the consolidated statement of financial position.

21 Long-term Borrowings

Long-term borrowings as of September 30, 2009 and December 31, 2008 are summarized as follows:

	Annual interest		September 30 2009		December 31 2008	
In millions of Won	rate		Current	Non-current	Current	Non-current
Borrowings for energy facilities	2.75%	₩	280	701	280	911
Borrowings for environmental facilities	4.55%		112	1,451	-	1,563
		₩	392	2,152	280	2,474

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

22 Defined Benefits Plan

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

(a) The components of retirement benefit costs for the three- and nine-month periods ended September 30, 2009 and 2008 were as follows:

		2009		2008	
In millions of Won		Three-month	Nine-month	Three-month	Nine-month
Defined benefit costs:					
Current service costs	₩	9,949	30,180	11,638	29,726
Interest costs		1,815	5,442	2,100	6,366
Expected returns on plan assets		(1,567)	(4,702)	(1,604)	(4,820)
	₩	10,197	30,920	12,134	31,272
Defined contribution costs:					
Contributions recognized as expense		167	167	-	-
	₩	10,364	31,087	12,134	31,272

(b) Changes in defined benefit liabilities for the nine-month period ended September 30, 2009 and the year ended December 31, 2008 were as follows:

In millions of Won		September 30 2009	December 31 2008
Balance at beginning of period	₩	73,994	68,109
Retirement benefit costs		30,920	30,673
Actuarial losses (gains) before tax		(992)	44,463
Payments		(12,119)	(69,251)
Net exchange difference		(1)	-
Balance at end of period	₩	91,802	73,994
Consolidated statements of financial position:			
- Present value of retirement benefit obligations	₩	193,062	175,939
- Fair value of plan assets		(101,260)	(101,945)
Defined benefit liabilities	₩	91,802	73,994

22 Defined Benefits Plan, Continued

(c) Changes in defined benefit obligations for the nine-month period ended September 30, 2009 and the year ended December 31, 2008 were as follows:

In millions of Won		September 30 2009	December 31 2008
Balance at beginning of period	₩	175,939	201,270
Current service costs		30,180	28,572
Interest costs		5,442	8,533
Actuarial losses (gains) before tax		-	45,330
Payments		(18,498)	(107,766)
Net exchange difference		(1)	-
Balance at end of period	₩	193,062	175,939

For the purpose of calculating present value of the defined benefit obligations, the Group used the market yields at the end of the reporting period on government and municipal bonds consistent with the currency and estimated term of the defined benefit obligations.

(d) Changes in plan assets for the nine-month period ended September 30, 2009 and the year ended December 31, 2008 were as follows:

In millions of Won		September 30 2009	December 31 2008
Balance at beginning of period	₩	101,945	133,161
Expected return on plan assets		4,702	6,432
Actuarial gains before tax		992	867
Payments		(6,379)	(38,515)
Balance at end of period	₩	101,260	101,945

Actual returns on plan assets for the nine-month periods ended September 30, 2009 and 2008 are ₩5,694 million and ₩5,338 million, respectively.

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

(e) The amount of actuarial gains (losses) for the three- and nine-month periods ended September 30, 2009 and 2008 were as follows:

		2009		2008	
In millions of Won		Three-month	Nine-month	Three-month	Nine-month
Actuarial gains (losses) before tax	₩	(333)	992	(11,185)	(33,379)
Tax effect		73	(218)	2,426	7,229
Actuarial gains (losses) after tax	₩	(260)	774	(8,759)	(26,150)

22 Defined Benefits Plan, Continued

(f) The components of plan assets as of September 30, 2009 and December 31, 2008 are as follows:

In millions of Won		September 30 2009	December 31 2008
Short-term trading financial assets	₩	45,735	49,737
Available-for-sale financial assets		41,538	48,735
Other		13,987	3,473
	₩	101,260	101,945

As of September 30, 2009 and December 31, 2008, the amounts of severance insurance and National Pension Fund in plan assets which continue to be covered by the existing retirement benefits plan are ₩17,049 million and ₩16,985 million, respectively.

(g) The principal actuarial assumptions as of September 30, 2009 and December 31, 2008 are as follows:

In millions of Won	September 30 2009	December 31 2008
Rate of increase in salaries	3.98~6.00%	3.98~6.00%
Discount rate	4.25~4.60%	4.25~4.60%
Expected rate of return on plan assets	4.25~6.50%	5.00~6.25%

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

In millions of Won		1 percentage point increase	1 percentage point decrease
Rate of increase in salaries:			
- Increase (decrease) in defined benefit obligations	₩	15,180	(13,603)
- Increase (decrease) in retirement benefit costs		3,204	(2,787)
Discount rate:			
- Increase (decrease) in defined benefit obligations		(14,294)	16,328
- Increase (decrease) in retirement benefit costs		(1,484)	1,715
Expected rate of return on plan assets:			
- Increase (decrease) in retirement benefit costs		(742)	742

The effect on retirement benefit costs is for 2009. The effect on defined benefit obligations is as of December 31, 2008.

23 Deferred Revenue

Changes in deferred revenue for the nine-month period ended September 30, 2009 and the year ended December 31, 2008 were as follows:

In millions of Won		September 30 2009	December 31 2008
Balance at beginning of period	₩	7,764	5,108
Revenue deferred		6,948	5,828
Revenue recognized		(4,751)	(3,172)
Balance at end of period	₩	9,961	7,764

24 Profit from Operations

(a) Employee benefit costs for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

		2009		2008	
In millions of Won		Three-month	Nine-month	Three-month	Nine-month
Salaries	₩	111,461	295,136	118,328	295,510
Retirement benefit costs		10,364	31,087	12,134	31,272
Employee welfare		13,004	30,221	11,388	35,945
	₩	134,829	356,444	141,850	362,727

(b) Depreciation and amortization for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

		2009		2008	
In millions of Won		Three-month	Nine-month	Three-month	Nine-month
Depreciation	₩	37,138	111,852	37,139	112,883
Amortization		293	1,113	472	1,552
	₩	37,431	112,965	37,611	114,435

(c) Details of other income for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

		2009		2008	
In millions of Won		Three-month	Nine-month	Three-month	Nine-month
Foreign currency transaction gain	₩	1,609	27,798	10,238	20,671
Foreign currency translation gain		-	1,123	30,837	47,375
Reversal of impairment loss on trade and other receivables		18	36	-	594
Gain on sale of property, plant and equipment		268	11,006	7,379	14,318
Gain on sale of intangible assets		-	-	-	3
Others		2,084	9,346	2,269	7,209
	₩	3,979	49,309	50,723	90,170

24 Profit from Operations, Continued

(d) Details of selling, general and administrative expenses for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

		2009		2008	
In millions of Won		Three-month	Nine-month	Three-month	Nine-month
Salaries	₩	58,171	175,903	61,656	173,162
Retirement benefit costs		6,665	19,979	7,698	21,880
Employee welfare		8,064	19,744	4,435	18,115
Travel		2,305	6,904	2,134	7,136
Communications		1,276	3,821	1,258	3,831
Utilities		1,772	5,046	1,511	4,663
Taxes and dues		4,686	13,623	10,050	18,509
Supplies		1,120	3,658	1,962	4,088
Rent		4,376	12,992	3,552	9,808
Depreciation		12,687	38,591	12,970	39,588
Amortization		294	1,100	514	1,531
Repairs and maintenance		1,770	4,252	2,274	4,789
Vehicles		2,505	6,890	2,650	7,038
Insurance		307	1,020	338	1,050
Commissions		38,933	98,142	29,027	84,087
Freight and custody		7,022	23,517	9,494	23,606
Conferences		806	2,980	1,511	4,293
Advertising		60,476	149,927	48,555	132,447
Training		1,984	5,841	2,827	6,682
Prizes and rewards		418	906	465	4,660
Normal research and development		5,421	14,311	5,143	14,159
	₩	221,058	609,147	210,024	585,122

(e) Details of other expenses for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

		2009		2008	
In millions of Won		Three-month	Nine-month	Three-month	Nine-month
Foreign currency transaction loss	₩	19,072	27,778	1,781	5,352
Foreign currency translation loss		14,116	23,870	637	952
Impairment loss on trade and other receivables		60	142	890	555
Donations		15,104	22,945	2,293	5,478
Loss on sale of property, plant and equipment		2,651	6,577	1,541	2,517
Impairment loss on property, plant and equipment		-	657	429	429
Impairment loss on intangible assets		647	647	-	-
Loss on retirement of inventories		1,098	2,816	770	2,971
Others		284	4,859	2,016	7,418
	₩	53,032	90,291	10,357	25,672

25 Net Finance Costs

(a) Details of net finance costs (income) for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

In millions of Won		2009 Three-month	2009 Nine-month	2008 Three-month	2008 Nine-month
Finance cost:					
- Interest costs	₩	1,009	3,534	800	2,779
- Loss on sale of available-for-sale financial assets		-	-	-	4
- Loss on transaction of financial derivatives		-	1,711	1,304	2,067
- Loss on valuation of financial derivatives		-	-	2,155	4,245
		1,009	5,245	4,259	9,095
Finance income:					
- Interest income		(3,624)	(9,045)	(4,995)	(13,830)
- Dividend income		-	(215)	-	(3,458)
- Gain on sale of available-for-sale financial assets		-	-	(4)	(4)
- Gain on sale of investments in subsidiaries		-	-	(80)	(80)
		(3,624)	(9,260)	(5,079)	(17,372)
Net finance costs (income)	₩	(2,615)	(4,015)	(820)	(8,277)

(b) Details of interest costs for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

In millions of Won		2009 Three-month	2009 Nine-month	2008 Three-month	2008 Nine-month
Related financial liabilities:					
- Short-term borrowings	₩	848	3,013	737	2,600
- Trade and other payables		129	401	27	139
- Others		32	120	36	40
	₩	1,009	3,534	800	2,779

(c) Details of interest income for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

In millions of Won		2009 Three-month	2009 Nine-month	2008 Three-month	2008 Nine-month
Related financial assets:	₩				
- Deposits		1,690	5,133	3,787	10,448
- Available-for-sale financial assets		13	136	5	15
- Trade and other receivables		1,157	3,009	921	2,287
- Long-term deposits in MSA Escrow Fund		764	767	282	1,080
	₩	3,624	9,045	4,995	13,830

26 Income Taxes

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

Taxable income		Tax rate			
Prior to 2008	Thereafter	Prior to 2008	2008	2009	Thereafter
Up to ₩100 million	Up to ₩200 million	14.3%	12.1%	12.1%	11.0%
Over ₩100 million	Over ₩200 million	27.5%	27.5%	24.2%	22.0%

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

(b) The components of income tax expense (benefit) for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

		2009		2008	
In millions of Won		Three-month	Nine-month	Three-month	Nine-month
Current income tax expense	₩	77,301	236,316	89,867	255,568
Adjustments recognized in the period for current tax of prior periods		-	895	-	(1,175)
Changes in temporary difference		8,165	36,191	24,563	26,920
Total income tax expense		85,466	273,402	114,430	281,313
Credited (charged) directly to equity		(10,473)	(34,113)	(16,965)	(11,319)
Income tax expense	₩	74,993	239,289	97,465	269,994

(c) Current and deferred tax expense that were directly charged to equity for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

		2009		2008	
In millions of Won		Three-month	Nine-month	Three-month	Nine-month
Current:					
- Gain on reissuance of treasury shares	₩	-	-	-	(1,659)
Deferred:					
- Net changes in fair value of available-for-sale financial assets		(10,232)	(34,238)	(16,017)	(16,476)
- Exchange differences on translating foreign operations		(314)	343	(3,374)	(413)
- Actuarial gains (losses)		73	(218)	2,426	7,229
		(10,473)	(34,113)	(16,965)	(9,660)
Credited (charged) directly to equity	₩	(10,473)	(34,113)	(16,965)	(11,319)

26 Income Taxes, Continued

(d) The income tax expense calculated by applying statutory tax rates to the Group's profit before tax for the period differs from the actual tax expense in the consolidated statement of comprehensive income for the three- and nine-month periods ended September 30, 2009 and 2008 for the following reasons:

In millions of Won, except tax rate information		2009 Three-month	2009 Nine-month	2008 Three-month	2008 Nine-month
Profit before tax	₩	285,612	920,674	332,276	930,787
Normal tax rate		24.2%	24.2%	27.5%	27.5%
Expense for income taxes at normal tax rate		69,112	222,785	91,372	255,957
Adjustment:					
- Tax effects of permanent differences		2,511	3,055	1,347	3,024
- Investment tax credits		(1,270)	(4,235)	(1,693)	(5,127)
- Additional income taxes for prior period		-	928	-	(1,120)
- Tax effects of profit of subsidiaries		6,002	15,783	5,680	16,265
- Others		(1,362)	973	759	995
Income tax expense	₩	74,993	239,289	97,465	269,994
Effective tax rate		26.3%	26.0%	29.3%	29.0%

(e) Deferred tax expense relating to the origination and reversal of temporary differences for the three- and nine-month periods ended September 30, 2009 and 2008 are as follows:

In millions of Won		2009 Three-month	2009 Nine-month	2008 Three-month	2008 Nine-month
Deferred tax liabilities at end of period	₩	(135,844)	(135,844)	(114,397)	(114,397)
Deferred tax liabilities at beginning of period		(127,679)	(99,653)	(89,834)	(87,477)
Deferred tax expense (benefit)	₩	8,165	36,191	24,563	26,920

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

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

26 Income Taxes, Continued

(h) Changes in deferred tax assets and liabilities for the nine-month period ended September 30, 2009 were as follows:

In millions of Won		Balance at beginning of period	Credited to profit (charged to loss)	Charged to equity	Balance at end of period
Available-for-sale financial assets	₩	8,800	648	-	9,448
Accrued expense		22,005	(2,454)	-	19,551
Sales		7,157	(5,324)	-	1,833
Donations in excess of tax limit		8,606	(7,715)	-	891
Retirement benefit costs		6,187	4,137	(218)	10,106
Undistributed earnings of associates and subsidiaries		(120,954)	(15,783)	-	(136,737)
Foreign currency translations		(6,055)	11,235	-	5,180
Treasury shares		(8,565)	-	-	(8,565)
Changes in fair value of available-for-sale financial assets		(7,823)	-	(34,238)	(42,061)
Voluntary reserve		(12,070)	8,556	-	(3,514)
Provision for advanced depreciation		(4,722)	-	-	(4,722)
Others		7,781	4,622	343	12,746
	₩	(99,653)	(2,078)	(34,113)	(135,844)

(i) Changes in deferred tax assets and liabilities for the year ended December 31, 2008 were as follows:

In millions of Won		Balance at beginning of period	Credited to profit (charged to loss)	Credited (charged) to equity	Effect of changes in the tax rate	Balance at end of period
Available-for-sale financial assets	₩	11,000	-	-	(2,200)	8,800
Accrued expense		24,706	(254)	-	(2,447)	22,005
Sales		1,801	6,332	-	(976)	7,157
Donations in excess of tax limit		18,467	(8,687)	-	(1,174)	8,606
Retirement benefit costs		(3,542)	1,401	9,478	(1,150)	6,187
Undistributed earnings of associates and subsidiaries		(119,396)	(26,024)	-	24,466	(120,954)
Foreign currency translations		-	(6,891)	-	836	(6,055)
Treasury shares		(10,781)	75	-	2,141	(8,565)
Changes in fair value of available-for-sale financial assets		(797)	(1,955)	(7,027)	1,956	(7,823)
Voluntary reserve		(20,455)	7,509	-	876	(12,070)
Provision for advanced depreciation		(5,903)	-	-	1,181	(4,722)
Others		17,423	(9,054)	(31)	(557)	7,781
	₩	(87,477)	(37,548)	2,420	22,952	(99,653)

(j) As of September 30, 2009 and December 31, 2008, the aggregate amounts of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognized were ₩5,110 million and ₩5,426 million, respectively.

27 Earnings per Share

Basic and diluted earnings per share for the three- and nine-month periods ended September 30, 2009 and 2008 were as follows:

In millions of Won, except share information		2009 Three-month	2009 Nine-month	2008 Three-month	2008 Nine-month
Profit attributable to owners of the Parent Company	₩	211,028	682,229	235,455	660,784
Weighted-average number of ordinary shares outstanding		128,614,765	128,670,481	130,470,228	130,558,756
Basic and diluted earnings per share in Won	₩	1,641	5,302	1,805	5,061

28 Transactions and Balances with Related Companies

(a) Details of parent and subsidiary relationships as of September 30, 2009 and December 31, 2008 were as follows:

			Percentage of ownership					
			September 30 2009			December 31 2008		
Subsidiary	Location	Next most senior parent	Parent	Sub-sidiary	Total	Parent	Sub-sidiary	Total
Korea Ginseng Corporation	Korea	KT&G Corporation	100.00%	-	100.00%	100.00%	-	100.00%
Yungjin Pharm. Ind. Co., Ltd.	Korea	KT&G Corporation	55.50%	-	55.50%	55.50%	-	55.50%
Tae-a Industry Co., Ltd.	Korea	KT&G Corporation	100.00%	-	100.00%	100.00%	-	100.00%
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	KT&G Corporation	99.99%	-	99.99%	99.99%	-	99.99%
Korea Tabacos do Brasil Ltda.	Brazil	KT&G Corporation	99.90%	-	99.90%	99.90%	-	99.90%
KT&G Pars	Iran	KT&G Corporation	99.99%	-	99.99%	99.99%	-	99.99%
KT&G Rus L.L.C.	Russia	KT&G Corporation	100.00%	-	100.00%	100.00%	-	100.00%
KT&G Bio Corp.	Korea	KT&G Corporation	100.00%	-	100.00%	-	-	-
Korea Ginseng HK, Ltd.	Hong Kong	Korea Ginseng Corporation		99.99%	99.99%	-	99.99%	99.99%
Cheong Kwan Jang Taiwan Corporation	Taiwan	Korea Ginseng Corporation	-	100.00%	100.00%	-	-	-
Korean Red Ginseng Corp., Inc.	United States	Korea Ginseng Corporation	-	100.00%	100.00%	-	-	-
KGC Sales Co., Ltd.	Korea	Korea Ginseng Corporation	-	100.00%	100.00%	-	100.00%	100.00%

KT&G Bio Corp., Cheong Kwan Jang Taiwan Corporation and Korean Red Ginseng Corp., Inc. were established and included in consolidation for the nine-month period ended September 30, 2009.

28 Transactions and Balances with Related Companies, Continued

(b) Significant transactions which occurred in the normal course of business with related companies for the three- and nine-month periods ended September 30, 2009 and 2008 are summarized as follows:

In millions of Won

Sales company	Purchase company		2009 Three-month	2009 Nine-month	2008 Three-month	2008 Nine-month
KT&G Corporation	Korea Ginseng Corporation	₩	3,163	10,020	3,668	10,632
KT&G Corporation	Yungjin Pharm. Ind. Co., Ltd.		121	138	11	31
KT&G Corporation	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		1,265	5,155	693	2,500
KT&G Corporation	KT&G Pars		996	4,882	269	555
KT&G Corporation	KT&G Rus L.L.C.		-	168	-	-
Korea Ginseng Corporation	KT&G Corporation		1,249	1,857	870	1,943
Korea Ginseng Corporation	Yungjin Pharm. Ind. Co., Ltd.		407	1,053	623	1,362
Korea Ginseng Corporation	Tae-a Industry Co., Ltd.		6	13	6	22
Korea Ginseng Corporation	Korea Ginseng HK, Ltd.		7,278	24,503	5,373	14,936
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation		5,541	12,030	-	-
Korea Ginseng Corporation	Korean Red Ginseng Corp., Inc.		459	2,800	-	-
Korea Ginseng Corporation	KGC Sales Co., Ltd.		2,918	8,076	4,020	9,739
Yungjin Pharm. Ind. Co., Ltd.	KT&G Corporation		19	41	3	5
Yungjin Pharm. Ind. Co., Ltd.	KGC Sales Co., Ltd.		-	3	-	-
Tae-a Industry Co., Ltd.	KT&G Corporation		2,513	9,915	3,501	11,387
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	KT&G Pars		1,600	3,543	-	-
Korea Tabacos do Brasil Ltda.	KT&G Corporation		53	151	54	129
		₩	27,588	84,348	19,091	53,241

The Parent Company received dividends from Korea Ginseng Corporation amounting to ₩30,000 million and ₩60,000 million for the nine-month periods ended September 30, 2009 and 2008, respectively. Korea Ginseng Corporation received dividends from KGC Sales Co., Ltd. and Korea Ginseng HK, Ltd. amounting to ₩700 million and ₩ 902 million, respectively, for the nine-month period ended September 30, 2009.

28 Transactions and Balances with Related Companies, Continued

(c) Account balances with related companies as of September 30, 2009 and December 31, 2008 were as follows:

In millions of Won

Creditor	Debtor		September 30 2009	December 31 2008
KT&G Corporation	Korea Ginseng Corporation	₩	960	3,184
KT&G Corporation	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		10,890	25,441
KT&G Corporation	KT&G Pars		17,316	7,204
KT&G Corporation	KT&G Rus L.L.C.		261	347
Korea Ginseng Corporation	KT&G Corporation		2,238	2,595
Korea Ginseng Corporation	Yungjin Pharm. Ind. Co., Ltd.		-	130
Korea Ginseng Corporation	Korea Ginseng HK, Ltd.		8,672	6,835
Korea Ginseng Corporation	Cheong Kwan Jang Taiwan Corporation		7,692	-
Korea Ginseng Corporation	Korean Red Ginseng Corp., Inc.		2,150	-
Korea Ginseng Corporation	KGC Sales Co., Ltd.		2,368	1,747
Yungjin Pharm. Ind. Co., Ltd.	Korea Ginseng Corporation		212	212
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	KT&G Pars		1,623	-
		₩	54,382	47,695

(d) Details of guarantees provided for related companies as of September 30, 2009 and December 31, 2008 were as follows:

In millions of Won and thousands of U.S. dollars

				September 30 2009		December 31 2008	
Guarantee provider	Guarantee recipient	Type of guarantee		Limit	Exercise	Limit	Exercise
Korea Ginseng Corporation	Korea Ginseng HK, Ltd.	Payment guarantee on borrowing	$	7,500	5,500	2,500	-
KT&G Corporation	Yungjin Pharm. Ind. Co., Ltd.	Guarantee for the payment of taxes	₩	3,600	3,000	-	-

(e) Details of key management personnel compensation for the three- and nine-month periods ended September 30, 2009 and 2008 are summarized as follows:

		2009		2008	
In millions of Won		Three-month	Nine-month	Three-month	Nine-month
Short-term employee benefits	₩	2,666	6,844	3,465	8,799
Post-employment benefits		1,647	5,034	1,713	11,083
	₩	4,313	11,878	5,178	19,882

29 Risk Management

(a) Management of Capital Risk

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

As of September 30, 2009 and December 31, 2008, the Group defines net debt and equity as follows:

In millions of Won		September 30 2009	December 31 2008
Net debt:			
Debts (Borrowings)	₩	116,302	106,867
Less:			
- Cash and cash equivalents		(268,035)	(110,245)
- Current other financial assets		(906)	(1,715)
- Current available-for-sale financial assets		(3,060)	(2,149)
	₩	(155,699)	(7,242)
Equity of owners of the Parent	₩	3,883,668	3,476,273

(b) Management of Financial Risks

The Group is exposed to risks such as currency risk, liquidity risk, credit risk, interest rate risk and market price risk. The purpose of managing financial risks is to identify the potential risk factors that may affect the Group's financial performance, and minimize, eliminate and avoid it to the extent that is acceptable. One of the principal responsibilities of the treasury department is to manage the financial risks arising from the Group's underlying operations. The treasury department monitors and manages the financial risk arising from the Group's underlying operations in accordance with the risk management policies and procedures authorized by the board of directors. Also, the treasury department provides an internal report analyzing the nature and exposure level on financial risks to Risk Management Committee of the Group. The Risk Management Committee prepares the overall strategy for financial risk management, and evaluates the effectiveness of the financial risk management. In addition, the internal auditor consistently observes the compliance of the risk management policy and procedure, and reviews the risk exposure limit of the Group. The Group holds derivative financial instruments to hedge its specific financial risk such as currency risk.

Currency Risk
The Group is exposed to foreign currency risk arising from the export and import of tobacco. The Group's primary exposure is to the US dollar and Euro. The Group's primary exposure is to the US dollar and Euro. The carrying amounts of monetary assets and liabilities denominated in a currency other than the functional currency as of September 30, 2009 and December 31, 2008 are as follows:

		September 30 2009		December 31 2008	
In millions of Won		Assets	Liabilities	Assets	Liabilities
USD	₩	394,901	14,014	407,997	20,262
EUR		10,331	32,245	5,285	25,121
JPY		1,392	181	2,153	32
CNY		-	-	7	-
GBP		-	12	-	-
	₩	406,624	46,452	415,442	45,415

29 Risk Management, Continued

The Group measures currency risk of changes in foreign exchange rates regularly. As of September 30, 2009 and December 31, 2008, the effect of 10% strengthening or weakening of functional currency against foreign currencies other than functional currency on profit before tax are as follows:

		September 30 2009		December 31 2008	
In millions of Won		10% strengthening	10% weakening	10% strengthening	10% weakening
USD	₩	38,089	(38,089)	38,774	(38,774)
EUR		(2,191)	2,191	(1,984)	1,984
JPY		121	(121)	212	(212)
CNY		-	-	1	(1)
CNY		(1)	1	-	-
	₩	36,018	(36,018)	37,003	(37,003)

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

The Group entered into foreign currency option contracts to hedge foreign currency risk of accounts receivable related to the export of tobacco. Details of the contracts as of December 31, 2008 were as follows:

In Won and In thousands of US dollars		Contracts outstanding		Exchange rate
Call Option Sell	$	6,000	₩	988
		4,000		989
Put Option Buy		3,000		988
		2,000		989

The above foreign currency option contracts were not designated as hedging instruments, and were settled in the nine-month period ended September 30, 2009. Related gains and losses are charged to the consolidated statement of comprehensive income as finance charge.

Liquidity risk
The Group has established short-term and long-term financial management plan to manage the liquidity risk, and analyzed cash outflows occurred and cash outflows budgeted, so as to match the maturity structure of financial assets and financial liabilities. The Group's management determines the financial liabilities are repayable with the operating cash flows and cash inflows from financial assets. The Group entered into an overdraft agreement with the NACF to manage the temporary liquidity risk.

29 Risk Management, Continued

The maturity analysis with a residual contractual maturity of financial liabilities as of September 30, 2009 and December 31, 2008 is as follows:

In millions of Won		Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	Beyond 5 years	Total
September 30, 2009:						
Derivative financial liabilities	₩	-	-	-	-	-
Non-derivative financial liabilities		196,164	193,598	5,516	2,589	397,867
	₩	196,164	193,598	5,516	2,589	397,867
December 31, 2008:						
Derivative financial liabilities	₩	2,699	-	-	-	2,699
Non-derivative financial liabilities		197,640	239,366	6,436	3,353	446,795
	₩	200,339	239,366	6,436	3,353	449,494

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.

Credit Risk
The Group has transacted with customers with high credit ratings to manage credit risk, and has implemented and operated policies and procedures for credit enhancements of the financial assets. Counterparty credit risk is managed by evaluating its credit rating and limiting the aggregate amount and duration of exposure before sales commence, and the Group has been provided collaterals and guarantees. The credit ratings of all counterparties and the level of collaterals and guarantees are reviewed regularly. Analysis of financial assets past due has been reported quarterly and appropriate measures have been taken to secure the Group's assets.

Export trade accounts receivables to overseas clients, including Alokozay International, Ltd., are ₩222,564 million and ₩266,592 million, and equal to 31.5% and 48.4% of the aggregate trade receivables, respectively, as of September 30, 2009 and December 31, 2008. The Group's trade receivables mentioned above were insured against non-payment up to USD36,200 thousand and USD34,400 thousand by export guarantee insurance with the Korea Export Insurance Corporation as of September 30, 2009 and December 31, 2008. The Group has no significant concentrations of customer credit risk except for the above export trade accounts receivables; on the other hand, there are a large number of widely dispersed customers with trade and other receivables.

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

Interest rate risk
The Group has issued borrowings at variable rates and fixed rates, which expose the Group to interest rate risk. The Group's management monitors the level of interest rates and maintains the balance of borrowings at variable rates and fixed rates. As of September 30, 2009 and December 31, 2008, the amount of borrowings issued at variable rates is ₩45,188 million and ₩37,543 million, respectively. There is no significant effect on cash flows or the fair value of financial liabilities from the interest rate fluctuation.

Market price risk
The Group is exposed to market price risk on available-for-sale equity investments, but the quantum of such risk is not material.

29 Risk Management, Continued

(c) Fair Value of Financial Instruments

The carrying amount and the fair value of financial instruments as of September 30, 2009 and December 31, 2008 are summarized as follows.

		September 30 2009		December 31 2008	
In millions of Won		Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets:					
Available-for-sale financial assets	₩	468,653	468,653	304,270	304,270
Long-term deposits in MSA Escrow Fund		117,010	117,010	110,261	110,261
Trade and other receivables		917,468	917,468	772,019	772,019
Other financial assets		1,102	1,102	1,723	1,723
Cash and cash equivalents		268,035	268,035	110,245	110,245
	₩	1,772,268	1,772,268	1,298,518	1,298,518
Financial Liabilities:					
Long-term borrowings	₩	(2,152)	(2,152)	(2,474)	(2,474)
Trade and other payables		(279,187)	(279,187)	(339,296)	(339,296)
Short-term borrowings		(113,758)	(113,758)	(104,113)	(104,113)
Current portion of long-term borrowings		(392)	(392)	(280)	(280)
Other financial liabilities		-	-	(2,699)	(2,699)
	₩	(395,489)	(395,489)	(448,862)	(448,862)

30 Contingent Liabilities and Financial Commitments

(a) The Group deposited some proportion of sales in accordance with Tobacco Master Settlement Agreement ("MSA") under the Escrow Statute of the US Government, related to the export of tobacco to the United States. The MSA Escrow Funds is maintained to pay the medical expenses of tobacco purchasers who have suffered health effects as a result of smoking. The unused portion of this fund will be refunded to the Group 25 years from the date that the fund was established. The Group recorded as long-term deposits the amounts paid into the MSA Escrow Funds of State governments in the United States against potential litigation and damages related to the export of tobacco into the United States.

(b) As of September 30, 2009, tobacco lawsuits claiming damages of ₩584 million were filed against the Group and the Korean government. The plaintiffs have asserted that the Group and the Korean government did not perform their obligations to notify smokers of the potential health hazards of smoking. Additionally, the Group is involved in various lawsuits for claims and damages aggregating ₩6,013 million as a defendant and ₩14,963 million as a plaintiff. According to the Group's management, the final outcome of these cases cannot be predicted as of September 30, 2009.

(c) As of September 30, 2009, the Group has entered into Letter of Credit agreements with the NACF and other banks with a limit set at USD54,300 thousand.

30 Contingent Liabilities and Financial Commitments, Continued

(d) As of September 30, 2009, the Group's trade receivables from the export of cigarettes were insured against non-payment up to USD36,200 thousand by an export guarantee insurance with the Korea Export Insurance Corporation.

(e) As of September 30, 2009, the Group has been provided with a foreign currency payment guarantee for local dealers in Russia and other countries up to USD90,000 thousand by Korea Exchange Bank and other.

(f) As of September 30, 2009, the Group maintains a contract with the farmers who grow six-year old green ginseng for purchase volume guarantees and recorded advance payments to the farmers in accordance with the contract amounted to ₩196,558 million.

(g) As of September 30, 2009, the Group and 28 other companies, which form the Samsung Corporation-National Pension Service Joint Consortium, were guaranteed ₩240,000 million by Seoul Guarantee Insurance Co., Ltd. in relation to the Yongsan International Commercial Development Project.

(h) The Group entered into an overdraft agreement with a limit of ₩150,000 million with the NACF and a discount on the commercial note agreement with a limit of ₩13,000 million with the IBK Capital Corporation as of September 30, 2009.

(i) As of September 30, 2009, the Company provided 2 blank notes, 15 notes amounting to ₩17,200 million and 5 blank checks to Tong Yang Securities Inc. and others as collateral for its short-term borrowings and trade agreements. The Company is in the process of having 1 lost note provided as collateral as of September 30, 2009 nullified.

31 Non-current Asset Held for Sale

In 2006, the Group determined to dispose the land located in Pyeongtaek City, Gyeonggi-do for the purposes of improving its financial structure and investments in property, and entered into a contract to sell the land. The transacting party may terminate the contract if the land is not included in the area for development by Pyeongtaek City. Also, the Group entered into a contract to sell the land located in Yongsan and Eulji-ro, Seoul for the nine-month period ended September 30, 2009. In respect of the above transaction, the Group recognised non-current asset held for sale amounting to ₩46,152 million and ₩22,907 million at the lowers of its carrying amount and fair value less costs to sell as of September 30, 2009 and December 31, 2008.

32 Transition to Korean International Financial Reporting Standards

Prior to 2009, the Group prepared its consolidated financial statements under Generally Accepted Accounting Principles in the Republic of Korea ("K-GAAP"). From January 1, 2009, the Group is required to prepare its consolidated financial statements in accordance with K-IFRS. As the 2009 consolidated financial statements include comparatives for 2008, the Group's date of transition to K-IFRS in accordance with K-IFRS No.1101 on first time adoption of K-IFRS, is January 1, 2008, and the 2008 comparatives are restated to K-IFRS.

The effect of the transition from K-GAAP to K-IFRS, affecting the Group's reported financial position, financial performance and cash flows, is as follows:

(a) K-IFRS No.1101 permits those companies adopting K-IFRS for the first time certain exemptions from the full requirements of K-IFRS in the transition period. The Group has taken the following key exemptions:

(i) Business combinations prior to the date of transition are not restated.

(ii) The Group measures some of land at the deemed cost which is fair value at the date of transition to K-IFRS.

(iii) The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset after the date of transition to K-IFRS.

(b) The main adjustments in changing to K-IFRS are as follows and the tables of reconciliation are cross-referenced to the notes below where relevant:

(1) Reclassification of Investment Property and Intangible Asset under Development

In accordance with K-GAAP, property held to earn rentals or for capital appreciation or both were classified and accounted for as property, plant and equipment. In accordance with K-IFRS, it is reclassified as investment property.

In accordance with K-GAAP, the land determined to be disposed was classified and accounted for as property, plant and equipment. In accordance with K-IFRS, it is reclassified as non-current asset held for sale.

In addition, development costs of new medicines classified as construction-in-progress of property, plant and equipment in accordance with K-GAAP, are reclassified as intangible asset under development in accordance with K-IFRS.

(2) Reclassification of Guarantee Deposits Paid and Guarantee Deposits for Membership

In accordance with K-GAAP, guarantee deposits paid and guarantee deposits for membership recognized as other non-current assets are recorded in intangible assets as rights to facility usage with indefinite useful lives and prepaid expenses, respectively. Prepaid expenses attribute expenses to periods of service.

32 Transition to Korean International Financial Reporting Standards, Continued

(3) Revenue Recognition Criteria

In accordance with K-GAAP, revenue from building lotting-out construction contracts is accounted for by the percentage of completion method. In accordance with K-IFRS, it is recognized when the significant risks and rewards of ownership are transferred to a third party.

With regard to the customer loyalty program to provide customers with incentives to buy goods, the Group recognized its obligations by recording a liability for the estimated incremental cost of points expected to be redeemed in accordance with K-GAAP. However, in accordance with K-IFRS, the fair value of points provided to the customers among the consideration received or receivable from the sales transaction is deferred and recognized as revenue over the period during which the service is performed.

(4) Retirement Benefit Obligations

Employees who have been with the Group for more than one year are entitled to lump-sum payments based on current salary rates and length of service when they leave the Group. In accordance with K-GAAP, the Group's estimated liability under the plan which would be payable if all employees left on the end of reporting date is accrued in the consolidated statement of financial position. In accordance with K-IFRS, the Group uses the projected unit credit method by way of an actuarial valuation method to determine the present value of its defined benefit obligations.

(5) Employee Benefits: Accumulating Compensated Absence and Bonus

According to the K-IFRS, the Group recognizes the expected cost of short-term employee benefits in the form of compensated absence as a liability, when employees render service that increases their entitlement to future compensated absences. Also, the Group recognizes its legal or constructive obligation under a profit-sharing or bonus plan as a liability when employees render service.

(6) Derecognition of Financial Assets and Financial Liabilities

With regard to trade receivables with customer credit contracts, trade receivables were derecognized at the point of the collection from lenders in accordance with K-GAAP. However, in accordance with K-IFRS, trade receivables with customer credit contracts were derecognized at the point of the collection from borrowers. In addition, in accordance with K-GAAP, tobacco excise and other taxes payable were reflected in the consolidated statement of financial position after offsetting by prepaid tobacco excise and other taxes. However, in accordance with K-IFRS, they are reflected in the consolidated statement of financial position the aggregate amount in total rather than offset.

32 Transition to Korean International Financial Reporting Standards, Continued

(7) Changes in Consolidated Subsidiaries and Equity Accounted Investments

In accordance with K-GAAP, investments in small subsidiaries such as KT&G Pars, KT&G Rus L.L.C. and KGC Sales Co., Ltd. with total assets amounting to less than ₩7,000 million as of the prior fiscal year-end are excluded from the scope of consolidated financial statement. However, in accordance with K-IFRS, all investments in subsidiaries controlled by the Parent Company are included in the scope of consolidated financial statement.

In accordance with K-GAAP, investments in associates such as Cosmo Tabacco Co., Ltd., Korea Islet Transplantation Institute, Inc. and Lite Pharm Tech, Inc. were accounted for under the cost method since the effect of applying the equity method on its consolidated financial statements is immaterial. In accordance with K-IFRS, these are reclassified as the equity accounted investment accounted for under the equity method of accounting.

(8) Impairment and Uncollectibility of Financial Assets

In accordance with K-GAAP, allowances for the receivables were influenced by tax requirements and practice. However, in accordance with K-IFRS, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

(9) Financial Instrument Carried at Amortized Cost

In accordance with K-GAAP, a financial instrument such as loans and receivables was recognized in nominal terms. However, in accordance with K-IFRS, when a financial instrument is recognized initially, it is measured at its fair value. After initial recognition, a financial instrument is measured at amortized cost using the effective interest method.

(10) Review of Depreciation Period or Depreciation Method

The Group reviewed the depreciation method and the useful life of the asset to reflect the pattern and period in which the asset's future economic benefits are expected to be consumed by the Group.

(11) Measurement of Land at the Deemed Cost at the Date of Transition

In the preparation of the opening K-IFRS consolidated statement of financial position on the date of transition to K-IFRS, the Group measures some of land at the deemed cost which is fair value at the date of transition.

(12) The Effect of Income Tax

In accordance with K-GAAP, it is required that deferred tax assets and liabilities be classified as current or non-current. However, K-IFRS does not specify whether the Group should distinguish current and non-current portions of deferred tax assets and liabilities. In addition, the tax effects of the above adjustments arising from differences between K-GAAP and K-IFRS have been reflected in the financial statements.

32 Transition to Korean International Financial Reporting Standards, Continued

(c) Reconciliation of Equity in accordance with K-GAAP to Equity in accordance with K-IFRS

(i) The effect of the change to K-IFRS on the consolidated statement of financial position at January 1, 2008 is as follows:

In millions of Won		K-GAAP	Re-classification	Revenue recognition criteria	Retirement benefit obligations	Employee benefits	Derecognition of financial instruments	Scope of con-solidation and equity method	Other Changes	K-IFRS
Notes			(1)(2)	(3)	(4)	(5)	(6)	(7)	(8)(9)(10)(11)(12)	
Assets	₩	4,134,102	(953)	12,623	(2,092)	5,967	214,443	2,263	16,273	4,382,626
Equity	₩	3,163,227	(953)	(6,549)	16,631	(79,534)	-	(3,001)	50,088	3,139,909
- Equity attributable to owners of the Parent Company		3,143,110	(953)	(6,549)	16,342	(79,119)	-	(3,001)	39,189	3,109,019
- Non-controlling interests		20,117	-	-	289	(415)	-	-	10,899	30,890
Liabilities		970,875	-	19,172	(18,723)	85,501	214,443	5,264	(33,815)	1,242,717
Equity and liabilities	₩	4,134,102	(953)	12,623	(2,092)	5,967	214,443	2,263	16,273	4,382,626

(ii) The effect of the change to K-IFRS on the consolidated statement of financial position at December 31, 2008 is as follows:

In millions of Won		K-GAAP	Re-classification	Revenue recognition criteria	Retirement benefit obligations	Employee benefits	Derecognition of financial instruments	Scope of con-solidation and equity method	Other Changes	K-IFRS
Notes			(1)(2)	(3)	(4)	(5)	(6)	(7)	(8)(9)(10)(11)(12)	
Assets	₩	4,572,188	(977)	37,473	2,301	3,890	253,933	600	43,521	4,912,929
Equity	₩	3,556,131	(977)	(29,574)	(10,484)	(83,773)	-	(26,478)	98,992	3,503,837
- Equity attributable to owners of the Parent Company		3,539,055	(977)	(29,574)	(10,401)	(83,170)	-	(26,478)	87,818	3,476,273
- Non-controlling interests		17,076	-	-	(83)	(603)	-	-	11,174	27,564
Liabilities		1,016,057	-	67,047	12,785	87,663	253,933	27,078	(55,471)	1,409,092
Equity and liabilities	₩	4,572,188	(977)	37,473	2,301	3,890	253,933	600	43,521	4,912,929

32 Transition to Korean International Financial Reporting Standards, Continued

(iii) The effect of the change to K-IFRS on equity at September 30, 2008 is as follows:

In millions of Won		K-GAAP	Re-classification	Revenue recognition criteria	Retirement benefit obligations	Employee benefits	Scope of con-solidation and equity method	Other Changes	K-IFRS
Notes			(1)(2)	(3)	(4)	(5)	(7)	(8)(9) (10)(11)(12)	
Equity:									
- Equity attributable to owners of the Parent Company	₩	3,405,601	(975)	(18,438)	1,941	(82,034)	(4,040)	55,411	3,357,466
- Non-controlling interests		19,934	-	-	59	(412)	-	10,810	30,391
	₩	3,425,535	(975)	(18,438)	2,000	(82,446)	(4,040)	66,221	3,387,857

32 Transition to Korean International Financial Reporting Standards, Continued

(d) Reconciliation of Total Comprehensive Income in accordance with K-GAAP to Total Comprehensive Income in accordance with K-IFRS

(i) The effect of the change to K-IFRS on the consolidated statement of comprehensive income for the year ended December 31, 2008 is as follows:

In millions of Won, except earnings per share		K-GAAP	Re-classification	Revenue recognition criteria	Retirement benefit obligations	Employee benefits	Scope of con-solidation and equity method	Other Changes	K-IFRS
Notes			(1)(2)	(3)	(4)	(5)	(7)	(8)(9)(10)(11)(12)	
Sales	₩	3,363,854	47	(51,843)	-	-	(233)	494	3,312,319
Cost of sales		(1,375,659)	(3,538)	48,950	23,750	(2,994)	4,185	7,236	(1,298,070)
Gross profit		1,988,195	(3,491)	(2,893)	23,750	(2,994)	3,952	7,730	2,014,249
Other income		121,646	(47)	-	-	-	-	(2,740)	118,859
Selling, general and administrative expenses		(808,334)	3,515	(20,133)	1,641	(1,244)	(1,929)	2,341	(824,143)
Contribution to employee welfare foundation		(15,000)	-	-	-	-	-	-	(15,000)
Other expense		(65,529)	209	-	-	-	(3,588)	12,847	(56,061)
Profit from operations		1,220,978	186	(23,026)	25,391	(4,238)	(1,565)	20,178	1,237,904
Net finance income (costs)		14,767	(209)	-	(7,903)	-	239	647	7,541
Share of profit or loss of associates		15	-	-	-	-	(333)	-	(318)
Profit before tax		1,235,760	(23)	(23,026)	17,488	(4,238)	(1,659)	20,825	1,245,127
Income tax expense		(346,405)	-	-	-	-	(196)	(3,398)	(349,999)
Profit for the period	₩	889,355	(23)	(23,026)	17,488	(4,238)	(1,855)	17,427	895,128
Other comprehensive income, net of tax		28,175	-	-	(35,015)	-	1,171	-	(5,669)
Total comprehensive income for the period	₩	917,530	(23)	(23,026)	(17,527)	(4,238)	(684)	17,427	889,459
Profit attributable to:									
- Owners of the Parent Company		892,396	(23)	(23,026)	17,183	(4,050)	(1,855)	17,152	897,777
- Non-controlling interests		(3,041)	-	-	305	(188)	-	275	(2,649)
Total comprehensive income attributable to:									
- Owners of the Parent Company		920,571	(23)	(23,026)	(17,155)	(4,050)	(684)	17,152	892,785
- Non-controlling interests		(3,041)	-	-	(372)	(188)	-	275	(3,326)
Basic and diluted earnings per share in Won	₩	6,857							6,899

32 Transition to Korean International Financial Reporting Standards, Continued

(d) Reconciliation of total comprehensive income in accordance with K-GAAP to Total Comprehensive Income in accordance with K-IFRS, Continued

(ii) The effect of the change to K-IFRS on the consolidated statement of comprehensive income for the nine-month period ended September 30, 2008 is as follows:

In millions of Won, except earnings per share		K-GAAP	Re-classification	Revenue recognition criteria	Retirement benefit obligations	Employee benefits	Scope of con-solidation and equity method	Other Changes	K-IFRS
Notes			(1)(2)	(3)	(4)	(5)	(7)	(8)(9)(10)(11)(12)	
Sales	₩	2,453,394	29	(21,417)	-	-	1,237	(583)	2,432,660
Cost of sales		(1,002,035)	(2,654)	25,211	6,937	(2,249)	942	5,508	(968,340)
Gross profit		1,451,359	(2,625)	3,794	6,937	(2,249)	2,179	4,925	1,464,320
Other income		92,077	(29)	-	-	-	9	(1,887)	90,170
Selling, general and administrative expenses		(580,305)	2,633	(15,683)	9,788	(663)	(2,743)	1,851	(585,122)
Contribution to employee welfare foundation		(21,000)	-	-	-	-	-	-	(21,000)
Other expense		(39,152)	86	-	-	-	(50)	13,444	(25,672)
Profit from operations		902,979	65	(11,889)	16,725	(2,912)	(605)	18,333	922,696
Net finance income (costs)		12,929	(86)	-	(5,206)	-	136	504	8,277
Share of profit or loss of associates		187	-	-	-	-	(373)	-	(186)
Profit before tax		916,095	(21)	(11,889)	11,519	(2,912)	(842)	18,837	930,787
Income tax expense		(267,094)	-	-	-	-	(196)	(2,704)	(269,994)
Profit for the period	₩	649,001	(21)	(11,889)	11,519	(2,912)	(1,038)	16,133	660,793
Other comprehensive income, net of tax		50,951	-	-	(26,149)	-	(1)	-	24,801
Total comprehensive income for the period	₩	699,952	(21)	(11,889)	(14,630)	(2,912)	(1,039)	16,133	685,594
Profit attributable to:									
- Owners of the Parent Company		649,185	(21)	(11,889)	11,241	(2,915)	(1,038)	16,221	660,784
- Non-controlling interests		(184)	-	-	278	3	-	(88)	9
Total comprehensive income attributable to:									
- Owners of the Parent Company		700,136	(21)	(11,889)	(14,400)	(2,915)	(1,039)	16,221	686,093
- Non-controlling interests		(184)	-	-	(230)	3	-	(88)	(499)
Basic and diluted earnings per share in Won	₩	4,972							5,061

32 Transition to Korean International Financial Reporting Standards, Continued

(d) Reconciliation of total comprehensive income in accordance with K-GAAP to Total Comprehensive Income in accordance with K-IFRS, Continued

(iii) The effect of the change to K-IFRS on the consolidated statement of comprehensive income for the three-month period ended September 30, 2008 is as follows:

In millions of Won, except earnings per share		K-GAAP	Re-classification	Revenue recognition criteria	Retirement benefit obligations	Employee benefits	Scope of con-solidation and equity method	Other Changes	K-IFRS
Notes			(1)(2)	(3)	(4)	(5)	(7)	(8)(9)(10)(11)(12)	
Sales	₩	852,142	11	(8,589)	-	-	808	(487)	843,885
Cost of sales		(349,466)	(885)	9,933	2,445	(812)	234	1,843	(336,708)
Gross profit		502,676	(874)	1,344	2,445	(812)	1,042	1,356	507,177
Other income		52,147	(11)	-	113	-	1	(1,527)	50,723
Selling, general and administrative expenses		(208,173)	883	(6,031)	4,494	(383)	(1,368)	554	(210,024)
Contribution to employee welfare foundation		(6,000)	-	-	-	-	-	-	(6,000)
Other expense		(16,519)	47	-	-	-	141	5,974	(10,357)
Profit from operations		324,131	45	(4,687)	7,052	(1,195)	(184)	6,357	331,519
Net finance income (costs)		2,227	(47)	-	(1,672)	-	17	295	820
Share of profit or loss of associates		268	-	-	-	-	(331)	-	(63)
Profit before tax		326,626	(2)	(4,687)	5,380	(1,195)	(498)	6,652	332,276
Income tax expense		(96,013)	-	-	-	-	(114)	(1,338)	(97,465)
Profit for the period	₩	230,613	(2)	(4,687)	5,380	(1,195)	(612)	5,314	234,811
Other comprehensive income, net of tax		46,845	-	-	(8,759)	-	-	-	38,086
Total comprehensive income for the period	₩	277,458	(2)	(4,687)	(3,379)	(1,195)	(612)	5,314	272,897
Profit attributable to:									
- Owners of the Parent Company		230,524	(2)	(4,687)	5,233	(1,124)	(612)	6,123	235,455
- Non-controlling interests		89	-	-	147	(71)	-	(809)	(644)
Total comprehensive income attributable to:									
- Owners of the Parent Company		277,368	(2)	(4,687)	(3,356)	(1,124)	(612)	6,124	273,711
- Non-controlling interests		90	-	-	(23)	(71)	-	(810)	(814)
Basic and diluted earnings per share in Won	₩	1,709							1,805

32 Transition to Korean International Financial Reporting Standards, Continued

(e) Explanation of Material Adjustments to the Consolidated Statement of Cash Flows

Interest paid, interest received and dividends received were classified as operating cash flows in accordance with K-GAAP. But, in accordance with K-IFRS, interest paid are reclassified as financing cash flows, and interest received and dividends received are reclassified as investing cash flows. The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is presented separately from cash flows from operating, investing and financing activities.

Bank overdrafts which form an integral part of the Group's cash management are included as a component of cash and cash equivalents rather than financing cash flows.