KT&G CORPORATION AND SUBSIDIARIES

Consolidated Interim Financial Statements
First Half of the 32nd Fiscal Year
From January 1, 2018 to June 30, 2018

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

KT&G CORPORATION

Contents

KT&G CORPORATION AND SUBSIDIARIES

Review Report on Condensed Consolidated Interim Financial Statements

First Half of the 32nd Fiscal Year
from January 1, 2018, to June 30, 2018

Deloitte Anjin LLC.

Deloitte.

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Independent Auditors' Review Report

English Translation of Independent Auditors' Review Report Originally Issued in KoreanTo the Shareholders and Board of Directors of KT&G Corporation:

Reviewed condensed consolidated interim financial statements

We have reviewed the accompanying condensed consolidated interim financial statements of KT&G Corporation and subsidiaries, which comprise the condensed consolidated interim statement of financial position as of June 30, 2018, and the related condensed consolidated interim statement of comprehensive income for the three months and six months ended June 30, 2018, and condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the six months ended June 30, 2018, all expressed in Korean won, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRSs"), and for such internal control as management determines is necessary to enable the preparation of condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these condensed consolidated interim financial statements based on our review.

We conducted our review in accordance with the Korean Standards on reviewing the interim and semiannual financial statements. The review is conducted primarily by analytical procedures and other review procedures, as well as questions to treasurers and accountants. In addition, the review is much limited in the range when compared to the full-scale audits that are performed in accordance with auditing standards, and such procedures do not ensure that the auditors will be aware of all significant issues that would have been identified in the audit. Therefore, we do not express our opinion.

Deloitte.

Review results

As a result of the review, we did not find any material items that are not fairly stated in terms of materiality in accordance with K-IFRS No. 1034 'Interim Financial Reporting.'

Other matters

KT&G Corporation and subsidiaries' comparative condensed consolidated interim statement of comprehensive income for the three months and six months ended June 30, 2017, and comparative condensed consolidated interim statement of changes in equity and comparative condensed consolidated interim statement of cash flows for the six months ended June 30, 2017, were reviewed by KPMG Samjong Accounting Corporation, whose review report dated August 13, 2017, stated that no unfairly presented item was found in these condensed consolidated financial statements, in all material respects, in terms of K-IFRS No. 1034 'Interim Financial Reporting.'

The statement of financial position as of December 31, 2017, and the related statement of comprehensive income, statement of changes in equity and statement of cash flows (not included in this review) for the year ended December 31, 2017, were audited in accordance with the Korean Auditing Standards by the KPMG Samjong Accounting Corporation, which expressed its opinion on the audit report dated February 28, 2018. The accompanying statement of financial position as of December 31, 2017, presented for comparative purposes, does not differ from the above audited statement of financial position with respect to materiality.

10, Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul

Lee Jung Hee, CEO of Anjin Deloitte LLC

Deloitte Anjin LLC

August 14, 2018

Notice to Readers

This report is effective as of the review report date (August 14, 2018). 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 condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Accompanying Condensed Consolidated Interim Financial Statements

KT&G CORPORATION AND SUBSIDIARIES

First Half of the 32nd Fiscal Year
from January 1, 2018, to June 30, 2018

First Half of the 31st Fiscal Year
from January 1, 2017, to June 30, 2017

"The condensed consolidated interim financial statements attached have been prepared by our company."
CEO of KT&G Corporation, Baek Bok In

Address of headquarters: (Road name and address) 71, Beotkkot-gil, Daedeok-gu, Daejeon
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Condensed Consolidated Interim Statements of Financial Position

First half of the 32nd Fiscal Year As of June 30, 2018

Full year of the 31st Fiscal Year As of December 31, 2017

KT&G CORPORATION AND SUBSIDIARIES Korean won

Accounts	Notes	As of June 30, 2018	As of December 31, 2017
Assets:			
Current assets:			
Cash and cash equivalents	4,5,33,34,37	749,848,842,426	1,230,175,789,096
Current other financial assets	5,17,33,34,35,37	183,133,688,293	1,563,899,746,161
Current term's profit or loss-Fair value of financial asset	6,33,37	1,962,839,454,893	–
Trade and other receivables	8,33,37	1,031,300,180,187	1,126,906,681,740
Financial derivatives	7	387,862,284	–
Inventories	9	2,208,840,195,874	2,317,466,486,017
Refund asset	21	1,244,163,019	–
Accrued tobacco excise and other taxes		242,425,137,667	261,458,634,993
Advance payments	35	91,295,222,801	59,174,970,582
Prepaid expenses		37,627,506,676	26,315,942,164
Total current assets		6,508,942,254,120	6,585,398,250,753
Non-current assets:			
Other long-term financial assets	5,17,33,37	6,347,597,000	6,350,597,000
Long-term deposits in MSA Escrow Fund	10,33,37	578,397,436,030	510,223,375,080
Current term's profit or loss-Fair value of financial asset	6,33,37	194,649,252,265	–
Other comprehensive income or loss-Fair value of financial asset	11,33,37	268,734,846,168	–
Long-term trade and other receivables	8,33,37	63,742,272,358	63,687,114,014
Available-for-sale financial assets	4,11,33,37	–	471,762,743,361
Investments in associates and joint ventures	4,12	51,402,517,614	51,030,988,219
Property, plant and equipment	13,16,17	1,692,870,735,474	1,756,979,126,818
Intangible assets	14	85,070,559,635	84,747,974,375
Investment property	15,17	518,297,898,542	330,998,857,548
Refund asset	21	221,353,270	–
Long-term advance payments	35	93,830,777,585	69,773,731,927
Long-term prepaid expenses		8,322,576,357	5,547,561,711
Deferred income tax assets	4,30	50,625,325,724	39,405,222,139
Total non-current assets		3,612,513,148,022	3,390,507,292,192
Total assets		10,121,455,402,142	9,975,905,542,945
Equity and Liabilities:			
Liabilities:			

Current liabilities:			
Short-term borrowings	4,17,18,33,34	42,612,555,236	174,656,638,008
Current portion of long-term borrowings	4,17,18,33,34	15,962,072,800	3,702,326,400
Trade and other payables	19,33	605,421,963,180	523,299,592,457
Advance receipts		26,491,021,818	6,823,287,073
Current provision	21	12,882,140,353	2,969,527,177
Derivative liabilities	7,33	5,506,391,199	–
Income tax payable	30	195,153,922,124	175,149,546,607
Tobacco excise and other taxes payable		1,083,964,813,587	916,397,793,192
Total current liabilities		1,987,994,880,297	1,802,998,710,914
Non-current liabilities:			
Long-term borrowings	4,17,18,33,34	100,940,109,600	100,588,590,400
Long-term trade and other receipts	19,33	43,571,477,292	34,436,148,465
Long-term advance receipts		4,867,377,282	10,826,615,063
Net defined benefit liability	20	98,966,089,539	75,782,588,379
Provision	21	4,866,251,261	13,363,453,237
Deferred income tax liabilities	30	120,643,563,073	108,149,068,670
Total non-current liabilities		373,854,868,047	343,146,464,214
Total liabilities		2,361,849,748,344	2,146,145,175,128
Equity:			
Ordinary shares	22	954,959,485,000	954,959,485,000
Other capital surplus	22	(29,719,795,353)	(29,719,795,353)
Treasury shares	23	(328,157,286,128)	(328,157,286,128)
Gain on sale of treasury shares	23	513,775,933,891	513,775,933,891
Reserves	24	5,354,337,177,012	4,927,331,928,515
Retained earnings	25,37	1,237,664,542,846	1,733,863,414,006
Equity attributable to owners of the parent		7,702,860,057,268	7,772,053,679,931
Non-controlling interests		56,745,596,530	57,706,687,886
Total equity		7,759,605,653,798	7,829,760,367,817
Total liabilities and equity		10,121,455,402,142	9,975,905,542,945

“The accompanying notes are a part of the condensed consolidated interim financial statements.”

Condensed Consolidated Interim Statements of Comprehensive Income

From January 1, 2018, to June 30, 2018

From January 1, 2017, to June 30, 2017

KT&G CORPORATION AND SUBSIDIARIES Korean won

Accounts	Notes	2018		2017	
		Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Sales	4,26,37	1,119,719,777,068	2,187,310,151,306	1,161,698,514,447	2,340,446,025,538
Cost of sales	9,20,26,27,37	(462,495,770,701)	(895,966,169,054)	(461,777,937,070)	(939,900,123,824)
Gross profit		657,224,006,367	1,291,343,982,252	699,920,577,377	1,400,545,901,714
Selling, general and administrative expenses	8,16,20,27,37	(334,248,040,319)	(656,999,641,402)	(313,587,459,272)	(618,881,769,691)
Operating profit	4,16,27	322,975,966,048	634,344,340,850	386,333,118,105	781,664,132,023
Other income	8,16,28	60,363,309,915	96,260,298,300	43,842,084,543	24,189,256,138
Other expenses	9,28	(31,223,892,154)	(51,557,681,775)	(38,569,887,047)	(104,494,905,060)
Finance income	6,7,29,33	25,629,732,832	61,224,569,724	14,849,035,002	36,849,540,965
Cost of finance	6,7,29,33	(252,437,030)	(2,922,436,738)	(16,073,777,779)	(17,607,092,171)
Net finance income	29	25,377,295,802	58,302,132,986	(1,224,742,777)	19,242,448,794
Share of gain of associates and joint ventures for the quarter	12	1,064,817,777	1,064,817,777	3,650,046,662	5,119,202,803
Share of loss of associates and joint ventures for the quarter	12	(53,245,319)	(104,821,775)	5,595,754	–
Profit before income tax expense		378,504,252,069	738,309,086,363	394,036,215,240	725,720,134,698
Income tax expense	30,37	(113,362,727,058)	(223,798,780,009)	(119,467,225,095)	(216,114,890,916)
Profit for the quarter		265,141,525,011	514,510,306,354	274,568,990,145	509,605,243,782
Other comprehensive income (loss) after income tax:					
Items that are not reclassified subsequently to profit or loss					
Remeasurements of net defined benefit liability, net of tax	20	(364,475,288)	(1,430,960,874)	(36,732,146)	(628,189,749)
Other comprehensive income (loss)-Valuation of profit or loss at fair value of financial asset	24,33	(6,386,297,156)	(13,315,388,005)	–	–
Other comprehensive income-Fair value gain or loss on disposal of financial assets	24	(147,755,932)	(147,755,932)	–	–
Others that can be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations, net of tax	24	2,016,085,522	(7,801,385,426)	1,920,911,184	(3,131,046,523)
Unrealized net changes in fair value of available-for-sale financial assets, net of tax	33	–	–	23,009,795,607	28,095,074,771
Other comprehensive income after income tax		(4,882,442,854)	(22,695,490,237)	24,893,974,645	24,335,838,499
Total comprehensive income for the quarter		260,259,082,157	491,814,816,117	299,462,964,790	533,941,082,281
Profit attributable to:					
Owners of the parent company		266,571,370,939	515,468,597,557	274,170,916,586	508,554,023,056
Non-controlling interests		(1,429,845,928)	(958,291,203)	398,073,559	1,051,220,726

Total		265,141,525,011	514,510,306,354	274,568,990,145	509,605,243,782
Other comprehensive income for the quarter attributable to:					
Owners of the parent company		261,690,524,475	492,775,907,473	299,066,684,840	529,951,996,388
Non-controlling interests		(1,431,442,318)	(961,091,356)	396,279,950	3,989,085,893
Total		260,259,082,157	491,814,816,117	299,462,964,790	533,941,082,281
EPS:					
Basic and diluted	31	2,111	4,082	2,171	4,028

"The accompanying notes are a part of the condensed consolidated interim financial statements."

Condensed Consolidated Interim Statements of Changes in Equity

From January 1, 2018, to June 30, 2018

From January 1, 2017, to June 30, 2017

KT&G CORPORATION AND SUBSIDIARIES

Korean won

Accounts	Ordinary shares	Other capital surplus (deficit)	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2017	954,959,485,000	(3,428,862,637)	(328,157,286,128)	513,775,933,891	4,296,522,940,448	1,611,532,365,941	7,045,204,576,515	72,553,715,968	7,117,758,292,483
Total comprehensive income (loss) for the quarter:									
Profit for the quarter	–	–	–	–	–	508,554,023,056	508,554,023,056	1,051,220,726	509,605,243,782
Other comprehensive income (loss) for the quarter:									
—Remeasurements of net defined benefit liability, net of tax	–	–	–	–	–	(625,098,321)	(625,098,321)	(3,091,428)	(628,189,749)
—Unrealized net changes in fair value of available-for-sale financial assets, net of tax	–	–	–	–	28,095,074,771	–	28,095,074,771	–	28,095,074,771
—Exchange differences on translating foreign operations, net of tax	–	–	–	–	(6,072,003,118)	–	(6,072,003,118)	2,940,956,595	(3,131,046,523)
Sum of other comprehensive income (loss) for the quarter	–	–	–	–	22,023,071,653	(625,098,321)	21,397,973,332	2,937,865,167	24,335,838,499
Other comprehensive income (loss) for the quarter	–	–	–	–	22,023,071,653	507,928,924,735	529,951,996,388	3,989,085,893	533,941,082,281
Transactions with owners, recognized directly in equity:									
Dividends	–	–	–	–	–	(454,554,457,200)	(454,554,457,200)	–	(454,554,457,200)
Transfer from reserve for research and human resource development	–	–	–	–	(10,000,000,000)	10,000,000,000	–	–	–
Transfer to unconditional reserve	–	–	–	–	623,914,622,466	(623,914,622,466)	–	–	–
Changes in non-controlling interests and others	–	(26,286,574,854)	–	–	–	–	(26,286,574,854)	(18,866,308,756)	(45,152,883,610)
Total transactions with owners of the parent company	–	(26,286,574,854)	–	–	613,914,622,466	(1,068,469,079,666)	(480,841,032,054)	(18,866,308,756)	(499,707,340,810)
Balance at June 30, 2017	954,959,485,000	(29,715,437,491)	(328,157,286,128)	513,775,933,891	4,932,460,634,567	1,050,992,211,010	7,094,315,540,849	57,676,493,105	7,151,992,033,954
Balance at January 1, 2018	954,959,485,000	(29,719,795,353)	(328,157,286,128)	513,775,933,891	4,927,331,928,515	1,733,863,414,006	7,772,053,679,931	57,706,687,886	7,829,760,367,817
Effect of change in accounting policy	–	–	–	–	(36,765,729,396)	(20,143,292,740)	(56,909,022,136)	–	(56,909,022,136)
Balance at January 1, 2018 (basic after revision)	954,959,485,000	(29,719,795,353)	(328,157,286,128)	513,775,933,891	4,890,566,199,119	1,713,720,121,266	7,715,144,657,795	57,706,687,886	7,772,851,345,681
Total comprehensive income (loss):									
Profit for the quarter	–	–	–	–	–	515,468,597,557	515,468,597,557	(958,291,203)	514,510,306,354
Other comprehensive income (loss) for the quarter:									
—Remeasurements of net defined benefit liability, net of tax	–	–	–	–	–	(1,428,160,721)	(1,428,160,721)	(2,800,153)	(1,430,960,874)
—Other comprehensive income (loss)-Valuation of profit or loss at fair value of financial asset	–	–	–	–	(13,315,388,005)	–	(13,315,388,005)	–	(13,315,388,005)
Other comprehensive income-Fair value gain or loss on disposal of financial assets	–	–	–	–	(147,755,932)	–	(147,755,932)	–	(147,755,932)
—Exchange differences on translating foreign operations, net of tax	–	–	–	–	(7,801,385,426)	–	(7,801,385,426)	–	(7,801,385,426)
Sum of other comprehensive income (loss) for the quarter	–	–	–	–	(21,264,529,363)	(1,428,160,721)	(22,692,690,084)	(2,800,153)	(22,695,490,237)
Total comprehensive income (loss) for the quarter	–	–	–	–	(21,264,529,363)	514,040,436,836	492,775,907,473	(961,091,356)	491,814,816,117
Transactions with owners, recognized directly as equity:									
Dividends	–	–	–	–	–	(505,060,508,000)	(505,060,508,000)	–	(505,060,508,000)
Transfer from reserve for research and human resource development	–	–	–	–	(10,000,000,000)	10,000,000,000	–	–	–
Transfer to unconditional reserve	–	–	–	–	495,035,507,256	(495,035,507,256)	–	–	–
Total transactions with owners of the parent company	–	–	–	–	485,035,507,256	(990,096,015,256)	(505,060,508,000)	–	(505,060,508,000)
Balance at June 30, 2018	954,959,485,000	(29,719,795,353)	(328,157,286,128)	513,775,933,891	5,354,337,177,012	1,237,664,542,846	7,702,860,057,268	56,745,596,530	7,759,605,653,798

“The accompanying notes are a part of the condensed consolidated interim financial statements.”

Condensed Consolidated Interim Statements of Cash Flows

From January 1, 2018, to June 30, 2018

From January 1, 2017, to June 30, 2017

KT&G CORPORATION AND SUBSIDIARIES — Korean won

Accounts	Notes	Six months ended June 30, 2018	Six months ended June 30, 2017
Cash flows from operating activities:			
Cash generated from operations	36	1,098,641,620,376	411,330,184,090
Income tax paid		(180,868,326,757)	(220,028,087,513)
Net cash provided by operating activities		917,773,293,619	191,302,096,577
Cash flows from investing activities:	36		
Interest received		5,604,613,345	27,879,457,435
Dividends received		7,035,584,985	12,656,688,688
Proceeds from sale of property, plant and equipment		5,318,429,308	1,496,685,721
Proceeds from sales of intangible assets		351,198,000	1,440,000,000
Disposal of non-current assets held for sale		–	2,144,800,000
Current term's profit or loss-Proceeds from fair value of financial assets		43,141,650,836	–
Other comprehensive income or loss-Proceeds from fair value of financial assets		1,152,690,000	–
Disposal of available-for-sale financial assets		–	3,462,129,718
Collection of loans		8,619,355,479	8,681,631,149
Withdrawal of guarantee deposits		12,926,835,097	14,155,264,375
Acquisition of property, plant and equipment		(201,283,362,642)	(125,492,347,527)
Acquisition of intangible assets		(3,730,371,308)	(2,686,453,172)
Acquisition subsidiary		–	(46,045,660,504)
Acquisition of available-for-sale financial assets		–	(28,570,000,000)
Acquisition of fair value through profit or loss		(43,503,108,360)	–
Other comprehensive income or loss-Acquisition of fair value of financial assets		(900,000,000)	–
Increase in loans		(88,474,551)	(689,703,150)
Payments of guarantee deposits		(17,161,843,848)	(19,525,192,838)
Payments of long-term deposits in MSA Escrow Fund		(32,924,693,568)	(42,828,595,886)
Increase in other financial assets, net		(559,843,423,623)	697,494,286,587
Net cash used in investing activities		(775,284,920,850)	503,572,990,596
Cash flows from financing activities:	36		
Proceeds from borrowings		308,571,408,002	230,575,007,598
Increase in deposits received		3,631,033,054	8,001,859,110
Payments of share issuance cost		–	(22,706,912)
Interest paid		(1,092,154,487)	(21,434,603,145)
Payments of dividends		(505,060,508,000)	(460,411,135,566)
Payments of borrowings		(428,846,141,413)	(297,602,226,622)
Decrease in deposits received		(3,939,060,960)	(2,057,594,574)
Net cash used in financing activities		(626,735,423,804)	(542,951,400,111)
Net increase in cash and cash equivalents		(484,247,051,035)	151,923,687,062
Cash and cash equivalents at January 1		1,230,175,789,096	850,786,228,377
Effect of exchange rate fluctuation on cash held		3,920,104,365	(3,865,896,088)
Cash and cash equivalents at June 30		749,84,842,42	998,844,019,351

"The accompanying notes are a part of the condensed consolidated interim financial statements."

Notes to Condensed Consolidated Interim Financial Statements

From January 1, 2018, to June 30, 2018

From January 1, 2017, to June 30, 2017

KT&G CORPORATION AND SUBSIDIARIES

1. ORGANIZATION AND DESCRIPTION OF BUSINESS:

(1) Description of the Controlling Company

KT&G Corporation (the "Parent Company") is engaged in manufacturing and selling tobaccos. As of June 30, 2018, the Parent Company has three manufacturing plants, including the Shintanjin plant, and 14 local headquarters and 123 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Parent Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

The Parent Company was established on April 1, 1987, as Korea Monopoly Corporation, a wholly owned enterprise of the Korean government pursuant to the Korea Monopoly Corporation Act, in order to secure financing and to promote and develop, through efficient management, the monopoly business of red ginseng and tobacco. On April 1, 1989, the Parent Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. Also, pursuant to the Act on Management Reform and Privatization of Public Enterprises, proclaimed on August 28, 1997, and enforced on October 1, 1997, the Parent Company was excluded from the application of the Act for the Management of Government Invested Enterprises. Accordingly, the Parent Company became an entity existing and operating under the Commercial Act of Korea.

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 into a wholly owned subsidiary, Korea Ginseng Corporation, was accomplished by the Parent Company's contribution of the assets and liabilities in the red ginseng business segment. On December 27, 2002, the Parent Company changed its name again to KT&G Corporation from Korea Tobacco and Ginseng Corporation.

The Korean government sold 28,650,000 shares of the Parent Company to the public during 1999, and the Parent Company listed its shares on the Korea Exchange on October 8, 1999. On October 17, 2002, and October 31, 2001, the Parent Company listed 35,816,658 and 45,400,000 Global Depositary Receipts ("GDRs"), respectively, (each GDR representing the right to receive one-half share of an ordinary share of the Parent Company) on the Luxembourg Stock Exchange pursuant to the Korean government's privatization program. Also, on June 25, 2009, the listing market of the Parent Company's GDR was changed from the BdL market to the Euro MTF in the Luxembourg Stock Exchange.

The ownership of the Parent Company's issued ordinary shares as of June 30, 2018, is held as follows:

Type	Number of shares	Percentage of ownership
National Pension Service	13,191,374	9.61%
Industrial Bank of Korea	9,510,485	6.93%
Employee Share Ownership Association	2,891,014	2.11%
Treasury shares	11,027,370	8.03%
Others	100,672,254	73.32%
Total	137,292,497	100.00%

(2) Consolidated Subsidiaries

The list of consolidated subsidiaries as of June 30, 2018, is as below.

Next most senior partner	Subsidiary	Principal operation	Percentage of ownership	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00%	2018.06.30	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45%	2018.06.30	Korea
	Tae-a Industry Co., Ltd.	Manufacturing tobacco materials	100.00%	2018.06.30	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99%	2018.06.30	Turkey
	Korea Tabacos do Brasil Ltda.	Processing leaf tobaccos	99.99%	2018.06.30	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99%	2018.06.30	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00%	2018.06.30	Russia
	KT&G USA Corporation	Selling tobaccos	100.00%	2018.06.30	USA
	Cosmocos Co., Ltd. (former, Somang Cosmetics Co., Ltd.)	Manufacturing and selling cosmetics	98.56%	2018.06.30	Korea
	Renzoluc Pte., Ltd. (*)	Holding company	100.00%	2018.06.30	Singapore
	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00%	2018.06.30	Korea
	PT KT&G Indonesia	Selling tobaccos	99.99%	2018.06.30	Indonesia
	Sang Stay, Inc.	Hotel	100.00%	2018.06.30	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00%	2018.06.30	Russia
Korea Ginseng Corporation	KGC Life & Gin Co., Ltd.	Manufacturing and selling cosmetics	100.00%	2018.06.30	Korea
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng	100.00%	2018.06.30	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng	100.00%	2018.06.30	USA
	Korea Ginseng (China) Corp.	Selling ginseng	100.00%	2018.06.30	China
	Korea Ginseng Corporation Japan	Selling ginseng	100.00%	2018.06.30	Japan
	Jilin Hanzheng Ginseng Co., Ltd.	Selling ginseng	100.00%	2018.06.30	China
Cosmoscos Co., Ltd.	K&I HK Co., Ltd.	Selling cosmetics	100.00%	2018.06.30	Hong Kong
	K&I China Co., Ltd.	Selling cosmetics	100.00%	2018.06.30	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99%	2018.06.30	Indonesia
	PT Mandiri Maha Mulia	Manufacturing and selling tobaccos	99.98%	2018.06.30	Indonesia
PT Trisakti Purwosari Makmur	PT Sentosa Ababi Purwosari	Manufacturing and selling tobaccos	100.00%	2018.06.30	Indonesia
	PT Purindo Ilufa	Manufacturing and selling tobaccos	100.00%	2018.06.30	Indonesia
	PT Nusantara Indag Makmur	Selling tobaccos	100.00%	2018.06.30	Indonesia

(*) The Parent Company's percentage of ownership, shown above, excludes redeemable convertible preferred shares. As of the end of the current term, the Parent Company's percentage of ownership would be 88.60% if preferred shares are included.

For the previous term, the Parent Company made a capital contribution in kind to Cosmoscos Co., Ltd. by transferring its interest in K&I HK Co., Ltd. and K&I China Co., Ltd., increasing its ownership from 98.49% to 98.56%.

For the previous term, the Parent Company acquired additional shares of PT Sentosa Ababi Purwosari, PT Trisakti Purwosari Makmur and PT Mandiri Maha Mulia and its ownership interest increased to 100.00%, 99.99% and 99.98% from 99.8%, 60.17% and 66.47%, respectively.

(3) Summary of Subsidiaries' Financial Information

Financial information (*) of subsidiaries as of June 30, 2018, is as follows:

In millions of Korean won					
Subsidiary	Total assets	Total liabilities	Revenue	Net profit (loss)	Total comprehensive income (loss)
Korea Ginseng Corporation	1,895,590	224,061	685,120	98,603	98,920
Yungjin Pharm Co., Ltd.	195,859	78,023	87,025	(1,808)	(1,813)
Tae-a Industry Co., Ltd.	14,360	2,360	7,167	490	471
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	39,808	44,550	2,255	(7,085)	(6,835)
Korea Tabacos do Brasil Ltda.	2,615	6	–	–	–
KT&G Pars	12,949	57,699	1,033	(8,860)	(9,143)
KT&G Rus L.L.C.	202,924	125,759	30,543	1,222	(2,125)
KT&G USA Corporation	50,208	40,901	47,304	(9,114)	(8,662)
Cosmoscos Co., Ltd.	61,739	26,351	36,052	(6,007)	(6,047)
Renzoluc Pte., Ltd.	126,989	27,593	–	(251)	(1,657)
KGC Yebon Corporation	58,695	11,603	6,114	(70)	(78)
PT KT&G Indonesia	63,995	77,877	47,846	2,135	2,353
SangSang Stay Inc.	6,097	2,258	9,681	(2,170)	(2,170)
KT&G Global Rus L.L.C.	126,864	136,066	15,877	3,637	1,085
PT Trisakti Purwosari Makmur, etc.	116,523	5,522	3,757	2,400	11,612
PT Mandiri Maha Mulia	57,844	57,927	16,512	(882)	(1,022)
PT Sentosa Ababi Purwosari	15,551	19,198	5,367	(34)	(4)
PT Purindo Ilufa	60,650	46,371	21,764	616	391
PT Nusantara Indag Makmur	125	6	–	(390)	–
KGC Life & Gin Co., Ltd.	26,872	6,814	20,398	157	153
Korean Red Ginseng Corp., Inc.	14,726	12,147	13,046	414	461
Korean Red Ginseng Corp., Inc.	21,554	19,218	10,519	(1,690)	(1,098)
Korea Ginseng (China) Corp.	22,408	10,227	20,833	(181)	239
Korea Ginseng Corporation Japan	5,967	4,517	8,663	47	140
Jilin Hanzheng Ginseng Co., Ltd.	56,344	183	4,785	(2,420)	(434)
K&I HK Co., Ltd.	370	208	192	(145)	(138)
K&I China Co., Ltd.	2,126	1,453	1,195	(502)	(464)

(*) The above financial information is according to each company's financial sheet.

(4) Changes in Consolidated Group

During the previous term, as K-Q Hongkong I, Limited had distributed the remaining assets to investors, including the Parent Company, K-Q Hongkong I, Limited had been excluded from the consolidated group.

During the previous term, KT&G Life Sciences Corporation, a subsidiary of the Parent Company, was merged into Yungjin Pharm. Co., Ltd. on January 13, 2017.

During the previous term, PT Trisakti Purwosari Makmur, PT Mandiri Maha Mulia, PT Sentosa Ababi Purwosari and PT Purindo Ilufa acquired 97%, 1%, 1% and 1% shares, respectively, of PT Nusantara Indag Makmur. This has led to PT Nusantara Indag Makmur becoming a reporting entity as part of the consolidated group.

PT CKJ INDONESIA had been excluded from the consolidated group as the liquidation process had been completed during the first half of 2018.

2. BASIS OF PREPARATION:

(1) Statement of Compliance
The consolidated interim financial statements of the Parent Company are consolidated interim financial statements prepared in accordance with Korean International Financial Reporting Standard ("K-IFRS") No. 1034 'Interim Financial Reporting.'

The consolidated interim financial statements of the Parent Company were authorized for issue by the board of directors on August 9, 2018.

(2) Basis of Measurement
The condensed consolidated interim financial statements have been prepared on the historical cost basis, except for the following material items in the condensed consolidated interim statements of financial position:

- Derivatives measured at fair value
- Financial assets measured at fair value
- Liabilities for defined benefit plans recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(3) Functional and Presentation Currency
The Parent Company and subsidiaries' (the "Group") condensed consolidated interim financial statements are being prepared in Korean won, the key currency of economic environment for operating activities.

(4) Use of Estimates and Judgments
The preparation of the condensed consolidated interim financial statements in conformity with K-IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the magnitude of assets, liabilities, income and expenses. Actual results may differ from these estimates if estimates and assumptions that are based on the management's best judgment at the end of the interim reporting period differ from the actual environment.

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

Management's assessment of the application of, and estimates of, the Group's accounting policies used in the condensed consolidated interim financial statements is based on the same accounting policies and assumptions used in the annual consolidated financial statements for that year ended December 31.

3. SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies, except for the application of the amendments to standards effective from January 1, 2018, set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

- K-IFRS No. 1102 'Share-based Payments' (amendments)
The amendments include the following as key contents: 1) The accounting for the effects of vesting conditions and non-vesting conditions in measuring the fair value of cash-settled share-based payment transactions shall address the same approach as that applied to the accounting for equity-settled share-based payment transactions; 2) When an entity makes equity-settled share-based payments to its employees, net of income tax withholdings without net settlement characteristics, then the gross payment amounts shall be classified as the equity-settled payments if classified as such; and 3) If the terms of the cash-settled share-based payment transactions are changed to equity settled, the existing liabilities are eliminated while new measurements are recognized, at the fair value of the equity instruments granted, at the date of the modification. The difference between the carrying amount of the eliminated amount of liabilities and the recognized amount of the equity is immediately recognized in profit or loss. The amendments have no significant impact on the condensed consolidated interim financial statements of the Group.

- K-IFRS No. 1040 'Investment Property' (amended)
The amendment clarifies that a real estate shall be reclassified as investment property if the real estate is supported by the observable evidence that a change in use has occurred based on the assessment of whether the real estate meets or fails to meet the definition of the investment property. The amendments also clarify that the circumstances that are not listed in K-IFRS No. 1040 can be the evidence of changes in use as well, and change of use is possible for a real estate under construction, that is, the change in use is not limited to the finished or completed asset. The amendments have no significant impact on the condensed consolidated interim financial statements of the Group.

- The Interpretation No. 2122 'Advance Payment or Receipt of Considerations in Foreign Currency' (enacted)
The interpretation explains how to determine the transaction date for the applicable exchange rate when the related assets, costs or revenues (or a portion thereof) are initially recognized by eliminating non-monetary assets or non-monetary liabilities (e.g., non-refundable deposits or deferred revenue) arising from advance payment or receipt of a consideration in foreign currency.

The interpretation stipulates that the transaction date is the first day of recognizing the non-monetary assets or non-monetary liabilities, either as an advance payment or receipt of the consideration that is made. The interpretation also stipulates that the transaction date for each advance payment or receipt must be determined separately if the payment or receipt is made several times.

The Group applies consistent method of interpretation with regard to advance payment or receipt of consideration made in foreign currency; so, the Group does not expect the enactments to have a significant impact on the condensed consolidated interim financial statements.

- K-IFRS No. 1109 'Financial Instruments' (enacted)

The Group applied the amendments to K-IFRS No. 1109 and the related amendments to other standards for the first time from the current quarter on January 1, 2018, as the date of initial application. K-IFRS No. 1109 introduced new rules for 1) classification and measurement of financial assets and financial liabilities, 2) impairment of financial assets and 3) hedge accounting.

The Group has adopted a method that does not restate the prior period when applying it for the first time and did not reclassify the comparative condensed consolidated interim financial statements, accordingly.

The key details of the new regulation are as follows, and the impact on the condensed consolidated interim financial statements of the Group is explained in Note 37.

(1) Classification and measurement of financial instruments

All financial assets included in the scope of K-IFRS No. 1109 are subsequently measured at amortized cost or fair value based on the business model for the management of financial assets and the nature of the contractual cash flows.

-Debt instruments that are held under a business model with the aim to receive contractual cash flows and have contractual cash flows that consist of principal and interest on principal balance alone are subsequently measured at their amortized cost (financial assets at amortized cost).

-Debt instruments that are held under a business model with the aim of both the receipt and sale of the contractual cash flows and have contractual cash flows that consist of principal and interest on principal balance alone are subsequently recognized at their fair value (financial assets at fair value through other comprehensive income).

-All other debt instruments and equity instruments other than the above specified are subsequently measured at fair value and are recognized in profit or loss (financial assets at fair value through profit or loss).

Notwithstanding the details described above, K-IFRS 1109 permits an entity to make an irrevocable election as follows at the time of initial recognition:

- For the investment in equity instruments that are not short-term trading items and that are not contingent consideration recognized by the acquirer in a business combination applying K-IFRS No. 1103, the Group may elect to present subsequent changes in its fair value in other comprehensive income.

- When accounting discrepancies can be eliminated or significantly reduced if designated as items at fair value through profit or loss, debt instruments that meet the requirements of financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income can be designated as items at fair value through profit or loss.

Of the debt instruments that meet the requirements of financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income in the current period, there is no debt instrument designated as an item at fair value through profit or loss.

If the debt instrument measured at fair value through other comprehensive income (loss) is removed, the cumulative gain or loss recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. On the other hand, for equity instruments designated as items at fair value through other comprehensive income (loss), cumulative gains or losses previously recognized in other comprehensive income are not subsequently reclassified to profit or loss. The debt instruments measured at amortized cost or at fair value through other comprehensive income (loss) subsequently are subject to the impairment provisions.

Management has reviewed and assessed the financial assets held by the Group based on the facts and circumstances that existed at the date of initial application and determined that there will be the following impacts with respect to the classification and measurement of the Group's financial assets as a result of the initial application of K-IFRS No. 1109.

- Among the debt instruments classified as available-for-sale financial assets in accordance with K-IFRS No. 1039, the debt instruments that are held under a business model with the aim of both the receipt and sale of the contractual cash flows and have contractual cash flows that consist of principal and interest on principal balance alone are classified as financial assets at fair value through other comprehensive income (loss). Changes in the fair value of these debt instruments are recognized as accumulated gain or loss (unrealized) until they are eliminated or reclassified.

- Investments in equity instruments classified as available-for-sale financial assets in accordance with K-IFRS No. 1039 and measured at fair value at the end of each reporting period (neither short-term trading nor contingent consideration arising from a business combination) are designated as items at fair value through other comprehensive income (loss). Changes in the fair value of these equity instruments are continuously recognized as accumulated gain or loss (unrealized).

Among the held-to-maturity investments that are measured at amortized cost or financial assets that are classified as loans and receivables in accordance with K-IFRS No. 1039, debt instruments that are held under a business model with the aim to receive contractual cash flows and have contractual cash flows that consist of principal and interest on principal balance alone are subsequently measured at their amortized cost under K-IFRS No. 1109.

- Financial assets that are classified as financial assets at fair value through profit or loss in accordance with K-IFRS No. 1039 are also measured in the condensed consolidated interim statements of comprehensive income as items at fair value through profit or loss under K-IFRS No. 1109.

Other reclassifications of financial assets do not affect the Group's financial position, profit or loss, other comprehensive income or total comprehensive income.

(2) Impairment of financial assets

The Group accounts for the expected credit loss and changes in financial assets at the end of the reporting date, to reflect changes in the credit risk of the financial assets that may occur after the date of the initial recognition, in accordance with the expected credit loss model under K-IFRS No. 1109, unlike K-IFRS No. 1039 with respect to the impairment of financial assets. That is, it does not necessarily mean that a credit event should occur before one recognizes credit losses.

The Group recognizes the expected credit loss for the following as a loss reserve: i) debt instruments that are subsequently measured at amortized cost or at fair value through other comprehensive income (loss), ii) lease receivables, iii) contract assets and iv) loan agreements and financial guarantee contracts subject to the impairment provisions of K-IFRS No. 1109. In particular, if the credit risk of a financial instrument increases significantly after initial recognition, or if credit is impaired when the financial asset is acquired, the loss provision is measured at the amount equal to the lifetime-expected credit loss over the period. In addition, K-IFRS No. 1109 provides a simplified method of measuring the allowance for losses on trade receivables, contract assets and lease receivables under certain circumstances. The Group applies the simplified method for trade receivables and contract assets.

In accordance with K-IFRS No. 1109, management of the Group determined the credit risk at the date of initial recognition of the financial instruments and reviewed and assessed impairment losses on financial assets, contractual assets and financial guarantee contracts held by the Group at the date of initial application using reasonable and supportive information that is available without undue cost or effort in comparison to the credit risk of the first application date (January 1, 2018).

(3) Classification and measurement of financial instruments

One of the major changes related to the classification and measurement of financial liabilities as a result of the adoption of K-IFRS No. 1109 is the way of accounting for the change in the fair value of the financial liabilities designated as ‘items at fair value through profit or loss’ attributable to the change in the issuer's credit risk. Except where accounting inconsistency in profit or loss is caused or enlarged when the effect of the change in the credit risk of the financial liabilities designated as items at fair value through profit or loss is recognized in other comprehensive income (loss), changes in fair value attributable to changes in credit risk of related financial liabilities are recognized in other comprehensive income. Changes in fair value attributable to changes in credit risk of related financial liabilities are not subsequently reclassified to profit or loss, but are replaced with retained earnings when the financial liabilities are eliminated. In accordance with K-IFRS No. 1039, all the amount of changes in fair value of financial liabilities designated as financial liabilities at fair value through profit or loss has been presented in profit or loss.

Except for the above, the adoption of K-IFRS No. 1109 has no significant impact on the classification and measurement of the Group’s financial liabilities.

(4) General hedge accounting

The new general hedge accounting model maintains three types of hedge accounting. However, more flexibility is being introduced in the types of transactions eligible for hedge accounting with the expansion in risk factors of non-financial items and the types of hedging instruments that are appropriate for hedge accounting. In addition, the related regulations on appraisal of hedging effectiveness were generally revised and replaced by the "economic relationship" principle between the hedged items and the hedging instrument. Retrospective assessment of the hedging effectiveness is no longer required. Additional disclosure requirements have been introduced regarding the Group’s risk management activities.

In accordance with the transitional provisions of K-IFRS No. 1109 for hedge accounting, the Group adopted the hedge accounting provisions of K-IFRS No. 1109 prospectively from January 1, 2018, but the Group does not have any transaction subject to the hedge accounting as of the end of the quarter.

- K-IFRS No. 1115 'Revenue from Contracts with Customers' (enacted)
The Group applied K-IFRS No. 1115, 'Revenue from Contracts with Customers,' for the first time in the current quarter reporting and adopted a retrospective application, according to the transitional provisions of K-IFRS No. 1115, to recognize the cumulative effect of the initial application of K-IFRS No. 1115 on January 1, 2018, the date of initial application. In addition, the Group applied K-IFRS No. 1115 retroactively only to those contracts that had not been completed on the date of initial application, but did not apply the retroactive restatement for any contract changes made prior to the first application date using a practical simplified approach.

Accordingly, the comparative condensed consolidated interim financial statements have not been reclassified in line with the transitional provisions of K-IFRS No. 1115, and the cumulative effects of the first application are retroactively applied on January 1, 2018, to be recognized in retained earnings. Details of the accounting policies and the financial impact of adopting K-IFRS No. 1115 are explained in Note 37.

- 2014-2016 Annual Improvements to K-IFRSs
Annual improvements include certain amendments to K-IFRS No. 1101 'First-Time Adoption of Korean International Financial Reporting Standards' and K-IFRS No. 1028 'Investments in Associates and Joint Ventures.' In accordance with K-IFRS No. 1028, it is clarified that a venture capital investment organization or a similar entity may individually select each of the associates and joint ventures as items at fair value through profit or loss, and such a choice must be made when initially recognizing an investment in a joint venture or an associate. In addition, when a company that is not an investment company applies the equity method to its associate or joint venture, which is an investment company, it is allowed to apply the same fair value measurement the associate, as the investment company, applied to its subsidiaries. It is also clarified that the choice can be made on the individual basis for each individual associate as the investment company.

Since the Group did not adopt K-IFRSs to date and is not a venture capital investment organization, the amendment does not have any effect on the condensed consolidated interim financial statements.

The significant accounting policies applied by the Group for the preparation of condensed consolidated interim financial statements in accordance with K-IFRSs are as follows:

(1) Operating Segments
Operating segments are determined based on the internal reports that are reviewed periodically by the chief operating decision maker in order to make decisions about allocating resources to the segments and to assess performance. As mentioned in Note 4, there are four reporting segments in the Group, and each segment is the strategic operating unit of the Group. Segment information that is reported to the CEO includes items that directly belong to segments and items that can reasonably be allocated.

(2) Basis of Consolidation

① Business combination
Acquisitions of businesses are accounted for using the acquisition method other than the combination with regard to business entity or business under the same domination.

The consideration transferred in a business combination is measured at fair value just like generally measuring the identifiable net assets acquired at fair value. In case the business combination leads to goodwill, impairment test is conducted annually, and in case there is a difference in the bargain purchase, it is immediately recognized as the current term's profit or loss. Acquisition-related costs are generally recognized as expenses in the period in which cost has incurred and service has been received, excluding the issuance cost of debt security and equity security recognized in accordance with K-IFRS 1032 and K-IFRS 1039.

The consideration transferred does not include amount related to settlement of the previous relationship, and the settlement amount of the previous relationship is generally recognized as the current term's profit or loss.

The contingent consideration is measured at its acquisition-date fair value. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity. In case contingent consideration is not classified as equity, the subsequent accounting for changes in the fair value of the contingent consideration is recognized as the current term's profit or loss.

In case the acquirer's share-based payment awards are exchanged for awards held by the acquiree's employees, all or a portion of the market-based measure of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. As for the portion of a replacement award that is part of the consideration transferred for the acquiree and the portion that is a remuneration for postcombination service, the market-based measure of the replacement award for the acquiree and the replacement award attributable to precombination service are compared.

② Non-controlling interests
Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

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

③ Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences to the date on which control ceases.

④ Loss of control
When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

⑤ Interests in equity-accounted investees
The Group's interests in equity-accounted investees comprise interests in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but no control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

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

⑥ Transactions eliminated on consolidation
Intragroup balances and transactions, and any unrealized income and expenses arising from intragroup transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

⑦ Acquisitions from entities under common control
The assets and liabilities acquired under business combinations under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is recognized as part of share premium.

(3) Joint Arrangements
A joint arrangement is an arrangement of two or more parties that have joint control. Joint control is a contractually agreed sharing of control of an arrangement that exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint arrangements are classified into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint operators) have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint ventures) have rights to the net assets of the arrangement.

The Group determines the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. The Group assesses its rights and obligations by considering the structure and legal form of the arrangement; the terms agreed by the parties in the contractual arrangement; and, when relevant, other facts and circumstances.

If the Group is a joint operator, it recognizes and measures the assets and liabilities (and recognizes the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant K-IFRSs applicable to the particular assets, liabilities, revenues and expenses.

If the Group is a joint venturer, it recognizes its interest in a joint venture as an investment and accounts for that investment using the equity method in accordance with K-IFRS No. 1028 Investments in Associates and Joint Ventures, unless an investment or a portion of an investment in the joint venture meets the criteria to be classified as held for sale.

(4) Property, Plant and Equipment

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

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

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

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

Type	Useful life (years)
Buildings	10–60
Structures	5–40
Machinery	5–20
Vehicles	4–10
Tools	4–5
Furniture and fixtures	2–5

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

(5) Borrowing Costs

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

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

(6) Government Grants
Government grants are not recognized, unless there is a reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

Government grants that are intended to compensate the Group for expenses incurred are recognized as other income in profit or loss over the periods in which the Group recognizes the related costs as expenses.

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

Type	Useful lives (years)
Industrial property rights	5–20 or indefinite
Facility usage rights	Indefinite
Other intangible assets	3–14 or indefinite
Intangible assets under development	Indefinite

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

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

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

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

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

(9) Non-Current Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale, rather than through continuous use, are classified as held for sale. In order to be classified as held for sale, an asset (or a disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal groups that are classified as non-current assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or the disposal group) to fair value less costs to sell and a gain for any subsequent increase in fair value less costs to sell up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1039 'Financial Instrument: Recognition and Measurement.'

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

(10) Inventories

Inventories are measured at the lower of cost or 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 as below.

Type	Determination method of unit cost price
Merchandise, finished goods, byproducts and work in progress	Weighted-average method
Processed tobacco leaf and tobacco leaf in raw material	Weighted-average method
Raw materials (excluding processed tobacco leaf and tobacco leaf in raw material) and supplies	Moving-average method
All other inventories	Specific identification method

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

Tobacco leaf inventories that have an operating cycle that exceeds 12 months are classified as current assets, consistent with recognized industry practice. The estimated amounts of inventories in current assets, which are not expected to be realized within 12 months, are ₩296,632 million and ₩317,640 million as of December 31, 2017 and 2016, respectively.

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

The Group estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of a cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or a CGU is the greater of its value in use or its fair value less costs to sell. The value in use is estimated by applying a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted to the estimated future cash flows expected to be generated by the asset or CGU.
An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.
Except for impairment losses in respect of goodwill, which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(12) Financial Assets

- Classifications

From January 1, 2018, the Group classifies financial assets in the following measurement scope:

- Financial assets measured at fair value (recognizes changes in fair value through other comprehensive income or current term's profit or loss)
- Financial assets measured at amortized cost

The classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The profit or loss of financial assets measured at fair value is recognized as current term's profit or loss or other comprehensive income. Investment with regard to debt instruments is recognized as current term's profit or loss or other comprehensive income depending on the business model of the relevant asset. The Group reclassifies only debt instruments in case the business model that manages financial assets is changed. The entity can make an irrevocable election to present changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income. Changes in fair value of investment with regard to undesignated equity instruments are recognized as current term's profit or loss.

- Measurement

Financial assets are initially measured at fair value, and if they are not current term's profit or loss-financial assets measured at fair value, transaction costs that are directly attributable to the acquisition of financial assets or issuance of financial liabilities are added to the fair value. The transaction costs of current term's profit or loss-financial assets measured at fair value are recognized as current term's profit or loss.

If the host contract is determined in a hybrid contract, an entity classifies the entire hybrid contract as a financial asset rather than separating the embedded derivative from the host contract.

① Debt instruments

The subsequent measurement of financial assets is based on the entity's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. The Group classifies debt instruments into the following three scopes:

(A) Amortized cost

Under the business model whose objective is to hold financial assets in order to collect contractual cash flows, assets that are comprised of solely principal and interest are measured at amortized cost. As financial assets are measured at amortized cost, the profit or loss of financial assets that are not subject to hedge is recognized as current term's profit or loss when the relevant financial asset is eliminated or impaired. The interest income of financial assets recognized in accordance with the effective interest method is included in the financial income.

(B) Financial assets measured at fair value through other comprehensive income

Under the business model whose objective is to hold financial assets in order to collect contractual cash flows and to sell the financial assets, the financial assets that are comprised of solely principal and interest are measured at fair value through other comprehensive income. Other than impaired loss (reversal), interest income and foreign exchange loss, the profit or loss of financial assets measured at fair value through other comprehensive income is recognized as other comprehensive income. When eliminating the financial assets, the accumulated amount of other comprehensive income recognized is reclassified as current term's profit or loss in equity. The interest income of the financial assets recognized in accordance with the effective interest method is included in the finance income. The foreign exchange loss is expressed as other income or other expense, and the impaired loss is expressed as other expense.

(C) Financial assets measured at fair value through current term's profit or loss

Debt instruments that are not financial assets measured at amortized cost or measured at fair value through other comprehensive income are measured at fair value through current term's profit or loss. The profit or loss of debt instruments measured at fair value through current term's profit or loss in which hedge has not been applied are recognized as current term's profit or loss and are expressed as finance income or finance cost, respectively, in the condensed consolidated interim statements of comprehensive income.

② Equity instruments

The Group subsequently measures investment with regard to all equity instruments as fair value. With regard to equity instruments that have opted to express changes in fair value as other comprehensive income, the amount recognized as other comprehensive income is not reclassified as current term's profit or loss even when the relevant equity instrument is eliminated. The dividend income with regard to such equity instruments is recognized as finance income and current term's profit or loss when the dividend rights of the Group are confirmed.

- Impairment

The Group evaluates the expected credit loss with regard to debt instruments measured at amortized cost or measured at fair value through other comprehensive income based on the future prospect information. Impairment method is determined depending on the extent of significant increase in the credit risk. However, with regard to trade receivables, a simplified approach that recognizes the expected credit loss over the entire period from the initial recognition point of debt is applied.

(13) Financial Liabilities

- Profit or loss – These liabilities, including financial liabilities and derivatives, are subsequently measured At fair value

- Financial liabilities arising when the transfer of a financial asset does not meet the elimination conditions or when a continuing involvement approach is applied.

Financial guarantee contract. At initial recognition, it is measured at fair value, after which the issuer of the contract subsequently measures the relevant contract at the higher of the following:

  - Allowance for losses estimated based on expected credit losses
  - The amount recognized less accumulated profits recognized in accordance with K-IFRS 1115

A commitment to lend at an interest rate lower than the market interest rate. After initial recognition, the issuer of such an arrangement will subsequently measure the arrangement at the greater of the following:

  - Allowance for losses estimated based on expected credit losses
  - The amount recognized less accumulated profits recognized in accordance with K-IFRS 1115

- Contingent consideration recognized by an acquirer in a business combination applying K-IFRS No. 1103

Such contingent consideration is subsequently measured in profit or loss – at fair value.

(14) Derivatives

Derivatives are initially recognized at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss arising from the changes in fair value of derivatives is recognized as current term's profit or loss.

(15) Cash and Cash Equivalents

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

(16) Employee Benefits

① Short-term employee benefits

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

② Other long-term employee benefits

As for other long-term employee benefits that are not due to be settled within 12 months after the end of the period in which the employees rendered the related service, the future benefits acquired in return for the services provided in the current term and the past period are discounted as current value. Changes following remeasurements are recognized as current term's profit or loss that have incurred in the period.

③ Retirement benefits: defined contribution plans

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

④ Retirement benefits: defined benefit plans

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), considering any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments.

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

⑤ Termination benefits

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

(17) Provisions

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

The risks and uncertainties that inevitably surround many events and circumstances are considered in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows. Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

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

(18) Equity Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.
When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue or retirement of treasury shares are not recognized as current profits or losses. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(19) Revenue Recognition

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

① Sales of goods

Revenue from sale of goods is measured at the fair value of the consideration received or receivable. 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.

The Group allows returns under the contract that supplies goods to customers, so the revenue from customers may change. The Group recognizes revenue when it can reasonably anticipate a return allowed to customers and only to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not subsequently occur. If reasonable estimates are not possible, it shall be offset as refund liability.

② Rendering of services

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

The Group provides logistics services according to the contract signed with customers. The Group controls the logistics service before transferring to the customer so that it belongs to 'oneself' and revenue is recognized as total amount.

③ Construction of real estate for residence

The Group constructs and sells real estate for residence according to a long-term contract with customers. Such contract is signed before the construction of real estate for residence begins. According to the contract conditions, transferring the real estate to another customer is restricted and the Group has the right to claim for enforceable payment with regard to work performed. Therefore, revenue incurred from real estate for residence is recognized based on the percentage-of-completion method (in other words, in proportion to the cost incurred with regard to the work performed until the point compared to expected cost). The management personnel using the percentage-of-completion method have judged it to be an appropriate method for measuring the progress rate until the completion of the execution duty under K-IFRS 1115.

The Group has the right to make claims to the customer with regard to the construction of real estate for residence in accordance with the achievement of milestone related to a series of work. Upon reaching a certain milestone, the customer sends the relevant work specification signed by a third evaluator and the invoice related to the milestone consideration is issued. Contract assets recognized with regard to all works executed previously are reclassified as receivables at the point the claim is made to the customer. If the payment amount following the milestone exceeds the revenue recognized until then in accordance with the percentage-of-completion method, the Group recognizes the said difference as contract liability. The difference between the revenue recognition point and the milestone payment point under the percentage-of-completion method is below one year always, so there is no significant finance element in the contract with customers.

The Group pays sales commission in relation to the sales contract of real estate for residence. When the Group estimates that such incremental cost would be recovered, the incremental cost is capitalized and amortized over the period in which the real estate for residence is transferred to the customer.

④ Lease of real estate, etc.

The profit from lease of investment property and others is recognized as flat rate standard over the period of lease.

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

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

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

① Current tax
Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

② Deferred tax
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the way the Group expects at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

The Group recognizes a deferred tax asset for all deductible temporary differences to the extent it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.
The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

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

(22) Foreign Currencies

① Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined.

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

② Foreign operations
If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus, they are expressed in the functional currency of the foreign operation and translated at the closing rate.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which, in substance, is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve. On the partial disposal of a subsidiary that includes a foreign operation, the entity reattributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the entity reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

③ Conversion of net investment with regard to foreign operations
Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which, in substance, is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve and are reclassified as current term's profit or loss at the disposal point of the relevant net investment.

(23) Earnings per Share

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

(24) Emission Rights

The Group accounts for greenhouse gases emission right and the relevant liability as below, pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission that became effective in 2015.

① Greenhouse gases emission right

Greenhouse gases emission right consists of emission allowances that are allocated from the government free of charge or purchased from the market. The cost includes any directly attributable costs incurred during the normal course of business. Emission rights held for performing the obligation are classified as intangible assets and are initially measured at cost and after initial recognition are carried at cost less accumulated impairment losses. Emission rights held for short-swing profits are classified as current assets and are measured at fair value with any changes in fair value recognized as profit or loss in the respective reporting period.

The Group derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to the government in which the future economic benefits are no longer expected to be probable.

② Emission liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period.

(25) Current Arrangement of Condensed Consolidated Interim Financial Statements

The Group has changed the order of current arrangement of condensed consolidated interim financial statements in order to provide reliable information suitable to the objective. In order to conveniently compare the condensed consolidated interim financial statements in the previous term and the condensed consolidated interim financial statements of the current term, they were expressed in the order of current arrangement method. Such reclassification does not affect the net profit or loss or the net asset reported in the previous-term net asset.

(26) New Standards and Interpretations Not Yet Adopted

The following new standards and interpretations have been enacted or announced and issued for annual periods beginning after January 1, 2018, but the Group has not early adopted the following new standards in preparing these condensed consolidated interim financial statements:

- K-IFRS No. 1116 ‘Lease’

K-IFRS No. 1116 ‘Lease’ published on May 22, 2017, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. It replaces existing lease standards, including K-IFRS No. 1017 ‘Lease,’ K-IFRS No. 2104 ‘Determining Whether a Commitment Includes a Lease,’ K-IFRS No. 2015 ‘Operating Lease: Incentive’ and K-IFRS No. 2027 ‘Assessment of the Substance of the Transaction, Including Lease in Legal Form.’

At the time of contract, the Group determines whether the contract is a lease or whether the contract includes a lease, and identifies whether the contract is a lease or whether the contract includes a lease, in accordance with this standard at the date of initial application. However, the Group may not rejudge all contracts by applying the simplified method for contracts before the first application date.

The lessee and the lessor must account for each lease element in the lease contract separately from the non-lease element (called "non-lease element") in the lease contract or the contract including lease. The lessee must recognize a lease asset representing the right to use an underlying asset and a lease liability representing an obligation to pay the lease payments. However, short-term leases (leases with lease period less than 12 months) and small leases are subject to the exemption provisions of the standard. In addition, the lessee can use the simplified method as a method of accounting for each lease element and related non-lease element as one lease element instead of separating the non-lease element from the lease element. The accounting for lessor did not change significantly with the accounting of the current K-IFRS No. 1017.

The lessee can apply either the retrospective application for the past reporting period or retrospective application to recognize the cumulative effect of the initial application at the date of initial application, in accordance with K-IFRS No. 1008 ‘Accounting Policies, Changes in Accounting Estimates and Errors.’ The Group plans to apply K-IFRS No. 1116 initially on January 1, 2019. The actual impact of adopting those new standards will vary the lease asset that the Group holds and economic conditions at that time, as well as accounting and judgements that the Group will make in the future. The Group did not assess the potential impact on selected policy and its condensed consolidated interim financial statements resulting from the application of this new standard and expects to disclose additional quantitative information before it adopts the standard in 2018.

The Group is analyzing the financial effects of the first adoption of K-IFRS No. 1116 on the 2018 condensed consolidated interim financial statements based on present situation and information obtained as of June 30, 2018, but it is difficult to provide a rational estimated figure with regard to the financial impact until the Group completes such analysis.

4. OPERATING SEGMENTS:

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

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

(2) Segment information on sales and operating profit for the six months ended June 30, 2018 and 2017, is as follows:

① For the Six Months Ended June 30, 2018

In millions of Korean won							
Type	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	1,341,359	737,224	39,317	262,982	2,380,882	(193,572)	2,187,310
Less: Intersegment sales	90,587	50,288	6,940	45,757	193,572	(193,572)	–
External sales	1,250,772	686,936	32,377	217,225	2,187,310	-	2,187,310
Operating profit	457,220	130,000	13,397	10,281	610,898	23,446	634,344

② For the Six Months Ended June 30, 2017

In millions of Korean won							
Type	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	1,528,350	631,337	99,318	252,916	2,511,921	(171,475)	2,340,446
Less: Intersegment sales	92,996	36,542	6,598	35,339	171,475	(171,475)	–
External sales	1,435,354	594,795	92,720	217,577	2,340,446	–	2,340,446
Operating profit	640,579	112,711	19,735	14,134	787,159	(5,496)	781,663

(3) The Group obtains revenue by transferring goods and services over a period or at a point in the main business subsidiaries as follows. The categories of main business subsidiaries are consistent with the revenue disclosure information per reporting segment in accordance with K-IFRS No. 1108.

In millions of Korean won					
Type		2018		2017	
		Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Revenue recognized at a point					
Manufacturing and sales of tobacco	Wholesale, retail, etc.	456,814	846,509	479,268	907,797
	Special (duty-free, a military unit, etc.)	48,877	99,319	46,545	100,121
	Agent	183,444	302,734	209,434	427,436
Manufacturing and sales of red ginseng, etc.	Direct sales	262,660	618,321	236,891	546,920
	Consignment	–	–	333	3,415
	Agent	31,189	68,615	19,567	44,460
Others	Wholesale, retail, etc.	30,161	42,959	–	–
	Direct sales	71,560	153,980	93,720	193,155
	Special (duty-free, a military unit, etc.)	3,845	4,811	–	–
	Agent	3,393	4,959	4,350	5,911
	Technical service	–	–	1,101	1,118
Subtotal		1,091,943	2,142,207	1,091,209	2,230,333
Revenue recognized over a period					
Manufacturing and sales of tobacco	Direct sales	1,191	2,210	–	–
Sales and rental of real estate	Sales and rental	20,779	32,377	62,323	92,720
Others	Direct sales	5,450	9,969	8,165	17,392
	Technology service	357	547	–	–
Subtotal		27,777	45,103	70,488	110,112
Total		1,119,720	2,187,310	1,161,697	2,340,445

(4) Segment information on assets and liabilities as of June 30, 2018, and December 31, 2017, is as follows:

① As of June 30, 2018

In millions of Korean won							
Type	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets:							
Segment assets	7,254,192	1,964,976	530,316	240,971	9,990,455	(1,890,553)	8,099,902
Investments in associates and joint ventures	–	–	48,364	3,038	51,402	–	51,402
Subtotal	7,254,192	1,964,976	578,680	244,009	10,041,857	(1,890,553)	8,151,304
Unallocated assets							1,970,151
Total assets							10,121,455
Acquisition of non-current assets	191,513	11,909	–	2,264	205,686	(673)	205,013
Liabilities:							
Segment liabilities	2,031,769	149,528		89,248	2,270,545	(419,834)	1,850,711
Unallocated liabilities							511,139
Total liabilities							2,361,850

② As of December 31, 2017

In millions of Korean won							
Type	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Assets:							
Segment assets	3,849,835	1,950,480	280,899	244,782	6,325,996	(362,806)	5,963,190
Investments in associates and joint ventures	–	–	47,865	3,166	51,031	–	51,031
Subtotal	3,849,835	1,950,480	328,764	247,948	6,377,027	(362,806)	6,014,221
Unallocated assets							3,961,684
Total assets							9,975,905
Acquisition of non-current assets	267,151	45,160	–	14,935	327,246	(2,523)	324,723
Liabilities:							
Segment liabilities	1,646,316	150,207	–	82,398	1,878,921	(327,617)	1,551,304
Unallocated liabilities							594,841
Total liabilities							2,146,145

Cash and cash equivalents, available-for-sale financial assets, deferred tax assets and others are included in the unallocated assets, and in unallocated liabilities, borrowings, deferred tax liabilities and others are included.

(5) Geographical information determined by customer's location for the six months ended June 30, 2018 and 2017, is as follows:

In millions of Korean won						
Type	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	2,009,668	177,642	2,187,310	2,143,723	196,723	2,340,446
Non-current assets	3,473,374	139,139	3,612,513	3,160,959	130,920	3,291,879

In the non-current assets above, deferred tax assets have been excluded, and in case of overseas, the sales or non-current assets that belong to a particular country were not important, so they were not classified and expressed per country.

(6) Revenues from major customers, which amount to more than 10% of the details of the Group's consolidated total revenues for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won			
Segment	Major customer	Six months ended June 30, 2018	Six months ended June 30, 2017
Tobacco	Alokozay International Limited	131,272	260,162

5. CASH AND CASH EQUIVALENTS AND OTHER FINANCIAL ASSETS:

(1) Cash and cash equivalents as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won		
Type	As of June 30, 2018	As of December 31, 2017
Cash on hand	756	36,955
Demand deposits	283,284	186,874
Specific money in trust	465,809	1,006,347
Total	749,849	1,230,176

(2) Current other financial assets as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won				
Type	As of June 30, 2018		As of December 31, 2017	
	Current	Non-current	Current	Non-current
Time deposits	123,729	6,340	113,811	6,340
Certificates of deposit	1,346	–	31,286	–
Special money trusts	58,000	**1**	1,418,803	–
Security deposits for checking accounts	59	7	–	11
Total	183,134	6,348	1,563,900	6,351

(3) Financial assets restricted in use as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won			
Type		As of June 30, 2018	As of December 31, 2017
Short-term other financial assets	Security deposits for checking accounts	59	–
Long-term other financial assets	Security deposits for checking accounts	7	11
Short-term other financial assets	Automated Clearing House (ACH) transaction collateral	1,368	1,287
Long-term other financial assets	Real estate development performance guarantee	6,340	6,340
Total		7,774	7,638

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:

As explained in Note 3, the Group applied K-IFRS No. 1109 'Financial Instruments' from the beginning of the year. Please refer to Note 37 for the effect of these accounting policies and changes on financial asset classification and condensed consolidated interim financial statements.

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

In millions of Korean won				
Item	As of June 30, 2018		As of December 31, 2017	
	Current	Non-current	Current	Non-current
Special money trust	1,962,839	–	1,320,000	–
Beneficiary certificate of real estate	–	194,649	–	184,169
Total	1,962,839	194,649	1,320,000	184,169

(*) The above financial assets were classified as other financial assets and available-for-sale financial assets at the end of the previous fiscal year. The figures above do not include the effect of changes in retained earnings caused by changes in accounting policies.

(2) Amounts recognized in profit or loss

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Unrealized net changes in fair value related to the measurements at fair value through profit or loss (*)	(60)	14,158	–	–
Gains or losses on disposals related to the measurements at fair value through profit or loss (*)	19,139	26,901	–	–
Total	19,079	41,059	–	–

(*) Include profit or loss of money trust recognized in cash and cash equivalents

7. DERIVATIVE FINANCIAL ASSETS:

(1) Derivative financial assets as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won				
Type	As of June 30, 2018		As of December 31, 2017	
	Current	Non-current	Current	Non-current
Currency forward				
Derivative assets	388	–	–	–
Derivative liabilities	(5,506)	–	–	–
Total	(5,118)	–	–	–

(2) Changes in derivative financial assets for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won		
Type	Six months ended June 30, 2018	Six months ended June 30, 2017
Beginning balance	–	–
Evaluation profit	388	–
Losses on evaluation	(5,506)	–
Ending balance	(5,118)	–

8. TRADE AND OTHER RECEIVABLES:

(1) Trade and other receivables as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won				
Type	As of June 30, 2018		As of December 31, 2017	
	Current	Non-current	Current	Non-current
Loans to employees	16,255	29,562	17,100	36,021
Loans	829	239	949	880
Other receivables	11,898	–	17,371	–
Guarantee deposits	46,099	33,941	45,225	26,786
Accrued income	3,011	–	7,875	–
Trade receivables	953,208	–	1,038,387	–
Total	1,031,300	63,742	1,126,907	63,687

(2) Trade and other receivables and allowance for doubtful accounts as of June 30, 2018, and December 31, 2017, are as follows:

In millions of Korean won				
Type	As of June 30, 2018		As of December 31, 2017	
	Current	Non-current	Current	Non-current
Gross trade and other receivables	1,118,130	63,742	1,154,696	63,687
Allowances:				
Other receivables	(365)	–	(2,189)	–
Trade receivables	(86,465)	–	(25,600)	–
Total allowances	(86,830)	–	(27,789)	–
Net trade and other receivables	1,031,300	63,742	1,126,907	63,687

(3) Changes in allowance for trade and other receivables for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won		
Type	Six months ended June 30, 2018	Six months ended June 30, 2017
Beginning balance	27,789	31,590
Change in accounting policy	69,258	–
Impairment loss (reversal)	(3,205)	159
Elimination	(5,648)	–
Net exchange difference, etc.	(1,364)	(270)
Ending balance	86,830	31,479

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

9. INVENTORIES:

(1) Inventories as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won						
Type	As of June 30, 2018			As of December 31, 2017		
	Acquisition cost	Net of loss on write-down of inventories	Carrying amount	Acquisition cost	Net of loss on write-down of inventories	Carrying amount
Merchandise	98,335	(1,415)	96,920	38,790	(1,104)	37,686
Finished goods	723,344	(3,859)	719,485	679,882	(3,165)	676,717
Work in progress	541,257	(839)	540,418	701,976	(1,142)	700,834
Raw materials	781,682	(1,394)	780,288	821,992	(1,158)	820,834
Supplies	25,604	–	25,604	24,637	–	24,637
Byproducts	6,987	–	6,987	6,168	–	6,168
Buildings under construction	88	–	88	–	–	–
Sites for construction of real estate	8,112	–	8,112	–	–	–
Goods in transit	30,938	–	30,938	50,590	–	50,590
Total	2,216,347	(7,507)	2,208,840	2,324,035	(6,569)	2,317,466

(2) The amount of loss on valuation and disposals of inventories recognized as an expense for the six months ended June 30, 2018 and 2017, is as follows:

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Cost of sales:				
Loss on write-down of inventories	608	1,351	965	1,377
Loss on retirement of inventories	2,522	4,579	944	2,099
Other expenses:				
Loss on retirement of inventories	(469)	51	253	1,844
Foreign currency translation exchange differences	167	(412)	(57)	–
Total	2,828	5,569	2,105	5,320

10. LONG-TERM DEPOSITS IN MSA ESCROW FUND:

Long-term deposits in MSA Escrow Fund as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won		
Type	As of June 30, 2018	As of December 31, 2017
Demand deposits	199	1,921
T-Note	578,198	508,302
Total	578,397	510,223

As discussed in Note 35 to the condensed consolidated interim financial statements, long-term deposits in MSA Escrow Fund are deposited to the U.S. government related to the export of tobacco to the United States. For the six months ended June 30, 2018 and 2017, ₩32,925 million and ₩42,829 million, respectively, were paid into long-term deposits in MSA Escrow Fund.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(1) Financial assets at fair value through other comprehensive income as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won		
Type	As of June 30, 2018	As of December 31, 2017
Available-for-sale equity instruments		
—YTN Co., Ltd.	18,352	17,557
—Oscotech Inc.	10,666	8,686
—Shinhan Financial Group Co., Ltd.	173,562	198,013
—Rexahn Pharmaceuticals, Inc.	965	1,382
—U&I Corporation	15,413	12,079
Listed	218,958	237,717
Unlisted (*)	49,777	234,046
Total	268,735	471,763

(*) In the prior year, the Group classified unlisted equity instruments as available-for-sale financial assets for holding them in the long run. The figures did not include the effect of changes in assets caused by changes in accounting policies. Of the unlisted equity instruments classified as available-for-sale financial instruments, ₩184,169 million were reclassified to financial assets at fair value through profit or loss in accordance with the application of K-IFRS No. 1109.

At the disposal of the above equity instruments, the related accumulated other comprehensive income or expense is reclassified to retained earnings and is not reclassified to profit or loss.

(2) Changes in other comprehensive income (loss)-financial assets measured at fair for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won		
Type	Six months ended June 30, 2018	Six months ended June 30, 2017
Beginning balance	471,763	386,596
Change in accounting policy	(184,169)	–
Acquisition	900	28,570
Change in fair value	(18,759)	23,438
Disposition	(1,000)	(14,085)
Ending balance	268,735	424,519
Condensed consolidated interim statements of financial position:		
Current	–	–
Non-current	268,735	424,519
Total	268,735	424,519

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES:

(1) Investments in associates as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won							
Company	Location	Principal operation	Date of financial statements used	As of June 30, 2018		As of December 31, 2017	
				Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Lite Pharm Tech, Inc.	Korea	Manufacturing medical supplies	June 30	20.24%	3,039	20.24%	3,166
JR REIT V Co., Ltd.	Korea	Renting of real estate	June 30	34.63%	5,232	34.63%	5,202
JR REIT VIII Co., Ltd.	Korea	Renting of real estate	June 30	21.74%	9,263	21.74%	9,187
JR REIT X Co., Ltd.	Korea	Renting of real estate	June 30	28.79%	8,364	28.79%	8,471
JR REIT XIII Co., Ltd.	Korea	Renting of real estate	June 30	27.03%	5,114	27.03%	4,805
KORAMCO Private REIT 50 Fund (*1)	Korea	Renting of real estate	June 30	84.21%	16,519	84.21%	16,168
KB Gimpo Logistics CR REIT Co., Ltd. (*2)	Korea	Renting of real estate	June 30	12.00%	3,032	12.00%	3,032
Yong In Jung Sim Co., Ltd.	Korea	Developing real estate	June 30	22.22%	839	22.22%	1,000
LSK Global Pharma Services Co., Ltd.	Korea	Researching and developing medicine	June 30	23.15%	-	23.15%	-
Cosmo Tobacco Co., Ltd.	Mongolia	Manufacturing and sales of tobacco	June 30	40.00%	-	40.00%	-
Total					51,402		51,031

(*1) KORAMCO Private REIT 50 Fund is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties that control the arrangement collectively.

(*2) KB Gimpo Logistics CR REIT Co., Ltd. is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties, holding 12% shares each, as the voting power of 76% shares held by the collective investment business entity is not entitled to have an impact on a resolution of the investee by the Financial Investment Services and Capital Markets Act.

In the previous term, the Group made an investment of ₩1,000 million in Yong In Jung Sim Co., Ltd.
In the previous term, the Group recognized ₩7,319 million of gain on sale of investments in associates and joint ventures as KVG REIT 1 Co., Ltd. was liquidated.

(2) Financial information of associates and joint ventures, which represents 100% of the entities' balances, is as follows:

① As of June 30, 2018

A. Summarized financial information

In millions of Korean won				
Company	As of June 30, 2018		Six months ended June 30, 2018	
	Total assets	Total liabilities	Revenue	Total comprehensive income (loss)
Lite Pharm Tech, Inc.	19,435	4,420	6,625	(795)
JR REIT V Co., Ltd.	30,460	15,350	752	273
JR REIT VIII Co., Ltd.	108,738	66,130	2,562	348
JR REIT X Co., Ltd.	84,978	55,924	2,172	482
JR REIT XIII Co., Ltd.	20,454	1,538	909	1,161
KORAMCO Private REIT 50 Fund	19,641	24	287	270
KB Gimpo Logistics CR REIT Co., Ltd.	62,013	36,753	339	98
Yong In Jung Sim Co., Ltd.	3,777	–	–	(723)
LSK Global Pharma Services Co., Ltd.	9,548	10,229	15,807	2,543
Cosmo Tobacco Co., Ltd.	–	–	–	–

B. Additional financial information about joint ventures

In millions of Korean won							
Company	Cash and cash equivalents	Current financial liabilities	Non-current financial liabilities	Depreciation	Interest income	Interest cost	Income tax expense
KB Gimpo Logistics CR REIT Co., Ltd.	479	35,659	992	461	7	603	–
KORAMCO Private REIT 50 Fund	3	24	–	–	–	–	–

② As of December 31, 2017

A. Summarized financial information

In millions of Korean won				
Company	As of June 30, 2017		Six months ended June 30, 2017	
	Total assets	Total liabilities	Revenue	Total comprehensive income (loss)
Lite Pharm Tech, Inc.	19,775	4,134	5,833	426
KVG REIT I Co., Ltd.	–	–	2,781	10,044
JR REIT V Co., Ltd.	30,769	15,746	1,325	848
JR REIT VIII Co., Ltd.	107,087	64,826	3,723	1,284
JR REIT X Co., Ltd.	85,345	55,921	2,167	373
JR REIT XIII Co., Ltd.	46,898	29,123	894	88
KORAMCO Private REIT 50 Fund	19,208	8	1,634	617
KB Gimpo Logistics CR REIT Co., Ltd.	60,969	35,706	2,150	812
Yong In Jung Sim Co., Ltd.	4,500	–	–	–
LSK Global Pharma Services Co., Ltd.	9,112	10,831	9,083	(2,309)
Cosmo Tobacco Co., Ltd.	–	–	–	–

B. Additional financial information about joint ventures

In millions of Korean won							
Company	Cash and cash equivalents	Current financial liabilities	Non-current financial liabilities	Depreciation	Interest income	Interest cost	Income tax expense
KB Gimpo Logistics CR REIT Co., Ltd.	795	35,325	381	461	–	556	–
KORAMCO Private REIT 50 Fund	3	8	–	–	–	–	–

(3) Changes in investments in associates and joint ventures for the six months ended June 30, 2018 and 2017, are as follows:

① For the Six Months Ended June 30, 2018

In millions of Korean won				
Company	Beginning balance	Share of gain (loss)	Dividend	Ending balance
Lite Pharm Tech, Inc.	3,166	(127)	–	3,039
JR REIT V Co., Ltd.	5,202	64	(34)	5,232
JR REIT VIII Co., Ltd.	9,187	76	–	9,263
JR REIT X Co., Ltd.	8,471	183	(290)	8,364
JR REIT XIII Co., Ltd.	4,805	309	–	5,114
KORAMCO Private REIT 50 Fund	16,168	571	(220)	16,519
KB Gimpo Logistics CR REIT Co., Ltd.	3,032	45	(45)	3,032
Yong In Jung Sim Co., Ltd.	1,000	(161)	–	839
LSK Global Pharma Services Co., Ltd.	–	–	–	–
Cosmo Tobacco Co., Ltd.	–	–	–	–
Total	51,031	960	(589)	51,402

② For the Six Months Ended June 30, 2017

In millions of Korean won					
Company	Beginning balance	Acquisition	Share of gain (loss)	Dividends	Ending balance
Lite Pharm Tech, Inc.	3,001	–	223	–	3,224
KVG REIT I Co., Ltd.	6,426	–	2,950	(375)	9,001
JR REIT V Co., Ltd.	5,420	–	461	(495)	5,386
JR REIT VIII Co., Ltd.	9,555	–	284	(457)	9,382
JR REIT X Co., Ltd.	8,697	–	146	(252)	8,591
JR REIT XIII Co., Ltd.	4,742	–	20	–	4,762
KORAMCO Private REIT 50 Fund	15,692	–	872	–	16,564
KB Gimpo Logistics CR REIT Co., Ltd.	2,943	–	163	–	3,106
Total	56,476	–	5,119	(1,579)	60,016

(4) Reconciliation of the summarized financial information presented to the carrying amount of the Group's interest in associates and joint ventures as of June 30, 2018, and December 31, 2017, is as follows:

① As of June 30, 2018

In millions of Korean won					
Company	Net assets	Percentage of ownership	Share of net assets	Share of loss not recognized	Carrying amount
Lite Pharm Tech, Inc.	15,015	20.24%	3,039	–	3,039
JR REIT V Co., Ltd.	15,110	34.63%	5,232	–	5,232
JR REIT VIII Co., Ltd.	42,608	21.74%	9,263	–	9,263
JR REIT X Co., Ltd.	29,054	28.79%	8,364	–	8,364
JR REIT XIII Co., Ltd.	18,916	27.03%	5,114	–	5,114
KORAMCO Private REIT 50 Fund	19,617	84.21%	16,519	–	16,519
KB Gimpo Logistics CR REIT Co., Ltd.	25,260	12.00%	3,032	–	3,032
Yong In Jung Sim Co., Ltd.	3,777	22.22%	839	–	839
LSK Global Pharma Services Co., Ltd.	(681)	23.15%	(158)	158	–
Cosmo Tobacco Co., Ltd.	–	40.00%	–	–	–
Total					51,402

② As of December 31, 2017

In millions of Korean won					
Company	Net assets	Percentage of ownership	Share of net assets	Share of loss not recognized	Carrying amount
Lite Pharm Tech, Inc.	15,641	20.24%	3,166	–	3,166
JR REIT V Co., Ltd.	15,023	34.63%	5,202	–	5,202
JR REIT VIII Co., Ltd.	42,261	21.74%	9,187	–	9,187
JR REIT X Co., Ltd.	29,424	28.79%	8,471	–	8,471
JR REIT XIII Co., Ltd.	17,775	27.03%	4,805	–	4,805
KORAMCO Private REIT 50 Fund	19,200	84.21%	16,168	–	16,168
KB Gimpo Logistics CR REIT Co., Ltd.	25,263	12.00%	3,032	–	3,032
Yong In Jung Sim Co., Ltd.	4,500	22.22%	1,000	–	1,000
LSK Global Pharma Services Co., Ltd.	(1,719)	23.15%	(398)	398	–
Cosmo Tobacco Co., Ltd.	–	40.00%	–	–	–
Total					51,031

13. PROPERTY, PLANT AND EQUIPMENT:

(1) Details of property, plant and equipment as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won						
Type	As of June 30, 2018			As of December 31, 2017		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	620,813	(92)	620,721	667,291	–	667,291
Buildings	1,002,576	(475,197)	527,379	992,706	(457,583)	535,123
Structures	75,320	(46,432)	28,888	74,031	(45,121)	28,910
Machinery	1,345,693	(1,029,712)	315,981	1,314,043	(1,001,641)	312,402
Vehicles	11,365	(8,701)	2,664	11,247	(8,405)	2,842
Tools	67,288	(56,805)	10,483	66,357	(54,541)	11,816
Furniture and fixtures	237,497	(174,819)	62,678	227,245	(160,989)	66,256
Others	1,820	–	1,820	1,829	–	1,829
Construction in progress	125,851	(3,594)	122,257	130,510	–	130,510
Total	3,488,223	(1,795,352)	1,692,871	3,485,259	(1,728,280)	1,756,979

(2) Changes in property, plant and equipment for the six months ended June 30, 2018 and 2017, are as follows:

A. For the Six Months Ended June 30, 2018

In millions of Korean won								
Type	Beginning balance	Acquisition	Disposal	Depreciation	Damaged loss	Alternative increase (*)	Net exchange difference and others	Ending balance
Land	667,291	45,382	(377)	–	(92)	(84,020)	(7,463)	620,721
Buildings	535,123	28,217	(2,738)	(17,982)	–	(10,472)	(4,769)	527,379
Structures	28,910	244	–	(1,582)	–	1,306	10	28,888
Machinery	312,402	18,224	(285)	(31,785)	–	17,294	131	315,981
Vehicles	2,842	566	(262)	(458)	–	–	(24)	2,664
Tools	11,816	1,151	(129)	(2,809)	–	315	139	10,483
Furniture and fixtures	66,256	10,910	(1,102)	(14,834)	–	1,191	257	62,678
Others	1,829	–	–	–	–	–	(9)	1,820
Construction in progress	130,510	110,639	(133)	–	(3,594)	(118,306)	3,141	122,257
Total	1,756,979	215,333	(5,026)	(69,450)	(3,686)	(192,692)	(8,587)	1,692,871

(*) For the current quarter, land, buildings, structures and construction in progress transferred to investment property were of ₩192,692 million worth.

B. For the Six Months Ended June 30, 2017

In millions of Korean won								
Type	Beginning balance	Acquisition	Disposal	Depreciation	Transfer of construction in progress	Net exchange difference and others (*1)	Business combination (*2)	Ending balance
Land	541,980	3	(136)	–	37,247	(566)	–	578,528
Buildings	538,708	2,113	(449)	(18,059)	31,336	(2,646)	–	551,003
Structures	30,398	580	(149)	(1,648)	339	(94)	–	29,426
Machinery	331,145	4,711	(798)	(34,634)	16,363	(887)	–	315,900
Vehicles	2,415	644	(29)	(447)	417	(17)	–	2,983
Tools	11,370	1,664	(28)	(2,496)	77	(31)	–	10,556
Furniture and fixtures	62,698	11,263	(70)	(13,705)	448	(25)	–	60,609
Others	1,907	23	–	–	–	–	420	2,350
Construction in progress	85,908	100,351	–	–	(86,227)	(95)	–	99,937
Total	1,606,529	121,352	(1,659)	(70,989)	–	(4,361)	420	1,651,292

(*1) For the previous quarter, land, buildings and structures transferred to investment property include ₩1,325 million.

(*2) The consolidation company did not complete the initial accounting for the business combination related to the acquisition of PT Nusantara Lndag Makmur until the end of the first half, which is a provisional amount that the accounting for the business combination has not completed. The accounting for the business combination was completed at the end of the term, and the carrying amount of the variable property, plant and equipment related to the business combination is ₩447 million.

14. INTANGIBLE ASSETS:

(1) Details of intangible assets as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won						
Type	As of June 30, 2018			As of December 31, 2017		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Goodwill	91,189	(85,472)	5,717	91,189	(85,472)	5,717
Industrial property rights	50,986	(39,421)	11,565	50,506	(38,193)	12,313
Facility usage rights	37,129	(1,113)	36,016	35,506	(1,113)	34,393
Other intangible assets	116,042	(85,587)	30,455	115,903	(84,424)	31,479
Intangible assets under development	3,407	(2,089)	1,318	2,756	(1,910)	846
Total	298,753	(213,682)	85,071	295,860	(211,112)	84,748

(2) Changes in intangible assets for the six months ended June 30, 2018 and 2017, are as follows:

A. For the Six Months Ended June 30, 2018

In millions of Korean won								
Type	Beginning balance	Acquisition	Disposal	Depreciation	Transfer of construction in progress	Damage	Net exchange difference and others	Ending balance
Goodwill	5,717	–	–	–	–	–	–	5,717
Industrial property rights	12,313	262	(6)	(367)	226	(863)	–	11,565
Facility usage rights	34,393	1,982	(359)	–	–	–	–	36,016
Other intangible assets	31,479	194	(41)	(1,477)	–	–	300	30,455
Intangible assets under development	846	876	–	–	(226)	(178)	–	1,318
Total	84,748	3,314	(406)	(1,844)	–	(1,041)	300	85,071

B. For the Six Months Ended June 30, 2017

In millions of Korean won								
Type	Beginning balance	Acquisition	Disposal	Depreciation	Substitution	Net exchange difference and others	Business combination (*1)	Ending balance
Goodwill	15,061	–	–	–	–	–	466	15,527
Industrial property rights	11,681	397	–	(382)	602	(1)	–	12,297
Facility usage rights	32,349	519	(917)	–	–	–	–	31,951
Other intangible assets	41,748	481	–	(2,235)	25	(283)	–	39,736
Intangible assets under development	4,090	60	(385)	–	(602)	2	–	3,165
Total	104,929	1,457	(1,302)	(2,617)	25	(282)	466	102,676

(*1) The consolidation company did not complete the initial accounting for the business combination related to the acquisition of PT Nusantara Lndag Makmur until the end of the first half of the year, which is a provisional amount that the accounting for the business combination did not complete. The accounting for the business combination was completed at the end of the term, and the change in goodwill related to the business combination is ₩3,486 million.

(4) Research and development expenditures recognized as expenses for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Cost of sales	131	141	627	1,082
Selling, general and administrative expenses	9,007	17,515	10,288	17,908
Total	9,138	17,656	10,915	18,990

15. INVESTMENT PROPERTY:

(1) Details of investment property as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won						
Type	As of June 30, 2018			As of December 31, 2017		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	248,023	–	248,023	129,105	–	129,105
Buildings	305,377	(84,917)	220,460	283,041	(81,147)	201,894
Assets in construction	49,815	–	49,815	–	–	–
Total	603,215	(84,917)	518,298	412,146	(81,147)	330,999

(2) Changes in investment property for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won								
Type	Six months ended June 30, 2018				Six months ended June 30, 2017			
	Land	Buildings	Assets in constructi on	Total	Land	Buildings	Assets in constructi on	Total
Beginning balance	129,105	201,894	–	330,999	129,655	211,925	–	341,580
Depreciation	–	(5,393)	–	(5,393)	–	(5,446)	–	(5,446)
Transfer from (to) property, plant and equipment	118,918	23,959	49,815	192,692	397	928	–	1,325
Ending balance	248,023	220,460	49,815	518,298	130,052	207,407	–	337,459

(3) Details of profit or loss recognized related to the investment property for the six months ended June 30, 2018 and 2017, are summarized as follows:

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Rental income	16,030	27,889	11,362	22,432
Direct operating expense	(2,817)	(5,565)	(2,696)	(5,446)
Total	13,213	22,324	8,666	16,986

(4) The carrying amount and the fair value of investment property as of June 30, 2018 and December 31, 2017 are as follows:

In millions of Korean won				
Type	As of June 30, 2018		As of December 31, 2017	
	Fair value	Carrying amount	Fair value	Carrying amount
Land	782,350	248,023	751,251	129,105
Buildings	314,294	220,460	293,756	201,894
Assets in construction	49,815	49,815	–	–
Total	1,146,459	518,298	1,045,007	330,999

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

16. NON-CURRENT ASSETS HELD FOR SALE:

Changes in non-current assets held for sale for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won		
Type	Six months ended June 30, 2018	Six months ended June 30, 2017
Beginning balance	–	21,165
Transfer from property, plant and equipment	–	–
Transfer from investment property	–	–
Disposal	–	(21,165)
Ending balance	–	–

The Group has sold the land and building in Pyeongtaek City, Gyeonggi-do, accounted for non-current assets held for sale in the previous term and has recognized ₩283 million as gain on sale of property, plant and equipment.

However, the Group decided to use the fragrance capsule business facility, which was classified as a non-current asset held for sale during the previous term, as a research facility. As the non-current asset held for sale is held by a subsidiary, the condensed consolidated interim financial statements are restated for the period when the asset was classified as non-current asset held for sale as follows:

(1) Consolidated statement of financial position as of June 30, 2017

In millions of Korean won		
Type	Before restatement	After restatement
Non-current assets	3,291,879	3,296,281
Machinery	1,338,157	1,344,136
Accumulated depreciation	(1,026,659)	(1,028,236)
Non-current assets held for sale	26,315	21,165
Total assets	9,163,968	9,163,220
Retained earnings	1,051,740	1,050,992
Total equity	7,152,739	7,151,991

(2) Condensed consolidated interim statement of comprehensive income (loss) for the six months ended June 30, 2017

In millions of Korean won		
Type	Before restatement	After restatement
Selling, general and administrative expenses	618,633	618,883
Depreciation	21,234	21,484
Operating profit	781,913	781,663
Profit before income tax	725,969	725,719
Profit for the quarter	509,854	509,605

17. PLEDGED ASSETS:

Assets pledged as collateral as of June 30, 2018, and December 31, 2017, are summarized as follows:

(1) As of June 30, 2018

In millions of Korean won					
Type	Carrying amount	Type	Received amount	Collateralized amount	Holder
Investment property	215,237	Leasehold deposits received	13,124	14,243	Metlife Insurance Korea Co., Ltd., etc.
Property, plant and equipment; investment property; etc.	66,606	Current long-term borrowings	2,800	65,000	Kookmin Bank
	1,217	Long-term borrowings	8,575		Kookmin Bank
Property, plant and equipment	97,192	A government grant	3,488	4,186	Wonju-si
	32,370	A government grant	–	660	Chungju-si
		Short-term borrowings	9,300	15,500	Korea Development Bank (“KDB”)
	24,005	Right to collateral security and lease	3,081	3,493	Korea Workers’ Compensation & Welfare Service, etc.
	20,499	Short-term borrowings	11,500	24,000	KEB Hana Bank
Other financial assets	1,346	ACH pledged	–	1,346	Bank of Oklahoma
	6,340	Performance bond	–	6,340	Korea Land & Housing Corporation
	22	Bank corporate card usage	22	22	Citibank Taiwan Ltd.
Total	464,834		51,890	134,790	

(2) As of December 31, 2017

In millions of Korean won					
Type	Carrying amount	Reason for providing collateral	Received amount	Collateralized amount	Holder
Investment property	148,810	Leasehold deposits received	12,982	13,889	Metlife Insurance Korea Co., Ltd., etc.
Property, plant and equipment and investment property	79,800	Short-term borrowings	14,666	76,138	KEB Hana Bank, etc.
		Long-term borrowings	10,292	12,862	KEB Hana Bank, etc.
Property, plant and equipment	154,359	Investment subsidy	–	4,189	Wonju-si
		Investment subsidy	–	660	Chungju-si
		Long-term and short-term borrowings	10,800	15,500	KDB
		Right to collateral security and lease	3,104	3,493	Korea Workers’ Compensation & Welfare Service, etc.
Other financial assets	1,287	ACH pledged	–	1,287	Bank of Oklahoma
	6,340	Performance bond	–	6,340	Korea Land & Housing Corporation
Total	390,596		51,844	134,358	

18. SHORT-TERM BORROWINGS:

(1) Short-term borrowings as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won				
Type	Lender	Annual interest rate	As of June 30, 2018	As of December 31, 2017
Borrowings	KEB Hana Bank	3.42%–4.01%	11,500	12,500
	KEB Hana Bank Bahrain	2.50%	6,165	5,881
	KDB	3.03%	2,800	100,237
	Korea Agro-Fisheries & Food Trade	–	–	15,000
	Kookmin Bank	–	–	9,249
	The Export-Import Bank of Korea	–	–	10,000
	Woori Bank	–	–	200
	Subtotal		20,465	153,067
Customer credit contracts (*)	Nonghyup Bank, etc.	5.92%, etc.	22,148	21,590
Total			42,613	174,657

(*) The Group has entered into a customer credit contract with Nonghyup Bank, etc. The financial institutions pay trade receivables on behalf of customers, and the Group has provided guarantees to the financial institutions for customers. In the meantime, the above borrowing is equivalent to a loan transferred as of the end of the current quarter, but did not meet the derecognition requirements.

(2) Long-term borrowings as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won					
Type	Lender	Maturity	Annual interest rate	As of June 30, 2018	As of December 31, 2017
Other financial driver loan	Nonghyup Bank	2018.12.30–2023.05.30	–	60,887	47,193
Borrowings	Kookmin Bank	2023.09.11	2.9%–3.3%	11,375	12,458
	KDB	2021.08.19	2.33%–2.90%	8,500	8,500
	KDB	2021.11.10	3.44%	800	800
Redeemable convertible preferred shares (*)				35,340	35,340
Total				116,902	104,291
Condensed consolidated interim statements of financial position:					
Current				15,962	3,702
Non-current				100,940	100,589
Total				116,902	104,291

(*) Details of convertible bonds and preferred shares as of the end of current first half are summarized as follows:

Issuing company	Renzoluc Pte, Ltd.
Issue date	September 14, 2012
Issued value	35,340 million
Carrying amount	35,340 million
Maturity	The convertible instrument will mature 10 years from the date of establishment of QCP 2011 Corporate Partnership Private Equipment Fund ("PEF").
Convertible rights to ordinary share	The instrument can be converted into 6,978,948 ordinary shares at any time after five years from the issue date.
Repayment claim right	Payable on demand from 270 days prior to the expiration of the PEF

(3) As discussed in Note 17 to the condensed consolidated interim financial statements, the Group provided collateral for the above borrowings.

19. TRADE AND OTHER PAYABLES:

Trade and other payables as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won				
Type	As of June 30, 2018		As of December 31, 2017	
	Current	Non-current	Current	Non-current
Leasehold deposits received	24,891	11,427	23,189	9,406
Trade payables	105,665	–	63,083	–
Withholdings	17,242	–	9,195	–
Value-added deposit	194,989	–	156,169	–
Accrued expenses	187,887	18,415	202,729	17,532
Unpaid money	74,748	13,729	68,935	7,498
Total	605,422	43,571	523,300	34,436

20. RETIREMENT BENEFITS PLAN:

(1) Details of profit or loss recognized related to retirement benefits for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Defined benefit plans:				
Current service cost	11,926	22,741	11,210	22,510
Net interest on net defined benefit liability	455	912	549	1,296
Subtotal	12,381	23,653	11,759	23,806
Defined contribution plan:				
Contributions recognized as expense	1,528	4,014	1,294	3,535
Other long-term employee benefits:				
Current service cost	741	1,279	–	–
Total	14,650	28,946	13,053	27,341

The Group recognized termination benefits amounting to ₩2,751 million and ₩762 million as an expense for the current quarter and previous quarter, respectively.

(2) Net defined benefit liabilities as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won		
Type	As of June 30, 2018	As of December 31, 2017
Present value of defined benefit obligations	441,414	427,161
Fair value of plan assets	(342,448)	(351,378)
Net defined benefit liabilities	98,966	75,783

21. REFUND LIABILITIES:

(1) The details of provisions as of June 30, 2018, and December 31, 2017, are as follows:

In millions of Korean won				
Type	As of June 30, 2018		As of December 31, 2017	
	Current	Non-current	Current	Non-current
Provision for refund	7,365	3,676	35	8,438
Provision for site restoration	2,535	1,190	–	3,363
Provision for others	2,982	–	2,925	1,572
Ending amount	12,882	4,866	2,960	13,373

(2) Refund liabilities as of June 30, 2018, and 2017, are summarized as follows:

In millions of Korean won									
Type	Six months ended June 30, 2018					Six months ended June 30, 2017			
	Beginning	Change in accounting policy	Increase	Decrease	End	Beginning	Increase	Decrease	End
Provision for refund	8,473	1,333	2,780	(1,545)	11,041	4,704	416	–	5,120
Provision for site restoration	3,363	–	365	(3)	3,725	–	–	–	–
Provision for others	4,497	–	1,801	(3,316)	2,982	–	–	–	–
Ending amount	16,333	1,333	4,946	(4,864)	17,748	4,704	416	–	5,120

(3) In the case of returnable sales, the Group estimates the amount of return capability expected at the time of sale and deducts the expected amount of return from sales and cost of sales to establish a debt to cover the returns. In addition, the refund assets as of the end of current quarter are as follows:

In millions of Korean won	
Type	Amount
Refund assets	1,466

(4) The Group estimates the best amount of future expected restoration costs of retained assets as of the end of current term. The Group has recognized restoration costs in the acquisition cost of property, plant and equipment, which is expected to be used at the end of the lease term.

(5) The Group has entered into a contract with Iran Tobacco Company to produce more than certain number of tobaccos each year. As the production amount is expected to be lower than the certain number agreed, the group had set 1,203million Korean won as other provision.

22. SHARE CAPITAL:

(1) Details of share capital as of June 30, 2018, and December 31, 2017, are as follows:

Type	As of June 30, 2018	As of December 31, 2017
Authorized	800,000,000 shares	800,000,000 shares
Amount per share	₩5,000	₩5,000
Issued	137,292,497 shares	137,292,497 shares
Share capital	₩954,959 million	₩954,959 million

The Parent Company has 53,699,400 shares of treasury shares reacquired and retired in prior years. Accordingly, as of December 31, 2017, the Parent Company's ordinary share differs from the aggregate par value of issued shares by ₩268,497 million.

(2) Changes in other capital surplus for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won		
Type	Six months ended June 30, 2018	Six months ended June 30, 2017
Beginning balance	(29,720)	(3,429)
Acquisition of non-controlling interests	–	(26,286)
Ending balance	(29,720)	(29,715)

For the previous term, the Parent Company acquired additional shares of PT Sentosa Ababi Purwosari, PT Trisakti Purwosari Makmur and PT Mandiri Maha Mulia, and following such acquisition, changes in the amount of shares related to such acquisition have been offset as other capital surplus.

23. TREASURY SHARES:

Treasury shares as of June 30, 2018, and December 31, 2017, are summarized as follows:

Type	As of June 30, 2018	As of December 31, 2017
Number of treasury shares	11,027,370 shares	11,027,370 shares
Treasury shares	₩(328,157) million	₩(328,157) million
Profit from sale of treasury shares	₩513,776 million	₩513,776 million

24. RESERVES:

(1) Reserves as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won		
Type	As of June 30, 2018	As of December 31, 2017
Other comprehensive income (loss)-financial assets measured at fair value–net change in fair value (Previous term: Available-for-sale financial assets-net change in fair value)	(42,351)	7,730
Other comprehensive income-fair value gain or loss on disposal of financial assets	(148)	–
Foreign operations-foreign currency translation differences	(99,520)	(91,719)
Legal reserve	603,145	603,145
Voluntary reserve	4,893,211	4,408,176
Total	5,354,337	4,927,332

(2) Other comprehensive income (loss) as of June 30, 2018, and December 31, 2017, is summarized as follows:

In millions of Korean won		
Type	As of June 30, 2018	As of December 31, 2017
Other comprehensive income (loss)-net change in fair value before tax (Previous term: Available-for-sale financial assets-net change in fair value)	(59,024)	10,662
Tax effect	16,673	(2,932)
Other comprehensive income (loss)-net change in fair value after tax (Previous term: Available-for-sale financial assets-net change in fair value)	(42,351)	7,730

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

(4) Voluntary reserve as of June 30, 2018, and December 31, 2017, is summarized as follows:

In millions of Korean won		
Type	As of June 30, 2018	As of December 31, 2017
Reserve for business rationalization	12,851	12,851
Reserve for research and human resource development	–	10,000
Reserve for business expansion	698,881	698,881
Unconditional reserve	4,181,479	3,686,444
Total	4,893,211	4,408,176

① Reserve for business rationalization

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

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

② Reserve for research and human resource development

According to the Restriction of Special Taxation Act, certain taxable deductions are required to be transferred from retained earnings to reserve for research and human resource development. This reserve may be used for each purpose, and the remaining amounts could be reclassified as a voluntary reserve.

③ Reserve for business expansion and other reserves

The Parent Company appropriated reserves without specific purposes. Those reserves can be used for other purposes upon a resolution at the general meeting of shareholders.

25. RETAINED EARNINGS:

Changes in retained earnings for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won		
Type	Six months ended June 30, 2018	Six months ended June 30, 2017
Beginning balance	1,733,863	1,611,532
Change in accounting policy	(20,143)	–
Dividends	(505,061)	(454,554)
Transfer from reserve for research and human resource development	10,000	10,000
Accumulation of unconditional reserve	(495,036)	(623,915)
Profit for the quarter	514,510	509,605
—Less: Non-controlling interests	958	(1,051)
Remeasurements of net defined benefit liability (net of tax)	(1,430)	(628)
—Less: Non-controlling interests	4	3
Ending balance	1,237,665	1,050,992

26. REVENUE FROM REAL ESTATE SALES:

(1) The details of the sale contract under construction as of June 30, 2018, are as follows:

In millions of Korean won			
Name of construction	Construction period	Amount due	Enough contract amount
Suwon hwaseong park prugio	February 2018–August 2021	1,213,201	1,191,333

(2) Changes in balance of contract amount for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won		
Construction	Six months ended June 30, 2018	Six months ended June 30, 2017
Beginning balance	–	133,491
Contract increase	1,191,333	(95)
Revenue recognition	(11,827)	(71,921)
Ending balance	1,179,506	61,475

(3) The details of cumulative cost of the sales contract under construction as of June 30, 2018, are as follows:

In millions of Korean won				
Name of construction	Progress	Accumulated revenue	Cumulative cost	Pending work
Suwon hwaseong park prugio	0.99%	11,827	(4,886)	–

(4) No change in estimated gross contract revenue or total contract cost occurred for the six months ended June 30, 2018. The estimated total contract income and the total contract cost of an ongoing sale contract are based on the above incurred by the end of the six-month periods ended June 30 and may change in future periods.

27. OPERATING PROFIT:

(1) Details of expenses, classified by nature, incurred for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Changes in inventories	49,369	108,626	84,484	228,522
Raw materials and consumables purchased	223,545	460,855	206,592	396,832
Employee benefits	135,081	286,554	125,032	259,235
Retirement and termination benefits	14,142	30,418	13,126	28,103
Depreciation	37,460	74,843	38,189	76,185
Amortization	675	1,844	1,293	2,617
Employee welfare	19,021	36,292	18,463	34,440
Advertising	64,606	121,653	65,035	126,493
Commissions	110,031	212,724	83,730	174,864
Other expenses	142,814	219,157	139,297	231,242
Total	796,744	1,552,966	775,241	1,558,533

(2) Details of selling, general and administrative expenses for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Salaries	90,414	192,579	83,883	173,923
Retirement and termination benefits	8,837	19,746	9,090	18,967
Employee welfare	12,972	25,205	12,696	23,394
Travel	5,101	9,177	4,464	8,064
Communications	1,477	2,881	1,294	2,522
Utilities	1,939	5,079	1,810	4,382
Taxes and dues	15,714	17,984	14,347	16,971
Supplies	1,123	2,179	1,081	1,993
Rent	7,347	14,586	6,201	12,731
Depreciation	10,932	22,118	10,951	21,484
Amortization	550	1,497	1,089	2,207
Repairs and maintenance	1,715	2,831	1,787	2,404
Vehicles	1,827	3,520	1,556	2,999
Insurance	553	1,723	646	1,315
Commissions	87,940	170,479	69,228	146,779
Freight and custody	9,931	21,234	14,527	27,478
Conferences	1,497	2,534	1,224	2,485
Advertising	65,227	122,247	64,979	126,414
Training	2,085	3,240	1,504	2,780
Prizes and rewards	428	1,234	651	982
Cooperation	419	617	315	549
Research and development	9,007	17,515	10,288	17,908
Impairment loss (reversal of impairment loss) on trade receivables	(2,787)	(3,205)	102	152
Total	334,248	657,000	313,713	618,883

28. OTHER INCOME AND EXPENSES:

(1) Details of other income for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Foreign currency transaction gain	3,590	6,465	3,927	7,913
Foreign currency translation gain	57,141	60,524	33,489	3,651
Gain on sale of property, plant and equipment	462	936	511	632
Gain on sale of intangible assets	–	–	–	685
Gain in fair value of derivatives	(5,618)	388	–	–
Gain from derivative transactions	1,610	2,434	–	–
Others	3,178	25,513	5,915	11,308
Total	60,363	96,260	43,842	24,189

(2) Details of other expenses for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Foreign currency transaction loss	741	2,737	17,534	33,372
Foreign currency translation loss	11,421	23,557	(36,076)	45,197
Impairment loss on other receivables	–	–	–	7
Donations	2,448	4,478	1,776	3,870
Loss on sale of property, plant and equipment	951	1,298	979	1,285
Impairment loss on tangible assets	3,686	3,686	–	–
Loss on sale of intangible assets	48	54	385	547
Impairment loss on intangible assets	1,041	1,041	–	–
Loss on sale of investments in joint ventures	–	–	–	1,794
Losses on valuation of derivatives	5,506	5,506	–	–
Losses on derivative transactions	3,193	3,193	–	–
Others	2,189	6,008	17,896	18,423
Total	31,224	51,558	2,494	104,495

29. NET FINANCE INCOME:

(1) Details of net finance income for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Finance income:				
Interest income (excluding interest revenue from the effective interest method)	2,994	6,403	8,366	19,326
Interest revenue according to the effective interest method (*)	501	949	564	1,204
Dividend income	4,223	12,674	3,436	11,239
Investment income on long-term deposits in MSA Escrow Fund	–	–	2,023	4,067
Current term's income-Gain in fair value of financial assets	(1,227)	14,298	–	–
Current term's income-Gain in fair value on sale of financial assets	19,139	26,901	–	–
Gain on sale of available-for-sale financial assets	–	–	460	1,014
Total finance income	25,630	61,225	14,849	36,850
Finance cost:				
Interest expense	(1,420)	(2,783)	(1,429)	(2,962)
Current term's income-Loss in fair value of financial assets	1,167	(140)	–	–
Loss on disposition of available-for-sale securities	–	–	(5)	(5)
Impairment loss on available-for-sale securities	–	–	(14,640)	(14,640)
Total finance cost	(253)	(2,923)	(16,074)	(17,607)
Net finance income	25,377	58,302	(1,225)	19,243

(*) The interest revenue is the interest revenue generated from amortized cost measurement of financial assets.

(2) Details of interest income included in finance income for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Deposits	1,294	2,794	8,905	19,703
Trade and other receivables	132	734	25	827
Long-term deposits	2,069	3,824	–	–
Total	3,495	7,352	8,930	20,530

(3) Details of interest income included in finance income for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Borrowings	633	1,464	1,154	1,841
Trade and other receivables	287	685	274	1,120
Others	500	634	1	1
Total	1,420	2,783	1,429	2,962

30. INCOME TAX EXPENSE:

(1) The income tax expense was calculated by adjusting the adjustments recognized for the six months ended June 30, 2018 and 2017, in the current term's income tax expenses with regard to the income tax in the past period, deferred income tax expenses (revenue) arising from the occurrence and dissolution of temporary differences and income tax expenses (revenue) related to items recognized as other than current term's profit or loss. The average effective tax rate for the six months ended June 30, 2018 and 2017, was 30.31% and 29.77%, respectively.

(2) In case the tax revenue in the period in which temporary differences are to be deducted is expected to be sufficient, the Group may recognize it as deferred income tax assets, and in case the tax revenue expected in the future is changed, the said deferred income tax assets may change.

31. EPS:

Changes in EPS for the six months ended June 30, 2018 and 2017, are as follows:

Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Profit for the period attributable to owners of the Parent Company	₩266,571 million	₩515,469 million	₩274,171 million	₩508,554 million
Weighted-average number of ordinary shares outstanding	126,265,127 shares	126,265,127 shares	126,265,127 shares	126,265,127 shares
Basic and diluted EPS	₩2,111	₩4,082	₩2,171	₩4,028

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

32. TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

(1) Details of parent and subsidiary relationships and related companies as of June 30, 2018, and December 31, 2017, are as follows:

Type	As of June 30, 2018	As of December 31, 2017
Associates	Cosmo Tobacco Co., Ltd.	Cosmo Tobacco Co., Ltd.
	Lite Pharm Tech, Inc.	Lite Pharm Tech, Inc.
	JR REIT V Co., Ltd.	JR REIT V Co., Ltd.
	JR REIT VIII Co., Ltd.	JR REIT VIII Co., Ltd.
	LSK Global Pharma Services Co., Ltd.	LSK Global Pharma Services Co., Ltd.
	JR REIT X Co., Ltd.	JR REIT X Co., Ltd.
	JR REIT XIII Co., Ltd.	JR REIT XIII Co., Ltd.
	Yong In Jung Sim Co., Ltd.	Yong In Jung Sim Co., Ltd.
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd.	KB Gimpo Logistics CR REIT Co., Ltd.
	KORAMCO Private REIT 50 Fund	KORAMCO Private REIT 50 Fund

(2) Significant transactions that occurred in the normal course of business with related companies for the six months ended June 30, 2018 and 2017, are summarized as follows:

In millions of Korean won					
Type	Company	2018		2017	
		Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Associates and joint ventures	KVG REIT 1 Co., Ltd.	–	–	–	375
	JR REIT V Co., Ltd.	34	34	495	495
	JR REIT VIII Co., Ltd.	–	–	457	457
	JR REIT X Co., Ltd.	289	289	253	253
	KB Gimpo Logistics CR REIT Co., Ltd.	–	45	–	–
	KORAMCO Private REIT 50 Fund	–	220	–	–
Total		323	588	1,205	1,580

(3) Account balances with related companies as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won			
Type	Company	As of June 30, 2018	As of December 31, 2017
		Loans, etc.	Loans, etc.
Associates	LSK Global Pharma Services Co., Ltd.	750	1,500
	JR REIT V Co., Ltd.	–	242
	JR REIT VIII Co., Ltd.	67	212
	JR REIT XIII Co., Ltd.	145	145
	KB Gimpo Logistics CR REIT Co., Ltd.	101	60
	KORAMCO Private REIT 50 Fund	204	–
Total		1,267	2,159

(4) Details of financial transactions with related parties as of June 30, 2018, and December 31, 2017, are as follows:

In millions of Korean won					
Type	Company	As of June 30, 2018	As of December 31, 2017		
		Capital increase	Increase	Loans collection	Capital increase
Associates	LSK Global Pharma Services Co., Ltd.	750	–	2,054	554
	Yong In Jung Sim Co., Ltd.	–	1,000	–	–
Total		750	1,000	2,054	554

(5) There is no guarantee provided by or to related parties.

(6) Details of key management personnel compensation for the six months ended June 30, 2018 and 2017, are summarized as follows:

In millions of Korean won				
Type	2018		2017	
	Three months ended June 30,	Six months ended June 30,	Three months ended June 30,	Six months ended June 30,
Short-term employee benefits	4,790	9,997	6,648	13,686
Retirement benefits	352	762	460	1,486
Total	5,142	10,759	7,108	15,172

33. RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS:

(a) Overview

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

- Market risk
- Credit risk
- Liquidity risk

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

(b) Risk Management Framework

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

(c) Management of Financial Risks

(1) Market risk

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

① Currency risk

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

The carrying amounts of monetary assets and liabilities denominated in a currency other than the functional currency as of June 30, 2018, and December 31, 2017, are as follows:

In millions of Korean won				
Type	As of June 30, 2018		As of December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
USD	1,128,901	9,734	960,406	55,438
EUR	212	3,439	1,718	5,241
JPY, etc.	5,947	736	10,043	1
Total	1,135,060	13,909	972,167	60,680

As of June 30, 2018, and December 31, 2017, the effects of a 10% weakening or strengthening of functional currency against foreign currencies on profit or loss are as follows:

In millions of Korean won				
Type	As of June 30, 2018		As of December 31, 2017	
	10% weakening	10% strengthening	10% weakening	10% strengthening
Increase (decrease) in profit before tax	112,115	(112,115)	91,149	(91,149)

② Equity price risk

The Group has exposure to equity price risk, which arises from listed available-for-sale equity instruments. The Group's management has monitored the proportion of equity instruments in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis, and all buy and sell decisions are approved by the Group's management.

As of June 30, 2018, and December 31, 2017, the effects of a 5% fluctuation in the price index of stocks on comprehensive income (loss) are as follows:

In millions of Korean won				
Type	As of June 30, 2018		As of December 31, 2017	
	5% increase	5% decrease	5% increase	5% decrease
Increase (decrease) in comprehensive income (loss) before tax	802	(802)	6,040	(6,040)

③ Interest rate risk

The Group has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's management has monitored the level of interest rates regularly and has maintained the balance of borrowings at variable rates and fixed rates. As of June 30, 2018, there is no significant effect on cash flows or the fair value of financial liabilities from the interest rate fluctuation, considering the amounts of interest-bearing liabilities.

(2) Credit risk

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

The carrying amount of financial assets is maximum exposure to credit risk. The maximum exposure to credit risk as of June 30, 2018, and December 31, 2017, is as follows:

In millions of Korean won		
Type	As of June 30, 2018	As of December 31, 2017
Cash and cash equivalents (excluding cash on hand) (*)	270,423	1,193,221
Other financial assets	189,482	1,570,250
Current term’s income-financial assets at fair value (*)	2,621,459	–
Trade and other receivables	1,095,042	1,190,594
Long-term deposits in MSA Escrow Fund	578,397	510,223
Derivative assets	388	–
Total	4,755,191	4,464,288

(*) Special trust fund for the cash equivalents for the end of current quarter is included in the current term’s income-financial assets at fair value.

(3) Liquidity risk

The Group has exposure to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group’s management has established short-term and long-term financial management plans to manage the liquidity risk and analyzed cash outflows occurred and cash outflows budgeted so as to match the maturity structure of financial assets and financial liabilities. The Group’s management determines if the financial liabilities are repayable with the operating cash flows and cash inflows from financial assets.

The contractual maturity analysis with a residual contractual maturity of financial liabilities as of June 30, 2018, and December 31, 2017, is as follows:

In millions of Korean won						
Type	Carrying amount	Contractual cash flows	Residual contractual maturity			
			Within three months	Between three months and one year	Between one year and five years	More than five years
End of current quarter:						
Long-term borrowings	100,940	106,657	–	–	106,657	–
Current portion of long-term borrowings	15,962	16,296	2,465	13,831	–	–
Short-term borrowings	42,613	50,456	36,495	13,961	–	–
Trade and other payables	436,763	439,111	292,060	102,987	43,265	799
Derivative liabilities	5,506	5,506	3,207	2,299	–	–
Total	601,784	618,026	334,227	133,078	149,922	799
End of previous term:						
Long-term borrowings	100,589	103,057	362	1,080	87,157	14,458
Current portion of long-term borrowings	3,702	3,753	560	3,193	–	–
Short-term borrowings	174,657	181,003	22,623	158,380	–	–
Trade and other payables	374,840	375,733	330,629	28,750	16,069	285
Total	653,788	663,546	354,174	191,403	103,226	14,743

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

(4) The carrying amounts of each category of financial assets and liabilities as of June 30, 2018, and December 31, 2017, are summarized as follows:

In millions of Korean won		
Type	As of June 30, 2018	As of December 31, 2017
Financial assets:		
Available-for-sale financial assets	–	471,763
Current term's income-financial assets at fair value (*)	2,621,459	–
Other comprehensive income (loss)-financial assets at fair value	268,735	–
Derivatives	388	–
Financial assets measured at amortized cost		
—Cash and cash equivalents (*)	285,878	1,230,176
—Other financial assets	189,482	1,570,250
—Trade and other receivables	1,095,042	1,190,594
—Long-term deposits in MSA Escrow Fund	578,397	510,223
Subtotal	2,148,799	4,501,243
Total financial assets	5,039,381	4,973,006

Financial liabilities:		
Financial liabilities measured at amortized cost		
—Long-term borrowings	100,940	100,589
—Current portion of long-term borrowings	15,962	3,702
—Short-term borrowings	42,613	174,657
—Trade and other payables	436,763	374,840
—Derivative liabilities	5,506	–
Total financial liabilities	601,784	653,788

(*) Special trust fund for the cash equivalents for the end of current quarter is included in the current term's income-financial assets at fair value.

(5) The fair value measurements classified by fair value hierarchy as of June 30, 2018, and December 31, 2017, are as follows:

In millions of Korean won				
Type	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
End of current quarter:				
Current term's income-financial assets at fair value	2,621,459	–	2,426,810	194,649
Other comprehensive income (loss)-financial assets at fair value	268,735	218,958	–	49,777
Derivative assets	388	–	388	–
Derivative liabilities	5,506	–	5,506	–
Total	2,896,088	218,958	2,432,704	244,426
End of previous term:				
Available-for-sale financial assets	421,886	237,717	–	184,169

(*) Special trust fund for the cash equivalents for the end of current quarter is included in the current term's income-financial assets at fair value.

There is no transfer between fair value hierarchy levels of recurring fair value measurements during this quarter and the previous year.

The available-for-sale equity instruments in real estate trust fund have been measured using the adjusted net asset method, discounted cash flow and option-pricing model and categorized under Level 3 fair value based on the inputs to the valuation techniques used. Changes in fair value classified as Level 3 as of June 30, 2018, and December 31, 2017, are as follows:

In millions of Korean won		
Type	As of June 30, 2018	As of December 31, 2017
Beginning balance (*)	234,046	132,956
Acquisition	33,900	70,946
Disposal	(25,440)	(22,798)
Changes in fair value	1,920	3,065
Ending balance	244,426	184,169

(*) Available-for-sale financial assets, measured using the cost method, in the financial statements as of December 31, 2017, are classified as financial assets at fair value through other comprehensive income in the condensed consolidated interim financial statements as of June 30, 2018, with the amount of ₩49,877 million included.

(6) Details of finance income (costs) by categories for the six months ended June 30, 2018 and 2017, are as follows:

① For the Six Months Ended June 30, 2018

In millions of Korean won						
Type	Profit or loss-financial assets at fair value	Other comprehensive income (loss)-financial assets at fair value	Derivative assets	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit or loss:						
Interest income	–	–	–	7,352	–	7,352
Dividend income	–	12,674	–	–	–	12,674
Gain or loss on valuation	14,158	–	(5,118)	–	–	9,040
Gain on sale of available-for-sale financial assets	26,901	–	(759)	–	–	26,142
Interest expense	–	–	–	–	(2,783)	(2,783)
Impairment loss on available-for-sale financial assets	–	–	–	3,204	–	3,204
Total	41,059	12,674	(5,877)	10,556	(2,783)	55,629
Comprehensive income (loss) before tax:						
Net change in fair value	–	(18,759)	–	–	–	(18,759)
Reclassification due to disposal	–	(204)	–	–	–	(204)
Total	–	(18,963)	–	–	–	(18,963)

② For the Six Months Ended June 30, 2017

In millions of Korean won				
Type	Available-for-sale financial assets	Loans and receivables	Financial liabilities measured at amortized cost	Total
Profit or loss:				
Interest income	35	20,495	–	20,530
Dividend income	11,239	–	–	11,239
Investment profit on long-term deposits in MSA Escrow Fund	–	4,067	–	4,067
Gain on sale of available-for-sale financial assets	1,014	–	–	1,014
Interest expense	–	–	(2,962)	(2,962)
Impairment loss	(14,640)	(159)	–	(14,799)
Total	(2,352)	24,403	(2,962)	19,089
Comprehensive income (loss) before tax:				
Net change in fair value	23,438	–	–	23,438
Reclassification due to disposal	(1,014)	–	–	(1,014)
Reclassification due to damage	14,640	–	–	14,640
Total	37,064	–	–	37,064

34. CAPITAL MANAGEMENT:

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

The Group monitors capital using equity and net debt by deducting cash and cash equivalents and current financial instruments from borrowings. The Group applied the same capital management strategy that was applied in the previous year. The Group's capital structure as of June 30, 2018, and December 31, 2017, is as follows:

In millions of Korean won		
Type	As of June 30, 2018	As of December 31, 2017
Debt	159,515	278,948
Less: Cash and cash equivalents	(749,849)	(1,230,176)
Less: Current other financial assets	(2,145,973)	(1,563,900)
Net debt (asset)	(2,736,307)	(2,515,128)
Total equity	7,759,606	7,829,760

35. CONTINGENT LIABILITIES AND COMMITMENTS:

(1) Payment of long-term deposits (MSA Escrow Fund)
Each year, the Group deposits a proportion of sales of tobacco products in the United States in accordance with the Tobacco Master Settlement Agreement (MSA) under the Escrow Statute of the U.S. government. The MSA Escrow Fund 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 of each annual funding. The Group recorded as long-term deposits the amounts paid into the MSA Escrow Funds of state governments in the United States against potential litigation and damages related to the export of tobacco to the United States.

(2) As of June 30, 2018, the Group's pending litigations are as follows:

In millions of Korean won				
Type	Suit parties	Case contents	Progress	Litigation value
Lawsuits in which the Group is involved as a plaintiff:				
Seoul Central District Court	Lee Young Geun and one other	Compensation for damages	First trial in progress	602
Seoul Eastern District Court	Han Jae Geuk and four others	Compensation for damages	First trial in progress	3,338
Daejeon District Court	Superintendent of North Daejeon Tax Office	Claim for cancellation of corporate tax disposition and others	Partially won first trial/second trial in progress	3,440
Seoul Central District Court	Tong Yang Moolsan and two others	Compensation for damages	First trial in progress	222
Seoul Central District Court	Kim Moo Seok and four others	Compensation for damages	First trial in progress	4,774
Seoul Central District Court	Seol Young Geon, CEO of Cell Co., Ltd. and four others	Compensation for damages	First trial in progress	1,543
Seoul Central District Court	Uniontech and three others	Compensation for damages	First trial in progress	4,958
Seoul Central District Court	IT&U Co., Ltd.	Eviction lawsuit	First trial in progress	101
Others	Senen lawsuits including compensation for damages			787
Sum of lawsuits in which the Group is involved as a plaintiff				19,765
Lawsuits in which the Group is involved as a defendant:				
Seoul Central District Court	National Health Insurance Service	Compensation for damages	First trial in progress	53,742
Cheongju District Court	Joo Sang Ja	Registration of ownership right cancellation	First trial in progress	13
Seoul Central District Court	V manne piece	Litigation on prohibition of patent infringement	First trial in progress	200
Others	Sixteen lawsuits including compensation for damages			273
Sum of lawsuits in which the Group is involved as a defendant				54,228

(3) Regular tax investigation on subsidiaries in Indonesia is ongoing as of June 30, 2018; however, the Group expects that there is no significant impact on its condensed consolidated interim financial statements.

(4) As of June 30, 2018, the Group has entered into letter of credit (“L/C”) agreements with KEB Hana Bank and other banks with limits in the aggregate of USD 179,700 thousand.

(5) As of June 30, 2018, the Group's trade receivables from the export of cigarettes are insured against non-payment up to USD 29,233 thousand by an export guarantee insurance with the Korea Trade Insurance Corporation.

(6) As of June 30, 2018, the group is currently providing payment guarantees to KEB Hana and Westchester Fire Insurance Company in the United States for USD 36,000 thousand and USD 20,000 thousand, respectively, in order to open an import credit for imports and customs clearance of US corporations and to provide collateral for local financial institutions overseas. We are obliged to observe the guarantee amount.

(7) As of June 30, 2018, the Group has been provided with guarantees of USD 6,364 thousand from Travelers Casualty and Surety Group of America for the execution of escrow deposits.

(8) The Group has maintained a contract with the farmers who grow six-year-old green ginseng for purchase volume guarantees and recorded contractual amounts paid to the farmers as long-term advance payments and advance payments in the amount of ₩91,466 million (₩69,373 for the end of previous term) and ₩59,295 million (₩32,636 for the end of previous term), respectively.

(9) As of June 30, 2018, the Group has an accounts receivable loan agreement with a limit of ₩107,000 million with KEB Hana Bank and other financial institutions.

(10) As of June 30, 2018, the Group has a trade bill loan agreement with a limit of ₩10,000 million with KEB Hana Bank.

(11) As of June 30, 2018, the Group has a borrowing agreement with a limit of ₩220,053 million with KEB Hana Bank.

(12) As of June 30, 2018, the details of notes provided as blank notes with regard to the borrowings of the Group are as follows:

Provider	Type	Number	Par value	Details
KTV Credit Co., Ltd. and one other institute	Note	5 copies	₩4,000 million	Non-recovered after collection of debt
	Note	1 copy	Blank check	Non-recovered after collection of debt
	Check	2 checks	Blank check	Non-recovered after collection of debt

As of the end of current quarter, the Group lost six notes with unconfirmed provider and face value and one check other than the above-mentioned notes and expects to proceed a judgment of nullification with regard to the said notes.

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

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

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

(15) As of June 30, 2018, the Group is insured by performance guarantee insurance up to ₩3,313 million with the Seoul Guarantee Insurance.

(16) As of June 30, 2018, the Group recognizes other financial assets of ₩6,340 million deposited in Nonghyup Bank and restricted in use in order to provide a performance guarantee for the commercial district development project in Sejong-si.

(17) As of June 30, 2018, the Group has signed an agreement with a limit of USD 153,700 thousand with KEB Hana Bank and USD 7,626 thousand with Nonghyup Bank in relation to the derivative financial instruments.

(18) As of June 30, 2018, the Group has entered into a contract for the sale of housing construction of ₩889,040 million with the Housing Corporation of Korea.

(19) As of June 30, 2018, the Group has provided ₩424 million in guarantees for the Korea Special Sales Financial Corporative Association regarding Donginbi Jungnang Agency and one addition.

(20) As of June 30, 2018, and December 31, 2017, the Group has entered into a management trust agreement with Marriott International Management Company B.V. and has been provided international public relations services through Global Hospitality Licensing S.A.R.L. Also, the Group has been provided technical advice by Marriott International Design & Construction Services., Inc.

36. CASH FLOWS:

(1) Details of cash generated from operations for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won		
Type	Six months ended June 30, 2018	Six months ended June 30, 2017
Profit for the quarter	514,510	509,605
Adjustments for:		
Income tax expense	223,799	216,115
Finance cost	2,923	17,607
Finance income	(61,225)	(36,850)
Depreciation	74,843	76,434
Amortization	1,844	2,617
Retirement and termination benefits	30,410	28,103
Foreign currency translation loss	23,557	45,197
Impairment loss (reversal) on trade and other receivables	(3,205)	159
Loss on write-down of inventories	1,351	1,377
Impairment loss on intangible assets	1,298	1,285
Impairment of tangible assets	3,686	–
Loss on sale of intangible assets	54	547
Impairment of intangible assets	1,041	–
Loss on sale of investment in joint ventures	–	1,794
Other expenses (losses), etc.	19,246	10,067
Share of gain of associates	(1,065)	(5,119)
Share of loss of associates	105	–
Foreign currency translation gain	(60,524)	(3,651)
Gain on sale of property, plant and equipment	(936)	(632)
Gain on sale of intangible assets	–	(685)
Subtotal	771,712	863,970
Changes in working capital:		
Increase in trade and other receivables	46,513	(17,625)
Increase in advance payments	(55,889)	(71,688)
Decrease (increase) in prepaid expenses	(29,305)	3,229
Decrease in consumption tax on unearned cigarettes	36,171	36,018
Decrease in inventories	91,149	227,335
Decrease in trade and other payables	110,150	(39,123)
Decrease in tobacco excise and other taxes payable	123,789	(579,762)
Payment of retirement and termination benefits	(8,784)	(11,619)
Increase (decrease) in other advance receipts	13,137	595

Cash generated from operations	1,098,643	411,330

(2) Details of material transactions without cash inflow and outflow for the six months ended June 30, 2018 and 2017, are as follows:

In millions of Korean won		
Type	Six months ended June 30, 2018	Six months ended June 30, 2017
Increase (decrease) in accrued expenses related to payment of retirement and termination benefits	(411)	(2,717)
Increase (decrease) in other payables related to acquisition of property, plant and equipment	14,018	(4,140)
Reclassification of construction in progress	71,124	2,062

(3) Changes in liabilities due to financial activities

Changes in liabilities due to financial activities for the six months ended June 30, 2018 and 2017, are as follows:

① For the Six Months Ended June 30, 2018

In millions of Korean won				
Type	Beginning balance	Cash flows from financing activities	Others	Ending balance
Short-term borrowings (including current portion of long-term borrowings)	178,359	(132,886)	13,102	58,575
Long-term borrowings	100,589	12,611	(12,260)	100,940
Deposits received	32,595	(308)	4,031	36,318
Total	311,543	(120,583)	4,873	195,833

② For the Six Months Ended June 30, 2017

In millions of Korean won				
Type	Beginning balance	Cash flows from financing activities	Other	Ending balance
Short-term borrowings (including current portion of long-term borrowings)	146,196	(74,902)	(11,217)	60,077
Long-term borrowings	115,953	7,875	(18,977)	104,851
Deposits received	27,606	5,944	317	33,867
Total	289,755	(61,083)	(29,877)	198,795

(4) The Group has presented net inflows and outflows of short-term financial instruments for which the transactions occur frequently with large amounts and expire soon.

37. CHANGES IN ACCOUNTING POLICIES:

37.1 K-IFRS No. 1109 'Financial Instruments' (enacted)

(1) Classification and measurement of financial instruments

Details of changes in retained earnings due to the classification and measurement of financial instruments are as follows:

In millions of Korean won	
Adjustment details	Amount
Retained earnings at the beginning of term-K-IFRS No. 1039	1,733,863
Reclassification of loans and receivables as current term's profit (loss)-financial assets at fair value	(14,514)
Reclassification of available-for-sale securities as current term's profit (loss)-financial assets measured at fair value	3,895
Reclassification of available-for-sale securities as other comprehensive income (loss)-financial assets measured at fair value	32,870
Measurement of long-term deposits in MSA Escrow Fund at amortized cost	8,115
Increase in trade and other receivables-net of allowance	(69,258)
Reduction of deferred income tax following the adjustment of surplus at the beginning of term	22,177
Adjustment of total surplus due to adoption of K-IFRS No. 1109	(16,715)
Retained earnings at the beginning of term-K-IFRS No. 1109	1,717,148

Management has evaluated the business model applied to the financial assets held as of January 1, 2018, the initial application date of K-IFRS No. 1109, and classified the financial assets in accordance with K-IFRS No. 1109. The effect of this reclassification is as follows:

In millions of Korean won							
Financial assets at the beginning of current term	Current term's profit (loss)-financial assets measured at fair value	Other comprehensive income (loss) – financial assets measured at fair value (available-for-sale financial assets in the previous term)	Financial assets measured at amortized cost (loans and receivables as of December 31, 2017)				Total
			Trade and other receivables	Long-term deposits in MSA Escrow Fund	Other financial assets	Cash and cash equivalents	
Carrying amount at the beginning of term-K-IFRS No. 1039	–	471,763	1,190,594	510,223	1,563,900	1,230,176	4,966,656
Current term's profit (loss) on loans and receivables-Reclassification as financial assets measured at fair value	1,314,296	–	(6,548)	–	(1,320,000)	(2,262)	(14,514)
Current term's profit (loss) in available-for-sale securities -Reclassification as financial assets measured at fair value	184,169	(184,169)	–	–	–	–	–
Amortized cost-measurement of long-term deposits in MSA Escrow Fund	–	–	1,971	9,402	–	–	11,373
Carrying amount at the beginning of term- K-IFRS No. 1109	1,498,465	287,594	1,186,017	519,625	243,900	1,227,914	4,963,515

① Reclassified loans and receivables to financial assets at fair value through profit or loss

Of the cash equivalents and other financial assets as of January 1, 2018, money trust of ₩1,320,000 million, which was not composed of principal and interest on principal balance, has been reclassified to financial assets at fair value through profit or loss.
The difference of ₩14,514 million between the amortized cost of the money trust and the fair value as of January 1, 2018, has been reclassified to retained earnings. During the current period, ₩32,746 million, including changes in fair value related to these financial assets, has been recognized in profit.

② Reclassified available-for-sale financial assets to financial assets at fair value through profit or loss

Of the available-for-sale financial assets as of January 1, 2018, the investment in real estate investment funds of ₩184,169 million has been reclassified as financial assets at fair value through profit or loss. The financial assets do not meet the conditions that the contractual cash flows are measured at amortized cost because they do not represent only principal payments. Accumulated other comprehensive income of ₩3,895 million as of January 1, 2018, has been reclassified to retained earnings. During the current period, ₩8,313 million, including changes in fair value related to these financial assets, has been recognized in profit.

③ Reclassified available-for-sale financial assets to financial assets at fair value through other comprehensive income (loss)

The changes in the fair value of equity instruments that were not for trading purposes and were previously classified as available-for-sale financial assets have been reclassified to financial assets at fair value through other comprehensive income and presented in other comprehensive income. Accordingly, ₩287,594 million has been reclassified to financial assets at fair value through other comprehensive income (loss). The related accumulated other comprehensive income of ₩32,870 million as of January 1, 2018, shall not be reclassified to profit or loss even if the financial asset is disposed of.

④ Long-term deposits in MSA Escrow Fund measured at amortized cost

The long-term deposits amounting to ₩510,223 million as of January 1, 2018, have been reclassified to financial assets at fair value through profit or loss. The financial assets should be measured at amortized cost because the assets have the cash flow that consists of principal and interest on the principal balance alone under the contract having the aim to receive the cash flow. Long-term deposits of ₩9,402 million and retained earnings of ₩8,115 million have been increased as of January 1, 2018. Interest income related to the long-term deposits amounting to ₩3,680 million was recognized during the current period.

The effect of these changes on the Group's capital is as follows:

In millions of Korean won		
Type	Change in accumulated amount of other comprehensive income (loss)	Change in retained earnings
Carrying amount at the beginning of term-K-IFRS No. 1039	7,730	1,733,863
Reclassification of loans and receivables as financial assets measured at fair value through current term's profit or loss	–	(14,514)
Reclassification from available-for-sale securities to financial assets measured at fair value through current term's profit or loss	(3,895)	3,895
Reclassification from available-for-sale securities to financial assets measured at fair value through other comprehensive income or loss	(32,870)	32,870
Measurement of long-term deposits in MSA Escrow Fund at amortized cost	–	8,115
Increase in trade and other receivables' allowance (*)	–	(69,258)
Reduction of deferred income tax following the adjustment of surplus at the beginning of term	–	22,177
Total	(36,765)	(16,715)
Carrying amount at the beginning of term-K-IFRS No. 1109	(29,035)	1,717,148

(*) For the related notes on loss allowance, refer to (2) Impairment of financial assets below.

The reclassification of financial assets as of January 1, 2018 (the initial application date), due to adoption of K-IFRS No. 1109 is as follows:

In millions of Korean won					
Type	Measurement scope		Carrying amount		
	K-IFRS No. 1039	K-IFRS No. 1109	K-IFRS No. 1039	K-IFRS No. 1109	Difference
Cash and cash equivalents	Loans and receivables	Financial assets measured at amortized cost	1,230,176	1,227,914	(2,262)
Other financial assets	Loans and receivables	Financial assets measured at amortized cost	1,563,900	243,900	(1,320,000)
Other financial assets	Loans and receivables	Financial assets measured at fair value through current term's profit or loss	-	1,314,296	1,314,296
Long-term deposits in MSA Escrow Fund	Financial assets recognized as current term's profit (loss)	Financial assets measured at amortized cost	510,223	519,625	9,402
Financial assets measured at fair value through other comprehensive income or loss	Available-for-sale financial assets	Financial assets measured at fair value through other comprehensive income or loss	471,763	287,594	(184,169)
Financial assets measured at amortized cost	Available-for-sale financial assets	Financial assets measured at amortized cost	-	184,169	184,169
Trade and other receivables	Loans and receivables	Financial assets measured at amortized cost	1,190,594	1,186,017	(4,577)

Total	4,966,656	4,963,515	(3,141)

(2) Impairment of financial assets

The Group has the following two types of financial assets subject to the new expected credit loss model in K-IFRS No. 1109:

- Trade receivables from sales of inventories
- Debt instruments measured at amortized cost

The Group changed the policy on recognition of impairment loss as a result of the adoption of K-IFRS No. 1109. Please refer to the table in the above (1) for the effect on the beginning balance of the retained earnings for the period.

37.2 Application of K-IFRS No. 1115 'Revenue from Contracts with Customers' (enacted)

As noted in Note 3, the Group has adopted K-IFRS No. 1115 from January 1, 2018. The financial statements of the prior period presented here for the comparison purpose have not been restated in accordance with the transitional provisions. The effect of adoption of K-IFRS No. 1115 on the condensed consolidated interim financial statements is as follows:

(1) Adjustments reflected as of January 1, 2018 (the initial application date), in the condensed consolidated interim statements of financial position are as follows:

In millions of Korean won			
Type	As of December 31, 2017, before adjustments	Adjustment	As of January 1, 2018, after adjustments
Current assets	6,585,398	50	6,585,448
Non-current assets	3,390,507	1,333	3,391,840
Total assets	9,975,905	1,383	9,977,288
Current liabilities	1,802,999	3,479	1,806,478
Non-current liabilities	343,146	1,333	344,479
Total liabilities	2,146,145	4,812	2,150,957
Total equity	7,829,760	(3,429)	7,826,331

The Group provides logistics cost, insurance cost and credit card commissions with regard to some of the contracts signed with customers. Logistics cost and others belong to the amount payable to the customers in accordance with K-IFRS No. 1115, so they are recognized as deduction of profit.

(2) The items in the condensed consolidated interim financial statements that are affected by the prechange standards in the period of the initial application of K-IFRS No. 1115 are as follows:

In millions of Korean won			
Type	Reported amount	Adjustment	In case K-IFRS No. 1115 is not adopted
Current assets	6,508,942	(1,048)	6,507,894
Non-current assets	3,612,513	(353)	3,612,160
Total assets	10,121,455	(1,401)	10,120,054
Current liabilities	1,987,995	3,331	1,991,326
Non-current liabilities	373,855	(1,161)	372,694
Total liabilities	2,361,850	2,170	2,364,020
Total equity	7,759,606	(3,314)	7,756,292
Sales	2,187,310	5,802	2,193,112
Cost of sales	895,966	(4,086)	891,880
Selling, general and administrative expenses	657,000	(16,341)	640,659
Income tax	223,799	–	223,799
Net profit for the period	514,510	9	514,519
Total comprehensive income (loss)	491,815	51	491,866

(3) The cash flows from adoption of K-IFRS No. 1115 are the same as cash flows under previous standards.