



KT&G CORPORATION

Separate Financial Statements

Full year of the 32nd

from January 1, 2018, to December 31, 2018

(With Independent Auditors' Report Thereon)

KT&G CORPORATION

CONTENTS

	Page
Independent auditors' report	1
Separate financial statements	
Separate statements of financial position	9
Separate statements of comprehensive income	11
Separate statements of changes in equity	13
Separate statements of cash flows	15
Notes to the Separate financial statements	17

KT&G CORPORATION AND SUBSIDIARIES

Independent auditor's report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 21, 2019

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

Report on the Audited Separate Financial Statements

Our Opinion

We have audited the accompanying separate financial statements of KT&G Corporation (the "Company"), which comprise the separate statement of financial position as of December 31, 2018 and the separate statement of profit or loss, the separate statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows, for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the KT&G Corporation as of December 31, 2018 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Audit Opinion

We conducted our audits in accordance with the Korean Standards on Auditing ("KSAs"). Our responsibilities under those standards are further described in the Our Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the separate financial statements in the Republic of Korea as required by prevailing audit regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our Key Audit Matters

The key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

(1) Impairment of investment in subsidiary, Cosmococ Co., Ltd.

As discussed in Note 12 to the separate financial statements, the carrying amount of Cosmococ Co., Ltd. is ₩34,459 million and the Company recognized an impairment loss of ₩22,122 million related to Cosmo Co., Ltd. The Company reviews the indication of impairment of Cosmococ Co., Ltd, and tests for impairment by determining the higher of value in use or fair value as the recoverable amount if an indication of impairment exists. Cosmococ Co., Ltd., is in the business of cosmetics and the sensitivity of value in use could not be reasonably predicted due to intensified competition in the domestic market and uncertainties in demand for export markets such as China. Accordingly, the Company determined the recoverable amount by measuring fair value using the adjusted net asset method without measuring value in use.

As there are possibilities of errors in measuring fair value because management's significant assumptions and estimates are involved in the measurement method used to determine fair value of Cosmococ Co., Ltd., we chose this as our key audit matters.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/kr/about to learn more about our global network of member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is Hill House, 1 Little New Street, London, EC4A, 3TR, United Kingdom.

In order to determine the approach to auditing, we have evaluated the general suitability and error potential in the method of measuring fair value of Cosmocos Co., Ltd., and the main audit procedures we have conducted based on our risk assessment are as follows:

- ① Understanding and evaluating the internal control design of the Company in relation to the impairment of investments in subsidiaries.
- ② Evaluating the independence and eligibility of external experts utilized by the Company to measure fair value.
- ③ Evaluating the rationality of the key assumptions used in measuring fair value.
- ④ Verifying independently key input variables, appropriateness of valuation model, and valuation result by using external appraisal specialists of auditors for tangible assets measured by fair value.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation of the accompanying separate financial statements in accordance with K-IFRS, and for such internal control as they determine is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management of the Company is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

Our Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in the Republic of Korea will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with prevailing audit regulations in the Republic of Korea, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee of the Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

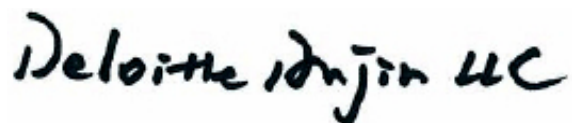
From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Matters

The separate financial statements of the Company as of and for the year ended December 31, 2017 were audited by the KPMG Samjung Accounting Corporation and the auditor's report dated February 28, 2018 expressed an unqualified opinion. The separate financial statements for which the previous auditor expressed the opinion were separate financial statements prior to the reconciliations described in Note 38. The comparative separate financial statements as of and for the year ended December 31, 2017 are separate financial statements that reflect related adjustments.

The engagement partner on the audit resulting in this independent auditor's report is, Kim, Dong Hwan.

10, Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul
Hong Jong Sung, CEO of Anjin Deloitte LLC



March 21, 2019

<p>This report is effective as of March 21, 2019, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditors' report.</p>
--



KT&G CORPORATION
Separate financial statements

Full year of the 32nd
from January 1, 2018, to December 31, 2018

Full year of the 31st
from January 1, 2017, to December 31, 2017

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

Address of headquarters: (Road name address) 71, Beotkkot-gil, Daedeok-gu, Daejeon
(Telephone) 080-931-0399

KT&G CORPORATION
Separate statements of financial position



As of December 31, 2018 and 2017

<i>in Korean won</i>	<i>Notes</i>	2018	2017
Assets:			
Current assets:			
Cash and cash equivalents	4,33,36,37,38 ₩	748,123,323,519 ₩	589,765,862,776
Current other financial assets	4,33,37,38	570,000,000,000	2,047,686,022,874
Current fair value through profit or loss	5,33,37	1,139,704,589,088	-
Financial derivatives	6,33	1,238,664,783	-
Trade and other receivables	7,32,33,37,38	730,894,507,798	898,210,793,048
Inventories	8,38	954,677,584,804	872,391,146,210
Refund asset		421,874,000	-
Accrued tobacco excise and other taxes		218,210,022,210	255,821,995,393
Advance payments		18,377,223,800	20,259,419,135
Prepaid expenses		9,190,208,637	4,163,466,088
Assets held for sale	16	27,793,765,475	-
Total current assets		4,418,631,764,114	4,688,298,705,524
Non-current assets:			
Other long-term financial assets	4,17,33,37,38	6,937,220,000	6,340,300,000
Long-term deposits in MSA Escrow Fund	9,33,37	615,527,896,771	510,223,375,080
Fair value through profit or loss	5,33,37	210,655,373,106	-
Long-term trade and other receivables	7,32,33,38	119,288,362,714	131,132,042,979
Fair value through other comprehensive income or loss	10,33,37	230,545,108,827	-
Available-for-sale financial assets	10,33,37	-	454,051,493,361
Investments in associates and joint ventures	11,32	77,430,010,000	51,930,010,000
Investments in subsidiaries	12,32	1,185,361,245,738	1,208,227,973,493
Property, plant and equipment	13,17,38	1,200,906,524,123	1,171,775,207,834
Intangible assets	14	31,328,960,084	27,235,455,547
Investment property	15,17,38	606,679,330,988	426,621,112,346
Long-term advance payments		9,510,956,440	-
Long-term prepaid expenses		7,267,349,723	4,582,421,362
Deferred income tax assets	30	9,845,531,641	-
Total non-current assets		4,311,283,870,155	3,992,119,392,002
Total assets	₩	8,729,915,634,269 ₩	8,680,418,097,526

KT&G CORPORATION

Separate statements of financial position, continued

As of December 31, 2018 and 2017

<i>in Korean won</i>	<i>Notes</i>	2018	2017
Liabilities and equity:			
Liabilities:			
Current liabilities:			
Short-term borrowings	18,33 ₩	1,246,100,270 ₩	1,958,661,660
Trade and other payables	19,32,33,38	398,082,555,860	392,041,735,857
Derivative liabilities	6,33	460,667,312	-
Advance receipts		161,629,415,091	1,801,036,938
Current provision	21	6,455,107,857	-
Income tax payable	30	169,266,311,114	145,928,809,669
Tobacco excise and other taxes payable		551,877,758,317	914,754,090,453
Total current liabilities		1,289,017,915,821	1,456,484,334,577
Non-current liabilities:			
Long-term trade and other receipts	19,32,33	39,152,218,138	21,655,355,805
Long-term advance receipts		701,673,919	581,716,864
Net defined benefit liability	20	34,837,214,841	19,084,241,508
Provision	21	985,318,269	3,086,128,572
Deferred income tax liabilities	30	-	35,969,370,768
Total non-current liabilities		75,676,425,167	80,376,813,517
Total liabilities		1,364,694,340,988	1,536,861,148,094
Equity:			
Ordinary shares	22	954,959,485,000	954,959,485,000
Other capital surplus	22	3,582,160,908	3,582,160,908
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
Reserve	24	5,430,034,290,488	5,009,300,640,505
Retained earnings	25,37	791,026,709,122	990,096,015,256
Total equity		7,365,221,293,281	7,143,556,949,432
Total liabilities and equity	₩	8,729,915,634,269 ₩	8,680,418,097,526

"The accompanying notes are a part of the Separate financial statements."

KT&G CORPORATION
Separate statements of comprehensive income



For the years ended December 31, 2018 and 2017

<i>in Korean won</i>	<i>Notes</i>	2018	2017
Sales	32	₩ 2,624,616,092,571	₩ 3,000,087,862,709
Manufacture of tobacco		2,374,431,930,216	2,672,324,091,805
Real estate	15,26	175,953,464,321	190,002,566,442
Exports of leaf tobacco and others		74,230,698,034	137,761,204,462
Cost of sales	27,32	(977,356,174,213)	(1,098,562,447,853)
Manufacture of tobacco		(860,210,268,056)	(883,887,165,040)
Real estate	26	(59,829,128,175)	(123,050,763,886)
Exports of leaf tobacco and others		(57,316,777,982)	(91,624,518,927)
Gross profit		1,647,259,918,358	1,901,525,414,856
Selling, general and administrative expenses	27	(642,828,471,473)	(656,677,737,663)
Operating profit	27	1,004,431,446,885	1,244,847,677,193
Other income	28,32	132,579,164,933	118,400,560,093
Other expenses	28,32	(140,273,204,673)	(241,886,491,207)
Finance income	29,33	148,422,894,137	137,000,209,103
Cost of finance	29,33	(1,232,941,254)	(19,464,695,096)
Net finance income		147,189,952,883	117,535,514,007
Profit before income tax		1,143,927,360,028	1,238,897,260,086
Income tax expense	30	(302,980,806,018)	(264,000,905,681)
Profit for the year		840,946,554,010	974,896,354,405
Other comprehensive income (loss) after income tax:			
Items that will not be reclassified to profit or loss			
Remeasurements of net defined benefit liability	20	(19,379,063,324)	15,199,660,851
Gain or loss on valuation of fair value through other comprehensive income or loss		(27,683,883,809)	-
Items that are or may be reclassified subsequently to profit or loss			
Gain or loss on valuation of available-for-sale financial assets		-	29,117,788,032
Other comprehensive income after income tax		(47,062,947,133)	44,317,448,883
Total comprehensive income for the year		₩ 793,883,606,877	₩ 1,019,213,803,288
Earnings per share:	31		
Basic and diluted		6,660	7,721

"The accompanying notes are a part of the Separate financial statements."

KT&G CORPORATION

Separate statements of changes in equity



For the year ended December 31, 2017

in Korean won

	Ordinary shares	Other capital surplus (deficit)	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Total equity
Balance at January 1, 2017	₩954,959,485,000	₩3,582,160,908	₩ (328,157,286,128)	₩513,775,933,891	₩4,366,268,230,007	₩1,068,469,079,666	₩6,578,897,603,344
Total comprehensive income (loss) for the year:							
Profit for the year	-	-	-	-	-	974,896,354,405	974,896,354,405
Other comprehensive income (loss) for the year:							
Remeasurements of net defined benefit liability	-	-	-	-	-	15,199,660,851	15,199,660,851
Gain or loss on valuation of available-for-sale financial assets	-	-	-	-	29,117,788,032	-	29,117,788,032
Sum of other comprehensive income (loss) for the year	-	-	-	-	29,117,788,032	15,199,660,851	44,317,448,883
Total comprehensive income (loss) for the year	-	-	-	-	29,117,788,032	990,096,015,256	1,019,213,803,288
Transactions with owners, recognized directly in equity:							
Dividends	-	-	-	-	-	(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)	-
Total transactions with owners of the parent company	-	-	-	-	613,914,622,466	(1,068,469,079,666)	(454,554,457,200)
Balance at December 31, 2017	₩954,959,485,000	₩3,582,160,908	₩ (328,157,286,128)	₩513,775,933,891	₩5,009,300,640,505	₩990,096,015,256	₩7,143,556,949,432

“The accompanying notes are a part of the Separate financial statements.”

For the year ended December 31, 2018

in Korean won

	Ordinary shares	Other capital surplus (deficit)	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Total equity
Balance at January 1, 2018	₩954,959,485,000	₩3,582,160,908	₩ (328,157,286,128)	₩513,775,933,891	₩5,009,300,640,505	₩990,096,015,256	₩7,143,556,949,432
Effect of change in accounting policy	-	-	-	-	(36,765,729,396)	(30,393,025,632)	(67,158,755,028)
Balance at January 1, 2018 (basic after revision)	954,959,485,000	3,582,160,908	(328,157,286,128)	513,775,933,891	4,972,534,911,109	959,702,989,624	7,076,398,194,404
Total comprehensive income (loss) for the year:							
Profit for the year	-	-	-	-	-	840,946,554,010	840,946,554,010
Other comprehensive income (loss) for the year:							
Remeasurements of net defined benefit liability	-	-	-	-	-	(19,379,063,324)	(19,379,063,324)
Gain or loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(27,683,883,809)	-	(27,683,883,809)
Reclassification to Retained Earning from disposal of Fair value through other comprehensive income	-	-	-	-	147,755,932	(147,755,932)	-
Sum of other comprehensive income (loss) for the year	-	-	-	-	(27,536,127,877)	(19,526,819,256)	(47,062,947,133)
Total comprehensive income (loss) for the year	-	-	-	-	(27,536,127,877)	821,419,734,754	793,883,606,877
Transactions with owners, recognized directly in equity:							
Dividends	-	-	-	-	-	(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)
Balance at December 31, 2018	₩954,959,485,000	₩3,582,160,908	₩ (328,157,286,128)	₩513,775,933,891	₩5,430,034,290,488	₩791,026,709,122	₩7,365,221,293,281

“The accompanying notes are a part of the Separate financial statements.”

KT&G CORPORATION
Separate statements of cash flows



For the years ended December 31, 2018 and 2017

<i>in Korean won</i>	<i>Notes</i>	2018	2017
Cash flows from operating activities:	36		
Cash generated from operations	₩	942,379,411,486 ₩	1,444,909,041,333
Income tax paid		(284,070,364,784)	(339,724,292,686)
Net cash provided by operating activities		658,309,046,702	1,105,184,748,647
Cash flows from investing activities:			
Interest received		10,113,048,113	44,984,466,353
Dividends received		79,497,550,035	90,251,649,065
Proceeds from sale of property, plant and equipment		30,355,195,608	4,287,567,414
Proceeds from sales of intangible assets		550,864,000	1,350,486,000
Disposal of fair value through profit or loss		817,326,727,895	-
Disposal of fair value through other comprehensive income or loss		1,152,600,000	-
Disposal of available-for-sale financial assets		-	22,600,024,439
Disposal of investment in associated company		5,024,535,939	7,318,754,972
Disposal of investment in subsidiary		-	17,723,668,000
Collection of loans		18,923,650,695	13,245,195,316
Withdrawal of guarantee deposits		107,786,000	4,888,641,755
Acquisition of property, plant and equipment		(344,249,781,670)	(247,394,859,158)
Acquisition of intangible assets		(4,919,267,612)	(2,000,235,721)
Acquisition of subsidiary		(44,569,990,408)	(97,201,843,321)
Acquisition of associated company		(30,500,000,000)	(1,000,000,000)
Acquisition of available-for-sale financial assets		-	(89,612,912,000)
Acquisition of fair value through profit or loss		(62,500,000,000)	-
Increase in loans		(5,790,880,934)	(9,809,100,000)
Increase in guarantee deposits		(2,000,076,065)	(5,473,906,906)
Increase in long-term deposits in MSA Escrow Fund		(72,399,032,390)	(72,040,082,771)
Increase in other financial assets, net		(390,596,920,000)	(271,035,878,762)
Net cash used in investing activities		5,526,009,206	(588,918,365,325)
Cash flows from financing activities:	36		
Payments of dividends		(505,060,508,000)	(454,554,457,200)
Net cash used in financing activities		(505,060,508,000)	(454,554,457,200)
Net increase in cash and cash equivalents		158,774,547,908	61,711,926,122
Cash and cash equivalents at January 1		589,765,862,776	528,371,808,155
Effect of exchange rate fluctuation on cash held		(417,087,165)	(317,871,501)
Cash and cash equivalents at December 31	₩	748,123,323,519 ₩	589,765,862,776

"The accompanying notes are a part of the Separate financial statements."

KT&G CORPORATION

Notes to the Separate financial statements

For the years ended December 31, 2018 and 2017

1. Reporting Entity

1-1. Overview of the Parent Company

KT&G Corporation (the “Company”), which is engaged in manufacturing and selling tobaccos, was established on April 1, 1987, as Korea Monopoly Corporation, a wholly owned enterprise of the Korean government pursuant to the Korea Monopoly Corporation Act, in order to secure financing and to promote and develop, through efficient management, the monopoly business of red ginseng and tobacco. As of June 30, 2018, the 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 Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

On April 1, 1989, the 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 Company was excluded from the application of the Act for the Management of Government Invested Enterprises. Accordingly, the 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 split the Company into two companies by setting up a subsidiary for its red ginseng business segment effective January 1, 1999. The separation was accomplished by the Company’s contribution of the assets and liabilities in the red ginseng business segment into a wholly owned subsidiary, Korea Ginseng Corporation. On December 27, 2002, the 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 Company to the public during 1999, and the Company listed its shares on the Korea Exchange on October 8, 1999. On October 17, 2002, and October 31, 2001, the 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 Company) on the Luxembourg Stock Exchange pursuant to the Korean government’s privatization program. Also, on June 25, 2009, the listing market of the Company’s GDR was changed from the BdL market to the Euro MTF in the Luxembourg Stock Exchange.

The ownership of the Company’s ordinary shares as of December 31, 2018, is held as follows:

	Number of shares	Percentage of Ownership
National Pension Service	13,661,781	9.95%
Industrial Bank of Korea	9,510,485	6.93%
Employee Share Ownership Association	2,853,047	2.08%
Treasury shares	11,027,370	8.03%
Others	100,239,814	73.01%
Total	137,292,497	100.00%

2. Significant Accounting Policies

2-1. Basis of Preparation

The separate financial statements of the Company have been prepared in accordance with Korean International Financial Reporting Standards (“K-IFRS”). These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The preparation of separate financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 2.4.

The separate financial statements of the Parent Company were authorized by the board of directors on the Board of Directors’ meeting held on March 14, 2019. It is expected to be finally authorized at the stakeholders’ meeting on March 29, 2019.

2-2. Changes in Accounting Policies and Disclosures

(1) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018.

- Amendment to K-IFRS No. 1028 Investments in Associates and Joint Ventures

It is clarified that an investment interest in associates or joint ventures held by venture capital organizations or mutual funds can be selected for each share if the investment is valued at fair value rather than the equity method. Since the exemption does not apply to venture capital organizations, etc., there is no significant effect on the financial statements of those amendments.

- Amendment to K-IFRS No. 1040 Transfers of Investment Property

The amendment to K-IFRS No. 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and the list of evidence for a change of use in the standard was re-characterized as a non-exclusive list of example. The amendment does not have a significant impact on the financial statements.

- Amendment to K-IFRS No. 1102 Share-based Payment

Amendments to K-IFRS No. 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendment does not have a significant impact on the financial statements.

- Enactment of Interpretation 2122 Foreign Currency Transaction and Advance Consideration

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

- K-IFRS No. 1109 Financial Instruments

The Company has applied K-IFRS No. 1109 Financial Instruments on January 1, 2018, the date of initial application. In accordance with the transitional provisions in K-IFRS No. 1109, comparative figures have not been restated, and the differences between previous book amounts and book amounts at the date of initial application are recognized to retained earnings (or equity). See Note 37 for further details on the impact of the application of the standard.

- K-IFRS No. 1115 Revenue from Contracts with Customers

The Company has applied to apply K-IFRS No. 1115 Revenue from Contracts with Customers. In accordance with the transition provisions in K-IFRS No. 1115, comparative figures have not been restated. The Company elected the modified retrospective approach, and recognized the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings (or equity) as at January 1, 2018, the period of initial application. See Note 37 for further details on the impact of the application of the standard.

(2) New standards and interpretations not yet adopted by the Company

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2018 and have not been early adopted by the Company are set out below.

- K-IFRS No. 1116 Leases

K-IFRS No. 1116 Leases issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace K-IFRS No. 1017 Leases. The Company will apply the standards for annual periods beginning on or after January 1, 2019.

Under the new standard, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

The Company performed an impact assessment to identify potential financial effects of applying K-IFRS No. 1116. The Company is analyzing the effects on the financial statements based on available information as at December 31, 2018 to identify effects on 2018 financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analysis is complete.

- K-IFRS No. 1109 Financial Instruments

The narrow-scope amendments made to K-IFRS No. 1109 Financial Instruments enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted.

- Amendments to K-IFRS No. 1019 Employee Benefits

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendments are effective for plan amendments, curtailments and settlements occurring in reporting periods that begin on or after January 1, 2019.

- Amendments to K-IFRS No. 1028 Investments in Associates and Joint Ventures

The amendments clarify that an entity shall apply K-IFRS No. 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted. In accordance with the transitional provisions in K-IFRS No. 1109, the restatement of the comparative information is not required and the cumulative effects of initially applying the amendments retrospectively should be recognized in the beginning balance of retained earnings (or other components of equity, as appropriate) at the date of initial application.

- Enactment to Interpretation of K-IFRS No. 2123 Uncertainty over Income Tax Treatments

The Interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. This Interpretation will be applied for annual periods beginning on or after January 1, 2019, and an entity can either restate the comparative financial statements retrospectively or recognize the cumulative effect of initially applying the Interpretation as an adjustment in the beginning balance at the date of initial application.

- Annual Improvements to K-IFRS No. 2015 – 2017 Cycle:

• K-IFRS No. 1103 Business Combination

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation. These amendments will be applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

• K-IFRS No. 1111 Joint Agreements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured. These amendments will be applied to transactions in which an entity obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

• K-IFRS No. 1012 Income Tax

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. These amendments will be applied for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted.

• K-IFRS No. 1023 Borrowing Costs

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings. These amendments will be applied to borrowing costs incurred on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

The Company expects that no significant effects will occur on the financial statements resulting from amendments other than K-IFRS No. 1116 Leases.

2.3. Accounting Policies

(1) Business Sectors

The Company's financial statements are separate financial statements pursuant to K-IFRS No. 1027. The Company accounts for investments in subsidiaries, associates and joint ventures using the cost method. Dividends received from subsidiaries, associates and joint ventures are recognized in profit or loss when the right to receive dividends is established.

(2) 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 into the Company 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 separate statements 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 Company's assets are as follows:

Type	Useful lives(years)
Buildings	10-60
Structures	10-40
Machinery	10-12
Vehicles	4
Tools	4
Equipment	4
Other tangible assets	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 separate statements of comprehensive income.

(3) Borrowing Costs

The Company 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 Company borrows funds specifically for obtaining a qualifying asset, the Company 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 Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for obtaining a qualifying asset, the Company 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 Company that are outstanding during the period, other than borrowings made specifically for obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

(4) Government Subsidies

Government subsidies are not recognized, unless there is a reasonable assurance that the Company will comply with the subsidies grant conditions and that the subsidies will be granted.

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

(5) Intangible assets

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(year)
Industrial property rights	10–20 or indefinite
Facility usage rights	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.

(6) 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 into the Company 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.

(7) 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 impairment loss is recognized immediately in profit or loss if the fair value of the asset is impaired and the impairment loss is recognized in profit or loss if the fair value less costs can be reliably estimated. However, deferred income tax assets and liabilities arising from employee benefits are recognized in accordance with the K-IFRS No. 1039 Financial Instruments: Recognition and Measurement.

If the non-current asset is classified as held for sale or is part of a disposal group classified as held for sale, the asset is not amortized.

(8) 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	Total-average method
Processed tobacco leaf and tobacco leaf in raw material	Total-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 valuation 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.

(9) Impairment of Non-Financial Assets

The carrying amounts of the Company'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 Company estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Company 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 with respect to 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.

(10) Financial Assets (Other than Derivative Instruments)

① Classification

From January 1, 2018, the Company classifies its financial assets in the following measurement categories:

- Those to be measured at fair value through profit or loss
- Those to be measured at fair value through other comprehensive income, and
- Those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Company reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

② Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

- Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into one of the following three measurement categories:

- A. Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.
- B. Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.
- C. Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'finance income or cost' in the year in which it arises.

- Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments, which are held for long-term investment or strategic purpose, in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'finance income' when the right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'finance income or cost' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

③ Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and lease receivables, the Company applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables.

④ Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as “borrowings” in the statement of financial position

⑤ Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(11) Derivative Instruments

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.

(12) 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 Company 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.

(13) 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 Company during an accounting period, the Company 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 Company during a period, the Company 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 Company 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 Company, 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 Company 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 Company 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 Company can no longer withdraw the offer of those benefits or when the Company 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.

(14) Provisions

Provisions are recognized when the Company 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.

(15) 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 Company 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 Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(16) Revenue Recognition

The Company'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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company 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 into the Company and the costs incurred or to be incurred with respect to the transaction can be measured reliably.

The Company allows returns under the contract that supplies goods to customers, so the revenue from customers may change. The Company 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 into the Company, 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 Company provides logistics services according to the contract signed with customers. The Company 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 Company 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 Company 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 No. 1115.

The Company 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 Company 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 Company pays sales commission in relation to the sales contract of real estate for residence. When the Company 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 on a straight-line basis over the period of lease.

(17) 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 Master Settlement Agreement(called the “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 Company’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.

(18) Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, the Company recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

(19) Functional and presentation currency

The Company's financial statements are prepared in Korean won, the currency of the main economic environment in which the Company operates.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in other comprehensive income if they relate to qualifying cash flow hedges and qualifying effective portion of net investment hedges, or are attributable to monetary part of the net investment in a foreign operation.

Foreign exchange gains and losses are presented in the statement of profit or loss within 'other income or other expenses'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

(20) Earnings per Share

The Company 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.

(21) Business Sectors

The business sector is an identifiable component of the business activities that generate revenue and generate expenses, and the company separates the sectors based on internal reporting data periodically reviewed by the chief operating decision maker for making decisions and assessing performance of the resources to be allocated to the segment. In accordance with K-IFRS No. 1108 'Business Sectors', the Company has disclosed in its separate financial statements the disclosures relating to operating segments.

(22) Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of lease.

Leases where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost.

If the Company is a lessor, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

(23) Emission Rights

The Company 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 Company 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.

(24) Current Arrangement of Separate financial statements

The Company has changed the order of current arrangement of separate financial statements in order to provide reliable information suitable to the objective. In order to conveniently compare the separate financial statements in the previous term and the separate 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.

2.4. Critical Accounting Estimates and Assumptions

The preparation of separate financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

(1) Income taxes

The Company's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 30).

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the Tax System For Recirculation of Corporate Income, the Company is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(2) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 33).

(3) Impairment of financial assets

The provision for impairment for financial assets is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (Note 33).

(4) Net defined benefit liability

The present value of the net defined benefit liability is affected by changes in the discount rate, especially the various factors determined by the actuarial method. (Refer Note 20)

(5) Revenue recognition

A refund liability and a right to the returned goods are recognized for the products expected to be returned once they are sold. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method), and the Company's revenue is affected by changes in expected return rate.

(6) Total construction revenues and total construction costs

① Uncertainty in gross contract revenue estimates

Total contract revenue is measured on the basis of the contract amount initially agreed, but it decreases when the contract is executed due to the increase in construction change, compensation, incentives or due to delays in completion due to reasons attributable to the separate company. The measurement of contract revenue is subject to various uncertainties related to the outcome of future events. The Company includes in the contract revenue if the customer is more likely to approve the change in the amount of the revenues due to a change in the construction or if the Company is more likely to meet its performance criteria and can measure the amount reliably. (Note 26)

② Estimated total construction cost

The amount of construction revenues is affected by progress based on the cumulative incurred contract costs, and the total contract cost is estimated based on future estimates such as material cost, labor cost and construction period. (Note 26)

3. Operating Segments

The company is profitable by transferring goods and services over time or at a point in time in the following major business lines. The division of major business lines is consistent with the revenue disclosure information by reporting segment in accordance with K-IFRS No. 1108.

<i>In millions of Korean Won</i>			2018	2017
Revenue recognized at a point in time				
Manufacture and sales of tobacco	Korea	Wholesale, retail, etc.	₩1,544,128	₩1,600,896
		Special (duty free, etc.)	195,725	197,302
	Export	Wholesale, retail, etc.	536,625	878,498
Sales of tobacco product	Korea	Wholesale, retail, etc.	87,587	-
		Special (duty free, etc.)	8,264	-
		Direct sales	2,102	-
Manufacture and sale of semifinished tobacco products	Export	Subsidiaries, etc.	56,406	60,919
Manufacture and sales of tobacco raw materials	Korea	Direct sales	7,060	52,640
	Export	Direct sales	9,488	9,908
Others	Korea	Direct sales	1,277	9,923
Subtotal			2,448,662	2,810,086
Revenue recognized over time:				
Sale and rental of real estate	Korea	Sales	118,698	135,216
	Korea	Rental	57,256	54,786
Subtotal			175,954	190,002
Total			₩2,624,616	₩3,000,088

4. Cash and Cash Equivalents and other Financial Assets

4-1. Cash and cash equivalents as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018	2017
Cash on hand	₩251	₩705
Demand deposits	246,310	104,120
Specific money in trust	501,562	484,941
Total	₩748,123	₩589,766

4-2. Current other financial assets as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018		2017	
	Current	Non-current	Current	Non-current
Time deposits	₩570,000	₩6,937	₩150,000	₩6,340
Special money intrust	-	-	1,867,686	-
Certificate of deposit	-	-	30,000	-
Total	₩570,000	₩6,937	₩2,047,686	₩6,340

4-3. Current other financial assets limited to use as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018	2017
Long-term other financial assets		
Real estate development performance guarantee	₩6,340	₩6,340
Security Deposits for rental	597	-
Total	₩6,937	₩6,340

5. Financial Assets at Fair Value through Profit or Loss

As explained in Note 3, the Company 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 separate financial statements.

5-1. Financial assets¹⁾ at fair value through profit or loss

<i>In millions of Korean Won</i>	2018		2017	
	Current	Non-current	Current	Non-current
Special money trust	₩1,139,705	₩ -	₩1,867,686	₩ -
Beneficiary certificate of real estate	-	210,655	-	184,169
Total	₩1,139,705	₩210,655	₩1,867,686	₩184,169

¹⁾ 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.

5-2. Amounts recognized in profit or loss

<i>In millions of Korean Won</i>	2018	2017
Gains or losses on disposals related to the measurements at fair value through profit or loss ¹⁾	₩53,646	₩ -

¹⁾ Includes profit or loss of money trust recognized in cash and cash equivalents

6. Derivative Financial Assets

6-1. Derivative financial assets as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018		2017	
	Current	Non-current	Current	Non-current
Currency forward :				
Derivative assets	₩1,239	₩ -	₩ -	₩ -
Derivative liabilities	(461)	-	-	-
Total	₩778	₩ -	₩ -	₩ -

6-2. Changes in derivative financial assets for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Beginning balance	₩ -	₩ -
Valuation gain	1,239	-
Valuation loss	(461)	-
Ending balance	₩778	₩ -

7. Trade and Other Receivables

7-1. Trade and other receivables as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018		2017	
	Current	Non-current	Current	Non-current
Loans to employees	₩16,816	₩28,428	₩17,048	₩35,931
Loans	2,477	16,688	7,982	21,978
Other receivables	17,039	9,829	19,936	12,320
Guarantee deposits	25,891	20,149	27,852	16,837
Accrued income	6,821	-	7,734	-
Trade receivables	661,851	44,194	817,659	44,066
Total	₩730,895	₩119,288	₩898,211	₩131,132

7-2. Trade and other receivables and allowance for doubtful accounts as of December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018		2017	
	Current	Non-current	Current	Non-current
Gross trade and other receivables	₩799,232	₩194,487	₩916,960	₩169,308
Allowances:				
Loans	(255)	(18,386)	-	(11,378)
Other receivables	(253)	(13,947)	(2,090)	(9,256)
Accrued income	(53)	(2,161)	-	(2,072)
Trade receivables	(67,776)	(40,705)	(16,659)	(15,470)
Total allowances	(68,337)	(75,199)	(18,749)	(38,176)
Net trade and other receivables	₩730,895	₩119,288	₩898,211	₩131,132

7-3. Changes in allowance for trade and other receivables for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Beginning balance	₩56,925	₩71,765
Change in accounting policy	87,863	-
Impairment loss (reversal)	₩4,064	₩ (14,840)
Write-off	(5,316)	-
Ending balance	₩143,536	₩56,925

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 separate statements of comprehensive income.

7-4. The details of other bonds measured at amortized cost using the effective interest method as of December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018			2017		
	Effective interest rate	Current	Non-current	Effective interest rate	Current	Non-current
Loans to employees	1.49~5.68%	₩16,816	₩28,428	2.45~5.68%	₩17,048	₩35,931
Guarantee deposits	1.49~5.68%	25,891	20,149	1.49~3.52%	27,852	16,837
Total		₩42,707	₩48,577		₩44,900	₩52,768

8. Inventories

8-1. Inventories as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018			2017		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩35,351	₩ (37)	₩35,314	₩981	₩ -	₩981
Finished goods	80,840	(982)	79,858	57,801	(833)	56,968
Work in progress	14,053	-	14,053	13,611	-	13,611
Raw materials	727,089	-	727,089	716,034	-	716,034
Supplies	24,486	-	24,486	23,176	-	23,176
Byproducts	6,941	-	6,941	5,591	-	5,591
Buildings under construction	280	-	280	-	-	-
Completed buildings	3,069	-	3,069	-	-	-
Sites for construction of real estate	8,990	-	8,990	-	-	-
Goods in transit	54,598	-	54,598	56,030	-	56,030
Total	₩955,697	₩ (1,019)	₩954,678	₩873,224	₩ (833)	₩872,391

8-2. The amount of loss on valuation and disposals of inventories recognized as an expense for the years ended December 31, 2018 and 2017, is as follows

<i>In millions of Korean Won</i>	2018	2017
Cost of sales:		
Loss on valuation of inventories	₩186	₩64
Loss on disposal of inventories	4,091	2,872
Other expenses:		
Loss on disposal of inventories	123	1,040
Total	₩4,400	₩3,976

9. Long term Deposits in MSA Escrow Fund

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

<i>In millions of Korean Won</i>	2018	2017
Demand deposits	₩1,525	₩1,921
T-Note	614,003	508,302
Total	₩615,528	₩510,223

As discussed in Note 35, 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 years ended December 31, 2018 and 2017, ₩72,399 million and ₩72,040 million, respectively, were paid into long-term deposits in MSA Escrow Fund.

10. Financial Assets at Fair value through Other Comprehensive Income(previous term : Available-for-sale Financial Assets)

10-1. Financial assets at fair value through other comprehensive income as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018	2017
Listed		
- Oscotech Inc.	₩11,933	₩8,686
- Shinhan Financial Group Co., Ltd.	158,731	198,013
- Rexahn Pharmaceuticals, Inc	664	1,382
- U&I Corporation	9,277	12,079
Listed total :	180,605	220,160
Non-listed ¹⁾	49,940	233,891
Total	₩230,545	₩454,051

¹⁾ In the previous fiscal year, the Company 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.

When assessing the fair value of financial assets at fair value through other comprehensive income(previous term : Available-for-sale Financial Assets), the Company used market prices traded in the active trading market for listed equity instruments and measured non-listed equity instruments in the cash flow discount model.

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.

10-2. Changes in fair value through other comprehensive income(previous term : Available-for-sale Financial Assets) for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Beginning balance	₩454,051	₩365,805
Change in accounting policy	(184,169)	-
Acquisition	-	89,613
Change in fair value	(38,337)	22,931
Disposal, reclassification	(1,000)	(24,298)
Ending balance	₩230,545	₩454,051

11. Investments in Associates and Joint Ventures

11-1. Investments in associates and joint ventures as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	Location	Principal operation	Date of financial statements used	2018		2017	
				Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Cosmo Tobacco Co., Ltd.	Mongolia	Manufacturing and sales of tobacco	December 31	40.00%	₩ -	40.00%	₩ -
Lite Pharm Tech, Inc.	Korea	Manufacturing medical supplies	December 31	20.24%	1,830	20.24%	1,830
JR REIT V Co., Ltd.	Korea	Renting of real estate	December 31	34.63%	5,600	34.63%	5,600
JR REIT VIII Co., Ltd.	Korea	Renting of real estate	December 31	21.74%	10,000	21.74%	10,000
LSK Global Pharma Services Co., Ltd.	Korea	Researching and developing medicine	December 31	23.15%	-	23.15%	-
JR REIT X Co., Ltd.	Korea	Renting of real estate	December 31	28.79%	9,500	28.79%	9,500
JR REIT XIII Co., Ltd.	Korea	Renting of real estate	December 31	-	-	27.03%	5,000
KB Gimpo Logistics CR REIT Co., Ltd. ¹⁾	Korea	Renting of real estate	December 31	12.00%	3,000	12.00%	3,000
KORAMCO Private REIT 50 Fund ²⁾	Korea	Renting of real estate	December 31	84.21%	16,000	84.21%	16,000
Yong In Jung Sim Co., Ltd.	Korea	Developing real estate	December 31	22.22%	1,000	22.22%	1,000
KORAMCO Europe Private REIT 3-2 Fund ²⁾	Germany	Real estate rental business	December 31	51.35%	18,500	-	-
Starfield Suwon	Korea	Real estate development and rental business	December 31	50.00%	12,000	-	-
Total					₩77,430		₩51,930

¹⁾ It 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.

²⁾ It 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.

In the current term, the Company had made an investment of ₩18,500 million in KORAMCO Europe real estate investment fund III-2, ₩12,000 million in Starfield Suwon,

In the previous term the Company had made an investment of ₩1,000 million in Yong In Jung Sim Co., Ltd.

During the current term, the Company received the remaining assets according to the liquidation procedure of JR REIT XIII Co., Ltd. and recognized ₩25 million in profit from the disposal of investments in associates and joint ventures.

During the previous term, the Company received the remaining assets according to the liquidation procedure of the KVG REIT I Co., Ltd., and recognized the proceeds from the disposal of its investments in associates and joint ventures of ₩19 million.

12. Investment in Subsidiaries

12-1. Investments in subsidiaries as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	Location	Principal Operation	2018		2017	
			Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00%	₩716,148	100.00%	₩716,148
Yungjin Pharm. Co., Ltd.	Korea	Manufacturing and selling pharmaceutical	52.45%	73,299	52.45%	73,299
Tae-a Industry Co., Ltd.	Korea	Manufacturing tobacco materials	100.00%	52,698	100.00%	15,698
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	Manufacturing and selling tobaccos	99.99%	5,727	99.99%	12,741
Korea Tabacos do Brasil Ltda.	Brazil	Processing leaf tobaccos	99.99%	2,891	99.99%	2,891
KT&G Pars	Iran	Manufacturing and selling tobaccos	99.99%	-	99.99%	-
KT&G Rus L.L.C.	Russia	Manufacturing and selling tobaccos	100.00%	89,296	100.00%	110,297
KT&G USA Corporation	USA	Selling tobaccos	100.00%	4,913	100.00%	4,913
Cosmococ Co., Ltd.	Korea	Manufacturing and selling cosmetics	98.56%	34,459	98.56%	56,581
Renzoluc Pte., Ltd. ¹⁾	Singapore	Holding Company	100.00%	148,834	100.00%	148,834
KGC Yebon Corporation	Korea	Manufacturing and selling medical herbs	100.00%	45,982	100.00%	49,828
PT KT&G Indonesia	Indonesia	Selling tobaccos	99.99%	1,240	99.99%	1,240
SangSang Stay, Inc.	Korea	Hotel	100.00%	5,092	100.00%	14,261
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00%	1,212	100.00%	1,497
Gwacheon SangSang P.F.V.	Korea	Renting real estate	51.00%	3,570	-	-
Total				₩1,185,361		₩1,208,228

¹⁾ The percentage of ownership does not include convertible preference shares, with 88.6% including preferred shares as of the end of the current term.

During the current term, the Company acquired 714,000 shares for ₩3,570 million by participating in the founding of Gwacheon Sangsang PFV.

During the current term, the Company acquired 691,356 shares for ₩37,000 million by participating in a paid-in capital increase in the share allocation of Tae-a Industry Co., Ltd.

During the current term, the Company acquired 800,000 shares for ₩4,000 million by participating in a paid-in capital increase in the share allocation of Sangsang Stay Inc.

During the previous term, the Company acquired 25,641,958 shares for ₩97,202 million by participating in the paid-in capital increase of Renzoluc Pte Co., Ltd. and added 13,151,932 shares by converting ₩47,489 million in loans from subsidiaries into equity.

During the previous term, the company made an in-kind investment of all shares of K&I HK Co., Ltd. and K&I China Co., Ltd. to Cosmococ Co., Ltd. As a result, the Company's share of shares in Cosmococ Co., Ltd. increased from 98.49% to 98.56%.

This in-kind investment has no discernible effect on the Company's economic aspects, and the Company has acquired the cost of its additional Cosmococ Co., Ltd. shares in kind, K&I HK Co., Ltd. and K&I China Co., Ltd. measured by the carrying amount of the shares.

In the previous term, the subsidiary of the Company, KT&G Life Sciences Corporation, was absorbed into Yungjin Pharm. Co., Ltd. as of January 13, 2017. The difference of ₩8,908 million from the carrying amount of KT&G Life Sciences Corporation shares and the fair value of the stocks received from the merger was recognized as a loss on investment in subsidiaries.

During the previous term, the remaining assets of K-Q HongKong I, Limited were distributed, and ₩37 million was recognized for disposal of subsidiary investments.

12-2. Impairments:

The Company is conducting a review of the signs of impairment for its subsidiary investments, and if any signs of impairment are found, the Company would conduct an impairment test by estimating the recoverable amount.

As the carrying amount of the subsidiary's net assets is less than the carrying amount of the subsidiary's investment shares due to the accumulation of operating losses during the current term, the results of the impairment test for the subsidiaries are as follows:

<i>In millions of Korean Won</i>	Impairment amount	Method for evaluating recoverable amount
KT&G Rus L.L.C.	₩21,001	Discounted cash flow
KT&G Global Rus L.L.C.	285	Discounted cash flow
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	7,014	FV
Cosmococ Co., Ltd.	22,122	FV
KGC Yebon Corporation	3,846	FV
SangSang Stay, Inc.	₩13,169	FV

The value of use and fair value of subsidiary investments were assessed as recoverable amount when carrying out the impairment test, and the estimate of recoverable amount reflects management's assessment of future trends in the industry and is based on internal and external historical data.

On the other hand, fair value has been assessed using the adjusted net asset method and is classified into Level 3 based on the inputs used in the valuation technique in the fair value hierarchy.

In relation to KT&G Rus L.L.C. and KT&G Global Rus L.L.C., recoverable amount was measured as value in use as the fair value of the asset cannot be reliably estimated. Future cash flows for measuring value in use were estimated based on the Company's past operating performance and future business plans, and subsequent cash flows were estimated using a 1% permanent growth rate. The discount rate for measuring value in use was estimated to be 14.88% of the weighted average capital expense adjusted to reflect the risks specific to the asset.

13. Property, Plant and Equipment

13-1. Details of property, plant and equipment as of December 31, 2018 and 2017, are summarized as follows

<i>In millions of Korean Won</i>	2018			2017		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩497,249	₩ -	₩497,249	₩474,067	₩ -	₩474,067
Buildings	721,112	(377,566)	343,546	713,395	(356,312)	357,083
Structures	45,955	(34,527)	11,428	45,867	(32,937)	12,930
Machinery	989,507	(804,177)	185,330	986,214	(798,513)	187,701
Vehicles	1,569	(1,202)	367	1,791	(1,379)	412
Tools	36,306	(31,938)	4,368	34,827	(30,080)	4,747
Equipment	148,800	(113,565)	35,235	134,394	(97,545)	36,849
Others	3,804	(53)	3,751	1,594	-	1,594
Construction in progress	119,633	-	119,633	96,392	-	96,392
Total	₩2,563,935	₩ (1,363,028)	₩1,200,907	₩2,488,541	₩ (1,316,766)	₩1,171,775

13-2. Changes in property, plant and equipment for the year ended December 31, 2018, are as follows:

<i>In millions of Korean Won</i>	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification	Others ¹⁾	Ending balance
Land	₩474,067	₩43,018	₩ (345)	₩ -	₩79,117	₩ (98,608)	₩497,249
Buildings	357,083	29,612	(658)	(24,945)	98,039	(115,585)	343,546
Structures	12,930	227	(10)	(2,043)	202	122	11,428
Machinery	187,701	18,536	(3,138)	(37,402)	37,910	(18,277)	185,330
Vehicles	412	128	-	(173)	-	-	367
Tools	4,747	1,803	(160)	(2,394)	372	-	4,368
Equipment	36,849	14,277	(18)	(17,740)	1,686	181	35,235
Others	1,594	1,431	-	(53)	-	779	3,751
Construction in progress	96,392	251,322	(13)	-	(217,326)	(10,742)	119,633
Total	₩1,171,775	₩360,354	₩ (4,342)	₩ (84,750)	₩ -	₩ (242,130)	₩1,200,907

¹⁾ Other increases include ₩191,533 million in land, buildings and structures replaced by investment property during the current term, ₩27,794 million in land, machinery and assets under construction that were replaced by assets held for sale, and ₩7,223 million in impairment losses for land and construction assets.

13-3. Changes in property, plant and equipment for the year ended December 31, 2017, are as follows:

<i>In millions of Korean Won</i>	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification	Others ¹⁾	Ending balance
Land	₩384,716	₩4	₩ (245)	₩ -	₩123,369	₩ (33,777)	₩474,067
Buildings	353,952	2,656	(332)	(25,392)	26,882	(683)	357,083
Structures	14,480	380	(47)	(2,003)	123	(3)	12,930
Machinery	207,199	5,499	(2,740)	(42,542)	20,285	-	187,701
Vehicles	360	236	(12)	(172)	-	-	412
Tools	5,355	1,468	(86)	(2,441)	451	-	4,747
Equipment	42,306	12,054	(112)	(18,379)	980	-	36,849
Others	1,681	13	(100)	-	-	-	1,594
Construction in progress	29,906	223,784	-	-	(172,090)	14,792	96,392
Total	₩1,039,955	₩246,094	₩ (3,674)	₩ (90,929)	₩ -	₩ (19,671)	₩1,171,775

¹⁾ Other increases include ₩21,286 million in land, buildings and structures that were replaced by investment properties during the prior term.

14. Intangible Assets

14-1. Details of intangible assets as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018			2017		
	Acquisition cost	Accumulated amortization and impairment	Carrying amount	Acquisition cost	Accumulated amortization and impairment	Carrying amount
Industrial property rights	₩7,211	₩ (3,671)	₩3,540	₩8,554	₩ (5,455)	₩3,099
Facility usage rights	26,094	-	26,094	23,822	-	23,822
Intangible assets under development	1,695	-	1,695	314	-	314
Total	₩35,000	₩ (3,671)	₩31,329	₩32,690	₩ (5,455)	₩27,235

14-2. Changes in intangible assets for the year ended December 31, 2018, are as follows:

<i>In millions of Korean Won</i>	Beginning balance	Acquisition	Disposal	Amortization	Reclassification	Damaged loss	Ending balance
Industrial property rights	₩3,099	₩ -	₩ (6)	₩ -	₩510	₩ (63)	₩3,540
Facility usage rights	23,822	3,029	(557)	(200)	-	-	26,094
Intangible assets under development	314	1,891	-	-	(510)	-	1,695
Total	₩27,235	₩4,920	₩ (563)	₩ (200)	₩ -	₩ (63)	₩31,329

14-3. Changes in intangible assets for the year ended December 31, 2017, are as follows:

<i>In millions of Korean Won</i>	Beginning balance	Acquisition	Disposal	Amortization	Reclassification	Damaged loss	Ending balance
Industrial property rights	₩2,162	₩226	₩ (10)	₩ -	₩762	₩ (41)	₩3,099
Facility usage rights	23,206	1,300	(922)	595	(357)	-	23,822
Intangible assets under development	3,560	474	(2,958)	-	(762)	-	314
Total	₩28,928	₩2,000	₩ (3,890)	₩595	₩ (357)	₩ (41)	₩27,235

14-4. Research and development expenditures recognized as expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Cost of sales	₩135	₩150
Selling, general and administrative expenses	17,764	15,931
Total	₩17,899	₩16,081

15. Investment Property

15-1. Details of investment property as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018			2017		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩286,687	₩ -	₩286,687	₩200,286	₩ -	₩200,286
Buildings	386,971	(89,625)	297,346	280,302	(79,890)	200,412
Construction in progress	22,646	-	22,646	25,923	-	25,923
Total	₩696,304	₩ (89,625)	₩606,679	₩506,511	₩ (79,890)	₩426,621

15-2. Changes in investment property for the year ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018				2017			
	Land	Buildings	Construction in progress	Total	Land	Buildings	Construction in progress	Total
Beginning balance	₩200,286	₩200,412	₩25,923	₩426,621	₩166,510	₩210,433	₩39,099	₩416,042
Depreciation	-	(11,359)	-	(11,359)	-	(10,707)	-	(10,707)
Reclassified from the Property, Plant and Equipment	86,401	108,293	(3,161)	191,533	33,776	686	(13,176)	21,286
Others	-	-	(116)	(116)	-	-	-	-
Total	₩286,687	₩297,346	₩22,646	₩606,679	₩200,286	₩200,412	₩25,923	₩426,621

15-3. details of profit or loss recognized related to the investment property for the years ended december 31, 2018 and 2017, are summarized as follows

<i>In millions of Korean Won</i>	2018	2017
Rental income	₩57,255	₩45,505
Direct operating expense	(11,359)	(10,707)
Total	₩45,896	₩34,798

15-4. The carrying amount and the fair value of investment property as of December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018		2017	
	Fair value	Carrying amount	Fair value	Carrying amount
Land	₩914,556	₩286,687	₩819,756	₩200,286
Buildings	388,704	297,346	291,122	200,412
Construction in progress	22,646	22,646	25,923	25,923
Total	₩1,325,906	₩606,679	₩1,136,801	₩426,621

The fair value of the major investment property was determined by the value measured by an independent valuation institution, such as the Return on Revenue method, and was classified as Level 3 fair value based on the inputs used in the valuation technique.

If fair value cannot be measured reliably, the details of investment property that is deemed to be fair value are as follows:

<i>In millions of Korean Won</i>	Type	Carrying amount	The reason why fair value cannot be measured reliably
Sejong 1-5, P2	Land	₩33,528	Asset under construction in progress
	Construction in progress	21,335	
Sejong 1-5, P3	Land	41,747	The site market is not active. No recent transactions
	Buildings	81,850	
Suwon Hwaseo Prugio shopping mall	Construction in progress	1,311	Asset under construction in progress
Total		₩179,771	

16. Assets held for sale

16-1. Changes in non-current assets held for sale for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Beginning balance	₩ -	₩ -
Transfer from property, plant and equipment	27,794	-
Ending balance	₩27,794	₩ -

During the current term, the Company had made a land contract with Starfield Suwon and had received the down payment of ₩16,020 million from the total ₩160,200 million. The ownership of this land will be transited upon the payment of the balance, which will be on the date of the commencement of the construction work.

Reconstituted tobacco factory(manufacturing slurry reconstituted tobacco) machinery equipment and assets under construction will be transferred to Tae-a Industry Co., Ltd. in the first half of 2019.

17. Pledged Assets

17-1. Assets pledged as collateral as of December 31, 2018 are summarized as follows:

<i>In millions of Korean Won</i>	Carrying amount	Type	Received amount	Collateralized amount	Collateral holder
Investment Property	₩337,988	Leasehold deposits received	₩18,395	₩19,665	Metlife Insurance Korea Co., Ltd., etc.
Property, Plant and Equipment	22,740	Right to collateral security and lease	3,081	3,493	Korea Workers' Compensation & Welfare Service, etc.
Other financial assets	6,340	Performance bond	-	6,340	Korea Land & Housing Corporation
	597	Rental deposit	597	597	Samsungfire
Total	₩367,665		₩22,073	₩30,095	

17-2. Assets pledged as collateral as of December 31, 2017 are summarized as follows:

<i>In millions of Korean Won</i>	Carrying amount	Type	Received amount	Collateralized amount	Collateral holder
Investment Property	₩148,810	Leasehold deposits received	₩12,982	₩13,889	Metlife Insurance Korea Co., Ltd., etc.
Property, Plant and Equipment	24,601	Right to collateral security and lease	3,104	3,493	Korea Workers' Compensation & Welfare Service, etc.
Other financial assets	6,340	Performance bond	-	6,340	Korea Land & Housing Corporation
Total	₩179,751		₩16,086	₩23,722	

18. Short-term borrowings

We provide payment guarantees to financial institutions in accordance with the consumer financial agreement in connection with retail sales receivables, and receive related bonds from financial institutions and recognize them as short-term borrowings. Details of the short-term borrowings as of December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	Annual interest rate	2018	2017
Nonghyup Bank	5.95%	₩985	₩1,660
Hanacard	CD distribution yield (91 days) + 2.5%	261	299
Total		₩1,246	₩1,959

19. Trade and Other Payables

19-1. Trade and other payables as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018		2017	
	Current	Non-current	Current	Non-current
Leasehold deposits received	₩22,341	₩14,549	₩23,189	₩9,565
Trade payables	31,585	-	39,747	-
Withholdings	3,826	-	4,336	-
Value-added deposit	156,488	-	148,065	-
Accrued expenses	126,563	17,613	129,086	12,090
Unpaid money	57,279	6,990	47,619	-
Total	₩398,082	₩39,152	₩392,042	₩21,655

20. Retirement Benefit Plan

20-1. Details of profit or loss recognized related to retirement benefits for the years ended December 31, 2018 and 2017, are as follows

<i>In millions of Korean Won</i>	2018	2017
Defined benefit plans:		
Current service cost	₩25,751	₩26,696
Net interest on net defined benefit liability	485	943
Subtotal	26,236	27,639
Defined contribution plan:		
Contributions recognized as expense	6,228	6,465
Other long-term employee benefits:		
Current service cost	6,600	12,090
Total	₩39,064	₩46,194

During the current term, the Company recognized termination benefits of ₩1,825 million due to voluntary retirement which did not occur in the previous term.

20-2. Net defined benefit liabilities for the years ended December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018	2017
Beginning balance	₩19,084	₩47,121
Current service cost	25,751	26,696
Net interest on net defined benefit liability	485	943
Re-measurement element of net defined benefit liability(before tax)	26,730	(16,114)
Payment amount (including related company in-outs)	(305)	(1,562)
Payment of plan assets	(36,908)	(38,000)
Ending balance	₩34,837	₩19,084
Separate Statements of financial position:		
Present value of defined benefit obligation	₩327,518	₩283,055
Fair value of plan assets	(292,681)	(263,971)
Total	₩34,837	₩19,084

20-3. Changes in the present value of the defined benefit obligation for the years ended December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018	2017
Beginning balance	₩283,055	₩278,612
Current service cost	25,751	26,696
Interest expenses	7,762	5,399
Re-measurement element(before tax)	24,019	(16,555)
Payment amount (including related company in-outs)	(13,069)	(11,097)
Ending balance	₩327,518	₩283,055

20-4. Changes in the fair value of payment of plan assets for the years ended December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018	2017
Beginning balance	₩263,971	₩231,491
Interest income	7,277	4,456
Re-measurement element(before tax)	(2,711)	(441)
Payment amount (including related company in-outs)	(12,764)	(9,535)
Payment of plan assets	36,908	38,000
Ending balance	₩292,681	₩263,971

The actual interest revenue from plan assets during the current term and the prior term is ₩4,566 million, and ₩4,015 million, respectively.

20-5. Changes in the present value of other long-term employee benefits for the years ended December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018	2017
Beginning balance	₩12,090	₩ -
Current service cost	1,100	-
Interest cost	331	-
Re-measurement element(before tax)	5,169	12,090
Payment amount	(1,077)	-
Ending balance	₩17,613	₩12,090

20-6. Remeasurements recognized in other comprehensive income for the years ended December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018	2017
Actuarial gains and losses on defined benefit obligations:		
Changes in demographic assumptions	₩(9,287)	₩ -
Changes in financial assumptions	(13,047)	21,475
Changes in experience adjustments	(1,685)	(4,920)
Subtotal	(24,019)	16,555
Revenue from plan assets, excluding amounts included in net interest	(2,711)	(441)
Re-measurement element of net defined benefit liability(before tax)	(26,730)	16,114
Tax effect	7,351	(914)
Re-measurement element of net defined benefit liability(after tax)	₩(19,379)	₩15,200

20-7. The fair value of each of the major types included in the fair value of plan assets as of December 31, 2018 and 2017, is as follows:

<i>In millions of Korean Won</i>	2018	2017
Regular deposits and cash equivalents	₩ 1	₩ 1
Principal and interest guarantee financial assets	292,680	263,970
Total	₩292,681	₩263,971

20-8. The major assumptions used for actuarial evaluation as of December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Discount rate	2.37%	2.85%
Expected wage increase rate	4.53%	4.50%

To calculate the present value of the defined benefit obligation, the Company decided the discount rate by referring to the market rate of return on high-quality corporate bonds consistent with the currency and the expected payment period of the defined benefit obligation as of the end of the reporting period.

The weighted average maturity of the defined benefit obligation as of the end of the current term and the previous term is 9.90 years and 8.71 years, respectively.

20-9. The results of the analysis of the sensitivity of the defined benefit obligation to the major actuarial assumptions as of December 31, 2018, are as follows:

<i>In millions of Korean Won</i>	Increase by 1%	Decrease by 1%
Changes in discount rate	₩(29,446)	₩34,157
Changes in expected wage increase rate	33,082	(29,156)

The increase (decrease) of the defined benefit obligation was calculated based on the present value of the defined benefit obligation as of the end of the current term.

21. Refund Liabilities and Provisions

21-1. The details of refund liabilities and provisions as of December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018		2017	
	Current	Non-current	Current	Non-current
Provision for refund	₩2,958	₩181	₩ -	₩3,086
Provision for guarantee	3,497	-	-	-
Provision for site restoration	-	104	-	-
Provision for financial guarantee	-	700	-	-
Total	₩6,455	₩985	₩ -	₩3,086

21-2. The details of refunds and provisions for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018				2017			
	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance
Provision for refund	₩3,086	₩3,023	₩2,970	₩3,139	₩ -	₩3,086	₩ -	₩3,086
Provision for guarantee	-	5,508	2,011	3,497	-	-	-	-
Provision for site restoration	-	104	-	104	-	-	-	-
Provision for financial guarantee	-	755	55	700	-	-	-	-
Total	₩3,086	₩9,390	₩5,036	₩7,440	₩ -	₩3,086	₩ -	₩3,086

22. Share Capital and Other Capital Surplus

22-1. Details of share capital and other capital surplus as of December 31, 2018 and 2017, are as follows: There is no change in following details during the current and previous terms.

Type	Amount
Number of Authorized shares	800,000,000shares
Amount per share	₩5,000
Issued	137,292,497shares
Share capital	₩954,959 million
Other capital surplus	₩3,582 million

As 53,699,400 shares of the Parent Company have been written off in profit, there is a difference of ₩268,497 million between the total face value of the equity and the issued shares.

23. Treasury Shares and Earning from disposal of Treasury Shares

23-1. Details of treasury shares and earnings from disposal of treasury shares as of December 31, 2018 and 2017, are as follows: There is no change in following details during the current and previous terms.

Type	Amount
Number of treasury shares	11,027,370shares
Treasury shares	₩(328,157) million
Earnings from disposal of treasury shares	₩513,776 million

24. Reserves

24-1. Details of reserves as of December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	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)	₩(66,114)	₩ (1,812)
Statutory reserve	602,937	602,937
Discretionary reserve	4,893,211	4,408,176
Total	₩5,430,034	₩5,009,301

24-2. Details of other comprehensive income(loss) - financial assets measured at fair value-net change in fair value as(Previous term: Available-for-sale financial assets-net change in fair value) as of December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Other comprehensive income (loss)-net change in fair value before tax (Previous term: Available-for-sale financial assets-net change in fair value)	₩(91,192)	₩ (2,499)
Tax effect	25,078	687
Other comprehensive income (loss)-net change in fair value after tax (Previous term: Available-for-sale financial assets-net change in fair value)	(66,114)	(1,812)

24-3. The statutory reserve is a profit reserve, and the Korean Commercial Act stipulates that the Company shall set aside more than 10% of the dividend amount of profit from money as profit reserves in the period of each settlement until it reaches 50% of its capital. Such profit reserves shall not be allocated in cash and may be used only for the preservation and capital transfer of deferred losses according to the resolutions of the shareholders' meeting.

24-4. Details of discretionary reserve as of December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	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 2002, the Parent Company had put the tax deduction amount under the Tax Specialization Act as the corporate rationalized reserve, which could only be used to preserve and transfer capital losses. However, the Act on Restriction of Special Taxes was amended on December 11, 2002, and the relevant provisions were deleted at the time of the amendment, so the corporate rationalization reserve was changed to discretionary reserve.

② Reserve for research and human resource development

Under the provisions of the Tax Specialization Restriction Act, the Parent Company deducts research and human resources development reserves through tax report adjustment and reserves them separately when disposing of retained earnings. The amount used for the purpose of the reserve fund and the spent balance can be transferred to the discretionary deposit for use in dividends.

③ Reserve for business expansion

In addition to the above-mentioned reserves, the Parent Company can reserve for business expansion and unconditionally with no particular purpose. These reserves can be used for other purposes according to the resolutions of the shareholders' meeting.

25. Retained Earnings

25-1. Changes in retained earnings of the Company for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Beginning balance	₩990,096	₩1,068,469
Change in accounting policy	(30,393)	-
Dividends	(505,061)	(454,554)
Transfer from reserve for research and human resource development	10,000	10,000
Accumulation of unconditional reserve	(495,035)	(623,915)
Other comprehensive income(loss)-Income(loss) from fair value financial assets disposal	(148)	-
Profit for the year	840,947	974,896
Remeasurements of net defined benefit liability(net of tax)	(19,379)	15,200
Ending balance	₩791,027	₩990,096

25-2. The statement of appropriation of retained earnings of the Company for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018 Expected appropriation schedule : March 29, 2019	2017 Appropriation fixed date : March 16, 2018
1. Unappropriated retained earnings	₩791,027	₩990,096
Unappropriated retained earnings carried over from prior year	-	-
Change in accounting policy	(30,393)	-
Profit(loss) for the year	840,947	974,896
Reclassification of gain on disposal of equity instruments at fair value through other comprehensive income	(148)	-
Remeasurements of net defined benefit liabilities	(19,379)	15,200
2. Transfers to discretionary reserves, etc.	-	10,000
Research and development reserves	-	10,000
Subtotal	791,027	1,000,096
3. Appropriation of retained earnings	(791,027)	(1,000,096)
Dividends (Cash dividend (%):		
Ordinary share	(505,061)	(505,061)
: Current term : ₩4,000(80%),		
: Previous term : ₩4,000(80%)		
Unconditional reserve	₩(285,966)	₩ (495,035)
4. Unappropriated retained earnings to be carried forward	-	-

25-3. Details of dividends paid for the years ended December 31, 2018 and 2017, are as follows:

	2018	2017
Total dividend payments	₩505,061 million	₩454,554 million
Dividend per share	₩4,000	₩3,600
Dividend rate per face value	80%	72%

The dividend per share and total dividend payments for the current period are ₩4,000 and ₩505,061 million, respectively, and will be proposed at the annual shareholders' meeting slated for March 29, 2019. The separate financial statements of the current period do not reflect this dividend payable.

26. Real Estate Sales Contract

26-1. Details of real estate sales contracts under construction as of December 31, 2018, are as follows:

<i>In millions of Korean Won</i>	Construction period	2018	2017
Suwon hwaseo park prugio(Apartment)	February 2018 ~ August 2020	₩1,188,870	₩1,188,870
Suwon hwaseo park prugio(Efficiency apartment)		112,060	106,762
Dae-gu central xi ¹⁾		4,498	680
Total		₩1,305,428	₩1,296,312

¹⁾ Construction and sale have been completed as of the end of the current term, but resale is underway due to the cancellation of the contract.

26-2. Changes in balance of contract amount for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Beginning balance	₩ -	₩133,491
Contract increase	1,295,632	1,725
Revenue recognition ¹⁾	(122,516)	(135,216)
Ending balance	₩1,173,116	₩-

¹⁾ As of the end of the previous term, the amount recognized as revenue from the completion of construction and sale did not include ₩4,498 million that was cancelled due to the termination of the sales contract during the current period.

26-3. The details of cumulative cost of the sales contract under construction as of December 31, 2018, are as follows:

<i>In millions of Korean Won</i>	Progress	Accumulated revenue	Cumulative cost	Unclaimed Construction ¹⁾
Suwon hwaseo park prugio(Apartment)	9.5%	₩112,589	₩45,660	-
Suwon hwaseo park prugio(Efficiency apartment)	9.3%	₩9,927	₩5,879	-

¹⁾ The unclaimed construction of the sale contract was counted as a trade receivable in the statement of financial position.

26-4. No changes in estimated gross contract income and total contract cost occurred during the current term. The estimated gross contract income and total contract cost of an ongoing sales contract are based on the circumstances that occurred by the end of the current term and may vary over the future period.

27. Operating Profit

27-1. Details of expenses, classified by nature, incurred for the years ended December 31, 2018 and 2017, are as follows

<i>In millions of Korean Won</i>	2018	2017
Changes in inventories	₩(82,286)	₩42,617
Raw materials and consumables purchased	772,709	811,397
Salaries	361,807	347,459
Retirement and termination benefits	34,289	34,104
Depreciation	96,109	101,636
Amortization	63	41
Employee welfare	51,802	59,040
Advertising	100,773	104,862
Commissions	131,718	127,767
Other expenses	153,201	126,317
Total	₩1,620,185	₩1,755,240

27-2. Details of selling, general and administrative expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Salaries	₩244,627	₩232,573
Retirement and termination benefits	23,856	24,078
Employee welfare	37,014	42,685
Travel expenses	9,430	8,923
Communication cost	3,103	3,076
Utilities	9,138	8,591
Taxes and utilities	19,895	18,178
Supplies	2,043	1,973
Rent	13,997	12,575
Depreciation	32,514	33,428
Amortization	63	41
Repairs and maintenance	4,407	4,367
Vehicles	4,083	3,987
Insurance	608	374
Commissions	90,495	94,521
Freight and custody	10,445	27,781
Conferences	3,416	3,103
Advertising	100,622	104,714
Education and training	4,533	3,796
Prizes and rewards	2,207	2,007
Research and development	17,764	15,931
Impairment loss (reversal of impairment loss) on trade receivables	8,568	9,976
Total	₩642,828	₩656,678

28. Other Income and Expenses

28-1. Details of other income for the years ended December 31, 2018 and 2017, are as follows

<i>In millions of Korean Won</i>	2018	2017
Foreign currency transaction gain	₩14,838	₩8,632
Foreign currency translation gain	37,651	845
Gain in fair value of derivatives	1,239	-
Gain from derivative transactions	2,434	-
Reversal of impairment loss of other receivables impairment	34,533	24,816
Gain on sale of property, plant and equipment	6,759	4,910
Gain on sale of intangible assets	-	595
Reversal of impairment loss of intangible assets impairment	-	595
Reversal of impairment loss of subsidiary investment impairment	-	5,383
Gains on disposal of investment in associates and joint ventures	25	19
Miscellaneous profit	35,100	72,606
Total	₩132,579	₩118,401

28-2. Details of other expenses for the years ended December 31, 2018 and 2017, are as follows

<i>In millions of Korean Won</i>	2018	2017
Foreign currency transaction loss	₩3,297	₩45,956
Foreign currency translation loss	7,204	92,524
Losses on valuation of derivatives	461	-
Losses on derivative transactions	11,521	-
Impairment loss on other receivables	30,029	-
Loss on sale of property, plant and equipment	831	1,610
Impairment loss on property, plant and equipment	7,223	-
Loss on sale of intangible assets	12	3,135
Impairment loss on intangible assets	200	-
Loss on sale of subsidiary investment	-	8,945
Impairment loss on subsidiary investment	67,437	70,103
Donations	7,851	8,604
Miscellaneous loss	4,207	11,009
Total	₩140,273	₩241,886

29. Net Finance Income

29-1. Details of net finance income for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Finance income:		
Interest income	₩13,476	₩38,819
Interest revenue according to the effective interest method	1,171	1,838
Dividend income	80,130	90,647
Investment income on long-term deposits in MSA Escrow Fund	-	2,547
Current term's income-Gain in fair value of financial assets	53,646	-
Current term's income-Gain in fair value on sale of financial assets	-	3,149
Total finance income	148,423	137,000
Finance cost:		
Interest expense	(1,233)	(942)
Impairment loss on available-for-sale securities	-	(18,523)
Total finance cost	(1,233)	(19,465)
Net finance income	₩147,190	₩117,535

29-2. Details of interest income included in finance income for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Deposits	₩4,095	₩37,032
Available-for-sale financial assets	-	7
Trade and other receivables	2,805	3,618
Long-term deposits	7,719	-
Others	28	-
Total	₩14,647	₩40,657

29-3. Details of interest income included in finance income for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Trade and other receivables	₩1,233	942

30. Income Tax Expense and Deferred Tax

30-1. Details of income tax expenses elements for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Current tax on profits for the year	₩310,372	295,973
Adjustments with respect to prior-year income tax	(2,964)	15,488
Increase/decrease from temporary differences	(4,427)	(47,460)
Income tax	₩302,981	264,001

30-2. Details of the income tax expenses and accounting profit for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Profit before income tax expense	₩1,143,927	₩1,238,897
Applicable tax rate	26.6%	24.2%
Tax amount according to applicable tax rate	304,218	299,787
Adjustments:		
Income not subject to tax	(19,972)	(30,094)
Expenses not deductible for tax purposes	5,839	3,854
Deferred income tax unrecognized amount of temporary difference, etc.	16,084	(31,957)
Tax deduction	(290)	(597)
Adjustment with respect to prior-year income tax	(2,964)	15,488
Changes in tax rate	-	15,270
Others	66	(7,750)
Income tax expense	302,981	264,001
Average effective tax rate	26.5%	21.3%

30-3. Details of other comprehensive income and deferred tax for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Deferred tax		
Gain (loss) on valuation of equity instruments at fair value through other comprehensive income	₩(10,445)	₩9,188
Re-measurement element of net defined benefit liability	(7,350)	914
Income tax expense relating to items recognized in other comprehensive income	(17,795)	10,102

30-4. Changes in deferred income tax assets (liabilities) for the years ended December 31, 2018 and 2017, are as follows:

(1) For the year ended December 31, 2018

<i>In millions of Korean Won</i>	Beginning balance	Change in accounting policy	Profit or loss	Other comprehensive income	Ending balance
Accumulated depreciation	₩7,758	₩ -	₩328	₩ -	₩8,086
Provision for impairment	13,027	24,163	8	-	37,198
Fair value through other comprehensive income or loss	6,668	-	45	10,445	17,158
Accrued expenses	30,896	-	1,436	-	32,332
Defined benefit liability	257	-	(2,911)	7,350	4,696
Treasury shares	(9,687)	-	-	-	(9,687)
Investments in joint ventures	(72,231)	-	197	-	(72,034)
Advanced depreciation provision	(16,469)	-	2,951	-	(13,518)
Others	3,811	(569)	2,373	-	5,615
Total	₩(35,970)	₩23,594	₩4,427	₩17,795	₩9,846

(2) For the year ended December 31, 2017

<i>In millions of Korean Won</i>	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Accumulated depreciation	₩7,525	₩233	₩ -	₩7,758
Provision for impairment	14,754	(1,727)	-	13,027
Available-for-sale financial assets	10,679	5,177	(9,188)	6,668
Accrued expenses	23,884	7,012	-	30,896
Defined benefit liability	6,633	(5,462)	(914)	257
Treasury shares	(8,525)	(1,162)	-	(9,687)
Investments in joint ventures	(113,341)	41,110	-	(72,231)
Advanced depreciation provision	(14,493)	(1,976)	-	(16,469)
Reserves	(2,420)	2,420	-	-
Others	1,976	1,835	-	3,811
Total	₩(73,328)	₩47,460	₩ (10,102)	₩ (35,970)

30-5. The deductible temporary differences related to investments in subsidiaries that are not recognized as deferred tax assets (liabilities) are ₩62,221 million and ₩(4,498) million, respectively, because they are not likely to expire in the foreseeable future as of the end of the current term and the prior term.

31. EPS

Details of EPS and accounting profit for the years ended December 31, 2018 and 2017, are as follows:

	2018	2017
Profit for the period attributable to ordinary shares	₩840,947 million	₩974,896 million
Weighted-average number of ordinary shares outstanding	126,265,127 shares	126,265,127 shares
Basic and diluted EPS	₩6,660	₩7,721

The weighted average number of ordinary shares is the number of ordinary shares acquired and disposed of during the period, or the number of newly issued ordinary shares, adjusted to take into account the weighting of each period.

32. Related Parties

32-1. Details of parent and subsidiary relationships and related companies as of December 31, 2018 and 2017, are as follows:

		Location	2018			2017		
			Parent	Subsidiary	Total	Parent	Subsidiary	Total
Subsidiary	Korea Ginseng Corporation	Korea	100.00%	-	100.00%	100.00%	-	100.00%
	Yungjin Pharm. Co., Ltd. ¹⁾	Korea	52.45%	-	52.45%	52.45%	-	52.45%
	Tae-a Industry Co., Ltd.	Korea	100.00%	-	100.00%	100.00%	-	100.00%
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	99.99%	-	99.99%	99.99%	-	99.99%
	Korea Tabacos do Brasil Ltda.	Brazil	99.99%	-	99.99%	99.99%	-	99.99%
	KT&G Pars	Iran	99.99%	-	99.99%	99.99%	-	99.99%
	KT&G Rus L.L.C.	Russia	100.00%	-	100.00%	100.00%	-	100.00%
	KT&G USA Corporation	USA	100.00%	-	100.00%	100.00%	-	100.00%
	Cosmococ Co., Ltd. ³⁾	Korea	98.56%	-	98.56%	98.56%	-	98.56%
	Renzoluc Pte., Ltd. ⁶⁾	Singapore	100.00%	-	100.00%	100.00%	-	100.00%
	KGC Yebon Corporation	Korea	100.00%	-	100.00%	100.00%	-	100.00%
	PT KT&G Indonesia	Indonesia	99.99%	-	99.99%	99.99%	-	99.99%
	K&I HK Co., Ltd. ³⁾	HongKong	-	100.00%	100.00%	-	100.00%	100.00%
	K&I China Co., Ltd. ³⁾	China	-	100.00%	100.00%	-	100.00%	100.00%
	SangSang Stay, Inc.	Korea	100.00%	-	100.00%	100.00%	-	100.00%
	KT&G Global Rus L.L.C.	Russia	100.00%	-	100.00%	100.00%	-	100.00%
	KGC Life & Gin Co., Ltd.	Korea	-	100.00%	100.00%	-	100.00%	100.00%
	Jilin Hanzheng Ginseng Co., Ltd.	China	-	100.00%	100.00%	-	100.00%	100.00%
	Cheong Kwan Jang Taiwan Corporation	Taiwan	-	100.00%	100.00%	-	100.00%	100.00%
	Korean Red Ginseng Corp., Inc.	USA	-	100.00%	100.00%	-	100.00%	100.00%
	Korea Ginseng (China) Corp.	China	-	100.00%	100.00%	-	100.00%	100.00%
	Korea Ginseng Corporation Japan	Japan	-	100.00%	100.00%	-	100.00%	100.00%
	PT CKJ INDONESIA ⁷⁾	Indonesia	-	-	-	-	99.88%	99.88%
	PT Trisakti Purwosari Makmur ²⁾	Indonesia	-	99.99%	99.99%	-	99.99%	99.99%
	PT Mandiri Maha Mulia ²⁾	Indonesia	-	99.98%	99.98%	-	99.98%	99.98%
	PT Sentosa Ababi Purwosari ²⁾	Indonesia	-	100.00%	100.00%	-	100.00%	100.00%
	PT Purindo Ilufa ²⁾	Indonesia	-	100.00%	100.00%	-	100.00%	100.00%
	PT Nusantara Indah Makmur ²⁾	Indonesia	-	100.00%	100.00%	-	100.00%	100.00%
	Gwacheon Sangsang PFV ⁸⁾	Korea	51.00%	-	51.00%	-	-	-
Investments in associates and joint ventures	Cosmo Tobacco Co LTD	Mongolia	40.00%	-	40.00%	40.00%	-	40.00%
	Lite Pharm Tech, Inc.	Korea	20.24%	-	20.24%	20.24%	-	20.24%
	KVG REIT I Co., Ltd. ⁵⁾	Korea	-	-	-	-	-	-
	JR REIT V Co., Ltd.	Korea	34.63%	-	34.63%	34.63%	-	34.63%
	JR REIT VIII Co., Ltd.	Korea	21.74%	-	21.74%	21.74%	-	21.74%
	LSK Global Pharma Services Co., Ltd.	Korea	23.15%	-	23.15%	23.15%	-	23.15%
	JR REIT X Co., Ltd.	Korea	28.79%	-	28.79%	28.79%	-	28.79%
	JR REIT XIII Co., Ltd. ⁹⁾	Korea	-	-	-	27.03%	-	27.03%
	KB Gimpo Logistics CR REIT Co., Ltd.	Korea	12.00%	-	12.00%	12.00%	-	12.00%
	KORAMCO Private REIT 50 Fund	Korea	84.21%	-	84.21%	84.21%	-	84.21%
	Yong In Jung Sim Co., Ltd. ⁴⁾	Korea	22.22%	-	22.22%	22.22%	-	22.22%
	Starfield Suwon ¹⁰⁾	Korea	50.00%	-	50.00%	-	-	-
	KORAMCO Europe Private REIT 3-2 Fund ¹¹⁾	Germany	51.35%	-	51.35%	-	-	-

- 1) During the previous term, Yungjin Pharm. Co., Ltd. absorbed KT&G Life Science as of January 13, 2017.
- 2) During the previous term, PT Trisakti Purwosari Makmur and etc., the subsidiaries, acquired PT Nusantara Indah Makmur.
- 3) During the previous term, the Company made an in-kind investment of all shares of K&I HK Co., Ltd. and K&I China Co., Ltd. to Cosmococ Co., Ltd. As a result, the company's portion of shares in Cosmococ Co., Ltd. increased from 98.49% to 98.56%.
- 4) During the previous term, the Company had made investment on 22.22% share of Yong In Jung Sim Co., Ltd.
- 5) During the previous term, KVG REIT I Co., Ltd. was liquidated
- 6) The above percentage of ownership does not include convertible preference shares, with 88.6% including preferred shares as of the end of the current term.
- 7) During the current term, PT CKJ INDONESIA has been liquidated and excluded from the scope of related parties.
- 8) During the current term, the Company had made investment on 51.00% share of Gwacheon Sangsang PFV.
- 9) During the current term, JR REIT XIII Co., Ltd. has been liquidated and excluded from the scope of related parties.
- 10) During the current term, the Company had made investment on 50.00% share of Starfield Suwon.
- 11) During the current term, the Company had made investment on 51.35% share of KORAMCO Europe Private REIT 3-2 Fund.

32-2. Details of transactions with related parties, such as the sale of goods and the provision of services, for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of Korean Won</i>		2018		2017	
		Sales and other revenues	Purchases and other expenses	Sales and other revenues	Purchases and other expenses
	Korea Ginseng Corporation	₩65,365	₩1,511	₩73,541	₩2,574
	Yungjin Pharm. Co., Ltd.	177	15	208	37
	Tae-a Industry Co., Ltd.	23	13,338	13	13,984
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	3,498	-	8,381	-
	Korea Tabacos do Brasil Ltda.	3	-	-	-
	KT&G Pars	-	-	2,101	-
	KT&G Rus L.L.C.	32,086	-	22,828	-
	KT&G USA Corporation	56,158	-	107,847	-
	Cosmococ Co., Ltd.	77	824	122	128
Subsidiary	Renzoluc Pte., Ltd.	-	-	763	-
	KGC Yebon Corporation	24	214	26	48
	PT KT&G Indonesia	1,004	-	1,138	-
	K&I China Co., Ltd.	-	-	-	23
	SangSang Stay, Inc.	6,073	131	6,545	-
	KGC Life & Gin Co., Ltd.	505	56	386	187
	PT Trisakti Purwosari Makmur	16	-	13	-
	PT Mandiri Maha Mulia	8,873	-	13,361	-
	PT Sentosa Ababi Purwosari	89	-	170	-
	PT Purindo Ilufa	15	-	128	-
Investments in associates and joint ventures	KVG REIT I Co., Ltd.	-	-	2,546	-
	JR REIT V Co., Ltd.	104	-	979	-
	JR REIT VIII Co., Ltd.	308	-	880	-
	JR REIT X Co., Ltd.	579	-	541	-
	JR REIT XIII Co., Ltd.	25	-	-	-
	KB Gimpo Logistics CR REIT Co., Ltd.	82	-	109	-
	KORAMCO Private REIT 50 Fund	716	-	247	-
Total		₩175,800	₩16,089	₩242,873	₩16,981

32-3. Details of transactions of Property, Plant and Equipment with related parties, for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of Korean Won</i>	2018		2017	
	Purchase of PPE	Sales of PPE	Purchase of PPE	Sales of PPE
KT&G Rus L.L.C.	₩ -	₩4,247	₩ -	₩2,454
PT Mandiri Maha Mulia	-	3,197	-	144
PT Sentosa Ababi Purwosari	521	34	-	-
Tae-a Industry Co., Ltd.	-	37	-	-
KGC Yebon Corporation	50	-	-	-
Total	₩571	₩7,515	₩ -	₩2,598

32-4. Details of receivables and payables with related parties, for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of Korean Won</i>	2018		2017	
	Receivables	Payables	Receivables	Payables
Korea Ginseng Corporation	₩14	₩1,850	₩343	₩2,075
Yungjin Pharm. Co., Ltd.	11	30	66	30
Tae-a Industry Co., Ltd.	-	3	4	-
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	32,050	-	37,029	-
Korea Tabacos do Brasil Ltda.	106	-	103	-
KT&G Pars(*)	44,531	-	43,791	-
KT&G Rus L.L.C. ¹⁾	78,395	-	53,810	-
KT&G USA Corporation	28,911	618	38,696	-
Subsidiary Cosmococ Co., Ltd.	5	2	29	16
KGC Yebon Corporation	-	-	3	-
PT KT&G Indonesia(*)	28,991	-	27,380	-
SangSang Stay, Inc.	-	-	3	-
KGC Life & Gin Co., Ltd.	-	120	14	120
PT Trisakti Purwosari Makmur	16	-	313	-
PT Mandiri Maha Mulia	13,375	-	13,279	-
PT Sentosa Ababi Purwosari	67	-	162	-
PT Purindo Ilufa	15	-	-	-
Investments LSK Global Pharma Services Co., Ltd.	150	-	1,500	-
in associates KB Gimpo Logistics CR REIT Co., Ltd.	697	-	-	-
and joint KORAMCO Private REIT 50 Fund	136	-	-	-
ventures Starfield Suwon	-	16,052	-	-
Total	₩227,470	₩18,675	₩216,525	₩2,241

¹⁾ The total is listed before the loss allowance of ₩77,923 million and ₩38,176 million as of the end of the current term and the prior term.

32-5. Details of capital transactions with related parties as of December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>		2018			2017		
		Investment	Fund contribution	Repayment of funds	Investment	Fund contribution	Repayment of funds
	Yungjin Pharm. Co., Ltd.	₩ -	₩ -	₩ -	₩6,944	₩ -	₩ -
	Tae-a Industry Co., Ltd.	37,000	-	-	-	-	-
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	-	-	3,750	-	-	-
Subsidiary	Cosmocore Co., Ltd.	-	-	-	5,544	-	-
	Renzoluc Pte., Ltd.	-	-	-	144,691	-	47,489
	SangSang Stay, Inc.	4,000	-	-	-	-	-
	Gwacheon Sangsang PFV	3,570	-	-	-	-	-
	KVG REIT I Co., Ltd.	-	-	-	(7,319)	-	-
	LSK Global Pharma Services Co., Ltd.	-	-	1,350	-	2,054	554
Investments in associates and joint ventures	JR REIT XIII Co., Ltd.	(5,000)	-	-	-	-	-
	Yong In Jung Sim Co., Ltd.	-	-	-	1,000	-	-
	Starfield Suwon	12,000	-	-	-	-	-
	KORAMCO Europe Private REIT 3-2 Fund	18,500	-	-	-	-	-
Total		₩70,070	₩ -	₩5,100	₩150,860	₩2,054	₩48,043

32-6. As of the end of current term, the Company is providing payment guarantees in order to open an import credit for imports and customs clearance of KT&G US corporations, and the Company is obliged to observe the executed part of the guarantee amount (Note 35-4). The Company had made a land contract with the related party, Starfield Suwon and had received a down payment of ₩16,020 million from the total ₩160,200 million. The ownership of this land will be transited upon the payment of the balance, which will be on the date of the commencement of the construction work (Notes 16 and 35-4)

32-7. 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.

32-8. 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.

32-9. Details of key management personnel compensation for the years ended December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018	2017
Short-term employee benefits	₩19,330	₩18,548
Retirement benefits	1,459	1,777
Total	₩20,789	₩20,325

33. Risk Management and Fair Value of Financial Instruments

In relation to financial instruments, the Company is exposed to market risk, credit risk and liquidity risk. The purpose of risk management of the Company is to identify potential risks affecting the financial performance of the Company and to reduce, eliminate and avoid them to an acceptable level. The Company prepares and operates the company-wide risk management policies and procedures, and is responsible for the overall responsibility for risk management in the financial statements of the subsidiaries. The Financial Department of the Company is responsible for monitoring and managing the financial risks associated with the operations of the subsidiaries in accordance with the risk management policies and procedures approved by the Board of Directors, and are periodically analyzing the nature and exposure of the financial risks. In addition, the Parent Company's Audit Committee continuously reviews compliance with risk management policies and procedures and limits on risk exposure. The Company's overall financial risk management strategy is the same as the previous one.

When measuring the fair value of an asset or liability, the Company uses observable inputs in the market as much as possible. Fair value is classified within the fair value hierarchy based on the inputs used in the valuation technique as follows:

	Inputs used
Level 1	Unadjusted quoted price in an active market accessible at the measurement date for the same asset or liability.
Level 2	Inputs that are observable directly or indirectly for an asset or liability other than the quoted price of Level 1.
Level 3	Unobservable inputs for an asset or liability

If several inputs used to measure the fair value of an asset or liability are classified at different levels within the fair value hierarchy, the consolidation entity classifies the entire fair value measurement at the same level as the lowest level of inputs in the fair value hierarchy that is significant for the measurement as a whole, and recognizes the movement of the fair value hierarchy at the end of the reporting period when changes occur.

33-1. 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 Company's income or the value of its financial instruments. The purpose of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing the revenue.

(1) Currency risk

The Company 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 Company'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 December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018		2017	
	Assets	Liabilities	Assets	Liabilities
USD	₩1,023,812	₩30,833	₩1,039,421	₩30,912
IDR	3,181	-	1,581	-
EUR	32,083	18,116	33,424	3,580
Others	51,134	134	27,991	-
Total	₩1,110,210	₩49,083	₩1,102,417	₩34,492

The effects of a 10% change in the Korean Won-Foreign Currency exchange rate on pre-tax profit or loss as of December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018		2017	
	10% increase	10% decrease	10% increase	10% decrease
Increase (decrease) in profit before tax	₩106,113	₩ (106,113)	₩106,793	₩ (106,793)

(2) Equity price risk

The Company is exposed to the fair value of the financial instrument or to other price changes in future cash flows due to changes in market prices in relation to its fair value measurement financial assets and listed equity instruments. The management of the Company regularly measures the risk of changes in the fair value or future cash flows of the listed equity instruments due to changes in market prices. Management of important investments within the portfolio is performed individually and acquisition and disposal are approved by the management of the Company.

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

<i>In millions of Korean Won</i>	2018		2017	
	5% increase	5% decrease	5% increase	5% decrease
Increase (decrease) in comprehensive income(loss) before tax	₩6,406	₩ (6,406)	₩6,706	₩ (6,706)

(3) Interest rate risk

The Company is exposed to interest rate fluctuation risk in relation to the borrowings. The management of the Company regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest loans. Considering the size of the variable interest rate borrowings of the Company as of the end of the current term, the effect of changes in interest rates on the fair value of the financial liability or future cash flows is not important.

33-2. Credit risk

The Company is exposed to credit risk that will cause financial losses to the other party because one of the parties to the financial instrument fails to perform its obligations. To manage credit risk, the management of the Company deals with customers with a certain level of creditworthiness or higher, and prepares and operates policies and procedures for credit enhancement of financial assets. The Company evaluates the creditworthiness of the client using financial information disclosed at the time of contract with the new client and information provided by the credit rating agency, determines the credit limit on the basis of this, and is provided with collateral or payment guarantee. In addition, the Company periodically reassesses the credit limit and readjusts the collateral level by reassessing the client's creditworthiness, reports the delayed recovery status and recovery measures on a quarterly basis for financial assets that are delayed, and takes appropriate measures according to the reason for the delay.

The carrying amount of a financial asset indicates the maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2018 and 2017, is as follows:

<i>In millions of Korean Won</i>	2018	2017
Cash and cash equivalents(excluding cash on hand) ¹⁾	₩246,310	₩589,061
Other financial assets	576,937	2,054,026
Fair value through profit or loss ¹⁾	1,851,922	-
Trade and other receivables	850,183	1,029,343
Long-term deposits in MSA Escrow Fund	615,528	510,223
Derivative assets	1,239	-
Total	₩4,142,119	₩4,182,653

¹⁾ Of the cash equivalents as of the end of the current term, the specific money trust is included in the financial assets at fair value through profit or loss.

33-3. Liquidity risk

The Company is exposed to liquidity risk that will be difficult to meet its obligations related to financial liabilities that are settled by delivering cash or other financial assets. To manage liquidity risk, the management of the Company continuously analyzes and reviews the cash outflow budget and actual cash outflows to respond to the maturity of financial liabilities and financial assets. Management of the Company determines that the financial liability is redeemable through cash flows from operating activities and cash inflows from financial assets.

The maturity analysis according to the maturity of the remaining contract of the financial liability as of December 31, 2018 and 2017, is as follows:

<i>In millions of Korean Won</i>	Carrying amount	Contractual cash flows	Residual contract			
			Less than 3months	3months ~1year	1year ~5years	Longer than 5years
December 31, 2018						
Trade and other payables	₩276,921	₩278,389	₩215,624	₩22,592	₩40,173	₩ -
Short-term borrowings	1,246	1,246	1,246	-	-	-
Derivative liabilities	461	461	461	-	-	-
Total	₩278,628	₩280,096	₩217,331	₩22,592	₩40,173	₩ -
December 31, 2017						
Trade and other payables	₩249,206	₩262,111	₩216,452	₩23,405	₩21,969	₩285
Short-term borrowings	1,959	1,959	1,959	-	-	-
Total	₩251,165	₩264,070	₩218,411	₩23,405	₩21,969	₩285

The remaining maturity cash flows of the above financial liability are not discounted nominal amounts and are prepared on the basis of the earliest date during which payment may be required and include the cash flows of interest.

33-4 The carrying amounts of each category of financial assets and liabilities as of December 31, 2018 and 2017, are summarized as follows:

<i>In millions of Korean Won</i>	2018	2017
Financial assets:		
Available-for-sale financial assets	₩ -	₩454,051
Fair value through profit or loss ¹⁾	1,851,922	-
Fair value through other comprehensive income or loss	230,545	-
Derivative assets	1,239	-
Financial assets measured at amortized cost		
- Trade and other receivables	850,183	1,029,343
- Long-term deposits in MSA Escrow Fund	615,528	510,223
- Other financial assets	576,937	2,054,026
- Cash and cash equivalents	246,562	589,766
Subtotal	2,289,210	4,183,358
Total financial assets	₩4,372,916	₩4,637,409
Financial liabilities:		
Derivative liability	₩461	₩ -
Financial liabilities measured at amortized cost		
- Trade and other payables	276,921	261,296
- Short-term borrowings	1,246	1,959
Total financial liabilities	₩278,628	₩263,255

¹⁾ Of the cash equivalents at the end of the current term, ₩501,562 million of the specific money trust is classified as at fair value through profit or loss.

33-5. The fair value measurements classified by fair value hierarchy as of December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
December 31, 2018				
Fair value through profit or loss	₩1,851,922	₩ -	₩1,641,267	₩210,655
Fair value through other comprehensive income or loss	230,545	180,605	-	49,940
Derivative assets	1,239	-	1,239	-
Derivative liability	461	-	461	-
Total	₩2,084,167	₩180,605	₩1,642,967	₩260,595
December 31, 2017				
Available-for-sale financial assets	404,329	220,160	-	184,169

There is no movement between levels of the fair value hierarchy during the current term and the prior term.

As of the end of the current term, the fair value of real estate investment trusts and equity securities classified as at fair value through profit or loss (previous term : available-for-sale financial assets) was measured using the Net Asset Value Adjustment Act, DCF and were classified as Level 3 fair value based on the inputs used in the valuation technique. The changes in Level 3 fair value during the current and prior terms are as follows:

<i>In millions of Korean Won</i>	2018	2017
Beginning balance ¹⁾	₩233,891	₩132,956
Acquisition	62,500	70,946
Disposal	(39,840)	(22,798)
Changes in fair value	4,044	3,065
Ending balance	₩260,595	₩184,169

¹⁾ As of the end of the previous term, available-for-sale financial assets that were measured using cost method included the effect of being classified as fair value through other comprehensive income of ₩49,722 million.

33-6. Details of finance income (costs) by categories for the years ended December 31, 2018 and 2017, are as follows:

(1) For the year ended December 31, 2018

<i>In millions of Korean Won</i>	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 for the year:						
Interest income	₩ -	₩ -	₩ -	₩14,647	₩ -	₩14,647
Dividend income	-	20,341	-	-	-	20,341
Gain on valuation	53,646	-	778	-	-	54,424
Gain on disposal	-	-	(9,087)	-	-	(9,087)
Interest expense	-	-	-	-	(1,233)	(1,233)
Impairment loss	-	-	-	(4,064)	-	(4,064)
Total	₩53,646	₩20,341	₩ (8,309)	₩10,583	₩ (1,233)	₩75,028
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ (37,981)	₩ -	₩ -	₩ -	₩ (37,981)
Reclassification due to disposal	-	(204)	-	-	-	(204)
Total	₩ -	₩ (38,185)	₩ -	₩ -	₩ -	₩ (38,185)

(2) For the year ended December 31, 2017

<i>In millions of Korean Won</i>	Available-for- sale financial assets	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the year:				
Interest income	₩ 7	₩40,650	₩ -	₩40,657
Dividend income	19,647	-	-	19,647
Investment profit on long-term deposits in MSA Escrow Fund	-	2,547	-	2,547
Gain on disposal	3,149	-	-	3,149
Interest expense	-	-	(942)	(942)
Impairment loss	(18,523)	14,840	-	(3,683)
Total	₩4,280	₩58,037	₩ (942)	₩61,375
Other comprehensive income (loss) before tax:				
Net change in fair value	₩22,931	₩ -	₩ -	₩22,931
Reclassification due to disposal	(3,149)	-	-	(3,149)
Reclassification due to impairment	18,523	-	-	18,523
Total	₩38,305	₩ -	₩ -	₩38,305

34. Capital Management

The purpose of capital management of the Company is to maintain its viability as a continuous company and maximize shareholder profits by maintaining a sound capital structure and minimizing capital procurement costs. The Board of Directors is striving to balance the return on higher borrowing with sound financial position.

The Company manages capital on a capital basis with net liabilities (net assets) deducting cash and cash equivalents from the borrowings, and the overall capital management policy is the same as the previous term.

Details on the Company's capital structure as of December 31, 2018 and 2017, is as follows:

<i>In millions of Korean Won</i>	2018	2017
Debt	₩1,246	₩1,959
Less: Cash and cash equivalents	(748,123)	(589,766)
Less: Current other financial asset	(1,709,705)	(2,047,686)
Net debt (asset)	(2,456,582)	(2,635,493)
Total equity	₩7,365,221	₩7,143,557

35. Contingent Liabilities and Commitments

35-1. Litigation cases

As of December 31, 2018, the Company has total 4 cases of pending litigations under progress and the litigation value is ₩54,054 million. It is not possible to reasonably predict the impact of the final outcome of pending litigation as of the end of the current term on the separate financial statements of the Company.

35-2. Major commitments

As of the end of the current term, the Company has agreed with financial institutions including KEB Hana Bank to open foreign currency import L/C (Limit : USD 177,000 thousand).

As of the end of the current term, the Company had signed a short-term export insurance contract with the Korea Trade Insurance Corporation (USD 40,690 thousand), Seoul Guarantee Insurance Co., Ltd. and Implementation Guarantee Insurance Co. (Guaranteed Amount : ₩3,630 million).

As of the end of the current term, the Company has a USD 153,700 thousand limit agreement (executed amount : USD 12,091,000) with KEB Hana Bank and etc. regarding derivatives.

As of the end of the current term, the Company is provided with payment guarantees of USD36,000 thousand, USD20,000 thousand from KEB Hana Bank and Westchester Fire Insurance Company of U.S. Materials, respectively, for the opening of an import L/C for KT&G U.S. Corporation imports and customs clearance, provides collateral for local financial services of foreign subsidiaries, and is responsible for the claim of the amount of the guarantees executed.

Details of execution of the payment guarantee as of December 31, 2018, are as follows:

	Payment guarantee amount
Performance guarantee related to exporting tobacco materials to Thailand Tobacco Monopoly	THB 2,832 thousand
Opening of KT&G USA Corporation's Customs Bonds and Import L/C related to Import and Customs	USD 13,500 thousand

As of the end of the current term, the Company has received payment guarantees of USD 6,470 thousand from the U.S. based TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA.

As of the end of the current term, the Company deposited ₩6,340 million won in NH Nonghyup Bank and classified it as other financial assets to guarantee its business performance in connection with the project to create a central commercial area in the administrative city. This amount has been set up as of the end of the current term.

As of the end of the current term, the Company has signed a housing distribution guarantee contract worth ₩889,041 million with the Korea Housing & Urban Guarantee Corporation.

35-3. Payment guarantee and collateral details

The details of payment guarantees provided by the Company for other people (excluding related parties) are as follows:

<i>In millions of Korean Won</i>	Guarantee user	Limit	Excution amount
Loan guarantee for the payment	Shinhan bank	₩79,400	₩10,345
	KEB Hana bank	60,000	8,474
	Suhyup bank	9,494	1,993
Total		₩148,894	₩20,812

35-4. Others

Payment of long-term deposits (MSA Escrow Fund)

Each year, the Company 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 Company 25 years from the date of each annual funding. The Company 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.

As of March 17, 2011, the Company signed a Memorandum of understanding (“MOU”) with the National Pension Service on a global investment partnership that calls for the joint investment of less than ₩800,000 million in total into overseas assets.

As a result of merger of Youngjin Pharmaceutical Co., Ltd. and KT&G Life Sciences Corporation, the Company has entered into a shareholders’ agreement with Gwak, Tae-Hwan (“Individual Shareholder”) who is a former owner of KT&G Life Sciences Corporation. Details of the agreement are as follows:

Details	
Restrictions on the disposal of shares by individual shareholders	Individual shareholders are not permitted to dispose of their shares for one year from the date they are listed or have the same effect on the shares held as of the date of the signing of the contract.
Preferred purchase off KT&G	If an individual shareholder transfers all or part of the shares held to a third party, KT&G holds the right to buy the shares first.
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.

As of December 31, 2018, the Company had made a land contract with Starfield Suwon and Gwacheon city, and the ownership of the land will be transited upon the payment of balance.

There is a Capital Call agreement for overseas real estate funds invested by the Company. However, the Company expects that the arrangement will be substantially less practicable as it will only be executed if the trustee defaults on the currency swap/forward contract.

The Company has the first priority in the supply of logistics facilities developed by the Yongin Jungsim. Also, the Company has the right to transfer shares to SpaceG if they do not receive the sale.

As of December 31, 2018, the Company had established Starfield Suwon under 50:50 ratio with Shinsaegae Property (“Joint Investment Party”). The disposal of such share is limited for five years from the approval for use of the multi-shopping mall. Also, upon the decision of either the Company or the Joint Investment Party to transfer all of the shares owned, the other party is obliged to exercise the right of pre-emption preference or the joint selling right selectively.

36. Cash flows

36-1. Details of cash generated from operations for the years ended December 31, 2018 and 2017, are as follows:

<i>In millions of Korean Won</i>	2018	2017
Profit for the year	₩840,947	₩974,896
Adjustments:		
Income tax expense	₩302,981	₩264,001
Finance cost	1,233	19,465
Finance income	(148,423)	(137,000)
Depreciation	96,109	101,636
Amortization	63	41
Retirement and termination benefits	34,289	34,104
Employee welfare	6,600	12,090
Foreign currency translation loss	7,204	92,524
Impairment loss (reversal) on trade and other receivables	4,064	(14,840)
Loss on sales of property, plant and equipment	831	1,610
Impairment loss on property, plant and equipment	7,223	-
Loss on disposal of intangible assets	12	3,135
Impairment loss on intangible assets	200	-
Reversal of impairment loss on intangible assets	-	(595)
Loss on disposal of investment in associates	-	8,945
Impairment loss of investment in associates	67,437	70,103
Reversal of impairment loss of investment in associates	-	(5,383)
Other income	(1,238)	-
Other expenses	9,513	17,502
Foreign currency translation gain	(37,651)	(845)
Loss on valuation of inventories	186	64
Gain on sale of property, plant and equipment	(6,759)	(4,910)
Gain on sale of intangible assets	-	(595)
Gain on disposal of investments in associates and joint ventures	(25)	(19)
Total	₩1,184,796	₩1,435,929

In millions of Korean Won

	2018	2017
Changes in working capital:		
Decrease in trade and other receivables	₩80,136	₩112,888
Decrease in advance payments	1,882	2,013
Increase in long-term advance payments	(9,511)	-
Decrease(increase) in prepaid expenses	(6,704)	3,846
Decrease in accrued tobacco excise and other taxes	37,612	183,591
Decrease(increase) in inventories	(79,690)	36,243
Decrease in trade and other payables	(7,692)	(52,085)
Increase(decrease) in advance receipts	142,718	(166)
Decrease in tobacco excise and other taxes payable	(362,876)	(232,261)
Payment of retirement and termination	(45,589)	(48,332)
Increase in deposits	4,639	3,243
Increase in provisions	2,658	-
Cash generated from operation	₩942,379	1,444,909

36-2. Details of material transactions without cash inflow and outflow for the years ended December 31, 2018 and 2017, are as follow;

In millions of Korean Won

	2018	2017
Increase (decrease) in accrued expenses related to payment of retirement and termination benefits	₩(323)	₩ (2,305)
Increase (decrease) in other payables related to acquisition of property, plant and equipment	16,105	(1,301)
Reclassification of assets under construction to the main account	217,326	172,090
Reclassification of property, plant and equipment to held for sale assets	27,794	-
Decrease in other receivables related to disposal of property, plant and equipment and held for sale assets	4,065	2,686
Acquisition of subsidiary investment through the debt-for-equity swap of subsidiary loans	-	47,489
Reclassification of available-for-sale financial assets to loans	-	2,054
Increase in advance receipts related to acquisition of property, plant and equipment and held for sale assets	₩16,020	₩ -

36-3. Changes in liabilities due to financial activities for the years ended December 31, 2018 and 2017, are as follows:

(1) For the year ended December 31, 2018

<i>In millions of Korean Won</i>	Beginning balance	Cash flows from financing activities	Others	Ending balance
Dividend payable	₩ -	₩ (505,061)	₩505,061	₩ -
Short-term borrowings	1,959	-	(713)	1,246
Total	₩1,959	₩ (505,061)	₩504,348	₩1,246

(2) For the year ended December 31, 2017

<i>In millions of Korean Won</i>	Beginning balance	Cash flows from financing activities	Others	Ending balance
Dividend payable	₩ -	₩ (454,554)	₩454,554	₩ -
Short-term borrowings	3,851	-	(1,892)	1,959
Deposits received	28,266	-	4,488	32,754
Total	₩32,117	₩ (454,554)	₩457,150	₩34,713

36-4. The Company had indicated some other items of inflow and outflow of financial instruments have been marked as net increase and decrease as those are frequently traded and have a large total and short-term maturity.

37. Changes in Accounting Policies

37-1. Application of K-IFRS No. 1109, 'Financial Instruments'

(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:

<i>In millions of Korean Won</i>	Amount
Retained earnings at the beginning of term-K-IFRS No. 1039	₩990,096
Reclassification of loans and receivables as current term's profit (loss)-financial assets at fair value	(4,236)
Reclassification of available-for-sale securities to current fair value through profit or loss	3,895
Reclassification of available-for-sale securities to fair value through other comprehensive income or loss	32,870
Measurement of long-term deposits in MSA Escrow Fund at amortized cost	8,086
Increase in trade and other receivables-net of allowance	(87,863)
Reduction of deferred income tax following the adjustment of surplus at the beginning of term	25,327
Adjustment of total surplus due to adoption of K-IFRS No. 1109	(21,921)
Retained earnings at the beginning of term-K-IFRS No. 1109	₩968,175

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

<i>In millions of Korean Won</i>	Fair value through profit or loss	Fair value through other comprehensive income or loss (available-for-sale securities as of December 31, 2017)	Long-term deposits in MSA Escrow Fund	Financial assets measured at amortized cost (loans and receivables as of December 31, 2017)			Total
				Trade and other receivables	Other financial assets	Cash and cash equivalents	
Retained earnings at the beginning of term-K-IFRS No. 1039	₩ -	₩454,051	₩510,223	₩1,029,343	₩2,054,026	₩589,766	₩4,637,409
Reclassification of loans and receivables as current term's profit (loss)-financial assets at fair value	2,352,467	-	-	(4,076)	(1,867,686)	(484,941)	(4,236)
Reclassification of available-for-sale securities to current fair value through profit or loss	184,169	(184,169)	-	-	-	-	-
Measurement of long-term deposits in MSA Escrow Fund at amortized cost	-	-	9,402	1,971	-	-	11,373
Carrying amount at beginning of term-K-IFRS No. 1109	2,536,636	269,882	519,625	1,027,238	186,340	104,825	4,644,546

① Reclassification of loans and receivables as current term's profit (loss)-financial assets at fair value

Of the cash equivalents and other financial assets as of the beginning of the current term, ₩2,356,703 million in monetary trust and related interest, which are not solely interest on principal and principal balances, was reclassified to fair value through profit or loss. As of the beginning of the current term, the difference between amortized cost and fair value of the money trust was ₩4,236 million, which was reclassified as retained earnings. During the current term, ₩46,601 million was recognized in profit or loss, including changes in fair value related to the financial asset.

② Reclassification of available-for-sale securities to current fair value through profit or loss

Of the available-for-sale financial assets as of the beginning of the current term, ₩184,169 million in investments in real estate return securities was reclassified from available-for-sale financial assets to fair value through profit or loss. The financial asset does not qualify for classification as amortized cost because the contractual cash flows do not represent payments of principal and interest only. As of the beginning of the current term, the accumulated other comprehensive income of ₩3,895 million was reclassified as retained earnings. During the current term, ₩7,045 million, including changes in fair value related to the financial asset, was recognized in profit or loss.

③ Reclassification of available-for-sale securities to fair value through other comprehensive income or loss

The Company chose to present in other comprehensive income changes in the fair value of equity instruments that were not for trading purposes that were previously classified as available for sale. As a result, ₩269,882 million was reclassified as a fair value through other comprehensive income financial asset. The cumulative amount of other comprehensive income of ₩32,870 million recognized in this respect as of the beginning of the current term is not reclassified to profit or loss even if the financial asset is disposed.

④ Measurement of long-term deposits in MSA Escrow Fund at amortized cost

As of the beginning of the current term, the long-term deposit of ₩510,223 million was classified as being subject to amortized cost measurement because cash flows consisting solely of the principal and interest on the principal balances occur and are aimed at collecting contractual cash flows. As of the beginning of the current term, the long-term reserve increased by ₩9,402 million and retained earnings increased by ₩8,086 million. Interest income of ₩7,719 million related to long-term deposits was recognized during the current term.

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

<i>In millions of Korean Won</i>	Change in accumulated amount of other comprehensive income (loss)	Change in retained earnings
Retained earnings at the beginning of term-K-IFRS No. 1039	₩(1,812)	₩990,096
Reclassification of loans and receivables as current term's profit (loss)- financial assets at fair value	-	(4,236)
Reclassification of available-for-sale securities to current fair value through profit or loss	(3,895)	3,895
Reclassification of available-for-sale securities to fair value through other comprehensive income or loss	(32,870)	32,870
Measurement of long-term deposits in MSA Escrow Fund at amortized cost	-	8,086
Increase in trade and other receivables-net of allowance ¹⁾	-	(87,863)
Reduction of deferred income tax following the adjustment of surplus at the beginning of term	-	25,327
Adjustment of total surplus due to adoption of K-IFRS No. 1109	(36,765)	(21,921)
Retained earnings at the beginning of term-K-IFRS No. 1109	(38,577)	968,175

¹⁾ Refer to below (2) Impairment of financial assets for details of allowances

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:

<i>In millions of Korean Won</i>	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	Financial assets measured at amortized cost	Financial assets measured at amortized cost	₩589,766	₩104,825	₩ (484,941)
Other financial assets	Financial assets measured at amortized cost	Financial assets measured at amortized cost	2,054,026	186,340	(1,867,686)
Other financial assets	Financial assets measured at amortized cost	Financial assets measured at fair value through profit or loss	-	2,352,467	2,352,467
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
Available-for-sale financial assets	Available-for-sale financial assets	Fair value through other comprehensive income or loss	454,051	269,882	(184,169)
Available-for-sale financial assets	Available-for-sale financial assets	Financial assets recognized as current term's profit (loss)	-	184,169	184,169
Trade and other receivables	Financial assets measured at amortized cost	Financial assets measured at amortized cost	1,029,343	1,027,238	(2,105)

(2) Impairment of financial assets

The consolidation entity has 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 Company 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'

As explained in Note 3, the Company has applied K-IFRS No. 1115 since the current period, and the comparative presentation of the separate financial statements in accordance with the transitional provisions has not been restated. The effect of the application of this Standard on separate financial statements is as follows:

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

<i>In millions of Korean Won</i>	As of December 31, 2017, before adjustments	Adjustment	As of January 1, 2018, after adjustments
Current assets	₩4,688,299	₩-	₩4,688,299
Non-current assets	3,992,119	(5,108)	3,987,011
Total assets	8,680,418	(5,108)	8,675,310
Current liabilities	1,456,484	4,641	1,461,125
Non-current liabilities	80,377	(1,276)	79,101
Total liabilities	1,536,861	3,365	1,540,226
Total equity	7,143,557	(8,473)	7,135,084

The Company provides logistics, insurance, and credit card payment for some contracts it has signed with the customer. Logistics costs, etc., are recognized as a reduction in revenue as they are the consideration payable to the customer in accordance with K-IFRS No. 1115. As a result of these changes, the Company recognized ₩4,641 million of accounts payable and ₩8,473 million retained earnings had been decreased.

- (2) Each of the separate financial statements affected by the criteria prior to the modification in the reporting period in which K-IFRS No. 1115 was first applied is as follows:

<i>In millions of Korean Won</i>	Amounts reported	Adjustments	If K-IFRS No. 1115 had not been applied
Separate Statement of Financial Positions			
Current assets	₩4,418,632	₩819	₩4,419,451
Non-current assets	4,311,283	(539)	4,310,744
Total assets	8,729,915	280	8,730,195
Current liabilities	1,289,018	819	1,289,837
Non-current liabilities	75,676	-	75,676
Total liabilities	1,364,694	819	1,365,513
Total equity	7,365,221	(539)	7,364,682
Statement of comprehensive income			
Sales	2,624,616	(20,176)	2,644,792
Cost of sales	977,356	(4,887)	982,243
Selling, general and administrative expenses	642,828	(14,750)	657,578
Income tax	302,981	-	302,981
Net profit for the period	840,947	(539)	841,486
Total comprehensive income (loss)	793,884	(539)	794,423

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

38. Modification of comparative separate financial statements

38-1. The separate financial statements for the year ended December 31, 2017 have been adjusted and presented in the comparative separate financial statements.

38-2. The effect on the separate financial statements for the year ended December 31, 2017 is as follows.

<i>In millions of Korean Won</i>	End of 2017	End of 2016
Re-classification of liquidity base for trade receivables, etc. ¹⁾	₩50,597	₩47,092
Re-classification of specific money trust accounts ²⁾	515,059	160,363
Re-classification of property, plant and equipment to investment property ³⁾	101,198	80,846
Recognition of not-yet-arrived inventories ⁴⁾	5,455	-
Reclassification of inventories to property, plant and equipment ⁵⁾	5,149	3,532

- 1) Re-classification of trade receivables, accounts receivables into non-current assets
- 2) Re-classification of special money trust account from cash equivalents to financial instruments
- 3) Re-classification of fixed assets for rental purposes from property, plant and equipment to investment property
- 4) Recognizing not-yet-arrived inventories to inventories
- 5) Reclassification of inventories to construction in progress of property, plant and equipment

38-3. The effects of comparative presentation of separate financial statements on separate financial statements for fiscal year prior to December 31, 2017 are as follows:

<i>In millions of Korean Won</i>	End of 2017		End of 2016	
	Before adjustment	After adjustment	Before adjustment	After adjustment
Current assets:	₩4,738,590	₩4,688,299	₩4,832,953	₩4,782,329
Cash and cash equivalents	1,104,825	589,766	688,735	528,372
Current other financial assets	1,530,000	2,047,686	1,620,000	1,787,569
Trade and other receivables	951,435	898,211	1,140,598	1,086,301
Inventories	872,085	872,391	914,702	911,169
Non-current assets:	3,936,374	3,992,119	3,635,859	3,686,484
Other long-term financial assets	6,340	6,340	-	-
Property, plant and equipment	1,267,825	1,171,775	1,117,268	1,039,955
Investment property	325,423	426,621	335,196	416,043
Trade and other receivables	80,535	131,132	68,017	115,109
Total assets	8,674,963	8,680,418	8,468,812	8,468,812
Current liabilities:	1,451,029	1,456,484	1,762,299	1,762,299
Trade and other payables	386,587	392,042	436,270	436,270
Non-current liabilities:	80,377	80,377	127,616	127,616
Total liabilities	1,531,406	1,536,861	1,889,915	1,889,915
Total equity	7,143,557	7,143,557	6,578,897	6,578,897
Total liabilities and equity	8,674,963	8,680,418	8,468,812	8,468,812

38-4. The effects of comparative presentation of separate financial statements on separate cash flows for financial years prior to 31 December 2017 are as follows:

<i>In millions of Korean Won</i>	2017		2016	
	Before adjustment	After adjustment	Before adjustment	After adjustment
Cash flows from operating activities:				
Cash generated from operations	₩1,441,666	₩1,444,909	₩1,694,203	₩1,694,203
Net cash provided by operating activities	1,101,942	1,105,185	1,352,145	1,352,145
Cash flows from investing activities:				
Decrease(increase) of guarantee deposits	(2,148)	(585)	(6,426)	(5,931)
Decrease(increase) in other financial assets	83,660	(271,037)	(540,000)	(464,135)
Net cash used in investing activities	(235,785)	(588,919)	(680,178)	(603,818)
Cash flows from financing activities:				
Decrease in deposits received	(4,710)	-	(3,704)	-
Increase in deposits received	9,515	-	4,199	-
Net cash used in financing activities	(449,749)	(454,554)	(427,789)	(428,284)
Net increase in cash and cash equivalents	416,090	61,394	244,360	320,225
Cash and cash equivalents at January 1	688,735	528,372	444,375	208,147
Cash and cash equivalents at December 31	1,104,825	589,766	688,735	528,372

39. Events occurred after the reporting period

In April 2019, through the resolution of the board of directors on March 14, 2019, the Company will invest 100% of the shares(investment amount : ₩41,138 million) of KGC Yebon Corporation which is held by the parent company, as a subsidiary of Korea Ginseng Corporation.

KT&G CORPORATION AND SUBSIDIARIES

Review of Internal Accounting Control System

Independent Accountants' Review Report on Internal Accounting Control System ("IACS"):

English Translation of a Report Originally Issued in Korean on March 21, 2019

To the Chief Executive Officer
KT&G Corporation

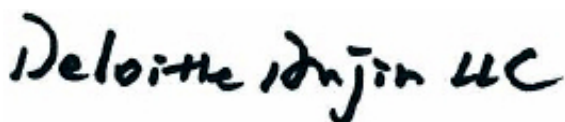
We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of KT&G Corporation (the "Company") as of December 31, 2018. The Management's Report and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2018, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2018, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report, in all material respects. A review includes obtaining an understanding of a Company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

The Company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with Korean International Financial Reporting Standards, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2018, and we did not review its IACS subsequent to December 31, 2018. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.



March 21, 2019

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/kr/about to learn more about our global network of member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is Hill House, 1 Little New Street, London, EC4A 3TR, United Kingdom.