



# **KT&G CORPORATION**

**Review Report on Separate Interim Financial Statements  
First Half of the 33<sup>rd</sup> fiscal year  
from January 1, 2019, to June 30, 2019**

**ATTACHMENT: INDEPENDENT AUDITOR'S REVIEW REPORT**

**KT&G CORPORATION**

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## KT&G CORPORATION

### Independent auditor's review report

English Translation of Independent Auditor's Review Report Originally Issued in Korean on August 14, 2019

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

#### **Reviewed financial statements**

We have reviewed the accompanying condensed separate financial statements of KT&G Corporation (the "Company"). The condensed separate financial statements consist of the condensed separate statement of financial position as of June 30, 2019, the related condensed separate statements of income and comprehensive income for the three months and six months ended June 30, 2019, changes in equity and cash flows for the six months ended June 30, 2019 all expressed in Korean won, and a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the Separate financial statements**

The Company's management is responsible for the preparation and fair presentation of the accompanying condensed separate financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' responsibility**

Our responsibility is to express a conclusion on the accompanying condensed separate financial statements based on our reviews.

We conducted our reviews in accordance with standards for review of interim financial statements in the Republic of Korea. A review is limited primarily to inquiries of the Company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

#### **Review results**

Based on our reviews and review results, nothing has come to our attention that causes us to believe that the accompanying condensed separate financial statements are not presented fairly, in all material respects, in accordance with K-IFRS 1034, 'Interim Financial Reporting'.

**Other matters**

The separate statement of financial position as of December 31, 2018, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows (not included in this review) were audited in accordance with the Korean Auditing Standards, which expressed its unqualified opinion on the audit report dated March 21, 2019. The accompanying condensed separate statement of financial position as of December 31, 2018, presented for comparative purposes, does not differ from the above audited statement of financial position with respect to materiality.

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

*Deloitte Anjin LLC*

August 14, 2019

<p>This report is effective as of August 14, 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 accompanying condensed separate financial statements and may result in modifications to the auditors' report.</p>
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**KT&G CORPORATION (the “Company”)**  
**Separate interim financial statements**

First Half of the 33<sup>rd</sup> fiscal year  
from January 1, 2019, to June 30, 2019

First Half of the 32<sup>nd</sup> fiscal year  
from January 1, 2018, to June 30, 2018

"The Separate interim financial statements attached have been prepared by the Company."  
CEO of KT&G Corporation, Baek Bok In

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(Telephone) 080-931-0399

# KT&G CORPORATION

## Condensed separate interim statements of financial position

As of June 30, 2019 and December 31, 2018

<i>In Korean won</i>	<i>Notes</i>	<i>As of June 30, 2019</i>	<i>As of December 31, 2018</i>
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and cash equivalents	22,23	₩915,271,204,694	₩748,123,323,519
Current other financial assets	22,23	296,340,300,000	570,000,000,000
Current fair value through profit or loss	22,23	1,626,030,555,825	1,139,704,589,088
Financial derivatives	22	1,109,928,144	1,238,664,783
Trade and other receivables	5,21,22	863,091,419,927	730,894,507,798
Inventories	6	928,176,323,195	954,677,584,804
Refund assets etc.		1,180,206,200	421,874,000
Accrued tobacco excise and other taxes		131,112,879,692	218,210,022,210
Advance payments		46,342,253,108	18,377,223,800
Prepaid expenses		10,298,566,873	9,190,208,637
Assets held for sale	12,21	4,574,286,712	27,793,765,475
<b>Total current assets</b>		<b>₩4,823,527,924,370</b>	<b>₩4,418,631,764,114</b>
<b>Non-current assets:</b>			
Other long-term financial assets	22,26	₩596,920,000	₩6,937,220,000
Long-term deposits in MSA Escrow Fund	22,26	686,673,387,476	615,527,896,771
Fair value through profit or loss	22	226,680,690,751	210,655,373,106
Long-term trade and other receivables	5,21,22	118,630,233,452	119,288,362,714
Fair value through other comprehensive income or loss	22	249,752,043,835	230,545,108,827
Investments in associates and joint ventures	7	61,830,010,000	77,430,010,000
Investments in subsidiaries	8	1,172,467,825,611	1,185,361,245,738
Property, plant and equipment	9,26	1,170,142,691,951	1,200,906,524,123
Intangible assets	10	39,741,364,799	31,328,960,084
Investment property	11,26	699,998,242,374	606,679,330,988
Right-of-use assets	28,29	16,680,117,807	-
Long-term advance payments		9,510,956,440	9,510,956,440
Long-term prepaid expenses		6,468,095,835	7,267,349,723
Deferred income tax assets		19,410,929,436	9,845,531,641
<b>Total non-current assets</b>		<b>4,478,583,509,767</b>	<b>4,311,283,870,155</b>
<b>Total assets</b>		<b>₩9,302,111,434,137</b>	<b>₩8,729,915,634,269</b>

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

# KT&G CORPORATION

## Condensed separate interim statements of financial position, continued

As of June 30, 2019 and December 31, 2018

<i>In Korean won</i>	<i>Notes</i>	<i>As of June 30, 2019</i>	<i>As of December 31, 2018</i>
<b>Liabilities and equity:</b>			
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Short-term borrowings	13,22,23	₩1,054,426,387	₩1,246,100,270
Trade and other payables	21,22	441,033,754,358	398,082,555,860
Current lease liabilities	22,28,29	6,505,373,188	-
Derivative liabilities	22	1,032,591,530	460,667,312
Advance receipts		137,610,682,128	161,629,415,091
Current refund liabilities and provisions	18	11,648,223,302	6,455,107,857
Current income tax liabilities		190,477,938,528	169,266,311,114
Tobacco excise and other taxes payable		1,027,841,666,919	551,877,758,317
<b>Total current liabilities</b>		<b>₩1,817,204,656,340</b>	<b>₩1,289,017,915,821</b>
<b>Non-current liabilities:</b>			
Long-term trade and other payables	21,22	43,267,084,808	39,152,218,138
Long-term lease liabilities	22,28,29	9,337,330,391	-
Long-term advance receipts		1,822,750,099	701,673,919
Net defined benefit liability	17	65,860,373,409	34,837,214,841
Long-term refund liabilities and provisions	18	3,550,064,016	985,318,269
<b>Total non-current liabilities</b>		<b>₩123,837,602,723</b>	<b>₩75,676,425,167</b>
<b>Total liabilities</b>		<b>₩1,941,042,259,063</b>	<b>₩1,364,694,340,988</b>
<b>Equity:</b>			
Ordinary shares		₩954,959,485,000	₩954,959,485,000
Other capital surplus		3,582,160,908	3,582,160,908
Treasury shares		(328,157,286,128)	(328,157,286,128)
Gain on sale of treasury shares		513,775,933,891	513,775,933,891
Reserve		5,729,925,519,490	5,430,034,290,488
Retained earnings	24	486,983,361,913	791,026,709,122
<b>Total equity</b>	23	<b>₩7,361,069,175,074</b>	<b>₩7,365,221,293,281</b>
<b>Total liabilities and equity</b>		<b>₩9,302,111,434,137</b>	<b>₩8,729,915,634,269</b>

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

# KT&G CORPORATION

## Condensed separate interim statements of comprehensive income

For the three months and six months ended June 30, 2019 and 2018

In Korean won	Notes	2019		2018	
		Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
<b>Sales</b>	4,19,21	₩812,615,657,556	₩1,471,286,357,180	₩705,516,360,607	₩1,277,831,947,370
Manufacture of tobacco		677,745,240,591	1,256,713,925,177	660,678,355,187	1,198,070,303,723
Real estate		114,955,776,315	178,857,576,797	24,385,456,385	38,349,058,112
Exports of leaf tobacco and others		19,914,640,650	35,714,855,206	20,452,549,035	41,412,585,535
<b>Cost of sales</b>	14,21	(310,247,315,504)	(561,546,934,956)	(270,299,240,165)	(476,136,025,843)
Manufacture of tobacco		(249,317,574,355)	(463,948,914,737)	(246,112,466,906)	(432,429,291,121)
Real estate		(46,217,914,738)	(70,685,553,342)	(7,585,398,650)	(10,221,029,797)
Exports of leaf tobacco and others		(14,711,826,411)	(26,912,466,877)	(16,601,374,609)	(33,485,704,925)
<b>Gross profit</b>		502,368,342,052	909,739,422,224	435,217,120,442	801,695,921,527
Selling, general and administrative expenses	14	(162,461,611,954)	(317,154,184,995)	(159,506,934,417)	(312,672,400,924)
<b>Operating profit</b>		339,906,730,098	592,585,237,229	275,710,186,025	489,023,520,603
Other income	15,21	51,537,388,538	78,779,978,504	64,635,581,005	85,833,168,777
Other expenses	15,21	(21,195,629,066)	(32,385,283,585)	(21,606,212,321)	(23,021,154,291)
Finance income	16,22	22,610,419,040	54,501,999,538	26,659,001,923	118,066,495,708
Cost of finance	16,22	(2,056,728,263)	(8,383,869,029)	(614,884,199)	(858,660,945)
<b>Profit before income tax</b>		390,802,180,347	685,098,062,657	344,783,672,433	669,043,369,852
Income tax expense	20	(104,628,537,100)	(184,844,705,382)	(92,165,725,333)	(159,494,290,487)
<b>Profit for the period</b>		₩286,173,643,247	₩500,253,357,275	₩252,617,947,100	₩509,549,079,365
<b>Other comprehensive income (loss) after income tax:</b>					
<b>Items that will not be reclassified to profit or loss</b>					
Remeasurements of net defined benefit liability		(12,783,324,376)	(13,269,995,362)	(346,723,870)	(1,224,472,868)
Gain or loss on valuation of fair value through other comprehensive income or loss		6,121,616,881	13,925,027,880	(7,169,257,088)	(14,066,587,737)
<b>Other comprehensive income(loss) after income tax</b>		₩(6,661,707,495)	₩655,032,518	₩(7,515,980,958)	₩(15,291,060,605)
<b>Total comprehensive income for the period</b>		₩279,511,935,752	₩500,908,389,793	₩245,101,966,142	₩494,258,018,760
<b>Earnings per share:</b>					
Basic and diluted	25	₩2,266	₩3,962	₩2,001	₩4,036

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



# KT&G CORPORATION

## Condensed separate interim statements of changes in equity

For the six months ended June 30, 2018

<i>In Korean won</i>	Ordinary shares	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Total equity
<b>Balance at January 1, 2018(before revision)</b>	₩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)	(31,464,641,981)	(68,230,371,377)
<b>Balance at January 1, 2018 (after revision)</b>	954,959,485,000	3,582,160,908	(328,157,286,128)	513,775,933,891	4,972,534,911,109	958,631,373,275	7,075,326,578,055
<b>Total comprehensive income (loss) for the period:</b>							
Profit for the period	-	-	-	-	-	509,549,079,365	509,549,079,365
<b>Other comprehensive income (loss)</b>							
<b>for the period:</b>							
Remeasurements of net defined benefit liability	-	-	-	-	-	(1,224,472,868)	(1,224,472,868)
Gain or loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(14,066,587,737)	-	(14,066,587,737)
Sum of other comprehensive income (loss) for the period	-	-	-	-	(14,066,587,737)	(1,224,472,868)	(15,291,060,605)
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	(14,066,587,737)	508,324,606,497	494,258,018,760
<b>Transactions with owners, recognized directly in equity:</b>							
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 special reserve fund	-	-	-	-	495,035,507,256	(495,035,507,256)	-
<b>Total transactions with owners of the Company</b>	-	-	-	-	485,035,507,256	(990,096,015,256)	(505,060,508,000)
<b>Balance at June 30, 2018</b>	₩954,959,485,000	₩3,582,160,908	₩(328,157,286,128)	₩513,775,933,891	₩5,443,503,830,628	₩476,859,964,516	₩7,064,524,088,815

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

# KT&G CORPORATION

## Condensed separate interim statements of changes in equity, continued

For the six months ended June 30, 2019

<i>In Korean won</i>	Ordinary shares	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Total equity
<b>Balance at January 1, 2019</b>	₩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
<b>Total comprehensive income (loss) for the period:</b>							
Profit for the period	-	-	-	-	-	500,253,357,275	500,253,357,275
<b>Other comprehensive income (loss) for the period:</b>							
Remeasurements of net defined benefit liability	-	-	-	-	-	(13,269,995,362)	(13,269,995,362)
Gain or loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	13,925,027,880	-	13,925,027,880
Sum of other comprehensive income (loss) for the period	-	-	-	-	13,925,027,880	(13,269,995,362)	655,032,518
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	13,925,027,880	486,983,361,913	500,908,389,793
<b>Transactions with owners, recognized directly in equity:</b>							
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)
Transfer to unconditional reserve	-	-	-	-	285,966,201,122	(285,966,201,122)	-
<b>Total transactions with owners of the Company</b>	-	-	-	-	285,966,201,122	(791,026,709,122)	(505,060,508,000)
<b>Balance at June 30, 2019</b>	₩954,959,485,000	₩3,582,160,908	₩(328,157,286,128)	₩513,775,933,891	₩5,729,925,519,490	₩486,983,361,913	₩7,361,069,175,074

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

# KT&G CORPORATION

## Condensed separate interim statements of cash flows

For the six months ended June 30, 2019 and 2018

<i>In Korean won</i>	<i>Notes</i>	Six months ended June 30, 2019	Six months ended June 30, 2018
<b>Net cash provided by operating activities</b>		<b>₩978,259,225,731</b>	<b>₩707,079,962,663</b>
Cash generated from operations	27	1,151,706,162,106	855,419,158,775
Income tax paid		(173,446,936,375)	(148,339,196,112)
<b>Net cash used in investing activities</b>		<b>(301,716,781,148)</b>	<b>(685,888,118,337)</b>
Interest received		10,031,050,540	5,662,170,884
Dividends received		15,402,948,878	64,867,984,985
Decrease in (non-current) fair value through profit or loss		-	30,832,952,910
Decrease in fair value through other comprehensive income or loss		-	1,152,600,000
Proceeds from sale of property, plant and equipment		4,275,087,344	5,321,655,357
Proceeds from sales of intangible assets		97,979,683	350,484,000
Disposal of assets held for sale		29,977,251,000	-
Disposal of investments in associates		24,650,929,551	-
Collection of loans		6,952,022,789	8,353,550,300
Collection of guarantee deposits		75,000,000	9,297,923,935
Acquisition of property, plant and equipment		(92,523,792,664)	(181,064,221,595)
Acquisition of intangible assets		(2,455,591,023)	(2,859,287,722)
Acquisition of investment property		(38,759,952,318)	-
Acquisition of assets held for sale		(6,382,433,376)	-
Increase in loans		(3,489,733,498)	-
Increase in guarantee deposits		-	(13,022,760,000)
Increase in long-term deposits in MSA Escrow Fund		(48,734,791,687)	(32,924,693,568)
Increase in (current) fair value through profit and loss		(462,332,756,367)	-
Increase in (non-current) fair value through profit and loss		(18,500,000,000)	(33,000,000,000)
Decrease(increase) in other financial assets, net		280,000,000,000	(548,856,477,823)
<b>Net cash used in financing activities</b>		<b>(508,664,234,896)</b>	<b>(502,391,140,746)</b>
Repayment of lease liabilities		(3,603,726,896)	-
Payment of dividends		(505,060,508,000)	(505,060,508,000)
Increase in guarantee deposits		-	5,229,478,054
Decrease in guarantee deposits		-	(2,560,110,800)
<b>Net increase(decrease) in cash and cash equivalents</b>		<b>167,878,209,687</b>	<b>(481,199,296,420)</b>
<b>Cash and cash equivalents at January 1</b>		<b>748,123,323,519</b>	<b>589,765,862,776</b>
Effect of exchange rate fluctuation on cash and cash equivalents		(730,328,512)	1,951,676,602
<b>Cash and cash equivalents at June 30</b>		<b>₩915,271,204,694</b>	<b>₩110,518,242,958</b>

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

## KT&G CORPORATION

### Notes to the separate interim financial statements

As of June 30, 2019 and December 31, 2018, and for the six months ended June 30, 2019 and 2018

#### 1. Overview of the Company

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of June 30, 2019, the Company has three manufacturing plants (including the Shintanjin plant), 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.

The Company was established as a government-owned enterprise pursuant to the Korea Monopoly Corporation Act on April 1, 1987. On April 1, 1989, the Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. The Company was excluded from the application of the Act for the Management of Government-Invested Enterprises, and became an entity existing and operating under the Commercial Act of Korea, pursuant to the Act on Management Reform and Privatization of Public Enterprises, proclaimed on August 28, 1997, and enforced on October 1, 1997, in order to secure financing and to promote and develop, through efficient management, the monopoly business of red ginseng and tobacco. The shareholders approved a plan to separate the Company into two companies by setting up a subsidiary for its red ginseng business segment effective from January 1, 1999, pursuant to the Korean government’s privatization program and management reorganization plan. The separation into a wholly owned subsidiary, Korea Ginseng Corporation, was accomplished by the Company’s contribution of the assets and liabilities in the red ginseng business segment. 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 June 30, 2019, is held as follows:

	Number of shares	Percentage of ownership
National Pension Service	14,154,180	10.31%
Industrial Bank of Korea	9,510,485	6.93%
Employee Share Ownership Association	2,847,030	2.07%
Treasury shares	11,027,370	8.03%
Others	99,753,432	72.66%
<b>Total</b>	<b>137,292,497</b>	<b>100.00%</b>

## 2. Significant Accounting Policies

### 2-1. Basis of Preparation

The separate interim financial statements of the Company have been prepared in accordance with Korean International Financial Reporting Standard (“K-IFRS”) No. 1034 'Interim Financial Reporting.' These separate interim financial statements have been prepared in accordance with K-IFRS that are effective or have been adopted early as of June 30, 2019, which is the end of the reporting period.

The separate interim financial statements of the Company were authorized for issue in the board of directors' meeting held on August 8, 2019.

### 2-2. Changes in Accounting Policies and Disclosures

#### (1) New or 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 on January 1, 2019.

##### - Enactment to K-IFRS No. 1116 Leases

K-IFRS No. 1116 Leases replaces K-IFRS No. 1017 Leases. Under the new standard, with implementation of a single lease model, a lessee is required to recognize assets and liabilities for all leases whose lease term is more than 12 months and underlying assets are not low value assets. The lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

The Company had changed the accounting policies as a result of application of K-IFRS No. 1116. The changed accounting policies were applied retrospectively in accordance with the transition provisions of K-IFRS No. 1116 and the cumulative effect of initial application was reflected on January 1, 2019, the date of initial application. The comparative separate interim financial statements are not restated. The impact of introducing the lease standard and the new accounting policy is described in Note 29.

##### - Amendments to 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 does not result in derecognition, a modification gain or loss shall be recognized in profit or loss.

##### - 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.

- 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 a joint venture to which the equity method is not applied. The amendments also state that an entity should apply K-IFRS No. 1109 for impairment of long-term interests that form part of an entity's net investment in the associate or joint venture.

- 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.

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

These amendments focus on 'additional disclosure of contracts to apply the cost-based input method' by amending the meaning of 'contracts' referred to in paragraph Han129.1 to 'individual contracts' so that the scope of the disclosure cannot be reduced even if K-IFRS No. 1115 is applied. Furthermore, because K-IFRS No. 1115 does not distinguish between types of contracts, it is clarified that service contracts that were not subject to the application of paragraph Han 45.1 of K-IFRS No. 1011 may also be subject to the application of paragraph Han 129.1 of K-IFRS No. 1115 and therefore may broaden the scope of public contracts in accordance with paragraph Han 129.1 of K-IFRS No. 1115 compared to previous revenue standards.

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

① 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.

② 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.

③ K-IFRS No. 1012 Income Tax

K-IFRS No. 1012 paragraph 57A (which stipulates items to be recognized and the period of recognition regarding tax effects of dividends) applies to all income tax effects of dividends and requires an entity to recognize the income tax effects of dividends in either profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

④ 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.

There are no material effects of the above mentioned amendments made to K-IFRS on the separate interim financial statements, except for the amendments made to K-IFRS No. 1116 Leases.

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

Certain new accounting standards and interpretations that have been published, but are not mandatory for annual reporting period commencing on January 1, 2019 and have not been early adopted by the Company are set out below.

- Amendment to K-IFRS No. 1001 'Presentation of Financial Statements' and K-IFRS No. 1008 'Accounting Policies, Changes in Accounting Estimates and Errors' – Definition of materiality
- Amendment to K-IFRS No. 1103 'Business Combination' – Definition of business
- Enactment to K-IFRS No. 1117 'Insurance Contracts'

## 2.3. Accounting Policies

Accounting policies applied in presenting the separate interim financial statements for the six months ended June 30, 2019, are identical to those applied in presenting the separate financial statements for the year ended December 31, 2018, except for the amendments and enactments described in Note 2.2 and the description of the paragraph below.

## 2.4 Modification of Comparative Financial Statements

To facilitate comparison with the consolidated interim financial statements for the six months ended June 30, 2019, the Company revised its comparative statement of cash flows. This comparative presentation of separate interim financial statements does not affect the cash flows of operating, investing or financing activities for the six months ended June 30, 2018.

## 3. Critical Accounting Estimates and Assumptions

The preparation of separate interim 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 critical accounting estimates and assumptions used in presenting the separate interim financial statements for the six months ended June 30, 2019, are identical to those applied in presenting the separate financial statements for the year ended December 31, 2018, except for the method of estimations used to determine income tax and the accounting estimates and assumptions resulting from the adoption of K-IFRS No. 1116 stated in Note 2.2.

#### 4. 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.

			2019		2018	
			Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
<i>In millions of Korean won</i>						
Revenue recognized at a point in time:						
Manufacture and sales of tobacco	Korea	Wholesale, retail	₩408,754	₩772,200	₩393,594	₩734,448
		Special (duty free, etc.)	55,479	113,273	48,863	99,304
		Direct sales	28	64	-	-
	Export	Wholesale, retail etc.	189,105	320,459	184,216	316,547
Sales of tobacco product	Korea	Wholesale, retail	21,706	45,636	30,161	42,960
		Special (duty free, etc.)	1,745	3,373	3,845	4,811
		Direct sales	803	1,583	-	-
	Export	Wholesale, retail	126	126	-	-
Manufacture and sale of semifinished tobacco products	Export	Subsidiaries, etc.	16,497	28,433	15,485	33,814
Manufacture and sale of tobacco raw materials	Export	Direct sales	1,634	3,155	3,095	4,633
Others	Korea	Direct sales	1,783	4,127	1,872	2,967
Subtotal			697,660	1,292,429	681,131	1,239,484
Revenue recognized over time:						
Sale and rental of real estate	Korea	Sales	98,324	145,661	10,984	10,984
	Korea	Rental	16,632	33,196	13,401	27,364
Subtotal			114,956	178,857	24,385	38,348
Total			₩812,616	₩1,471,286	₩705,516	₩1,277,832



## 5. Trade and Other Receivables

5-1. Trade and other receivables as of June 30, 2019 and December 31, 2018, are summarized as follows:

<i>In millions of Korean won</i>	As of June 30, 2019		As of December 31, 2018	
	Current	Non-current	Current	Non-current
Loans to employees	₩18,420	₩23,678	₩16,816	₩28,428
Loans	2,581	18,788	2,477	16,688
Other receivables	17,491	9,186	17,039	9,829
Guarantee deposits	28,438	17,824	25,891	20,149
Accrued income	6,025	-	6,821	-
Trade receivables	790,136	49,154	661,851	44,194
Total	₩863,091	₩118,630	₩730,895	₩119,288

5-2. Allowance for doubtful accounts in relation to trade and other receivables (as a gross amount before deduction of allowance for doubtful accounts) as of June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>	As of June 30, 2019		As of December 31, 2018	
	Current	Non-current	Current	Non-current
Total carrying amount	₩930,107	₩190,506	₩799,232	₩194,487
Allowances:				
Loans	(87)	(17,089)	(255)	(18,386)
Other receivables	(303)	(13,089)	(253)	(13,947)
Accrued income	(67)	(2,161)	(53)	(2,161)
Trade receivables	(66,559)	(39,537)	(67,776)	(40,705)
Total allowances	(67,016)	(71,876)	(68,337)	(75,199)
Net carrying amount	₩863,091	₩118,630	₩730,895	₩119,288

5-3. Changes in allowance for doubtful accounts in relation to trade and other receivables for the six months ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019	Six months ended June 30, 2018
Beginning balance	₩143,536	₩ 56,925
Change in accounting policy	-	86,149
Impairment loss (reversal) <sup>1)</sup>	(4,644)	4,466
Write off	-	(5,317)
Ending balance	₩138,892	₩142,223

<sup>1)</sup> Impairment loss (reversal of impairment loss) for trade receivables is included as part of selling, general and administrative expenses while impairment loss (reversal of impairment loss) for other receivables is included as part of other expenses (income) in the separate interim statements of comprehensive income.

## 6. Inventories

6-1. Details of inventories as of June 30, 2019 and December 31, 2018, are summarized as follows:

<i>In millions of Korean won</i>	As of June 30, 2019			As of December 31, 2018		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩40,923	₩(2,575)	₩38,348	₩35,351	₩(37)	₩35,314
Finished goods	81,506	(290)	81,216	80,840	(982)	79,858
Work in progress	14,257	-	14,257	14,053	-	14,053
Raw materials	701,641	-	701,641	727,089	-	727,089
Supplies	26,204	-	26,204	24,486	-	24,486
Byproducts	8,126	-	8,126	6,941	-	6,941
Buildings under construction	771	-	771	280	-	280
Completed buildings	2,489	-	2,489	3,069	-	3,069
Sites for construction of real estate	11,065	-	11,065	8,990	-	8,990
Goods in transit	44,059	-	44,059	54,598	-	54,598
Total	₩931,041	₩(2,865)	₩928,176	₩955,697	₩(1,019)	₩954,678

6-2. The amount of loss on valuation and obsolescence of inventories recognized as expenses for the periods ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Loss on valuation of inventories (reversal)	₩345	₩(28)	₩289	₩709
Loss on obsolescence of inventories	1,295	2,319	1,261	1,869

## 7. Investments in Associates and Joint Ventures

Investments in associates and joint ventures as of June 30, 2019 and December 31, 2018, are summarized as follows:

<i>In millions of Korean won</i>	Location	Principal operation	As of June 30, 2019		As of December 31, 2018	
			Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Cosmo Tobacco Co., Ltd.	Mongolia	Manufacturing and sales of tobacco	40.00%	₩ -	40.00%	₩ -
LitePharmTech Co., Ltd.	Korea	Manufacture of medicine and medical supplies	20.24%	1,830	20.24%	1,830
JR REIT 5 Co., Ltd.	Korea	Real estate rental business	-	-	34.63%	5,600
JR REIT 8 Co., Ltd.	Korea	Real estate rental business	-	-	21.74%	10,000
LSK Global Pharma Services Co., Ltd.	Korea	Researching and developing medicine	23.15%	-	23.15%	-
JR REIT 10 Co., Ltd.	Korea	Real estate rental business	28.79%	9,500	28.79%	9,500
KB Gimpo Logistics CR REIT Co., Ltd. <sup>1)</sup>	Korea	Real estate rental business	12.00%	3,000	12.00%	3,000
KORAMCO Private REIT 50 Fund <sup>2)</sup>	Korea	Real estate rental business	84.21%	16,000	84.21%	16,000
Yong In Jung Sim Co., Ltd.	Korea	Developing real estate	22.22%	1,000	22.22%	1,000
KORAMCO Europe Private REIT 3-2 Fund <sup>2)</sup>	Germany	Real estate rental business	51.35%	18,500	51.35%	18,500
Starfield Suwon	Korea	Real estate development and rental business	50.00%	12,000	50.00%	12,000
Total				₩61,830		₩77,430

<sup>1)</sup> 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.

<sup>2)</sup> 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.

During the year ended December 31, 2018, the Company had made an investment of ₩18,500 million in KORAMCO Europe Real Estate Investment Fund 3-2, and ₩12,000 million in Starfield Suwon,

During the year ended December 31, 2018, the Company received the remaining assets according to the liquidation procedure of JR REIT 13 Co., Ltd. and recognized a ₩25 million gain on disposal of investments in associates and joint ventures.

During the six months ended June 30, 2019, the Company received the remaining assets according to the liquidation procedure of JR REIT 5 Co., Ltd. and JR REIT 8 Co., Ltd. and recognized a ₩9,051 million gain on disposal of investments in associates and joint ventures.

## 8. Investments in subsidiaries

Investments in subsidiaries as of June 30, 2019 and December 31, 2018, are summarized as follows:

In millions of Korean won	Location	Principal Operation	As of June 30, 2019		As of December 31, 2018	
			Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00%	₩762,130	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%	52,698
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	Manufacturing and selling tobaccos	99.99%	-	99.99%	5,727
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%	89,296
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%	29,437	98.56%	34,459
Renzoluc Pte., Ltd. <sup>1)</sup>	Singapore	Holding Company	100.00%	148,834	100.00%	148,834
KGC Yebon Corporation	Korea	Manufacturing and selling medical herbs	-	-	100.00%	45,982
PT KT&G Indonesia	Indonesia	Selling tobaccos	99.99%	1,240	99.99%	1,240
SangSang Stay, Inc.	Korea	Hotel	100.00%	2,948	100.00%	5,092
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00%	1,212	100.00%	1,212
Gwacheon SangSang P.F.V.	Korea	Real estate development and sales business	51.00%	3,570	51.00%	3,570
Total				₩1,172,468		₩1,185,361

<sup>1)</sup> The percentage of ownership does not include convertible preference shares, with 88.6% including preferred shares as of June 30, 2019.

During the year ended December 31, 2018, the Company has acquired equity securities of Gwacheon Sangsang PFV (714,000 shares for ₩3,570 million), Tae-A Industry Co., Ltd. (691,356 shares for ₩37,000 million), and Sangsang Stay Inc. (800,000 shares for ₩4,000 million).

During the six months ended June 30, 2019, the Company has made a capital contribution in kind of its 100% equity holdings in KGC Yebon Corporation to its subsidiary, Korea Ginseng Corporation.

The Company is conducting a review of the signs of impairment on its investment in subsidiaries and, if any, situations that impairment seems necessary occurs, the Company estimates the recoverable amount and performs an impairment test.

The table below shows the results of impairment tests for investments in subsidiaries where there have been signs of impairment. The signs of impairment are that the carrying amount of the subsidiary's net assets is lower than the carrying amount of the Company's investment in the subsidiary, due to the accumulation of operating losses for the six months ended June 30, 2019.

<i>In millions of Korean won</i>	Impairment amount	Method for evaluating recoverable amount
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	₩5,727	Fair value
Cosmococ Co., Ltd.	5,022	Fair value
SangSang Stay, Inc.	2,144	Fair value
<b>Total</b>	<b>₩ 12,893</b>	

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.

## 9. Property, Plant and Equipment

Changes in property, plant and equipment for the six months ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019	Six months ended June 30, 2018
Beginning balance	₩1,200,907	₩1,267,825
Acquisition	85,105	198,272
Disposal	(1,123)	(3,532)
Impairment	(436)	(3,685)
Depreciation	(41,894)	(42,964)
Reclassification etc.	(72,416)	(200,812)
Ending balance	₩1,170,143	₩1,215,104

## 10. Intangible Assets

Changes in intangible assets for the six months ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019	Six months ended June 30, 2018
Beginning balance	₩31,329	₩27,235
Acquisition	2,456	2,859
Disposal	(96)	(361)
Depreciation	(211)	(30)
Reclassification etc.	6,263	-
Ending balance	₩39,741	₩29,703

## 11. Investment property

Changes in investment property for the six months ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019	Six months ended June 30, 2018
Beginning balance	₩ 606,679	₩325,423
Acquisition	38,760	70,591
Depreciation	(8,039)	(5,335)
Reclassification etc.	62,598	122,101
Ending balance	₩699,998	₩512,780

## 12. Assets held for sale

Changes in assets held for sale for the six months ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019	Six months ended June 30, 2018
Beginning balance	₩27,794	₩ -
Acquisition	6,382	-
Disposal	(29,602)	-
Ending balance	₩4,574	₩ -

## 13. Borrowings

Short-term borrowings as of June 30, 2019, and December 31, 2018, are summarized as follows:

<i>In millions of Korean won</i>	Annual interest rate	As of June 30, 2019	As of December 31, 2018
NH Nonghyup Bank	CD distribution yield (91 days) + 4.5%	₩823	₩985
Hanacard	CD distribution yield (91 days) + 2.5%	231	261
Total		₩1,054	₩1,246

- (\*) The Company provides payment guarantees to financial institutions in accordance with the consumer financial agreement in connection with retail sales receivables, and receives related bonds from financial institutions and recognizes them as short-term borrowings.

## 14. Operating Profit

14-1. Details of expenses, classified by nature, incurred for the three months and six months ended June 30, 2019, and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Changes in inventories	₩19,548	₩26,501	₩23,819	₩11,443
Raw materials used and merchandise purchased	104,554	271,218	146,657	327,061
Salaries	72,769	161,498	83,798	178,350
Retirement and termination benefits	8,506	21,711	7,693	18,952
Depreciation	27,410	53,708	24,065	48,299
Amortization	191	211	16	30
Employee welfare	9,711	20,300	11,138	21,366
Advertising	19,888	42,834	25,678	46,845
Commissions	27,442	61,072	31,871	60,295
Other expenses	182,690	219,648	75,071	76,167
<b>Total</b>	<b>₩472,709</b>	<b>₩878,701</b>	<b>₩429,806</b>	<b>₩788,808</b>

14-2. Details of selling, general and administrative expenses for the three months and six months ended June 30, 2019, and 2018, are as follows:

<i>In millions of Korean Won</i>	2019		2018	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Salaries	₩56,796	₩118,461	₩56,288	₩120,317
Retirement and termination benefits	6,006	15,397	5,370	13,417
Employee welfare	7,739	15,172	7,887	15,401
Travel expenses	2,607	4,782	2,514	4,540
Communication cost	761	1,377	757	1,488
Utilities	2,039	4,932	1,859	4,893
Taxes and utilities	19,936	21,024	14,918	16,032
Supplies	410	865	457	917
Rent	1,071	3,153	3,222	6,728
Depreciation	7,631	15,494	8,108	16,359
Amortization	191	211	16	30
Depreciation expense for right-of-use assets	2,106	3,775	-	-
Repairs and maintenance	1,022	1,517	1,002	1,598
Vehicles	920	1,763	1,025	1,988
Insurance	18	508	14	509
Commissions	25,775	50,089	21,174	38,303
Freight and custody	2,761	4,968	2,871	5,281
Conferences	834	1,677	833	1,634
Advertising	19,864	42,787	25,637	46,780
Education and training	1,382	2,280	1,525	2,080
Prizes and rewards	440	839	355	993
Research and development	5,028	8,468	3,374	6,765
Impairment loss (reversal of impairment loss) on trade receivables	(2,875)	(2,385)	301	6,619
<b>Total</b>	<b>₩162,462</b>	<b>₩317,154</b>	<b>₩159,507</b>	<b>₩312,672</b>

## 15. Other Income and Expenses

15-1. Details of other income for the three months and six months ended June 30, 2019, and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Foreign currency transaction gain	₩9,056	₩10,591	₩3,688	₩4,414
Foreign currency translation gain	16,066	41,211	53,616	50,936
Reversal of impairment loss of other receivables	702	2,323	2,423	2,153
Gain on disposal of property, plant and equipment	2,051	2,051	421	551
Gain on disposal of intangible assets	-	3	-	-
Gain on valuation of derivatives	4,053	1,110	-	388
Gain on derivative transactions	-	-	1,610	2,434
Gain on disposal of asset held for sale	375	375	-	-
Gain on disposal of investment in associates	9,051	9,051	-	-
Miscellaneous profit	10,183	12,065	2,878	24,957
<b>Total</b>	<b>₩51,537</b>	<b>₩78,780</b>	<b>₩64,636</b>	<b>₩85,833</b>

15-2. Details of other expenses for the three months and six months ended June 30, 2019, and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Foreign currency transaction loss	₩2,412	₩3,092	₩1,009	₩1,742
Foreign currency translation loss	773	988	-	1,833
Impairment loss on other receivables	-	64	-	-
Donations	1,751	2,287	2,216	3,065
Loss on disposal of property, plant and equipment	32	32	71	188
Impairment loss on property, plant and equipment	-	436	3,685	3,685
Loss on disposal of intangible assets	-	-	6	12
Impairment loss on subsidiary investment	6,329	12,893	-	-
Loss on valuation of derivatives	-	1,033	11,125	5,506
Loss on derivative transactions	8,988	10,211	3,193	3,193
Miscellaneous loss	911	1,349	301	3,797
<b>Total</b>	<b>₩21,196</b>	<b>₩32,385</b>	<b>₩21,606</b>	<b>₩23,021</b>



## 16. Finance Income and cost

Details of finance income and cost for the three months and six months ended June 30, 2019, and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Finance income:				
Interest income	₩4,695	₩10,183	₩2,641	₩5,786
Dividend income	5,338	15,509	4,812	71,094
Gain on valuation of fair value through profit or loss	12,578	28,810	19,206	41,186
Total finance income	₩22,611	₩54,502	₩26,659	₩118,066
Finance cost:				
Interest expense	₩585	₩1,093	₩475	₩719
Loss on valuation of fair value through profit or loss	1,472	7,291	140	140
Total finance cost	₩2,057	₩8,384	₩615	₩859
Net finance income	₩20,554	₩46,118	₩26,044	₩117,207

## 17. Retirement Benefit Plan

17-1. Details of profit or loss recognized related to retirement benefits for the three months and six months ended June 30, 2019, and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Defined benefit plans:				
Current service cost	₩7,261	₩14,521	₩6,437	₩12,883
Net interest on net defined benefit liability	199	398	122	243
Subtotal	7,460	14,919	6,559	13,126
Defined contribution plan:				
Contributions recognized as expense	1,046	3,010	1,113	3,299
Other long-term employee benefits:				
Current service cost, etc.	498	996	570	1,108
Voluntary retirements:				
Termination benefits	-	3,782	21	2,527
Total	₩9,004	₩22,707	₩8,263	₩20,060

17-2. Net defined benefit liabilities as of June 30, 2019, and December 31, 2018, are summarized as follows:

<i>In millions of Korean won</i>	As of June 30, 2019	As of December 31, 2018
Present value of defined benefit obligation	₩355,918	₩327,518
Fair value of plan assets	(290,058)	(292,681)
Total	₩65,860	₩34,837

## 18. Refund Liabilities and Provisions

18-1. The details of refund liabilities and provisions as of June 30, 2019, and December 31, 2018, are as follows:

<i>In millions of Korean won</i>	As of June 30, 2019		As of December 31, 2018	
	Current	Non-current	Current	Non-current
Refund liabilities	₩3,712	₩3,049	₩2,958	₩181
Provision for site restoration	-	125	-	104
Provision for product warrantee	7,701	-	3,497	-
Provision for financial guarantee	235	376	-	700
Total	₩11,648	₩3,550	₩6,455	₩985

18-2. Changes in refund liabilities and provisions for the six months ended June 30, 2019, and 2018, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019				Six months ended June 30, 2018			
	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance
Refund liabilities	₩3,139	₩3,772	₩(150)	₩6,761	₩3,086	₩1,552	₩(58)	₩4,580
Provision for site restoration	104	21	-	125	-	-	-	-
Provision for product warrantee	3,497	7,286	(3,082)	7,701	-	1,780	-	1,780
Provision for financial guarantee	700	-	(89)	611	-	-	-	-
Total	₩7,440	₩11,079	₩(3,321)	₩15,198	₩3,086	₩3,332	₩(58)	₩6,360

## 19. Real Estate Sales Contract

19-1. Details of real estate sales contracts under construction as of June 30, 2019, are as follows:

<i>In millions of Korean won</i>	Construction period	Total sales value	Total sales contract value
Suwon hwaseo park prugio(apartment)	February 2018 ~ August 2021	₩1,188,870	₩1,187,006
Suwon hwaseo park prugio(efficiency apartment)		112,060	106,762
Dae-gu central Xi <sup>1)</sup>	-	3,818	721
Total		₩1,304,748	₩1,294,489

<sup>1)</sup> Construction and sale have been completed as of June 30, 2019, but resale is underway due to cancellation of the sales contract.

19-2. Changes in balance of contract amount for the six months ended June 30, 2019, and 2018, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019	Six months ended June 30, 2018
Beginning balance	₩1,173,116	₩ -
Contract increase	(1,864)	1,191,333
Revenue recognition <sup>1)</sup>	(144,940)	(11,827)
Ending balance	₩1,026,312	₩1,179,506

<sup>1)</sup> As of June 30, 2019, ₩721 million (₩843 million as of June 30, 2018) of the ₩3,818 million real estate sales contracts where resale is underway due to cancellation of contract have been recognized as revenue. This amount is not included in this figure.

19-3. The details of cumulative cost of the sales contract under construction as of June 30, 2019, are as follows:

<i>In millions of Korean Won</i>	Progress	Accumulated revenue	Cumulative cost
Suwon hwaseo park prugio(apartment)	20.69%	₩245,544	₩100,464
Suwon hwaseo park prugio(efficiency apartment)	20.52%	21,912	13,142
Total		₩267,456	₩113,606

19-4. No material changes in estimated gross contract income and total contract cost occurred for the six months ended June 30, 2019. The estimated gross contract income and total contract cost of an ongoing sales contract are based on the circumstances that have occurred by the end of the six months ended June 30, 2019 and can be subject to change in the future.

## 20. Income Tax Expense

The income tax expense was calculated by adjusting the adjustments recognized for the six months ended June 30, 2019 and 2018, for current tax, deferred tax expense(income) due to the occurrence and disappearance of temporary differences, and income tax expense(income) related to items that are recognized outside profit or loss. The average effective tax rates for the six months ended June 30, 2019 and 2018, are 26.98% and 23.84%, respectively.

## 21. Related Parties

21-1. Details of parent and subsidiary relationships and related companies as of June 30, 2019, and December 31, 2018, are as follows:

		As of June 30, 2019			As of December 31, 2018			
		Location	Parent	Subsidiary	Total	Parent	Subsidiary	Total
Subsidiaries	Korea Ginseng Corporation	Korea	100.00%	-	100.00%	100.00%	-	100.00%
	Yungjin Pharm. Co., Ltd.	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.	Korea	98.56%	-	98.56%	98.56%	-	98.56%
	Renzoluc Pte., Ltd. <sup>1)</sup>	Singapore	100.00%	-	100.00%	100.00%	-	100.00%
	KGC Yebon Corporation <sup>5)</sup>	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.	HongKong	-	100.00%	100.00%	-	100.00%	100.00%
	K&I China Co., Ltd.	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 Trisakti Purwosari Makmur <sup>6)</sup>	Indonesia	-	99.99%	99.99%	-	99.99%	99.99%
	PT Trisakti Purwosari Makmur <sup>6)</sup> (Previously PT Mandiri Maha Mulia)	Indonesia	-	-	-	-	99.98%	99.98%
	PT Trisakti Purwosari Makmur <sup>6)</sup> (Previously PT Sentosa Ababi Purwosari)	Indonesia	-	-	-	-	100.00%	100.00%
	PT Trisakti Purwosari Makmur <sup>6)</sup> (Previously PT Purindo Ilufa)	Indonesia	-	-	-	-	100.00%	100.00%
	PT Nusantara Indah Makmur	Indonesia	-	100.00%	100.00%	-	100.00%	100.00%
	Gwacheon Sangsang PFV <sup>2)</sup>	Korea	51.00%	-	51.00%	51.00%	-	51.00%
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%
	JR REIT V Co., Ltd. <sup>7)</sup>	Korea	-	-	-	34.63%	-	34.63%
	JR REIT VIII Co., Ltd <sup>7)</sup> .	Korea	-	-	-	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%
	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.	Korea	22.22%	-	22.22%	22.22%	-	22.22%
	Starfield Suwon <sup>3)</sup>	Korea	50.00%	-	50.00%	50.00%	-	50.00%
	KORAMCO Europe Private REIT 3-2 Fund <sup>4)</sup>	Germany	51.35%	-	51.35%	51.35%	-	51.35%

- 1) The Parent Company's percentage of ownership, shown above, excludes convertible preferred shares. As of end of June 30, 2019, the Parent Company's percentage of ownership would be 88.60% if preferred shares are included.
- 2) During the year ended December 31, 2018, the Company had made investment on 51.00% share of Gwacheon Sangsang PFV.
- 3) During the year ended December 31, 2018, the Company had made investment on 50.00% share of Starfield Suwon.
- 4) During the year ended December 31, 2018, the Company had made investment on 51.35% share of KORAMCO Europe Private REIT 3-2 Fund.
- 5) For the six months ended June 30, 2019, the Company has made a capital contribution in kind of its 100% equity holdings in KGC Yebon Corporation to its subsidiary, Korea Ginseng Corporation.
- 6) For the six months ended June 30, 2019, the Company has merged its four manufacturing corporations in Indonesia (PT Trisakti Purwosari Makmur, PT Mandiri Maha Mulia, PT Sentosa Anabi Purowosari, PT Purindo Ilufa) into one, with its second-tier subsidiary PT Trisakti Purwosari Makmur being the remaining corporation after the merger.
- 7) For the six months ended June 30, 2019, the Company received the remaining assets according to the liquidation procedure of JR REIT 5 Co., Ltd. and JR REIT 8 Co., Ltd.

21-2. The Company carries out transactions with related parties such as sales of goods and services, the details of transactions with related parties for the three months and six months ended June 30, 2019, and 2018, are as follows

(1) Sales and other income

<i>In millions of Korean won</i>		2019		2018	
		Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Subsidiaries	Korea Ginseng Corporation	₩1,961	₩3,809	₩2,387	₩3,749
	Yungjin Pharm. Co., Ltd.	65	105	49	88
	Tae-A Industry Co., Ltd.	169	172	7	8
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	3,685	4,541	548	1,275
	KT&G Rus L.L.C.	7,971	11,804	8,601	20,796
	KGC Life & Gin Co., Ltd.	23	47	57	64
	KT&G USA Corporation	27,193	41,733	7,407	24,658
	Cosmococ Co., Ltd.	22	31	33	38
	KGC Yebon Corporation	6	11	11	12
	PT KT&G Indonesia	265	513	242	491
	SangSang Stay, Inc.	1,545	3,064	1,503	3,056
	PT Trisakti Purwosari Makmur	3,460	7,620	3,104	4,328
Associates and joint ventures	Korea Tobacos do Brasil Ltda.	-	1	4	4
	KB Gimpo Logistics CR REIT Co., Ltd.	-	-	-	45
	KORAMCO Private REIT 50 Fund	-	-	-	220
	JR REIT 10 Co., Ltd.	292	292	289	289
	KORAMCO Europe Private REIT 3-2 Fund	591	591	-	-
	JR REIT 5 Co., Ltd.	130	130	34	34
	JR REIT 8 Co., Ltd.	108	108	-	-
Total		₩47,486	₩74,572	₩24,276	₩59,155

(2) Purchases and other expenses

<i>In millions of Korean won</i>	2019		2018	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Korea Ginseng Corporation	₩272	₩1,078	₩89	₩618
Yungjin Pharm. Co., Ltd.	1	211	3	9
Tae-A Industry Co., Ltd.	3,926	7,327	3,629	7,167
Subsidiaries KGC Life & Gin Co., Ltd.	3	4	3	3
Cosmococ Co., Ltd.	71	545	21	299
KGC Yebon Corporation	54	107	54	107
SangSang Stay, Inc.	4	13	-	-
Total	₩4,331	₩9,285	₩3,799	₩8,203

21-3. Details of transactions of purchase and sales of property, plant and equipment with related parties, for the six months ended June 30, 2019, and 2018 are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Purchase	Sales	Purchase	Sales
KT&G Rus L.L.C.	₩ -	₩ -	₩ -	₩164
PT Trisakti Purwosari Makmur	-	47	521	-
Tae-A Industry Co., Ltd.	-	29,977	-	-
Total	₩ -	₩30,024	₩521	₩164

21-4. Details of receivables and payables with related parties, for the six months ended June 30, 2019 and December 31, 2018 are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019		Six months ended December 31, 2018	
	Receivables	Payables	Receivables	Payables
Korea Ginseng Corporation	₩39	₩1,889	₩14	₩1,850
Yungjin Pharm. Co., Ltd.	14	40	11	30
Tae-a Industry Co., Ltd.	-	6,945	-	3
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	35,160	-	32,050	-
Korea Tabacos do Brasil Ltda.	107	-	106	-
KT&G Pars <sup>1)</sup>	44,525	-	44,531	-
Subsidiaries KT&G Rus L.L.C. <sup>1)</sup>	82,057	-	78,395	-
KT&G USA Corporation	35,193	640	28,911	618
Cosmococ Co., Ltd.	5	2	5	2
KGC Yebon Corporation	5	-	-	-
PT KT&G Indonesia <sup>1)</sup>	30,511	-	28,991	-
KGC Life & Gin Co., Ltd.	13	120	-	120
PT Trisakti Purwosari Makmur	15,007	-	13,473	-
Associates and joint ventures LSK Global Pharma Services Co., Ltd.	-	-	150	-
KB Gimpo Logistics CR REIT Co., Ltd.	696	-	697	-
KORAMCO Private REIT 50 Fund	135	-	136	-
Starfield Suwon	-	16,020	-	16,020
Total	₩243,467	₩25,656	₩227,470	₩18,643

<sup>1)</sup> These figures are gross amounts before the deduction of allowance for doubtful accounts as of June 30, 2019 and December 31, 2018. Allowance for doubtful accounts for these periods are ₩75,466 million and ₩77,923 million respectively.

21-5. Details of fund transactions with related parties for the six months ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>		Six months ended June 30, 2019		Six months ended June 30, 2018
		Investment (recovery)	Repayment of funds	Repayment of funds
Associates	LSK Global Pharma Services Co., Ltd.	-	₩150	₩750
and joint	JR REIT 5 Co., Ltd.	(11,125)	-	-
ventures	JR REIT 8 Co., Ltd	(13,526)	-	-
Total		(24,651)	₩150	₩750

21-6. As of June 30, 2019, 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 26-3). During the year ended December 31, 2018, 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 (Note 26-4)

21-7. Details of key management personnel compensation for the six months ended June 30, 2019, and 2018, are summarized as follows:

<i>In millions of Korean won</i>	2019		2018	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Short-term employee benefits	₩3,711	₩7,640	₩4,790	₩9,997
Retirement benefits	478	956	352	762
Total	₩4,189	₩8,596	₩5,142	₩10,759

## 22. 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 separate interim 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 periodically analyzes 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.

## 22-1. 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.

### (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.

### (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 June 30, 2019, the effect of changes in interest rates on the fair value of the financial liability or future cash flows is not important.

## 22-2. 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, and 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, and 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 financial assets indicate the maximum exposure to credit risk. The maximum exposure to credit risk as of June 30, 2019, and December 31, 2018, are as follows:

<i>In millions of Korean won</i>	As of June 30, 2019	As of December 31, 2018
Cash and cash equivalents (excluding cash on hand) <sup>1)</sup>	₩313,066	₩246,310
Other financial assets	296,937	576,937
Fair value through profit or loss <sup>1)</sup>	2,454,680	1,851,922
Trade and other receivables	981,722	850,183
Long-term deposits in MSA Escrow Fund	686,673	615,528
Derivative assets	1,110	1,239
<b>Total</b>	<b>₩4,734,188</b>	<b>₩4,142,119</b>

<sup>1)</sup> Of the cash equivalents as of June 30, 2019, the Money Market Trust amount of ₩601,968 million(₩501,562 million as of December 31, 2018) is included in the financial assets at fair value through profit or loss.

### 22-3. 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.

22-4 The carrying amounts of each category of financial assets and liabilities as of June 30, 2019, and December 31, 2018, are summarized as follows:

<i>In millions of Korean won</i>	As of June 30, 2019	As of December 31, 2018
<b>Financial assets:</b>		
Fair value through profit or loss <sup>1)</sup>	₩2,454,680	₩1,851,922
Fair value through other comprehensive income or loss	249,752	230,545
Derivative assets	1,110	1,239
<b>Financial assets measured at amortized cost</b>		
- Trade and other receivables	981,722	850,183
- Long-term deposits in MSA Escrow Fund	686,673	615,528
- Other financial assets	296,937	576,937
- Cash and cash equivalents <sup>1)</sup>	313,303	246,562
<b>Subtotal</b>	<b>2,278,635</b>	<b>2,289,210</b>
<b>Total financial assets</b>	<b>₩4,984,177</b>	<b>₩4,372,916</b>
<b>Financial liabilities:</b>		
Derivative liabilities	1,033	461
<b>Financial liabilities measured at amortized cost</b>		
- Trade and other payables	307,138	276,921
- Short-term borrowings	1,054	1,246
- Lease liability	15,843	-
<b>Subtotal</b>	<b>324,035</b>	<b>278,167</b>
<b>Total financial liabilities</b>	<b>₩325,068</b>	<b>₩278,628</b>

<sup>1)</sup> Of the cash equivalents as of June 30, 2019, the Money Market Trust amount of ₩601,968 million(₩501,562 million as of December 31, 2018) is included in the financial assets at fair value through profit or loss.

22-5. The fair value measurements classified by fair value hierarchy as of June 30, 2019, and December 31, 2018, are as follows:

<i>In millions of Korean won</i>	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
As of June 30, 2019:				
Fair value through profit or loss <sup>1)</sup>	₩2,454,680	₩ -	₩2,227,999	₩226,681
Fair value through other comprehensive income or loss	249,752	199,812	-	49,940
Derivative assets	1,110	-	1,110	-
Derivative liabilities	1,033	-	1,033	-
Total	₩2,706,575	₩199,812	₩2,230,142	₩276,621
As of December 31, 2018:				
Fair value through profit or loss <sup>1)</sup>	₩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 liabilities	461	-	461	-
Total	₩2,084,167	₩180,605	₩1,642,967	₩260,595

<sup>1)</sup> Of the cash equivalents as of June 30, 2019, the Money Market Trust amount of ₩601,968 million (₩501,562 million as of December 31, 2018) is included in the financial assets at fair value through profit or loss.

There is no movement between levels of the fair value hierarchy between the six months ended June 30, 2019, and 2018.

As of the end of the six months ended June 30, 2019, the fair value of real estate investment trusts and equity securities classified as at fair value through profit or loss was measured using the Net Asset Value Adjustment Act, Discounted Cash Flow and were classified as Level 3 fair value based on the inputs used in the valuation technique. The changes in Level 3 fair value for the six months ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019	Six months ended June 30, 2018
Beginning balance	₩260,595	₩233,891
Acquisition	18,500	33,000
Disposal	-	(25,440)
Changes in fair value	(2,474)	1,920
Ending balance	₩276,621	₩243,371

22-6. Details of finance income (costs) by categories for the six months ended June 30, 2019, and 2018, are as follows:

(1) For the six months ended June 30, 2019

<i>In millions of Korean won</i>	Fair value through profit or loss	Fair value through other comprehensive income or loss	Derivative assets (liabilities)	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩10,183	₩ -	₩10,183
Dividend income	5,281	7,826	-	-	-	13,107
Gain or loss on valuation	21,519	-	77	-	-	21,596
Gain or loss on transaction	-	-	(10,211)	-	-	(10,211)
Interest expense	-	-	-	-	(1,093)	(1,093)
Reversal of impairment loss	-	-	-	4,644	-	4,644
Total	₩26,800	₩7,826	₩(10,134)	₩14,827	₩(1,093)	₩38,226
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩19,207	₩ -	₩ -	₩ -	₩19,207
Total	₩ -	₩19,207	₩ -	₩ -	₩ -	₩19,207

(2) For the six months ended June 30, 2018

<i>In millions of Korean won</i>	Fair value through profit or loss	Fair value through other comprehensive income or loss	Derivative assets (liabilities)	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩5,786	₩ -	₩5,786
Dividend income	-	12,506	-	-	-	12,506
Gain or loss on valuation	41,046	-	(5,118)	-	-	35,928
Gain or loss on transaction	-	-	(759)	-	-	(759)
Interest expense	-	-	-	-	(719)	(719)
Reversal of impairment loss	-	-	-	(4,466)	-	(4,466)
Total	₩41,046	₩12,506	₩ (5,877)	₩1,320	₩(719)	₩48,276
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩(19,401)	₩ -	₩ -	₩ -	₩(19,401)
Total	₩ -	₩(19,401)	₩ -	₩ -	₩ -	₩(19,401)

## 23. 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 year ended December 31, 2018.

Details on the Company's capital structure as of June 30, 2019, and December 31, 2018, is as follows:

<i>In millions of Korean won</i>	As of June 30, 2019	As of December 31, 2018
Debt	₩1,054	₩1,246
Less: Cash and cash equivalents	(915,271)	(748,123)
Less: Current other financial asset	(296,340)	(570,000)
Less: Fair value through profit or loss	(1,626,031)	(1,139,705)
Net debt (asset)	(2,836,588)	(2,456,582)
Total equity	₩7,361,069	₩7,365,221

## 24. Retained Earnings

Changes in retained earnings for the six months ended June 30, 2019, and 2018, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019	Six months ended June 30, 2018
Beginning balance	₩791,027	₩990,096
Change in accounting policy	-	(31,465)
Profit for the period	500,253	509,549
Remeasurements of net defined benefit liability(net of tax)	(13,270)	(1,223)
Dividends	(505,061)	(505,061)
Transfer from reserve for research and human resource development	-	10,000
Transfer to unconditional reserve	(285,966)	(495,036)
Ending balance	₩486,983	₩476,860

## 25. Earnings Per Share

Details of earnings per share and accounting profit for the three months and six months ended June 30, 2019, and 2018, are as follows:

<i>In Korean won</i>	2019		2018	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Profit for the period	₩286,174 million	₩500,253 million	₩252,618 million	₩509,549 million
Weighted-average number of ordinary shares outstanding	126,265,127 shares	126,265,127 shares	126,265,127 shares	126,265,127 shares
Basic and diluted earnings per share	₩2,266	₩3,962	₩2,001	₩4,036

## 26. Contingent Liabilities and Commitments

### 26-1. Litigation cases

As of June 30, 2019, the Company has total 4 cases of pending litigations under progress and the litigation value is ₩54,092 million. It is not possible to reasonably predict the impact of the final outcome of pending litigation as of the end of June 30, 2019 on the separate interim financial statements of the Company.

### 26-2. Major commitments

Details of major commitments of the Company with financial institutions as of June 30, 2019, are as follows:

*In millions of Korean won, thousands of US dollars*

Type	Financial institutions	Currency	Limit
Opening an import credit	KEB Hana bank and one other	USD	177,000
Derivatives trading	KEB Hana bank and three others	USD	227,700
Group loans	KEB Hana bank	KRW	300,000

### 26-3. Payment guarantee and collateral details

Details of the payment guarantees the Company is provided as of June 30, 2019, are as follows:

*In millions of Korean won, thousands of US dollars*

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	948,291	Housing distribution guarantee
Korea Trade Insurance Corporation	USD	47,590	Export guarantee insurance
Seoul Guarantee Insurance	KRW	3,951	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	6,670	Escrow deposit guarantee

As of June 30, 2019, the Company is provided with payment guarantees of up to USD 20,000 thousand, from KEB Hana Bank and Westchester Fire Insurance Company (based in the United States) respectively, and has recourse responsibilities for the amount of guarantees executed. The purpose of such payment guarantees includes the opening of an import letter of credit for KT&G USA Corporation's imports and customs clearance, as well as providing collateral for local financial services of foreign subsidiaries.

*In thousands of US dollars*

Provider	Currency	Limit	Execution amount	Details
KEB Hana Bank	USD	20,000	85	Performance guarantee related to exporting tobacco materials
Westchester Fire Insurance Company	USD	20,000	13,800	Import duty payment guarantee

The details of payment guarantees provided by the Company for other people as of June 30, 2019, are as follows:

<i>In millions of Korean won</i>	Guarantee user	Limit	Execution amount
Loan guarantee for the payment	Shinhan bank	79,400	20,625
	KEB Hana bank	60,000	16,837
	Suhyup bank	9,494	2,137
Total		148,894	39,599

Assets pledged as collateral for short-term borrowings, etc. as of June 30, 2019, are summarized as follows:

<i>In millions of Korean won</i>	Carrying amount	Type	Debt amount	Collateralized amount	Collateral holder
Investment property	₩335,701	Leasehold deposits received	₩18,704	₩19,980	Seoul Guarantee Insurance, etc.
Property, plant and equipment	22,844	Right to collateral security and lease	2,690	3,504	Korea Workers' Compensation & Welfare Service, etc.
	6,340	Business performance guarantee <sup>1)</sup>	-	6,340	Korea Land & Housing Corporation
Other financial assets	597	Right of pledge for rental deposit	597	597	Samsung Fire & Marine Insurance
Total	₩365,482		₩21,991	₩30,421	

<sup>1)</sup> As of June 30, 2019, the Company has deposited ₩6,340 million 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. There is a pledge right established on this amount as of June 30, 2019.

#### 26-4. 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 Parent Company, KT&G, 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 of 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 favourable than those applicable to the Parent Company.

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.

The Company had made a land contract with Starfield Suwon and Gwacheon city(land contract value : ₩160,200 million), and the ownership of the land will be transited upon the payment of balance when the construction for the Starfield Suwon begins.

The Company has a contract with Gwacheon Sangsang PFV, a subsidiary company, to purchase the land for the development of Gwacheon Knowledge and Information Town at the time the Company's internal management decision is completed.

As of June 30, 2019, there are capital call agreements for overseas real estate funds invested by the Company. However, we expect 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.

## 27. Cash flows

27-1. Details of cash generated from operations for the six months ended June 30, 2019, and 2018, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019	Six months ended June 30, 2018
Profit for the period	₩500,253	₩509,549
Adjustments:		
Employee welfare	996	1,108
Retirement and termination benefits	21,711	18,952
Loss on valuation and obsolescence of inventories	2,291	2,578
Depreciation	53,708	48,299
Amortization	211	30
Impairment loss (reversal) on trade and other receivables	(4,644)	4,466
Foreign currency translation loss	988	1,833
Loss on disposal of property, plant and equipment	32	188
Impairment loss on property, plant and equipment	436	3,685
Loss on disposal of intangible assets	-	12
Impairment loss of investment in subsidiaries	12,893	-
Other expenses, etc.	22,433	11,738
Finance cost	8,384	859
Income tax expense	184,845	159,494
Foreign currency translation gain	(41,211)	(50,936)
Gain from disposal of investments in associates	(9,051)	-
Gain from disposal of assets held for sale	(375)	-
Gain on sale of property, plant and equipment	(2,051)	(551)
Gain on sale of intangible assets	(3)	-
Other income	(1,110)	(388)
Finance income	(54,502)	(118,066)
Changes in working capital:		
Decrease(increase) in trade and other receivables	(113,909)	56,951
Increase in derivatives	(9,433)	-
Decrease in inventories	24,942	14,078
Decrease in accrued tobacco excise and other taxes	87,097	38,515
Increase in advance payments	(27,965)	(3,921)
Increase in prepaid expenses	(970)	(3,035)
Decrease in trade and other payables	52,678	26,099
Increase(decrease) in advance receipts	(24,439)	12,895
Decrease in refund assets and provisions	(1,358)	(58)
Increase in tobacco excise and other taxes payable	475,963	127,207
Payment of retirement and termination benefits	(7,134)	(6,162)
Cash generated from operation	₩1,151,706	₩855,419



27-2. Details of material transactions without cash inflow and outflow for the six months ended June 30, 2019, and 2018, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019	Six months ended June 30, 2018
Reclassification of construction in progress	₩60,882	₩56,655
Increase (decrease) in other payables related to acquisition of property, plant and equipment	(7,440)	17,208

27-3. The Company had indicated some other items of inflow and outflow of financial instruments that have been marked as net increase and decrease as those are frequently traded and have a large total and short-term maturity.

## 28. Right-of-use asset

28-1. Changes in right-of-use asset for the six months ended June 30, 2019, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019
Beginning balance	₩ -
Change in accounting policy	18,241
Acquisition and disposal	2,214
Depreciation	(3,775)
Ending balance	₩16,680

28-2. Total cash outflows, interest costs and present value of lease liabilities are as follows:

<i>In millions of Korean won</i>	Total cash outflows	Interest costs	Present value
Within 1 year	₩6,720	₩215	₩6,505
1 year to 5 years	10,230	985	9,245
More than 5 years	111	18	93
Total	₩17,061	₩1,218	₩15,843

## 29. Changes in Accounting Policies

As stated in Note. 2, the Company had applied K-IFRS No. 1116 from the beginning of this reporting period. Under the transitional provisions, the cumulative effect of applying K-IFRS No. 1116 is adjusted on the balance of retained earnings at the date of initial application, and the comparative presentation of the separate interim financial statements for the year ended December 31, 2018, has not been restated.

Financial effect resulting from initial application of K-IFRS No. 1116 is as follows:

The total sum of the minimum lease payments before discounting the present value of the assets used by the Company as of June 30, 2019, is ₩17,061 million, and ₩15,843 million when discounted at the intrinsic interest rate and the incremental borrowing rate of the lessee.

As of January 1, 2019, right-of-use assets, current lease liabilities and long-term lease liabilities increased by ₩18,241 million, ₩6,047 million and ₩11,299 million, respectively. As of June 30, 2019, operating lease payments decreased by ₩4,066 million, and depreciation expense for right-of-use assets and interest expense for lease liabilities increased by ₩3,775 million and ₩510 million respectively.