



# **KT&G CORPORATION AND SUBSIDIARIES**

**Review Report on Consolidated Interim Financial Statements  
First Half of the 33rd fiscal year  
from January 1, 2019, to June 30, 2019**

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

**KT&G CORPORATION**

## CONTENTS

	Page
<b>Independent auditor's review report</b>	<b>1</b>
<b>Consolidated interim financial statements</b>	
Condensed consolidated interim statements of financial position	7
Condensed consolidated interim statements of comprehensive income	9
Condensed consolidated interim statements of changes in equity	11
Condensed consolidated interim statements of cash flows	13
Notes to consolidated interim financial statements	15

## KT&G CORPORATION AND SUBSIDIARIES

### 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 consolidated financial statements of KT&G Corporation (the "Company") and its subsidiaries. The condensed consolidated financial statements consist of the condensed consolidated statement of financial position as of June 30, 2019, the related condensed consolidated 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 financial statements**

The Company's management is responsible for the preparation and fair presentation of the accompanying condensed consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are not presented fairly, in all material respects, in accordance with K-IFRS 1034, 'Interim Financial Reporting'.

**Other matters**

The consolidated statement of financial position as of December 31, 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated 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 consolidated 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

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 consolidated financial statements and may result in modifications to the auditors' report.

**KT&G CORPORATION AND SUBSIDIARIES**  
**Consolidated 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 consolidated interim financial statements attached have been prepared by the Company."  
CEO of KT&G Corporation, Baek Bok In

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# KT&G CORPORATION AND SUBSIDIARIES

## Condensed consolidated 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	21	₩1,138,270,191,263	₩932,969,110,015
Current other financial assets	21	355,946,864,280	584,579,918,180
Current fair value through profit or loss	21	1,626,030,555,825	1,139,704,589,088
Trade and other receivables	5,21	1,097,619,876,446	975,921,202,909
Financial derivatives	21	1,109,928,144	1,238,664,783
Inventories	6	2,343,691,562,908	2,461,289,914,829
Refund assets		3,650,972,071	2,356,432,726
Accrued tobacco excise and other taxes		172,348,460,389	232,237,330,421
Advance payments		105,845,718,917	54,207,755,371
Prepaid expenses		36,227,054,750	24,622,742,813
Assets held for sale	4	4,574,286,712	4,246,922,005
<b>Total current assets</b>		<b>₩6,885,315,471,705</b>	<b>₩6,413,374,583,140</b>
<b>Non-current assets:</b>			
Other long-term financial assets	21	₩2,281,577,000	₩8,565,762,000
Long-term deposits in MSA Escrow Fund	21	686,673,387,476	615,527,896,771
Fair value through profit or loss	21	226,680,690,751	210,655,373,106
Fair value through other comprehensive income or loss	21	268,802,324,391	249,575,289,383
Long-term trade and other receivables	5,21	62,482,839,518	62,902,608,445
Investments in associates and joint ventures	4,7	60,151,071,490	83,988,748,090
Property, plant and equipment	8	1,793,271,069,478	1,818,787,823,851
Intangible assets	9	79,437,739,389	71,954,007,994
Investment property	10	583,861,691,638	495,048,833,035
Right-of-use asset	11	49,492,612,245	-
Refund asset		159,767,714	223,771,427
Long-term advance payments		96,101,245,689	71,394,217,095
Long-term prepaid expenses		6,904,300,024	7,872,994,328
Deferred income tax assets		44,777,636,021	45,229,659,539
<b>Total non-current assets</b>		<b>3,961,077,952,824</b>	<b>3,741,726,985,064</b>
<b>Total assets</b>		<b>₩10,846,393,424,529</b>	<b>₩10,155,101,568,204</b>

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

# KT&G CORPORATION AND SUBSIDIARIES

## Condensed consolidated 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-period borrowings	12,21	₩48,706,492,753	₩129,924,101,195
Current portion of long-term borrowings	12,21	16,047,206,265	4,999,760,000
Trade and other payables	21	617,361,728,884	560,507,008,935
Current lease liabilities	11,21	17,988,779,370	-
Derivative liabilities	21	1,032,591,530	460,667,312
Advance receipts		144,057,793,468	171,501,108,963
Current refund liabilities and provisions	17	22,922,981,448	15,100,885,431
Current income tax liabilities		225,714,825,460	200,796,906,309
Tobacco excise and other taxes payable		1,055,828,062,601	557,417,508,777
<b>Total current liabilities</b>		<b>₩2,149,660,461,779</b>	<b>₩1,640,707,946,922</b>
<b>Non-current liabilities:</b>			
Long-term borrowings	12,21	₩92,820,020,991	₩93,475,333,856
Long-term trade and other payables	21	50,996,066,820	53,239,976,056
Long-term lease liabilities	11,21	23,242,376,093	-
Long-term advance receipts		5,914,512,385	5,580,108,204
Net defined benefit liability	16	136,658,081,668	96,214,830,976
Long-term refund liabilities and provisions	17	6,280,422,761	3,844,558,820
Deferred income tax liabilities		125,038,200,453	125,558,940,716
Non-controlling interests liabilities		3,384,647,277	3,399,647,673
<b>Total non-current liabilities</b>		<b>₩444,334,328,448</b>	<b>₩381,313,396,301</b>
<b>Total liabilities</b>		<b>₩2,593,994,790,227</b>	<b>₩2,022,021,343,223</b>
<b>Equity:</b>			
Ordinary shares		₩954,959,485,000	₩954,959,485,000
Other capital surplus		(29,556,277,161)	(29,719,795,353)
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		5,681,389,224,400	5,355,627,500,098
Retained earnings	22	1,404,072,016,180	1,612,794,013,734
<b>Equity attributable to owners of the Parent company</b>		<b>8,196,483,096,182</b>	<b>8,079,279,851,242</b>
<b>Non-controlling interests</b>		<b>55,915,538,120</b>	<b>53,800,373,739</b>
<b>Total equity</b>		<b>₩8,252,398,634,302</b>	<b>₩8,133,080,224,981</b>
<b>Total liabilities and equity</b>		<b>₩10,846,393,424,529</b>	<b>₩10,155,101,568,204</b>

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

# KT&G CORPORATION AND SUBSIDIARIES

## Condensed consolidated 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	₩1,257,840,556,101	₩2,442,822,253,083	₩1,119,719,777,068	₩2,187,310,151,306
<b>Cost of sales</b>	13	(515,405,359,310)	(1,013,776,238,400)	(462,495,770,701)	(895,966,169,054)
<b>Gross profit</b>		742,435,196,791	1,429,046,014,683	657,224,006,367	1,291,343,982,252
Selling, general and administrative expenses	13	(343,373,687,598)	(681,819,650,723)	(334,248,040,319)	(656,999,641,402)
<b>Operating profit</b>	4	399,061,509,193	747,226,363,960	322,975,966,048	634,344,340,850
Other income	14	48,408,277,451	80,298,944,378	65,981,425,277	96,260,298,300
Other expenses	14	(24,224,489,317)	(41,316,458,091)	(36,842,007,516)	(51,557,681,775)
Finance income	15,21	23,145,400,610	56,367,526,665	26,936,683,540	61,224,569,724
Cost of finance	15,21	(3,540,397,570)	(11,513,319,948)	(1,559,387,738)	(2,922,436,738)
Share of gain of associates and joint ventures	7	2,360,284,054	1,891,270,933	1,011,572,458	959,996,002
<b>Profit before income tax</b>		445,210,584,421	832,954,327,897	378,504,252,069	738,309,086,363
Income tax expense	19	(120,746,867,752)	(234,655,497,268)	(113,362,727,058)	(223,798,780,009)
<b>Profit for the period</b>		₩324,463,716,669	₩598,298,830,629	₩265,141,525,011	₩514,510,306,354
<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		(12,961,183,960)	(13,501,926,657)	(364,475,288)	(1,430,960,874)
Gain or loss on valuation of fair value through other comprehensive income or loss		5,518,173,081	13,258,063,680	(6,534,053,088)	(13,463,143,937)
Capital changes in equity method	7	(15,708,415)	26,619,132	-	-
<b>Items that are or may be reclassified subsequently to profit or loss</b>					
Exchange differences on translating foreign operations		6,383,224,960	26,513,492,770	2,016,085,522	(7,801,385,426)
<b>Other comprehensive income(loss) after income tax</b>		₩(1,075,494,334)	₩26,296,248,925	₩(4,882,442,854)	₩(22,695,490,237)
<b>Total comprehensive income for the period</b>		₩323,388,222,335	₩624,595,079,554	₩260,259,082,157	₩491,814,816,117
<b>Profit attributable to:</b>					
Owners of the Parent Company		322,786,282,794	595,813,778,212	266,571,370,939	515,468,597,557
Non-controlling interests		1,677,433,875	2,485,052,417	(1,429,845,928)	(958,291,203)
<b>Total</b>		₩324,463,716,669	₩598,298,830,629	₩265,141,525,011	₩514,510,306,354
<b>Other comprehensive income for the period attributable to:</b>					
Owners of the Parent Company		321,702,576,651	622,100,234,748	261,690,524,475	492,775,907,473
Non-controlling interests		1,685,645,684	2,494,844,806	(1,431,442,318)	(961,091,356)
<b>Total</b>		₩323,388,222,335	₩624,595,079,554	₩260,259,082,157	₩491,814,816,117
<b>Earnings per share:</b>					
Basic and diluted	23	₩2,556	₩4,719	₩2,111	₩4,082

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



# KT&G CORPORATION AND SUBSIDIARIES

## Condensed consolidated interim statements of changes in equity

For the six months ended June 30, 2018

<i>In Korean won</i>	Ordinary shares	Other capital	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the Parent company	Non-controlling interests	Total equity
<b>Balance at January 1, 2018(before revision)</b>	₩954,959,485,000	₩(29,719,795,353)	₩(328,157,286,128)	₩513,775,933,891	₩4,927,331,928,515	₩1,733,863,414,006	₩7,772,053,679,931	₩57,706,687,886	₩7,829,760,367,817
Effect of change in accounting policy	-	-	-	-	(36,765,729,396)	(20,143,292,740)	(56,909,022,136)	-	(56,909,022,136)
<b>Balance at January 1, 2018 (after revision)</b>	954,959,485,000	(29,719,795,353)	(328,157,286,128)	513,775,933,891	4,890,566,199,119	1,713,720,121,266	7,715,144,657,795	57,706,687,886	7,772,851,345,681
<b>Total comprehensive income (loss) for the period:</b>									
Profit (loss) for the period	-	-	-	-	-	515,468,597,557	515,468,597,557	(958,291,203)	514,510,306,354
<b>Other comprehensive income (loss) for the period:</b>									
Remeasurements of net defined benefit liability	-	-	-	-	-	(1,428,160,721)	(1,428,160,721)	(2,800,153)	(1,430,960,874)
Gain or loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(13,463,143,937)	-	(13,463,143,937)	-	(13,463,143,937)
Exchange differences on translating foreign operations	-	-	-	-	(7,801,385,426)	-	(7,801,385,426)	-	(7,801,385,426)
Sum of other comprehensive income (loss) for the period	-	-	-	-	(21,264,529,363)	(1,428,160,721)	(22,692,690,084)	(2,800,153)	(22,695,490,237)
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	(21,264,529,363)	514,040,436,836	492,775,907,473	(961,091,356)	491,814,816,117
<b>Transactions with owners, recognized directly in equity:</b>									
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)	-	(505,060,508,000)
Transfer from reserve for research and human resource development	-	-	-	-	(10,000,000,000)	10,000,000,000	-	-	-
Transfer to special reserve fund	-	-	-	-	495,035,507,256	(495,035,507,256)	-	-	-
<b>Total transactions with owners of the parent company</b>	-	-	-	-	485,035,507,256	(990,096,015,256)	(505,060,508,000)	-	(505,060,508,000)
<b>Balance at June 30, 2018</b>	₩954,959,485,000	₩(29,719,795,353)	₩(328,157,286,128)	₩513,775,933,891	₩5,354,337,177,012	₩1,237,664,542,846	₩7,702,860,057,268	₩56,745,596,530	₩7,759,605,653,798

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

# KT&G CORPORATION AND SUBSIDIARIES

## Condensed consolidated 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 (deficit)	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the Parent Company	Non-controlling interests	Total equity
<b>Balance at January 1, 2019</b>	₩954,959,485,000	₩(29,719,795,353)	₩(328,157,286,128)	₩513,775,933,891	₩5,355,627,500,098	₩1,612,794,013,734	₩8,079,279,851,242	₩53,800,373,739	₩8,133,080,224,981
<b>Total comprehensive income for the period:</b>									
Profit for the period	-	-	-	-	-	595,813,778,212	595,813,778,212	2,485,052,417	598,298,830,629
<b>Other comprehensive income (loss) for the period:</b>									
Remeasurements of net defined benefit liability	-	-	-	-	-	(13,509,066,644)	(13,509,066,644)	7,139,987	(13,501,926,657)
Gain or loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	13,258,063,680	-	13,258,063,680	-	13,258,063,680
Exchange differences on translating foreign operations	-	-	-	-	26,510,840,368	-	26,510,840,368	2,652,402	26,513,492,770
Capital changes in equity method capital	-	-	-	-	26,619,132	-	26,619,132	-	26,619,132
Sum of other comprehensive income (loss) for the period	-	-	-	-	39,795,523,180	(13,509,066,644)	26,286,456,536	9,792,389	26,296,248,925
<b>Total comprehensive income for the period</b>	-	-	-	-	39,795,523,180	582,304,711,568	622,100,234,748	2,494,844,806	624,595,079,554
<b>Transactions with owners, recognized directly in equity:</b>									
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)	-	(505,060,508,000)
Transfer to special reserve fund	-	-	-	-	285,966,201,122	(285,966,201,122)	-	-	-
Total transactions with owners of the parent company	-	163,518,192	-	-	-	-	163,518,192	(379,680,425)	(216,162,233)
<b>Total transactions with owners of the parent company</b>	-	163,518,192	-	-	285,966,201,122	(791,026,709,122)	(504,896,989,808)	(379,680,425)	(505,276,670,233)
<b>Balance at June 30, 2019</b>	₩954,959,485,000	₩(29,556,277,161)	₩(328,157,286,128)	₩513,775,933,891	₩5,681,389,224,400	₩1,404,072,016,180	₩8,196,483,096,182	₩55,915,538,120	₩8,252,398,634,302

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

## KT&G CORPORATION AND SUBSIDIARIES

### Condensed consolidated 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>		₩1,186,586,916,548	₩917,773,293,619
Cash generated from operations	25	1,395,977,956,151	1,098,641,620,376
Income tax paid		(209,391,039,603)	(180,868,326,757)
<b>Net cash used in investing activities</b>		(400,754,456,196)	(775,284,920,850)
Interest received		11,258,859,218	5,604,613,345
Dividends received		15,570,548,878	7,035,584,985
Decrease in (non-current) fair value through profit or loss		-	30,832,952,910
Decrease in fair value through other comprehensive income or loss		-	1,152,690,000
Proceeds from sale of property, plant and equipment		3,174,834,366	5,318,429,308
Proceeds from sales of intangible assets		100,233,294	351,198,000
Disposal of investments in associates		24,650,929,551	-
Collection of loans		7,077,759,833	8,619,355,479
Collection of guarantee deposits		1,066,475,123	12,926,835,097
Acquisition of property, plant and equipment		(118,164,714,987)	(201,283,362,642)
Acquisition of intangible assets		(4,945,003,096)	(3,730,371,308)
Acquisition of investment property		(38,759,952,318)	-
Increase in loans		(5,618,037,207)	(88,474,551)
Increase in guarantee deposits		(619,008,511)	(17,161,843,848)
Increase in long-term deposits in MSA Escrow Fund		(48,734,791,687)	(32,924,693,568)
Increase(decrease) in (current) fair value through profit and loss		(465,196,256,367)	1,805,589,566
Increase in (non-current) fair value through profit and loss		(18,500,000,000)	(33,000,000,000)
Increase in fair value through profit or loss		(900,000,000)	(900,000,000)
Decrease(increase) in other financial assets, net		237,783,667,714	(559,843,423,623)
<b>Net cash used in financing activities</b>		(586,361,514,149)	(626,735,423,804)
Repayment of lease liabilities		(10,797,661,252)	-
Payment of dividends		(505,060,508,000)	(505,060,508,000)
Increase in guarantee deposits		-	3,631,033,054
Decrease in guarantee deposits		-	(3,939,060,960)
Increase in borrowings		145,261,330,121	308,571,408,002
Interest paid		(1,002,723,646)	(1,092,154,487)
Repayment of borrowing		(214,761,951,372)	(428,846,141,413)
<b>Net increase(decrease) in cash and cash equivalents</b>		199,470,946,203	(484,247,051,035)
<b>Cash and cash equivalents at January 1</b>		932,969,110,015	715,116,842,650
Effect of exchange rate fluctuation on cash and cash equivalents		5,830,135,045	3,920,104,365
<b>Cash and cash equivalents at June 30</b>		₩1,138,270,191,263	₩234,789,895,980

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

## KT&G CORPORATION AND SUBSIDIARIES

### Notes to the consolidated interim financial statements

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

#### 1. Reporting Entity

##### 1-1. Overview of the Parent Company

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of June 30, 2019, the Parent 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 Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Parent Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

The Parent Company was established as a government-owned enterprise pursuant to the Korea Monopoly Corporation Act on April 1, 1987. On April 1, 1989, the Parent Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. The Parent 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 Parent 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 Parent Company’s contribution of the assets and liabilities in the red ginseng business segment. On December 27, 2002, the Parent Company changed its name again to KT&G Corporation from Korea Tobacco and Ginseng Corporation.

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

The ownership of the Parent Company’s 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>

## 1-2. Consolidated Subsidiaries

Controlling company	Subsidiary	Principal operation	Percentage of ownership	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00%	June 30, 2019	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45%	June 30, 2019	Korea
	Tae-a Industry Co., Ltd.	Manufacturing tobacco materials	100.00%	June 30, 2019	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99%	June 30, 2019	Turkey
	Korea Tabacos do Brasil Ltda.	Processing leaf tobaccos	99.99%	June 30, 2019	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99%	June 30, 2019	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00%	June 30, 2019	Russia
	KT&G USA Corporation	Selling tobaccos	100.00%	June 30, 2019	USA
	Cosmocos Co., Ltd.	Manufacturing and selling cosmetics	98.56%	June 30, 2019	Korea
	Renzoluc Pte., Ltd. <sup>1)</sup>	Holding company	100.00%	June 30, 2019	Singapore
	PT KT&G Indonesia	Selling tobaccos	99.99%	June 30, 2019	Indonesia
	SangSang Stay Inc.	Hotel	100.00%	June 30, 2019	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00%	June 30, 2019	Russia
	Gwacheon SangSang PFV	Developing and selling real estate	51.00%	June 30, 2019	Korea
Korea Ginseng Corporation	KGC Life & Gin Co., Ltd.	Manufacturing and selling cosmetics	100.00%	June 30, 2019	Korea
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng	100.00%	June 30, 2019	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng	100.00%	June 30, 2019	USA
	Korea Ginseng (China) Corp.	Selling ginseng	100.00%	June 30, 2019	China
	Korea Ginseng Corporation Japan	Selling ginseng	100.00%	June 30, 2019	Japan
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng	100.00%	June 30, 2019	China
	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00%	June 30, 2019	Korea
Cosmocos Co., Ltd.	K&I HK Co., Ltd.	Selling cosmetics	100.00%	June 30, 2019	HongKong
	K&I China Co., Ltd.	Selling cosmetics	100.00%	June 30, 2019	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99%	June 30, 2019	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indag Makmur	Selling tobaccos	99.99%	June 30, 2019	Indonesia

<sup>1)</sup> The Parent Company's percentage of ownership, shown above, excludes redeemable convertible preferred shares. As of June 30, 2019, the Parent Company's percentage of ownership would be 88.60% if preferred shares are included.

During the year ended December 31, 2018, the Parent Company had made an acquisition of 51% shares of Gwacheon SangSang PFV.

Following resolution by its board of directors on March 14, 2019, the Parent Company made a contribution in kind of its 100% ownership in KGC Yebon Corporation to Korea Ginseng Corporation on April 25, 2019.

### 1-3. Summarized Financial Information

Summarized financial information<sup>1)</sup> for consolidated subsidiaries as of and for the six months ended June 30, 2019, is as follows:

<i>In millions of Korean won</i>	Total assets	Total liabilities	Revenue	Net income(loss)	Total comprehensive income(loss)
Korea Ginseng Corporation	₩2,090,684	₩234,015	₩705,021	₩100,553	₩99,848
Yungjin Pharm. Co., Ltd.	210,618	93,808	111,994	5,197	5,204
Tae-a Industry Co., Ltd.	54,681	5,407	8,692	604	591
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	26,712	41,069	617	(6,440)	(5,913)
Korea Tabacos do Brasil Ltda.	2,712	126	-	(25)	301
KT&G Pars	2,366	58,995	-	(14,020)	(7,504)
KT&G Rus L.L.C.	196,752	117,114	15,431	(695)	9,178
KT&G USA Corporation	74,510	58,109	65,387	(4,151)	(3,501)
Cosmococ Co., Ltd.	62,547	35,176	35,350	(2,519)	(2,519)
Renzoluc Pte., Ltd.	134,334	31,574	-	(764)	5,554
KGC Yebon Corporation	55,525	9,319	5,984	201	203
PT KT&G Indonesia	98,203	94,466	71,935	16,562	15,990
SangSang Stay, Inc.	48,116	45,170	10,321	(2,144)	(2,144)
KT&G Global Rus L.L.C.	105,172	110,760	11,077	2,505	1,604
PT Trisakti Purwosari Makmur	171,400	38,522	9,225	2,197	9,482
PT Mandiri Maha Mulia <sup>2)</sup>	-	-	24,640	1,975	4,199
PT Sentosa Ababi Purwosari <sup>2)</sup>	-	-	17,271	2,851	(2,850)
PT Purindo Ilufa <sup>2)</sup>	-	-	5,155	1,822	74
PT Nusantara Indag Makmur	121	-	-	1	8
KGC Life & Gin Co., Ltd.	25,613	6,719	13,012	(1,314)	(1,315)
Cheong Kwan Jang Taiwan Corporation	21,467	19,866	14,538	(472)	(434)
Korean Red Ginseng Corp., Inc.	18,830	18,943	10,480	(935)	(901)
Korea Ginseng (China) Corp.	25,743	13,879	27,352	811	1,158
Korea Ginseng Corporation Japan	7,737	6,253	5,175	145	(18)
Jilin Hanzheng Ginseng Co., Ltd.	51,615	635	6,333	113	1,700
K&I HK Co., Ltd.	2,849	2,393	321	13	28
K&I China Co., Ltd.	3,901	3,754	733	(737)	(707)
Gwacheon SangSang PFV	6,907	700	-	(731)	(731)

<sup>1)</sup> The above financial information is according to each company's separate financial statements.

<sup>2)</sup> PT Sentosa Ababi Purwosari, PT Purindo Ilufa and PT Mandiri Maha Mulia were merged into PT Trisakti Purwosari Makmur during the six months ended June 30, 2019.

Summarized financial information<sup>1)</sup> for consolidated subsidiaries as of and for the year ended December 31, 2018, is as follows:

<i>In millions of Korean won</i>	Total assets	Total liabilities	Revenue	Net income(loss)	Total comprehensive income(loss)
Korea Ginseng Corporation	₩2,007,076	₩296,256	₩1,328,251	₩142,010	₩138,211
Yungjin Pharm. Co., Ltd.	196,114	84,508	186,409	(6,101)	(8,044)
Tae-a Industry Co., Ltd.	50,246	1,563	13,336	242	174
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	28,240	36,683	7,890	(11,564)	(10,537)
Korea Tabacos do Brasil Ltda.	2,601	117	-	168	(125)
KT&G Pars	4,050	53,175	2,121	(52,079)	(13,322)
KT&G Rus L.L.C.	154,515	84,054	52,018	2,093	(8,829)
KT&G USA Corporation	61,789	41,887	102,983	1,132	1,933
Cosmococ Co., Ltd.	64,898	35,008	75,811	(11,217)	(11,545)
Renzoluc Pte., Ltd.	125,258	28,052	-	(1,040)	(3,846)
KGC Yebon Corporation	56,965	10,963	13,428	(1,172)	(1,168)
PT KT&G Indonesia	54,373	66,626	104,346	3,756	3,982
SangSang Stay, Inc.	7,931	2,842	20,229	(4,849)	(4,862)
KT&G Global Rus L.L.C.	75,366	82,558	34,813	4,740	3,094
PT Trisakti Purwosari Makmur	118,101	5,915	7,336	4,961	2,383
PT Mandiri Maha Mulia	52,379	35,266	48,441	3,572	3,224
PT Sentosa Ababi Purwosari	54,967	54,438	33,993	(754)	(411)
PT Purindo Ilufa	10,327	14,506	9,253	(715)	(536)
PT Nusantara Indag Makmur	113	-	-	(391)	(402)
KGC Life & Gin Co., Ltd.	28,097	7,889	37,707	437	303
Cheong Kwan Jang Taiwan Corporation	19,272	17,237	27,190	(122)	(83)
Korean Red Ginseng Corp., Inc.	19,579	18,791	24,728	(2,999)	(2,646)
Korea Ginseng (China) Corp.	23,121	12,414	41,071	(1,196)	(1,235)
Korea Ginseng Corporation Japan	6,706	5,445	10,121	(99)	(51)
Jilin Hanzheng Ginseng Co., Ltd.	49,722	464	10,070	(7,138)	(7,337)
K&I HK Co., Ltd.	2,600	2,173	2,673	113	128
K&I China Co., Ltd.	3,174	2,320	4,249	(282)	(282)
Gwacheon SangSang PFV	6,955	17	-	(62)	(62)

<sup>1)</sup> The above financial information is according to each company's separate financial statements.

#### 1-4. Changes in Scope for Consolidation

PT Sentosa Ababi Purwosari, PT Purindo Ilufa and PT Mandiri Maha Mulia have been merged into PT Trisakti Purwosari Makmur during the six months ended June 30, 2019, and therefore have been excluded from the scope for consolidation as of June 30, 2019.



## 2. Significant Accounting Policies

### 2-1. Basis of Preparation

The consolidated interim financial statements of the Parent Company and subsidiaries (the “Group”) have been prepared in accordance with Korean International Financial Reporting Standard (“K-IFRS”) No. 1034 'Interim Financial Reporting'. These consolidated 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 consolidated interim financial statements of the Group 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 Group

The Group 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 Group 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 consolidated interim financial statements are not restated. The impact of introducing the lease standard and the new accounting policy is described in Note 26.

##### - 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 consolidated interim financial statements, except for the amendments made to K-IFRS No. 1116 Leases.

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

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 Group 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 consolidated interim financial statements for the six months ended June 30, 2019, are identical to those applied in presenting the consolidated 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.

- Going concern

Following the resolution to liquidate KT&G Pars during 2019, the Group has prepared its consolidated interim financial statements by using the consolidated interim statements of financial position, comprehensive income, changes in equity and cash flows and the notes to the consolidated interim financial statements under the assumption that KT&G Pars will be liquidated.

## 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 Group revised its comparative statement of cash flows. This comparative presentation of consolidated 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 consolidated interim financial statements requires the Group to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Group'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 consolidated interim financial statements for the six months ended June 30, 2019, are identical to those applied in presenting the consolidated 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

4-1. The Group's operating segments are summarized as follows:

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

4-2. Segment information on sales and operating profit 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>	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩1,521,810	₩786,797	₩179,857	₩158,866	₩2,647,330	₩(204,508)	₩2,442,822
Intersegment sales	(137,670)	(56,236)	(7,220)	(3,382)	(204,508)	204,508	-
External sales	1,384,140	730,561	172,637	155,484	2,442,822	-	2,442,822
Operating profit	531,436	133,473	77,809	2,710	745,428	1,798	747,226

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

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩1,438,859	₩768,361	₩39,317	₩134,344	₩2,380,881	₩(193,571)	₩2,187,310
Intersegment sales	(123,805)	(60,782)	(6,940)	(2,044)	(193,571)	193,571	-
External sales	1,315,054	707,579	32,377	132,300	2,187,310	-	2,187,310
Operating profit	482,736	129,119	7,031	(7,989)	610,897	23,447	634,344

4-3. The Group obtains revenue by transferring goods and services over a period or at a point in the main business subsidiaries. The categories of main business subsidiaries are consistent with the revenue disclosure information per reporting segment in accordance with K-IFRS No. 1108. The details of the Group's revenue recognized over a period or at a point as of 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
Revenue recognized at a point					
Manufacturing and sales of tobacco	Wholesale, retail	₩744,600	₩1,379,003	₩731,843	₩1,312,775
	Direct sales	2,122	5,137	1,637	2,279
Manufacturing and sales of red ginseng, etc.	Wholesale, retail	212,670	473,783	193,037	447,577
	Direct sales	106,014	256,778	111,490	260,002
Others	Wholesale, retail	73,390	141,388	54,357	118,875
	Direct sales	6,767	12,864	6,220	12,878
Subtotal		1,145,563	2,268,953	1,098,584	2,154,386
Revenue recognized over a period					
Sales and rental of real estate	Sales and rental	111,702	172,637	20,779	32,377
Others	Service	576	1,232	357	547
Subtotal		112,278	173,869	21,136	32,924
Total		₩1,257,841	₩2,442,822	₩1,119,720	₩2,187,310

4-4. Segment information on assets and liabilities as of June 30, 2019 and December 31, 2018, is as follows:

(1) As of June 30, 2019

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
<b>Assets:</b>							
Segment assets	₩5,189,407	₩2,048,169	₩723,703	₩310,521	₩8,271,800	₩ (1,970,687)	₩6,301,113
Investments in associates and joint ventures	-	-	56,965	3,186	60,151	-	60,151
Assets held for sale	4,574	-	-	-	4,574	-	4,574
Subtotal	5,193,981	2,048,169	780,668	313,707	8,336,525	(1,970,687)	6,365,838
Unallocated assets							4,480,555
Total assets							₩10,846,393
Acquisition of non-current assets	169,434	13,322	-	4,289	187,045	(25,175)	161,870
<b>Liabilities:</b>							
Segment liabilities	2,199,853	183,454	700	151,583	2,535,590	(485,440)	2,050,150
Unallocated liabilities							543,845
Total liabilities							₩2,593,995

(2) As of December 31, 2018

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
<b>Assets:</b>							
Segment assets	₩4,999,373	₩2,082,712	₩627,966	₩251,980	₩7,962,031	₩ (1,813,961)	₩6,148,070
Investments in associates and joint ventures	-	-	80,951	3,038	83,989	-	83,989
Assets held for sale	27,794	-	-	-	27,794	(23,547)	4,247
Subtotal	5,027,167	2,082,712	708,917	255,018	8,073,814	(1,837,508)	6,236,306
Unallocated assets							3,918,796
Total assets							₩10,155,102
Acquisition of non-current assets	367,199	32,361	-	5,158	404,718	(4,556)	400,162
<b>Liabilities:</b>							
Segment liabilities	1,528,104	165,072	17	108,232	1,801,425	(369,809)	1,431,616
Unallocated liabilities							590,405
Total liabilities							₩2,022,021

Cash and cash equivalents, fair value through profit or loss, fair value through other comprehensive income or loss, deferred tax assets and others are included in the unallocated assets and borrowings and deferred tax liabilities and others are included in the unallocated liabilities.

4-5. Geographical information determined by customer's location for the six months ended June 30, 2019 and 2018, is as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2019			Six months ended June 30, 2018		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩2,226,739	₩216,083	₩2,442,822	₩2,009,668	₩177,642	₩2,187,310
Non-current assets	3,769,419	191,659	3,961,078	3,473,374	139,140	3,612,514

Sales and non-current assets for overseas were not separately marked by the country as they were not important.

4-6. Revenues from major customers, which are more than 10% of the details of the Group's consolidated total revenues do not exist.

## 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
Trade receivables	₩1,015,413	₩ -	₩896,219	₩ -
Loans to employees	18,427	23,825	16,824	28,604
Loans	59	243	236	241
Other receivables	17,729	2,231	13,570	290
Guarantee deposits	41,574	36,184	43,388	33,768
Accrued income	4,418	-	5,684	-
Total	₩1,097,620	₩62,483	₩975,921	₩62,903

5-2. Allowances for doubtful accounts in relation to trade and other receivables (as a gross amount before deduction of allowances 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	₩1,179,327	₩62,483	₩1,058,004	₩62,903
Allowances:				
Trade receivables	(81,390)	-	(81,731)	-
Other receivables	(317)	-	(352)	-
Total allowances	(81,707)	-	(82,083)	-
Net trade and other receivables	₩1,097,620	₩62,483	₩975,921	₩62,903

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	₩82,083	₩27,789
Change in accounting policy	-	69,258
Impairment loss (reversal)	(1,976)	(3,205)
Write off	(48)	(5,648)
Net exchange difference, etc.	1,648	(1,364)
Ending balance	₩81,707	₩86,830

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 consolidated interim statements of comprehensive income.

## 6. Inventories

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	₩123,555	₩ (4,143)	₩119,412	₩89,686	₩(1,524)	₩88,162
Finished goods	777,804	(3,891)	773,913	785,749	(4,048)	781,701
Work in progress	546,379	(849)	545,530	677,990	(2,987)	675,003
Raw materials	812,104	(2,773)	809,331	817,422	(2,314)	815,108
Supplies	28,138	-	28,138	26,128	-	26,128
Byproducts	8,234	-	8,234	7,107	-	7,107
Buildings under construction	772	-	772	279	-	279
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	44,808	-	44,808	55,743	-	55,743
Total	₩2,355,348	₩(11,656)	₩2,343,692	₩2,472,163	₩(10,873)	₩2,461,290

The cost of inventories recognized as expenses for the six months ended June 30, 2019 includes ₩4,091 million in valuation losses reduced to net realizable value (₩1,728 million for the six months ended June 30, 2018) and ₩1,926 million in reversals of inventory valuation losses due to the increase in net realizable value (₩377 million for the six months ended June 30, 2018).

## 7. Investments in Associates and Joint Ventures

Changes in the carrying amount of investment in associates and joint ventures 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	₩83,989	₩51,031
Disposal	(24,651)	-
Equity method gains and losses	1,891	960
Dividends	(1,121)	(589)
Capital changes in equity method	43	-
Ending balance	₩60,151	₩51,402

## 8. 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	₩1,818,788	₩1,756,979
Acquisition and capital expenditure	113,029	215,333
Disposal/impairment loss	(1,967)	(8,712)
Depreciation	(69,575)	(69,450)
Reclassification	(72,752)	(192,692)
Others	5,748	(8,587)
Ending balance	₩1,793,271	₩1,692,871

## 9. 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	₩71,954	₩84,748
Acquisition and capital expenditure	4,945	3,314
Disposal/impairment loss	(115)	(1,447)
Depreciation	(1,523)	(1,844)
Reclassification	3,909	-
Others	268	300
Ending balance	₩79,438	₩85,071

## 10. 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	₩495,049	₩330,999
Acquisition and capital expenditure	38,760	-
Depreciation	(8,097)	(5,393)
Reclassification	58,150	192,692
Ending balance	₩583,862	₩518,298

## 11. Right-of-use asset

11-1. 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	51,169
Acquisition	9,199
Disposal	(13)
Depreciation	(11,423)
Others	561
Ending balance	₩49,493

11-2. 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 one year	₩18,799	₩810	₩17,989
One year to five years	23,237	1,773	21,464
More than five years	1,955	177	1,778
Total	₩43,991	₩2,760	₩41,231

The variable lease payments, which are not included in the lease liability measurement for the six months ended June 30, 2019, are ₩40,536 million.



## 12. Borrowings

12-1. Short-term borrowings as of June 30, 2019, and December 31, 2018, are summarized as follows:

<i>In millions of Korean won</i>	Lender	Annual interest rate	As of June 30, 2019	As of December 31, 2018
Borrowings	KEB Hana Bank	3.24% - 4.33%	₩21,400	₩14,000
	KEB Hana Bank Bahrain	LIBOR(90days)+1.1%	6,355	6,144
	Korea Development Bank ("KDB")	2.70%	2,500	75,412
	Korea Agro-Fisheries & Food Trade	-	-	15,000
	Subtotal		30,255	110,556
		CD yield(91days)		
Customer credit contracts <sup>1)</sup>	NH Nonghyup Bank, etc.	+0.90% - 4.50%	18,451	19,368
Total			₩48,706	₩129,924

<sup>1)</sup> As the Group enters into a customer financial agreement with financial institutions such as NH Nonghyup Bank (share), it receives sales receivables from financial institutions and provides financial institutions with payment guarantees for the payment. On the other hand, the foregoing borrowing corresponds to trade receivables that were transferred as of June 30, 2019, but did not meet the derecognition requirements.

12-2. Long-term borrowings as of June 30, 2019, and December 31, 2018, are summarized as follows:

<i>In millions of Korean won</i>	Lender	Maturity	Annual interest rate	As of June 30, 2019	As of December 31, 2018
Other financial loan	NH Nonghyup Bank	2020.06.10 - 2024.06.10	-	₩57,144	₩44,252
	Kookmin Bank	2023.09.11	2.91% - 3.46%	9,209	10,292
Borrowings		2019.08.19 -			
	KDB	2022.11.10	2.33% - 3.44%	7,174	8,591
Redeemable convertible preferred shares <sup>1)</sup>				35,340	35,340
Total				₩108,867	₩98,475
Consolidated interim statements of financial position:					
Current				16,047	5,000
Non-current				92,820	93,475
Total				₩108,867	₩98,475

1) Details of convertible bonds and preferred shares as of June 30, 2019, are summarized as follows:

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

12-3. As discussed in Note 24 to the consolidated interim financial statements, the Group is providing collateral for the above borrowings.

### 13. Operating Profit

13-1. 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	₩39,535	₩117,598	₩49,369	₩108,626
Raw materials used and merchandise purchased	170,949	417,695	223,545	460,855
Salaries	129,912	274,125	135,081	286,554
Retirement and termination benefits	13,945	32,537	14,142	30,418
Depreciation	45,781	88,992	37,460	74,843
Amortization	916	1,523	675	1,844
Employee welfare	19,360	37,382	19,021	36,292
Advertising	61,047	116,422	64,606	121,653
Commissions	137,888	292,876	110,031	212,724
Other expenses	239,446	316,446	142,814	219,157
<b>Total</b>	<b>₩858,779</b>	<b>₩1,695,596</b>	<b>₩796,744</b>	<b>₩1,552,966</b>

13-2. 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	₩94,152	₩191,161	₩90,414	₩192,579
Retirement and termination benefits	9,202	21,691	8,837	19,746
Employee welfare	14,232	26,379	12,972	25,205
Travel expenses	5,259	9,660	5,101	9,177
Communication cost	1,506	2,857	1,477	2,881
Utilities	2,124	5,114	1,939	5,079
Taxes and utilities	21,013	23,321	15,714	17,984
Supplies	1,105	2,183	1,123	2,179
Rent	2,345	6,089	7,347	14,586
Depreciation	16,658	32,676	10,932	22,118
Amortization	870	1,432	550	1,497
Repairs and maintenance	1,367	2,148	1,715	2,831
Vehicles	1,739	3,260	1,827	3,520
Insurance	585	1,507	553	1,723
Commissions	89,071	187,486	87,940	170,479
Freight and custody	11,960	23,963	9,931	21,234
Conferences	1,222	2,438	1,497	2,534
Advertising	61,024	116,375	65,227	122,247
Education and training	2,063	3,516	2,085	3,240
Prizes and rewards	514	963	428	1,234
Cooperation	188	465	419	617
Research and development	10,566	19,146	9,007	17,515
Impairment loss (reversal of impairment loss) on trade receivables	(5,391)	(2,010)	(2,787)	(3,205)
<b>Total</b>	<b>₩343,374</b>	<b>₩681,820</b>	<b>₩334,248</b>	<b>₩657,000</b>

## 14. Other Income and Expenses

14-1. 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	₩10,406	₩13,390	₩3,590	₩6,465
Foreign currency translation gain	16,992	46,304	57,141	60,524
Gain on disposal of property, plant and equipment	2,091	2,113	462	936
Gain on disposal of intangible assets	-	3	-	-
Gain on valuation of derivatives	4,052	1,110	-	388
Gain on derivative transactions	-	-	1,610	2,434
Reversal of provision for site restoration	17	17	-	-
Gain on lease contract adjustments	118	118	-	-
Reversal of impairment loss on other receivables	1,019	1,019	-	-
Other operating income	13,713	16,225	3,178	25,513
<b>Total</b>	<b>₩48,408</b>	<b>₩80,299</b>	<b>₩65,981</b>	<b>₩96,260</b>

14-2. 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	₩3,157	₩4,810	₩741	₩2,737
Foreign currency translation loss	967	11,939	11,421	23,557
Donations	1,797	2,578	2,448	4,478
Loss on disposal of property, plant and equipment	320	329	951	1,298
Impairment loss on property, plant and equipment	28	464	3,686	3,686
Loss on disposal of intangible assets	17	17	48	54
Impairment loss on intangible assets	-	-	1,041	1,041
Loss on valuation of derivatives	-	1,033	11,124	5,506
Loss on derivative transactions	8,989	10,211	3,193	3,193
Impairment loss on other receivables	1,053	1,053	-	-
Other operating expenses	7,896	8,882	2,189	6,008
<b>Total</b>	<b>₩24,224</b>	<b>₩41,316</b>	<b>₩36,842</b>	<b>₩51,558</b>

## 15. 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 <sup>1)</sup>	₩6,215	₩12,866	₩3,494	₩7,352
Dividend income	4,217	14,556	4,224	12,674
Gain on valuation of fair value through profit or loss	12,714	28,946	19,219	41,199
Total finance income	₩23,146	₩56,368	₩26,937	₩61,225
Finance cost:				
Interest expense	₩2,069	₩4,222	₩1,419	₩2,782
Loss on valuation of fair value through profit or loss	1,471	7,291	140	140
Total finance cost	₩3,540	₩11,513	₩1,559	₩2,922

<sup>1)</sup> This interest income is generated from amortized cost measurement of financial assets.

## 16. Retirement Benefit Plan

16-1. 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	₩11,789	₩23,800	₩11,926	₩22,741
Net interest on net defined benefit liability	762	1,225	455	912
Subtotal	12,551	25,025	12,381	23,653
Defined contribution plan:				
Contributions recognized as expense	1,352	3,685	1,528	4,014
Other long-term employee benefits:				
Current service cost, etc.	711	1,399	741	1,279
Voluntary retirements:				
Termination benefits	42	3,827	244	2,751
Total	₩14,656	₩33,936	₩14,894	₩31,697

16-2. 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	₩527,971	₩491,466
Fair value of plan assets	(391,313)	(395,251)
Total	₩136,658	₩96,215

## 17. Refund Liabilities and Provisions

17-1. 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	₩10,326	₩4,768	₩8,378	₩1,570
Provision for site restoration	3,176	1,137	2,812	1,575
Provision for product warrantee	7,701	-	3,498	-
Provision for financial guarantee	235	376	-	700
Provision for others	1,485	-	413	-
Total	₩22,923	₩6,281	₩15,101	₩3,845

17-2. Changes in refund liabilities and provisions for the six months ended June 30, 2019, are as follows:

<i>In millions of Korean won</i>	Beginning balance	Increase	Decrease	Ending balance
Refund liabilities	₩9,948	₩7,868	₩(2,722)	₩15,094
Provision for site restoration	4,387	69	(143)	4,313
Provision for product warrantee	3,498	7,287	(3,084)	7,701
Provision for financial guarantee	700	30	(119)	611
Provision for others	413	1,485	(413)	1,485
Total	₩18,946	₩16,739	₩(6,481)	₩29,204

Changes in refund liabilities and provisions for the six months ended June 30, 2018, are as follows:

<i>In millions of Korean won</i>	Beginning balance	Change in accounting policy	Increase	Decrease	Ending balance
Refund liabilities	₩8,402	₩1,333	₩2,851	₩(1,545)	₩11,041
Provision for site restoration	3,468	-	365	(108)	3,725
Provision for product warrantee	-	-	1,780	-	1,780
Provision for financial guarantee	9	-	-	(9)	-
Provision for others	4,454	-	64	(3,315)	1,203
Total	₩16,333	₩1,333	₩5,060	₩(4,977)	₩17,749

## 18. Real Estate Sales Contract

18-1. 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 has been completed as of June 30, 2019, but resale is underway due to cancellation of the sales contract.

18-2. 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>	As of June 30, 2019	As of 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 contract where resale is underway due to cancellation of contract, has been recognized as revenue. This amount is not included in this figure.

18-3. 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

18-4. 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 which have occurred by the end of the six months ended June 30, 2019, and can be subject to change in the future.

## 19. 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 28.17% and 30.31%, respectively.

## 20. Related Parties

20-1. 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
Associates	Cosmo Tobacco Co., Ltd.	Cosmo Tobacco Co., Ltd.
	LitePharmTech Co., Ltd.	LitePharmTech Co., Ltd.
	- <sup>3)</sup>	JR REIT 5 Co., Ltd.
	- <sup>3)</sup>	JR REIT 8 Co., Ltd.
	JR REIT 10 Co., Ltd.	JR REIT 10 Co., Ltd.
	LSK Global Pharma Services Co., Ltd.	LSK Global Pharma Services Co., Ltd.
	Yong In Jung Sim Co., Ltd.	Yong In Jung Sim Co., Ltd.
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd.	KB Gimpo Logistics CR REIT Co., Ltd.
	KORAMCO Private REIT 50 Fund	KORAMCO Private REIT 50 Fund
	KORAMCO Europe Private REIT 3-2 Fund	KORAMCO Europe Private REIT 3-2 Fund <sup>1)</sup>
	Starfield Suwon	Starfield Suwon <sup>2)</sup>

- <sup>1)</sup> During the year ended December 31, 2018, the Group had made investment on 51.35% share of KORAMCO Europe Private REIT 3-2 Fund.
- <sup>2)</sup> During the year ended December 31, 2018, the Group had made investment on 50% share of Starfield Suwon.
- <sup>3)</sup> Due to the liquidation of JR REIT 5 Co., Ltd. and JR REIT 8 Co., Ltd. for the six months ended June 30, 2019, they have been excluded from the scope of the Group's related parties as of June 30, 2019.

20-2. The Group 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:

		2019		2018	
		Sales and other income		Sales and other income	
		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>					
Associates and Joint ventures	JR REIT 5 Co., Ltd.	₩130	₩130	₩34	₩34
	JR REIT 8 Co., Ltd.	108	108	-	-
	JR REIT 10 Co., Ltd.	292	292	289	289
	KB Gimpo Logistics CR REIT Co., Ltd.	-	-	-	45
	KORAMCO Private REIT 50 Fund	-	-	-	220
	KORAMCO Europe Private REIT 3-2 Fund	591	591	-	-
Total		₩1,121	₩1,121	₩323	₩588

20-3. Details on account balances of receivables and payables with related companies as of June 30, 2019, and December 31, 2018, are summarized as follows:

		As of June 30, 2019		As of December 31, 2018	
		Receivables	Payables	Receivables	Payables
<i>In millions of Korean won</i>					
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		₩831	₩16,020	₩983	₩16,020

20-4. 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)	Fund contribution	Repayment of funds	Investment (recovery)	Fund contribution	Repayment of funds
Associates and joint ventures	LSK Global Pharma Services Co., Ltd.	₩ -	₩ -	₩150	₩ -	₩ -	₩ 750
	JR REIT 5 Co., Ltd.	(11,125)	-	-	-	-	-
	JR REIT 8 Co., Ltd.	(13,526)	-	-	-	-	-

20-5. There is no payment guarantee provided between or among the related parties.

20-6. During the year ended December 31, 2018, the Group 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 (refer to Note 24)

20-7. 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 KB Gimpo Logistics CR REIT Co., Ltd. is not entitled to have an impact on the resolution of the investee by the Financial Investment Services and Capital Markets Act.

20-8. KORAMCO Private REIT 50 Fund and KORAMCO Europe Private REIT 3-2 Fund are 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.

20-9. Details of key management personnel compensation for the three months and 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



## 21. Risk Management and Fair Value of Financial Instruments

In relation to financial instruments, the Group is exposed to market risk, credit risk and liquidity risk. The purpose of risk management of the Group is to identify potential risks affecting the financial performance of the Group and to reduce, eliminate and avoid them to an acceptable level. The Group prepares and operates the company-wide risk management policies and procedures, and is responsible for the overall responsibility for risk management in the consolidated interim financial statements of the subsidiaries. The financial department of the Group 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 it periodically analyses 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 Group's overall financial risk management strategy is the same as the previous one.

### 21-1. Market risk

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

#### (1) Currency risk

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

#### (2) Equity price risk

The Group 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 of financial assets and listed equity instruments. The management of the Group 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 Group.

#### (3) Interest rate risk

The Group is exposed to interest rate fluctuation risk in relation to the borrowings. The management of the Group 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 Group 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.

### 21-2. Credit risk

The Group 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 Group 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 Group 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 Group 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 indicates the maximum exposure to credit risk. The maximum exposure to credit risk 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
Cash and cash equivalents (excluding cash on hand) <sup>1)</sup>	₩535,790	₩430,901
Other financial assets	358,228	593,146
Fair value through profit or loss <sup>1)</sup>	2,454,680	1,851,922
Trade and other receivables	1,160,103	1,038,824
Long-term deposits in MSA Escrow Fund	686,673	615,528
Derivative assets	1,110	1,239
<b>Total</b>	<b>₩5,196,584</b>	<b>₩4,531,560</b>

<sup>1)</sup> Of the cash equivalents as of June 30, 2019, the Money Market Trust amount of ₩601,969 million(₩501,562 million as of December 31, 2018) is included in the financial assets at fair value through profit or loss.

### 21-3. Liquidity risk

The Group 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 Group continuously analyses and reviews the cash outflow budget and actual cash outflows to respond to the maturity of financial liabilities and financial assets. Management of the Group determines that the financial liability is redeemable through cash flows from operating activities and cash inflows from financial assets.

21-4 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	268,802	249,575
Derivative assets	1,110	1,239
Financial assets measured at amortized cost		
- Cash and cash equivalents <sup>1)</sup>	536,302	431,408
- Other financial assets	358,228	593,146
- Trade and other receivables	1,160,103	1,038,824
- Long-term deposits in MSA Escrow Fund	686,673	615,528
<b>Subtotal</b>	<b>2,741,306</b>	<b>2,678,906</b>
<b>Total financial assets</b>	<b>₩5,465,898</b>	<b>₩4,781,642</b>
<b>Financial liabilities:</b>		
Derivative liabilities	1,033	461
Financial liabilities measured at amortized cost		
- Short-term borrowings	48,706	129,924
- Current portion of long-term borrowings	16,047	5,000
- Long-term borrowings	92,820	93,475
- Trade and other payables	462,034	446,609
- Lease liability	41,231	-
<b>Subtotal</b>	<b>660,838</b>	<b>675,008</b>
<b>Total financial liabilities</b>	<b>₩661,871</b>	<b>₩675,469</b>

<sup>1)</sup> Of the cash equivalents as of June 30, 2019, the Money Market Trust amount of ₩601,969 million(₩501,562 million as of December 31, 2018) is included in the financial assets at fair value through profit or loss.

21-5. When measuring the fair value of an asset or liability, the Group 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

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	₩2,454,680	₩ -	₩2,227,999	₩226,681
Fair value through other comprehensive income or loss	268,802	216,530	-	52,272
Derivative assets	1,110	-	1,110	-
Derivative liability	1,033	-	1,033	-
Total	₩2,725,625	₩216,530	₩2,230,142	₩278,953
As of 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	249,575	198,204	-	51,371
Derivative assets	1,239	-	1,239	-
Derivative liability	461	-	461	-
Total	₩2,103,197	₩198,204	₩1,642,967	₩262,026

There is no movement between levels of the fair value hierarchy during the six months ended June 30, 2019, and during the year ended December 31, 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 and Discounted Cash Flow and was 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	₩262,026	₩234,046
Acquisition	19,400	33,900
Disposal	-	(25,440)
Changes in fair value	(2,473)	1,920
Ending balance	₩278,953	₩244,426

21-6. 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	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩12,866	₩ -	₩12,866
Dividend income	6,562	7,994	-	-	-	14,556
Gain or loss on valuation	21,655	-	77	-	-	21,732
Gain or loss on disposal	-	-	(10,211)	-	-	(10,211)
Interest expense	-	-	-	-	(4,222)	(4,222)
Reversal of impairment loss	-	-	-	1,976	-	1,976
Total	₩28,217	₩7,994	₩ (10,134)	₩14,842	₩(4,222)	₩36,697
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩18,327	₩ -	₩ -	₩ -	₩18,327
Total	₩ -	₩18,327	₩ -	₩ -	₩ -	₩18,327

(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	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩7,352	₩ -	₩7,352
Dividend income	-	12,674	-	-	-	12,674
Gain or loss on valuation	41,059	-	(5,118)	-	-	35,941
Gain or loss on disposal	-	-	(759)	-	-	(759)
Interest expense	-	-	-	-	(2,783)	(2,783)
Reversal of impairment loss	-	-	-	3,204	-	3,204
Total	₩41,059	₩12,674	₩ (5,877)	₩10,556	₩ (2,783)	₩55,629
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩(18,963)	₩ -	₩ -	₩ -	₩(18,963)
Total	₩ -	₩(18,963)	₩ -	₩ -	₩ -	₩(18,963)

## 22. 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	₩1,612,794	₩1,733,863
Change in accounting policy	-	(20,143)
Dividends	(505,061)	(505,061)
Transfer from reserve for research and human resource development	-	10,000
Accumulation of special reserve fund	(285,965)	(495,036)
Profit for the period	598,298	514,510
- Less: Non-controlling interests	(2,485)	958
Remeasurements of net defined benefit liability(net of tax)	(13,502)	(1,429)
- Less: Non-controlling interests	(7)	3
Ending balance	₩1,404,072	₩1,237,665

## 23. 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 attributable to owners of the Parent Company	₩322,786,282,794	₩595,813,778,212	₩266,571,370,939	₩515,468,597,557
Weighted-average number of ordinary shares outstanding	126,265,127	126,265,127	126,265,127	126,265,127
Basic and diluted earnings per share	₩2,556	₩4,719	₩2,111	₩4,082

## 24. Contingent Liabilities and Commitments

### 24-1. Litigation cases

As of June 30, 2019, the Group has 12 cases of pending litigations under progress and the litigation value is ₩56,224 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of June 30, 2019, on the consolidated interim financial statements of the Group.

### 24-2. Major commitments

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

*In millions of Korean Won, thousands of US dollar*

Type	Financial institutions	Currency	Limit
Opening an import credit	KEB Hana Bank and one other	USD	187,600
Derivatives trading	KEB Hana Bank and three others	USD	227,700
Group loans	KEB Hana Bank	KRW	300,000
Consumer financing arrangement	Samsung Card Co., Ltd and one other	KRW	66,260
Others	KDB Industrial Bank and five others	KRW	202,480
	KEB Hana bank Bahrain branch	USD	5,500

### 24-3. Payment guarantee and collateral details

Details of the payment guarantees the Group 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	948,351	Housing distribution guarantee
Korea Trade Insurance Corporation	USD	47,590	Export guarantee insurance
Seoul Guarantee Insurance	KRW	4,351	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	6,760	Escrow deposit guarantee

As of June 30, 2019, the Group 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 include the opening of an import L/C 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 dollar*

Provider	Currency	Execution amount	Limit	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 Group for other people (excluding related parties) as of June 30, 2019, are as follows:

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

Details	Guarantee user	Currency	Limit	Execution amount
Loan guarantee for the payment	Shinhan Bank	KRW	79,400	20,625
	KEB Hana Bank	KRW	60,000	16,837
	Suhyup Bank	KRW	9,494	2,137
Payment guarantee for the loan	Jung Kwan Jang Yuk			
	Nyun Geun(Shanghai) Co., Ltd.	USD	6,600	5,500
Payment guarantee for deductibles (Gyeonggi Gwangju branch and one other)	Korea Special Sales Association	KRW	884	-
Total		KRW	149,778	39,599
		USD	6,600	5,500

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.
Other financial assets	6,340	Business performance guarantee <sup>1)</sup>	-	6,340	Korea Land & Housing Corporation
	597	Security deposit for rent	597	597	Samsung Fire & Marine Insurance
Property, plant and equipment	93,932	A government grant	3,488	4,186	Wonju Si
Property, plant and equipment	56,786	Short-term and long-term borrowings	15,209	65,000	KEB Hana bank, etc.
Investment property	562				
Property, plant and equipment	17,664	Short-term borrowings	15,400	24,000	KEB Hana Bank
Property, plant and equipment	30,841	Current long-term borrowings	2,967	15,500	Korea Development Bank ("KDB")
		Long-term borrowings	4,208		
Total	₩565,267		₩63,263	₩139,107	

<sup>1)</sup> As of June 30, 2019, the Group 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.

Details of bills provided by the Group in relation to borrowings, etc. as of June 30, 2019, are as follows:

<i>In thousands of Korean won</i>	Type	Quantity	Face amount	Details
Jinheung Savings Bank	Draft bill	1 note	1,000,000	Not collected after debt dissipation
	Cheque	1 note	Blank	

As of June 30, 2019, 11 notes and two cheques with unknown origin and amount are lost, and the Group will proceed with the authorization process for this bill.

Financial assets limited to use 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
Other financial assets	Real estate development performance guarantee	₩6,340	₩6,340
	Security deposits for rent	597	597
Long-term other financial assets	Security deposits for checking accounts	1,547	1,518
Total		₩8,484	₩8,455

#### 24-4. Others

##### Payment of long-term deposits (MSA Escrow Fund)

Each year, the Group deposits a proportion of sales of tobacco products in the United States in accordance with the Tobacco Master Settlement Agreement (MSA) under the Escrow Statute of the U.S. government. The MSA Escrow Fund is maintained to pay the medical expenses of tobacco purchasers who have suffered health effects as a result of smoking. The unused portion of this fund will be refunded to the Group 25 years from the date of each annual funding. The Group recorded as long-term deposits the amounts paid into the MSA Escrow Funds of state governments in the United States against potential litigation and damages related to the export of tobacco to the United States.

The Group has maintained a contract with the farmers who grow six-year-old green ginseng for purchase volume guarantees and recorded contractual amounts paid to the farmers as long-term advance payments and advance payments in the amount of ₩85,609 million as of June 30, 2019 (₩59,369 million as of December 31, 2018) and ₩44,001 million as of June 30, 2019 (₩25,841 million as of December 31, 2018), respectively.

As of March 17, 2011, the Group, signed a memorandum of understanding 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, has entered into a shareholders' agreement with Gwak, Tae-Hwan (the "Individual Shareholder") who is a former owner of KT&G Life Sciences Corporation. Details of the agreement are as follows:



Classification	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 the Parent Company	If an individual shareholder transfers all or part of the shares held to a third party, the Parent Company 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.

As of June 30, 2019, the Group has entered into a management trust agreement with Marriott International Management Company B.V. and has been provided with international public relations services through Global Hospitality Licensing S.A.R.L. Also, the Group has been provided with technical advice by Marriott International Design & Construction Services., Inc.

The Group had established Starfield Suwon under 50:50 ratio with Shinsaegae Property. The disposal of such share is limited for five years from the approval for use of the multi-shopping mall.

The Group 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 Starfield Suwon begins.

The Group 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 Group's internal management decision is completed.

As of June 30, 2019, there is a capital call agreement for overseas real estate funds invested by the Group. 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 Group has the first priority in the supply of logistics facilities developed by Yongin Jungsim. Also, the Group has the right to transfer shares to SpaceG if it does not receive the sale.

## 25. Cash flows

25-1. 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	₩598,299	₩514,510
Adjustments:		
Employee welfare	996	1,108
Retirement and termination benefits	32,537	30,410
Loss on valuation of inventories	2,165	1,351
Depreciation	88,992	74,843
Amortization	1,523	1,844
Impairment loss reversal on trade and other receivables	(1,976)	(3,205)
Foreign currency translation loss	11,939	23,557
Loss on disposal of property, plant and equipment	329	1,298
Impairment loss on property, plant and equipment	464	3,686
Loss on disposal of intangible assets	17	54
Impairment loss on intangible assets	-	1,041
Other expenses, etc.	29,596	18,138
Finance cost	11,513	2,923
Income tax expense	234,655	223,799
Foreign currency translation gain	(46,304)	(60,524)
Gain on sale of property, plant and equipment	(2,113)	(936)
Gain on sale of intangible assets	(3)	-
Other income	(1,250)	-
Finance income	(56,368)	(61,225)
Share of loss/gain of associates	(1,891)	(960)
<b>Total</b>	<b>₩903,120</b>	<b>₩771,712</b>
Changes in working capital:		
Decrease(increase) in trade and other receivables	(111,435)	46,513
Increase in derivatives	(9,433)	-
Decrease in inventories	120,926	91,149
Increase in refund assets	(115)	-
Decrease in accrued tobacco excise and other taxes	60,348	36,171
Increase in advance payments	(79,627)	(55,889)
Increase in prepaid expenses	(9,117)	(29,305)
Increase in trade and other payables	64,407	110,150
Decrease in advance receipts	(29,352)	-
Decrease in refund liabilities and provisions	(736)	-
Increase in tobacco excise and other taxes payable	496,878	123,789
Increase in guarantee deposits on leases	(936)	-
Payment of retirement and termination benefits	(8,937)	(8,784)
Changes in other assets/liabilities	(13)	13,136
<b>Cash generated from operation</b>	<b>₩1,395,978</b>	<b>₩1,098,642</b>

25-2. 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	₩61,151	₩71,124
Increase (decrease) in other payables related to acquisition of property, plant and equipment	(5,036)	14,018

The Group 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.

## 26. Changes in Accounting Policies

As stated in Note. 2, the Group 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 consolidated 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 of the minimum lease payments before discounting the present value of the assets used by the Group as of June 30, 2019, is ₩43,991 million and when discounted at the intrinsic interest rate and the incremental borrowing rate of the lessee is ₩41,231 million.

As of January 1, 2019, right-of-use assets, current lease liabilities and long-term lease liabilities increased by ₩51,169 million, ₩26,151 million and ₩16,670 million, respectively. As of June 30, 2019, operating lease payments decreased by ₩11,219 million and depreciation expense for right-of-use assets and interest expense for lease liabilities increased by ₩11,423 million and ₩908 million respectively.