



KT&G CORPORATION

**Review Report on Separate Interim Financial Statements
Third Quarter of the 33rd Fiscal Year
from January 1, 2019, to September 30, 2019**

ATTACHMENT: INDEPENDENT AUDITOR'S REVIEW REPORT

KT&G CORPORATION

CONTENTS

| | Page |
|---|------|
| Independent auditor's review report | 1 |
| Separate interim financial statements | |
| Condensed separate interim statements of financial position | 7 |
| Condensed separate interim statements of comprehensive income | 9 |
| Condensed separate interim statements of changes in equity | 11 |
| Condensed separate interim statements of cash flows | 13 |
| Notes to condensed separate interim financial statements | 15 |

KT&G CORPORATION

Independent auditor's review report

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

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

Reviewed financial statements

We have reviewed the accompanying condensed separate financial statements of KT&G Corporation (the "Company"). The condensed separate financial statements consist of the condensed separate statement of financial position as of September 30, 2019, the related condensed separate statements of income and comprehensive income for the three months and nine months ended September 30, 2019 and 2018, changes in equity and cash flows for the nine months ended September 30, 2019 and 2018 all expressed in Korean won, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Separate financial statements

The Company's management is responsible for the preparation and fair presentation of the accompanying condensed separate financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") 1034, 'Interim Financial Reporting' and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

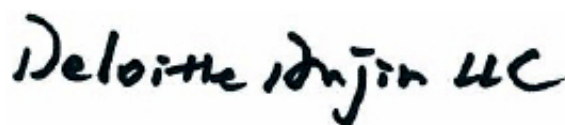
Review results

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

Other matters

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

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

A handwritten signature in black ink that reads "Deloitte Anjin LLC". The signature is written in a cursive, stylized font.

November 14, 2019

| |
|---|
| <p>This report is effective as of November 14, 2019, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying condensed separate financial statements and may result in modifications to the auditors' report.</p> |
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KT&G CORPORATION (the "Company")
Separate interim financial statements

Third Quarter of the 33rd Fiscal Year
from January 1, 2019, to September 30, 2019

Third Quarter of the 32nd Fiscal Year
from January 1, 2018, to September 30, 2018

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

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

KT&G CORPORATION

Condensed separate interim statements of financial position

As of September 30, 2019 and December 31, 2018

| <i>In Korean won</i> | Notes | As of September 30, 2019 | As of December 31, 2018 |
|---|---------|-----------------------------|----------------------------|
| Assets: | | | |
| Current assets: | | | |
| Cash and cash equivalents | 23 | ₩570,133,465,759 | ₩748,123,323,519 |
| Current other financial assets | 23,26 | 376,340,300,000 | 570,000,000,000 |
| Current fair value through profit or loss | 23 | 1,308,704,825,793 | 1,139,704,589,088 |
| Trade and other receivables | 5,22,23 | 846,918,390,385 | 730,894,507,798 |
| Derivative assets | 23 | 404,409,647 | 1,238,664,783 |
| Inventories | 6 | 916,187,910,910 | 954,677,584,804 |
| Refund assets and others | | 813,806,200 | 421,874,000 |
| Accrued tobacco excise and other taxes | | 202,929,623,361 | 218,210,022,210 |
| Advance payments | | 63,070,362,984 | 18,377,223,800 |
| Prepaid expenses | | 9,687,431,398 | 9,190,208,637 |
| Assets held for sale | 12,22 | 4,659,041,202 | 27,793,765,475 |
| Total current assets | | ₩4,299,849,567,639 | ₩4,418,631,764,114 |
| Non-current assets: | | | |
| Long-term other financial assets | 23,26 | ₩596,920,000 | ₩6,937,220,000 |
| Long-term deposits in MSA Escrow Fund | 23,26 | 744,633,897,800 | 615,527,896,771 |
| Long-term fair value through profit or loss | 23 | 258,095,977,015 | 210,655,373,106 |
| Long-term trade and other receivables | 5,22,23 | 118,457,622,888 | 119,288,362,714 |
| Fair value through other comprehensive income or loss | 23 | 234,423,894,535 | 230,545,108,827 |
| Investments in associates and joint ventures | 7 | 61,830,010,000 | 77,430,010,000 |
| Investments in subsidiaries | 8 | 1,171,765,820,200 | 1,185,361,245,738 |
| Property, plant and equipment | 9,22,26 | 1,108,207,691,833 | 1,200,906,524,123 |
| Intangible assets | 10 | 45,205,067,126 | 31,328,960,084 |
| Investment property | 11,26 | 924,287,423,903 | 606,679,330,988 |
| Right-of-use assets | 13,28 | 16,355,310,450 | - |
| Long-term advance payments | | 9,510,956,440 | 9,510,956,440 |
| Long-term prepaid expenses | | 5,985,159,903 | 7,267,349,723 |
| Deferred income tax assets | | 26,296,117,083 | 9,845,531,641 |
| Total non-current assets | | ₩4,725,651,869,176 | ₩4,311,283,870,155 |
| Total assets | | ₩9,025,501,436,815 | ₩8,729,915,634,269 |

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

KT&G CORPORATION

Condensed separate interim statements of financial position, continued

As of September 30, 2019 and December 31, 2018

| <i>In Korean won</i> | Notes | As of September 30, 2019 | As of December 31, 2018 |
|---|----------|-----------------------------|----------------------------|
| Liabilities and equity: | | | |
| Liabilities: | | | |
| Current liabilities: | | | |
| Short-term borrowings | 14,23,26 | ₩1,081,665,390 | ₩1,246,100,270 |
| Trade and other payables | 22,23 | 442,876,602,713 | 398,082,555,860 |
| Current lease liabilities | 13,23,28 | 6,049,533,852 | - |
| Derivative liabilities | 23 | 6,349,773,801 | 460,667,312 |
| Advance receipts | 22 | 90,684,384,641 | 161,629,415,091 |
| Current refund liabilities and provisions | 19 | 12,318,137,835 | 6,455,107,857 |
| Current income tax liabilities | | 196,215,928,826 | 169,266,311,114 |
| Tobacco excise and other taxes payable | | 540,104,201,290 | 551,877,758,317 |
| Total current liabilities | | ₩1,295,680,228,348 | ₩1,289,017,915,821 |
| Non-current liabilities: | | | |
| Long-term trade and other payables | 22,23 | ₩42,296,084,373 | ₩39,152,218,138 |
| Long-term lease liabilities | 13,23,28 | 9,626,885,338 | - |
| Long-term advance receipts | | 1,723,272,414 | 701,673,919 |
| Net defined benefit liabilities | 18 | 74,365,632,563 | 34,837,214,841 |
| Long-term refund liabilities and provisions | 19 | 872,391,244 | 985,318,269 |
| Total non-current liabilities | | ₩128,884,265,932 | ₩75,676,425,167 |
| Total liabilities | | ₩1,424,564,494,280 | ₩1,364,694,340,988 |
| Equity: | | | |
| Ordinary shares | | 954,959,485,000 | 954,959,485,000 |
| Other capital surplus | | 3,582,160,908 | 3,582,160,908 |
| Treasury shares | | (328,157,286,128) | (328,157,286,128) |
| Gain on sale of treasury shares | | 513,775,933,891 | 513,775,933,891 |
| Reserve | | 5,718,812,611,247 | 5,430,034,290,488 |
| Retained earnings | 24 | 737,964,037,617 | 791,026,709,122 |
| Total equity | | ₩7,600,936,942,535 | ₩7,365,221,293,281 |
| Total liabilities and equity | | ₩9,025,501,436,815 | ₩8,729,915,634,269 |

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

KT&G CORPORATION

Condensed separate interim statements of comprehensive income

For the three months and nine months ended September 30, 2019 and 2018

| In Korean won | Notes | 2019 | | 2018 | |
|---|---------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
| | | Three months ended September 30 | Nine months ended September 30 | Three months ended September 30 | Nine months ended September 30 |
| Sales | 4,20,22 | ₩723,442,075,187 | ₩2,194,728,432,367 | ₩663,865,225,134 | ₩1,941,697,172,504 |
| Manufacture of tobacco | | 627,242,795,997 | 1,883,956,721,174 | 589,159,074,989 | 1,787,229,378,712 |
| Real estate | | 78,733,403,831 | 257,590,980,628 | 54,418,808,367 | 92,767,866,479 |
| Exports of leaf tobacco and others | | 17,465,875,359 | 53,180,730,565 | 20,287,341,778 | 61,699,927,313 |
| Cost of sales | 15,22 | (271,022,911,988) | (832,569,846,944) | (239,448,450,107) | (715,584,475,950) |
| Manufacture of tobacco | | (226,751,652,430) | (690,700,567,167) | (206,630,831,422) | (639,060,122,543) |
| Real estate | | (31,118,500,213) | (101,804,053,555) | (17,798,108,038) | (28,019,137,835) |
| Exports of leaf tobacco and others | | (13,152,759,345) | (40,065,226,222) | (15,019,510,647) | (48,505,215,572) |
| Gross profit | | 452,419,163,199 | 1,362,158,585,423 | 424,416,775,027 | 1,226,112,696,554 |
| Selling, general and administrative expenses | 15 | (167,536,858,475) | (484,691,043,470) | (149,095,843,155) | (461,768,244,079) |
| Operating profit | | 284,882,304,724 | 877,467,541,953 | 275,320,931,872 | 764,344,452,475 |
| Other income | 16,22 | 64,054,912,112 | 139,818,961,666 | 14,019,813,691 | 86,099,038,602 |
| Other expenses | 16,22 | (23,912,430,688) | (53,281,785,323) | (17,400,766,411) | (26,667,976,836) |
| Financial income | 17,23 | 19,366,636,804 | 73,868,636,342 | 20,402,289,970 | 138,468,785,678 |
| Cost of finance | 17,23 | (1,590,991,742) | (9,974,860,771) | (3,234,723,373) | (4,093,384,318) |
| Profit before income tax | | 342,800,431,210 | 1,027,898,493,867 | 289,107,545,749 | 958,150,915,601 |
| Income tax expense | 21 | (92,277,978,918) | (277,122,684,300) | (77,967,030,615) | (237,461,321,102) |
| Profit for the period | | ₩250,522,452,292 | ₩750,775,809,567 | ₩211,140,515,134 | ₩720,689,594,499 |
| Other comprehensive income (loss) after income tax: | | | | | |
| Items that will not be reclassified to profit or loss | | | | | |
| Remeasurements of net defined benefit liabilities | | 458,223,412 | (12,811,771,950) | (317,473,188) | (1,541,946,056) |
| Gain (loss) on valuation of fair value through other comprehensive income or loss | | (11,112,908,243) | 2,812,119,637 | 6,499,664,173 | (7,566,923,564) |
| Other comprehensive income(loss) after income tax | | ₩(10,654,684,831) | ₩(9,999,652,313) | ₩6,182,190,985 | ₩(9,108,869,620) |
| Total comprehensive income for the period | | ₩239,867,767,461 | ₩740,776,157,254 | ₩217,322,706,119 | ₩711,580,724,879 |
| Earnings per share: | | | | | |
| Basic and diluted | 25 | ₩1,984 | ₩5,946 | ₩1,672 | ₩5,708 |

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

KT&G CORPORATION

Condensed separate interim statements of changes in equity

For the nine months ended September 30, 2018

| <i>In Korean won</i> | Ordinary shares | Other capital surplus | Treasury shares | Gains on sale of treasury shares | Reserve | Retained earnings | Total equity |
|--|------------------|-----------------------|--------------------|----------------------------------|--------------------|-------------------|--------------------|
| Balance at January 1, 2018 (before revision) | ₩954,959,485,000 | ₩3,582,160,908 | ₩(328,157,286,128) | ₩513,775,933,891 | ₩5,009,300,640,505 | ₩990,096,015,256 | ₩7,143,556,949,432 |
| Effect of change in accounting policy | - | - | - | - | (36,765,729,396) | (31,464,641,981) | (68,230,371,377) |
| Balance at January 1, 2018 (after revision) | 954,959,485,000 | 3,582,160,908 | (328,157,286,128) | 513,775,933,891 | 4,972,534,911,109 | 958,631,373,275 | 7,075,326,578,055 |
| Total comprehensive income (loss) for the period: | | | | | | | |
| Profit for the period | - | - | - | - | - | 720,689,594,499 | 720,689,594,499 |
| Other comprehensive loss for the period: | | | | | | | |
| Remeasurements of net defined benefit liabilities | - | - | - | - | - | (1,541,946,056) | (1,541,946,056) |
| Loss on valuation of fair value through other comprehensive income or loss | - | - | - | - | (7,566,923,564) | - | (7,566,923,564) |
| Sum of other comprehensive loss for the period | - | - | - | - | (7,566,923,564) | (1,541,946,056) | (9,108,869,620) |
| Total comprehensive income (loss) for the period | - | - | - | - | (7,566,923,564) | 719,147,648,443 | 711,580,724,879 |
| Transactions with owners of the Company: | | | | | | | |
| Dividends | - | - | - | - | - | (505,060,508,000) | (505,060,508,000) |
| Transfer from reserve for research and human resource development | - | - | - | - | (10,000,000,000) | 10,000,000,000 | - |
| Transfer to other reserve | - | - | - | - | 495,035,507,256 | (495,035,507,256) | - |
| Total transactions with owners of the Company | - | - | - | - | 485,035,507,256 | (990,096,015,256) | (505,060,508,000) |
| Balance at September 30, 2018 | ₩954,959,485,000 | ₩3,582,160,908 | ₩(328,157,286,128) | ₩513,775,933,891 | ₩5,450,003,494,801 | ₩687,683,006,462 | ₩7,281,846,794,934 |

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

KT&G CORPORATION

Condensed separate interim statements of changes in equity, continued

For the nine months ended September 30, 2019

| <i>In Korean won</i> | Ordinary shares | Other capital surplus | Treasury shares | Gains on sale of treasury shares | Reserve | Retained earnings | Total equity |
|--|------------------|-----------------------|--------------------|----------------------------------|--------------------|-------------------|--------------------|
| Balance at January 1, 2019 | ₩954,959,485,000 | ₩3,582,160,908 | ₩(328,157,286,128) | ₩513,775,933,891 | ₩5,430,034,290 | ₩791,026,709,122 | ₩7,365,221,293,281 |
| Total comprehensive income (loss) for the period: | | | | | | | |
| Profit for the period | - | - | - | - | - | 750,775,809,567 | 750,775,809,567 |
| Other comprehensive income (loss) for the period: | | | | | | | |
| Remeasurements of net defined benefit liabilities | - | - | - | - | - | (12,811,771,950) | (12,811,771,950) |
| Gain on valuation of fair value through other comprehensive income | - | - | - | - | 2,812,119,637 | - | 2,812,119,637 |
| Sum of other comprehensive income (loss) for the period | - | - | - | - | 2,812,119,637 | (12,811,771,950) | (9,999,652,313) |
| Total comprehensive income for the period | - | - | - | - | 2,812,119,637 | 737,964,037,617 | 740,776,157,254 |
| Transactions with owners of the Company: | | | | | | | |
| Dividends | - | - | - | - | - | (505,060,508,000) | (505,060,508,000) |
| Transfer to other reserve | - | - | - | - | 285,966,201,122 | (285,966,201,122) | - |
| Total transactions with owners of the Company | - | - | - | - | 285,966,201,122 | (791,026,709,122) | (505,060,508,000) |
| Balance at September 30, 2019 | ₩954,959,485,000 | ₩3,582,160,908 | ₩(328,157,286,128) | ₩513,775,933,891 | ₩5,718,812,611,247 | ₩737,964,037,617 | ₩7,600,936,942,535 |

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

KT&G CORPORATION

Condensed separate interim statements of cash flows

For the nine months ended September 30, 2019 and 2018

| <i>In Korean won</i> | Notes | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|---|-------|---|---|
| Net cash provided by operating activities | | ₩626,430,327,354 | ₩836,319,113,539 |
| Cash generated from operations | 27 | 889,261,007,819 | 1,051,632,627,611 |
| Income tax paid | | (262,830,680,465) | (215,313,514,072) |
| Net cash used in investing activities | | (294,554,145,979) | (12,906,747,261) |
| Interest received | | 15,377,571,049 | 6,913,332,756 |
| Dividends received | | 19,098,691,656 | 75,301,152,596 |
| Decrease in other financial assets | | 470,000,000,000 | 222,319,785,438 |
| Decrease in long-term fair value through profit or loss | | 7,033,109 | 31,553,772,081 |
| Decrease in fair value through other comprehensive income or loss | | - | 1,152,600,000 |
| Disposal of property, plant and equipment | | 4,292,714,191 | 30,027,357,528 |
| Disposal of intangible assets | | 97,979,683 | 350,864,000 |
| Disposal of assets held for sale | | 29,977,251,000 | - |
| Disposal of investments in associates | | 24,650,929,551 | 5,024,535,939 |
| Collection of loans | | 9,486,481,833 | 12,535,885,945 |
| Collection of guarantee deposits | | 275,000,000 | 2,132,407,005 |
| Acquisition of property, plant and equipment | | (135,479,068,918) | (102,344,280,794) |
| Acquisition of intangible assets | | (8,448,413,802) | (4,241,441,273) |
| Acquisition of investment property | | (178,826,598,402) | (158,934,291,530) |
| Acquisition of assets held for sale | | (6,467,187,866) | - |
| Acquisition of investment in associates | | - | (12,000,000,000) |
| Acquisition of investment in subsidiary | | - | (3,570,000,000) |
| Increase in loans | | (3,489,733,498) | - |
| Increase in guarantee deposits | | (25,285,920) | (4,857,243,070) |
| Increase in long-term deposits in MSA Escrow Fund | | (79,880,336,587) | (52,771,183,882) |
| Increase in fair value through profit or loss | | (134,536,094,505) | - |
| Increase in long-term fair value through profit or loss | | (50,665,078,553) | (61,500,000,000) |
| Increase in other financial assets | | (270,000,000,000) | - |
| Net cash used in financing activities | | (509,869,724,814) | (501,971,477,446) |
| Repayment of lease liabilities | | (4,809,216,814) | - |
| Payment of dividends | | (505,060,508,000) | (505,060,508,000) |
| Increase in guarantee deposits | | - | 7,118,185,054 |
| Decrease in guarantee deposits | | - | (4,029,154,500) |
| Net increase(decrease) in cash and cash equivalents | | (177,993,543,439) | 321,440,888,832 |
| Cash and cash equivalents at January 1 | | 748,123,323,519 | 589,765,862,776 |
| Effect of exchange rate fluctuation on cash and cash equivalents | | 3,685,679 | (1,690,457,061) |
| Cash and cash equivalents at September 30 | | ₩570,133,465,759 | ₩909,516,294,547 |

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

KT&G CORPORATION

Notes to the condensed separate interim financial statements

As of September 30, 2019, and December 31, 2018, and for the nine months ended September 30, 2019 and 2018

1. Overview of the Company

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of September 30, 2019, the Company has three manufacturing plants (including the Shintanjin plant), 14 local headquarters and 123 branches for the sale of tobacco throughout the country. Also, the Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

The Company was established as a government-owned enterprise pursuant to the Korea Monopoly Corporation Act on April 1, 1987. On April 1, 1989, the Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. The Company was excluded from the application of the Act for the Management of Government-Invested Enterprises, and became an entity existing and operating under the Commercial Act of Korea, pursuant to the Act on Management Reform and Privatization of Public Enterprises, proclaimed on August 28, 1997, and enforced on October 1, 1997, in order to secure financing and to promote and develop, through efficient management, the monopoly business of red ginseng and tobacco. The shareholders approved a plan to separate the Company into two companies by setting up a subsidiary for its red ginseng business segment effective from January 1, 1999, pursuant to the Korean government’s privatization program and management reorganization plan. The separation into a wholly owned subsidiary, Korea Ginseng Corporation, was accomplished by the Company’s contribution of the assets and liabilities in the red ginseng business segment. On December 27, 2002, the Company changed its name again to KT&G Corporation from Korea Tobacco and Ginseng Corporation.

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

The ownership of the Company’s ordinary shares as of September 30, 2019, is held as follows:

| | Number of shares | Percentage of ownership(%) |
|--------------------------------------|------------------|----------------------------|
| National Pension Service | 14,995,786 | 10.92 |
| Industrial Bank of Korea | 9,510,485 | 6.93 |
| Employee Share Ownership Association | 2,794,819 | 2.04 |
| Treasury shares | 11,027,370 | 8.03 |
| Others | 98,964,037 | 72.08 |
| Total | 137,292,497 | 100.00 |

2. Significant Accounting Policies

2-1. Basis of Preparation

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

The separate interim financial statements of the Company were authorized for issue in the board of directors' meeting held on November 7, 2019.

2-2. Changes in Accounting Policies and Disclosures

(1) New or amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing on January 1, 2019.

- Enactment to K-IFRS No. 1116 Leases

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

The Company had changed the accounting policies as a result of application of K-IFRS No. 1116. The changed accounting policies were applied retrospectively in accordance with the transition provisions of K-IFRS No. 1116 and the cumulative effect of initial application was reflected on January 1, 2019, the date of initial application. The comparative separate interim financial statements are not restated. The impact of introducing the lease standard and the new accounting policy is described in Note 28.

- Amendments to K-IFRS No. 1109 Financial Instruments

The narrow-scope amendments made to K-IFRS No. 1109 Financial Instruments enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost does not result in derecognition, a modification gain or loss shall be recognized in profit or loss.

- Amendments to K-IFRS No. 1019 Employee Benefits

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

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

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

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

The interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed.

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

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

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

① K-IFRS No. 1103 Business Combination

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation.

② K-IFRS No. 1111 Joint Agreements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured.

③ K-IFRS No. 1012 Income Tax

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

④ K-IFRS No. 1023 Borrowing Costs

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings.

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

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

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

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

2.3 Accounting Policies

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

2.4 Modification of Comparative Financial Statements

To facilitate comparison with the separate interim financial statements for the nine months ended September 30, 2019, the Company revised its comparative statement of cash flows. The impact of this comparative presentation of separate interim financial statements on the cash flows of operating, investing or financing activities for the nine months ended September 30, 2018, are as follows:

| <i>In millions of Korean won</i> | Nine months ended September 30, 2018 | |
|--|--------------------------------------|------------------|
| | Before adjustment | After adjustment |
| Net cash used in investing activities | ₩(991,767) | ₩(12,907) |
| Decrease(increase) in other financial assets ^(*) | (756,541) | 222,320 |
| Net decrease(increase) in cash and cash equivalents | (657,420) | 321,441 |
| Cash and cash equivalents at January 1, 2018 ^(*) | 1,104,825 | 589,766 |
| Cash and cash equivalents at September 30, 2018 ^(*) | ₩445,715 | ₩909,516 |

^(*) The Money Market Trust amount is reclassified from the cash equivalents to the fair value through profit or loss as of January 1, 2018 and September 30, 2018.

3. Critical Accounting Estimates and Assumptions

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

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

4. Operating Segments

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

| | | | 2019 | | 2018 | |
|--|----------|-------------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | | | Three months ended September 30 | Nine months ended September 30 | Three months ended September 30 | Nine months ended September 30 |
| <i>In millions of Korean won</i> | | | | | | |
| Revenue recognized at a point in time: | | | | | | |
| Manufacture and sales of tobacco | Korea | Wholesale, retail | ₩489,996 | ₩1,375,468 | ₩473,630 | ₩1,307,382 |
| | | Direct sales | 22 | 86 | - | - |
| | Export | Wholesale, retail | 113,108 | 433,567 | 93,399 | 409,946 |
| Sales of tobacco product | Korea | Wholesale, retail | 23,399 | 72,408 | 22,127 | 69,898 |
| | | Direct sales | 692 | 2,275 | 3 | 3 |
| | Export | Wholesale, retail | 27 | 153 | - | - |
| Manufacture and sale of semfinished tobacco products | Export | Direct sales | 14,831 | 43,264 | 16,676 | 50,490 |
| Manufacture and sale of tobacco raw materials | Export | Direct sales | 1,043 | 4,197 | 1,424 | 6,057 |
| Others | Korea | Direct sales | 580 | 1,757 | 923 | 1,842 |
| | Export | | 1,011 | 3,962 | 1,264 | 3,311 |
| | Subtotal | | 644,709 | 1,937,137 | 609,446 | 1,848,929 |
| Revenue recognized over time: | | | | | | |
| Sale and rental of real estate | Korea | Sales | 61,444 | 207,106 | 39,656 | 50,640 |
| | | Rental | 17,289 | 50,485 | 14,763 | 42,128 |
| | Subtotal | | 78,733 | 257,591 | 54,419 | 92,768 |
| | Total | | ₩723,442 | ₩2,194,728 | ₩663,865 | ₩1,941,697 |

5. Trade and Other Receivables

(1) Trade and other receivables as of September 30, 2019 and December 31, 2018, are summarized as follows:

| <i>In millions of Korean won</i> | As of September 30, 2019 | | As of December 31, 2018 | |
|----------------------------------|--------------------------|-------------|-------------------------|-------------|
| | Current | Non-current | Current | Non-current |
| Trade receivables | ₩778,794 | ₩49,134 | ₩661,851 | ₩44,194 |
| Loans | 20,080 | 38,279 | 19,293 | 45,116 |
| Other receivables | 16,474 | 10,414 | 17,039 | 9,829 |
| Guarantee deposits | 27,795 | 18,888 | 25,891 | 20,149 |
| Accrued income | 3,775 | 1,743 | 6,821 | - |
| Total | ₩846,918 | ₩118,458 | ₩730,895 | ₩119,288 |

(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 September 30, 2019 and December 31, 2018, are as follows:

| <i>In millions of Korean won</i> | As of September 30, 2019 | | As of December 31, 2018 | |
|----------------------------------|--------------------------|-------------|-------------------------|-------------|
| | Current | Non-current | Current | Non-current |
| Total carrying amount | ₩916,146 | ₩195,125 | ₩799,232 | ₩194,486 |
| Allowances: | | | | |
| Trade receivables | (68,800) | (39,446) | (67,776) | (40,704) |
| Other receivables | (428) | (37,221) | (561) | (34,494) |
| Total allowances | (69,228) | (76,667) | (68,337) | (75,198) |
| Net carrying amount | ₩846,918 | ₩118,458 | ₩730,895 | ₩119,288 |

(3) Changes in allowance for doubtful accounts in relation to trade and other receivables for the nine months ended September 30, 2019 and 2018, are as follows:

| <i>In millions of Korean won</i> | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|----------------------------------|--------------------------------------|--------------------------------------|
| Beginning balance | ₩143,535 | ₩56,925 |
| Change in accounting policy | - | 86,149 |
| Impairment loss | 2,360 | 2,098 |
| Write off | - | (5,316) |
| Ending balance | ₩145,895 | ₩139,856 |

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

6. Inventories

Details of inventories as of September 30, 2019 and December 31, 2018, are summarized as follows:

| <i>In millions of Korean won</i> | As of September 30, 2019 | | | As of December 31, 2018 | | |
|---------------------------------------|--------------------------|--------------------------|-----------------|-------------------------|--------------------------|-----------------|
| | Acquisition cost | Valuation loss allowance | Carrying amount | Acquisition cost | Valuation loss allowance | Carrying amount |
| Merchandise | ₩42,782 | ₩(2,454) | ₩40,328 | ₩35,351 | ₩(37) | ₩35,314 |
| Finished goods | 108,939 | (2,222) | 106,717 | 80,840 | (982) | 79,858 |
| Work in progress | 12,978 | - | 12,978 | 14,053 | - | 14,053 |
| Raw materials | 678,792 | - | 678,792 | 727,089 | - | 727,089 |
| Supplies | 27,343 | - | 27,343 | 24,486 | - | 24,486 |
| By-products | 7,501 | - | 7,501 | 6,941 | - | 6,941 |
| Buildings under construction | 947 | - | 947 | 280 | - | 280 |
| Completed buildings | 2,215 | - | 2,215 | 3,069 | - | 3,069 |
| Sites for construction of real estate | 10,790 | - | 10,790 | 8,990 | - | 8,990 |
| Goods in transit | 28,577 | - | 28,577 | 54,598 | - | 54,598 |
| Total | ₩920,864 | ₩(4,676) | ₩916,188 | ₩955,697 | ₩(1,019) | ₩954,678 |

₩6,700 million for the nine months ended September 30, 2019 (₩3,165 million for the nine months ended September 30, 2018) that represent for the losses on the valuation to the net realizable value and the obsolescence of inventories are included in the cost of inventories recognized as expenses

7. Investments in Associates and Joint Ventures

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

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

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

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

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

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

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

8. Investments in subsidiaries

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

| <i>In millions of Korean won</i> | Location | Principal Operation | As of September 30, 2019 | | As of December 31, 2018 | |
|--|-----------|--|----------------------------|-----------------|----------------------------|-----------------|
| | | | Percentage of ownership(%) | Carrying amount | Percentage of ownership(%) | Carrying amount |
| Korea Ginseng Corporation | Korea | Manufacturing and selling ginseng | 100.00 | ₩762,130 | 100.00 | ₩716,148 |
| Yungjin Pharm. Co., Ltd. | Korea | Manufacturing and selling pharmaceutical | 52.45 | 73,299 | 52.45 | 73,299 |
| Tae-A Industry Co., Ltd. | Korea | Manufacturing reconstituted tobacco leaves | 100.00 | 52,698 | 100.00 | 52,698 |
| KT&G Tutun Mamulleri Sanayive Ticaret A.S. | Turkey | Manufacturing and selling tobaccos | 99.99 | - | 99.99 | 5,727 |
| Korea Tabacos do Brasil Ltda. | Brazil | Procurement leaf tobaccos | 99.99 | 2,891 | 99.99 | 2,891 |
| KT&G Pars | Iran | Manufacturing and selling tobacco | 99.99 | - | 99.99 | - |
| KT&G Rus L.L.C. | Russia | Manufacturing and selling tobacco | 100.00 | 89,296 | 100.00 | 89,296 |
| KT&G USA Corporation | USA | Selling tobaccos | 100.00 | 4,913 | 100.00 | 4,913 |
| Cosmocos Co., Ltd. | Korea | Manufacturing and selling cosmetics | 98.56 | 29,439 | 98.56 | 34,459 |
| Renzoluc Pte., Ltd. ^(*) | Singapore | Holding company | 100.00 | 148,834 | 100.00 | 148,834 |
| KGC Yebon Corporation | Korea | Manufacturing and selling medical herbs | - | - | 100.00 | 45,982 |
| PT KT&G Indonesia | Indonesia | Selling tobaccos | 99.99 | 1,240 | 99.99 | 1,240 |
| SangSang Stay, Inc. | Korea | Hotel | 100.00 | 2,244 | 100.00 | 5,092 |
| KT&G Global Rus L.L.C. | Russia | Selling tobaccos | 100.00 | 1,212 | 100.00 | 1,212 |
| Gwacheon SangSang P.F.V. | Korea | Real estate development and sales business | 51.00 | 3,570 | 51.00 | 3,570 |
| Total | | | | ₩1,171,766 | | ₩1,185,361 |

^(*) The percentage of ownership does not include convertible preference shares, with 88.6% including preferred shares as of September 30, 2019.

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

During the nine months ended September 30, 2019, the Company has made a capital contribution in kind of its 100% (book value : 45,982 million) equity holdings in KGC Yebon Corporation to its subsidiary, Korea Ginseng Corporation.

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

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

| <i>In millions of Korean won</i> | Impairment amount | Method for evaluating recoverable amount |
|---|-------------------|--|
| KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. | ₩5,727 | Fair value |
| Cosmocos Co., Ltd. | 5,020 | Fair value |
| SangSang Stay, Inc. | 2,848 | Fair value |
| Total | ₩ 13,595 | |

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

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

9. Property, Plant and Equipment

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

| <i>In millions of Korean won</i> | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|---------------------------------------|--------------------------------------|--------------------------------------|
| Beginning balance | ₩1,200,907 | ₩1,267,825 |
| Acquisition | 132,813 | 277,930 |
| Disposal/obsolescence/Impairment loss | (1,995) | (7,331) |
| Depreciation | (62,864) | (63,908) |
| Reclassification | (160,653) | (270,551) |
| Ending balance | ₩1,108,208 | ₩1,203,965 |

10. Intangible Assets

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

| <i>In millions of Korean won</i> | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|---------------------------------------|--------------------------------------|--------------------------------------|
| Beginning balance | ₩31,329 | ₩27,235 |
| Acquisition | 8,448 | 4,242 |
| Disposal/obsolescence/Impairment loss | (96) | (363) |
| Depreciation | (740) | (46) |
| Reclassification | 6,264 | - |
| Ending balance | ₩45,205 | ₩31,068 |

11. Investment property

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

| <i>In millions of Korean won</i> | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|----------------------------------|--------------------------------------|--------------------------------------|
| Beginning balance | ₩606,679 | ₩325,423 |
| Acquisition | 178,827 | 158,934 |
| Depreciation | (12,028) | (8,148) |
| Reclassification | 150,809 | 98,201 |
| Ending balance | ₩924,287 | ₩574,410 |

12. Assets held for sale

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

| <i>In millions of Korean won</i> | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|----------------------------------|--------------------------------------|--------------------------------------|
| Beginning balance | ₩27,794 | ₩ - |
| Acquisition | 6,467 | - |
| Disposal | (29,602) | - |
| Reclassification | - | 4,247 |
| Ending balance | ₩4,659 | ₩4,247 |

13. Right-of-use asset

(1) Changes in right-of-use asset for the nine months ended September 30, 2019, are as follows:

| <i>In millions of Korean won</i> | Nine months ended September 30, 2019 |
|----------------------------------|--------------------------------------|
| Beginning balance | ₩ - |
| Change in accounting policy | 18,691 |
| Acquisition | 3,200 |
| Depreciation | (5,536) |
| Ending balance | ₩16,355 |

(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 | ₩6,133 | ₩83 | ₩6,050 |
| One year to five years | 10,187 | 561 | 9,626 |
| Total | ₩16,320 | ₩644 | ₩15,676 |

The variable lease payments, which are not included in the lease liability measurement for the nine months ended September 30, 2019, is ₩28million.

14. Borrowings

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

| <i>In millions of Korean won</i> | Annual interest rate | As of September 30, 2019 | As of December 31, 2018 |
|----------------------------------|--|-----------------------------|----------------------------|
| NH Nonghyup Bank | CD distribution yield (91 days) + 4.5% | ₩808 | ₩985 |
| Hanacard | CD distribution yield (91 days) + 2.5% | 274 | 261 |
| Total | | ₩1,082 | ₩1,246 |

(*) The Company provides payment guarantees to financial institutions in accordance with the consumer financial agreement in connection with retail sales receivables, and receives related bonds from financial institutions and recognizes them as short term borrowings. (refer Note 26(3)).

15. Operating Profit

(1) Details of expenses, classified by nature, incurred for the three months and nine months ended September 30, 2019 and 2018, are as follows:

| <i>In millions of Korean won</i> | 2019 | | 2018 | |
|--|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | Three months ended September 30 | Nine months ended September 30 | Three months ended September 30 | Nine months ended September 30 |
| Changes in inventories | ₩11,989 | ₩38,490 | ₩8,051 | ₩19,494 |
| Raw materials used and merchandise purchased | 190,306 | 530,982 | 154,766 | 481,827 |
| Salaries | 103,518 | 277,435 | 86,940 | 265,290 |
| Retirement and termination benefits | 9,740 | 31,450 | 8,290 | 27,243 |
| Depreciation | 26,720 | 80,428 | 23,758 | 72,056 |
| Amortization | 529 | 740 | 16 | 46 |
| Employee welfare | 13,703 | 35,444 | 12,900 | 34,266 |
| Advertising | 23,436 | 66,290 | 24,791 | 71,636 |
| Commissions | 33,329 | 103,086 | 31,898 | 92,193 |
| Other expenses | 25,290 | 152,916 | 37,134 | 113,302 |
| Total | ₩438,560 | ₩1,317,261 | ₩388,544 | ₩1,177,353 |

(2) Details of selling, general and administrative expenses for the three months and nine months ended September 30, 2019 and 2018, are as follows:

| <i>In millions of Korean won</i> | 2019 | | 2018 | |
|--|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | Three months ended September 30 | Nine months ended September 30 | Three months ended September 30 | Nine months ended September 30 |
| Salaries | ₩68,723 | ₩187,184 | ₩58,309 | ₩178,626 |
| Retirement and termination benefits | 6,644 | 22,041 | 5,776 | 19,193 |
| Employee welfare | 9,547 | 24,719 | 8,991 | 24,393 |
| Travel expenses | 2,307 | 7,089 | 2,309 | 6,849 |
| Communication cost | 613 | 1,990 | 731 | 2,219 |
| Utilities | 2,692 | 7,624 | 2,367 | 7,260 |
| Taxes and utilities | 2,057 | 23,081 | 1,697 | 17,728 |
| Supplies | 465 | 1,330 | 541 | 1,458 |
| Rent | 2,750 | 5,904 | 3,855 | 10,583 |
| Depreciation | 6,130 | 21,624 | 8,059 | 24,418 |
| Amortization | 528 | 739 | 16 | 46 |
| Depreciation expense for right-of-use assets | 1,760 | 5,536 | - | - |
| Repairs and maintenance | 729 | 2,246 | 1,010 | 2,608 |
| Vehicles | 933 | 2,696 | 1,050 | 3,038 |
| Insurance | 22 | 530 | 82 | 591 |
| Commissions | 23,778 | 73,868 | 23,048 | 61,351 |
| Freight and custody | 2,547 | 7,515 | 2,621 | 7,902 |
| Conferences | 756 | 2,433 | 791 | 2,425 |
| Advertising | 23,421 | 66,208 | 24,766 | 71,546 |
| Education and training | 1,155 | 3,435 | 976 | 3,055 |
| Prizes and rewards | 497 | 1,335 | 474 | 1,467 |
| Research and development | 7,333 | 15,799 | 4,212 | 10,978 |
| Impairment loss (reversal of impairment loss) on trade receivables | 2,150 | (235) | (2,585) | 4,034 |
| Total | ₩167,537 | ₩484,691 | ₩149,096 | ₩461,768 |

16. Other Income and Expenses

(1) Details of other income for the three months and nine months ended September 30, 2019 and 2018, are as follows:

| <i>In millions of Korean won</i> | 2019 | | 2018 | |
|---|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | Three months ended September 30 | Nine months ended September 30 | Three months ended September 30 | Nine months ended September 30 |
| Gain on foreign currency transaction | ₩6,905 | ₩17,495 | ₩3,893 | ₩8,307 |
| Gain on foreign currency translation | 45,785 | 86,309 | - | 37,920 |
| Reversal of impairment loss of other receivables | - | 701 | - | 1,936 |
| Gain on disposal of property, plant and equipment | 3,333 | 5,384 | 5,953 | 6,504 |
| Gain on disposal of intangible assets | - | 3 | - | - |
| Gain on valuation of derivatives | - | 404 | 157 | 2,461 |
| Gain on disposal of assets held for sale | - | 375 | - | - |
| Gain on disposal of investment in associates | - | 9,051 | 25 | 25 |
| Miscellaneous profit | 8,032 | 20,097 | 3,992 | 28,946 |
| Total | ₩64,055 | ₩139,819 | ₩14,020 | ₩86,099 |

(2) Details of other expenses for the three months and nine months ended September 30, 2019 and 2018, are as follows:

| <i>In millions of Korean won</i> | 2019 | | 2018 | |
|---|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | Three months ended September 30 | Nine months ended September 30 | Three months ended September 30 | Nine months ended September 30 |
| Loss on foreign currency transaction | ₩897 | ₩3,989 | ₩791 | ₩2,534 |
| Loss on foreign currency translation | - | 300 | 15,313 | 4,129 |
| Impairment loss on other receivables | 4,853 | 3,296 | 217 | - |
| Donations | 1,318 | 3,606 | 1,060 | 4,125 |
| Loss on disposal of property, plant and equipment | 401 | 432 | 20 | 208 |
| Impairment loss on property, plant and equipment | - | 436 | - | 3,685 |
| Loss on disposal of intangible assets | - | - | - | 12 |
| Impairment loss on subsidiary investment | 702 | 13,595 | - | - |
| Loss on valuation of derivatives | 14,131 | 24,669 | - | 8,182 |
| Miscellaneous loss | 1,610 | 2,959 | - | 3,793 |
| Total | ₩23,912 | ₩53,282 | ₩17,401 | ₩26,668 |

17. Financial Income and cost

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

| <i>In millions of Korean won</i> | 2019 | | 2018 | |
|--|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | Three months ended September 30 | Nine months ended September 30 | Three months ended September 30 | Nine months ended September 30 |
| Financial income: | | | | |
| Interest income ^(*) | ₩5,729 | ₩15,912 | ₩3,151 | ₩8,936 |
| Dividend income | 2,637 | 18,146 | 4,164 | 75,259 |
| Gain on valuation of fair value through profit or loss | 11,001 | 39,811 | 13,087 | 54,274 |
| Total financial income | 19,367 | 73,869 | 20,402 | 138,469 |
| Financial cost: | | | | |
| Interest expense | ₩318 | ₩1,411 | ₩226 | ₩945 |
| Loss on valuation of fair value through profit or loss | 1,273 | 8,564 | 3,008 | 3,148 |
| Total financial cost | ₩1,591 | ₩9,975 | ₩3,234 | ₩4,093 |

^(*) This interest income is generated from amortized cost measurement of financial assets.

18. Employee benefits

(1) Details of profit or loss recognized related to employee benefits for the three months and nine months ended September 30, 2019, and 2018, are as follows:

| <i>In millions of Korean won</i> | 2019 | | 2018 | |
|---|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | Three months ended September 30 | Nine months ended September 30 | Three months ended September 30 | Nine months ended September 30 |
| Defined benefit plans: | | | | |
| Current service cost | ₩7,792 | ₩22,313 | ₩6,438 | ₩19,320 |
| Net interest on net defined benefit liability | 305 | 702 | 121 | 364 |
| Subtotal | 8,097 | 23,015 | 6,559 | 19,684 |
| Defined contribution plan: | | | | |
| Contributions recognized as expense | 1,643 | 4,653 | 1,530 | 4,830 |
| Other long-term employee benefits: | | | | |
| Current service cost and others | 498 | 1,494 | 697 | 1,805 |
| Voluntary retirements: | | | | |
| Termination benefits | - | 3,782 | 201 | 2,729 |
| Total | ₩10,238 | ₩32,944 | ₩8,987 | ₩29,048 |

(2) Net defined benefit liabilities as of September 30, 2019, and December 31, 2018, are summarized as follows:

| <i>In millions of Korean won</i> | As of September 30, 2019 | As of December 31, 2018 |
|-------------------------------------|--------------------------|-------------------------|
| Present value of defined obligation | ₩360,296 | ₩327,518 |
| Fair value of plan assets | (285,930) | (292,681) |
| Total | ₩74,366 | ₩34,837 |

19. Refund Liabilities and Provisions

(1) The details of refund liabilities and provisions as of September 30, 2019, and December 31, 2018, are as follows:

| <i>In millions of Korean won</i> | As of September 30, 2019 | | As of December 31, 2018 | |
|-----------------------------------|--------------------------|-------------|-------------------------|-------------|
| | Current | Non-current | Current | Non-current |
| Refund liabilities | ₩2,975 | ₩196 | ₩2,958 | ₩181 |
| Provision for site restoration | - | 125 | - | 104 |
| Provision for product warranty | 9,343 | - | 3,497 | - |
| Provision for financial guarantee | - | 551 | - | 700 |
| Total | ₩12,318 | ₩872 | ₩6,455 | ₩985 |

(2) Changes in refund liabilities and provisions for the nine months ended September 30, 2019, are as follows:

| <i>In millions of Korean won</i> | Beginning balance | Increase | Decrease | Ending balance |
|-----------------------------------|-------------------|----------|------------|----------------|
| Refund liabilities | ₩3,139 | ₩182 | ₩ (150) | ₩3,171 |
| Provision for site restoration | 104 | 21 | - | 125 |
| Provision for product warranty | 3,497 | 17,325 | (11,479) | 9,343 |
| Provision for financial guarantee | 700 | - | (149) | 551 |
| Total | ₩7,440 | ₩17,528 | ₩ (11,778) | ₩13,190 |

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

| <i>In millions of Korean won</i> | Beginning balance | Increase | Decrease | Ending balance |
|-----------------------------------|-------------------|----------|-----------|----------------|
| Refund liabilities | ₩3,086 | ₩2,436 | ₩(1,584) | ₩3,938 |
| Provision for site restoration | - | 47 | - | 47 |
| Provision for product warranty | - | 3,551 | (2,011) | 1,540 |
| Provision for financial guarantee | - | - | - | - |
| Total | ₩3,086 | ₩6,034 | ₩ (3,595) | ₩5,525 |

20. Real Estate Sales Contract

(1) Details of real estate sales contracts under construction as of September 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 | ₩1,188,870 | ₩1,187,006 |
| Suwon hwaseo park prugio(efficiency apartment) | - August 2021 | 112,060 | 106,762 |
| Dae-gu central Xi ^(*) | - | 3,818 | 1,063 |
| Total | | ₩1,304,748 | ₩1,294,831 |

^(*) Construction has been completed as of September 30, 2019, but resale is underway due to cancellation of the sales contract.

(2) Changes in balance of contract amount for the nine months ended September 30, 2019, and 2018, are as follows:

| <i>In millions of Korean won</i> | 2019 | 2018 |
|------------------------------------|------------|------------|
| Beginning balance | ₩1,173,116 | - |
| Contract increase(decrease) | (1,864) | 1,214,024 |
| Revenue recognition ^(*) | (206,043) | (55,138) |
| Ending balance | ₩965,209 | ₩1,158,886 |

^(*) As of September 30, 2019, ₩1,063 million(~~₩~~(4,498) million as of September 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.

(3) The details of cumulative cost of the sales contract under construction as of September 30, 2019, are as follows:

| <i>In millions of Korean won</i> | Progress(%) | Accumulated revenue | Cumulative cost |
|--|-------------|---------------------|-----------------|
| Suwon hwaseo park prugio(apartment) | 25.41 | ₩301,647 | ₩123,533 |
| Suwon hwaseo park prugio(efficiency apartment) | 25.21 | 26,912 | 16,155 |
| Total | | ₩328,559 | ₩139,688 |

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

21. Income Tax Expense

The income tax expense was calculated by adjusting the adjustments recognized for the nine months ended September 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 nine months ended September 30, 2019 and 2018, are 26.96% and 24.78%, respectively.

22. Related Parties

(1) Details of parent and subsidiary relationships and related companies as of September 30, 2019, and December 31, 2018, are as follows:

| | Notes | Location | As of September 30, 2019 | | | As of December 31, 2018 | | |
|----------------|-------|--|--------------------------|---------------|--------|-------------------------|---------------|--------|
| | | | Parent(%) | Subsidiary(%) | Total | Parent(%) | Subsidiary(%) | Total |
| Subsidiaries | | Korea Ginseng Corporation | | Korea | 100.00 | - | 100.00 | 100.00 |
| | | Yungjin Pharm. Co., Ltd. | | Korea | 52.45 | - | 52.45 | 52.45 |
| | | Tae-a Industry Co., Ltd. | | Korea | 100.00 | - | 100.00 | 100.00 |
| | | KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. | | Turkey | 99.99 | - | 99.99 | 99.99 |
| | | Korea Tabacos do Brasil Ltda. | | Brazil | 99.99 | - | 99.99 | 99.99 |
| | | KT&G Pars | | Iran | 99.99 | - | 99.99 | 99.99 |
| | | KT&G Rus L.L.C. | | Russia | 100.00 | - | 100.00 | 100.00 |
| | | KT&G USA Corporation | | USA | 100.00 | - | 100.00 | 100.00 |
| | | Cosmococ Co., Ltd. | | Korea | 98.56 | - | 98.56 | 98.56 |
| | (*1) | Renzoluc Pte., Ltd. | | Singapore | 100.00 | - | 100.00 | 100.00 |
| | (*2) | KGC Yebon Corporation | | Korea | | 100.00 | 100.00 | - |
| | | PT KT&G Indonesia | | Indonesia | 99.99 | - | 99.99 | 99.99 |
| | | K&I HK Co., Ltd. | | HongKong | - | 100.00 | 100.00 | - |
| | | K&I China Co., Ltd. | | China | - | 100.00 | 100.00 | - |
| | | SangSang Stay, Inc. | | Korea | 100.00 | - | 100.00 | 100.00 |
| | | KT&G Global Rus L.L.C. | | Russia | 100.00 | - | 100.00 | 100.00 |
| | | KGC Life & Gin Co., Ltd. | | Korea | - | 100.00 | 100.00 | - |
| | | Jilin Hanzheng Ginseng Co., Ltd. | | China | - | 100.00 | 100.00 | - |
| | | Cheong Kwan Jang Taiwan Corporation | | Taiwan | - | 100.00 | 100.00 | - |
| | | Korean Red Ginseng Corp., Inc. | | USA | - | 100.00 | 100.00 | - |
| | | Korea Ginseng (China) Corp. | | China | - | 100.00 | 100.00 | - |
| | | Korea Ginseng Corporation Japan | | Japan | - | 100.00 | 100.00 | - |
| | (*3) | PT Trisakti Purwosari Makmur | | Indonesia | - | 99.99 | 99.99 | - |
| | (*3) | PT Trisakti Purwosari Makmur (previously PT Mandiri Maha Mulia) | | Indonesia | - | - | - | 99.98 |
| | (*3) | PT Trisakti Purwosari Makmur (previously PT Sentosa Ababi Purwosari) | | Indonesia | - | - | - | 99.99 |
| | (*3) | PT Trisakti Purwosari Makmur (previously PT Purindo Ilufa) | | Indonesia | - | - | - | 99.99 |
| | | PT Nusantara Indah Makmur | | Indonesia | - | 99.99 | 99.99 | - |
| | (*4) | Gwacheon Sangsang PFV | | Korea | 51.00 | - | 51.00 | 51.00 |
| Associates | | Cosmo Tobacco Co Ltd | | Mongolia | 40.00 | - | 40.00 | 40.00 |
| | | Lite Pharm Tech, Inc. | | Korea | 20.24 | - | 20.24 | 20.24 |
| | (*5) | JR REIT 5 Co., Ltd. | | Korea | - | - | - | 34.63 |
| | (*5) | JR REIT 8 Co., Ltd. | | Korea | - | - | - | 21.74 |
| | | JR REIT 10 Co., Ltd. | | Korea | 28.79 | - | 28.79 | 28.79 |
| | | LSK Global Pharma Services Co., Ltd. | | Korea | 23.15 | - | 23.15 | 23.15 |
| | | Yong In Jung Sim Co., Ltd. | | Korea | 22.22 | - | 22.22 | 22.22 |
| Joint ventures | | KB Gimpo Logistics CR REIT Co., Ltd. | | Korea | 12.00 | - | 12.00 | 12.00 |
| | | KORAMCO Private REIT 50 Fund | | Korea | 84.21 | - | 84.21 | 84.21 |
| | (*6) | KORAMCO Europe Private REIT 3-2 Fund | | Germany | 51.35 | - | 51.35 | 51.35 |
| | (*7) | Starfield Suwon | | Korea | 50.00 | - | 50.00 | 50.00 |

(*1) Parent Company's percentage of ownership, shown above, excludes convertible preferred shares. As of end of September 30, 2019, the Parent Company's percentage of ownership would be 88.60% if preferred shares are included.

- (*) For the nine months ended September 30, 2019, the Company has made a capital contribution in kind of its 100% equity holdings in KGC Yebon Corporation to its subsidiary, Korea Ginseng Corporation.
- (*) For the nine months ended September 30, 2019, the Company has merged its four manufacturing corporations in Indonesia (PT Trisakti Purwosari Makmur, PT Mandiri Maha Mulia, PT Sentosa Ababi Purwosari, PT Purindo Ilufa) into one, with its second-tier subsidiary PT Trisakti Purwosari Makmur being the remaining corporation after the merger.
- (*) During the year ended December 31, 2018, the Company had made investment on 51.00% share of Gwacheon Sangsang PFV.
- (*) Due to the liquidation of JR REIT 5 Co., Ltd. and JR REIT 8 Co., Ltd. for the nine months ended September 30, 2019, they have been excluded from the scope of the related parties of the Company as of September 30, 2019.
- (*) During the year ended December 31, 2018, the Company had made investment on 51.35% share of KORAMCO Europe Private REIT 3-2 Fund.
- (*) During the year ended December 31, 2018, the Company had made investment on 50.00% share of Starfield Suwon.

(2) The Company carries out transactions with related parties such as sales of goods and services, the details of transactions with related parties for the three months and nine months ended September 30, 2019, and 2018, are as follows:

① Sales and other income

| <i>In millions of Korean won</i> | | 2019 | | 2018 | |
|-------------------------------------|--|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | | Three months ended September 30 | Nine months ended September 30 | Three months ended September 30 | Nine months ended September 30 |
| Subsidiaries | Korea Ginseng Corporation | ₩1,938 | ₩5,747 | ₩1,276 | ₩5,025 |
| | Yungjin Pharm. Co., Ltd. | 33 | 138 | 47 | 135 |
| | Tae-A Industry Co., Ltd. | 2 | 174 | 3 | 11 |
| | KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. (*) | 2,964 | 7,505 | 2,098 | 3,373 |
| | Korea Tobacos do Brasil Ltda. | 1 | 2 | - | 2 |
| | KT&G Pars. (*) | - | - | 465 | 465 |
| | KT&G Rus L.L.C. (*) | 6,538 | 18,342 | 8,850 | 29,646 |
| | KT&G USA Corporation | 22,956 | 64,689 | 16,197 | 40,855 |
| | Cosmococ Co., Ltd. | 18 | 49 | 18 | 56 |
| | KGC Yebon Corporation | 4 | 15 | 6 | 18 |
| | PT KT&G Indonesia(*) | 270 | 783 | 240 | 731 |
| | SangSang Stay, Inc. | 1,473 | 4,537 | 1,511 | 4,567 |
| | KGC Life & Gin Co., Ltd. | 22 | 69 | 22 | 86 |
| | PT Trisakti Purwosari Makmur(*) | 4,763 | 12,383 | 3 | 3 |
| | PT Trisakti Purwosari Makmur (previously PT Mandiri Maha Mulia) (*) | - | - | 2,540 | 6,868 |
| | PT Trisakti Purwosari Makmur (previously PT Purindo Ilufa) | - | - | 14 | 14 |
| Associates and joint ventures | JR REIT 5 Co., Ltd. | - | 130 | - | 34 |
| | JR REIT 8 Co., Ltd. | - | 108 | 133 | 133 |
| | JR REIT 10 Co., Ltd. | - | 292 | - | 289 |
| | KB Gimpo Logistics CR REIT Co., Ltd. | - | - | 37 | 82 |
| | KORAMCO Private REIT 50 Fund | - | - | 496 | 716 |
| | KORAMCO Europe Private REIT 3-2 Fund | - | 591 | - | - |
| Total | | ₩40,982 | ₩115,554 | ₩33,956 | ₩93,109 |

- (*) The expenses recognized as provision for doubtful accounts for the related parties, which are ₩1,123 million for the nine months ended September 30, 2019 and ₩4,228 million for the nine months ended September 30, 2018, are excluded. As K-IFRS No. 1109, Financial Instruments, has been applied as of January 1, 2018, loss allowance amount of ₩31,099 million which results in the change in retained earnings at January 1, 2018, is also excluded.

② Purchases and other expenses

| | | 2019 | | 2018 | |
|----------------------------------|---------------------------|--------------------|-------------------|--------------------|-------------------|
| | | Three months ended | Nine months ended | Three months ended | Nine months ended |
| <i>In millions of Korean won</i> | | September 30 | September 30 | September 30 | September 30 |
| | Korea Ginseng Corporation | ₩424 | ₩1,502 | ₩319 | ₩937 |
| | Yungjin Pharm. Co., Ltd. | - | 208 | 4 | 13 |
| | Tae-A Industry Co., Ltd. | 6,787 | 14,114 | 3,279 | 10,446 |
| Subsidiaries | KGC Life & Gin Co., Ltd. | - | 4 | - | 3 |
| | Cosmococ Co., Ltd. | 275 | 820 | 378 | 677 |
| | KGC Yebon Corporation | 53 | 160 | 53 | 160 |
| | SangSang Stay, Inc. | 1 | 14 | - | 14 |
| Total | | ₩7,540 | ₩16,822 | ₩4,033 | ₩12,250 |

(3) Details of receivables and payables with related parties, as of September 30, 2019 and December 31, 2018 are as follows:

| | | As of September 30, 2019 | | As of December 31, 2018 | |
|-------------------------------------|---|--------------------------|----------|-------------------------|----------|
| | | Receivables | Payables | Receivables | Payables |
| <i>In millions of Korean won</i> | | | | | |
| | Korea Ginseng Corporation | ₩34 | ₩1,881 | ₩14 | ₩1,850 |
| | Yungjin Pharm. Co., Ltd. | 9 | 42 | 11 | 30 |
| | Tae-a Industry Co., Ltd. | - | 5,850 | - | 3 |
| | KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.(*) | 38,525 | - | 32,050 | - |
| | Korea Tabacos do Brasil Ltda. | 108 | - | 106 | - |
| | KT&G Pars(*) | 44,525 | - | 44,531 | - |
| | KT&G Rus L.L.C.(*) | 75,033 | - | 78,395 | - |
| | KT&G USA Corporation | 30,034 | 664 | 28,911 | 618 |
| Subsidiaries | Cosmococ Co., Ltd. | 3 | 2 | 5 | 2 |
| | KGC Yebon Corporation | 5 | - | - | - |
| | PT KT&G Indonesia(*) | 31,956 | - | 28,991 | - |
| | KGC Life & Gin Co., Ltd. | - | 120 | - | 120 |
| | PT Trisakti Purwosari Makmur(*) | 18,717 | - | 16 | - |
| | PT Trisakti Purwosari Makmur (Previously PT Mandiri Maha Mulia) (*) | - | - | 13,375 | - |
| | PT Trisakti Purwosari Makmur (previously PT Sentosa Ababi Purwosari) | - | - | 67 | - |
| | PT Trisakti Purwosari Makmur (Previously PT Purindo Ilufa) | - | - | 15 | - |
| | LSK Global Pharma Services Co., Ltd. | - | - | 150 | - |
| | KB Gimpo Logistics CR REIT Co., Ltd. | 523 | - | 697 | - |
| Associates and joint ventures | KORAMCO Private REIT 50 Fund | 99 | - | 136 | - |
| | Starfield Suwon | - | 16,020 | - | 16,020 |
| Total | | ₩239,571 | ₩24,579 | ₩227,470 | ₩18,643 |

(*) These figures are gross amounts before the deduction of allowance for doubtful accounts as of September 30, 2019 and December 31, 2018. Allowance for doubtful accounts for these periods are ₩78,846 million and ₩77,723 million respectively.

(4) Details of transactions of purchase and sales of property, plant and equipment with related parties, for the nine months ended September 30, 2019, and 2018 are as follows:

| <i>In millions of Korean won</i> | | Nine months ended September 30, 2019 | | Nine months ended September 30, 2018 | |
|----------------------------------|---|---|---------|---|--------|
| | | Purchase | Sales | Purchase | Sales |
| Subsidiaries | Tae-A Industry Co., Ltd. | ₩ - | ₩29,977 | ₩ - | ₩ - |
| | KT&G Rus L.L.C. | - | - | - | 4,247 |
| | KGC Yebon Corporation | - | - | 50 | - |
| | PT Trisakti Purwosari Makmur | - | 3,368 | - | - |
| | PT Trisakti Purwosari Makmur (previously PT Mandiri Maha Mulia) | - | - | - | 2,700 |
| | PT Trisakti Purwosari Makmur (previously PT Sentosa Ababi Purwosari) | - | - | 521 | - |
| | Total | ₩ - | ₩33,345 | ₩571 | ₩6,947 |

(5) Details of fund transactions with related parties for the nine months ended September 30, 2019 and 2018, are as follows:

| <i>In millions of Korean won</i> | | Nine months ended September 30, 2019 | | Nine months ended September 30, 2018 | |
|-------------------------------------|--|---|-----------------------|---|-----------------------|
| | | Investment (recovery) | Repayment of funds | Investment (recovery) | Repayment of funds |
| Subsidiaries | Korea Ginseng Corporation ^(*) | ₩45,982 | ₩ - | ₩ - | ₩ - |
| | KGC Yebon Corporation ^(*) | (45,982) | - | - | - |
| | Gwacheon Sangsang PFV | - | - | 3,570 | - |
| Associates and joint ventures | LSK Global Pharma Services Co., Ltd. | - | 150 | - | 1,050 |
| | JR REIT 5 Co., Ltd. | (11,125) | - | - | - |
| | JR REIT 8 Co., Ltd | (13,526) | - | - | - |
| | Starfield Suwon | - | - | 12,000 | - |
| | JR REIT 13 Co., Ltd. | - | - | (5,025) | - |
| Total | | ₩(24,651) | ₩150 | ₩10,545 | ₩1,050 |

^(*) For the nine months ended September 30, 2019, the Company has made a capital contribution in kind of its 100% equity holdings in KGC Yebon Corporation to its subsidiary, Korea Ginseng Corporation.

- (6) As of September 30, 2019, the Company is provided with payment guarantees in order to open an import credit for imports and customs clearance of KT&G US corporations, and the Company is obliged to observe the executed part of the guarantee amount (Note 26-3).
- (7) During the year ended December 31, 2018, the Company had made a land contract with the related party, Starfield Suwon and had received a down payment of ₩16,020 million from the total ₩160,200 million. The ownership of this land will be transited upon the payment of the balance, which will be on the date of the commencement of the construction work (Note 26-4)
- (8) 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. (Note 7).
- (9) 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. (Note 7).
- (10) Details of key management personnel compensation for the nine months ended September 30, 2019, and 2018, are summarized as follows:

| <i>In millions of Korean won</i> | 2019 | | 2018 | |
|----------------------------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | Three months ended September 30 | Nine months ended September 30 | Three months ended September 30 | Nine months ended September 30 |
| Short-term employee benefits | ₩3,981 | ₩11,621 | ₩4,713 | ₩14,710 |
| Retirement benefits | 510 | 1,466 | 352 | 1,114 |
| Total | ₩4,491 | ₩13,087 | ₩5,065 | ₩15,824 |

23. Risk Management and Fair Value of Financial Instruments

In relation to financial instruments, the Company is exposed to market risk, credit risk and liquidity risk. The purpose of risk management of the Company is to identify potential risks affecting the financial performance of the Company and to reduce, eliminate and avoid them to an acceptable level. The Company prepares and operates the company-wide risk management policies and procedures, and is responsible for the overall responsibility for risk management in the separate interim financial statements of the subsidiaries. The financial department of the Company is responsible for monitoring and managing the financial risks associated with the operations of the subsidiaries in accordance with the risk management policies and procedures approved by the board of directors, and periodically analyzes the nature and exposure of the financial risks. In addition, the parent company's audit committee continuously reviews compliance with risk management policies and procedures and limits on risk exposure. The Company's overall financial risk management strategy is the same as the previous one.

(1) Market risk

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

① Currency risk

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

② Equity price risk

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

③ Interest rate risk

The Company is exposed to interest rate fluctuation risk in relation to the borrowings. The management of the Company regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest loans. Considering the size of the variable interest rate borrowings of the Company as of September 30, 2019, the effect of changes in interest rates on the fair value of the financial liability or future cash flows is not important.

(2) Credit risk

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

The carrying amount of financial assets indicate the maximum exposure to credit risk. The maximum exposure to credit risk as of September 30, 2019, and December 31, 2018, are as follows:

| <i>In millions of Korean won</i> | As of September 30, 2019 | As of December 31, 2018 |
|---|--------------------------|-------------------------|
| Cash and cash equivalents (excluding cash on hand) ^(*) | ₩273,258 | ₩246,310 |
| Other financial assets | 376,937 | 576,937 |
| Fair value through profit or loss ^(*) | 1,863,416 | 1,851,922 |
| Trade and other receivables | 965,376 | 850,183 |
| Long-term deposits in MSA Escrow Fund | 744,634 | 615,528 |
| Derivative assets | 404 | 1,239 |
| Total | ₩4,224,025 | ₩4,142,119 |

^(*) Of the cash equivalents as of September 30, 2019, the Money Market Trust amount of ₩296,615 million(₩501,562 million as of December 31, 2018) is included in the financial assets at fair value through profit or loss.

(3) Liquidity risk

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

(4) The carrying amounts of each category of financial assets and liabilities as of September 30, 2019, and December 31, 2018, are summarized as follows:

| <i>In millions of Korean won</i> | As of September 30, 2019 | As of December 31, 2018 |
|---|--------------------------|-------------------------|
| Financial assets: | | |
| Fair value through profit or loss(*) | ₩1,863,416 | ₩1,851,922 |
| Fair value through other comprehensive income or loss | 234,424 | 230,545 |
| Derivative assets | 404 | 1,239 |
| Financial assets measured at amortized cost | | |
| - Cash and cash equivalents(*) | 273,518 | 246,562 |
| - Other financial assets | 376,937 | 576,937 |
| - Trade and other receivables | 965,376 | 850,183 |
| - Long-term deposits in MSA Escrow Fund | 744,634 | 615,528 |
| Subtotal | 2,360,465 | 2,289,210 |
| Total financial assets | 4,458,709 | 4,372,916 |
| Financial liabilities: | | |
| Derivative liabilities | 6,350 | 461 |
| Financial liabilities measured at amortized cost | | |
| - Short-term borrowings | 1,082 | 1,246 |
| - Trade and other payables | 297,389 | 276,921 |
| - Lease liability | 15,676 | - |
| Total financial liabilities | ₩320,497 | ₩278,628 |

(*) Of the cash equivalents as of September 30, 2019, the Money Market Trust amount of ₩296,615 million(₩501,562 million as of December 31, 2018) is included in the financial assets at fair value through profit or loss.

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

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

The fair value measurements classified by fair value hierarchy as of September 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 September 30, 2019: | | | | |
| Fair value through profit or loss ^(*) | ₩1,863,416 | ₩ - | ₩1,605,320 | ₩258,096 |
| Fair value through other comprehensive income or loss | 234,424 | 184,484 | - | 49,940 |
| Derivative assets | 404 | - | 404 | - |
| Derivative liabilities | 6,350 | - | 6,350 | - |
| Total | 2,104,594 | 184,484 | 1,612,074 | 308,036 |
| 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 | 230,545 | 180,605 | - | 49,940 |
| Derivative assets | 1,239 | - | 1,239 | - |
| Derivative liabilities | 461 | - | 461 | - |
| Total | ₩2,084,167 | ₩180,605 | ₩1,642,967 | ₩260,595 |

^(*) Of the cash equivalents as of September 30, 2019, the Money Market Trust amount of ₩296,615 million (₩501,562 million as of December 31, 2018) is included in the financial assets at fair value through profit or loss.

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

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

| <i>In millions of Korean won</i> | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|----------------------------------|---|---|
| Beginning balance | ₩260,595 | ₩233,891 |
| Acquisition | 50,665 | 61,500 |
| Disposal | (7) | (26,888) |
| Changes in fair value | (3,217) | 430 |
| Ending balance | ₩308,036 | ₩268,933 |

(6) Details of finance income (costs) by categories for the nine months ended September 30, 2019, and 2018, are as follows:

① For the Nine months ended September 30, 2019

| <i>In millions of Korean won</i> | Fair value through profit or loss | Fair value through other comprehensive income or loss | Derivative assets (liabilities) | Financial assets measured at amortized cost | Financial liabilities measured at amortized cost | Total |
|---|---|--|---------------------------------------|--|---|---------|
| Profit for the period: | | | | | | |
| Interest income | ₩ - | ₩ - | ₩ - | ₩15,912 | ₩ - | ₩15,912 |
| Dividend income | 8,992 | 8,033 | - | - | - | 17,025 |
| Gain or loss on valuation | 31,247 | - | (24,265) | - | - | 6,982 |
| Interest expense | - | - | - | - | (1,411) | (1,411) |
| Impairment loss | - | - | - | (2,360) | - | (2,360) |
| Total | 40,239 | 8,033 | (24,265) | 13,552 | (1,411) | 36,148 |
| Other comprehensive income (loss) (before tax): | | | | | | |
| Net change in fair value | - | 3,879 | - | - | - | 3,879 |
| Total | ₩ - | ₩3,879 | ₩ - | ₩ - | ₩ - | ₩3,879 |

② For the nine months ended September 30, 2018

| <i>In millions of Korean won</i> | Fair value through profit or loss | Fair value through other comprehensive income or loss | Derivative assets (liabilities) | Financial assets measured at amortized cost | Financial liabilities measured at amortized cost | Total |
|---|---|--|---------------------------------------|--|---|-----------|
| Profit for the period: | | | | | | |
| Interest income | ₩ - | ₩ - | ₩ - | ₩8,936 | ₩ - | ₩8,936 |
| Dividend income | - | 16,004 | - | - | - | 16,004 |
| Gain or loss on valuation | 51,126 | - | (5,721) | - | - | 45,405 |
| Interest expense | - | - | - | - | (945) | (945) |
| Impairment loss | - | - | - | (2,098) | - | (2,098) |
| Total | 51,126 | 16,004 | (5,721) | 6,838 | (945) | 67,302 |
| Other comprehensive income (loss) (before tax): | | | | | | |
| Net change in fair value | ₩ - | ₩(10,437) | ₩ - | ₩ - | ₩ - | ₩(10,437) |
| Total | ₩ - | ₩(10,437) | ₩ - | ₩ - | ₩ - | ₩(10,437) |

24. Retained Earnings

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

| <i>In millions of Korean won</i> | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|---|---|---|
| Beginning balance | ₩791,027 | ₩990,096 |
| Change in accounting policy | - | (31,465) |
| Dividends | (505,061) | (505,061) |
| Transfer from reserve for research and human resource development | - | 10,000 |
| Transfer to other reserve | (285,966) | (495,035) |
| Profit for the period | 750,776 | 720,690 |
| Remeasurements of net defined benefit liability(net of tax) | (12,812) | (1,542) |
| Ending balance | ₩737,964 | ₩687,683 |

25. Earnings Per Share

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

| <i>In Korean won, and number of shares</i> | 2019 | | 2018 | |
|---|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | Three months ended September 30 | Nine months ended September 30 | Three months ended September 30 | Nine months ended September 30 |
| Profit for the period | ₩250,522,452,292 | ₩750,775,809,567 | ₩211,140,515,134 | ₩720,689,594,499 |
| 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 | ₩1,984 | ₩5,946 | ₩1,672 | ₩5,708 |

26. Contingent Liabilities and Commitments

(1) Litigation cases

As of September 30, 2019, the Company has total 5 cases of pending litigations under progress and the litigation value is ₩54,293 million. It is not possible to reasonably predict the impact of the final outcome of pending litigation as of the end of September 30, 2019 on the separate interim financial statements of the Company.

(2) Major commitments

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

In millions of Korean won, thousands of US dollars

| Type | Financial institutions | Currency | Limit |
|--------------------------|--------------------------------|----------|---------|
| Opening an import credit | KEB Hana Bank and one other | USD | 175,000 |
| Derivatives trading | KEB Hana Bank and three others | USD | 227,700 |
| Group loans | KEB Hana Bank | KRW | 300,000 |

(3) Payment guarantee and collateral details

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

In millions of Korean won, thousands of US dollars

| Provider | Currency | Limit | Details |
|--|----------|---------|--------------------------------|
| Korea Housing & Urban Guarantee Corporation | KRW | 948,291 | Housing distribution guarantee |
| Korea Trade Insurance Corporation | USD | 49,290 | Export guarantee insurance |
| Seoul Guarantee Insurance | KRW | 2,542 | License guarantee, etc. |
| Travelers Casualty and Surety Company of America | USD | 7,642 | Escrow deposit guarantee |

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

In thousands of US dollars

| Provider | Currency | Limit | Execution amount | Details |
|------------------------------------|----------|--------|------------------|---|
| KEB Hana Bank | USD | 20,000 | 85 | Performance guarantee related to exporting reconstituted tobacco leaves |
| Westchester Fire Insurance Company | USD | 20,000 | 17,000 | Import duty payment guarantee |

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

In millions of Korean won

| | Guarantee user | Limit | Execution amount |
|--------------------------------|----------------|----------|------------------|
| Loan guarantee for the payment | Shinhan Bank | ₩79,400 | ₩20,176 |
| | KEB Hana Bank | 60,000 | 16,430 |
| | Suhyup Bank | 9,494 | 4,527 |
| Total | | ₩148,894 | ₩41,133 |

The Company provides payment guarantees to financial institutions in accordance with the consumer financial agreement in connection with retail sales receivables, and receives related bonds from financial institutions and recognizes them as short-term borrowings. (Refer Note 14)

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

| <i>In millions of Korean won</i> | Carrying amount | Type | Debt amount | Collateralized amount | Collateral holder |
|----------------------------------|-----------------|--|-------------|-----------------------|---|
| Investment property | ₩333,260 | Leasehold deposits received | ₩18,657 | ₩19,880 | Metlife Insurance, etc. |
| Property, plant and equipment | 22,629 | Right to collateral security and lease | 2,690 | 3,504 | Korea Workers' Compensation Welfare Service, etc. |
| Other financial assets | 6,340 | Real estate development performance guarantee ^(*) | - | 6,340 | Korea Land & Housing Corporation |
| | 597 | Security deposit for rent | 597 | 597 | Samsung Fire & Marine Insurance |
| Total | ₩362,826 | | ₩21,944 | ₩30,321 | |

^(*) As of September 30, 2019, the Company has deposited ₩6,340 million in NH Nonghyup Bank and classified it as other financial assets to guarantee its business performance in connection with the project to create a central commercial area in the administrative city. There is a pledge right established on this amount as of September 30, 2019.

Financial assets limited to use as of September 30, 2019, and December 31, 2018, are summarized as follows:

| <i>In millions of Korean won</i> | | As of September 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 |
| Total | | ₩6,937 | ₩6,937 |

(4) Others

Payment of long-term deposits (MSA Escrow Fund)

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

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

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

The Company had made a land contract with Starfield Suwon and Gwacheon city(land contract value : ₩160,200 million), and the ownership of the land will be transited upon the payment of balance when the construction for the Starfield Suwon begins. The Company has a contract with Gwacheon Sangsang PFV, a subsidiary company, to purchase the land for the development of Gwacheon Knowledge and Information Town at the time the Company’s internal management decision is completed.

As of September 30, 2019, there are capital call agreements for overseas real estate funds invested by the Company. However, we expect that the arrangement will be substantially less practicable as it will only be executed if the trustee defaults on the currency swap/forward contract.

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

27. Cash flows

(1) Details of cash generated from operations for the nine months ended September 30, 2019, and 2018, are as follows:

| <i>In millions of Korean won</i> | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|---|---|---|
| Profit for the period | ₩750,776 | ₩720,690 |
| Adjustments: | | |
| Employee welfare | 1,494 | 1,805 |
| Retirement and termination benefits | 23,015 | 19,684 |
| Loss on valuation and obsolescence of inventories | 6,700 | 3,165 |
| Depreciation | 80,428 | 72,056 |
| Amortization | 740 | 46 |
| Impairment loss on trade and other receivables | 2,360 | 2,098 |
| Loss on foreign currency translation | 300 | 4,129 |
| Loss on disposal of property, plant and equipment | 432 | 208 |
| Loss on impairment of property, plant and equipment | 436 | 3,685 |
| Loss on disposal of intangible assets | - | 12 |
| Loss on impairment of investment in subsidiaries | 13,595 | - |
| Other expenses, etc. | 42,308 | 6,121 |
| Financial cost | 9,975 | 4,093 |
| Income tax expense | 277,123 | 237,461 |
| Gain on foreign currency translation | (86,309) | (37,920) |
| Gain on disposal of investments in associates | (9,051) | (25) |
| Gain on disposal of assets held for sale | (375) | - |
| Gain on disposal of property, plant and equipment | (5,384) | (6,504) |
| Gain on disposal of intangible assets | (3) | - |
| Other income, etc. | (404) | (27) |
| Financial income | (73,869) | (138,469) |
| Changes in working capital: | | |
| Increase in trade and other receivables | (86,332) | (77,710) |
| Increase in derivatives | (17,541) | - |
| Decrease in inventories | 34,761 | 22,591 |
| Decrease in accrued tobacco excise and other taxes | 15,280 | 77,784 |
| Increase in advance payments | (44,693) | (13,789) |
| Decrease(increase) in prepaid expenses | 65 | (5,229) |
| Increase (decrease) in trade and other payables | 49,342 | (961) |
| Increase (decrease) in advance receipts | (71,707) | 68,980 |
| Increase (decrease) in refund assets and provisions | (11,629) | 988 |
| Increase (decrease) in tobacco excise and other taxes payable | (11,773) | 87,189 |
| Decrease of net defined benefit liabilities | (799) | (518) |
| Cash generated from operation | ₩889,261 | ₩1,051,633 |

(2) Details of material transactions without cash inflow and outflow for the nine months ended September 30, 2019, and 2018, are as follows:

| <i>In millions of Korean won</i> | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|---|---|---|
| Reclassification of construction in progress | ₩92,172 | ₩105,624 |
| Increase (decrease) in other payables related to acquisition of property, plant and equipment | (2,687) | 7,971 |

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

28. Changes in Accounting Policies

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

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

The total sum of the minimum lease payments before discounting the present value of the assets used by the Company as of September 30, 2019, is ₩16,320 million, and is ₩15,676 million when discounted at the intrinsic interest rate and the incremental borrowing rate of the lessee.

As of January 1, 2019, right-of-use assets, current lease liabilities and long-term lease liabilities increased by ₩18,691million, ₩6,034 million and ₩11,805 million, respectively. As of September 30, 2019, operating lease payments decreased by ₩5,538 million, and depreciation expense for right-of-use assets and interest expense for lease liabilities increased by ₩5,536 million and ₩337 million respectively.

29. Subsequent Events

On October, 23, 2019, The Korea Ministry of Health and Welfare, in cooperation with relevant authorities, issued a warning not to use liquid type e-cigarettes until further safety management procedure is taken and the impact on health is clearly identified. In line with the advisory opinion of the government, convenience stores, one of the Company's suppliers and duty free companies announced that they halt sales or interrupt new order of Siid Tundra, one of the Company's tobacco products. The Company's determines that the financial effect resulting from the event after the financial reporting date is immaterial.