



# **KT&G CORPORATION AND SUBSIDIARIES**

**Review Report on Consolidated 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**

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## KT&G CORPORATION AND SUBSIDIARIES

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

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

##### Auditors' responsibility

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

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

##### Review results

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

**Other matters**

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

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

*Deloitte Anjin LLC*

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 consolidated financial statements and may result in modifications to the auditors' report.</p>
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KT&G CORPORATION AND SUBSIDIARIES  
Consolidated interim financial statements

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

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

"The consolidated interim financial statements attached have been prepared by the Company."

CEO of KT&G Corporation, Baek Bok In

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(Telephone) 080-931-0399

# KT&G CORPORATION AND SUBSIDIARIES

## Condensed consolidated 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
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and cash equivalents	21	₩872,494,407,751	₩932,969,110,015
Current other financial assets	21	435,950,736,740	584,579,918,180
Current fair value through profit or loss	21	1,308,704,825,793	1,139,704,589,088
Trade and other receivables	5,21	1,166,290,422,826	975,921,202,909
Derivative assets	21	404,409,647	1,238,664,783
Inventories	6	2,248,242,052,743	2,461,289,914,829
Refund assets and others		4,788,824,935	2,356,432,726
Accrued tobacco excise and other taxes		247,163,329,176	232,237,330,421
Advance payments		114,028,052,522	54,207,755,371
Prepaid expenses		32,875,802,367	24,622,742,813
Assets held for sale	4	4,246,922,005	4,246,922,005
<b>Total current assets</b>		<b>₩6,435,189,786,505</b>	<b>₩6,413,374,583,140</b>
<b>Non-current assets:</b>			
Long-term other financial assets	21,24	₩2,346,102,000	₩8,565,762,000
Long-term deposits in MSA escrow Fund	21,24	744,633,897,800	615,527,896,771
Long-term fair value through profit or loss	21	258,095,977,015	210,655,373,106
Long-term trade and other receivables	5,21	55,260,087,256	62,902,608,445
Fair value through other comprehensive income or loss	21	253,229,216,246	249,575,289,383
Investments in associates and joint ventures	4,7	61,821,506,100	83,988,748,090
Property, plant and equipment	8,20,24	1,732,285,147,382	1,818,787,823,851
Intangible assets	9	86,249,918,246	71,954,007,994
Investment property	10,24	807,295,295,494	495,048,833,035
Right-of-use asset	11,26	47,004,490,059	-
Long-term refund assets		171,854,186	223,771,427
Long-term advance payments		97,194,852,970	71,394,217,095
Long-term prepaid expenses		6,578,834,158	7,872,994,328
Deferred income tax assets		44,034,659,789	45,229,659,539
<b>Total non-current assets</b>		<b>₩4,196,201,838,701</b>	<b>₩3,741,726,985,064</b>
<b>Total assets</b>		<b>₩10,631,391,625,206</b>	<b>₩10,155,101,568,204</b>

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

# KT&G CORPORATION AND SUBSIDIARIES

## Condensed consolidated interim statements of financial position, continued

As of September 30, 2019 and December 31, 2018

<i>In Korean won</i>	Notes	As of September 30, 2019	As of December 31, 2018
<b>Liabilities and equity:</b>			
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Short-term borrowings	12,21	₩23,171,924,047	₩129,924,101,195
Current portion of long-term borrowings	12,21	16,183,764,738	4,999,760,000
Trade and other payables	21	629,843,197,091	560,507,008,935
Current lease liabilities	11,21,26	17,253,274,805	-
Derivative liabilities	21	6,349,773,801	460,667,312
Advance receipts	20	97,831,643,683	171,501,108,963
Current refund liabilities and provisions	17	24,981,239,518	15,100,885,431
Current income tax liabilities		240,832,975,062	200,796,906,309
Tobacco excise and other taxes payable		553,648,085,342	557,417,508,777
<b>Total current liabilities</b>		<b>₩1,610,095,878,087</b>	<b>₩1,640,707,946,922</b>
<b>Non-current liabilities:</b>			
Long-term borrowings	12,21	₩91,946,495,161	₩93,475,333,856
Long-term trade and other payables	21	53,864,204,786	53,239,976,056
Long-term lease liabilities	11,21,26	22,143,449,089	-
Long-term advance receipts		5,551,631,942	5,580,108,204
Net defined benefit liabilities	16	150,436,347,276	96,214,830,976
Long-term refund liabilities and provisions	17	3,512,534,035	3,844,558,820
Deferred income tax liabilities		128,652,281,256	125,558,940,716
Non-controlling interests liabilities		2,935,880,778	3,399,647,673
<b>Total non-current liabilities</b>		<b>₩459,042,824,323</b>	<b>₩381,313,396,301</b>
<b>Total liabilities</b>		<b>₩2,069,138,702,410</b>	<b>₩2,022,021,343,223</b>
<b>Equity:</b>			
Ordinary shares		954,959,485,000	954,959,485,000
Other capital surplus(deficit)		(29,556,277,161)	(29,719,795,353)
Treasury shares		(328,157,286,128)	(328,157,286,128)
Gain on sale of treasury shares		513,775,933,891	513,775,933,891
Reserve		5,668,522,404,975	5,355,627,500,098
Retained earnings	22	1,725,363,011,699	1,612,794,013,734
<b>Equity attributable to owners of the Parent company</b>		<b>8,504,907,272,276</b>	<b>8,079,279,851,242</b>
<b>Non-controlling interests</b>		<b>₩57,345,650,520</b>	<b>₩53,800,373,739</b>
<b>Total equity</b>		<b>₩8,562,252,922,796</b>	<b>₩8,133,080,224,981</b>
<b>Total liabilities and equity</b>		<b>₩10,631,391,625,206</b>	<b>₩10,155,101,568,204</b>

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

# KT&G CORPORATION AND SUBSIDIARIES

## Condensed consolidated interim statements of comprehensive income

For the three months and 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
<b>Sales</b>	4,18	₩1,322,181,453,028	₩3,765,003,706,111	₩1,182,526,283,865	₩3,369,836,435,171
<b>Cost of sales</b>	13,18	(560,763,283,794)	(1,574,539,522,194)	(480,070,681,642)	(1,376,036,850,696)
<b>Gross profit</b>		761,418,169,234	2,190,464,183,917	702,455,602,223	1,993,799,584,475
Selling, general and administrative expenses	13	(378,952,339,161)	(1,060,771,989,884)	(345,593,716,808)	(1,002,593,358,210)
<b>Operating profit</b>	4	382,465,830,073	1,129,692,194,033	356,861,885,415	991,206,226,265
Other income	14	79,521,212,138	140,837,554,846	14,977,333,366	104,342,995,846
Other expenses	14	(30,347,021,744)	(52,680,878,165)	(29,926,783,902)	(74,589,829,857)
Financial income	15,21	19,409,607,386	75,777,134,051	19,907,701,015	81,132,270,739
Cost of finance	15,21	(2,440,280,369)	(13,953,600,317)	(4,708,685,619)	(7,631,122,357)
Share of gain of associates and joint ventures	7	1,675,638,191	3,566,909,124	471,219,464	1,431,215,466
<b>Profit before income tax</b>		450,284,985,675	1,283,239,313,572	357,582,669,739	1,095,891,756,102
Income tax expense	19	(128,211,055,539)	(362,866,552,807)	(100,123,690,594)	(323,922,470,603)
<b>Profit for the period</b>		₩322,073,930,136	₩920,372,760,765	₩257,458,979,145	₩771,969,285,499
<b>Other comprehensive income (loss) after income tax:</b>					
<b>Items that will not be reclassified to profit or loss</b>					
Remeasurements of net defined benefit liability		₩467,544,704	₩(13,034,381,953)	₩(439,697,354)	₩(1,870,658,228)
Gain or loss on valuation of fair value through other comprehensive income or loss		(11,589,311,243)	1,668,752,437	6,372,623,373	(7,090,520,564)
Capital changes in equity method	7	(3,772,596)	22,846,536	-	-
<b>Items that are or may be reclassified subsequently to profit or loss</b>					
Exchange differences on translating foreign operations		(1,274,379,737)	25,239,113,033	(4,482,881,952)	(12,284,267,378)
<b>Other comprehensive income(loss) after income tax</b>		₩(12,399,918,872)	₩13,896,330,053	₩1,450,044,067	₩(21,245,446,170)
<b>Total comprehensive income for the period</b>		₩309,674,011,264	₩934,269,090,818	₩258,909,023,212	₩750,723,839,329
<b>Profit attributable to:</b>					
Owners of the Parent Company		320,821,168,883	916,634,947,095	258,850,050,152	774,318,647,709
Non-controlling interests		1,252,761,253	3,737,813,670	(1,391,071,007)	(2,349,362,210)
<b>Total</b>		₩322,073,930,136	₩920,372,760,765	₩257,458,979,145	₩771,969,285,499
<b>Other comprehensive income for the period attributable to:</b>					
Owners of the Parent Company		308,424,176,094	930,524,410,842	260,295,228,945	753,071,136,418
Non-controlling interests		1,249,835,170	3,744,679,976	(1,386,205,733)	(2,347,297,089)
<b>Total</b>		₩309,674,011,264	₩934,269,090,818	₩258,909,023,212	₩750,723,839,329
<b>Earnings per share:</b>					
Basic and diluted	23	₩2,541	₩7,260	₩2,050	₩6,132

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



## KT&G CORPORATION AND SUBSIDIARIES

### Condensed consolidated interim statements of changes in equity

**For the nine months ended September 30, 2018**

<i>In Korean won</i>	Ordinary shares	Other capital	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the Parent Company	Non-controlling interests	Total equity
<b>Balance at January 1, 2018(before revision)</b>	₩954,959,485,000	₩(29,719,795,353)	₩(328,157,286,128)	₩513,775,933,891	₩4,927,331,928,515	₩1,733,863,414,006	₩7,772,053,679,931	₩57,706,687,886	₩7,829,760,367,817
Effect of change in accounting policy	-	-	-	-	(36,765,729,396)	(11,591,001,905)	(48,356,731,301)	-	(48,356,731,301)
<b>Balance at January 1, 2018 (after revision)</b>	954,959,485,000	(29,719,795,353)	(328,157,286,128)	513,775,933,891	4,890,566,199,119	1,722,272,412,101	7,723,696,948,630	57,706,687,886	7,781,403,636,516
<b>Total comprehensive income (loss) for the period:</b>									
Profit (loss) for the period	-	-	-	-	-	774,318,647,709	774,318,647,709	(2,349,362,210)	771,969,285,499
<b>Other comprehensive income (loss) for the period:</b>									
Remeasurements of net defined benefit liabilities	-	-	-	-	-	(1,866,282,893)	(1,866,282,893)	(4,375,335)	(1,870,658,228)
Loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(7,090,520,564)	-	(7,090,520,564)	-	(7,090,520,564)
Exchange differences on translating foreign operations	-	-	-	-	(12,290,707,834)	-	(12,290,707,834)	6,440,456	(12,284,267,378)
Sum of other comprehensive income (loss) for the period	-	-	-	-	(19,381,228,398)	(1,866,282,893)	(21,247,511,291)	2,065,121	(21,245,446,170)
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	(19,381,228,398)	772,452,364,816	753,071,136,418	(2,347,297,089)	750,723,839,329
<b>Transactions with owners, of the Parent Company:</b>									
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)	-	(505,060,508,000)
Transfer from reserve for research and human resource development	-	-	-	-	(10,000,000,000)	10,000,000,000	-	-	-
Transfer to other reserve	-	-	-	-	495,035,507,256	(495,035,507,256)	-	-	-
Changes in non-controlling interests, etc.	-	-	-	-	-	-	-	74,884,397	74,884,397
<b>Total transactions with owners of the Parent Company</b>	-	-	-	-	485,035,507,256	(990,096,015,256)	(505,060,508,000)	74,884,397	(504,985,623,603)
<b>Balance at September 30, 2018</b>	₩954,959,485,000	₩(29,719,795,353)	₩(328,157,286,128)	₩513,775,933,891	₩5,356,220,477,977	₩1,504,628,761,661	₩7,971,707,577,048	₩55,434,275,194	₩8,027,141,852,242

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

# KT&G CORPORATION AND SUBSIDIARIES

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

For the nine months ended September 30, 2019

In Korean won	Ordinary shares	Other capital surplus (deficit)	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the Parent Company	Non-controlling interests	Total equity
Balance at January 1, 2019	₩954,959,485,000	₩(29,719,795,353)	₩(328,157,286,128)	₩513,775,933,891	₩5,355,627,500,098	₩1,612,794,013,734	₩8,079,279,851,242	₩53,800,373,739	₩8,133,080,224,981
<b>Total comprehensive income for the period:</b>									
Profit for the period	-	-	-	-	-	916,634,947,095	916,634,947,095	3,737,813,670	920,372,760,765
<b>Other comprehensive income (loss) for the period:</b>									
Remeasurements of net defined benefit liabilities	-	-	-	-	-	(13,039,240,008)	(13,039,240,008)	4,858,055	(13,034,381,953)
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	1,668,752,437	-	1,668,752,437	-	1,668,752,437
Exchange differences on translating foreign operations	-	-	-	-	25,237,104,782	-	25,237,104,782	2,008,251	25,239,113,033
Capital changes in equity method capital	-	-	-	-	22,846,536	-	22,846,536	-	22,846,536
Sum of other comprehensive income (loss) for the period	-	-	-	-	26,928,703,755	(13,039,240,008)	13,889,463,747	6,866,306	13,896,330,053
<b>Total comprehensive income for the period</b>	-	-	-	-	26,928,703,755	903,595,707,087	930,524,410,842	3,744,679,976	934,269,090,818
<b>Transactions with owners, of the Parent Company:</b>									
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)	-	(505,060,508,000)
Transfer to other reserve	-	-	-	-	285,966,201,122	(285,966,201,122)	-	-	-
Changes in non-controlling interests, etc.	-	163,518,192	-	-	-	-	163,518,192	(199,403,195)	(35,885,003)
<b>Total transactions with owners of the Parent Company</b>	-	163,518,192	-	-	285,966,201,122	(791,026,709,122)	(504,896,989,808)	(199,403,195)	(505,096,393,003)
<b>Balance at September 30, 2019</b>	₩954,959,485,000	₩(29,556,277,161)	₩(328,157,286,128)	₩513,775,933,891	₩5,668,522,404,975	₩1,725,363,011,699	₩8,504,907,272,276	₩57,345,650,520	₩8,562,252,922,796

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

## KT&G CORPORATION AND SUBSIDIARIES

### Condensed consolidated interim statements of cash flows

**For the 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
<b>Net cash provided by operating activities</b>		₩958,830,691,474	₩1,060,139,031,636
Cash generated from operations	25	1,276,296,117,826	1,319,716,545,955
Income tax paid(refund)		(317,465,426,352)	(259,577,514,319)
<b>Net cash used in investing activities</b>		(409,046,518,610)	(93,805,106,445)
Interest received		18,743,548,572	9,802,030,201
Dividends received		19,266,291,656	17,468,752,596
Disposal of other financial assets		471,000,000,000	989,412,672,921
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		266,458,845	1,152,690,000
Disposal of property, plant and equipment		3,370,600,728	23,399,455,425
Disposal of intangible assets		100,234,554	351,578,000
Disposal of investments in associates		24,650,929,551	5,024,535,939
Collection of loans		9,587,795,735	12,809,471,358
Collection of guarantee deposits		1,398,465,450	5,610,785,817
Acquisition of property, plant and equipment		(173,322,661,072)	(127,849,854,871)
Acquisition of intangible assets		(13,253,121,363)	(5,304,788,621)
Acquisition of investment property		(178,826,598,402)	(158,934,291,530)
Acquisition of investments in associates		-	(12,000,000,000)
Increase in loans		(6,502,900,265)	(214,663,906)
Increase in guarantee deposits		(3,015,116,063)	(11,802,695,091)
Increase in long-term deposits in MSA Escrow Fund		(79,880,336,587)	(52,771,183,882)
Increase in current fair value through profit or loss		(137,399,594,505)	-
Increase in long-term fair value through profit or loss		(50,665,078,553)	(61,500,000,000)
Increase in fair value through other comprehensive income or loss		(1,550,000,000)	(1,200,000,000)
Acquisition in other financial assets		(313,022,470,000)	(758,813,372,882)
<b>Net cash used in financing activities</b>		(619,260,388,333)	(617,752,595,432)
Repayment of lease liabilities		(15,605,970,477)	-
Payment of dividends		(505,060,508,000)	(505,060,508,000)
Increase in guarantee deposits		-	7,739,494,569
Decrease in guarantee deposits		-	(5,407,578,500)
Increase in borrowings		170,950,608,900	325,297,093,766
Increase in non-controlling interests		-	3,430,000,000
Interest paid		(2,105,621,670)	(1,435,377,704)
Repayment of borrowing		(267,438,897,086)	(442,315,719,563)
<b>Net increase(decrease) in cash and cash equivalents</b>		(69,476,215,469)	348,581,329,759
<b>Cash and cash equivalents at January 1</b>		932,969,110,015	715,116,842,650
Effect of exchange rate fluctuation on cash and cash equivalents		9,001,513,205	(3,013,464,141)
<b>Cash and cash equivalents at September 30</b>		₩872,494,407,751	₩1,060,684,708,268

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

## KT&G CORPORATION AND SUBSIDIARIES

### Notes to the consolidated interim financial statements

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

#### 1. Reporting Entity

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

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

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

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

The ownership of the Parent Company’s ordinary shares as of 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

## 1-2. Consolidated Subsidiaries

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

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

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

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

### 1-3. Summarized Financial Information

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

<i>In millions of Korean won</i>	Total assets	Total liabilities	Revenue	Net income(loss)	Total comprehensive income(loss)
Korea Ginseng Corporation	₩2,163,179	₩245,513	₩1,131,605	₩162,013	₩160,844
Yungjin Pharm. Co., Ltd.	196,972	77,303	167,103	8,053	8,063
Tae-a Industry Co., Ltd.	55,093	5,419	14,143	1,008	990
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	33,151	49,239	2,481	(7,387)	(7,644)
Korea Tabacos do Brasil Ltda.	2,517	126	-	(102)	107
KT&G Pars	871	60,707	-	(8,548)	(10,712)
KT&G Rus L.L.C.	169,356	88,211	24,879	(261)	10,684
KT&G USA Corporation	73,610	55,800	110,522	(3,458)	(2,093)
Cosmococ Co., Ltd.	59,489	35,412	52,857	(5,813)	(5,813)
Renzoluc Pte., Ltd.	139,026	33,040	-	(1,301)	8,780
KGC Yebon Corporation	54,569	8,569	8,691	(5)	(2)
PT KT&G Indonesia	105,891	96,365	118,099	22,295	21,780
SangSang Stay, Inc.	46,936	44,695	16,093	(2,849)	(2,849)
KT&G Global Rus L.L.C.	77,316	82,001	21,947	3,489	2,508
PT Trisakti Purwosari Makmur	182,315	37,674	37,016	5,064	17,508
PT Mandiri Maha Mulia 2)	-	-	25,037	2,007	4,230
PT Sentosa Ababi Purwosari 2)	-	-	17,549	2,897	(2,806)
PT Purindo Ilufa 2)	-	-	5,238	1,851	103
PT Nusantara Indag Makmur	82	-	-	(41)	(31)
KGC Life & Gin Co., Ltd.	31,451	11,732	25,297	(489)	(490)
Cheong Kwan Jang Taiwan Corporation	20,876	19,016	22,820	(283)	(175)
Korean Red Ginseng Corp., Inc.	18,832	19,907	15,141	(1,855)	(1,863)
Korea Ginseng (China) Corp.	30,401	18,871	40,553	447	824
Korea Ginseng Corporation Japan	8,635	6,885	8,064	350	248
Jilin Hanzheng Ginseng Co., Ltd.	51,978	775	10,649	203	1,923
K&I HK Co., Ltd.	2,082	1,994	326	(359)	(340)
K&I China Co., Ltd.	3,447	3,773	1,293	(1,215)	(1,180)
Gwacheon SangSang PFV	₩6,202	₩210	₩ -	₩(946)	₩(946)

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

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

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

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

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

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

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



## 2. Significant Accounting Policies

### 2-1. Basis of Preparation

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

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

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

#### (1) New or amended standards adopted by the Group

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

- Enactment to K-IFRS No. 1116 Leases

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

The Group had changed the accounting policies as a result of application of K-IFRS No. 1116. The changed accounting policies were applied retrospectively in accordance with the transition provisions of K-IFRS No. 1116 and the cumulative effect of initial application was reflected on January 1, 2019, the date of initial application. The comparative consolidated interim financial statements are not restated. The impact of introducing the lease standard and the new accounting policy is described in Note 26.

- Amendments to K-IFRS No. 1109 Financial Instruments

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

- Amendments to K-IFRS No. 1019 Employee Benefits

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



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

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

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

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

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

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

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

① K-IFRS No. 1103 Business Combination

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

② K-IFRS No. 1111 Joint Agreements

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

③ K-IFRS No. 1012 Income Tax

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

④ K-IFRS No. 1023 Borrowing Costs

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

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

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

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

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

## 2.3. Accounting Policies

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

- Going concern

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

## 2.4 Modification of Comparative Financial Statements

To facilitate comparison with the consolidated interim financial statements for the nine months ended September 30, 2019, the Group revised its comparative statement of cash flows. The impact of this comparative presentation of consolidated 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	₩(1,072,665)	₩(93,805)
Decrease(increase) in other financial assets <sup>1)</sup>	(748,261)	230,599
Net increase(decrease) in cash and cash equivalents	(630,279)	348,581
Cash and cash equivalents at January 1, 2018 <sup>1)</sup>	1,230,176	715,117
Cash and cash equivalents at September 30, 2018 <sup>1)</sup>	₩596,884	₩1,060,685

<sup>1)</sup> The Money Market Trust amount is reclassified from the cash equivalents to the financial assets as fair value through profit or loss as of January 1, 2018 and September 30, 2018.

### 3. Critical Accounting Estimates and Assumptions

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

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

### 4. Operating Segments

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

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

(2) Segment information on sales and operating profit for the nine months ended September 30, 2019 and 2018, is as follows:

① For the nine months ended September 30, 2019

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩2,313,975	₩1,261,162	₩259,103	₩237,892	₩4,072,132	₩(307,128)	₩3,765,004
Intersegment sales	(204,647)	(86,910)	(10,850)	(4,721)	(307,128)	307,128	-
External sales	2,109,328	1,174,252	248,253	233,171	3,765,004	-	3,765,004
Operating profit	₩790,096	₩213,507	₩114,700	₩3,186	₩1,121,489	₩8,203	₩1,129,692

② For the nine months ended September 30, 2018

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩2,149,598	₩1,214,473	₩94,234	₩200,105	₩3,658,410	₩(288,574)	₩3,369,836
Intersegment sales	(184,042)	(91,147)	(10,205)	(3,180)	(288,574)	288,574	-
External sales	1,965,556	1,123,326	84,029	196,925	3,369,836	-	3,369,836
Operating profit	₩735,396	₩209,340	₩34,298	₩(14,443)	₩964,591	₩26,615	₩991,206

(3) The Group obtains revenue by transferring goods and services over a period or at a point in time in the major business lines. The categories of major business lines are consistent with the revenue disclosure information per reporting segment in accordance with K-IFRS No. 1108. The details of the Group's revenue recognized over a period or at a point as of September 30, 2019 and 2018, are as follows:

		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					
Manufacturing and sales of tobacco	Wholesale, retail	₩723,209	₩2,102,211	₩648,666	₩1,961,441
	Direct sales	1,979	7,117	1,836	4,115
Manufacturing and sales of red ginseng, etc.	Wholesale, retail	171,959	645,742	169,725	617,302
	Direct sales	271,732	528,510	246,022	506,024
Others	Wholesale, retail	69,994	211,382	58,458	177,333
	Direct sales	7,409	20,273	5,665	18,543
Subtotal		1,246,282	3,515,235	1,130,372	3,284,758
Revenue recognized over a period					
Sales and rental of real estate	Sales and rental	75,616	248,253	51,652	84,029
Others	Services, etc.	284	1,516	502	1,049
Subtotal		75,900	249,769	52,154	85,078
Total		₩1,322,182	₩3,765,004	₩1,182,526	₩3,369,836

(4) Segment information on assets and liabilities as of September 30, 2019 and December 31, 2018, is as follows:

① As of September 30, 2019

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
<b>Assets:</b>							
Segment assets	₩5,140,717	₩2,074,144	₩948,077	₩294,982	₩8,457,920	₩ (1,941,643)	₩6,516,277
Investments in associates and joint ventures	-	-	58,702	3,119	61,821	-	61,821
Assets held for sale	4,659	-	-	-	4,659	(412)	4,247
Subtotal	5,145,376	2,074,144	1,006,779	298,101	8,524,400	(1,942,055)	6,582,345
Unallocated assets							4,049,047
Total assets							₩10,631,392
Acquisition of non-current assets	362,935	25,446	-	8,276	396,657	(31,254)	365,403
<b>Liabilities:</b>							
Segment liabilities	1,628,089	206,483	210	149,318	1,984,100	(451,649)	1,532,451
Unallocated liabilities							537,688
Total liabilities							₩2,069,139

② As of December 31, 2018

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

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

(5) Geographical information determined by customer's location for the nine months ended September 30, 2019 and 2018, is as follows:

<i>In millions of Korean won</i>	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩3,403,859	₩361,145	₩3,765,004	₩3,095,745	₩274,091	₩3,369,836
Non-current assets	₩4,052,650	₩143,552	₩4,196,202	₩3,592,027	₩139,795	₩3,731,822

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

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

## 5. Trade and Other Receivables

(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	₩1,081,010	₩ -	₩896,219	₩ -
Loans	20,024	20,907	17,060	28,845
Other receivables	15,320	1,955	13,570	290
Guarantee deposits	45,576	32,383	43,388	33,768
Accrued income	4,360	15	5,684	-
Total	₩1,166,290	₩55,260	₩975,921	₩62,903

(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	₩1,254,049	₩55,260	₩1,058,004	₩62,903
Allowances:				
Trade receivables	(87,260)	-	(81,731)	-
Other receivables	(499)	-	(352)	-
Total allowances	(87,759)	-	(82,083)	-
Net trade and other receivables	₩1,166,290	₩55,260	₩975,921	₩62,903

(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	₩82,083	₩27,789
Change in accounting policy	-	69,258
Impairment loss (reversal)	3,844	(5,262)
Write off	(295)	(5,519)
Net exchange difference, etc.	2,126	(2,604)
Ending balance	₩87,758	₩83,662

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

## 6. Inventories

Details of inventories as of 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	₩99,039	₩(3,763)	₩95,276	₩89,686	₩(1,524)	₩88,162
Finished goods	814,992	(5,800)	809,192	785,749	(4,048)	781,701
Work in progress	488,822	(836)	487,986	677,990	(2,987)	675,003
Raw materials	778,680	(2,917)	775,763	817,422	(2,314)	815,108
Supplies	29,656	-	29,656	26,128	-	26,128
By-products	7,615	-	7,615	7,107	-	7,107
Buildings under construction	1,089	-	1,089	279	-	279
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	28,660	-	28,660	55,743	-	55,743
Total	₩2,261,558	₩(13,316)	₩2,248,242	₩2,472,163	₩(10,873)	₩2,461,290

₩15,557 million for the nine months ended September 30, 2019 (₩8,801 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

Changes in the carrying amount of investment in associates and joint ventures 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	₩83,989	₩51,031
Acquisition	-	12,000
Disposal	(24,651)	(5,025)
Equity method gain	3,567	1,431
Dividends	(1,121)	(1,254)
Capital changes in equity method	38	-
Ending balance	₩61,822	₩58,183

## 8. 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	₩1,818,788	₩1,756,979
Acquisition	166,494	313,147
Disposal/obsolescence/impairment	(2,561)	(8,991)
Depreciation	(107,726)	(101,252)
Reclassification	(150,306)	(256,361)
Others	7,596	(3,702)
Ending balance	₩1,732,285	₩1,699,820

## 9. 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	₩71,954	₩84,748
Acquisition	14,058	4,985
Disposal/obsolescence/impairment	(115)	(1,448)
Depreciation	(3,083)	(2,711)
Reclassification	3,891	1,789
Others	(455)	(122)
Ending balance	₩86,250	₩87,241

## 10. 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	₩495,049	₩331,000
Acquisition	178,827	-
Depreciation	(8,757)	(8,234)
Reclassification	142,176	252,089
Others	-	(12,003)
Ending balance	₩807,295	₩562,852



## 11. 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	51,753
Acquisition	13,426
Disposal	(1,125)
Depreciation	(17,696)
Others	646
Ending balance	₩47,004

(2) Total cash outflows, interest costs and present value of lease liabilities are as follows:

<i>In millions of Korean won</i>	Total cash outflows	Interest costs	Present value
Within one year	₩18,130	₩877	₩17,253
One year to five years	22,035	2,156	19,879
More than five years	2,436	172	2,264
Total	₩42,601	₩3,205	₩39,396

The variable lease payments, which are not included in the lease liability measurement for the nine months ended September 30, 2019, are ₩67,618 million.

## 12. Borrowings

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

<i>In millions of Korean won</i>	Lender	Annual interest rate	As of September 30, 2019	As of December 31, 2018
Borrowings	KEB Hana Bank	3.43% - 4.11%	₩15,500	₩14,000
	KEB Hana Bank Bahrain	LIBOR(90days)+1.1%	6,556	6,144
	Korea Development Bank("KDB")	-	-	75,412
	Korea Agro-Fisheries & Food Trade	-	-	15,000
	Subtotal		22,056	110,556
Customer credit contracts <sup>1)</sup>	NH Nonghyup Bank, etc.	CD yield(91days) +0.90% - 4.50%	1,116	19,368
Total			₩23,172	₩129,924

<sup>1)</sup> The Group 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 24 (3))

(2) Long-term borrowings as of September 30, 2019, and December 31, 2018, are summarized as follows:

<i>In millions of Korean won</i>	Lender	Maturity	Annual interest rate	As of September 30, 2019	As of December 31, 2018
Other financial loan	NH Nonghyup Bank	2020.06.10 - 2024.06.10	-	₩57,657	₩44,252
Borrowings	Kookmin Bank	2023.09.11 - 2019.11.19 -	2.91% - 3.46%	8,667	10,292
	KDB	2022.11.10	2.33% - 3.44%	6,466	8,591
Redeemable convertible preferred shares <sup>1)</sup>				35,340	35,340
Total				108,130	98,475
Consolidated interim statements of financial position:					
Current				16,184	5,000
Non-current				91,946	93,475
Total				₩108,130	₩98,475

<sup>1)</sup> Details of convertible bonds and preferred shares as of September 30, 2019, are summarized as follows:

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

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

### 13. 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	₩95,450	₩213,048	₩20,877	₩129,503
Raw materials used and merchandise purchased	316,836	803,989	286,034	746,889
Salaries	162,847	449,391	142,404	428,958
Retirement and termination benefits	15,170	47,707	13,316	43,734
Depreciation	45,187	134,179	34,643	109,486
Amortization	1,560	3,083	867	2,711
Employee welfare	28,525	67,348	27,298	63,590
Advertising	66,342	182,784	68,220	189,873
Commissions	163,530	465,092	154,977	432,713
Other expenses	44,269	268,691	77,028	231,173
Total	₩939,716	₩2,635,312	₩825,664	₩2,378,630

(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	Nine months	Three months	Nine months
	ended September 30	ended September 30	ended September 30	ended September 30
Salaries	₩107,273	₩298,434	₩92,299	₩284,878
Retirement and termination benefits	9,772	31,463	8,749	28,495
Employee welfare	18,339	44,718	20,492	45,697
Travel expenses	4,716	14,376	4,922	14,099
Communication cost	1,343	4,200	1,436	4,317
Utilities	2,804	7,918	2,463	7,542
Taxes and utilities	2,880	26,201	2,806	20,790
Supplies	1,182	3,365	1,166	3,345
Rent	4,975	11,064	8,186	22,772
Depreciation	14,408	47,084	11,407	33,525
Amortization	1,509	2,941	592	2,089
Repairs and maintenance	1,166	3,314	1,412	4,243
Vehicles	1,839	5,099	1,951	5,471
Insurance	574	2,081	757	2,480
Commissions	101,956	289,442	96,187	266,666
Freight and custody	14,478	38,441	12,379	33,613
Conferences	1,145	3,583	532	3,065
Advertising	66,326	182,701	67,536	189,783
Education and training	1,787	5,303	1,716	4,956
Prizes and rewards	548	1,511	589	1,823
Cooperation	287	752	511	1,128
Research and development	13,845	32,991	9,563	27,078
Impairment loss (reversal of impairment loss) on trade receivables	5,800	3,790	(2,057)	(5,262)
Total	₩378,952	₩1,060,772	₩345,594	₩1,002,593

#### 14. 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	₩9,026	₩22,416	₩5,217	₩11,682
Gain on foreign currency translation	52,967	91,519	-	56,950
Gain on disposal of property, plant and equipment	64	2,177	2,776	3,712
Gain on disposal of intangible assets	-	3	-	-
Gain on valuation of derivatives	9,505	404	2,959	2,461
Reversal of provision for site restoration	15	32	-	-
Gain on lease contract adjustments	497	615	-	-
Other operating income	7,447	23,672	4,025	29,538
<b>Total</b>	<b>₩79,521</b>	<b>₩140,838</b>	<b>₩14,977</b>	<b>₩104,343</b>

(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	₩1,214	₩6,024	₩1,737	₩4,474
Loss on foreign currency translation	-	4,187	22,056	42,038
Loss on impairment of other receivables	21	54	-	-
Donations	1,447	4,026	1,161	5,638
Loss on disposal of property, plant and equipment	550	878	295	1,592
Loss on impairment of property, plant and equipment	1	465	23	3,708
Loss on disposal of intangible assets	-	17	-	54
Impairment loss on intangible assets	-	-	-	1,042
Loss on valuation of derivatives	23,637	24,669	2,802	8,182
Loss on lease contract adjustments	147	147	-	-
Other operating expenses	3,330	12,214	1,853	7,862
<b>Total</b>	<b>₩30,347</b>	<b>₩52,681</b>	<b>₩29,927</b>	<b>₩74,590</b>

## 15. Finance Income and cost

Details of financial 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 <sup>1)</sup>	₩5,772	₩18,638	₩3,319	₩10,671
Dividend income	2,637	17,192	3,498	16,171
Gain on valuation of fair value through profit or loss	11,001	39,947	13,091	54,290
Total financial income	19,410	75,777	19,908	81,132
Financial cost:				
Interest expense	1,167	5,390	1,700	4,483
Loss on valuation of fair value through profit or loss	1,273	8,564	3,009	3,148
Total financial cost	₩2,440	₩13,954	₩4,709	₩7,631

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

## 16. 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	₩12,467	₩36,267	₩10,779	₩33,520
Net interest on net defined benefit liability	728	1,953	456	1,368
Past service cost and any gain(loss) on settlement	14	14	-	-
Subtotal	13,209	38,234	11,235	34,888
Defined contribution plan:				
Contributions recognized as expense	1,960	5,645	1,758	5,772
Other long-term employee benefits:				
Current service cost, etc.	698	2,097	1,075	2,354
Voluntary retirements:				
Termination benefits	1	3,828	323	3,074
Total	₩15,868	₩49,804	₩14,391	₩46,088

(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 benefit obligation	₩537,359	₩491,466
Fair value of plan assets	(386,923)	(395,251)
Total	₩150,436	₩96,215

## 17. 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	₩10,834	₩1,702	₩8,378	₩1,570
Provision for site restoration	3,052	1,257	2,812	1,575
Provision for product warranty	9,343	-	3,498	-
Provision for financial guarantee	-	552	-	700
Provision for others	1,752	2	413	-
Total	₩24,981	₩3,513	₩15,101	₩3,845

(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	₩9,948	₩7,707	₩(5,119)	₩12,536
Provision for site restoration	4,387	361	(438)	4,310
Provision for product warranty	3,497	17,324	(11,478)	9,343
Provision for financial guarantee	700	-	(149)	551
Provision for others	413	1,710	(369)	1,754
Total	₩18,945	₩27,102	₩(17,553)	₩28,494

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

<i>In millions of Korean won</i>	Change in		Increase	Decrease	Ending balance
	Beginning balance	accounting policy			
Refund liabilities	₩8,473	₩1,333	₩5,625	₩(3,317)	₩12,114
Provision for site restoration	3,363	-	456	-	3,819
Provision for product warranty	43	-	3,080	(1,583)	1,540
Provision for financial guarantee	-	-	-	-	-
Provision for others	4,454	-	64	(3,315)	1,203
Total	₩16,333	₩1,333	₩9,225	₩(8,215)	₩18,676

## 18. 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 <sup>1)</sup>	-	3,818	1,063
Total		₩1,304,748	₩1,294,831

<sup>1)</sup> 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 <sup>1)</sup>	(206,043)	(55,138)
Ending balance	₩965,209	₩1,158,886

<sup>1)</sup> 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.

## 19. 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 28.28% and 29.56%, respectively.

## 20. Related Parties

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

	As of September 30, 2019	As of December 31, 2018
Associates	Cosmo Tobacco Co., Ltd.	Cosmo Tobacco Co., Ltd.
	LitePharmTech Co., Ltd.	LitePharmTech Co., Ltd.
	- <sup>1)</sup>	JR REIT 5 Co., Ltd.
	- <sup>1)</sup>	JR REIT 8 Co., Ltd.
	JR REIT 10 Co., Ltd.	JR REIT 10 Co., Ltd.
	LSK Global Pharma Services Co., Ltd.	LSK Global Pharma Services Co., Ltd.
	Yong In Jung Sim Co., Ltd.	Yong In Jung Sim Co., Ltd.
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd.	KB Gimpo Logistics CR REIT Co., Ltd.
	KORAMCO Private REIT 50 Fund	KORAMCO Private REIT 50 Fund
	KORAMCO Europe Private REIT 3-2 Fund	KORAMCO Europe Private REIT 3-2 Fund <sup>2)</sup>
	Starfield Suwon	Starfield Suwon <sup>3)</sup>

<sup>1)</sup> 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 Group's related parties as of September 30, 2019.

<sup>2)</sup> During the year ended December 31, 2018, the Group had made investment on 51.35% share of KORAMCO Europe Private REIT 3-2 Fund.

<sup>3)</sup> During the year ended December 31, 2018, the Group had made investment on 50% share of Starfield Suwon.

(2) The Group carries out no transactions with related parties such as sales of goods and services other than dividend, and the details of dividend with related parties for the three months and nine months ended September 30, 2019, and 2018, are as follows:

		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>					
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		₩ -	₩1,121	₩666	₩1,254

(3) Details on account balances of receivables and payables with related companies as of September 30, 2019, and December 31, 2018, are summarized as follows:

		As of September 30, 2019		As of December 31, 2018	
		Receivables	Payables	Receivables	Payables
<i>In millions of Korean won</i>					
Associates and Joint ventures	LSK Global Pharma Services Co., Ltd.	₩ -	₩ -	₩150	₩ -
	KB Gimpo Logistics CR REIT Co., Ltd.	523	-	697	-
	KORAMCO Private REIT 50 Fund	99	-	136	-
	Starfield Suwon	-	16,020	-	16,052
Total		₩622	₩16,020	₩983	₩16,052



(4) 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
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	₩6,975	₩1,050

(5) There is no payment guarantee provided between or among the related parties.

(6) During the year ended December 31, 2018, the Group had made a land contract with Starfield Suwon and had received the down payment of ₩16,020 million from the total ₩160,200 million. The ownership of this land will be transited upon the payment of the balance, which will be on the date of the commencement of the construction work. (Refer to Note 24(4))

(7) KB Gimpo Logistics CR REIT Co., Ltd. is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties, holding 12% shares each, as the voting power of 76% shares held by KORAMCO Private REIT 50 Fund is not entitled to have an impact on the resolution of the investee by the Financial Investment Services and Capital Markets Act.

(8) KORAMCO Private REIT 50 Fund and KORAMCO Europe Private REIT 3-2 Fund are classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties that control the arrangement collectively.

(9) Details of key management personnel compensation for the three months and 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

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

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

### (1) Market risk

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

#### ① Currency risk

The Group is exposed 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 tobacco products and import of tobacco materials. The Group has a policy to prohibit speculative foreign exchange dealings and established global exchange management system for periodic monitoring, evaluating, and managing currency risk of its subsidiaries respectively.

#### ② Equity price risk

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

#### ③ Interest rate risk

The Group is exposed to the risk of fluctuation in interest rate in relation to the borrowings. The management of the Group regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest loans. Considering the size of the borrowings of the variable interest rate of the Group 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 Group is exposed to credit risk that will cause financial losses to the other party because one of the parties to the financial instrument fails to perform its obligations. To manage credit risk, the management of the Group deals with customers with a certain level of creditworthiness or higher, and prepares and operates policies and procedures for credit enhancement of financial assets. The Group evaluates the creditworthiness of the client using financial information disclosed at the time of contract with the new client and information provided by the credit rating agency, and determines the credit limit on the basis of this, and is provided with collateral or payment guarantee. In addition, the Group periodically reassesses the credit limit, and readjusts the collateral level by reassessing the client's creditworthiness. And the Group also reports the delayed recovery status and recovery measures on a quarterly basis for financial assets that are delayed, and takes appropriate measures according to the reason for the delay.

The carrying amount of financial assets indicates the maximum exposure to credit risk. The maximum exposure to credit risk as of September 30, 2019, and December 31, 2018, is 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) <sup>1)</sup>	₩575,454	₩430,901
Other financial assets	438,297	593,146
Fair value through profit or loss <sup>1)</sup>	1,863,416	1,851,922
Trade and other receivables	1,221,551	1,038,824
Long-term deposits in MSA Escrow Fund	744,634	615,528
Derivative assets	404	1,239
<b>Total</b>	<b>₩4,843,756</b>	<b>₩4,531,560</b>

<sup>1)</sup> 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 Group is exposed to liquidity risk that will be difficult to meet its obligations related to financial liabilities that are settled by delivering cash or other financial assets. To manage liquidity risk, the management of the Group establishes short and long term financial management plan, continuously analyses and reviews the cash outflow budget and actual cash outflows to respond to the maturity of financial liabilities and financial assets. Management of the Group determines that the financial liability is redeemable through cash flows from operating activities and cash inflows from financial assets.

(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
<b>Financial assets:</b>		
Fair value through profit or loss <sup>1)</sup>	₩1,863,416	₩1,851,922
Fair value through other comprehensive income or loss	253,229	249,575
Derivative assets	404	1,239
Financial assets measured at amortized cost		
- Cash and cash equivalents <sup>1)</sup>	575,879	431,408
- Other financial assets	438,297	593,146
- Trade and other receivables	1,221,551	1,038,824
- Long-term deposits in MSA Escrow Fund	744,634	615,528
Subtotal	2,980,361	2,678,906
<b>Total financial assets</b>	<b>5,097,410</b>	<b>4,781,642</b>
<b>Financial liabilities:</b>		
Derivative liabilities	6,350	461
Financial liabilities measured at amortized cost		
- Short-term borrowings	23,172	129,924
- Current portion of long-term borrowings	16,184	5,000
- Long-term borrowings	91,946	93,475
- Trade and other payables	461,360	446,609
- Lease liability	39,397	-
Subtotal	632,059	675,008
<b>Total financial liabilities</b>	<b>₩638,409</b>	<b>₩675,469</b>

<sup>1)</sup> 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 Group uses observable inputs in the market as much as possible. Fair value is classified within the fair value hierarchy based on the inputs used in the valuation technique as follows:

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

The fair value measurements classified by fair value hierarchy as of 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 <sup>1)</sup>	₩1,863,416	₩ -	₩1,605,320	₩258,096
Fair value through other comprehensive income or loss	253,229	200,573	-	52,656
Derivative assets	404	-	404	-
Derivative liabilities	6,350	-	6,350	-
Total	2,123,399	200,573	1,612,074	310,752
As of December 31, 2018:				
Fair value through profit or loss	1,851,922	-	1,641,267	210,655
Fair value through other comprehensive income or loss	249,575	198,204	-	51,371
Derivative assets	1,239	-	1,239	-
Derivative liabilities	461	-	461	-
Total	₩2,103,197	₩198,204	₩1,642,967	₩262,026

<sup>1)</sup> 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 during the nine months ended September 30, 2019, and during the year ended December 31, 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 and Discounted Cash Flow and was classified as Level 3 fair value based on the inputs used in the valuation technique. The changes in Level 3 fair value for the 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	₩262,026	₩234,046
Acquisition	52,215	62,700
Disposal	(274)	(26,888)
Changes in fair value	(3,215)	430
Ending balance	₩310,752	₩270,288

(6) Details of financial 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	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩18,638	₩ -	₩18,638
Dividend income	8,992	8,201	-	-	-	17,193
Gain or loss on valuation/disposal	31,383	-	(24,265)	-	-	7,118
Interest expense	-	-	-	-	(5,390)	(5,390)
Impairment loss	-	-	-	(3,844)	-	(3,844)
Total	40,375	8,201	(24,265)	14,794	(5,390)	33,715
Other comprehensive income (loss) (before tax):						
Net change in fair value, etc.	-	2,370	-	-	-	2,370
Total	₩ -	₩2,370	₩ -	₩ -	₩ -	₩2,370

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	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩10,671	₩ -	₩10,671
Dividend income	-	16,171	-	-	-	16,171
Gain or loss on valuation/disposal	51,144	-	(5,720)	-	-	45,424
Interest expense	-	-	-	-	(4,483)	(4,483)
Reversal of impairment loss	-	-	-	5,262	-	5,262
Total	51,144	16,171	(5,720)	15,933	(4,483)	73,045
Other comprehensive income (loss) (before tax):						
Net change in fair value, etc.	-	(9,808)	-	-	-	(9,808)
Total	₩ -	₩(9,808)	₩ -	₩ -	₩ -	₩(9,808)

## 22. 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	₩1,612,794	₩1,733,863
Change in accounting policy	-	(11,591)
Dividends	(505,061)	(505,061)
Transfer from reserve for research and human resource development	-	10,000
Accumulation of special reserve fund	(285,966)	(495,036)
Profit for the period	920,373	771,969
- Less: Non-controlling interests	(3,738)	2,350
Remeasurements of net defined benefit liability(net of tax)	(13,034)	(1,870)
- Less: Non-controlling interests	(5)	4
Ending balance	₩1,725,363	₩1,504,628

## 23. 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 attributable to owners of the Parent Company	₩320,821,168,883	₩916,634,947,095	₩258,850,050,152	₩774,318,647,709
Weighted-average number of ordinary shares outstanding	126,265,127	126,265,127	126,265,127	126,265,127
Basic and diluted earnings per share	₩2,541	₩7,260	₩2,050	₩6,132

## 24. Contingent Liabilities and Commitments

### (1) Litigation cases

As of September 30, 2019, the Group has 22 cases of pending litigations under progress and the litigation value is ₩65,823 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of September 30, 2019, on the consolidated interim financial statements of the Group.

### (2) Commitments with financial institutions

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

*In millions of Korean won, and thousands of US dollar*

Type	Financial institutions	Currency	Limit
Opening import letter of credits	KEB Hana Bank and one other	USD	185,600
Derivatives trading	KEB Hana Bank and three others	USD	227,700
Group loans	KEB Hana Bank	KRW	300,000
Consumer financing arrangement	Samsung Card Co., Ltd and one other	KRW	7,035
	KDB Industrial Bank and six others	KRW	218,296
Others	KEB Hana Bank Bahrain branch	USD	6,600

### (3) Payment guarantee and collateral details

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

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	948,351	Housing distribution guarantee, etc.
Korea Trade Insurance Corporation	USD	49,290	Export guarantee insurance
Seoul Guarantee Insurance	KRW	3,374	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	7,732	Escrow deposit guarantee

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

*In thousands of US dollar*

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

The details of payment guarantees provided by the Group for other people (excluding related parties) as of September 30, 2019, are as follows:

*In millions of Korean won*

Details	Guarantee user	Currency	Limit	Execution amount
Loan guarantee for the payment	Shinhan Bank	KRW	79,400	20,176
	KEB Hana Bank	KRW	60,000	16,430
	Suhyup Bank	KRW	9,494	4,527
Payment guarantee for deductibles (Gyeonggi Gwangju branch and one other)	Korea Special Sales Association	KRW	884	-
Total		KRW	149,778	41,133

The Group 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 12)

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 <sup>1)</sup>	-	6,340	Korea Land & Housing Corporation
	597	Security deposit for rent	597	597	Samsung Fire & Marine Insurance
Property, plant and equipment	93,432	A government grant	3,488	4,186	Wonju city-hall
Property, plant and equipment	59,102	Short-term and long-term borrowings	8,667	52,000	KEB Hana Bank, etc.
Property, plant and equipment	12,849	Short-term borrowings	15,500	24,000	KEB Hana Bank
Property, plant and equipment	30,615	Current long-term borrowings	3,033	15,500	KDB
		Long-term borrowings	3,433		
Total	₩558,824		₩56,065	₩126,007	

<sup>1)</sup> As of September 30, 2019, the Group has deposited ₩6,340 million in NH Nonghyup Bank and classified it as other financial assets to guarantee its business performance in connection with the project to create a central commercial area in the administrative city. There is a pledge right established on this amount as of September 30, 2019.

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

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

As of September 30, 2019, other than explained above, 11 notes and two cheques with unknown origin and face amount are lost, and the Group will proceed with the authorization process for this bill.

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
	Security deposits for checking accounts, etc.	1,790	1,709
	Total	₩8,727	₩8,646

#### (4) Others

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

Each year, the Group deposits a proportion of sales of tobacco products sold 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 which is considered to be the Group's illegal act. The unused portion of the fund will be refunded to the Group after 25 years from the date of each annual funding. The Group recorded the amounts paid into the MSA Escrow Funds of state governments in the United States as long-term deposits.

The Group has maintained a contract with the farmers who grow six-year-old green ginseng for purchasing determined volumes as guarantees and recorded contractual amounts paid to the farmers as long-term advance payments and advance payments in the amount of ₩86,740 million as of September 30, 2019 (₩59,369 million as of December 31, 2018) and ₩34,094 million as of September 30, 2019 (₩25,841 million as of December 31, 2018), respectively.

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

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

The Group had established Starfield Suwon under 50:50 ratio with Shinsaegae Property. The disposal of such share is limited for five years from the approval for the use of the multi-shopping mall. Should the Group or the Joint Venture intends to transfer all of its shares, the other party shall have the pre-emptive right to purchase and joint put-option right.

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

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

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

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

## 25. 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	₩920,373	₩771,969
Adjustments:		
Employee welfare	2,097	2,354
Retirement and termination benefits	38,072	34,888
Loss on valuation/disposal of inventories	15,557	8,801
Depreciation	134,179	109,486
Amortization	3,083	2,711
Impairment loss (reversal) on trade and other receivables	3,844	(5,262)
Loss on foreign currency translation	4,187	42,038
Loss on disposal of property, plant and equipment	878	1,592
Loss on impairment of property, plant and equipment	465	3,708
Loss on disposal of intangible assets	17	54
Loss on impairment of intangible assets	-	1,042
Loss on adjustments of lease contracts	147	-
Other expenses, etc.	49,283	14,195
Financial cost	13,954	7,631
Income tax expense	362,867	323,922
Gain on foreign currency translation	(91,519)	(56,950)
Gain on sale of property, plant and equipment	(2,177)	(3,712)
Gain on sale of intangible assets	(3)	-
Gain on adjustments of lease contracts	(615)	-
Other income	(453)	-
Financial income	(75,777)	(81,132)
Share of loss/gain of associates	(3,567)	(1,431)
Changes in working capital:		
Increase in trade and other receivables	(160,716)	(143,713)
Increase in derivatives	(17,541)	-
Decrease in inventories	223,811	108,137
Increase in refund assets	(1,858)	-
Decrease(increase) in accrued tobacco excise and other taxes	(12,814)	60,827
Increase in advance payments	(98,166)	(47,846)
Increase in prepaid expenses	(4,462)	(16,982)
Increase in trade and other payables	69,169	23,099
Increase(decrease) in advance receipts	(75,007)	69,970
Decrease in refund liabilities and provisions	(12,052)	-
Increase(decrease) in tobacco excise and other taxes payable	(4,779)	92,634
Increase in guarantee deposits on leases	(643)	-
Payment of net defined benefit liabilities	(3,456)	(2,313)
Changes in other assets/liabilities	(82)	-
Cash generated from operation	₩1,276,296	₩1,319,717

(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	₩95,159	₩113,918
Increase (decrease) in other payables related to acquisition of property, plant and equipment	₩(6,727)	₩26,636

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

## 26. Changes in Accounting Policies

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

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

The total of the minimum lease payments before discounting the present value of the assets used as operating lease by the Group as of September 30, 2019, is ₩42,601 million and when discounted by the intrinsic interest rate and the lessee's incremental borrowing rate is ₩39,396 million.

As of January 1, 2019, right-of-use assets, current lease liabilities and long-term lease liabilities increased by ₩51,753 million, ₩21,180 million and ₩22,270 million, respectively. As of September 30, 2019, operating lease payments decreased by ₩16,258 million and depreciation expense for right-of-use assets and interest expense for lease liabilities increased by ₩17,696 million and ₩893 million, respectively.

## 27. 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 Group's suppliers and duty free companies announced that they halt sales of and interrupt new order of Siid Tundra, one of the Group's tobacco products. The Group determines that the financial effect resulting from the event after the financial reporting date is immaterial.