



KT&G CORPORATION

**Separate Financial Statements
December 31, 2019 and 2018**

(With Independent Auditor's Report Thereon)

KT&G CORPORATION

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KT&G CORPORATION

Independent auditor's report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 30, 2020

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

Report on the Audited Separate Financial Statements

Audit Opinion

We have audited the separate financial statements of KT&G Corporation (the "Company"), which comprise the separate statements of financial position as of December 31, 2019 and 2018, and the separate statements of profit or loss, separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows, for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRSs").

We have also audited, in accordance with the Korean Standards on Auditing ("KSAs"), the internal control over financial reporting of the Company as of December 31, 2019, based on 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting', and our report dated March 30, 2020, expressed an unqualified opinion.

Basis for Audit Opinion

We conducted our audits in accordance with the KSAs. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Key Audit Matters

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

Measuring impairment of asset in the cash generating unit (“CGU”) of the Indonesian tobacco business

As discussed in Note 11 to the separate financial statements, the carrying amount of investment in subsidiary, which belongs to the Indonesian tobacco business CGUs (Renzoluc Pte., Ltd. and PT KT&G Indonesia) is ₩150,074 million.

The Company reviews if there is any indication of impairment for investment in subsidiary, which belongs to the Indonesian tobacco business CGUs at the end of each reporting period. If indication of impairment is found, the Company estimates the value in use for the basis of determining recoverable amount, when estimated value in use is less than carrying amount, impairment loss is recognized. In the estimates of expected future cash flows that have a significant impact on determining the value in use, uncertainty exists due to the increased volatility in sales cause by increase of the Indonesian tobacco consumption tax expected from 2020, and significant assumptions by management are involved. Since the impact on the separate financial statements is significant in the event of an error in management's estimate of expected future cash flows, we decided impairment test of investment in subsidiary, which belongs to the Indonesian tobacco business CGUs as a key audit matter.

The main audit procedures performed by the auditor to respond to the key audit matters include the following.

- ① Confirming whether the expected future cash flows used to measure the value in use have been approved by the board of directors and are consistent with basic financial information.
- ② A retrospective review of the expected future cash flows of management used to measure value in use, and comparative analysis with past operating performance.
- ③ Inquiring the questions about key assumptions used by management to estimate future cash flows and comparing and analyzing the information independently obtained from outside by auditors about the feasibility of the assumptions.
- ④ Verifying the methodology of evaluating the value in use, discount rate and calculation accuracy, etc., by using the auditor's internal valuation expert.
- ⑤ Sensitivity analysis of key items used in measuring value in use such as expected future cash flows and discount rates.
- ⑥ Comparative analysis of value in use presented by management and relative value independently estimated by the auditors.
- ⑦ Evaluating the objectivity and competence of external experts used by the company to measure the value in use.

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Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

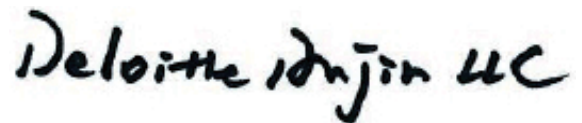
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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



March 30, 2020

Notice to Readers

This report is effective as of March 30, 2020, 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 separate financial statements and may result in modifications to the auditors' report.

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KT&G CORPORATION (the “Company”)
Separate financial statements

Full year of the 33rd
from January 1, 2019, to December 31, 2019

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

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

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

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KT&G CORPORATION

Separate statements of financial position

As of December 31, 2019 and 2018

<i>in Korean won</i>	Notes	2019	2018
Assets:			
Current assets:			
Cash and cash equivalents	5, 32, 33	₩ 656,775,412,332	₩ 748,123,323,519
Current other financial assets	5, 32, 33, 34	377,340,300,000	570,000,000,000
Current fair value through profit or loss	6, 32, 33	1,239,263,067,528	1,139,704,589,088
Trade and other receivables	7, 31, 32	780,159,697,780	730,894,507,798
Derivative assets	32, 34	2,276,640,206	1,238,664,783
Inventories	8, 34	968,142,957,525	954,677,584,804
Refund assets and others	20	2,384,435,650	421,874,000
Accrued tobacco excise and other taxes		225,429,495,611	218,210,022,210
Advance payments		48,969,303,465	18,377,223,800
Prepaid expenses		8,771,908,090	9,190,208,637
Assets held for sale	15, 31	4,679,521,682	27,793,765,475
Total current assets		₩4,314,192,739,869	₩4,418,631,764,114
Non-current assets:			
Long-term other financial assets	5, 32, 34	₩ 2,796,920,000	₩ 6,937,220,000
Long-term deposits in MSA Escrow Fund	32, 34	751,437,124,245	615,527,896,771
Long-term fair value through profit or loss	6, 32	248,925,690,016	210,655,373,106
Long-term trade and other receivables	7, 31, 32	111,083,161,207	119,288,362,714
Fair value through other comprehensive income or loss	9, 32	240,455,780,085	230,545,108,827
Investments in associates and joint ventures	10, 31	52,330,010,000	77,430,010,000
Investments in subsidiaries	11, 31	1,158,224,182,559	1,185,361,245,738
Property, plant and equipments	12, 31, 34	1,116,325,197,480	1,200,906,524,123
Intangible assets	13	58,861,433,763	31,328,960,084
Investment properties	14, 34	999,105,309,200	606,679,330,988
Right-of-use assets	16	18,544,646,402	-
Long-term advance payments		9,510,956,440	9,510,956,440
Long-term prepaid expenses		6,745,851,182	7,267,349,723
Deferred income tax assets	29	24,238,637,057	9,845,531,641
Total non-current assets		₩4,798,584,899,636	₩4,311,283,870,155
Total assets		₩9,112,777,639,505	₩8,729,915,634,269

KT&G CORPORATION

Separate statements of financial position, continued

As of December 31, 2019 and 2018

<i>in Korean won</i>	Notes	2019	2018
Liabilities and equity:			
Liabilities:			
Current liabilities:			
Short-term borrowings	17, 32	₩ 1,006,814,107	₩ 1,246,100,270
Trade and other payables	18, 31, 32	451,587,160,453	398,082,555,860
Current lease liabilities	31, 32, 36	6,989,816,066	-
Derivative liabilities	32, 34	-	460,667,312
Advance receipts	31	68,025,054,995	161,629,415,091
Current refund liabilities and provisions	20,34	15,051,873,544	6,455,107,857
Current income tax liabilities	29, 36	175,146,660,143	169,266,311,114
Tobacco excise and other taxes payables		533,705,648,200	551,877,758,317
Total current liabilities		₩1,251,513,027,508	₩1,289,017,915,821
Non-current liabilities:			
Long-term trade and other payables	18, 31, 32	₩ 45,102,011,956	₩ 39,152,218,138
Long-term lease liabilities	31, 32, 36	11,137,985,884	-
Long-term advance receipts		1,989,936,579	701,673,919
Net defined benefit liabilities	19	22,099,032,492	34,837,214,841
Long-term refund liabilities and provisions	20,34	851,992,675	985,318,269
Total non-current liabilities		₩ 81,180,959,586	₩ 75,676,425,167
Total liabilities		₩1,332,693,987,094	₩1,364,694,340,988
Equity:			
Ordinary shares	21	₩ 954,959,485,000	₩ 954,959,485,000
Other capital surplus	21	3,582,160,908	3,582,160,908
Treasury shares	22	(318,789,449,459)	(328,157,286,128)
Gain on sale of treasury shares	22	528,894,053,906	513,775,933,891
Reserves	23	5,723,185,728,271	5,430,034,290,488
Retained earnings	24	888,251,673,785	791,026,709,122
Total equity		₩7,780,083,652,411	₩7,365,221,293,281
Total liabilities and equity		₩9,112,777,639,505	₩8,729,915,634,269

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

KT&G CORPORATION

Separate statements of comprehensive income

For the years ended December 31, 2019 and 2018

<i>in Korean won</i>	Notes	2019	2018
Sales	4, 31	₩2,942,618,858,461	₩2,624,616,092,571
Manufacture of tobacco		2,445,182,267,410	2,374,431,930,216
Real estate		419,450,174,804	175,953,464,321
Exports of leaf tobacco and others		77,986,416,247	74,230,698,034
Cost of sales	26, 31	(1,132,135,700,987)	(977,356,174,213)
Manufacture of tobacco		(906,795,923,614)	(860,115,030,056)
Real estate		(167,719,435,229)	(59,829,128,175)
Exports of leaf tobacco and others		(57,620,342,144)	(57,412,015,982)
Gross profit		1,810,483,157,474	1,647,259,918,358
Selling, general and administrative expenses	26, 31	(675,917,511,888)	(642,828,471,473)
Operating profit		1,134,565,645,586	1,004,431,446,885
Other income	27, 31	107,821,166,852	132,579,164,933
Other expenses	27, 31	(105,127,827,856)	(140,273,204,673)
Finance income	28, 31, 32	96,629,157,132	148,422,894,137
Finance cost	28, 31, 32	(8,341,644,092)	(1,232,941,254)
Profit before income tax		1,225,546,497,622	1,143,927,360,028
Income tax expense	29, 36	(334,165,669,820)	(302,980,806,018)
Profit for the year		₩891,380,827,802	₩840,946,554,010
Other comprehensive income (loss) after income tax:		₩5,588,449,567	₩(47,062,947,133)
Items that will not be reclassified to Profit or loss			
Remeasurements of net defined benefit liabilities	19	(1,596,787,094)	(19,379,063,324)
Gain (loss) on valuation of fair value through other comprehensive income or loss		7,185,236,661	(27,683,883,809)
Total comprehensive income for the year		₩896,969,277,369	₩793,883,606,877
Earnings per share:			
Basic and diluted	30	7,059	6,660

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

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KT&G CORPORATION

Separate statements of changes in equity

For the year ended December 31, 2018

<i>in Korean won</i>	Ordinary shares	Other capital surplus	Treasury shares	Gain on sale of treasury shares	Reserves	Retained earnings	Total equity
Balance at January 1, 2018 (before revision)	₩954,959,485,000	₩3,582,160,908	₩ (328,157,286,128)	₩513,775,933,891	₩5,009,300,640,505	₩990,096,015,256	₩7,143,556,949,432
Effect of change in accounting policy	-	-	-	-	(36,765,729,396)	(30,393,025,632)	(67,158,755,028)
Balance at January 1, 2018 (after revision)	954,959,485,000	3,582,160,908	(328,157,286,128)	513,775,933,891	4,972,534,911,109	959,702,989,624	7,076,398,194,404
Total comprehensive income (loss) for the year:							
Profit for the year	-	-	-	-	-	840,946,554,010	840,946,554,010
Other comprehensive income (loss) for the year:							
Re-measurements of net defined benefit liability	-	-	-	-	-	(19,379,063,324)	(19,379,063,324)
Loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(27,683,883,809)	-	(27,683,883,809)
Reclassification to Retained Earning from disposal of Fair value through other comprehensive income or loss	-	-	-	-	147,755,932	(147,755,932)	-
Sum of other comprehensive income (loss) for the year	-	-	-	-	(27,536,127,877)	(19,526,819,256)	(47,062,947,133)
Total comprehensive income (loss) for the year	-	-	-	-	(27,536,127,877)	821,419,734,754	793,883,606,877
Transactions with owners of the Company:							
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)
Transfer from reserve for research and human resource development	-	-	-	-	(10,000,000,000)	10,000,000,000	-
Transfer to other reserve	-	-	-	-	495,035,507,256	(495,035,507,256)	-
Total transactions with owners of the company	-	-	-	-	485,035,507,256	(990,096,015,256)	(505,060,508,000)
Balance at December 31, 2018	₩954,959,485,000	₩3,582,160,908	₩ (328,157,286,128)	₩513,775,933,891	₩5,430,034,290,488	₩791,026,709,122	₩7,365,221,293,281

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

KT&G CORPORATION

Separate statements of changes in equity, continued

For the year ended December 31, 2019

<i>in Korean won</i>	Ordinary shares	Other capital surplus	Treasury shares	Gain on sale of treasury shares	Reserves	Retained earnings	Total equity
Balance at January 1, 2019 (before revision)	₩954,959,485,000	₩3,582,160,908	₩(328,157,286,128)	₩513,775,933,891	₩5,430,034,290,488	₩791,026,709,122	₩7,365,221,293,281
Effect of change in accounting policy	-	-	-	-	-	(1,532,366,923)	(1,532,366,923)
Balance at January 1, 2019 (after revision)	954,959,485,000	3,582,160,908	(328,157,286,128)	513,775,933,891	5,430,034,290,488	789,494,342,199	7,363,688,926,358
Total comprehensive income (loss) for the year:							
Profit for the year	-	-	-	-	-	891,380,827,802	891,380,827,802
Other comprehensive income (loss) for the year:							
Re-measurements of net defined benefit liability	-	-	-	-	-	(1,596,787,094)	(1,596,787,094)
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	7,185,236,661	-	7,185,236,661
Sum of other comprehensive income (loss) for the year	-	-	-	-	7,185,236,661	(1,596,787,094)	5,588,449,567
Total comprehensive income (loss) for the year	-	-	-	-	7,185,236,661	889,784,040,708	896,969,277,369
Transactions with owners of the Company:							
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)
Transfer to other reserve	-	-	-	-	285,966,201,122	(285,966,201,122)	-
Donation of treasury shares	-	-	9,367,836,669	15,118,120,015	-	-	24,485,956,684
Total transactions with owners of the company	-	-	9,367,836,669	15,118,120,015	285,966,201,122	(791,026,709,122)	(480,574,551,316)
Balance at December 31, 2019	₩954,959,485,000	₩3,582,160,908	₩(318,789,449,459)	₩528,894,053,906	₩5,723,185,728,271	₩888,251,673,785	₩7,780,083,652,411

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

KT&G CORPORATION

Separate statements of cash flows

For the years ended December 31, 2019 and 2018

<i>in Korean won</i>	Notes	2019	2018
Cash flows from operating activities		₩770,157,457,290	₩658,309,046,702
Cash generated from operations	35	1,122,222,466,470	942,379,411,486
Income taxes paid		(352,065,009,180)	(284,070,364,784)
Cash flows from investing activities		(349,260,247,140)	5,526,009,206
Interest received		15,632,158,640	10,113,048,113
Dividends received		24,525,647,030	79,497,550,035
Decrease in other financial assets		470,000,000,000	-
Decrease in long-term fair value through profit or loss		15,488,693,440	43,058,307,778
Decrease in current fair value through profit or loss		-	774,268,420,117
Decrease in fair value through other comprehensive income or loss		-	1,152,600,000
Disposal of property, plant and equipments		5,631,098,245	30,355,195,608
Disposal of intangible assets		1,097,979,683	550,864,000
Disposal of assets held for sale		29,977,251,000	-
Disposal of investments in associates		34,150,929,551	5,024,535,939
Collection of loans		12,087,640,260	18,923,650,695
Collection of guarantee deposits		358,500,000	107,786,000
Acquisition of property, plant and equipments		(167,589,367,281)	(303,693,065,623)
Acquisition of intangible assets		(26,269,767,331)	(4,919,267,612)
Acquisition of investment properties		(256,285,401,637)	(40,556,716,047)
Acquisition of investment in joint ventures		-	(30,500,000,000)
Acquisition of investment in subsidiaries		-	(44,569,990,408)
Increase in loans		(10,305,670,696)	(5,790,880,934)
Increase in guarantee deposits		(28,285,920)	(2,000,076,065)
Increase in long-term deposits in MSA Escrow Fund		(114,411,590,516)	(72,399,032,390)
Increase in current fair value through profit or loss		(57,593,331,877)	-
Increase in long-term current fair value through profit or loss		(52,526,729,731)	(62,500,000,000)
Increase in other financial assets		(273,200,000,000)	(390,596,920,000)
Cash flows from financing activities		(511,118,172,419)	(505,060,508,000)
Repayment of lease liabilities		(5,626,270,710)	-
Interest paid		(431,393,709)	-
Payments of dividends	24	(505,060,508,000)	(505,060,508,000)
Net increase(decrease) in cash and cash equivalents		(90,220,962,269)	158,774,547,908
Cash and cash equivalents at January 1, 2019		748,123,323,519	589,765,862,776
Effect of exchange rate fluctuation on cash and cash equivalents		(1,126,948,918)	(417,087,165)
Cash and cash equivalents at December 31, 2019		₩656,775,412,332	₩748,123,323,519

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

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KT&G CORPORATION

Notes to Separate financial statements

For the years ended December 31, 2019 and 2018

1. Overview of the Company

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of December 31, 2019, the Company has three manufacturing plants (including the Shintanjin plant), 14 local headquarters and 123 branches for the sale of tobacco throughout the country. Also, the Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

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

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

Also, on June 25, 2009, the listing market of the Company’s GDR was changed from the BdL market to the Euro MTF in the Luxembourg Stock Exchange.

The Company's major shareholders as of December 31, 2019, is held as follows:

	Number of shares	Percentage of ownership (%)
National Pension Service	15,464,406	11.26
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	2,933,116	2.14
Treasury shares	10,712,574	7.80
Others	98,671,916	71.87
Total	137,292,497	100.00

2. Significant Accounting Policies

2.1. Basis of Preparation

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

The separate financial statements have been prepared based on historical cost except for the following:

- Certain financial assets and financial liabilities(including derivatives).
- Assets held for sale measured at fair value less cost to sell.
- Defined contribution plans and plan assets measured at fair value.

The preparation of the separate financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

The separate financial statements of the Company were authorized by the Board of Directors on the Board of Directors' meeting held on March 16, 2020. It is expected to be finally authorized at the stakeholders' meeting on March 31, 2020.

2.2. Changes in Accounting Policies and Disclosures

(1) New or amended standards and interpretation adopted by the Company

The Company has applied the following standards, amendments and interpretation for its annual reporting period commencing January 1, 2019.

- Enactment to K-IFRS No. 1116 Leases

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

The Company had changed the accounting policies as a result of application of K-IFRS No. 1116. The changed accounting policies were applied retrospectively in accordance with the transition provisions of K-IFRS No. 1116 and the cumulative effect of initial application was reflected on January 1, 2019, the date of initial application. The comparative Separate interim financial statements are not restated. The impact of introducing the lease standard and the new accounting policy is described in Note 36.

- 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. The effects of introducing the interpretation on uncertainty over income tax treatments is described in Note 36.

- 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.

- 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 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 loss 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 Separate financial statements, except for the enactment made to K-IFRS No. 1116 Leases and the interpretation of K-IFRS No. 2123 Uncertainty over Income Tax Treatments.

(2) New standards not yet adopted by the Company

- 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

The Company has clarified the 'definition of materiality' and made amendments to K-IFRS No. 1101 and K-IFRS No. 1008 in accordance with the clarified definition. The Company has taken into consideration the following for the determination of materiality: the possibility of omission of material information; the risk of material misstatement; and the effects of immaterial information. The Company has also taken into consideration the nature of information users when making decisions on what information is disclosed. These amendments will be applied for annual periods beginning on or after January 1, 2020, with early adoption permitted.

- Amendment to K-IFRS No. 1103 'Business Combination' – Definition of business

Under the amended definition of business, in order for acquired assets and activities to be defined as a business, they must include inputs and practical processes which have the ability to significantly contribute towards the creation of output. The economic benefits of cost reduction have also been omitted under the amended definition of business.

In addition, a new selective focused testing method has been adopted whereby if a majority of the fair value of the total assets acquired are concentrated in either a single identifiable asset or a Group of assets, the acquired Group of assets and activities can be determined as an asset or a Group of assets, rather than as a business. These amendments will be applied for annual periods beginning on or after January 1, 2020, with early adoption permitted.

- Amendments to K-IFRS No. 1109 Financial Instruments and K-IFRS No. 1107 Financial Instruments

The amendment focuses on adding an exception rule so that risk hedge accounting can be applied even when uncertainty exists due to interest rate indicator reform. The amendment assumes that the interest rate indicator based on cash flows will not be changed to reform when reviewing the likelihood of an expected transaction. When performing a forward assessment, the interest rate indicator based on the hedged items, measures and risks to be avoided, assumes that interest rate index reform will not change. It also applies the requirement that risk components should be separately identifiable for hedges of non-contractually specified interest rate risk components only at the beginning of the hedging relationship. In the meantime, the application of the exceptions under this amendment ends when the uncertainty due to the interest rate indicator reform no longer appears with respect to the timing and amount of cash flows based on the interest rate index, or when the risk aversion relationship ceases. These amendments will be applied for annual periods beginning on or after January 1, 2020, with early adoption permitted.

The Company is reviewing the effect of this amendment on the separate financial statements of the Company.

2.3. Accounting Policies

The significant accounting policies and calculation methods applied in preparation of the Separate financial statements for the year ended December 31, 2019 are identical to those applied in preparation of the Separate financial statements for the year ended December 31, 2018, except for the amendments and enactments described in Note 2.2 as well as the descriptions of the paragraphs below.

(1) Business Sectors

To make decisions about the resources to be allocated to the sector and to evaluate performance in the sector, the Company divides segments based on internal reporting data periodically reviewed by the top operating decision maker. As described in Note 4, there are four reportable segments in the Company, each of which is the strategic units of the Company. The segment information reported to the management includes items directly attributable to the segment and items that can be reasonably allocated.

(2) Investments in Subsidiaries, Associates and Joint Ventures

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

(3) Property, Plant and Equipment

All property, plant and equipment are stated at historical cost, less depreciation and accumulated impairment loss. Historical cost includes expenditures directly attributable to the acquisition of items.

Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow into the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Separate statements of comprehensive income during the financial period in which they are incurred.

Property, plant and equipment, except for land and certain tangible fixed assets (such as trees and paintings etc.), are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which an asset's future economic benefits are expected to be consumed.

The estimated useful lives of the Company's assets are as follows:

Type	Useful lives(years)
Land	Indefinite
Buildings	10-60
Structures	10-40
Machinery	10-12
Vehicles	4
Tools	4
Equipment	4
Other tangible assets	1-5 or indefinite

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in other income and expense in the Separate statements of comprehensive income.

(4) Borrowing Costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on those borrowings during the period less any investment income on the temporary investment of those borrowings. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

(5) Government Subsidies

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

Asset related government subsidies are presented as deductions during the calculation of book value. Government related to revenue are deferred and are presented as deductions from expenses related to the purpose government subsidies being granted.

(6) Intangible assets

Intangible assets are measured initially at cost and subsequently are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is assumed to be zero. However, as there are no foreseeable limits to the periods over which some of industrial property rights, facility usage rights and intangible assets under development are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized.

Type	Useful lives(year)
Industrial property rights	10-20 or indefinite
Facility usage rights	Indefinite
Intangible assets under development	Indefinite
Other intangible assets	4

Amortization periods and amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessment for those assets. The change is accounted for as a change in an accounting estimate.

(7) Investment Property

Property held for earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with an item will flow into the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property, except for land, is depreciated on a straight-line basis over 10–60 years as estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(8) Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale, rather than through continuous use, are classified as held for sale. In order to be classified as held for sale, an asset (or a disposal groups) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal groups that are classified as non-current assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell. The impairment loss is recognized immediately in profit or loss if the fair value of the asset is impaired and the impairment loss is recognized in profit or loss if the fair value less costs can be reliably estimated. However, deferred tax assets, assets generated from employee benefits, and financial instruments which are subject to 'K-IFRS No. 1039 Financial Instruments: Recognition and Measurement' are measured in accordance with relative standards.

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

(9) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is determined as follows:

Type	Determination method of unit cost price
Merchandise, finished goods, by-products and work in progress	Weighted-average method
Processed tobacco leaf and tobacco leaf in raw material	Weighted-average method
Raw materials (excluding processed tobacco leaf and tobacco leaf in raw material) and supplies	Moving-average method
All other inventories	Specific identification method

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any valuation of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories and recognized as an expense in the period in which the reversal occurs.

(10) Impairment of Non-Financial Assets

The carrying amounts of the Company non-financial assets, other than inventories, deferred tax assets, assets arising from employee benefits and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

If it is impossible to measure the recoverable amounts of individual assets, the recoverable amount of an asset is determined as the higher value between: the value-in-use or the fair value less costs to sell for each CGU that the asset belongs to. An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized immediately in profit or loss. At the end of each reporting period, the Company tests for signs which show that any impairment loss recognized in the past either no longer exists or there has been a reduction in the amount. An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount after the last time an impairment loss has been recognized.

(11) Financial Assets (Other than Derivative Instruments)

① Classification

The Company classifies its financial assets in the following measurement categories:

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

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

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

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

② Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

- Debt instruments

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

A. Amortized cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.

B. Fair value through other comprehensive income or loss:

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income or loss. Movements in the carrying amount are taken through other comprehensive income or loss, except for or loss the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income or loss is reclassified from equity to profit or loss. Interest income from these. Financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.

C. Fair value through profit or loss:

Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income or loss are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the separate statement of comprehensive income within 'finance income or cost' in the year in which it arises.

- Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments (held for long-term investment or strategic purpose), in other comprehensive income or loss, there is no subsequent reclassification of fair value gains and losses to profit or loss following derecognition of the investment. Gains and losses related to the disposal of such investments

are recognized in retained earnings. Dividend income from such investments continue to be recognized in profit or loss as 'finance income' when the right to receive payments is established.

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

③ Impairment

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

④ Recognition and Derecognition

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

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

⑤ Offsetting of Financial Instruments

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

(12) Financial Liabilities

① Classification and measurement

Financial liabilities of the Company measured at fair value through profit or loss are financial instruments held for trading. Financial liabilities assumed usually for repurchase in the short term are classified as financial liabilities held for trading. Derivative instruments which are not designated as a means of hedge accounting as well as embedded derivative instruments which are separate from financial instruments are also classified as financial instruments held for trading.

All non-derivative financial liabilities are classified as financial liabilities measured at amortized cost and are presented as ‘trade and other payables’ or ‘borrowings’ or ‘lease liabilities’ in the separate statements of financial position. Exceptions to this are financial liabilities measured at fair value through profit or loss, financial guarantee contracts and cases where the transfer of financial assets do not satisfy conditions for derecognition.

② Derecognition

Financial liabilities are derecognized from the separate statements of financial position when either: the contractual obligations have been satisfied, cancelled or expired; or there has been a substantial change to the conditions of the existing financial liabilities. The difference between financial liabilities that have been expired or transferred to a third party, and the consideration paid (including non-cash assets transferred or liabilities assumed) are recognized through profit or loss.

(13) Derivative Instruments

Derivatives are initially recognized at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss arising from the changes in fair value of derivatives is recognized as current term’s profit or loss.

(14) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short-term commitments. Equity investments are excluded from cash equivalents, unless they are, in substance, cash equivalents, for example, in the case of preferred shares when they have a short maturity with a specified redemption date.

(15) Employee Benefits

① Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

② Other long-term employee benefits

As for other long-term employee benefits that are not due to be settled within 12 months after the end of the period in which the employees rendered the related service, the future benefits acquired in return for the services provided in the current term and the past period are discounted as current value. Changes following remeasurements are recognized as current term's profit or loss that have incurred in the period.

③ Retirement benefits: Defined contribution plans

When an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense) after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

④ Retirement benefits: Defined benefit plans

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income or loss. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), considering any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments.

Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

⑤ Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits or when the Company recognizes costs for a restructuring.

(16) Refund liabilities and Provisions

Refund liabilities and Provisions are recognized when the Company has a present legal or constructive obligation; as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are considered in reaching the best estimate of a refund liabilities and provisions. Where the effect of the time value of money is material, refund liabilities and provisions are determined at the present value of the expected future cash flows. Where some or all of the expenditures required to settle a refund liabilities and provisions are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Refund liabilities and provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the refund liabilities and provisions is reversed.

(17) Equity Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue or retirement of treasury shares are not recognized as current profits or losses.

(18) Revenue Recognition

The Company's revenue categories consist of revenue from goods sold, services and other income.

① Sales of goods

Revenue from sale of goods is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow into the Company and the costs incurred or to be incurred with respect to the transaction can be measured reliably.

The Company allows returns under the contract that supplies goods to customers, so the revenue from customers may change. The Company recognizes revenue when it can reasonably anticipate a return allowed to customers and only to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not subsequently occur. If reasonable estimates are not possible, it shall be offset as refund liability.

② Rendering of services

Revenue from rendering of services is recognized by reference to the stage of completion of the transaction at the end of the reporting period when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow into the Company, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

③ Sale of real estate

The Company sells residential real estate according to long-term contracts with customers. Such contracts are signed before construction of the residential real estate begins. According to the contract conditions, transferring the real estate to another customer is restricted and the Company has the right to claim for enforceable payment with regard to work performed up to that point. Therefore, revenue incurred from residential real estate is recognized based on the percentage-of-completion method (in other words, actual cost to date as a proportion of the estimated total cost). Management have deemed the percentage-of-completion method to be an appropriate method for measuring the progress rate until performance obligations are satisfied in accordance with K-IFRS No. 1115.

The Company pays sales commission in relation to the sales contract of residential real estate. When the Company estimates that such incremental cost would be recovered, the incremental cost is capitalized and amortized over the period in which the residential real estate is transferred to the customer.

④ Lease of real estate, etc.

The profit from lease of investment property and others is recognized on a straight-line basis over the period of lease.

(19) Finance Income and Finance Cost

Finance income includes interest income, dividend income etc. from investments in financial assets. Interest income, as it accrues, is recognized through profit or loss using the effective interest method. Dividend income is recognized through profit or loss on the date the Company's right to receive the dividend as a shareholder is established. Finance cost includes interest expense on lease liabilities, amortization on trade and other payables etc. Interest expense, as it accrues, is recognized through profit or loss using the effective interest method.

(20) Income Tax Expense

Income tax expense consists of current tax and deferred tax. Income tax is usually recognized through profit or loss. Exceptions are income tax related to items which are recognized directly in other comprehensive income or loss. In such cases, income tax is also recognized directly in other comprehensive income or loss, respectively.

Income tax expense is measured based on tax laws that have either been enacted or substantively enacted by the end of the reporting period.

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

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

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

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

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

(21) Functional and Presentation Currency

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

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

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

Foreign exchange gains or losses arising from non-monetary financial assets and liabilities are considered a part of changes in fair value through profit or loss. Therefore, foreign exchange gains or losses arising from equity instruments measured at fair value through profit or loss are recognized through profit or loss. Foreign exchange gains or losses arising from equity instruments measured at fair value through other comprehensive income or loss are recognized through other comprehensive income or loss.

(22) Earnings per Share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted-average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(23) Lease

As explained in Note 2.2 above, the Company has adopted the accounting policy K-IFRS No. 1116 Leases during the current reporting period. Information on the effects of adopting this new accounting policy is provided in Note 36.

Lease income from operating leases where the Company is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the separate statement of financial position based on their nature. The Company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

The Company leases various offices, accommodation for employees and vehicles etc. The terms of lease are negotiated individually and include various contractual conditions. There are no restrictions from lease contracts other than that the leased assets cannot be used as collateral for borrowings.

Until the fiscal year 2018, property, plant and equipment were classified as operating leases. Lease payments in accordance with the operating lease (net amount excluding incentives received from the leasing provider) are recognized in profit or loss over lease term.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Company (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Company (the lessee) is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the Company (the lessee) exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease liability measurements include payments to be made in option periods if the lessee is reasonably certain to exercise an option to extend (or terminate) the lease. For variable lease payment terms that are linked to indexes or rates, the Company is exposed to the potential future risks of the variable lease payments not included in the lease liabilities whilst the indexes or rates are still valid. In such cases, the Company re-evaluates the lease liabilities whilst the changes in lease payments (due to indexes or rates) are still valid and make adjustments to the right-of-use asset.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- The estimates of restoration costs

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture. Payments associated with short-term leases of equipment and vehicles and leases of low-value assets are recognized on a straight-line basis as an expense in the separate statements of comprehensive income.

(24) Emission Rights

Pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission that became effective in 2015, the Company has an emission liability, which is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gases. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation are reliably estimable. The Company reviews the financial effects of the transaction every quarter, and has judged that the effects of the transaction is immaterial as at the end of the current reporting period.

3. Critical Accounting Estimates and Assumptions

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

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

(1) Impairment test

The recoverable amount of a cash-generating unit to review for impairment is determined based on the calculation of value in use or net fair value, and this calculation is estimated based on future estimates (Note 11).

In the case of the cash-generating unit of the Indonesian tobacco business, there is uncertainty about the feasibility of estimating future cash flows and business plans due to the increase in the tobacco consumption tax predicted by the Indonesian government, the competitive structure of the local domestic market that is expected to intensify due to the merger of subsidiaries, etc.

The value in use was assessed as recoverable amount when carrying out impairment test of the Investment in subsidiary, which belongs to the Indonesian tobacco business cash-generating unit, and the estimate of recoverable amount reflects the management's assessment of the future trend of the relevant industry, and is based on internal and external historical data.

In this regard, the fair value of the asset cannot be reliably estimated and the recoverable amount is measured as the value in use. Future cash flows to measure value in use are estimated in the next five years based on the company's past operating performance and future business plans, and subsequent cash flows are estimated by applying a 1% permanent growth rate.

The discount rate for measuring value in use is the weighted average capital cost adjusted to reflect the specific risk of the asset, and the discount rate applied for measuring value in use during the current and prior terms are as follows:

Unit : %	2019	2018
Cash-generating unit of the Indonesian tobacco business	13.24	14.69

(2) Total construction revenues and total construction costs

① Uncertainty in gross contract revenue estimates

The total contract profit is measured based on the amount of the contract initially agreed upon, but the measurement of the contract return is affected by various uncertainties related to the outcome of the future event, as it may increase or decrease depending on additional contracts, termination of the contract, etc. in the course of performing the contract. When the additional contract or contract termination is confirmed and the amount can be reliably measured, the company includes it in contract revenue (Note 25).

② Estimated total construction cost

The amount of construction revenues is affected by progress based on the cumulative incurred contract costs, and the total contract cost is estimated based on future estimates such as material cost, labor cost and construction period (Note 25).

4. Operating Segments

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

In millions of Korean Won			2019	2018
Revenue recognized at a point in time				
Manufacture and sales of tobacco	Korea	Wholesale, retail	₩1,828,503	₩1,739,667
		Direct sales	112	186
	Export	Wholesale, retail	535,192	536,625
Sales of tobacco Product	Korea	Wholesale, retail	78,601	95,852
		Direct sales	2,621	2,102
	Export	Wholesale, retail	153	-
Manufacture and sale of semifinished tobacco products	Export	Direct sales	63,307	56,406
Manufacture and sales of tobacco raw materials	Export	Direct sales	6,441	9,488
Others	Korea	Direct sales	3,019	2,717
	Export	Direct sales	5,220	5,620
Subtotal			2,523,169	2,448,663
Revenue recognized over time:				
Sale and rental of real estate	Korea	Sales	351,532	118,698
	Korea	Rental	67,918	57,255
Subtotal			419,450	175,953
Total			₩2,942,619	₩2,624,616

5. Cash and Cash Equivalents and Other Financial Assets

(1) Details of cash and cash equivalents as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Cash on hand	₩ 188	₩ 251
Demand deposits	202,192	246,310
Specific money in trust	454,395	501,562
Total	₩656,775	₩748,123

(2) Details of other financial assets as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Current	Non-current	Current	Non-current
Time deposits	₩377,340	₩2,797	₩570,000	₩6,937

6. Financial Assets at Fair Value through Profit or Loss

Details of financial assets at fair value through profit or loss as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Current	Non-current	Current	Non-current
Special money in trust	₩1,239,263	₩ -	₩1,139,705	₩ -
Beneficiary certificate	-	248,926	-	210,655
Total	₩1,239,263	₩248,926	₩1,139,705	₩210,655

7. Trade and Other Receivables

(1) Details of trade and other receivables as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Current	Non-current	Current	Non-current
Trade receivables	₩710,365	₩ 25,345	₩661,851	₩ 44,194
Loans	10,116	51,536	19,293	45,116
Other receivables	28,862	8,617	17,039	9,829
Guarantee deposits	24,599	21,395	25,891	20,149
Accrued income	6,218	4,190	6,821	-
Total	₩780,160	₩111,083	₩730,895	₩119,288

(2) Details of allowances for doubtful accounts in relation to trade and other receivables (as a gross amount before deduction of allowances for doubtful accounts) as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Current	Non-current	Current	Non-current
Total carrying amount	₩877,023	₩180,731	₩799,232	₩194,487
Allowances:				
Trade receivables	(96,165)	(33,163)	(67,776)	(40,705)
Other receivables	(698)	(36,485)	(561)	(34,494)
Total allowances	(96,863)	(69,648)	(68,337)	(75,199)
Net trade and other receivables	₩780,160	₩111,083	₩730,895	₩119,288

(3) Changes in allowance for doubtful accounts in relation to trade and other receivables for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Beginning balance	₩143,536	₩ 56,925
Change in accounting policy	-	87,863
Impairment loss	22,975	4,064
Write off	-	(5,316)
Ending balance	₩166,511	₩143,536

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

(4) Details of other receivables measured at amortized cost using the effective interest method as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	Effective interest rate (%)	2019		Effective interest rate (%)	2018	
		Current	Non-current		Current	Non-current
Loans to employees	1.49~5.68	₩10,116	₩32,962	1.49~5.68	₩16,816	₩28,428
Guarantee deposits	1.49~5.68	24,599	21,395	1.49~5.68	25,891	20,149
Total		₩34,715	₩54,357		₩42,707	₩48,577

8. Inventories

(1) Details of inventories as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019			2018		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩33,336	₩(12,913)	₩ 20,423	₩ 35,351	₩ (37)	₩ 35,314
Finished goods	103,025	(5,465)	97,560	80,840	(982)	79,858
Work in progress	11,929	-	11,929	14,053	-	14,053
Raw materials	739,464	-	739,464	727,089	-	727,089
Supplies	30,437	-	30,437	24,486	-	24,486
By-products	7,029	-	7,029	6,941	-	6,941
Buildings under construction	6,178	-	6,178	280	-	280
Completed buildings	2,215	-	2,215	3,069	-	3,069
Sites for construction of real estate	10,274	-	10,274	8,990	-	8,990
Goods in transit	42,634	-	42,634	54,598	-	54,598
Total	₩986,521	₩(18,378)	₩968,143	₩955,697	₩(1,019)	₩954,678

(2) The amount of loss on valuation and obsolescence loss of inventories recognized as an expense for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Cost of sales:		
Loss on valuation of inventories	₩17,359	₩ 186
Loss on disposal of inventories	5,326	4,091
Other expenses:		
Loss on disposal of inventories	-	123
Total	₩22,685	₩4,400

9. Financial Assets at Fair Value through Other Comprehensive Income or loss

(1) Details of financial assets at fair value through other comprehensive income or loss as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Listed		
Oscotech Inc.	₩ 12,725	₩ 11,933
Shinhan Financial Company Co., Ltd.	173,762	158,731
Rexahn Pharmaceuticals, Inc	118	664
U&I Corporation	5,324	9,277
Listed total	191,929	180,605
Unlisted	48,527	49,940
Total	₩240,456	₩230,545

When assessing the fair value of financial assets at fair value through other comprehensive income or loss, the Company used market prices traded in the active trading market for listed equity instruments and measured Non-listed equity instruments in the cash flow discount model.

At the disposal of the above equity instruments, the related accumulated other comprehensive income or loss or expense is reclassified to retained earnings and is not reclassified to profit or loss.

(2) Changes in financial assets at fair value through other comprehensive income or loss for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Beginning balance	₩230,545	₩454,051
Change in accounting policy	-	(184,169)
Change in fair value	9,911	(38,337)
Disposal	-	(1,000)
Ending balance	₩240,456	₩230,545

10. Investments in Associates and Joint Ventures

Details of investments in associates and joint ventures as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>		Location	Principal Operation	Date of financial statements used	2019		2018	
					Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount
Investments in Associates	LSK Global Pharma Services Co., Ltd.	Korea	Researching and developing medicine	December 31	23.15	₩ -	23.15	₩ -
	Lite Pharm Tech, Inc. ¹⁾	Korea	Manufacturing medical supplies	December 31	16.75	1,830	20.24	1,830
	JR REIT 5 Co., Ltd.	Korea	Renting of real estate	December 31	-	-	34.63	5,600
	JR REIT 8 Co., Ltd.	Korea	Renting of real estate	December 31	-	-	21.74	10,000
	JR REIT 10 Co., Ltd.	Korea	Renting of real estate	December 31	-	-	28.79	9,500
	Yong In Jung Sim Co., Ltd.	Korea	Developing real estate	December 31	22.22	1,000	22.22	1,000
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd. ²⁾	Korea	Renting of real estate	December 31	12.00	3,000	12.00	3,000
	KORAMCO Private REIT 50 Fund ³⁾	Korea	Renting of real estate	December 31	84.21	16,000	84.21	16,000
	KORAMCO Europe Private REIT 3-2 Fund ³⁾	Germany	Renting of real estate	December 31	51.35	18,500	51.35	18,500
	Starfield Suwon	Korea	Developing & Renting of real estate	December 31	50.00	12,000	50.00	12,000
Total						₩52,330		₩77,430

- 1) It is classified as an investment in associates even though the Company holdings in the invested company is less than 20%. Since it has the right to participate in the invested company's board of directors meeting according to the shareholder's agreement, the Company has judged that it has significant influence over the invested company.
- 2) It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties, holding 12% shares each, as the voting power of 76% shares held by the collective investment business entity is not entitled to have an impact on a resolution of the investee by the Financial Investment Services and Capital Markets Act.
- 3) It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties that control the arrangement collectively.

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

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

According to the liquidation procedure of JR REIT 5 Co. Ltd., JR REIT 8 Co. and JR REIT 10 Co., the Company has been allocated a portion of the remaining assets and recognized a ₩9,051 million gain on disposal of investments in associates during the year ended December 31, 2019.

11. Investments in subsidiaries

(1) Details of investments in subsidiaries as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	Location	Principal operation	2019		2018	
			Percentage of ownership(%)	Carrying amount	Percentage of ownership(%)	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00	₩ 762,130	100.00	₩ 716,148
Yungjin Pharm. Co., Ltd.	Korea	Manufacturing and selling pharmaceutical	52.45	73,299	52.45	73,299
Tae-A Industry Co., Ltd.	Korea	Manufacturing reconstituted Tobacco leaves	100.00	52,698	100.00	52,698
KT&G Tutun Mamulleri Sanayive Ticaret A.S.	Turkey	Manufacturing and selling tobaccos	99.99	1,414	99.99	5,727
Korea Tabacos do Brasil Ltda.	Brazil	Assistance with purchasing tobacco leaf	99.99	2,891	99.99	2,891
KT&G Pars	Iran	Manufacturing and selling tobacco	99.99	-	99.99	-
KT&G Rus L.L.C.	Russia	Manufacturing and selling tobacco	100.00	79,670	100.00	89,296
KT&G USA Corporation	USA	Selling tobaccos	100.00	4,913	100.00	4,913
Cosmococ Co., Ltd.	Korea	Manufacturing and selling cosmetics	98.56	22,759	98.56	34,459
Renzoluc Pte., Ltd. (*)	Singapore	Holding Company	100.00	148,834	100.00	148,834
KGC Yebon Corporation	Korea	Manufacturing and selling medical herbs	-	-	100.00	45,982
PT KT&G Indonesia	Indonesia	Selling tobaccos	99.99	1,240	99.99	1,240
SangSang Stay, Inc.	Korea	Hotel	100.00	3,724	100.00	5,092
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00	1,082	100.00	1,212
Gwacheon SangSang P.F.V.	Korea	Real estate development and sales business	51.00	3,570	51.00	3,570
Total				₩1,158,224		₩1,185,361

(*) The percentage of ownership does not include convertible preference shares, with 88.6% including preferred shares as of December 31, 2019.

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

During the year ended December 31, 2019, the Company has made a capital contribution in kind of its 100%(Book value : ₩45,982 million) equity holdings in KGC Yebon Corporation to its subsidiary, Korea Ginseng Corporation.

(2) Impairment

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

The table below shows the results of impairment tests for investments in subsidiaries where there have been signs of impairment. The signs of impairment are that the carrying amount of the subsidiary's net assets is lower than the carrying amount of the Company's investment in the subsidiary, due to the accumulation of operating losses for the year ended December 31, 2019 and 2018.

<i>In millions of Korean won</i>	2019	2018	Method for evaluating recoverable amount
KT&G Rus L.L.C.	₩ 9,626	₩ 21,001	Value of use
KT&G Global Rus L.L.C.	131	285	Value of use
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	4,313	7,014	Fair value
Cosmocos Co., Ltd.	11,700	22,122	Fair value
KGC Yebon Corporation	-	3,846	Fair value
SangSang Stay, Inc.	1,367	13,169	Value in use (As in December 31, 2018 : Fair value)
Total	₩27,137	₩67,437	

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

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

In relation to KT&G Rus L.L.C., KT&G Global Rus L.L.C. and SangSang Stay, Inc. recoverable amount was measured as value in use as the fair value of the asset cannot be reliably estimated. Future cash flows for measuring value in use were estimated based on the Company's past operating performance and future business plans, and subsequent cash flows were estimated using a 1% permanent growth rate.

The discount rate for measuring value in use is the weighted average cost of capital adjusted to reflect the risks specific to the asset. The discount rates used for measuring value in use for each subsidiary as of December 31, 2019 and 2018, respectively, are as follows:

	2019(%)	2018(%)
KT&G Rus L.L.C.	13.37	14.88
KT&G Global Rus L.L.C.	13.37	14.88
SangSang Stay, Inc.	8.84	-

12. Property, Plant and Equipments

(1) Details of property, plant and equipments as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019			2018		
	Acquisition cost and impairment	Accumulated depreciation	Carrying amount	Acquisition cost and impairment	Accumulated depreciation	Carrying amount
Land	₩ 388,943	₩ -	₩ 388,943	₩ 497,249	₩ -	₩ 497,249
Buildings	700,589	(386,322)	314,267	721,112	(377,566)	343,546
Structures	45,471	(35,462)	10,009	45,956	(34,528)	11,428
Machinery	1,091,126	(835,690)	255,436	989,507	(804,177)	185,330
Vehicles	1,578	(1,363)	215	1,568	(1,201)	367
Tools	36,621	(29,565)	7,056	36,306	(31,938)	4,368
Equipments	95,974	(73,513)	22,461	148,799	(113,564)	35,235
Others	4,684	(504)	4,180	3,805	(54)	3,751
Construction in progress	113,758	-	113,758	119,633	-	119,633
Total	₩2,478,744	₩ (1,362,419)	₩1,116,325	₩2,563,935	₩ (1,363,028)	₩1,200,907

(2) Changes in property, plant and equipments for the year ended December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification, etc. ^(*)	Ending balance
Land	₩ 497,249	₩ 166	₩ (622)	₩ -	₩(107,850)	₩ 388,943
Buildings	343,546	3,340	(1,048)	(23,449)	(8,122)	314,267
Structures	11,428	503	(50)	(1,760)	(112)	10,009
Machinery	185,330	8,390	(69)	(39,825)	101,610	255,436
Vehicles	367	29	-	(181)	-	215
Tools	4,368	4,871	-	(2,378)	195	7,056
Equipment	35,235	9,603	(2,736)	(15,201)	(4,440)	22,461
Others	3,751	854	(4)	(451)	30	4,180
Construction in progress	119,633	150,093	(446)	-	(155,522)	113,758
Total	₩1,200,907	₩177,849	₩(4,975)	₩(83,245)	₩(174,211)	₩1,116,325

^(*) Consists of ₩161,264 million which was reclassified to investment property, ₩6,264 million which was reclassified to intangible assets and ₩6,488 million which was reclassified to assets held for sale (Note 13, 14, 15).

(3) Changes in property, plant and equipments for the year ended December 31, 2018, is as follow:

<i>In millions of Korean won</i>	Beginning balance	Acquisition	Disposal	Depreciation	Impairment	Reclassification, etc. ^(*)	Ending balance
Land	₩ 474,067	₩ 31,350	₩ (345)	₩ -	₩ (91)	₩ (7,732)	₩ 497,249
Buildings	357,083	723	(658)	(24,945)	-	11,343	343,546
Structures	12,930	227	(10)	(2,043)	-	324	11,428
Machinery	187,701	18,536	(3,138)	(37,402)	-	19,633	185,330
Vehicles	412	128	-	(173)	-	-	367
Tools	4,747	1,803	(160)	(2,394)	-	372	4,368
Equipment	36,849	14,277	(18)	(17,740)	-	1,867	35,235
Others	1,594	1,431	-	(53)	-	779	3,751
Construction in progress	96,392	251,322	(13)	-	(7,132)	(220,936)	119,633
Total	₩1,171,775	₩319,797	₩ (4,342)	₩(84,750)	₩(7,223)	₩(194,350)	₩1,200,907

^(*) Consists of ₩153,070 million which was reclassified to investment property, and ₩27,794 million which was reclassified to assets held for sale (Notes 14 and 15).

13. Intangible Assets

(1) Details of carrying value of intangible assets as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019			2018		
	Acquisition cost and impairment	Accumulated amortization	Carrying amount	Acquisition cost and impairment	Accumulated amortization	Carrying amount
Industrial property rights	₩ 2,763	₩ (399)	₩ 2,364	₩ 7,211	₩(3,671)	₩ 3,540
Facility usage rights	25,669	-	25,669	26,094	-	26,094
Intangible assets under development	20,932	-	20,932	1,695	-	1,695
Other intangible assets	15,130	(5,234)	9,896	659	(659)	-
Total	₩64,494	₩ (5,633)	₩58,861	₩35,659	₩(4,330)	₩31,329

(2) Changes in intangible assets for the year ended December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Beginning balance	Acquisition	Disposal	Amortization	Impairment	Reclassification	Ending balance
Industrial property rights	₩ 3,540	₩ 7	₩ -	₩ (90)	₩(2,293)	₩1,200	₩ 2,364
Facility usage rights	26,094	672	(1,097)	-	-	-	25,669
Intangible assets under development	1,695	23,254	-	-	(98)	(3,919)	20,932
Other intangible assets	-	2,337	-	(1,424)	-	8,983	9,896
Total	₩31,329	₩26,270	₩(1,097)	₩(1,514)	₩(2,391)	₩6,264	₩58,861

(3) Changes in intangible assets for the year ended December 31, 2018, are as follows:

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

(4) Research and development expenditures recognized as expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Cost of sales	₩ 377	₩ 135
Selling, general and administrative expenses	23,024	17,764
Total	₩23,401	₩17,899

14. Investment Property

(1) Details of investment property as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019			2018		
	Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 578,606	₩ -	₩578,606	₩286,687	₩ -	₩286,687
Buildings	454,907	(116,245)	338,662	386,971	(89,625)	297,346
Construction in progress	81,837	-	81,837	22,646	-	22,646
Total	₩1,115,350	₩(116,245)	₩999,105	₩696,304	₩(89,625)	₩606,679

(2) Changes in investment property for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019				2018			
	Land	Buildings	Construction in progress	Total	Land	Buildings	Construction in progress	Total
Beginning balance	₩286,687	₩297,346	₩22,646	₩606,679	₩200,286	₩200,412	₩25,923	₩426,621
Acquisition	-	5,228	251,057	256,285	11,668	28,889	-	40,557
Depreciation	-	(17,183)	-	(17,183)	-	(11,359)	-	(11,359)
Reclassification ^(*)	291,919	53,271	(191,866)	153,324	74,733	79,404	(3,277)	150,860
Ending balance	₩578,606	₩338,662	₩81,837	₩999,105	₩286,687	₩297,346	₩22,646	₩606,679

^(*) Consists of ₩161,264 million which was reclassified to property plant and equipment(for the year ended December 31, 2018 : ₩153,070 million), and ₩7,940 million which was reclassified to inventories(for the year ended December 31, 2018:₩2,731 million) (Note 12).

(3) Details of profit or loss recognized related to the investment property for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Rental income	₩67,918	₩57,255
Operating expenses	(17,183)	(11,359)
Total	₩50,735	₩45,896

(4) The fair value and carrying amount of investment property as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Fair value	Carrying amount	Fair value	Carrying amount
Land	₩1,174,117	₩479,698	₩ 838,617	₩211,412
Buildings	440,392	338,662	307,735	215,883
Total	₩1,614,509	₩818,360	₩1,146,352	₩427,295

The fair value of the major investment property is determined by the value measured by an independent valuation agency using the return-value method, etc., and is classified as Level 3 based on the inputs used in the valuation technique in the fair value hierarchy.

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

In millions of Korean won	Type	Carrying amount		The reason why fair value cannot be measured reliably
		2019	2018	
Sejong 1-5, P3	Land	₩ -	₩41,747	The site market is not active and No recent transactions
	Buildings	-	81,463	
Sejong 1-5, P2	Land	33,528	33,528	Asset under construction in progress
	Construction in progress	70,764	21,335	
Ssangmun-dong new development site	Land	1,495	-	
	Construction in progress	2,640	-	
Sangbong-dong new development site	Land	50,747	-	
	Construction in progress	1,668	-	
Suwon Hwaseo Prugio shopping mall	Construction in progress	-	1,311	
Youth startup support center	Land	13,138	-	
	Construction in progress	6,765	-	
Total		₩180,745	₩179,384	

(5) Details of operating lease

Investment properties were leased to lessees as an operating lease with contractual terms of monthly lease payments. For the year ended December 31, 2019, variable lease payments that are based on an index or a rate was ₩ 683 million. Even though the Company is exposed to the risk of changes in residual value at the end of the lease term, it would not realize the residual value immediately at the end of the lease term because it generally commits to a new operating lease contract. Expectations of future residual value will be reflected on the fair value of the investment property.

Details of minimum lease payments that the Company expects to receive from operating lease contracts for the investment properties described above as of December 31, 2019, are as follows:

In millions of Korean won	Less than 1year	1year~5years	Longer than 5years	Total
Minimum lease payment	₩32,657	₩41,299	₩43,703	₩117,659

15. Assets Held for Sale

(1) Changes in assets held for sale for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Beginning balance	₩27,794	₩ -
Transfer from property, plant and equipments	6,488	27,794
Disposal	(29,602)	-
Ending balance	₩ 4,680	₩27,794

For the year ended December 31, 2018, the Company had made a land contract with Starfield Suwon and had received the down payment of ₩16,020 million from the total of ₩160,200 million. The ownership of this land will be transferred upon the payment of the balance, which will be on the date of the commencement of the construction work.

Reconstituted tobacco factory (manufacturing slurry reconstituted tobacco) machinery equipment and construction in progress classified as assets held for sale as of December 31, 2018, were transferred to Tae-a Industry Co., Ltd. during the year ended December 31, 2019. The Company has recognized ₩375 million as gain on disposal of property, plant and equipment..

16. Right-of-Use Asset

(1) Details of carrying value of right-of-use asset as of December 31, 2019, are as follows:

<i>In millions of Korean won</i>	2019		Carrying value
	Acquisition cost	Accumulated depreciation	
Buildings	₩11,848	₩(3,504)	₩ 8,344
Vehicles	13,811	(3,610)	10,201
Total	₩25,659	₩(7,114)	₩18,545

(2) Changes in right-of-use asset for year ended December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Beginning balance	Change in accounting policy	Acquisition	Depreciation	Ending balance
Buildings	₩-	₩10,149	₩1,699	₩(3,504)	₩ 8,344
Vehicles	-	7,981	5,830	(3,610)	10,201
Total	₩-	₩18,130	₩7,529	₩(7,114)	₩18,545

(3) The amount recognized on the separate statements of comprehensive income related to lease during the year ended December 31, 2019, is as follow:

<i>In millions of Korean won</i>	2019
Depreciation expense	₩7,114
Interest expense	431
Short-term lease payment	347
Lease payment for low-value assets	452
Variable lease payment	257
Total	₩8,601

For the year ended December 31, 2019, total cash outflows related to lease is ₩7,113 million.

17. Borrowings

The company provides payment guarantees to financial institutions in accordance with the consumer financial agreement in connection with retail sales receivables, and receive related bonds from financial institutions and recognize them as short-term borrowings. Details of the short-term borrowings as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	Annual interest rate(%)	2019	2018
Nonghyup Bank	6.21	₩ 763	₩ 985
Hanacard	4.14	244	261
Total		₩1,007	₩1,246

18. Trade and Other Payables

Details of trade and other payables as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Current	Non-current	Current	Non-current
Leasehold deposits received	₩ 22,672	₩21,022	₩ 22,341	₩14,549
Trade payables	30,100	-	31,585	-
Withholdings	6,583	-	3,826	-
Value-added deposit	157,252	-	156,488	-
Accrued expenses	120,753	19,128	126,563	17,613
Other payables	114,227	4,952	57,280	6,990
Total	₩451,587	₩45,102	₩398,083	₩39,152

19. Employee Benefits

(1) Details of profit or loss recognized related to employee benefits for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Defined benefit plans:		
Current service cost	₩30,208	₩25,751
Net interest on net defined benefit liabilities	1,020	485
Subtotal	31,228	26,236
Defined contribution plan:		
Contributions recognized as expense	5,836	6,228
Other long-term employee benefits:		
Current service cost, etc.	2,056	7,166
Termination benefits:		
Voluntary retirements, etc	4,251	1,825
Total	₩43,371	₩41,455

(2) Changes in net defined benefit liabilities for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Beginning balance	₩ 34,837	₩ 19,084
Current service cost	30,208	25,751
Net interest on net defined benefit liabilities	1,020	485
Re-measurement element of net defined benefit liabilities(before tax)	2,202	26,730
Payment amount (including related company in-outs)	(1,168)	(305)
Payment of plan assets	(45,000)	(36,908)
Ending balance	₩ 22,099	₩ 34,837
Separate statements of financial position:		
Present value of defined benefit obligation	₩ 352,428	₩ 327,518
Fair value of plan assets	(330,329)	(292,681)
Total	₩ 22,099	₩ 34,837

(3) Changes in the present value of the defined benefit obligation for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Beginning balance	₩327,518	₩283,055
Current service cost	30,208	25,751
Interest expenses	7,054	7,762
Re-measurement element(before tax)	2,029	24,019
Payment amount (including related company in-outs)	(14,381)	(13,069)
Ending balance	₩352,428	₩327,518

(4) Changes in the fair value of plan assets for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Beginning balance	₩292,681	₩263,971
Interest income	6,034	7,277
Re-measurement element(before tax)	(173)	(2,711)
Payment amount (including related company in-outs)	(13,213)	(12,764)
Payment of plan assets	45,000	36,908
Ending balance	₩330,329	₩292,681

The actual interest income from plan assets for the years ended December 31, 2019, and 2018, are ₩5,861 million, ₩4,566 million, respectively.

(5) Changes in the present value of other long-term employee benefits for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Beginning balance	₩18,179	₩12,090
Interest expenses	1,985	1,666
Current service cost	406	331
Re-measurement element	(335)	5,169
Payment amount	(1,107)	(1,077)
Ending balance	₩19,128	₩18,179

(6) Re-measurements recognized in other comprehensive income or loss for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Actuarial gains and losses on defined benefit obligations:		
Changes in demographic assumptions	₩ (46)	₩ (9,287)
Changes in financial assumptions	8,500	(13,047)
Experience adjustments	(10,483)	(1,685)
Subtotal	(2,029)	(24,019)
Revenue from plan assets, excluding amounts included in net interest	(173)	(2,711)
Re-measurement element of net defined benefit liabilities(before tax)	(2,202)	(26,730)
Tax effect	605	7,351
Re-measurement element of net defined benefit liabilities(after tax)	₩(1,597)	₩(19,379)

(7) The fair value of each of the major types included in the fair value of plan assets as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Cash equivalents and regular deposits	₩ 31,209	₩ 31,388
Principal and interest guarantee financial assets	299,120	261,293
Total	₩330,329	₩292,681

(8) The major assumptions used for actuarial evaluation as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Discount rate (%)	2.03	2.37
Expected wage increase rate (%)	3.95	4.53

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

The weighted average maturity of the defined benefit obligation as of the end of the current term and the prior term is 9.63 years and 9.90 years, respectively.

(9) The results of the analysis of the sensitivity of the defined benefit obligation to the major actuarial assumptions as of December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Increase by 1%	Decrease by 1%
Changes in discount rate	₩ (30,806)	₩35,698
Changes in expected wage increase rate	34,655	(30,567)

The increase(decrease) of the defined benefit obligation was calculated based on the present value of the defined benefit obligation as of December 31, 2019..

20. Refund Liabilities and Provisions

(1) Details of refund liabilities and provisions as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Current	Non-current	Current	Non-current
Provision for refund	₩ 4,758	₩265	₩2,958	₩181
Provision for product warrantee	3,694	-	3,497	-
Provision for site restoration	6,600	95	-	104
Provision for financial guarantee	-	492	-	700
Total	₩15,052	₩852	₩6,455	₩985

(2) Changes in refund liabilities and provisions for the year ended December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Beginning balance	Increase	Decrease	Ending balance
Provision for refund	₩3,139	₩ 4,596	₩ (2,712)	₩ 5,023
Provision for product warrantee	3,497	13,850	(13,653)	3,694
Provision for site restoration	104	6,591	-	6,695
Provision for financial guarantee	700	-	(208)	492
Total	₩7,440	₩25,037	₩(16,573)	₩15,904

Changes in refund liabilities and provisions for the year ended December 31, 2018 are as follows:

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

(3) For returnable sales, the Company sets up refund liabilities and refund assets by estimating the expected returnable amount at the time of sales, deducting the sales and cost of sales of the parts expected to be returned.

(4) The Company sets up provision for product warranties by estimating the expected warranty amount at the time of sales on devices of smoke-free product and sets up the rights to be reimbursed by the manufacturer in the future due to the manufacturer's fault as warranty reimbursement assets. The value of warranty reimbursement assets as of December 31, 2019 is ₩2,384 million (₩422 million as of December 31, 2018)

(5) The Company provision for site restoration is the best estimate of the expected future recovery cost of the leased assets and land as of December 31, 2019. The Company reflects the recovery cost to the acquisition cost of the property, plant and equipment and will be spent at the end of the lease term. Also, the Company reflects the recovery cost related to land pollution as a commissions at the timing of estimation, will be spent at the timing of purification completeness.

(6) The Company provision for financial guarantee is the best estimation of joint guarantees for mid-payment loan provided to the buyer related to the real estate sales contract of Suwon Hwaseo Park Prugio(Apartment and Efficiency apartment).

21. Share Capital and Other Capital Surplus

Details of share capital and other capital surplus as of December 31, 2019 and 2018, are as follows:
There is no change in the following details during the current and previous terms.

Type	Details of paid-in capital in 2019
Number of Authorized shares	800,000,000shares
Amount per share	₩5,000
Issued	137,292,497shares
Share capital	₩954,959 million
Other capital surplus	₩ 3,582 million

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

22. Treasury Shares and Gain on disposal of Treasury Shares

(1) Details of treasury shares and gain on disposal of treasury shares as of December 31, 2019 and 2018, are as follows:

Type	2019	2018
Number of treasury shares	10,712,574shares	11,027,370shares
Treasury shares	₩(318,789) million	₩(328,157) million
Gain on disposal of treasury shares	₩ 528,894 million	₩ 513,776 million

(2) Changes in the number of treasury shares for the years ended December 31, 2019 and 2018, are as follows:

Type	2019	2018
Beginning balance	11,027,370 shares	11,027,370 shares
Treasury shares donation	₩ (314,796) million	₩ - million
Ending Balance	₩10,712,574 million	₩11,027,370 million

During the year ended December 31, 2019, the Company donated treasury shares(314,796 shares, Fair value: ₩30,220 million) to the Employee Welfare Funds of the Tobacco and Ginseng mutual benefit association Co., Ltd. and Gong-young enterprise Co., respectively, to raise funds for employee benefits and accompanied growth. And the Company recognized ₩15,118 million as gain on disposal of treasury shares (after tax).

23. Reserves

(1) Details of reserves as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Gain and loss on valuation of fair value through other comprehensive income or loss	₩ (58,928)	₩ (66,114)
Profit reserve	602,937	602,937
Reserve for business rationalization	12,851	12,851
Reserve for business expansion	698,881	698,881
Other reserve	4,467,445	4,181,479
Total	₩5,723,186	₩5,430,034

① Profit reserve

The commercial law stipulates that the Company shall set aside more than 10% of the profit dividends from the money as profit reserve at every settlement of accounts until it reaches 50% of the capital. The profit reserve cannot be distributed in cash and can be used only for the maintenance of carrying forward losses and capital transfer by resolution at the general meeting of shareholders. As of the December 31, 2019 and 2018, the profit reserve set aside in excess of 50% of the company's share capital is ₩125,458 million won.

② Reserve for business rationalization

Until 2002, the Company had put the tax deduction amount under the Tax Specialization Act as the corporate rationalized reserve, which could only be used to preserve and transfer capital losses. However, the Act on Restriction of Special Taxes was amended on December 11, 2002, and the relevant provisions were deleted at the time of the amendment.

③ Reserve for business expansion and other reserve

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

(2) Details of gain and loss on valuation of fair value through other comprehensive income or loss as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Gain and loss on valuation of fair value through other comprehensive income or loss before tax	₩(81,281)	₩(91,192)
Tax effect	22,353	25,078
Gain and loss on valuation of financial assets at fair value through other comprehensive income or loss after tax	₩(58,928)	₩(66,114)

24. Retained Earnings

(1) Changes in retained earnings for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Beginning balance	₩791,027	₩990,096
Change in accounting policy	(1,532)	(30,393)
Dividends	(505,061)	(505,061)
Transfer from reserve for research and human resource development	-	10,000
Transfer to other reserve	(285,966)	(495,035)
Profit for the year	891,381	840,947
Re-measurements of net defined benefit liabilities(after tax)	(1,597)	(19,379)
Reclassification to Retained Earning from disposal of Fair value through other Comprehensive income or loss	-	(148)
Ending balance	₩888,252	₩791,027

(2) The separate statement of appropriation of retained earnings of the Company for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
	Expected appropriation schedule : March 31, 2020	Appropriation fixed date : March 29, 2019
1. Unappropriated retained earnings	₩888,252	₩791,027
Unappropriated retained earnings carried over from prior year	-	-
Changes in accounting policy	₩ (1,532)	₩ (30,393)
Profit for the year	891,381	840,947
Re-measurements of net defined benefit liabilities(after tax)	(1,597)	(19,379)
Reclassification to Retained Earning from disposal of Fair value through other Comprehensive income or loss	-	(148)
2. Appropriation of retained earnings	(888,252)	(791,027)
Dividends (Cash dividend (%):		
Ordinary share	₩ (556,952)	₩(505,061)
: Current term: ₩4,400(88%),		
: Prior term: ₩4,000(80%)		
Unconditional other reserve(*)		
(Reserve for compensation of damages related to personal information)	(1,000)	-
Unconditional to other reserve	(330,300)	(285,966)
3. Unappropriated retained earnings to be carried forward	₩ -	₩ -

(*) In accordance with the amendment of the Enforcement Decree of Act on Promotion of Information and Communication Network Utilization and Information Protection ("Information and Communication Network Act", herein) in June 2019, the Company will transfer to ₩1,000 million as a reserve for liabilities related to compensation for damages related to personal information in accordance with Article 33-3 of the "Information and Communication Network Act".

25. Real Estate Sales Contract

(1) Details of real estate sales contracts under construction as of December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Construction period	Total sales value	Total sales contract value
Suwon Hwaseo Park Prugio(Apartment)	February 2018 - August 2021	₩1,188,870	₩1,187,006
Suwon Hwaseo Park Prugio(Efficiency apartment)		112,060	106,762
Dae-gu central Xi(*)	-	3,818	1,063
Total		₩1,304,748	₩1,294,831

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

(2) Changes in balance of contract amount for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Beginning balance	₩1,173,116	₩ -
Change in contracts	(1,864)	1,295,632
Revenue recognition(*)	(350,469)	(122,516)
Ending balance	₩820,783	₩1,173,116

(*) As of December 31, 2019, ₩1,063 million (as of December 31, 2018: ₩ (3,818) million) of revenue recognition (sales cancellation) from Dae-gu central Xi under resale was not included due to the cancellation of the real estate sales contract.

(3) Details of cumulative cost of the sales contract under construction for the years ended December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Progress (%)	Accumulated revenue	Cumulative cost
Suwon Hwaseo Park Prugio(Apartment)	36.59	₩434,301	₩177,933
Suwon Hwaseo Park Prugio(Efficiency apartment)	36.23	38,684	23,288
Total		₩472,985	₩201,221

(4) No material changes in estimated gross contract income and total contract cost occurred during the current term. The estimated gross contract income and total contract cost of an ongoing sales contract are based on the circumstances that have occurred by the end of the current term and can be subject to change in the future.

26. Operating Expenses

(1) Details of expenses, classified by nature, incurred for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Changes in inventories	₩ (13,465)	₩ (82,286)
Raw materials used and merchandise purchased	828,672	772,709
Salaries	363,080	361,807
Retirement and termination benefits	41,315	34,289
Depreciation	107,542	96,109
Amortization	1,514	63
Employee welfare	45,926	51,802
Advertising	92,784	100,773
Commissions	149,534	131,718
Other expenses	191,151	153,201
Total	₩1,808,053	₩1,620,185

(2) Details of selling, general and administrative expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Salaries	₩245,588	₩244,627
Retirement and termination benefits	28,521	23,856
Employee welfare	31,788	37,014
Travel expenses	9,930	9,430
Communication cost	2,714	3,103
Utilities	9,783	9,138
Taxes and utilities	24,928	19,895
Supplies	2,000	2,043
Rent	8,087	13,997
Depreciation	35,240	32,514
Amortization	1,512	63
Repairs and maintenance	4,674	4,407
Vehicles	3,613	4,083
Insurance	581	608
Commissions	110,093	90,495
Freight and custody	9,837	10,445
Conferences	3,324	3,416
Advertising	92,660	100,622
Education and training	4,936	4,533
Prizes and rewards	2,239	2,207
Research and development	23,024	17,764
Impairment loss on trade receivables	20,846	8,568
Total	₩675,918	₩642,828

27. Other Income and Expenses

(1) Details of other income for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Gain on foreign currency transaction	₩ 21,074	₩ 14,838
Gain on foreign currency translation	35,459	37,651
Gain on valuation of derivatives	6,705	3,673
Reversal of impairment loss of other receivables	1,884	34,533
Gain on disposal of property, plant and equipments	5,400	6,759
Gain on disposal of intangible assets	1	-
Gain on disposal of assets held for sale	375	-
Gain on disposal of investments in associates	9,051	25
Miscellaneous income	27,872	35,100
Total	₩107,821	₩132,579

(2) Details of other expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Loss on foreign currency transaction	₩ 6,787	₩ 3,297
Loss on foreign currency translation	1,370	7,204
Loss on valuation of derivatives	19,591	11,982
Loss on impairment of other receivables	4,013	30,029
Loss on disposal of property, plant and equipments	3,822	831
Loss on impairment of property, plant and equipments	-	7,223
Loss on disposal of intangible assets	-	12
Loss on impairment of intangible assets	2,391	200
Loss on impairment of investment in subsidiaries subsidiary investment	27,137	67,437
Donations	36,803	7,851
Miscellaneous loss	3,214	4,207
Total	₩105,128	₩140,273

28. Finance Income and Cost

(1) Details of finance income and cost for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Finance income:		
Interest income ^(*)	₩22,512	₩14,647
Dividend income	24,322	80,130
Gain on repayment of debt	68	-
Gain on valuation of fair value through profit or loss	49,727	53,646
Total finance income	₩96,629	₩148,423
Finance cost:		
Interest expense	₩1,812	₩1,233
Loss on valuation of fair value through profit or loss	6,530	-
Total finance cost	₩8,342	₩1,233

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

(2) Details of interest income included in finance income for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Deposits	₩ 6,620	₩ 4,095
Trade and other receivables	6,589	2,805
Long-term deposits	9,095	7,719
Financial of guarantee liabilities	208	28
Total	₩22,512	₩14,647

(3) Details of interest expense included in finance cost for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Trade and other payables	₩1,173	₩1,206
Lease liabilities	431	-
Amortization of prepaid expenses	208	27
Total	₩1,812	₩1,233

29. Income Tax Expense and Deferred Tax

(1) Details of income tax expenses elements for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Current tax on profits for the year	₩349,214	₩310,372
Adjustment with respect to prior-year income tax	-	(2,964)
Effects of change in accounting policy ^(*)	1,465	-
Increase(decrease) from temporary differences	(16,513)	(4,427)
Income tax	₩334,166	₩302,981

^(*) For the year ended December 31, 2019, income expense has increased by ₩1,465 million and the beginning balance of retained earnings has decreased by ₩1,532 million as the effects of changes in accounting policies from enactment to Interpretation of Korean IFRS 2123 Uncertainty over income Tax Treatments (Note 36).

(2) Details of the income tax expenses and accounting profit for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Profit before income tax expense	₩1,225,546	₩1,143,927
Applicable tax rate (%)	26.65	26.59
Tax amount according to applicable tax rate	326,663	304,218
Adjustments:		
Income not subject to tax	(622)	(19,972)
Expenses not deductible for tax purposes	2,933	5,839
Deferred income tax unrecognized amount of temporary difference	4,543	16,084
Tax credit	(1,067)	(290)
Adjustment with respect to prior-year income tax	-	(2,964)
Effects of change in accounting policy	1,465	-
Others	251	66
Income tax expense	334,166	302,981
Average effective tax rate (%)	27.27	26.49

(3) Details of current and deferred income tax related to items recognized outside profit or loss for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Current tax:		
Gain on sales of treasury shares	₩(5,734)	₩ -
Deferred tax:		
Gain (loss) on valuation of fair value through other comprehensive income or loss	(2,725)	10,444
Re-measurement element of net defined benefit liabilities	605	7,351
Subtotal	(2,120)	17,795
Total	₩(7,854)	₩17,795

(4) Changes in deferred income tax assets (liabilities) for the years ended December 31, 2019 and 2018, are as follows:

① For the year ended December 31, 2019

<i>In millions of Korean won</i>	Beginning balance	Profit or loss	Other comprehensive income or loss	Ending balance
Accumulated depreciation	₩8,086	₩ 1,758	₩ -	₩ 9,844
Provision for impairment	37,068	6,155	-	43,223
Fair value through other comprehensive income or loss (profit or loss)	17,158	(109)	(2,725)	14,324
Accrued expenses	32,332	770	-	33,102
Defined benefit liabilities	4,696	(3,284)	605	2,017
Treasury shares	(9,687)	276	-	(9,411)
Investments in subsidiaries	(72,034)	342	-	(71,692)
Advanced depreciation provision	(13,518)	3,514	-	(10,004)
Others	5,745	7,091	-	12,836
Total	₩9,846	₩16,513	₩(2,120)	₩24,239

② For the year ended December 31, 2018

<i>In millions of Korean won</i>	Beginning balance	Change in accounting policy	Profit or loss	Other comprehensive income or loss	Ending balance
Accumulated depreciation	₩ 7,758	₩ -	₩ 328	₩ -	₩8,086
Provision for impairment	13,027	24,163	(122)	-	37,068
Fair value through other comprehensive income or loss (profit or loss)	6,669	-	45	10,444	17,158
Accrued expenses	30,896	-	1,436	-	32,332
Defined benefit liabilities	257	-	(2,912)	7,351	4,696
Treasury shares	(9,687)	-	-	-	(9,687)
Investments in subsidiaries	(72,231)	-	197	-	(72,034)
Advanced depreciation provision	(16,469)	-	2,951	-	(13,518)
Others	3,810	(569)	2,504	-	5,745
Total	₩(35,970)	₩23,594	₩4,427	₩17,795	₩9,846

(5) Temporary differences related to investment in subsidiaries etc. which are deductible (taxable) as of December 31, 2019 and 2018 are as follows. They have not been recognized as deferred tax assets (liabilities) since it does not seem probable in the foreseeable future that they will not be realized:

<i>In millions of Korean won</i>	2019	2018
Deductible temporary differences	₩353,407	₩334,028
Taxable temporary differences	(280,079)	(276,242)
Total	₩ 73,328	₩ 57,786

30. EPS

(1) Details of earning per share and accounting profit for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Profit for the period attributable to owners of the Company	₩ 891,381 million	₩ 840,947 million
Weighted-average number of ordinary shares outstanding	126,278,926 shares	126,265,127 shares
Basic and diluted EPS	₩ 7,059	₩ 6,660

(2) The basis for calculating the weighted average number of ordinary shares for the years ended December 31, 2019 and 2018, is as follows:

① For the year ended December 31, 2019

	Date	Number of shares	Days	Weighted Shares
Beginning balance for outstanding shares	2019-01-01	137,292,497	365	50,111,761,405
Beginning balance for treasury shares	2019-01-01	(11,027,370)	365	(4,024,990,050)
Disposal of treasury shares	2019-12-16	314,796	16	5,036,736
Total				46,091,808,091
Days in circulation				365
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding period covered/ days in circulation)				126,278,926

② For the year ended December 31, 2018

	Date	Number of shares	Days	Weighted Shares
Beginning balance for outstanding shares	2018-01-01	137,292,497	365	50,111,761,405
Beginning balance for treasury shares	2018-01-01	(11,027,370)	365	(4,024,990,050)
Total				46,086,771,355
Days in circulation				365
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding period covered / days in circulation)				126,265,127

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

31. Related Parties

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

			2019			2018				
			Subsidiary			Subsidiary				
	Notes	Location	Parent(%)	(%)	Total	Parent(%)	(%)	Total		
Subsidiaries		Korea Ginseng Corporation		Korea	100.00	-	100.00	100.00	-	100.00
		Yungjin Pharm. Co., Ltd.		Korea	52.45	-	52.45	52.45	-	52.45
		Tae-a Industry Co., Ltd.		Korea	100.00	-	100.00	100.00	-	100.00
		KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		Turkey	99.99	-	99.99	99.99	-	99.99
		Korea Tabacos do Brasil Ltda.		Brazil	99.99	-	99.99	99.99	-	99.99
		KT&G Pars		Iran	99.99	-	99.99	99.99	-	99.99
		KT&G Rus L.L.C.		Russia	100.00	-	100.00	100.00	-	100.00
		KT&G USA Corporation		USA	100.00	-	100.00	100.00	-	100.00
		Cosmococ Co., Ltd.		Korea	98.56	-	98.56	98.56	-	98.56
		Renzoluc Pte., Ltd.	(*1)	Singapore	100.00	-	100.00	100.00	-	100.00
		KGC Yebon Corporation	(*2)	Korea		100.00	100.00	100.00	-	100.00
		PT KT&G Indonesia		Indonesia	99.99	-	99.99	99.99	-	99.99
		SangSang Stay, Inc.		Korea	100.00	-	100.00	100.00	-	100.00
		KT&G Global Rus L.L.C.		Russia	100.00	-	100.00	100.00	-	100.00
		K&I HK Co., Ltd.		HongKong	-	98.56	98.56	-	98.56	98.56
		K&I China Co., Ltd.		China	-	98.56	98.56	-	98.56	98.56
		KGC Life & Gin Co., Ltd.		Korea	-	100.00	100.00	-	100.00	100.00
		Jilin Hanzheng Ginseng Co., Ltd.		China	-	100.00	100.00	-	100.00	100.00
		Cheong Kwan Jang Taiwan Corporation		Taiwan	-	100.00	100.00	-	100.00	100.00
		Korean Red Ginseng Corp., Inc.		USA	-	100.00	100.00	-	100.00	100.00
		Korea Ginseng (China) Corp.		China	-	100.00	100.00	-	100.00	100.00
		Korea Ginseng Corporation Japan		Japan	-	100.00	100.00	-	100.00	100.00
		PT Trisakti Purwosari Makmur	(*3)	Indonesia	-	99.99	99.99	-	99.99	99.99
		PT Trisakti Purwosari Makmur (Previously PT Mandiri Maha Mulia)	(*3)	Indonesia	-	-	-	-	99.98	99.98
		PT Trisakti Purwosari Makmur (Previously PT Sentosa Ababi Purwosari)	(*3)	Indonesia	-	-	-	-	99.99	99.99
		PT Trisakti Purwosari Makmur (Previously PT Purindo Ilufa)	(*3)	Indonesia	-	-	-	-	99.99	99.99
		PT Nusantara Indah Makmur		Indonesia	-	99.99	99.99	-	99.99	99.99
		Gwacheon Sangsang PFV	(*4)	Korea	51.00	-	51.00	51.00	-	51.00
Associates		LSK Global Pharma Services Co., Ltd.		Korea	23.15	-	23.15	23.15	-	23.15
		Lite Pharm Tech, Inc.	(*5)	Korea	16.75	-	16.75	20.24	-	20.24
		JR REIT 5 Co., Ltd.	(*6)	Korea	-	-	-	34.63	-	34.63
		JR REIT 8 Co., Ltd.	(*6)	Korea	-	-	-	21.74	-	21.74
		JR REIT 10 Co., Ltd.	(*6)	Korea	-	-	-	28.79	-	28.79
		Yong In Jung Sim Co., Ltd.		Korea	22.22	-	22.22	22.22	-	22.22
Joint ventures		KB Gimpo Logistics CR REIT Co., Ltd.	(*7)	Korea	12.00	-	12.00	12.00	-	12.00
		KORAMCO Private REIT 50 Fund	(*8)	Korea	84.21	-	84.21	84.21	-	84.21
		KORAMCO Europe Private REIT 3-2 Fund	(*8,9)	Germany	51.35	-	51.35	51.35	-	51.35
		Starfield Suwon	(*10)	Korea	50.00	-	50.00	50.00	-	50.00

- (*)¹ The percentage of ownership does not include convertible preference shares, with 88.6% including preferred shares as of December 31, 2019.
- (*)² For the year ended December 31, 2019, the Company has made a capital contribution in kind of its 100% equity holdings in KGC Yebon Corporation to its subsidiary, Korea Ginseng Corporation.
- (*)³ For the year ended December 31, 2019, the Company has merged its four manufacturing corporations in Indonesia (PT Trisakti Purwosari Makmur, PT Mandiri Maha Mulia, PT Sentosa Anabi Purowosari, PT Purindo Ilufa) into one, with its second-tier subsidiary PT Trisakti Purwosari Makmur being the remaining corporation after the merger.
- (*)⁴ For the year ended December 31, 2018, the Company had made investment on 51.00% share of Gwacheon Sangsang PFV.
- (*)⁵ It is classified as an investment in associates even though the Company's holdings in the invested company is less than 20%. Since it has the right to participate in the invested company's board of directors meeting according to the shareholder's agreement, the Company has judged that it has significant influence over the invested company.
- (*)⁶ Due to the liquidation of JR REIT 5, 8, 10 Co., Ltd. for the year ended December 31, 2019, they have been excluded from the scope of the Company's related parties as of December, 2019.
- (*)⁷ It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties, holding 12% shares each, as the voting power of 76% shares held by the collective investment business entity is not entitled to have an impact on a resolution of the investee by the Financial Investment Services and Capital Markets Act.
- (*)⁸ It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties that control the arrangement collectively.
- (*)⁹ During the year ended December 31, 2018, the Company had made investment on 51.35% share of KORAMCO Europe Private REIT 3-2 Fund.
- (*)¹⁰ During the year ended December 31, 2018, the Company had made investment on 50.00% share of Starfield Suwon.

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

① Sales and other income

<i>In millions of Korean won</i>		2019	2018
Subsidiaries	Korea Ginseng Corporation	₩ 7,676	₩ 65,365
	Yungjin Pharm. Co., Ltd.	253	177
	Tae-A Industry Co., Ltd.	267	23
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. (*)	12,525	3,498
	Korea Tobacos do Brasil Ltda.	3	3
	KT&G Pars. (*)	-	-
	KT&G Rus L.L.C. (*)	29,678	32,086
	KT&G USA Corporation	75,815	56,158
	Cosmococ Co., Ltd.	85	77
	KGC Yebon Corporation	23	24
	PT KT&G Indonesia(*)	1,190	1,004
	SangSang Stay, Inc.	5,919	6,073
	KGC Life & Gin Co., Ltd.	319	505
	PT Trisakti Purwosari Makmur(*)	19,537	16
	PT Trisakti Purwosari Makmur (Previously PT Mandiri Maha Mulia) (*)	-	8,873
	PT Trisakti Purwosari Makmur (Previously PT Sentosa Ababi Purwosari)	-	89
	PT Trisakti Purwosari Makmur (Previously PT Purindo Ilufa)	-	15
	LSK Global Pharma Services Co., Ltd.	1	64
	JR REIT 5 Co., Ltd.	130	104
	JR REIT 8 Co., Ltd.	108	308
	JR REIT 10 Co., Ltd.	559	579
	JR REIT 13 Co., Ltd.	-	25
Associates and joint ventures	KB Gimpo Logistics CR REIT Co., Ltd.	-	82
	KORAMCO Private REIT 50 Fund	-	716
	KORAMCO Europe Private REIT 3-2 Fund	1,191	-
	Total	₩ 155,279	₩ 175,864

(*) These figures exclude bad debt expenses (recovery) for related parties which are ₩(4,125) million for the year ended December 31, 2019 (₩6,735 million for the year ended December 31, 2018). They also exclude the effect of changes in accounting policy of ₩32,813 million to retained earnings at January 1, 2018, related to allowance for doubtful accounts from the adoption of K-IFRS No. 1109 Financial Instruments during the year ended December 31, 2018.

② Purchases and other expenses

<i>In millions of Korean won</i>		2019	2018
Subsidiaries	Korea Ginseng Corporation	₩ 1,940	₩ 1,511
	Yungjin Pharm. Co., Ltd.	214	15
	Tae-A Industry Co., Ltd.	19,229	13,338
	Cosmocos Co., Ltd.	1,003	824
	KGC Yebon Corporation	214	214
	SangSang Stay, Inc.	118	131
	KGC Life & Gin Co., Ltd.	34	56
Total		₩ 22,752	₩ 16,089

(3) Details of receivables and payables with related parties, for the year ended December 31, 2019 and 2018 are as follows:

<i>In millions of Korean won</i>		2019		2018	
		Receivables	Payables	Receivables	Payables
Subsidiaries	Korea Ginseng Corporation	₩ 608	₩ 1,898	₩ 14	₩ 1,850
	Yungjin Pharm. Co., Ltd.	175	58	11	30
	Tae-a Industry Co., Ltd.	-	4,420	-	3
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.(*)	39,797	-	32,050	-
	Korea Tabacos do Brasil Ltda.	109	-	106	-
	KT&G Pars(*)	44,525	-	44,531	-
	KT&G Rus L.L.C.(*)	65,474	-	78,395	-
	KT&G USA Corporation	16,350	290	28,911	618
	Cosmocos Co., Ltd.	33	2	5	2
	PT KT&G Indonesia(*)	31,204	-	28,991	-
	KGC Life & Gin Co., Ltd.	-	120	-	120
	PT Trisakti Purwosari Makmur(*)	21,626	-	16	-
	PT Trisakti Purwosari Makmur (Previously PT Mandiri Maha Mulia) (*)	-	-	13,375	-
	PT Trisakti Purwosari Makmur (Previously PT Sentosa Ababi Purwosari)	-	-	67	-
	PT Trisakti Purwosari Makmur (Previously PT Purindo Ilufa)	-	-	15	-
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	-	16,020
Total		₩ 220,523	₩ 22,808	₩ 227,470	₩ 18,643

(*) These figures are gross amounts before the deduction of allowance for doubtful accounts. Allowance for doubtful accounts as of December 31, 2019, and 2018, were ₩73,598 million and ₩77,723 million respectively.

(4) Details of transactions of purchase and sales of property, plant and equipment with related parties, for the year ended December 31, 2019, and 2018 are as follows:

<i>In millions of Korean won</i>		2019		2018
		Sales	Purchase	Sales
	Tae-A Industry Co., Ltd.	₩ 29,977	₩ -	₩ 37
	KT&G Rus L.L.C.	-	-	4,247
	KGC Yebon Corporation	-	50	-
Subsidiaries	PT Trisakti Purwosari Makmur (Previously PT Mandiri Maha Mulia)	3,368	-	3,197
	PT Trisakti Purwosari Makmur (Previously PT Sentosa Ababi Purwosari)	-	521	34
Total		₩ 33,345	₩ 571	₩ 7,515

(5) Details of fund transactions with related parties for the year ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>		2019		2018	
		Investment (recovery)	Repayment of funds	Investment (recovery)	Repayment of funds
Subsidiaries	Korea Ginseng Corporation ^{(*)1}	₩ 45,982	₩ -	₩ -	₩ -
	KGC Yebon Corporation ^{(*)1}	(45,982)	-	-	-
	Tae-A Industry Co., Ltd.	-	-	37,000	-
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	-	-	-	3,750
	SangSang Stay, Inc.	-	-	4,000	-
	Gwacheon Sangsang PFV	-	-	3,570	-
Associates and joint ventures	LSK Global Pharma Services Co., Ltd.	-	150	-	1,350
	JR REIT 5 Co., Ltd. ^{(*)2}	(11,125)	-	-	-
	JR REIT 8 Co., Ltd. ^{(*)2}	(13,526)	-	-	-
	JR REIT 10 Co., Ltd. ^{(*)2}	(9,500)	-	-	-
	JR REIT 13 Co., Ltd. ^{(*)3}	-	-	(5,025)	-
	KORAMCO Europe Private REIT 3-2 Fund	-	-	18,500	-
	Starfield Suwon	-	-	12,000	-
Total		₩ (34,151)	₩ 150	₩ 70,045	₩ 5,100

(*) For the year ended December 31, 2019, the Company has made a capital contribution in kind of its 100% equity holdings in KGC Yebon Corporation to its subsidiary, Korea Ginseng Corporation.

(*) According to the liquidation procedure of JR REIT 5, 8, 10 Co., Ltd the Company has been allocated a portion of the remaining assets and recognized a ₩9,051 million gain on disposal of investments in associates during the year ended December 31, 2019.

(*) According to the liquidation procedure of JR REIT 13 Co. Ltd., the Company has been allocated a portion of the remaining assets and recognized a ₩25 million gain on disposal of investments in associates during the year ended December 31, 2019.

(6) During the year ended December 31, 2019, the Company has renewed contracts which extend the respective maturities of loans to KT&G Pars ₩11,874 million, PT KT&G Indonesia ₩26,600 million and Korea Tabacos do Brasil Ltda. ₩94 million by 1~5 years.

(7) As of December 31, 2019, the Company is being provided with a payment guarantee from the Westchester Fire Insurance Company up to USD 20,000 thousand in relation to important clearance for KT&G USA Corporation. There is a recourse liabilities for the Company up to the executed amount of the guarantee (Note 34(3)).

(8) During the year ended December 31, 2018, the Company had made a land contract with the investments in joint venture, Starfield Suwon and had received a down payment of ₩16,020 million from the total ₩160,200 million. The ownership of this land will be transited upon the payment of the balance, which will be on the date of the commencement of the construction work. (Note 15)

(9) Details of key management personnel compensation for the years ended December 31, 2019, and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Long(short)-term employee benefits	₩ 17,703	₩ 19,330
Retirement benefits	1,902	1,459
Total	₩ 19,605	₩ 20,789

32. Risk Management and Fair Value of Financial Instruments

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

(1) Market risk

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

① Currency risk

The Company has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates arising from the export and import of tobacco. The Company's management has measured the currency risk internally and regularly and has ₩2,277 million and (as of December 31, 2018: derivatives asset ₩1,239 million, derivatives liabilities ₩461 million) as derivatives asset in accordance with foreign currency forward contracts as of December 31, 2019.

The carrying amounts of monetary assets and liabilities denominated in a currency other than the functional currency as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 1,156,423	₩ 30,843	₩ 1,023,812	₩ 30,833
IDR	1,905	-	3,181	-
EUR	30,897	9,301	32,083	18,116
Etc.	59,700	681	51,134	134
Total	₩ 1,248,925	₩ 40,825	₩ 1,110,210	₩ 49,083

The effects of a 10% change in the Korean won-Foreign Currency exchange rate on pre-tax profit as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019		2018	
	10% increase	10% decrease	10% increase	10% decrease
Increase (decrease) in profit before tax	₩ 120,810	₩ (120,810)	₩ 106,113	₩ (106,113)

② Price risk

The Company is exposed to other price risks in relation to its listed equity instruments in fair value through other comprehensive income or loss that the fair value of the financial instrument or the future cash flows will change due to factors such as changes in market price etc. The management of the Company regularly measures the risk of changes in the fair value or future cash flows of the listed equity instruments due to changes in market prices. Management of important investments within the portfolio is performed individually and acquisition and disposal are approved by the management of the Company.

The effects of a 5% fluctuation in the price index of stocks on comprehensive income (loss) before tax (Gain or loss on valuation of fair value through other comprehensive income or loss) as of December 31, 2019 and 2018, is as follows:

<i>In millions of Korean won</i>	2019		2018	
	5% increase	5% decrease	5% increase	5% decrease
Increase (decrease) in comprehensive income(loss) before tax	₩ 5,090	₩ (5,090)	₩ 6,406	₩ (6,406)

③ Interest rate risk

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

(2) Credit risk

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

The carrying amount of a financial asset indicates the maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2019 and 2018, is as follows:

<i>In millions of Korean won</i>	2019	2018
Cash and cash equivalents (excluding cash on hand) ^(*)	₩ 202,192	₩ 246,310
Other financial assets	380,137	576,937
Fair value through profit or loss ^(*)	1,942,584	1,851,922
Trade and other receivables	891,243	850,183
Long-term deposits in MSA Escrow Fund	751,437	615,528
Derivative assets	2,277	1,239
Total	₩ 4,169,870	₩ 4,142,119

^(*) Of the cash equivalents as of the end of the current term, ₩454,395 million (the end of previous term: ₩501,562 million) of the special money in trust is included in the fair value through profit or loss.

(3) Liquidity risk

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

The maturity analysis according to the maturity of the remaining contract of the financial liabilities as of December 31, 2019 and 2018, is as follows:

<i>In millions of Korean won</i>	Carrying amount	Contractual cash flows	Residual contract				
			Less than 3months	3months ~1year	1year ~5years		
As of December 31, 2019:							
Short-term borrowings	₩ 1,007	₩ 1,007	₩ 1,007	₩ -	₩ -		
Trade and other payables	209,223	211,878	160,777	22,956	28,145		
Lease liabilities	18,128	18,875	1,933	5,154	11,788		
Total	₩ 228,358	₩ 231,760	₩ 163,717	₩ 28,110	₩ 39,933		
As of December 31, 2018:							
Short-term borrowings	₩ 1,246	₩ 1,246	₩ 1,246	₩ -	₩ -		
Trade and other payables	157,314	158,782	113,630	22,592	22,560		
Derivative liabilities	461	461	461	-	-		
Total	₩ 159,021	₩ 160,489	₩ 115,337	₩ 22,592	₩ 22,560		

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

As of December 31, 2019, the Company provides a loan alliance guarantee for the second payment (guarantee limit: ₩148,880 million, remaining contract expiration: 1 year to 5 years) to the beneficiaries of the Suwon Hwaseo Prugio presale construction, and recognizes a financial guarantee liability of ₩492 million (as of December 31, 2018: ₩700 million)(Note 20 and 34).

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

<i>In millions of Korean won</i>	2019	2018
Financial assets:		
Fair value through profit or loss ^(*)	₩ 1,942,584	₩ 1,851,922
Fair value through other comprehensive income or loss	240,456	230,545
Derivative assets	2,277	1,239
Financial assets measured at amortized cost		
Cash and cash equivalents ^(*)	202,380	246,562
Other financial assets	380,137	576,937
Trade and other receivables	891,243	850,183
Long-term deposits in MSA Escrow Fund	751,437	615,528
Subtotal	2,225,197	2,289,210
Total financial assets	₩ 4,410,514	₩ 4,372,916
Financial liabilities:		
Derivative liabilities	₩ -	₩ 461
Financial liabilities measured at amortized cost		
Short-term borrowings	1,007	1,246
Trade and other payables	209,223	157,314
Lease liabilities	18,128	-
Total financial liabilities	₩ 228,358	₩ 159,021

^(*) Of the cash equivalents as of the end of the current term, ₩454,395 million (the end of previous term: ₩501,562 million) of the special money in trust is included in the fair value through profit or loss.

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

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

The fair value measurements classified by fair value hierarchy as of December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
December 31, 2019:				
Fair value through profit or loss ^(*)	₩ 1,942,584	₩ -	₩ 1,693,658	₩ 248,926
Fair value through other comprehensive income or loss	240,456	191,929	-	48,527
Derivative assets	2,277	-	2,277	-
Total	₩ 2,185,317	₩ 191,929	₩1,695,935	₩ 297,453
December 31, 2018:				
Fair value through profit or loss ^(*)	₩ 1,851,922	₩ -	₩ 1,641,267	₩ 210,655
Fair value through other comprehensive income or loss	230,545	180,605	-	49,940
Derivative assets	1,239	-	1,239	-
Derivative liabilities	461	-	461	-
Total	₩ 2,084,167	₩ 180,605	₩1,642,967	₩ 260,595

^(*) Of the cash equivalents as of the end of the current term, ₩454,395 million (the end of previous term: ₩501,562 million) of the special money in trust is included in the fair value through profit or loss.

There is no movement between levels of the fair value hierarchy during the years ended December 31, 2019 and 2018.

As of December 31, 2019 and 2018, the fair value of investment trusts equity securities classified as at fair value through profit or loss (other comprehensive income or loss) was measured using the Net Asset Value Adjustment Act, 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 years ended are as follows:

<i>In millions of Korean won</i>	2019	2018
Beginning balance	₩ 260,595	₩ 233,891
Acquisition	52,527	62,500
Disposal	(14,655)	(39,840)
Changes in fair value	(1,014)	4,044
Ending balance	₩ 297,453	₩ 260,595

(6) Details of finance income (costs) by categories for the years ended December 31, 2019 and 2018, are as follows:

① For the year ended December 31, 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 year:						
Interest income	₩ -	₩ -	₩ -	₩ 22,512	₩ -	₩ 22,512
Dividend income	13,230	9,104	-	-	-	22,334
Gain or loss on valuation	43,197	-	(12,886)	-	-	30,311
Interest expense	-	-	-	-	(1,812)	(1,812)
Impairment loss	-	-	-	(22,975)	-	(22,975)
Total	₩ 56,427	₩ 9,104	₩ (12,886)	₩ (463)	₩ (1,812)	₩ 50,370
Other comprehensive income (loss) before tax:						
Change in fair value	₩ -	₩ 9,911	₩ -	₩ -	₩ -	₩ 9,911
Total	₩ -	₩ 9,911	₩ -	₩ -	₩ -	₩ 9,911

② For the year ended December 31, 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 year:						
Interest income	₩ -	₩ -	₩ -	₩ 14,647	₩ -	₩ 14,647
Dividend income	11,435	8,906	-	-	-	20,341
Gain or loss on valuation	53,646	-	(8,309)	-	-	45,337
Interest expense	-	-	-	-	(1,233)	(1,233)
Reversal of impairment loss	-	-	-	(4,064)	-	(4,064)
Total	₩65,081	₩ 8,906	₩(8,309)	₩ 10,583	₩(1,233)	₩ 75,028
Other comprehensive income (loss) before tax:						
Change in fair value	₩ -	₩ (38,337)	₩ -	₩ -	₩ -	₩ (38,337)
Total	₩ -	₩ (38,337)	₩ -	₩ -	₩ -	₩ (38,337)

33. Capital Management

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

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

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

<i>In millions of Korean won</i>	2019	2018
Debt	₩ 1,007	₩ 1,246
Less: Cash and cash equivalents	(656,775)	(748,123)
Less: Current other financial assets	(377,340)	(570,000)
Less: Current fair value through profit or loss	(1,239,263)	(1,139,705)
Net debt(assets)	₩ (2,272,371)	₩ (2,456,582)
Total equity	₩ 7,780,084	₩ 7,365,221

34. Contingent Liabilities and Commitments

(1) Litigation cases

As of December 31, 2019 the Company has three cases of pending litigations under progress and the litigation value is ₩53,993 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of December 31, 2019, on the Separate financial statements of the Company.

(2) Commitments with financial institutions

Details of major commitments of the Company with financial institutions as of December 31, 2019 are as follows:

<i>In millions of Korean won, and thousands of US dollars</i>			
Type	Financial institutions	Currency	Limit
Opening import letter of credits	KEB Hana Bank and one other	USD	175,000
Derivatives trading ^(*)	KEB Hana Bank and three others	USD	227,700
Group loans	KEB Hana Bank	KRW	300,000

^(*) Derivatives are composed of foreign exchange forward contracts and are held for trading as of December 31, 2019.

(3) Payment guarantee and collateral details

Details of the payment guarantees the Company has provided as of December 31, 2019, are as follows:

In millions of Korean won, and thousands of US dollars

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	948,291	Housing distribution guarantee, etc.
Korea Trade Insurance Corporation	USD	86,392	Export guarantee insurance
Seoul Guarantee Insurance	KRW	1,737	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	8,772	Escrow deposit guarantee
KEB Hana Bank	USD	2,000	Performance guarantee to exporting reconstituted tobacco leaves
NH Nonghyup Bank	KRW	3,000	Collateral fund to paying local tax

December 31, 2019, the Company is being provided with a payment guarantee from the Westchester Fire Insurance Company up to USD 20,000 thousand in relation to important clearance for KT&G USA Corporation. There is a recourse liabilities for the Company up to the executed amount of the guarantee. Detail of execution of the payment guarantee as of December 31, 2019, are as follows:

In thousands of US dollar

Provider	Currency	Limit	Execution	Details
Westchester Fire Insurance Company	USD	20,000	19,800	Import duty payment guarantee

The details of payment guarantees provided by the Company for other people (excluding related parties) as of December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Guarantee user	Currency	Limit	Execution amount
Loan guarantee for the payment	Shinhan Bank	KRW	79,400	31,097
	KEB Hana Bank	KRW	60,000	25,222
	Suhyup Bank	KRW	9,480	4,527
Total		KRW	148,880	60,846

The Company provides payment guarantees to financial institutions in accordance with the consumer financial agreement in connection with retail sales receivables, and receives related bonds from financial institutions and recognizes them as short-term borrowings(Note 17).

Assets pledged as collateral as of December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Carrying amount	Debt Amount	Collateralized amount	Collateral holder	Type
Investment properties	₩ 382,924	₩ 20,573	₩ 22,399	Metlife insurance, etc.	Establishment of right to collateral security or leasehold for leasehold deposits
Property, plant and equipments	20,323	3,315	3,315	Korea Workers' Compensation & Welfare Service, etc.	Establishment of leasehold rights to leasehold deposits
Other financial assets	8,540	-	8,540	Korea Land & Housing Corporation	Establishment of a pledge to guarantee business performance ^(*)
	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
Total	₩ 412,384	₩ 24,485	₩ 34,851		

^(*) As of December 31, 2019, the Company has deposited ₩8,540 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 December 31, 2019.

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

<i>In millions of Korean won</i>		2019	2018
Other financial assets	Establishment of a pledge to guarantee business performance	₩ 8,540	₩ 6,340
	Establishment of a pledge for leasehold deposits	597	597
	Reserves for compensation of damages related to personal information	1,000	-
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
Total		₩ 110,137	₩ 106,937

(4) Others

Payment of long-term deposits in MSA Escrow Fund

Each year, the Company 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 Company's illegal act. The unused portion of the fund will be refunded to the Company after 25 years from the date of each annual funding. The Company has recognized ₩751,437 million as of December 31, 2019 (₩615,528 million as of December 31, 2018) as long-term deposits and they are composed of T-Note and demand deposits.

As of March 17, 2011, the Company 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.

The Company is currently operating Starfield Suwon Corporation after establishing the joint venture 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 Company or the joint venture intend to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.

The Company 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 Company 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 Company's internal management decision is completed.

As of the end of the December 31, 2019, there is a capital call agreement for overseas real estate funds invested by the Company. However, we expect that the arrangement will be substantially less practicable as it will only be executed if the trustee defaults on the currency swap/forward contract.

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

In October 2019, in preparation of the second phase of liquid e-cigarette safety management countermeasures jointly with the relevant departments, the Ministry of Health and Welfare recommended discontinuing the use of liquid e-cigarettes until the safety management system improvement and hazard verification are complete.

Accordingly, CVS companies (the Company's distributors), have announced that they will stop selling or placing new orders for two of the Company's products (SiiD Tundra and SiiD Toba) and are currently discussing sales returns for the products with the Company.

As of December 31, 2019, the Company has recognized in relation to the above event: inventory valuation loss allowance of ₩2,232 million, refund liabilities of ₩2,392 million, and miscellaneous loss of ₩499 million as compensation for suppliers regarding cancellation of orders.

In relation to the products that the Company has manufactured and exported to the United States, the Coalition Against Korean Cigarettes (a coalition of Cheyenne International and Xcaliber International) has submitted a petition to the United States Department of Commerce requesting an investigation into export dumping and industrial damages. The products subject to the investigation are 4th tier cigarettes (cigarettes produced by small manufacturers) and the period in question is one year for export dumping (October 2018 to September 2019) and 3 years and nine months for industrial damages (January 2016 to September 2019). In relation to the above, the process of investigation and adjudication by the United States Department of Commerce is due to continue until 2021. It is not possible for the Company to rationally predict the impact the results of this investigation will have on its Separate financial statements.

35. Cash Flows

(1) Details of cash generated from operations for the years ended December 31, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>	2019	2018
Profit for the year	₩ 891,381	₩ 840,947
Adjustments:		
Employee welfare	1,657	6,600
Retirement benefits	31,228	26,236
Loss on valuation or obsolescence loss of inventories	22,685	4,400
Depreciation	107,542	96,109
Amortization	1,514	63
Treasury shares donations	30,220	-
Impairment loss (reversal) on trade and other receivables	22,975	4,064
Loss on foreign currency translation	1,370	7,204
Loss on disposal of property, plant and equipments	3,822	831
Loss on impairment of property, plant and equipments	-	7,223
Loss on disposal of intangible assets	-	12
Loss on impairment of intangible assets	2,391	200
Loss on impairment investment of subsidiaries	27,137	67,437
Loss on valuation of derivatives	19,591	11,982
Other expenses	8,700	7,497
Finance cost	8,342	1,233
Income tax expense	334,166	302,981
Gain on foreign currency translation	(35,459)	(37,651)
Gain on disposal of investments in associates	(9,051)	(25)
Gain on disposal of property, plant and equipments	(5,400)	(6,759)
Gain on disposal of intangible assets	(1)	-
Gain on disposal of assets held for sale	(375)	-
Gain on valuation of derivatives	(6,705)	(3,673)
Other income, etc.	(8)	-
Finance income	(96,629)	(148,423)
Changes in working capital:		
Decrease(increase) in trade and other receivables	(48,556)	84,775
Increase in derivatives	(14,384)	(9,087)
Increase in inventories	(28,782)	(79,690)
Decrease(increase) in accrued tobacco excise and other taxes	(7,219)	37,612
Increase in advance payments	(290)	(7,629)
Decrease(increase) in prepaid expenses	556	(6,704)
Increase(decrease) in trade and other payables	18,029	(7,692)
Increase(decrease) in advance receipts	(94,608)	142,718
Decrease in tobacco excise and other taxes payables	(18,172)	(362,876)
Decrease in net defined benefit obligation	(45,445)	(37,536)
Cash generated from operations	₩ 1,122,222	₩ 942,379

(2) Details of material transactions without cash inflow and outflow for the years ended December 31, 2019, and 2018, are as follows:

<i>In millions of Korean Won</i>	2019	2018
Reclassification of property, plant and equipments to investment properties	₩ 161,264	₩ 153,707
Reclassification of property, plant and equipments to assets held for sale	6,488	27,794
Reclassification of property, plant and equipments to intangible assets	6,264	-
Reclassification of investment properties to inventories	7,940	2,731
Reclassification of assets under construction(property, plant and equipment, intangibles, and investment property) to the main accounts	336,787	217,836

(3) Changes in liabilities due to financial activities for the years ended December 31, 2019 and 2018, are as follows:

① For the year ended December 31, 2019

<i>In millions of Korean won</i>	Beginning balance	Cash flows from financing activities	Others	Ending balance
Dividend payables	₩ -	₩ (505,061)	₩ 505,061	₩ -
Short-term borrowings	1,246	-	(239)	1,007
Lease liabilities	-	(5,626)	23,754	18,128
Total	₩ 1,246	₩ (510,687)	₩ 528,576	₩ 19,135

② For the year ended December 31, 2018

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

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

36. Changes in Accounting Policies

(1) Application of K-IFRS No.1116 ‘Leases’

As stated in Note. 2.2, the Company had applied K-IFRS No. 1116 from the beginning of this reporting period. Under the transitional provisions, the cumulative effect of applying K-IFRS No. 1116 is adjusted on the balance of retained earnings at the date of initial application, and the comparative presentation of the Separate financial statements for the year ended December 31, 2018, has not been restated.

① Measurement of lease liabilities

<i>In millions of Korean won</i>	<i>Amount</i>
Operating lease contracts disclosed of December 31, 2018	₩ 18,577
Operating lease contracts discounted by the lessee’s incremental borrowing rate as of January 1, 2019	₩ 17,901
(Less): Short-term lease payments not recognized as liabilities	(42)
(Less): Lease payments for low value assets not recognized as liabilities	(628)
Lease liabilities recognized as of January 1, 2019	₩ 17,231
Liquidity classification for lease liabilities recognized	
Current lease liabilities	₩ 5,507
Non-current lease liabilities	11,724
Total	₩ 17,231

② Adjustments recognized on separate statement of financial position.

The total of the minimum lease payments of the assets used as operating lease by the Company before discounting for present value is ₩18,875 million as of December 31, 2019. The amount is ₩18,128 million when discounted by the lessee’s incremental borrowing rate.

As of January 1, 2019, right-of-use assets, current lease liabilities and long-term lease liabilities increased by ₩18,130 million, ₩5,507 million and ₩11,724 million, respectively. These lease liabilities have been measured as the present value of the remaining lease payments, which have been discounted by the lessee’s incremental borrowing rate. As of January 1, 2019, the lessee’s incremental borrowing rate used for the measurement of lease liabilities are 2.65%.

(2) Application of Interpretation of K-IFRS No.2123 ‘Uncertainty over Income Tax Treatments’

As stated in Note. 2.2, the Company had applied Interpretation of K-IFRS No. 2123 from the beginning of this reporting period. Under the transitional provisions, the cumulative effect of applying Interpretation of K-IFRS No. 2123 is adjusted on the balance of retained earnings at the date of initial application, and the comparative presentation of the Separate financial statements for the year ended December 31, 2018, has not been restated.

As of January 1, 2019, the beginning balance of the retained earnings has been reduced by ₩1,532 million, and deferred tax liabilities for the period have increased by ₩1,532 million. As of December 31, 2019, the end of the reporting period, income tax expenses have increased by ₩1,465 million.

37. Subsequent Events

On January, 29, 2020, Philip Morris Products S.A. (PMI herein) has signed a contract with the Company. The contract enables PMI to exclusively sell the Company's Smoke-free products in all overseas countries excluding the Republic of Korea. In accordance with the contract, PMI has the right to market, distribute and sell the Company's Smoke-free products overseas for the duration of the contract (three years starting from a previous agreed-upon date) and the Smoke-free products include the Company's HNB (Heat Not Burn) and E-Vapour (device, exclusive sticks, exclusive liquid cartridges and accessories for Lil Plus, Lil Mini, Lil Hybrid, -and Lil Vapour) product lines.

On February, 26, 2020, the Company signed a distributorship Agreement with Alokozay International Limited ("AIL," a regional importer with which the Company had existing business relations), giving AIL the rights to sell the Company's manufactured cigarettes in the Middle East and CIS countries. In accordance with the contract, AIL has the right to market, distribute and sell the Company's products in the regions concerned. Commencing on the contract date, the duration of the contract is until June 30, 2027. In accordance with the contract, the minimum quantity that AIL needs to purchase from the Company is two million boxes of cigarettes from the contract date to June 30, 2021. From June 30, 2021, AIL needs to purchase one and a half million boxes of cigarettes from the Company every year. In accordance with this contract, AIL's trade receivable balance against the Company will gradually be reduced to USD 67 million from the contract date to June, 30, 2027.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

English Translation of Independent Auditors' Report on Internal Control over Financial Reporting Originally Issued in Korean on March 30, 2020.

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

Audit Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of KT&G CORPORATION (the "Company") as of December 31, 2019, based on 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting'.

In our opinion, the Company's internal control over financial reporting is designed and operated effectively as of December 31, 2019, in all material respects, in accordance with the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting'.

We have also audited, in accordance with the Korean Standards on Auditing ("KSAs"), the separate financial statements of the Company, which comprise the separate statement of financial position as of December 31, 2019, and the separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows, for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies, and our report dated March 20, 2020, expressed an unqualified opinion.

Basis for Audit Opinion

We conducted our audits in accordance with the KSAs. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Internal Control over Financial Reporting section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the internal control over financial reporting in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Internal Control over Financial Reporting

Management is responsible for designing, operating and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Operating Status Report on Internal Control over Financial Reporting.

Those Charged with Governance is responsible for the oversight of internal control over financial reporting of the Company.

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Auditor's Responsibilities for the Audit of the Internal Control over Financial Reporting

Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit in accordance with the KSAs. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

The audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditors' judgment, including the assessment of the risks of that a material weakness exists. The audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risks.

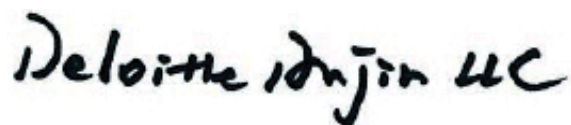
Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Korean International Financial Reporting Standards ("K-IFRSs"). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

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



March 30, 2020

Notice to Readers

This report is effective as of March 30, 2020, 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 Company's internal control over financial reporting and may result in modifications to the auditors' report.

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Report on the Effectiveness of Internal Control over Financial Reporting

(English Translation of a Report Originally Issued in Korean)

To the Shareholders, Board of Directors and Audit Committee of
KT&G Corporation

We, as the Chief Executive Officer (CEO) and the Internal Control over Financial Reporting Officer of KT&G Corporation (the Company), assessed the effectiveness of the design and operation of the Company's Internal Control over Financial Reporting (ICFR) for the year ended December 31, 2019.

The Company's management, including ourselves, is responsible for designing and operating ICFR. We assessed the design and operating effectiveness of ICFR in the prevention and detection of an error or fraud which may cause material misstatements in the preparation and disclosure of reliable financial statements. We designed and operated ICFR in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting* established by the Operating Committee of Internal Control over Financial Reporting in Korea (the ICFR Committee). And, we conducted an evaluation of ICFR based on *Best Practice Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting* established by the ICFR Committee.

Based on the assessment results, we believe that the Company's ICFR, as at December 31, 2019, is designed and operating effectively, in all material respects, in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statement which cause material misunderstandings, and we have reviewed and verified this report with sufficient due care.

February 12, 2020

Bok In Baek
Chief Executive Officer

Yong Bum Kim
Internal Control over Financial Reporting Officer