



KT&G Corporation

**Review Report on Condensed Separate Interim Financial Statements
First Quarter of the 34th Fiscal Year
From January 1, 2020, to March 31, 2020**

(With Independent Auditor's Review Report Thereon)

KT&G CORPORATION

[This page is intentionally left blank]

CONTENTS

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

[This page is intentionally left blank]

KT&G CORPORATION

Independent auditor's review report

English Translation of Independent Auditor's Review Report Originally Issued in Korean on May 15, 2020

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

Reviewed financial statements

We have reviewed the accompanying condensed separate financial statements of KT&G Corporation (the "Company"). The condensed separate financial statements consist of the condensed separate statement of financial position as of March 31, 2020, the related condensed separate statements of income and comprehensive income, changes in equity and cash flows for the three months ended March 31, 2020 and 2019 all expressed in Korean won, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Separate financial statements

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

Auditors' responsibility

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

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

Review results

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

[This page is intentionally left blank]

Other matters

The separate statement of financial position as of December 31, 2019, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows (not included in this review) were audited in accordance with the Korean Auditing Standards, which expressed its unqualified opinion on the audit report dated March 30, 2020. The accompanying condensed separate statement of financial position as of December 31, 2019, presented for comparative purposes, does not differ from the above audited statement of financial position with respect to materiality.

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

Deloitte Anjin LLC

May 15, 2020

This report is effective as of May 15, 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 accompanying condensed separate financial statements and may result in modifications to the auditors' report.

[This page is intentionally left blank]

KT&G CORPORATION (the “Company”)
Condensed separate interim financial statements

First Quarter of the 34th Fiscal Year
from January 1, 2020, to March 31, 2020

First Quarter of the 33rd Fiscal Year
from January 1, 2019, to March 31, 2019

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

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

[This page is intentionally left blank]

KT&G CORPORATION

Condensed separate interim statements of financial position

As of March 31, 2020 and December 31, 2019

<i>In Korean won</i>	<i>Notes</i>	March 31, 2020	December 31, 2019
Assets:			
Current assets:			
Cash and cash equivalents	25	₩ 716,160,166,552	₩ 656,775,412,332
Current other financial assets	25,26	411,000,000,000	377,340,300,000
Current fair value through profit or loss	25	1,207,379,248,735	1,239,263,067,528
Trade and other receivables	5,24,25,26	835,354,789,460	780,159,697,780
Derivative assets	25,26	-	2,276,640,206
Inventories	6,26	999,264,024,187	968,142,957,525
Refund assets and others		1,680,112,550	2,384,435,650
Accrued tobacco excise and other taxes		215,698,365,679	225,429,495,611
Advance payments		53,038,861,164	48,969,303,465
Prepaid expenses		8,109,991,351	8,771,908,090
Assets held for sale	12,24,26,27	5,593,685,558	4,679,521,682
Total current assets		₩4,453,279,245,236	₩4,314,192,739,869
Non-current assets:			
Long-term other financial assets	25,26	₩ 9,137,220,000	₩ 2,796,920,000
Long-term deposits in MSA Escrow Fund	25,26	840,341,568,026	751,437,124,245
Long-term fair value through profit or loss	25	219,802,323,632	248,925,690,016
Long-term trade and other receivables	5,24,25	118,262,268,448	111,083,161,207
Fair value through other comprehensive income or loss	25	178,242,186,127	240,455,780,085
Investments in associates and joint ventures	7	52,330,010,000	52,330,010,000
Investments in subsidiaries	8	1,156,810,128,587	1,158,224,182,559
Property, plant and equipment	9,24,26,27	1,079,903,252,783	1,116,325,197,480
Intangible assets	10,27	56,242,789,571	58,861,433,763
Investment properties	11,26,27	1,048,201,412,407	999,105,309,200
Right-of-use assets	13, 24	17,318,316,526	18,544,646,402
Long-term advance payments		9,510,956,440	9,510,956,440
Long-term prepaid expenses		6,150,190,103	6,745,851,182
Deferred income tax assets		33,137,414,426	24,238,637,057
Total non-current assets		4,825,390,037,076	4,798,584,899,636
Total assets		₩9,278,669,282,312	₩9,112,777,639,505

KT&G CORPORATION

Condensed separate interim statements of financial position, continued

As of March 31, 2020 and December 31, 2019

<i>in Korean won</i>	<i>Notes</i>	March 31, 2020	December 31, 2019
Liabilities and equity:			
Liabilities:			
Current liabilities:			
Short-term borrowings	14,25,26	₩ 846,362,140	₩ 1,006,814,107
Trade and other payables	24,25,26	1,007,188,793,862	451,587,160,453
Current lease liabilities	25	7,146,637,545	6,989,816,066
Derivative liabilities	25,26	9,016,451,246	-
Advance receipts	24,26	17,760,542,629	68,025,054,995
Current refund liabilities and provisions	16,26	14,349,904,576	15,051,873,544
Current income tax liabilities		187,729,143,753	175,146,660,143
Tobacco excise and other taxes payables		512,688,828,532	533,705,648,200
Total current liabilities		₩ 1,756,726,664,283	₩ 1,251,513,027,508
Non-current liabilities:			
Long-term trade and other payables	24,25,26	₩ 44,155,824,846	₩ 45,102,011,956
Long-term lease liabilities	25	9,719,072,702	11,137,985,884
Long-term advance receipts	24	1,916,702,471	1,989,936,579
Net defined benefit liabilities	15	26,830,996,879	22,099,032,492
Long-term refund liabilities and provisions	16, 26	787,664,007	851,992,675
Total non-current liabilities		₩ 83,410,260,905	₩ 81,180,959,586
Total liabilities		₩ 1,840,136,925,188	₩ 1,332,693,987,094
Equity:			
Ordinary shares		954,959,485,000	954,959,485,000
Other capital surplus		3,582,160,908	3,582,160,908
Treasury shares		(318,789,449,459)	(318,789,449,459)
Gain on sale of treasury shares		528,894,053,906	528,894,053,906
Reserves		6,009,380,885,237	5,723,185,728,271
Retained earnings	17	260,505,221,532	888,251,673,785
Total equity		₩ 7,438,532,357,124	₩ 7,780,083,652,411
Total liabilities and equity		₩ 9,278,669,282,312	₩ 9,112,777,639,505

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

KT&G CORPORATION

Condensed separate interim statements of comprehensive income

For the first quarters ended March 31, 2020 and 2019

<i>in Korean won</i>	<i>Notes</i>	1Q/2020	1Q/2019
Sales	4,24	₩661,294,753,772	₩658,670,699,624
Manufacture of tobacco	26	551,883,109,262	578,968,684,586
Real estate	18	86,402,992,780	63,901,800,482
Exports of leaf tobacco and others		23,008,651,730	15,800,214,556
Cost of sales	19,24	(247,132,231,445)	(251,299,619,452)
Manufacture of tobacco		(196,272,579,465)	(214,631,340,382)
Real estate		(35,408,239,831)	(24,467,638,604)
Exports of leaf tobacco and others		(15,451,412,149)	(12,200,640,466)
Gross profit		414,162,522,327	407,371,080,172
Selling, general and administrative expenses	19,24	(164,284,612,168)	(154,692,573,041)
Operating profit		249,877,910,159	252,678,507,131
Other income	20,24	85,008,809,122	30,189,463,647
Other expense	20,24	(36,911,431,237)	(14,136,528,200)
Finance income	21,25	62,034,391,876	31,891,580,498
Finance cost	21,25	(5,200,400,103)	(6,327,140,766)
Profit before income tax		354,809,279,817	294,295,882,310
Income tax expense	22	(94,050,886,143)	(80,216,168,282)
Profit for the period		₩260,758,393,674	₩214,079,714,028
Other comprehensive income (loss) after income tax:		₩(45,358,027,761)	₩ 7,316,740,013
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities		(253,172,142)	(486,670,986)
Gain (loss) on valuation of fair value through other comprehensive income or loss		(45,104,855,619)	7,803,410,999
Total comprehensive income for the period		₩215,400,365,913	₩221,396,454,041
Earnings per share:			
Basic and diluted	23	₩ 2,060	₩ 1,695

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

[This page is intentionally left blank]



KT&G CORPORATION

Condensed separate interim statements of changes in equity

For the first quarter ended March 31, 2019

<i>In Korean won</i>	Ordinary shares	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Total equity
Balance at January 1, 2019	₩954,959,485,000	₩3,582,160,908	₩(328,157,286,128)	₩513,775,933,891	₩5,430,034,290,488	₩791,026,709,122	₩7,365,221,293,281
Total comprehensive income (loss) for the period:							
Profit for the period	-	-	-	-	-	214,079,714,028	214,079,714,028
Other comprehensive income (loss) for the period:							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(486,670,986)	(486,670,986)
Gain (loss) on valuation of fair value through other comprehensive income or loss	-	-	-	-	7,803,410,999	-	7,803,410,999
Sum of other comprehensive income (loss) for the period	-	-	-	-	7,803,410,999	(486,670,986)	7,316,740,013
Total comprehensive income for the period	-	-	-	-	7,803,410,999	213,593,043,042	221,396,454,041
Transactions with owners of the Company:							
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)
Transfer to other reserve	-	-	-	-	285,966,201,122	(285,966,201,122)	-
Total transactions with owners of the Company	-	-	-	-	285,966,201,122	(791,026,709,122)	(505,060,508,000)
Balance at March 31, 2019	₩954,959,485,000	₩3,582,160,908	₩(328,157,286,128)	₩513,775,933,891	₩5,723,803,902,609	₩213,593,043,042	₩7,081,557,239,322

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

KT&G CORPORATION
Condensed separate interim statements of changes in equity, continued

For the first quarter ended March 31, 2020

<i>In Korean won</i>	Ordinary shares	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Total equity
Balance at January 1, 2020	₩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
Total comprehensive income (loss) for the period:							
Profit for the period	-	-	-	-	-	260,758,393,674	260,758,393,674
Other comprehensive income (loss) for the period:							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(253,172,142)	(253,172,142)
Gain (loss) on valuation of fair value through other comprehensive income or loss	-	-	-	-	(45,104,855,619)	-	(45,104,855,619)
Sum of other comprehensive income (loss) for the period	-	-	-	-	(45,104,855,619)	(253,172,142)	(45,358,027,761)
Total comprehensive income (loss) for the period	-	-	-	-	(45,104,855,619)	260,505,221,532	215,400,365,913
Transactions with owners of the Company:							
Dividends	-	-	-	-	-	(556,951,661,200)	(556,951,661,200)
Transfer to other reserve	-	-	-	-	331,300,012,585	(331,300,012,585)	-
Total transactions with owners of the Company	-	-	-	-	331,300,012,585	(888,251,673,785)	(556,951,661,200)
Balance at March 31, 2020	₩954,959,485,000	₩3,582,160,908	₩ (318,789,449,459)	₩528,894,053,906	₩6,009,380,885,237	₩260,505,221,532	₩7,438,532,357,124

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

KT&G CORPORATION

Condensed separate interim statements of cash flows

For the first quarters ended March 31, 2020 and 2019

<i>In Korean won</i>	<i>Notes</i>	1Q/2020	1Q/2019
Cash flows from operating activities		₩75,998,423,544	₩558,268,027,164
Cash generated from operations	27	149,160,834,294	559,740,129,836
Income taxes paid		(73,162,410,750)	(1,472,102,672)
Cash flows from investing activities		(13,169,036,414)	(199,332,387,568)
Interest received		6,330,165,732	5,439,570,307
Dividends received		5,238,982,031	4,274,267,699
Decrease in other financial assets		116,340,300,000	410,000,000,000
Decrease in current fair value through profit or loss		40,538,960,680	-
Decrease in long-term fair value through profit or loss		31,088,060,098	-
Decrease in long-term deposits in MSA Escrow Fund		31,199,204,931	-
Proceeds from disposal of property, plant and equipment		2,508,662,055	297,626,800
Proceeds from disposal of intangible assets		-	92,687,683
Disposal of investment properties		2,785,120,000	-
Disposal of assets held for sale		432,000,000	-
Collection of loans		2,795,572,814	2,852,275,728
Collection of guarantee deposits		-	30,000,000
Increase in other financial assets		(156,340,300,000)	(30,000,000,000)
Increase in current fair value through profit or loss		-	(502,584,157,200)
Increase in long-term fair value through profit or loss		(300,000,000)	-
Increase in long-term deposits in MSA Escrow Fund		(46,579,971,731)	(23,465,401,339)
Acquisition of property, plant and equipment		(20,904,414,550)	(31,602,168,504)
Acquisition of intangible assets		(12,954,588,467)	(1,108,445,996)
Acquisition of investment properties		(12,698,797,475)	(30,068,909,248)
Acquisition of assets held for sale		(18,197,470)	-
Increase in loans		(2,629,678,407)	(3,489,733,498)
Increase in guarantee deposits		(116,655)	-
Cash flows from financing activities		(1,952,739,196)	(1,556,180,495)
Interest paid		(116,521,075)	(234,382,944)
Repayment of lease liabilities		(1,836,218,121)	(1,321,797,551)
Net increase in cash and cash equivalents		60,876,647,934	357,379,459,101
Cash and cash equivalents at January 1		656,775,412,332	748,123,323,519
Effect of exchange rate fluctuation on cash and cash equivalents		(1,491,893,714)	647,775,727
Cash and cash equivalents at March 31		₩716,160,166,552	₩1,106,150,558,347

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

[This page is intentionally left blank]

KT&G CORPORATION

Notes to the condensed separate interim financial statements

As of March 31, 2020, and December 31, 2019, and for the first quarters ended March 31, 2020 and 2019

1. Overview of the Company

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of March 31, 2020, the Company has three manufacturing plants, including Shintanjin plant, and 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 March 31, 2020, are as follows:

	Number of shares	Percentage of ownership (%)
National Pension Service	15,351,984	11.18
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	3,071,614	2.24
Treasury shares	10,712,574	7.80
Others	98,645,840	71.85
Total	137,292,497	100.00

2. Significant Accounting Policies

2.1 Basis of Preparation

The condensed separate interim financial statements of the Company (the “Company”) have been prepared in accordance with Korean International Financial Reporting Standard (“K-IFRS”) No. 1034 ‘Interim Financial Reporting.’ These condensed separate interim financial statements have been prepared in accordance with K-IFRS that are effective or early adopted as of March 31, 2020 at the end of the reporting period.

The condensed separate interim financial statements of the Company were authorized for issue by the board of directors’ meeting held on May 13, 2020.

2.2 Changes in Accounting Policies and Disclosures

(1) Amended standards adopted by the Company

The Company has applied the following amended standards for the first time for its annual reporting period commencing on January 1, 2020.

- 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 has made amendments to K-IFRS No. 1001 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.

- 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.

- Amendments to K-IFRS No. 1109 ‘Financial Instruments’, K-IFRS No. 1039 ‘Financial Instruments: Recognition and Measurement’ and K-IFRS No. 1107 ‘Financial Instruments : Disclosures’ – interest rate indicator reform

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.

There are no material effects of the above mentioned amendments made to K-IFRSs on the condensed separate interim financial statements of the Company as of March 31, 2020.

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

There are no new and amended standards and interpretations which have not yet been adopted by the Company.

2.3 Accounting Policies

Accounting policies applied in presenting condensed separate interim financial statements are identical to those applied in presenting the previous term separate financial statements, except for the amendments described in Note 2.2.

3. Critical Accounting Estimates and Assumptions

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

The critical accounting estimates and assumptions used in presenting the condensed separate interim financial statements are identical to those applied in presenting the previous term separate financial statements.

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.

<i>In millions of Korean won</i>			1Q/2020	1Q/2019
Revenue recognized at a point in time:				
Manufacture and sales of tobacco	Korea	Wholesale, retail	₩421,289	₩421,241
		Direct sales	33	36
Sales of tobacco product	Export	Wholesale, retail	116,893	131,354
	Korea	Wholesale, retail	12,861	25,558
Manufacture and sale of semifinished tobacco products		Direct sales	807	780
	Export	Direct sales	18,739	11,936
Manufacture and sale of tobacco raw materials	Export	Direct sales	1,344	1,520
Others	Korea	Direct sales	1,017	689
	Export	Direct sales	1,122	1,655
Subtotal			574,105	594,769
Revenue recognized over time:				
Sale and rental of real estate	Korea	Sales	67,944	47,338
	Korea	Rental	18,459	16,564
Others	Export	Royalty	787	-
Subtotal			87,190	63,902
Total			₩661,295	₩658,671

5. Trade and Other Receivables

(1) Trade and other receivables as of March 31, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	March 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Trade receivables	₩767,712	₩ 27,465	₩710,365	₩ 25,345
Loans	10,441	52,745	10,116	51,536
Other receivables	29,144	9,695	28,862	8,617
Guarantee deposits	23,043	24,282	24,599	21,395
Accrued income	5,015	4,075	6,218	4,190
Total	₩835,355	₩118,262	₩780,160	₩111,083

(2) Allowances for doubtful accounts in relation to trade and other receivables (as a gross amount before deduction of allowances for doubtful accounts) as of March 31, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	March 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Total carrying amount	₩926,704	₩189,562	₩877,023	₩180,731
Allowances:				
Trade receivables	(90,642)	(36,139)	(96,165)	(33,163)
Other receivables	(707)	(35,161)	(698)	(36,485)
Total allowances	(91,349)	(71,300)	(96,863)	(69,648)
Net trade and other receivables	₩835,355	₩118,262	₩780,160	₩111,083

(3) Changes in allowance for doubtful accounts in relation to trade and other receivables for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩166,511	₩143,535
Impairment loss (reversal)	(3,862)	(1,066)
Ending balance	₩162,649	₩142,469

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

6. Inventories

(1) Inventories as of March 31, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	March 31, 2020			December 31, 2019		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 34,271	₩ (13,601)	₩ 20,670	₩ 33,336	₩ (12,913)	₩ 20,423
Finished goods	126,290	(6,349)	119,941	103,025	(5,465)	97,560
Work in progress	13,176	-	13,176	11,929	-	11,929
Raw materials	718,637	-	718,637	739,464	-	739,464
Supplies	31,696	-	31,696	30,437	-	30,437
By-products	7,167	-	7,167	7,029	-	7,029
Buildings under construction	7,093	-	7,093	6,178	-	6,178
Completed buildings	2,030	-	2,030	2,215	-	2,215
Sites for construction of real estate	11,017	-	11,017	10,274	-	10,274
Goods in transit	67,837	-	67,837	42,634	-	42,634
Total	₩1,019,214	₩ (19,950)	₩999,264	₩986,521	₩ (18,378)	₩968,143

(2) The amount of loss (reversal of loss) on valuation of inventories and loss on obsolescence of inventories recognized for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Cost of sales:		
Loss(reversal of loss) on valuation of inventories	₩1,572	₩ (373)
Loss on obsolescence of inventories	243	1,024
Total	₩1,815	₩ 651

7. Investments in Associates and Joint Ventures

Investments in associates and joint ventures as of March 31, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Location	Principal Operation	March 31, 2020		December 31, 2019		
			Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	
	LSK Global Pharma Services Co., Ltd.	Korea	Researching and developing medicine	23.15	₩ -	23.15	₩ -
Associates	Lite Pharm Tech, Inc. ¹⁾	Korea	Manufacturing medical supplies	16.75	1,830	16.75	1,830
	Yong In Jung Sim Co., Ltd. ²⁾	Korea	Developing real estate	20.00	1,000	22.22	1,000
	KB Gimpo Logistics CR REIT Co., Ltd. ³⁾	Korea	Renting real estate	12.00	3,000	12.00	3,000
Joint ventures	KORAMCO Private REIT 50 Fund ⁴⁾	Korea	Renting real estate	84.21	16,000	84.21	16,000
	KORAMCO Europe Private REIT 3-2 Fund ⁴⁾	Korea	Renting real estate	51.35	18,500	51.35	18,500
	Starfield Suwon	Korea	Developing and Renting real estate	50.00	12,000	50.00	12,000
Total				₩52,330		₩52,330	

- 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) Due to other shareholder party's additional investment in Yong In Jung Sim Co., Ltd. in accordance with the shareholders' agreement during the first quarter ended March 31, 2020, there has been a change in the Company's holding in the invested company.
- 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 Company and Korea Tobacco and Ginseng Benefit Association, holding 12% shares each, as the voting rights of 76% shares held by the collective investment business entity restricted from having an impact on a resolution of the investee by the Financial Investment Services and Capital Markets Act.
- 4) 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.

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 a ₩9,051 million gain on disposal of investments in associates was recognized during the year ended December 31, 2019.

8. Investments in subsidiaries

(1) Investments in subsidiaries as of March 31, 2020 and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Location	Principal operation	March 31, 2020		December 31, 2019	
			Percentage of ownership(%)	Carrying amount	Percentage of ownership(%)	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00	₩ 762,130	100.00	₩ 762,130
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 Sanayi ve Ticaret A.S.	Turkey	Manufacturing and selling tobaccos	99.99	-	99.99	1,414
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	79,670
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	22,759
Renzoluc Pte., Ltd. (*)	Singapore	Holding Company	100.00	148,834	100.00	148,834
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	3,724
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00	1,082	100.00	1,082
Gwacheon SangSang P.F.V.	Korea	Real estate development and sales business	51.00	3,570	51.00	3,570
Total				₩1,156,810		₩1,158,224

(*) The percentage of ownership does not include convertible preferred shares, but will be 88.60% if preferred shares are included as of March 31, 2020.

For 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 a subsidiary's net assets is lower than the carrying amount of the Company's investment in the subsidiary, due to accumulation of operating losses for the first quarters ended March 31, 2020 and 2019.

<i>In millions of Korean won</i>	1Q/2020	1Q/2019	Method for evaluating recoverable amount
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	₩1,414	₩3,800	Fair value
Cosmocos Co., Ltd.	-	1,171	Fair value
SangSang Stay, Inc.	-	1,594	Value in use
			(As on March 31, 2019: Fair value)
Total	₩1,414	₩6,565	

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

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

9. Property, Plant and Equipment

Changes in property, plant and equipment for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩1,116,325	₩1,200,907
Acquisition	18,719	29,890
Disposal/obsolescence/impairment loss	(756)	(436)
Depreciation	(22,254)	(20,637)
Reclassification, etc.	(32,131)	(4,837)
Ending balance	₩1,079,903	₩1,204,887

10. Intangible Assets

Changes in intangible assets for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩58,861	₩31,329
Acquisition	12,955	1,108
Disposal/obsolescence/impairment loss	(40)	(89)
Depreciation	(1,492)	(20)
Reclassification, etc.	(14,041)	-
Ending balance	₩56,243	₩32,328

11. Investment property

Changes in investment property for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩ 999,105	₩606,679
Acquisition	12,699	30,069
Disposal/obsolescence/impairment loss	(2,929)	-
Depreciation	(5,517)	(3,991)
Reclassification, etc.	44,843	(1,440)
Ending balance	₩1,048,201	₩631,317

12. Assets Held for Sale

(1) Changes in assets held for sale for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩4,680	₩27,794
Acquisition	18	-
Transfer from property, plant and equipment	1,329	6,128
Disposal	(433)	-
Ending balance	₩5,594	₩33,922

13. Right-of-use assets

Changes in right-of-use assets for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩18,545	₩ -
Changes in accounting policies	-	18,596
Acquisition	1,040	110
Disposal	(118)	-
Depreciation	(2,149)	(1,670)
Ending balance	₩17,318	₩17,036

14. Borrowings

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 recognize them as short-term borrowings. Details of the short-term borrowings as of March 31, 2020 and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Annual interest rate(%)	March 31, 2020	December 31, 2019
Nonghyup Bank	6.02	₩663	₩ 763
HanaCard	4.14	183	244
Total		₩846	₩1,007

15. Employee Benefits

(1) Profit or loss recognized related to employee benefits for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Defined benefit plans:		
Current service cost	₩ 7,724	₩ 7,260
Net interest on net defined benefit liabilities	101	199
Subtotal	7,825	7,459
Defined contribution plan:		
Contributions recognized as expense	1,836	1,964
Other long-term employee benefits:		
Current service cost, etc.	763	598
Termination benefits:		
Voluntary retirements, etc.	2,295	3,782
Total	₩12,719	₩13,803

(2) Net defined benefit liabilities as of March 31, 2020, and December 31, 2019, are summarized as follows:

<i>In millions of Korean Won</i>	March 31, 2020	December 31, 2019
Present value of defined benefit obligation	₩355,718	₩352,428
Fair value of plan assets	(328,887)	(330,329)
Total	₩ 26,831	₩ 22,099

16. Refund Liabilities and Provisions

(1) Refund liabilities and provisions as of March 31, 2020 and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	March 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 3,038	₩ -	₩3,694	₩ -
Provision for refund	4,712	259	4,758	265
Provision for site restoration	6,600	95	6,600	95
Provision for financial guarantee	-	434	-	492
Total	₩14,350	₩788	₩15,052	₩852

(2) Changes in refund liabilities and provisions for the first quarter ended March 31, 2020, are as follows:

<i>In millions of Korean won</i>	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 3,694	₩630	₩ (1,286)	₩ 3,038
Provision for refund	5,023	9	(61)	4,971
Provision for site restoration	6,695	-	-	6,695
Provision for financial guarantee	492	-	(58)	434
Total	₩15,904	₩639	₩ (1,405)	₩15,138

Changes in refund liabilities and provisions for the first quarter ended March 31, 2019, are as follows:

<i>In millions of Korean won</i>	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩3,497	₩1,951	₩(2,101)	₩3,347
Provision for refund	3,139	942	(150)	3,931
Provision for site restoration	104	-	-	104
Provision for financial guarantee	700	27	(58)	669
Total	₩7,440	₩2,920	₩(2,309)	₩8,051

17. Retained Earnings

Changes in retained earnings for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩888,252	₩791,027
Dividends	(556,952)	(505,061)
Transfer to other reserve	(331,300)	(285,966)
Profit for the period	260,758	214,080
Re-measurements of net defined benefit liabilities(after tax)	(253)	(487)
Ending balance	₩260,505	₩213,593

18. Real Estate Sales Contracts

(1) Real estate sales contracts under construction as of March 31, 2020, 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 ¹⁾		3,818	1,292
Total		₩1,304,748	₩1,295,060

¹⁾ Construction has been completed as of March 31, 2020, but resale is underway due to cancellation of the sales contract.

(2) Changes in balance of contract amount for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩820,783	₩1,173,116
Revenue recognition ¹⁾	(67,715)	(47,338)
Ending balance	₩753,068	₩1,125,778

¹⁾ As of March 31, 2020, ₩229 million (₩ - million as of March 31, 2019) of revenue recognition from Dae-gu central Xi under resale was not included due to the cancellation of the real estate sales contract.

(3) Cumulative revenue and cumulative cost of the sales contract under construction as of March 31, 2020, are as follows:

<i>In millions of Korean won</i>	Progress (%)	Cumulative revenue	Cumulative cost
Suwon hwaseo park prugio(Apartment)	41.83	₩496,481	₩204,288
Suwon hwaseo park prugio(Efficiency apartment)	41.42	44,218	26,640
Total		₩540,699	₩230,928

(4) No material changes in estimated gross contract revenues and total contract costs have occurred during the first quarter ended March 31, 2020. The estimated gross contract revenue and total contract cost of the ongoing sales contracts are based on the circumstances that have occurred till March 31, 2020, and can be subject to change in the future.

19. Operating Expenses

(1) Expenses, classified by nature, incurred for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Changes in inventories	₩(31,121)	₩ 6,953
Raw materials used and merchandise purchased	161,397	166,664
Salaries	98,447	88,729
Retirement and termination benefits	11,956	13,205
Depreciation	29,920	26,298
Amortization	1,492	20
Employee welfare	11,525	10,589
Advertising	21,756	22,946
Commissions	40,628	33,630
Other expenses	65,417	36,958
Total	₩411,417	₩405,992

(2) Selling, general and administrative expenses for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Salaries	₩ 67,776	₩ 61,665
Retirement and termination benefits	8,733	9,391
Employee welfare	8,028	7,433
Travel expenses	1,279	2,175
Communication cost	662	617
Utilities	3,045	2,894
Taxes and dues	1,193	1,088
Supplies	820	454
Rent	1,571	2,083
Depreciation	9,079	9,533
Amortization	1,491	20
Repairs and maintenance	784	496
Vehicles	880	842
Insurance	437	490
Commissions	30,642	24,315
Freight and custody	2,199	2,207
Conferences	590	843
Advertising	21,744	22,923
Education and training	956	898
Prizes and rewards	497	396
Research and development	4,602	3,440
Impairment loss (reversal of impairment loss) on trade receivables	(2,723)	490
Total	₩164,285	₩154,693

20. Other Income and Expense

(1) Other income for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Gain on foreign currency transaction	₩50,493	₩ 1,534
Gain on foreign currency translation	27,003	25,145
Reversal of impairment loss on other receivables	1,788	1,625
Gain on disposal of property, plant and equipment	609	-
Gain on disposal of intangible assets	-	3
Gain on lease contract adjustments	12	-
Miscellaneous income	5,104	1,882
Total	₩85,009	₩30,189

(2) Other expense for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Loss on foreign currency transaction	₩ 4,337	₩ 680
Loss on foreign currency translation	12,003	215
Loss on valuation of derivatives	16,829	5,198
Loss on impairment of other receivables	649	69
Loss on disposal of property, plant and equipment	423	-
Loss on impairment of property, plant and equipment	-	436
Loss on disposal of intangible assets	40	-
Loss on disposal of assets held for sale	1	-
Loss on disposal of investment properties	144	-
Loss on impairment of investment in subsidiaries	1,414	6,565
Donations	1,048	536
Miscellaneous loss	23	438
Total	₩36,911	₩14,137

21. Finance Income and Cost

Net finance income for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Finance income:		
Interest income ¹⁾	₩ 6,111	₩ 5,488
Dividend income	11,549	10,172
Gain on valuation of fair value through profit or loss	15,071	16,232
Gain on disposal of long-term deposits in MSA Escrow Fund	29,303	-
Total finance income	62,034	31,892
Finance cost:		
Interest expense	449	507
Loss on valuation of fair value through profit or loss	4,751	5,820
Total finance cost	5,200	6,327
Net finance income	₩56,834	₩25,565

¹⁾ The interest income is from financial instruments measured at amortized cost.

22. Income Tax Expense

The income tax expense was calculated by adjusting the adjustments recognized in the current quarter and the previous quarter for current tax, deferred tax expense(income) due to the occurrence and disappearance of temporary differences, and income tax expense(income) related to items that are recognized outside profit or loss. The average effective tax rates for the current quarter and the previous quarter are 26.51% and 27.26%, respectively.

23. EPS

EPS and accounting profit for the first quarters ended March 31, 2020 and 2019, are as follows:

	1Q/2020	1Q/2019
Profit for the period attributable to owners of the Company	₩260,758 million	₩214,080 million
Weighted-average number of ordinary shares outstanding	126,579,923 shares	126,265,127 shares
Basic and diluted EPS	₩ 2,060	₩ 1,695

24. Related Parties

(1) Parent and subsidiary relationships and related companies as of March 31, 2020, and December 31, 2019, are as follows:

	Notes	Location	March 31, 2020			December 31, 2019		
			Parent(%)	Subsidiary(%)	Total	Parent(%)	Subsidiary(%)	Total
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
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
Subsidiaries KT&G Global Rus L.L.C.		Russia	100.00	-	100.00	100.00	-	100.00
Gwacheon Sangsang PFV		Korea	51.00	-	51.00	51.00	-	51.00
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 Yebon Corporation	(*2)	Korea	-	100.00	100.00	-	100.00	100.00
KGC Life & Gin Co., Ltd.		Korea	-	100.00	100.00	-	100.00	100.00
Jilin Hanzheng Ginseng Co., Ltd.		China	-	100.00	100.00	-	100.00	100.00
Cheong Kwan Jang Taiwan Corporation		Taiwan	-	100.00	100.00	-	100.00	100.00
Korean Red Ginseng Corp., Inc.		USA	-	100.00	100.00	-	100.00	100.00
Korea Ginseng (China) Corp.		China	-	100.00	100.00	-	100.00	100.00
Korea Ginseng Corporation Japan		Japan	-	100.00	100.00	-	100.00	100.00
PT Trisakti Purwosari Makmur	(*3)	Indonesia	-	99.99	99.99	-	99.99	99.99
PT Nusantara Indah Makmur		Indonesia	-	99.99	99.99	-	99.99	99.99
Associates LSK Global Pharma Services Co., Ltd.		Korea	23.15	-	23.15	23.15	-	23.15
Lite Pharm Tech, Inc.	(*4)	Korea	16.75	-	16.75	16.75	-	16.75
Yong In Jung Sim Co., Ltd.	(*5)	Korea	20.00	-	20.00	22.22	-	22.22
Joint ventures KB Gimpo Logistics CR REIT Co., Ltd.	(*6)	Korea	12.00	-	12.00	12.00	-	12.00
KORAMCO Private REIT 50 Fund	(*7)	Korea	84.21	-	84.21	84.21	-	84.21
KORAMCO Europe Private REIT 3-2 Fund	(*7)	Korea	51.35	-	51.35	51.35	-	51.35
Starfield Suwon		Korea	50.00	-	50.00	50.00	-	50.00

(*1) The percentage of ownership does not include convertible preferred shares, but will be 88.60% if preferred shares are included as of March 31, 2020.

(*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) 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.

(*5) Due to other shareholder party's additional investment in Yong In Jung Sim Co., Ltd. in accordance with the shareholders' agreement during the first quarter ended March 31, 2020, there has been a change in the Company's holding in the invested company.

(*6) 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 Company and Korea Tobacco and Ginseng Benefit Association, holding 12% shares each, as the voting rights of 76% shares held by the collective investment business entity restricted from having an impact on a resolution of the investee by the Financial Investment Services and Capital Markets Act.

(*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 that control the arrangement collectively.

(2) The Company carries out transactions with related parties such as sales of goods and services, the details of transactions with related parties for the first quarters ended March 31, 2020, and 2019, are as follows:

① Sales and other income

<i>In millions of Korean won</i>		1Q/2020	1Q/2019
	Korea Ginseng Corporation	₩ 2,012	₩ 1,848
	Yungjin Pharm. Co., Ltd.	55	40
	Tae-A Industry Co., Ltd.	95	3
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. (*)	3,893	856
	Korea Tobacos do Brasil Ltda.	1	1
	KT&G Rus L.L.C. (*)	9,912	3,833
	KT&G USA Corporation	39,308	14,540
	Cosmococ Co., Ltd.	8	9
Subsidiaries	PT KT&G Indonesia(*)	259	248
	SangSang Stay, Inc.	1,329	1,519
	KGC Yebon Corporation	4	5
	KGC Life & Gin Co., Ltd.	20	24
	PT Trisakti Purwosari Makmur(*)	2,779	-
	PT Trisakti Purwosari Makmur (Previously PT Mandiri Maha Mulia) (*)	-	4,145
	PT Trisakti Purwosari Makmur (Previously PT Sentosa Ababi Purwosari)	-	15
	Total	₩59,675	₩27,086

(*) These figures exclude impairment loss (reversal) on receivable for related parties which is ₩1,057 million for the first quarter ended March 31, 2020 (₩(3,789) million for the first quarter ended March 31, 2019).

② Purchases and other expenses

<i>In millions of Korean won</i>		1Q/2020	1Q/2019
	Korea Ginseng Corporation	₩ 482	₩ 806
	Yungjin Pharm. Co., Ltd.	-	210
	Tae-A Industry Co., Ltd.	3,831	3,401
Subsidiaries	Cosmococ Co., Ltd.	245	474
	SangSang Stay, Inc.	5	9
	KGC Yebon Corporation	36	53
	KGC Life & Gin Co., Ltd.	-	1
	Total	₩4,599	₩4,954

(3) Account balances of receivables and payables with related parties as of March 31, 2020, and December 31, 2019, are summarized as follows:

<i>In millions of Korean won</i>	March 31, 2020		December 31, 2019	
	Receivables	Payables	Receivables	Payables
Korea Ginseng Corporation	₩ 759	₩ 1,891	₩ 608	₩ 1,898
Yungjin Pharm. Co., Ltd.	115	58	175	58
Tae-a Industry Co., Ltd.	-	5,607	-	4,420
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.(*)	44,523	-	39,797	-
Korea Tabacos do Brasil Ltda.	110	-	109	-
KT&G Pars(*)	44,525	-	44,525	-
KT&G Rus L.L.C.(*)	48,414	-	65,474	-
Subsidiaries KT&G USA Corporation	41,627	306	16,350	290
Cosmococ Co., Ltd.	5	3	33	2
PT KT&G Indonesia(*)	33,213	-	31,204	-
SangSang Stay, Inc.	474	-	-	-
KGC Yebon Corporation	-	212	-	-
KGC Life & Gin Co., Ltd.	-	120	-	120
PT Trisakti Purwosari Makmur(*)	19,584	-	21,626	-
Joint ventures KB Gimpo Logistics CR REIT Co., Ltd.	-	-	99	-
KORAMCO Private REIT 50 Fund	40	-	523	-
Starfield Suwon	-	16,020	-	16,020
Total	₩233,389	₩24,217	₩220,523	₩22,808

(*) These figures are gross amounts before the deduction of allowance for doubtful accounts. Allowance for doubtful accounts as of March 31, 2020 and December 31, 2019, were ₩74,655 million and ₩73,598 million, respectively.

(4) Transactions of purchase and sales of right-of-use assets and property, plant and equipment with related parties, for the first quarters ended March 31, 2020, and 2019 are as follows:

<i>In millions of Korean won</i>	1Q/2020		1Q/2019	
	Right-of-use assets purchase	Property, plant and equipment sales	Property, plant and equipment sales	
Tae-A Industry Co., Ltd. (*)	₩ -	₩432	₩ -	-
KGC Yebon Corporation	229	-	-	-
Subsidiaries PT Trisakti Purwosari Makmur(*)	-	102	-	-
PT Trisakti Purwosari Makmur (Previously PT Sentosa Ababi Purwosari)	-	-	-	31
Total	₩229	₩534		₩31

(*) As of March 31, 2020, excludes property, plant and equipment to be sold to PT Trisakti Purwosari Makmur amount of ₩1,347 million recognized as assets held for sale in the condensed separate interim statement of financial position (as of December 31, 2019: property, plant and equipment to be sold to Tae-A Industries amount to ₩433 million).

(5) Fund transactions with related parties for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>		1Q/2020	1Q/2019
		Repayment of lease liabilities	Collection of loans
Subsidiaries	KGC Yebon Corporation	₩17	₩ -
Associates	LSK Global Pharma Services Co., Ltd.	-	150
Total		₩17	₩150

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

(7) As of March 31, 2020, the Company is being provided with a payment guarantee from the Federal Insurance Company up to USD 21,900 thousand in relation to import clearance for KT&G USA Corporation. There is a recourse obligation for the Company up to the executed amount of the guarantee (see Note 26 (3)).

(8) As of March 31, 2020, the Company has a land contract with its joint venture, Starfield Suwon, and has received a down payment of ₩16,020 million from the total ₩160,200 million. The Company has classified the down payment as 'advance receipts' as of March 31, 2020. Ownership of the land will be transferred upon the payment of the balance, which will be on the date of commencement of the construction work (see Note 26 (4)).

(9) Key management personnel compensation for the first quarters ended March 31, 2020 and 2019, are summarized as follows:

<i>In millions of Korean won</i>		1Q/2020	1Q/2019
Short-term and long-term employee benefits		₩5,106	₩3,929
Retirement benefits		528	478
Total		₩5,634	₩4,407

25. 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 condensed separate interim financial statements. The finance department of the Company is responsible for monitoring and managing the financial risks associated with the operations in accordance with the risk management policies and procedures approved by the board of directors, and it periodically analyses the nature and exposure of the financial risks. In addition, the Company's audit committee continuously reviews compliance with risk management policies and procedures and limits on risk exposure. The Company's overall financial risk management strategy is the same as the previous one.

(1) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the fair value or future cash flow of the Company's 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 is exposed to the risk of changes in foreign exchange rates in relation to the export and import of tobacco. The Company's management is internally measuring the currency risk on a regular basis.

② Price risk

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

③ Interest rate risk

The Company is exposed to interest rate fluctuation risk in relation to the borrowings, lease liabilities and trade payables and other payables. 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 interest bearing liabilities of the Company as of March 31, 2020, the effect of changes in interest rates on the fair values of financial liabilities 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 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, readjusts the collateral level by reassessing the client's creditworthiness, 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 March 31, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	March 31, 2020	December 31, 2019
Cash and cash equivalents (excluding cash on hand) ¹⁾	₩ 270,693	₩ 202,192
Other financial assets	420,137	380,137
Fair value through profit or loss ¹⁾	1,872,446	1,942,584
Trade and other receivables	953,617	891,243
Long-term deposits in MSA Escrow Fund	840,342	751,437
Derivative assets	-	2,277
Total	₩4,357,235	₩4,169,870

¹⁾Of the cash equivalents as of March 31, 2020, ₩445,264 million (as of December 31, 2019: ₩454,395 million) of the money market trust is included in the financial assets measured at fair value through profit or loss.

(3) Liquidity risk

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

(4) The carrying amounts of each category of financial assets and liabilities as of March 31, 2020, and December 31, 2019, are summarized as follows:

<i>In millions of Korean won</i>	March 31, 2020	December 31, 2019
Financial assets:		
Fair value through profit or loss ¹⁾	₩1,872,446	₩1,942,584
Fair value through other comprehensive income or loss	178,242	240,456
Derivative assets	-	2,277
Financial assets measured at amortized cost		
- Cash and cash equivalents ¹⁾	270,896	202,380
- Other financial assets	420,137	380,137
- Trade and other receivables	953,617	891,243
- Long-term deposits in MSA Escrow Fund	840,342	751,437
Subtotal	2,484,992	2,225,197
Total financial assets	₩4,535,680	₩4,410,514
Financial liabilities:		
Derivative liabilities	₩ 9,016	₩ -
Financial liabilities measured at amortized cost		
- Short-term borrowings	846	1,007
- Trade and other payables	789,390	209,223
- Lease liabilities	16,866	18,128
Subtotal	807,102	228,358
Total financial liabilities	₩816,118	₩228,358

¹⁾ Of the cash equivalents as of March 31, 2020, ₩445,264 million (as of December 31, 2019: ₩454,395 million) of the money market trust is included in the financial assets measured at 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 March 31, 2020, and December 31, 2019, are as follows:

① As of March 31, 2020

<i>In millions of Korean won</i>	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss ¹⁾	₩1,872,446	₩ -	₩1,652,643	₩219,803
Fair value through other comprehensive income or loss	178,242	129,716	-	48,526
Derivative liabilities	9,016	-	9,016	-
Total	₩2,059,704	₩129,716	₩1,661,659	₩268,329

¹⁾ Of the cash equivalents as of March 31, 2020, ₩445,264 million of the money market trust is included in the financial assets measured at fair value through profit or loss.

② As of December 31, 2019

<i>In millions of Korean won</i>	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss ¹⁾	₩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

¹⁾ Of the cash equivalents as of December 31, 2019, ₩454,395 million of the money market trust is included in the financial assets measured at fair value through profit or loss.

There was no movement between levels of the fair value hierarchy during the first quarters ended March 31, 2020 and 2019.

As of March 31, 2020, and December 31, 2019, 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 adjusted net asset method and discounted cash flow and was classified as Level 3 fair value based on the inputs used in the valuation technique. The changes in Level 3 fair value for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩297,453	₩260,595
Acquisition	300	-
Disposal	(31,088)	-
Changes in fair value	1,664	(1,657)
Ending balance	₩268,329	₩258,938

(6) Net gains or losses by category of financial instruments for the first quarters ended March 31, 2020 and 2019, are as follows:

① For the first quarter ended March 31, 2020

<i>In millions of Korean won</i>	Fair value through profit or loss	Fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩ 6,111	₩ -	₩ 6,111
Dividend income	3,630	7,919	-	-	-	11,549
Gain or loss on valuation	10,320	-	(16,829)	-	-	(6,509)
Gain on disposal	-	-	-	29,303	12	29,315
Interest expense	-	-	-	-	(449)	(449)
Reversal of impairment loss	-	-	-	3,862	-	3,862
Total	₩ 13,950	₩ 7,919	₩(16,829)	₩ 39,276	₩ (437)	₩ 43,879
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩(62,213)	₩ -	₩ -	₩ -	₩ (62,213)

② For the first quarter ended March 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 period:						
Interest income	₩ -	₩ -	₩ -	₩5,488	₩ -	₩ 5,488
Dividend income	3,336	6,835	-	-	-	10,171
Gain or loss on valuation	10,413	-	(5,198)	-	-	5,215
Interest expense	-	-	-	-	(507)	(507)
Reversal of impairment loss	-	-	-	1,066	-	1,066
Total	₩ 13,749	₩ 6,835	₩ (5,198)	₩6,554	₩(507)	₩21,433
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ 10,763	₩ -	₩ -	₩ -	₩10,763

26. Contingent Liabilities and Commitments

(1) Litigation cases

As of March 31, 2020, the Company has 4 cases of pending litigations under progress where the Company is the defendant and the litigation value is ₩55,043 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of March 31, 2020, on the condensed separate interim financial statements of the Company.

(2) Commitments with financial institutions

Major commitments of the Company with financial institutions as of March 31, 2020, are as follows:

In millions of Korean won, or thousands of US dollars

Type	Financial institutions	Currency	Limit
Opening import letter of credits	KEB Hana Bank and one other	USD	110,000
Derivatives trading ¹⁾	KEB Hana Bank and three others	USD	227,700
Group loans	KEB Hana Bank	KRW	300,000

¹⁾ Derivatives are composed of foreign exchange forward contracts and are held for trading as of March 31, 2020.

(3) Payment guarantees and collateral

Payment guarantees and collateral provided by other parties to the Company as of March 31, 2020, are as follows:

In millions of Korean won, or thousands of US dollars

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	948,291	Housing distribution guarantee
Korea Trade Insurance Corporation	USD	83,755	Export guarantee insurance
Seoul Guarantee Insurance	KRW	2,506	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	15,955	Escrow deposit guarantee
KEB Hana Bank	USD	2,000	Performance guarantee related to exporting reconstituted tobacco leaves
NH Nonghyup Bank	KRW	3,000	Collateral on local tax payment

As of March 31, 2020, the Company is provided with payment guarantees from Federal Insurance Company (based in the United States), and has recourse responsibilities for the amount of guarantees executed. The purpose of such payment guarantees includes KT&G USA Corporation's imports and customs clearance.

Execution of payment guarantees as of March 31, 2020, is as follows:

In thousands of US dollar

Provider	Currency	Limit	Execution amount	Details
Federal Insurance Company	USD	21,900	21,900	Import duty payment guarantee

Payment guarantees provided by the Company for other parties as of March 31, 2020, are as follows:

In millions of Korean won

	Guarantee user	Limit	Execution amount
Loan guarantee for the intermediate payment	Shinhan Bank	₩ 79,400	₩30,336
	KEB Hana Bank	60,000	24,792
	Suhyup Bank	9,480	4,527
Total		₩148,880	₩59,655

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(see Note 14).

Assets pledged as collateral as of March 31, 2020, are as follows:

<i>In millions of Korean won</i>	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Investment property	₩369,494	₩21,117	₩22,127	MetLife Insurance, etc.	Establishment of right to collateral security and leasehold for leasehold deposits
Property, plant and equipment	23,558	3,390	3,390	Korea Technology Finance Corporation(“KOTEC”), 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 real estate development
	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
Total	₩402,189	₩25,104	₩34,654		

Financial assets limited to use as of March 31, 2020, are summarized as follows:

<i>In millions of Korean won</i>		March 31, 2020
Other financial assets	Establishment of a pledge to guarantee real estate development	₩ 8,540
	Establishment of a pledge for leasehold deposits	597
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000
	Total	₩109,137

(4) Others

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 US 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 ₩840,342 million as of March 31, 2020 (₩751,437 million as of December 31, 2019), as long-term deposits in MSA Escrow Fund, 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. In the event that 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.

As of March 31, 2020, the Company has 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 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 March 31, 2020, there is a capital call agreement for overseas real estate funds invested by the Company. However, the Company expects 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 (convenience store) companies (the Company's suppliers), 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 March 31, 2020, the Company has recognized in relation to the above event, inventory valuation loss allowance of ₩2,206 million and refund liabilities of ₩2,401 million.

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 1 year for export dumping (October 2018 to September 2019) and 3 years and 9 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 condensed separate interim financial statements.

On January 29, 2020, Philip Morris Products S.A. ("PMI") 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 one half million boxes of cigarettes from the Company every year.

In accordance with this contract, AIL's trade receivable balance against the Company will be reduced by USD 50 million from the contract date to June 30, 2020. From then on, AIL's trade receivable balance against the Company will gradually be reduced by USD 25 million every year and will be maintained at around USD 67 million by June 30, 2027.

27. Cash Flows

(1) Details of cash generated from operations for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Profit for the period	₩260,758	₩214,080
Adjustments:		
Employee welfare	537	498
Retirement benefits	7,825	7,459
Loss on valuation or obsolescence loss of inventories	1,815	651
Depreciation	29,920	26,298
Amortization	1,492	20
Impairment loss (reversal) on trade and other receivables	(3,862)	(1,066)
Loss on foreign currency translation	12,003	215
Loss on valuation of derivatives	16,829	5,198
Loss on disposal of property, plant and equipment	423	-
Loss on impairment of property, plant and equipment	-	436
Loss on disposal of intangible assets	40	-
Loss on disposal of investment properties	144	-
Loss on disposal of assets held for sale	1	-
Loss on impairment of investment in subsidiaries	1,414	6,565
Other expenses, etc.	9	2,059
Finance cost	5,200	6,327
Income tax expense	94,051	80,216
Gain on foreign currency translation	(27,003)	(25,145)
Gain on disposal of property, plant and equipment	(609)	-
Gain on disposal of intangible assets	-	(3)
Other income, etc.	(46,777)	-
Finance income	(62,034)	(31,892)
Changes in working capital:		
Increase in trade and other receivables	(36,591)	(47,464)
Increase in derivatives	(5,536)	(569)
Decrease(increase) in inventories	(66,880)	4,797
Decrease in accrued tobacco excise and other taxes	9,731	92,290
Decrease(increase) in advance payments	44,659	(2,095)
Decrease in prepaid expenses	1,361	44
Decrease in trade and other payables	(19,913)	(9,585)
Decrease in advance receipts	(49,429)	(42,375)
Increase(decrease) in tobacco excise and other taxes payable	(21,015)	272,849
Increase(decrease) in net defined benefit liabilities	598	(68)
Cash generated from operations	₩149,161	₩559,740

(2) Material transactions without cash inflow and outflow for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Reclassification of property, plant and equipment to investment properties	₩ 44,843	₩ (1,440)
Reclassification of property, plant and equipment to assets held for sale	1,329	6,128
Reclassification of retained earnings to dividends payable	556,952	505,061

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