



KT&G CORPORATION AND SUBSIDIARIES

**Consolidated Financial Statements
December 31, 2020 and 2019**

(With Independent Auditor's Report Thereon)

KT&G CORPORATION

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CONTENTS

	Page
Independent auditor's audit report	1
Consolidated financial statements	
Consolidated statements of financial position	33
Consolidated statements of comprehensive income	35
Consolidated statements of changes in equity	37
Consolidated statements of cash flows	19
Notes to the consolidated financial statements	1;

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KT&G CORPORATION AND SUBSIDIARIES

Independent auditor's audit report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 11, 2021

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

Audit Opinion

We have audited the consolidated financial statements of KT&G Corporation and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2021 and December 31, 2020, respectively, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows, for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2021 and December 31, 2020, respectively, and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Audit Opinion

We conducted our audits in accordance with the Korean Standards on Auditing ("KSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment in the cash generating unit ("CGU") of the Indonesian tobacco business

As described in Note 3.(1), the Group reviews if there is any indication of impairment for Indonesian tobacco business CGUs at the end of each reporting period. If indication of impairment is found, the Group 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.

Because the tobacco consumption tax in Indonesia is determined in conjunction with the expected output of the CGU, uncertainty exists in estimating the group's future operating profit or loss and management's significant assumptions are involved in estimating future cash flows. Considering that the carrying amount of the Indonesian tobacco business CGU is important and the management's significant assumptions are involved in the Impairment assessment, we decided Impairment assessment in CGU of the Indonesian tobacco business as a key audit matter.

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

- ① Identifying any indication of impairment in the CGU of the Indonesian tobacco business, reviewing the Impairment assessment process and evaluation results, and understanding the relevant internal control of the group.
- ② 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.
- ③ A retrospective review of the expected future cash flows of management used to measure value in use
- ④ Inquiring about key assumptions and methodologies used by management to estimate future cash flows and Verifying key assumptions and methodologies and results of value in use assessments 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.

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

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

In preparing the consolidated financial statements, management of the Group is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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 audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We are solely responsible for our audit opinion.

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 the audit committee of the Group with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all 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 consolidated financial statements of the current period and are therefore the key audit

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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 audit resulting in this independent auditor's report is Kim, Dong Hwan.

Deloitte Idnjin LLC

March 11, 2021

Notice to Readers

This report is effective as of March 11, 2021, 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 consolidated financial statements and may result in modifications to the auditors' report.

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KT&G CORPORATION AND SUBSIDIARIES

Consolidated financial statements

Full Year of the 34th Fiscal Year
from January 1, 2020, to December 31, 2020

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

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

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KT&G CORPORATION AND SUBSIDIARIES

Consolidated statements of financial position

As of December 31, 2020 and 2019

<i>In Korean won</i>	<i>Notes</i>	December 31, 2020	December 31, 2019
Assets:			
Current assets:			
Cash and cash equivalents	5,31,32	₩1,253,611,491,485	₩891,306,145,983
Current other financial assets	5,31,32,33	407,735,098,979	397,949,201,546
Current financial assets at fair value through profit or loss	6,31,32	914,423,857,131	1,239,263,067,528
Trade and other receivables	7,31	1,215,049,112,141	1,023,385,660,122
Derivative assets	31,33	12,710,170,259	2,276,640,206
Inventories	8,33	2,535,032,331,643	2,447,243,499,482
Refund assets and others	19	1,055,336,156	3,027,268,752
Accrued tobacco excise and other taxes		271,576,536,047	291,481,567,634
Advance payments	33	96,525,759,106	83,696,244,207
Prepaid expenses		39,982,310,895	33,345,254,566
Assets held for sale	4,14	2,680,613,295	4,246,922,005
Total current assets		₩6,750,382,617,137	₩6,417,221,472,031
Non-current assets:			
Long-term other financial assets	5,31,33	₩10,129,160,820	₩4,480,027,000
Long-term deposits in MSA Escrow Fund	31,33	909,793,848,086	751,437,124,245
Long-term financial assets measured at fair value through profit or loss	6,31	253,562,005,029	251,895,325,773
Long-term trade and other receivables	7,31	97,408,876,060	77,062,030,242
Long-term financial assets measured at fair value through other comprehensive income or loss	9,31	239,539,297,251	257,639,840,085
Investments in associates and joint ventures	4,10,30	132,186,631,034	49,393,336,819
Property, plant and equipment	11,33	1,718,412,218,663	1,753,739,293,657
Intangible assets	12	134,083,879,591	129,624,288,825
Investment properties	13,33	1,030,179,338,792	885,325,430,794
Right-of-use assets	15	49,088,378,254	45,483,777,486
Long-term advance payments	33	83,059,283,710	72,519,228,473
Long-term prepaid expenses		9,578,669,254	7,464,781,189
Deferred income tax assets	28	50,933,089,250	49,153,499,355
Net defined benefit assets	18	45,859,229	-
Total non-current assets		₩4,718,000,535,023	₩4,335,217,983,943
Total assets		₩11,468,383,152,160	₩10,752,439,455,974

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

KT&G CORPORATION AND SUBSIDIARIES

Consolidated statements of financial position, continued

As of December 31, 2020 and 2019

<i>In Korean won</i>	<i>Notes</i>	December 31, 2020	December 31, 2019
Liabilities and equity:			
Liabilities:			
Current liabilities:			
Short-term borrowings	16,31,34	₩17,308,208,182	₩27,066,108,741
Current portion of long-term borrowings	16,31,34	37,506,480,000	5,284,509,248
Trade and other payables	17,30,31	969,201,720,579	656,582,586,262
Current lease liabilities	31,34	19,879,792,617	18,909,138,677
Derivative liabilities	31,33	57,106,354	-
Advance receipts		100,836,686,048	77,028,657,918
Current refund liabilities and provisions	19	27,508,655,465	26,666,515,900
Current income tax liabilities	28	234,566,275,361	212,538,102,130
Tobacco excise and other taxes payables		584,576,087,074	576,018,441,937
Liabilities held for sale	14	51,000,609	-
Total current liabilities		₩1,991,492,012,289	₩1,600,094,060,813
Non-current liabilities:			
Long-term borrowings	16,31,34	₩53,492,407,968	₩90,954,077,109
Long-term trade and other payables	17,30,31	49,479,702,490	59,638,008,450
Long-term lease liabilities	31,34	25,828,963,710	24,396,626,259
Long-term advance receipts		8,193,185,016	4,154,633,329
Net defined benefit liabilities	18	112,959,451,518	91,082,736,864
Long-term refund liabilities and provisions	19	3,192,103,226	3,090,174,123
Deferred income tax liabilities	28	130,558,400,937	136,607,939,923
Non-controlling interests liabilities	31	1,615,268,761	2,835,710,820
Total non-current liabilities		₩385,319,483,626	₩412,759,906,877
Total liabilities		₩2,376,811,495,915	₩2,012,853,967,690
Equity:			
Share capital	20	₩954,959,485,000	₩954,959,485,000
Other capital surplus	20	4,497,785,722	4,497,785,722
Treasury shares	21	(531,618,093,579)	(318,789,449,459)
Gain on sale of treasury shares	21	528,894,053,906	528,894,053,906
Reserves	22	5,977,643,096,280	5,680,008,923,230
Retained earnings	23	2,102,474,813,562	1,834,645,992,314
Equity attributable to owners of the Parent Company		₩9,036,851,140,891	₩8,684,216,790,713
Non-controlling interests	35	54,720,515,354	55,368,697,571
Total equity		₩9,091,571,656,245	₩8,739,585,488,284
Total liabilities and equity		₩11,468,383,152,160	₩10,752,439,455,974

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

KT&G CORPORATION AND SUBSIDIARIES

Consolidated statements of comprehensive income

For the years ended December 31, 2020, and 2019

<i>In Korean won</i>	<i>Notes</i>	2020	2019
Sales	4,24	₩5,301,617,653,949	₩4,963,202,297,002
Cost of sales	25,30	(2,331,515,447,366)	(2,088,576,007,282)
Gross profit		2,970,102,206,583	2,874,626,289,720
Selling, general and administrative expense	25,30	(1,489,051,054,326)	(1,495,035,711,781)
Operating profit		1,481,051,152,257	1,379,590,577,939
Other income	26	289,763,573,673	105,871,084,349
Other expense	26	(267,177,604,953)	(109,668,237,441)
Finance income	27,30,31	117,770,888,247	96,704,640,503
Finance cost	27,31	(13,409,221,027)	(13,795,983,837)
Share of net profit of associates and joint ventures	10	4,135,483,693	1,541,273,173
Profit before income tax		1,612,134,271,890	1,460,243,354,686
Income tax expense	28	(440,491,172,780)	(423,044,729,731)
Profit for the year		₩1,171,643,099,110	₩1,037,198,624,955
Other comprehensive income (loss) after income tax:		₩ (49,876,625,829)	₩19,463,620,906
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities	18	(16,212,208,218)	(10,425,083,892)
Gain (loss) on valuation of fair value through other comprehensive income or loss	9,31	(10,548,156,278)	6,922,877,280
Capital changes in equity method	10	(42,122,768)	(100,070,393)
Items that will be reclassified to profit or loss			
Exchange differences on translating foreign operations		(23,240,850,194)	23,065,897,911
Capital changes in equity method	10	166,711,629	-
Total comprehensive income for the year		₩1,121,766,473,281	₩1,056,662,245,861
Profit attributable to:			
Owners of the Parent Company		₩1,171,734,472,593	₩1,035,003,181,191
Non-controlling interests		(91,373,483)	2,195,443,764
Total		₩1,171,643,099,110	₩1,037,198,624,955
Other comprehensive income for the year attributable to:			
Owners of the Parent Company		₩1,122,414,655,498	₩1,054,894,518,835
Non-controlling interests		(648,182,217)	1,767,727,026
Total		₩1,121,766,473,281	₩1,056,662,245,861
Earnings per share:			
Basic and diluted	29	₩9,320	₩8,196

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

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KT&G CORPORATION AND SUBSIDIARIES

Consolidated statements of changes in equity

For the year ended December 31, 2019

<i>In Korean won</i>	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2019 (before revision)	₩954,959,485,000	₩4,334,267,530	₩ (328,157,286,128)	₩513,775,933,891	₩5,364,156,557,142	₩1,605,334,484,861	₩8,114,403,442,296	₩53,800,373,739	₩8,168,203,816,035
Effect of changes in accounting policy	-	-	-	-	-	(4,670,137,294)	(4,670,137,294)	-	(4,670,137,294)
Balance at January 1, 2019 (after revision)	954,959,485,000	4,334,267,530	(328,157,286,128)	513,775,933,891	5,364,156,557,142	1,600,664,347,567	8,109,733,305,002	53,800,373,739	8,163,533,678,741
Total comprehensive income (loss) for the year:									
Profit for the year	-	-	-	-	-	1,035,003,181,191	1,035,003,181,191	2,195,443,764	1,037,198,624,955
Other comprehensive income (loss) for the year:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(9,994,827,322)	(9,994,827,322)	(430,256,570)	(10,425,083,892)
Gain (loss) on valuation of fair value through other comprehensive income or loss	-	-	-	-	6,922,877,280	-	6,922,877,280	-	6,922,877,280
Exchange differences on translating foreign operations	-	-	-	-	23,063,358,079	-	23,063,358,079	2,539,832	23,065,897,911
Capital changes in equity method	-	-	-	-	(100,070,393)	-	(100,070,393)	-	(100,070,393)
Sum of other comprehensive income (loss) for the year	-	-	-	-	29,886,164,966	(9,994,827,322)	19,891,337,644	(427,716,738)	19,463,620,906
Total comprehensive income for the year	-	-	-	-	29,886,164,966	1,025,008,353,869	1,054,894,518,835	1,767,727,026	1,056,662,245,861
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)	-	(505,060,508,000)
Transfer to other reserve	-	-	-	-	285,966,201,122	(285,966,201,122)	-	-	-
Donation of treasury shares	-	-	9,367,836,669	15,118,120,015	-	-	24,485,956,684	-	24,485,956,684
Changes in non-controlling interests, etc.	-	163,518,192	-	-	-	-	163,518,192	(199,403,194)	(35,885,002)
Total transactions with owners of the Parent Company	-	163,518,192	9,367,836,669	15,118,120,015	285,966,201,122	(791,026,709,122)	(480,411,033,124)	(199,403,194)	(480,610,436,318)
Balance at December 31, 2019	₩954,959,485,000	₩4,497,785,722	₩ (318,789,449,459)	₩528,894,053,906	₩5,680,008,923,230	₩1,834,645,992,314	₩8,684,216,790,713	₩55,368,697,571	₩8,739,585,488,284

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

KT&G CORPORATION AND SUBSIDIARIES

Consolidated statements of changes in equity, continued

For the year ended December 31, 2020

<i>In Korean won</i>	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2020	₩954,959,485,000	₩4,497,785,722	₩ (318,789,449,459)	₩528,894,053,906	₩5,680,008,923,230	₩1,834,645,992,314	₩8,684,216,790,713	₩55,368,697,571	₩8,739,585,488,284
Total comprehensive income (loss) for the year:									
Profit for the year	-	-	-	-	-	1,171,734,472,593	1,171,734,472,593	(91,373,483)	1,171,643,099,110
Other comprehensive income (loss) for the year:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(15,653,977,560)	(15,653,977,560)	(558,230,658)	(16,212,208,218)
Gain (loss) on valuation of fair value through other comprehensive income or loss	-	-	-	-	(10,548,156,278)	-	(10,548,156,278)	-	(10,548,156,278)
Exchange differences on translating foreign operations	-	-	-	-	(23,242,272,118)	-	(23,242,272,118)	1,421,924	(23,240,850,194)
Capital changes in equity method	-	-	-	-	124,588,861	-	124,588,861	-	124,588,861
Sum of other comprehensive income (loss) for the year	-	-	-	-	(33,665,839,535)	(15,653,977,560)	(49,319,817,095)	(556,808,734)	(49,876,625,829)
Total comprehensive income (loss) for the year	-	-	-	-	(33,665,839,535)	1,156,080,495,033	1,122,414,655,498	(648,182,217)	1,121,766,473,281
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(556,951,661,200)	(556,951,661,200)	-	(556,951,661,200)
Transfer to other reserve	-	-	-	-	331,300,012,585	(331,300,012,585)	-	-	-
Acquisition of treasury shares	-	-	(212,828,644,120)	-	-	-	(212,828,644,120)	-	(212,828,644,120)
Total transactions with owners of the Parent Company	-	-	(212,828,644,120)	-	331,300,012,585	(888,251,673,785)	(769,780,305,320)	-	(769,780,305,320)
Balance at December 31, 2020	₩954,959,485,000	₩4,497,785,722	₩ (531,618,093,579)	₩528,894,053,906	₩5,977,643,096,280	₩2,102,474,813,562	₩9,036,851,140,891	₩54,720,515,354	₩9,091,571,656,245

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

KT&G CORPORATION AND SUBSIDIARIES

Consolidated statements of cash flows

For the years ended December 31, 2020, and 2019

<i>In Korean won</i>	<i>Notes</i>	2020	2019
Cash flows from operating activities		₩1,261,664,798,427	₩1,042,489,387,291
Cash generated from operations	34	1,685,602,816,900	1,464,082,565,855
Income taxes paid		(423,938,018,473)	(421,593,178,564)
Cash flows from investing activities		(85,834,706,383)	(459,190,546,007)
Interest received		19,926,974,548	19,146,302,725
Dividends received		26,140,194,806	24,693,247,030
Decrease in other financial assets		562,840,300,000	534,003,000,000
Decrease in current financial assets measured at fair value through profit or loss		346,404,223,599	-
Decrease in long-term financial assets measured at fair value through profit or loss		33,667,340,960	15,891,652,285
Decrease in long-term deposits in MSA Escrow Fund		30,190,725,542	-
Disposal of property, plant and equipment		4,814,455,979	3,737,771,098
Disposal of intangible assets		2,639,090,910	1,100,235,184
Disposal of investment properties		4,407,486,213	-
Disposal of assets held for sale		144,712,189,220	-
Decrease in financial assets measured at fair value through other comprehensive income or loss		3,134,000,000	-
Disposal of investments in associates and joint ventures		21,207,630,232	34,150,929,551
Collection of loans		14,315,302,250	12,320,759,758
Collection of guarantee deposits		693,760,171	1,212,076,715
Collection of finance lease receivables		487,506,006	75,372,723
Increase in other financial assets		(578,456,040,188)	(343,222,644,000)
Increase in current financial assets measured at fair value through profit or loss		(6,000,000,000)	(57,593,331,877)
Increase in long-term financial assets measured at fair value through profit or loss		(14,422,747,773)	(54,676,729,731)
Increase in long-term deposits in MSA Escrow Fund		(223,125,104,602)	(114,411,590,516)
Acquisition of property, plant and equipment		(216,059,141,375)	(222,247,997,603)
Acquisition of intangible assets		(35,743,635,276)	(34,947,578,247)
Acquisition of investment properties		(86,158,241,566)	(256,285,401,637)
Acquisition of right-of-use assets		(522,118,555)	-
Acquisition of assets held for sale		(3,282,946,350)	-
Acquisition of investments in associates and joint ventures		(101,500,000,000)	-
Increase in loans		(35,189,427,682)	(19,004,079,477)
Increase in guarantee deposits		(956,483,452)	(3,132,539,988)
Cash flows from financing activities		(808,888,421,592)	(632,146,267,814)
Dividends paid	23	(556,951,661,200)	(505,060,508,000)
Interest paid		(3,371,975,749)	(3,581,102,372)
Repayment of lease liabilities		(21,186,506,323)	(18,604,269,893)
Repayment of borrowings		(165,109,414,746)	(307,060,602,681)
Acquisition of treasury shares		(212,828,644,120)	-
Capital increase with consideration		813,000	-
Increase in borrowings		150,558,967,546	202,160,215,132
Net increase(decrease) in cash and cash equivalents		366,941,670,452	(48,847,426,530)
Cash and cash equivalents at January 1		891,306,145,983	932,969,110,015
Effect of exchange rate fluctuation on cash and cash equivalents		(4,636,324,950)	7,184,462,498
Cash and cash equivalents at December 31		₩1,253,611,491,485	₩891,306,145,983

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

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KT&G CORPORATION AND SUBSIDIARIES

Notes to the consolidated financial statements

As of December 31, 2020 and 2019, and for the years ended December 31, 2020 and 2019

1. Reporting Entity

1.1 Overview of the Parent Company

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of December 31, 2020, the Parent 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 Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Parent Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

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

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

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

The Parent Company’s major shareholders as of December 31, 2020, are as follows:

	Shares held (number of shares)	Percentage of ownership (%)
National Pension Service	15,820,730	11.52
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	3,428,481	2.50
Treasury shares	13,212,574	9.62
Others	95,320,227	69.43
Total	137,292,497	100.00

1.2 Consolidated Subsidiaries

Consolidated subsidiaries as of December 31, 2020, are as follows:

Controlling company	Subsidiary	Principal operation	Percentage of ownership(%) ¹⁾	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00	Dec.31.2020	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	Dec.31.2020	Korea
	Tae-a Industry Co., Ltd.	Manufacturing tobacco materials	100.00	Dec.31.2020	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99	Dec.31.2020	Turkey
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	Dec.31.2020	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99	Dec.31.2020	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	Dec.31.2020	Russia
	KT&G USA Corporation	Selling tobaccos	100.00	Dec.31.2020	USA
	Cosmococ Co., Ltd.	Manufacturing and selling cosmetics	98.56	Dec.31.2020	Korea
	Renzoluc Pte., Ltd. ²⁾	Holding company	100.00	Dec.31.2020	Singapore
	PT KT&G Indonesia	Selling tobaccos	99.99	Dec.31.2020	Indonesia
	SangSang Stay Inc.	Hotel	100.00	Dec.31.2020	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	Dec.31.2020	Russia
	Gwacheon SangSang PFV	Developing and selling real estate	51.00	Dec.31.2020	Korea
Korea Ginseng Corporation	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00	Dec.31.2020	Korea
	KGC Life & Gin Co., Ltd.	Selling ginseng, etc.	100.00	Dec.31.2020	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	Dec.31.2020	China
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng, etc.	100.00	Dec.31.2020	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng, etc.	100.00	Dec.31.2020	USA
	Korea Ginseng (China) Corp.	Selling ginseng, etc.	100.00	Dec.31.2020	China
	Korea Ginseng Corporation Japan	Selling ginseng, etc.	100.00	Dec.31.2020	Japan
Cosmococ Co., Ltd.	K&I HK Co., Ltd.	Selling cosmetics, etc.	98.56	Dec.31.2020	HongKong
	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	Dec.31.2020	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99	Dec.31.2020	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.99	Dec.31.2020	Indonesia

¹⁾ The percentage of ownership, shown above, is on a consolidated basis.

²⁾ The percentage of ownership, shown above, does not include convertible preferred shares, but will be 88.60% if convertible preferred shares are included as of December 31, 2020.

The Parent Company made a contribution in kind of its 100% ownership in KGC Yebon Corporation to Korea Ginseng Corporation during the year ended December 31, 2019.

The Parent Company has acquired 4,000,000 shares (20,000 million KRW) of its subsidiary SangSang Stay Inc. during the year ended December 31, 2020, through a capital increase with consideration.

1.3 Summarized Financial Information

Summarized financial information¹⁾ for consolidated subsidiaries as of and for the year ended December 31, 2020, are as follows:

<i>In millions of Korean won</i>	Total assets	Total liabilities	Revenue	Net profit(loss)	Total comprehensive income(loss)
Korea Ginseng Corporation	₩2,204,243	₩190,729	₩1,333,565	₩109,387	₩115,152
Yungjin Pharm. Co., Ltd.	188,101	73,669	208,464	(133)	(1,319)
Tae-a Industry Co., Ltd.	55,521	6,316	21,758	338	294
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	32,944	50,628	18,456	(8,288)	(3,825)
Korea Tabacos do Brasil Ltda.	1,872	162	279	40	(592)
KT&G Pars	135	54,820	-	(36,872)	2,559
KT&G Rus L.L.C.	105,969	35,500	46,538	3,551	(15,481)
KT&G USA Corporation	141,829	114,560	246,306	5,274	3,425
Cosmococo Co., Ltd.	43,601	29,888	65,543	(602)	(199)
Renzoluc Pte., Ltd.	126,532	31,623	-	(1,372)	(8,392)
PT KT&G Indonesia	75,923	108,382	107,834	(31,036)	(28,924)
SangSang Stay, Inc.	56,171	44,131	6,906	(9,154)	(9,055)
KT&G Global Rus L.L.C.	36,739	37,144	30,690	7,727	8,903
Gwacheon SangSang PFV	69,579	66,283	-	(2,491)	(2,491)
PT Trisakti Purwosari Makmur	196,605	53,208	87,290	9,520	(1,455)
PT Nusantara Indah Makmur	75	-	-	-	(6)
KGC Yebon Corporation	49,690	2,983	13,960	1,227	1,161
KGC Life & Gin Co., Ltd.	29,904	6,815	44,997	2,269	2,445
Jilin Hanzheng Ginseng Co., Ltd.	49,102	627	12,316	(923)	(541)
Cheong Kwan Jang Taiwan Corporation	23,376	19,872	33,248	821	806
Korean Red Ginseng Corp., Inc.	18,306	8,608	28,801	1,740	1,100
Korea Ginseng (China) Corp.	39,581	28,665	60,779	82	159
Korea Ginseng Corporation Japan	9,102	7,018	11,214	786	733
K&I HK Co., Ltd.	9	205	-	(102)	(89)
K&I China Co., Ltd.	496	4,221	1,173	(1,351)	(1,338)

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

Summarized financial information¹⁾ for consolidated subsidiaries as of and for the year ended December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Total assets	Total liabilities	Revenue	Net profit(loss)	Total comprehensive income(loss)
Korea Ginseng Corporation	₩2,127,670	₩229,308	₩1,403,681	₩147,711	₩141,540
Yungjin Pharm. Co., Ltd.	200,446	84,695	220,516	5,030	4,145
Tae-a Industry Co., Ltd.	54,946	6,035	19,091	651	228
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	32,788	46,647	12,780	(6,397)	(5,415)
Korea Tabacos do Brasil Ltda.	2,434	132	-	(186)	(182)
KT&G Pars	619	57,863	-	(14,929)	(8,120)
KT&G Rus L.L.C.	166,998	81,047	44,790	3,999	15,490
KT&G USA Corporation	63,072	39,228	155,543	3,257	3,941
Cosmocos Co., Ltd.	50,424	36,512	71,363	(14,259)	(14,928)
Renzoluc Pte., Ltd.	136,006	32,706	-	(1,864)	6,094
PT KT&G Indonesia	104,970	108,505	147,010	10,257	8,718
SangSang Stay, Inc.	52,457	51,266	22,659	(2,309)	(2,391)
KT&G Global Rus L.L.C.	51,228	60,536	34,631	(924)	(2,115)
Gwacheon SangSang PFV	6,269	482	-	(1,151)	(1,151)
PT Trisakti Purwosari Makmur ²⁾	213,266	68,414	65,872	8,092	18,218
PT Trisakti Purwosari Makmur (Previously, PT Mandiri Maha Mulia) ²⁾	-	-	25,159	2,017	4,240
PT Trisakti Purwosari Makmur (Previously, PT Sentosa Ababi Purwosari) ²⁾	-	-	17,635	2,911	(2,792)
PT Trisakti Purwosari Makmur (Previously, PT Purindo Ilufa) ²⁾	-	-	5,263	1,860	112
PT Nusantara Indah Makmur	80	-	-	(42)	(33)
KGC Yebon Corporation	53,912	8,366	12,759	(311)	(457)
KGC Life & Gin Co., Ltd.	32,708	12,065	37,360	616	435
Jilin Hanzheng Ginseng Co., Ltd.	49,774	758	15,837	(1,163)	(263)
Cheong Kwan Jang Taiwan Corporation	23,054	20,356	31,779	547	663
Korean Red Ginseng Corp., Inc.	19,974	11,375	21,441	(2,657)	(2,698)
Korea Ginseng (China) Corp.	33,823	23,066	52,099	(148)	51
Korea Ginseng Corporation Japan	7,311	5,960	11,018	17	87
K&I HK Co., Ltd.	102	209	340	(140)	(138)
K&I China Co., Ltd.	1,450	3,838	913	(3,313)	(3,242)

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

²⁾ PT Sentosa Ababi Purwosari, PT Purindo Ilufa and PT Mandiri Maha Mulia were merged into PT Trisakti Purwosari Makmur during the year ended December 31, 2019.

2. Material Accounting Policies

2.1 Basis of Preparation

The consolidated financial statements of the Parent Company and subsidiaries (the “Group”) 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 consolidated 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

K-IFRS allows the use of critical accounting estimates in preparation of consolidated financial statements and requires management to exercise judgement in applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosures

(1) New or amended standards and interpretations adopted by the Group

The Group has applied the following new or amended standards and interpretations for the first time for its annual reporting period commencing on January 1, 2020.

- Reference to the Conceptual framework for K-IFRS (amendment)

This amendment requires that the amended accounting standards refer to the completely revised ‘Conceptual Framework (2018)’. However, the amendment does not require that all phrases related to such references or quotations need to refer to the completely revised ‘Conceptual Framework (2018)’. Several phrases have been amended to clearly distinguish whether the ‘Conceptual Framework’ being referred to is the ‘Conceptual Framework for the Preparation and Presentation of Financial Statements (2007)’, ‘Conceptual Framework (2010)’, or the newly amended ‘Conceptual Framework (2018)’. Several other phrases have been amended in order to clarify that the definition in accounting standards has not been changed to the definition newly developed in the completely revised ‘Conceptual Framework (2018)’. The amended accounting standards are K-IFRS No. 1102, K-IFRS No. 1103, K-IFRS No. 1106, K-IFRS No. 1114, K-IFRS No. 1001, K-IFRS No. 1008, K-IFRS No. 1034, K-IFRS No. 1037, K-IFRS No. 1038, K-IFRS No. 2112, K-IFRS No. 2119, K-IFRS No. 2120, K-IFRS No. 2122 and K-IFRS No. 2032.

- Amendments 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

Amendments have been made to K-IFRS No. 1001 and K-IFRS No. 1008 in accordance with the clarified “definition of materiality”. For the determination of materiality, the Group takes into consideration the effects of material information omission, material misstatements and immaterial information, as well as the nature of information users regarding 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 values 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 amendments assume 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.

- Amendment to K-IFRS No. 1116 ‘Leases’ – practical expedient for COVID-19 related rent concessions

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification.

In accordance with the amendment to K-IFRS No. 1116, the Group has made changes to its accounting policy and retrospectively applied its modified accounting policy in accordance with the transitional provisions. There are no cumulative effects that need to be reflected to the Group’s beginning balance for retained earnings as of January 1, 2020, from the retrospective application of this modified accounting policy. The comparative financial statements for the previous reporting period have also not been restated. The amount recognized through profit or loss to reflect changes in lease payments from rent concessions during the reporting period is ₩300 million.

There are no material effects of the above mentioned amendments made to K-IFRSs on the consolidated financial statements of the Group as of December 31, 2020, except for the amendments made to K-IFRS No. 1116 ‘Leases’.

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

The following new or amended accounting standards and interpretations have been published but have not been early adopted by the Group in preparing these consolidated financial statements since their adoption is not required for the annual reporting period commencing January 1, 2020.

- 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’, K-IFRS No. 1104 ‘Insurance Contracts’, K-IFRS No. 1116 ‘Leases’ – interest rate indicator reform

In relation to the interest rate indicator reform, the amendments contain an exception rule so that an entity may adjust the effective interest rate of financial instruments measured at amortized cost rather than their book values. An entity may also continue to apply risk hedge accounting even when interest rate indicator reclassification in a risk hedge situation occurs. These amendments apply for annual reporting periods beginning on or after January 1, 2021, with earlier application permitted.

- Amendments to K-IFRS No. 1103 'Business Combinations' – Reference to the Conceptual Framework

Amendments have been made so that to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Conceptual Framework for Financial Reporting at the acquisition date. An exception rule exists for liabilities and contingent liabilities that fall within the scope of K-IFRS 1037 'Provisions, Contingent Liabilities and Contingent Assets' or Interpretations to Accounting Standards No. 2121 'Levies', which follow those standards and interpretations. The amendment has also made it clear that the acquirer shall not recognise a contingent asset at the acquisition date. These amendments apply to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2022, with earlier application permitted

- Amendments to K-IFRS No. 1016 'Property, Plant and Equipment' - Proceeds before intended use

The amendments require an entity to recognize the proceeds from selling items produced before that asset is available for use (proceeds before intended use) as well as related costs in profit or loss. The amendments also prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use (proceeds before intended use). These amendments apply for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

- Amendments to K-IFRS No. 1037 'Provisions, Contingent Liabilities and Contingent Assets' - Onerous contracts: cost of fulfilling a contract

The amendments have made clear that when identifying onerous contracts, the scope of costs of fulfilling a contract includes the allocation of incremental costs of fulfilling a contract as well as other costs directly related to fulfilling a contract. The amendments apply for annual reporting periods beginning on or after January 1, 2022, and earlier application is permitted.

- Annual Improvements to K-IFRS Standards 2018-2020:

Annual Improvements to K-IFRS Standards 2018-2020 apply to annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

- Amendment to K-IFRS 1101 'First-time Adoption of K-IFRS' : Subsidiary as a First-time Adopter
- Amendment to K-IFRS 1109 'Financial Instruments' : Fees in the '10 per cent' Test for Derecognition of Financial Liabilities
- Amendment to K-IFRS 1116 'Leases' : Lease Incentives
- Amendment to K-IFRS 1041 'Agriculture' : Fair Value Measurements

- Amendments to K-IFRS 1001 'Presentation of Financial Statements' – classification of Current/Non-Current Liabilities

Liabilities are classified as either current or non-current based on the rights of an entity to defer settlement of a liability. These rights must have substance and must exist at the end of the reporting period. Classification of a liability is unaffected by either management's expectations or the likelihood that the entity will exercise its right to defer settlement of the liability. Settlement of the liability also includes the transfer of the entity's own equity instruments. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if the option satisfies the definition of an equity instrument and is recognized separately from the liability as an equity component of a compound financial instrument. The amendment applies to annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

The Group is currently reviewing the effects of the above amendments on the consolidated financial statements.

2.3 Significant Accounting Policies

The significant accounting policies and calculation methods applied in preparation of the consolidated financial statements for the year ended December 31, 2020 are identical to those applied in preparation of the consolidated financial statements for the year ended December 31, 2019, except for the amendments and enactments described in Note 2.2 as well as the descriptions of the paragraphs below.

(1) Operating Segments

Information on operating segments are disclosed based on the method of internal reporting to the chief operating decision maker (refer to Note 4). The chief operating decision maker is responsible for the allocation of resources to and evaluating the performance of the operating segments. The Group considers the board of directors, which performs strategic decision making, as its chief operating decision maker.

(2) Consolidation

The Group has prepared the consolidated financial statements in accordance with K-IFRS No. 1110 'Consolidated Financial Statements'.

① Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date when control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recognized as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Balances of receivables and payables, revenues, expenses, unrealized gains etc. arising from intercompany transactions between companies within the Group are eliminated. When differences in accounting policies arise, the accounting policies of subsidiaries are changed to ensure consistent application of accounting policies adopted by the Group.

For transactions with non-controlling interests that do not result in a loss of control, any difference between the amount of the adjustment to non-controlling interests and the fair value of any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Parent Company.

When the Group ceases to consolidate for a subsidiary because of a loss of control, any retained interest in the subsidiary is remeasured to its fair value with the changes in carrying amount recognized in profit or loss.

② Associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. The Group stops applying the equity method in cases where the proportion of the associate's loss attributable to the Group is either equal to or greater than the Group's investment holdings (including non-current investment holdings which form a part of the net investment) in the associate.

However, in cases where the Group has either legal-constructive obligations or needs to make payments on behalf of the associate for any additional losses after the Group's holdings in the associate has been reduced to zero (0), the Group recognizes losses and liabilities only up to those additional losses.

If there are objective signs of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss. When using the financial statements of the associates in order to apply the equity method, the Group reviews whether associates have used the same accounting policies the Group would apply for transactions or events that have occurred under similar circumstances and makes adjustments to the financial statements of the associates if necessary.

③ Business Combinations under Common Control

The Group applies the book value method to account for business combinations of entities under common control. Identifiable assets acquired and liabilities assumed in a business combination are measured at their book value on the consolidated financial statements of the ultimate Parent Company. The Group has adjusted the difference between the transfer consideration and the book value of the net assets from the capital surplus.

(3) Joint Arrangements

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statements of financial position.

(4) 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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are recognized as expenses in the period incurred.

No depreciation is recognized for land and certain other tangible assets (such as trees and paintings etc.) classified as property, plant and equipment. Property, plant and equipment, except for land and certain other tangible 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.

Classification	Estimated useful life (years)
Land	Indefinite
Buildings	10 – 60
Structures	4 – 40
Machinery	2 – 20
Vehicles	3 – 10
Tools	4 – 5
Equipment	2 – 5
Other tangible assets	1 – 5 or indefinite

The Group reviews the residual values and useful lives of assets at the end of each fiscal year and adjusts them, if necessary. 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. Gain or loss on disposal of assets are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

(5) Borrowing Costs

The Group 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 Group borrows funds specifically for obtaining a qualifying asset, the Group 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 Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for obtaining a qualifying asset, the Group 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 Group that are outstanding during the period, other than borrowings made specifically for obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

(6) Government Subsidies

Government subsidies are only recognized when there is reasonable assurance that the Group 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. Subsidies related to revenue are deferred and are presented as deductions from expenses related to the purpose of the government subsidies being granted.

(7) 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 when 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 industrial property rights and facility usage rights are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized.

Classification	Estimated useful life (years)
Industrial property rights	5 – 20 or indefinite
Facility usage rights	Indefinite
Intangible assets under development	Indefinite
Other intangible assets	1 – 14 or indefinite

Amortization periods and amortization methods for intangible assets with finite useful lives are reviewed at the end of each fiscal year. Intangible assets with indefinite lives are reviewed at the end of each reporting period to determine whether assessment of their useful lives as indefinite are still valid, and adjusted if appropriate. Such changes are accounted for as changes in accounting estimates.

(8) 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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Routine repair and maintenance costs are recognized in profit or loss as incurred.

No depreciation is recognized for land which is classified as investment property. 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. Such changes are accounted for as changes in accounting estimates.

(9) Assets Held for Sale

Non-current assets, or disposal groups held for sale that are expected to be recovered primarily through sale, rather than through continuous use, are classified as assets held for sale. In order to be classified as assets held for sale, an asset (or a disposal group) 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. For the asset that had been impaired on the initial reclassification, the impairment loss is recognized immediately in profit or loss if the fair value of the asset decreases, when the fair value increases the impairment loss will be reversed into profit or loss with the limit of accumulated impairment loss recognized so far. However, deferred tax assets, assets generated from employee benefits, and financial instruments which are subject to K-IFRS No. 1109 'Financial Instruments' are measured in accordance with the relevant standards.

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

(10) Inventories

Inventories are measured at the lower of acquisition cost or net realizable value. The acquisition 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.

Type	Determination method of unit cost price
Merchandise, finished goods, work in progress, raw materials, supplies and by-products	Weighted-average method or moving-average method
Buildings under construction, completed buildings, sites for construction of real estate and goods in transit	Specific identification method

When inventories are sold, the carrying amount of those inventories are recognized as cost of goods sold in the period in which the related revenue is recognized. Any loss on valuation or loss from inventory shrinkage that reduces the value of inventories to net realizable value are recognized as an expense during the period in which the write-down or shrinkage occurs. Any reversal of inventory valuation losses due to increases in the net realizable value of inventories are deducted from expenses already recognized as cost of goods sold during the period in which the reversal occurs.

(11) Impairment of Non-Financial Assets

The carrying amounts of the Group's 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 are any signs of impairment. If signs of impairment of exist, then the asset's recoverable amount is estimated. Intangible assets that have indefinite useful lives or that are not yet available for use are tested for impairment annually by comparing their recoverable amount to their carrying amount, regardless of whether there are any signs of impairment.

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 cash-generating unit ("CGU") that the asset belongs to. If the carrying amount of an asset or a CGU exceeds its recoverable amount, the book value of the asset is reduced and impairment losses are recognized immediately in profit or loss. At the end of each reporting period, the Group 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. Impairment losses are only reversed if changes occur to the estimates used to determine the recoverable amount since the period in which an impairment loss was last recognized.

(12) Financial Assets (Other than Derivative Instruments)

① Classification

The Group 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, and
- Those to be measured at amortized cost.

The classification depends on the Group'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. For investments in debt instruments, classification will depend on the business model in which the investment is held. The Group 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, the Group may irrevocably elect to present subsequent changes in the investment's fair value through other comprehensive income at the time of initial recognition. For equity instruments not held for trading where the Group has not made such an election, subsequent changes in the investment's fair value are recognized through profit or loss.

② Measurement

At initial recognition, the Group 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 recognized as an expense through 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 Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into one of the following three measurement categories:

A. Financial assets measured at amortized cost

Financial assets are measured at amortized cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. 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 are included in 'finance income' using the effective interest rate method.

B. Financial assets measured at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Valuation gains or losses for financial assets measured at fair value are recognized through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized through profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income 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. Financial assets measured at fair value through profit or loss

Debt instruments shall be measured at fair value through profit or loss unless they are financial assets measured at amortized cost or at fair value through other comprehensive income. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not subject to a risk hedging relationship is recognized in profit or loss. It is presented in the consolidated statements of comprehensive income as 'finance income' or 'finance cost' in the period incurred.

- Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments (held for long-term investment or strategic purposes), in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following de-recognition 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 the consolidated statements of comprehensive income 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 presented as 'finance income' or 'finance cost' in the consolidated statements of comprehensive income. 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 Group assesses the expected credit losses associated with its debt instruments measured at amortized cost or measured at fair value through other comprehensive income based on information that projects the future. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and other receivables, the Group applies the simplified approach, which recognizes lifetime expected credit losses 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 Group 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 Group has transferred substantially all the risks and rewards of ownership.

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

⑤ Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when 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 Group or the counterparty.

(13) Financial Liabilities

① Classification and measurement

Financial liabilities of the Group 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’, ‘borrowings’ or ‘lease liabilities’ in the consolidated 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 consolidated 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.

(14) Derivative Instruments

At initial recognition, derivative instruments are measured at their fair value 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 valuation gains or losses arising from changes in fair value of derivative instruments are recognized through profit or loss.

(15) Cash and Cash Equivalents

The Group classifies investment assets with maturities of three months or less from the acquisition date as cash and cash equivalents. 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.

(16) 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 Group during an accounting period, the Group 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 Share based compensation

Equity-settled share-based payment is recognized at fair value of equity instruments granted, and employee benefit expense is recognized over the vesting period. At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Group issues new shares. The proceeds received, net of any directly attributable transaction costs, are recognized as share capital (nominal value) and share premium.

④ Retirement benefits: Defined contribution plans

The contribution payable to a defined contribution plan in exchange for services rendered by an employee to the Group during a period is recognized through profit or loss, except for cases where the contribution payable is included in the asset's cost. The contribution payable is recognized 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 Group 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.

⑤ Retirement benefits: Defined benefit plans

Defined benefit pension plans are all pension plans excluding defined contribution pension plans. Generally the amount of retirement pension payable to employees at retirement are confirmed through factors such as age, number of years worked or salary level, etc.

The net defined liability (asset) recognized on the consolidated financial statement of financial position in relation to defined benefit plans is the amount of deficit (or amount of surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling) as determined by deducting the present value of the defined benefit obligations from the fair value of plan assets as of the end of the reporting period. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. The present value of the defined benefit obligation is presented in the currency that the salary will be paid and is calculated by discounting the expected future cash outflow by the interest rate of a corporate bond with a good credit rating with a maturity similar to the period when payment of the defined benefit obligation is due.

Changes in actuarial assumptions and actuarial gains or losses that arise from the difference between the actuarial assumptions and the actual results are recognized through other comprehensive income in the period incurred. Past service cost is recognized at the earlier of the following dates: when the plan amendment or curtailment occurs; and when the Group recognizes related restructuring costs or terminations benefits.

⑥ Termination benefits

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

(17) Refund Liabilities and Provisions

Refund liabilities and provisions are present obligations (legal obligation or constructive obligation) that exist as a result of past events. The Group recognizes refund liabilities and provisions when 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 amount of refund liabilities and provisions recognized are the best estimates of the necessary expenditure required to fulfill the present obligations at the end of the reporting period, taking into account the unavoidable risks and uncertainties involved. 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 refund liabilities or provisions are expected to be reimbursed by another party, the reimbursement shall be recognized 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 related refund liabilities and provisions are reversed.

(18) Paid-in Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to equity transactions are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its own equity instruments, the amount of the consideration paid is recognized as a contra-equity account 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.

(19) Revenue Recognition

The Group'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 Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group 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 Group and the costs incurred or to be incurred with respect to the transaction can be measured reliably.

Since the Group's contract with customers to supply goods allows customers a right of return, the amount of consideration that the Group receives can be variable. Variable consideration is estimated by using the expected value method, which the Group expects to better predict the amount of consideration to which it is entitled. The Group recognizes revenue by including in the transaction price variable consideration only up to the amount where it is highly probable that a significant portion of the accumulated revenue already recognized will not be reversed.

Refund liabilities are recognized at the amount of consideration received (or receivable) for which the Group does not expect to be entitled. When customers exercise their right of return, the Group has a right to recover its products from customers. The Group recognizes this right as a refund asset and makes a corresponding adjustment to the cost of sales. The Group's right to recover its products are measured by deducting the cost of retrieving the goods from customers from the previous book value of the product.

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 Group, 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 Group 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 Group 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 has 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 Group pays sales commission in relation to the sales contract of residential real estate. When the Group 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

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

(20) 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 Group's right to receive the dividend as a shareholder is established. Finance cost includes interest expense on borrowings and 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.

(21) 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 in equity. In such cases, income tax is also recognized directly in other comprehensive income or in equity.

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 Group 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 consolidated 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 or 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 Group 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 Group 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 Group 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.

(22) Functional and Presentation Currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

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 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 consolidated statements 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 are recognized through other comprehensive income.

(23) Earnings per Share

The Group 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 Parent 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.

(24) Lease

Lease income from operating leases where the Group 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 expenses over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature.

The Group 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.

The Group determines the lease term as the non-cancellable period of a lease, together with both: periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In determining the lease term and assessing the length of the non-cancellable period of a lease, the Group applies the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

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 Group (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Group (the lessee) is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the Group (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.

For variable lease payment terms that are linked to indexes or rates, the Group 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 Group 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
- Estimated 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 Group 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 through profit or loss.

In accordance with K-IFRS No. 1116, the Group either classifies a sublease as an operating lease, or classifies it as a finance lease and recognizes the related lease receivables as well as derecognizing the right-of-use assets derived from head leases.

(25) Emission Rights

Pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission that became effective in 2015, the Group 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 can be reliably estimated.

(26) Going Concern

At the time of approving the financial statements, management has reasonable expectations that the Group has sufficient resources to continue as a going concern for the foreseeable future. Therefore, management has prepared the financial statements under the assumption that the Group will continue as a going concern, with the exception of the statement below.

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

(27) Approval of Financial Statements

The consolidated financial statements of the Group has been approved by the Board of Directors on February 4, 2021, and may be modified and approved at the Annual General Meeting of Shareholders.

3. Critical Accounting Estimates and Assumptions

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

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

(1) Impairment testing of goodwill

The recoverable amount of a CGU for impairment testing of goodwill is determined based on the calculation of value in use or fair value less cost of disposal.

The entire amount of the Group's goodwill of ₩16,355 million (as of December 31, 2019: ₩18,975 million) has been allocated to the Indonesian tobacco business CGU.

In the case of the CGU 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 generated by the tax increase, etc.

Value in use was assessed as the recoverable amount for impairment testing of the Indonesian tobacco business CGU. Estimation of the recoverable amount reflects management's assessment of the future trend of the relevant industry, and is based on internal and external historical data.

In this regard, value in use was used to measure the recoverable amount since the fair value of assets could not be reliably estimated. Future cash flows to measure value in use were estimated for the next five years based on the company's past operating performance and future business plans, and subsequent cash flows were estimated by applying a 1% permanent growth rate. This permanent growth rate does not exceed the estimated long-term average growth rates from relevant industry reports.

The discount rate applied for measuring value in use is the weighted average capital cost adjusted to reflect the specific risk of the asset, and the discount rates applied for measuring value in use during the years ended December 31, 2020 and 2019 are as follows:

<i>Unit : %</i>	2020	2019
CGU of the Indonesian tobacco business	12.90	13.24

The most variable assumptions used for the calculation of value in use for the CGU of the Indonesian tobacco business are the discount rate and permanent growth rate, and the effects of changes to these variables are as follows. As a result of sensitivity analysis, the Group's management believes that the risk of impairment loss being recognized is low.

<i>In millions of Korean won</i>	1% increase	1% decrease
Discount rate		
Effect on value in use	(18,284)	21,954
Impairment loss to be recognized	-	-
Permanent growth rate		
Effect on value in use	16,495	(13,938)
Impairment loss to be recognized	-	-

(2) Total construction revenue and total construction cost

① Uncertainty of total contract revenue estimates

Total contract revenue is measured based on the initially agreed upon contract price, but measurement of contract revenue is affected by various uncertainties related to the outcome of future events, as it may increase or decrease depending on additional contracts, termination of the contract, etc. during the course of performing the contract. When the additional contract or contract termination is confirmed and the amount can be reliably measured, the Group includes it in contract revenue (see Note 24).

② Estimated total construction cost

The amount of construction revenue is affected by the percentage of completion based on the cumulative incurred contract cost, and the total contract cost is estimated based on future estimates such as material cost, labor cost and construction period, etc. (see Note 24).

4. Operating Segments

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

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

(2) Segment information on sales and operating profit for the years ended December 31, 2020 and 2019, are as follows:

① For the year ended December 31, 2020

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩3,339,587	₩1,536,507	₩656,805	₩282,601	₩5,815,500	₩ (513,882)	₩5,301,618
Intersegment sales	(369,372)	(125,599)	(14,868)	(4,043)	(513,882)	513,882	-
External sales	2,970,215	1,410,908	641,937	278,558	5,301,618	-	5,301,618
Operating profit	1,051,351	163,499	287,551	(8,259)	1,494,142	(13,091)	1,481,051

② For the year ended December 31, 2019

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩3,050,844	₩1,583,680	₩421,444	₩316,190	₩5,372,158	₩ (408,956)	₩4,963,202
Intersegment sales	(268,493)	(118,670)	(14,148)	(7,645)	(408,956)	408,956	-
External sales	2,782,351	1,465,010	407,296	308,545	4,963,202	-	4,963,202
Operating profit	970,894	205,455	194,818	(1,571)	1,369,596	9,995	1,379,591

(3) The Group obtains revenue by transferring goods and services over a period or at a point in time in the major business lines. The categories of major business lines are consistent with the revenue disclosure information per reporting segment in accordance with K-IFRS No. 1108.

<i>In millions of Korean won</i>		2020	2019
Revenue recognized at a point in time:			
Tobacco	Wholesale, retail	₩2,966,641	₩2,779,775
	Direct sales	3,574	2,577
Ginseng	Wholesale, retail	757,995	841,702
	Direct sales	652,913	623,308
Others	Wholesale, retail	214,502	231,521
	Direct sales	64,056	76,162
	Subtotal	4,659,681	4,555,045
Revenue recognized over time:			
Real estate	Sales and rental	641,937	407,295
Others	Services	-	862
	Subtotal	641,937	408,157
	Total	₩5,301,618	₩4,963,202

(4) Segment information on assets and liabilities as of December 31, 2020 and December 31, 2019, are as follows:

① As of December 31, 2020

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩5,298,576	₩2,056,551	₩1,469,929	₩260,432	₩9,085,488	₩ (1,967,586)	₩7,117,902
Investments in associates and joint ventures	-	-	128,476	3,711	132,187	-	132,187
Assets held for sale	2,000	681	-	-	2,681	-	2,681
Subtotal	5,300,576	2,057,232	1,598,405	264,143	9,220,356	(1,967,586)	7,252,770
Common assets							4,215,613
Total assets							₩11,468,383
Acquisition of non-current assets	330,350	47,615	-	8,853	386,818	(22,032)	364,786
Liabilities:							
Segment liabilities	₩2,001,388	₩181,474	₩1,283	₩142,008	₩2,326,153	₩ (463,472)	₩1,862,681
Liabilities held for sale	-	51	-	-	51	-	51
Subtotal	2,001,388	181,525	1,283	142,008	2,326,204	(463,472)	1,862,732
Common liabilities							514,079
Total liabilities							₩ 2,376,811

② As of December 31, 2019

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩5,127,432	₩2,159,594	₩1,035,730	₩282,951	₩8,605,707	₩ (1,891,314)	₩6,714,393
Investments in associates and joint ventures	-	-	46,110	3,283	49,393	-	49,393
Assets held for sale	4,680	-	-	-	4,680	(433)	4,247
Subtotal	5,132,112	2,159,594	1,081,840	286,234	8,659,780	(1,891,747)	6,768,033
Common assets							3,984,406
Total assets							₩10,752,439
Acquisition of non-current assets	519,611	56,691	-	11,997	588,299	(43,160)	545,139
Liabilities:							
Segment liabilities	₩1,549,804	₩211,156	₩482	₩159,500	₩1,920,942	₩ (419,887)	₩1,501,055
Common liabilities							511,799
Total liabilities							₩2,012,854

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

(5) Geographical information determined by customer's location for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020			2019		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩3,972,486	₩1,329,132	₩5,301,618	₩3,869,521	₩1,093,681	₩4,963,202
Non-current assets	2,804,381	127,383	2,931,764	2,679,952	93,909	2,773,861

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

(6) The Group does not have revenues from a particular major external customer, which are more than or equal to 10% of the Group's consolidated total revenues.

5. Cash and Cash Equivalents and Other Financial Assets

(1) Details of cash and cash equivalents as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020	December 31, 2019
Cash on hand	₩1,395	₩330
Demand deposits	377,413	400,577
Money market trust	850,287	455,396
Others	24,516	35,003
Total	₩1,253,611	₩891,306

(2) Details of other financial assets as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Time deposits	₩369,155	₩8,540	₩381,903	₩2,797
Money Market Trust	18,000	-	16,000	-
Certificate of Deposit	20,000	1,585	-	1,679
Security deposits for checking accounts, etc.	580	4	46	4
Total	₩407,735	₩10,129	₩397,949	₩4,480

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, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Money Market Trust	₩914,344	₩18,297	₩1,239,263	₩-
Beneficiary certificate	80	235,265	-	251,895
Total	₩914,424	₩253,562	₩1,239,263	₩251,895

7. Trade and Other Receivables

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

<i>In millions of Korean won</i>	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Trade receivables	₩1,115,246	₩-	₩941,104	₩-
Loans	14,634	54,598	11,302	38,110
Other receivables	38,921	3,357	24,617	1,486
Guarantee deposits	43,363	39,349	40,185	37,118
Accrued income	2,406	105	5,734	24
Finance lease receivables	479	-	444	324
Total	₩1,215,049	₩97,409	₩1,023,386	₩77,062

(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 December 31, 2020 and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Total carrying amount	₩1,302,636	₩97,598	₩1,144,497	₩77,142
Allowances:				
Trade receivables	(86,062)	-	(120,385)	-
Other receivables	(1,525)	(189)	(726)	(80)
Total allowances	(87,587)	(189)	(121,111)	(80)
Net trade and other receivables	₩1,215,049	₩97,409	₩1,023,386	₩77,062

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

<i>In millions of Korean won</i>	2020	2019
Beginning balance	₩121,191	₩82,083
Impairment loss (reversal)	(28,452)	37,372
Write off	(3,191)	(425)
Net exchange difference, etc.	(1,772)	2,161
Ending balance	₩87,776	₩121,191

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

8. Inventories

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

<i>In millions of Korean won</i>	December 31, 2020			December 31, 2019		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩44,192	₩ (6,513)	₩37,679	₩48,674	₩ (15,815)	₩32,859
Finished goods	849,715	(14,604)	835,111	841,461	(7,349)	834,112
Work in progress	651,435	(1,190)	650,245	644,692	(647)	644,045
Raw materials	838,689	(2,002)	836,687	836,871	(2,577)	834,294
Supplies	42,764	-	42,764	33,257	-	33,257
By-products	7,168	-	7,168	7,131	-	7,131
Buildings under construction	15,656	-	15,656	6,378	-	6,378
Completed buildings	1,490	-	1,490	2,215	-	2,215
Sites for construction of real estate	58,181	-	58,181	10,274	-	10,274
Goods in transit	50,051	-	50,051	42,678	-	42,678
Total	₩2,559,341	₩ (24,309)	₩2,535,032	₩2,473,631	₩ (26,388)	₩2,447,243

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

<i>In millions of Korean won</i>	2020	2019
Cost of sales:		
Loss on valuation of inventories	₩363	₩15,515
Loss on obsolescence of inventories	12,757	17,780
Other expense:		
Loss on obsolescence of inventories	793	796
Total	₩13,913	34,091

9. Financial Assets measured at Fair Value through Other Comprehensive Income

(1) Details of financial assets at fair value through other comprehensive income as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020	December 31, 2019
Listed:		
YTN Co. Ltd.	₩25,140	₩17,179
Oscotech Inc.	34,637	12,725
Shinhan Financial Group Co., Ltd.	128,468	173,762
Ocuphire Pharma, Inc (Previously, Rexahn Pharmaceuticals, Inc.)	94	118
U&I Corporation	4,319	5,324
Subtotal	192,658	209,108
Unlisted:	46,881	48,532
Total	₩239,539	₩257,640

When assessing the fair value of financial assets measured at fair value through other comprehensive income, the Group used market prices traded in the active trading market for listed equity instruments and measured unlisted equity instruments using the discounted cash flow model, etc.

At the disposal of the above equity instruments, the related accumulated other comprehensive income or loss 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, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Beginning balance	₩257,640	₩249,575
Changes in fair value	(14,912)	9,492
Disposal, etc.	(3,189)	(1,427)
Ending balance	₩239,539	₩257,640

10. Investments in Associates and Joint Ventures

(1) Details of investments in associates and joint ventures as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Location	Principal operation	Date of financial statements used	December 31, 2020		December 31, 2019	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
LitePharmTech Co., Ltd. ¹⁾	Korea	Manufacturing medical supplies	Dec. 31	16.75	₩3,268	16.75	₩3,283
Yong In Jung Sim Co., Ltd. ²⁾	Korea	Development of real estate	Dec. 31	-	-	22.22	1,000
KORAMCO Ocheon Project Financing Vehicle Co., Ltd. ³⁾	Korea	Real estate investment, development and rental business	Dec. 31	18.95	5,705	-	-
KORAMCO Banpo Project Financing Vehicle Co., Ltd. ³⁾	Korea	Real estate investment, development and rental business	Dec. 31	18.95	5,290	-	-
KORAMCO Dongjak Project Financing Vehicle Co., Ltd. ³⁾	Korea	Real estate investment, development and rental business	Dec. 31	19.47	1,800	-	-
KORAMCO Amsa Project Financing Vehicle Co., Ltd. ³⁾	Korea	Real estate investment, development and rental business	Dec. 31	17.84	1,121	-	-
KB Gimpo Logistics CR REIT Co., Ltd. ⁴⁾	Korea	Renting of real estate	Dec. 31	-	-	12.00	2,637
KORAMCO Private REIT 50 Fund ⁵⁾	Korea	Renting of real estate	Dec. 31	-	-	84.21	14,023
KORAMCO Europe Private REIT 3-2 Fund ⁶⁾	Germany	Renting of real estate	Dec. 31	51.35	15,342	51.35	16,510
Starfield Suwon, Inc.	Korea	Real estate development and rental business	Dec. 31	50.00	99,218	50.00	11,940
Others					443		-
Total					₩132,187		₩49,393

¹⁾ The Group has classified its holdings as an investment in associates even though its holdings in the invested company is less than 20%. Since it has the right to participate in the board of directors meeting of the invested company according to the shareholder's agreement, the Group has judged that it has significant influence over the invested company.

²⁾ Due to Yong In Jung Sim Co., Ltd.'s capital increase with consideration through dilutive secondary offerings during the year ended December 31, 2020, the Group has lost its significant influence in the invested company. As of December 31, 2020, the Group has disposed of its entire holdings in Yong In Jung Sim Co., Ltd.

³⁾ These are classified as investments in associates even though the Group's holdings in the invested companies are less than 20%, respectively. The Group has judged that it has significant influence over these invested companies since the Group has the right to nominate a member of the board of directors of each invested company. These investments have been newly acquired during the year ended December 31, 2020.

⁴⁾ It was classified as a joint venture since decisions about the significant financial and operating policies of the investee could not be made without unanimous consent of the Group and the Korea Tobacco and Ginseng Benefit Association, holding 12% shares each, as the voting power of 76% shares held by the collective investment business entity was not entitled to have an impact on a resolution of the investee according to the Financial Investment Services and Capital Markets Act. According to the liquidation procedure for this equity investment, the Group has been allocated a portion of the remaining assets during the year ended December 31, 2020.

⁵⁾ It was classified as a joint venture since decisions about the significant financial and operating policies of the investee could not be made without the unanimous consent of the parties that control the arrangement collectively. According to the liquidation procedure for this equity investment, the Group was allocated a portion of the remaining assets during the year ended December 31, 2020.

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 parties that control the arrangement collectively.

(2) Financial information of associates and joint ventures are as follows:

① For the year ended December 31, 2020

A. Summarized financial information

<i>In millions of Korean won</i>	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Total comprehensive income(loss)
LitePharmTech Co., Ltd.	₩11,766	₩20,861	₩9,912	₩3,207	₩22,176	₩ (40)
KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	901	87,051	2,459	56,334	2,303	105
KORAMCO Banpo Project Financing Vehicle Co., Ltd.	841	82,256	1,784	54,280	1,636	(84)
KORAMCO Dongjak Project Financing Vehicle Co., Ltd.	749	24,879	693	16,024	378	(254)
KORAMCO Amsa Project Financing Vehicle Co., Ltd.	428	17,407	560	11,220	307	(215)
KB Gimpo Logistics CR REIT Co., Ltd.	-	-	-	-	6,038	5,997
KORAMCO Private REIT 50 Fund	-	-	-	-	2,442	2,242
KORAMCO Europe Private REIT 3-2 Fund	4,120	111,829	2,184	81,105	4,809	(2,092)
Starfield Suwon, Inc.	22,492	177,978	2,018	17	-	(180)

B. Additional financial information on joint ventures

<i>In millions of Korean won</i>	Cash and cash equivalents	Current financial liabilities ¹⁾	Non-current financial liabilities ¹⁾	Depreciation expense	Interest income	Interest cost	Income tax expense
KB Gimpo Logistics CR REIT Co., Ltd.	₩-	₩-	₩-	₩35	₩61	₩47	₩24
KORAMCO Private REIT 50 Fund	-	-	-	-	1	-	-
KORAMCO Europe Private REIT 3-2 Fund	1,474	1,556	79,918	3,853	118	1,597	55
Starfield Suwon, Inc.	22,119	-	-	-	84	-	-

¹⁾ Amount excludes trade payables, other payables and provisions.

② For the year ended December 31, 2019

A. Summarized financial information

<i>In millions of Korean won</i>	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Total comprehensive income(loss)
Lite Pharm Tech, Inc.	₩12,655	₩13,568	₩3,506	₩3,116	₩22,047	₩570
JR REIT 5 Co., Ltd.	-	-	-	-	-	194
JR REIT 8 Co., Ltd.	-	-	-	-	13	406
JR REIT 10 Co., Ltd.	-	-	-	-	8,478	4,799
Yong In Jung Sim Co., Ltd.	7,159	158	3,937	-	-	(769)
KB Gimpo Logistics CR REIT Co., Ltd.	3,159	56,678	36,185	1,679	3,457	(2,028)
KORAMCO Private REIT 50 Fund	19,630	-	2,978	-	-	(35)
KORAMCO Europe Private REIT 3-2 Fund	3,960	111,844	1,226	79,044	5,221	(849)
Starfield Suwon, Inc.	5,617	18,620	329	29	-	(71)

B. Additional financial information on joint ventures

<i>In millions of Korean won</i>	Cash and cash equivalents	Current financial liabilities ¹⁾	Non-current financial liabilities ¹⁾	Depreciation expense	Interest income	Interest cost	Income tax expense
KB Gimpo Logistics CR REIT Co., Ltd.	₩1,245	₩36,184	₩1,679	₩922	₩30	₩1,385	₩-
KORAMCO Private REIT 50 Fund	1	57	-	-	-	-	-
KORAMCO Europe Private REIT 3-2 Fund	1,683	1,226	79,044	3,445	10	1,555	16
Starfield Suwon, Inc.	5,438	330	29	-	36	-	-

¹⁾ Amount excludes trade payables, other payables and provisions.

(3) Changes in investments in associates and joint ventures for the years ended December 31, 2020 and 2019, are as follows:

① For the year ended December 31, 2020

<i>In millions of Korean won</i>	Beginning balance	Acquisition	Disposal	Share of net gain(loss)	Dividends	Capital changes	Reclassification etc.	Ending balance
LitePharmTech Co., Ltd.	₩3,283	₩-	₩-	₩33	₩-	₩ (48)	₩-	₩3,268
Yong In Jung Sim Co., Ltd.	1,000	-	-	-	-	-	(1,000)	-
KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	-	5,685	-	20	-	-	-	5,705
KORAMCO Banpo Project Financing Vehicle Co., Ltd.	-	5,306	-	(16)	-	-	-	5,290
KORAMCO Dongjak Project Financing Vehicle Co., Ltd.	-	1,850	-	(50)	-	-	-	1,800
KORAMCO Amsa Project Financing Vehicle Co., Ltd.	-	1,159	-	(38)	-	-	-	1,121
KB Gimpo Logistics CR REIT Co., Ltd.	2,637	-	(3,356)	719	-	-	-	-
KORAMCO Private REIT 50 Fund	14,023	-	(17,851)	3,828	-	-	-	-
KORAMCO Europe Private REIT 3-2 Fund	16,510	-	-	(170)	(1,227)	229	-	15,342
Starfield Suwon, Inc.	11,940	87,500	-	(212)	-	(10)	-	99,218
Others	-	-	-	21	-	-	422	443
Total	₩49,393	₩101,500	₩ (21,207)	₩4,135	₩ (1,227)	₩171	₩ (578)	₩132,187

② For the year ended December 31, 2019

<i>In millions of Korean won</i>	Beginning balance	Disposal	Share of net gain(loss)	Dividends	Capital changes	Others	Ending balance
Lite Pharm Tech, Inc.	₩3,037	₩-	₩81	₩-	₩31	₩134	₩3,283
JR REIT 5 Co., Ltd.	7,883	(11,125)	3,372	(130)	-	-	-
JR REIT 8 Co., Ltd.	13,551	(13,526)	83	(108)	-	-	-
JR REIT 10 Co., Ltd.	9,500	(9,500)	559	(559)	-	-	-
Yong In Jung Sim Co., Ltd.	1,000	-	-	-	-	-	1,000
KB Gimpo Logistics CR REIT Co., Ltd.	2,985	-	(348)	-	-	-	2,637
KORAMCO Private REIT 50 Fund	15,906	-	(1,883)	-	-	-	14,023
KORAMCO Europe Private REIT 3-2 Fund	18,152	-	(288)	(1,191)	(163)	-	16,510
Starfield Suwon, Inc.	11,975	-	(35)	-	-	-	11,940
Total	₩83,989	₩ (34,151)	₩1,541	₩ (1,988)	₩ (132)	₩134	₩49,393

(4) Reconciliation of the summarized financial information presented to the carrying amount of the Group's investments in associates and joint ventures as of December 31, 2020 and 2019, are as follows:

① As of December 31, 2020

<i>In millions of Korean won</i>	Net assets	Ownership (%)	Share of net assets ¹⁾	Goodwill	Carrying amount
LitePharmTech Co., Ltd.	₩19,508	16.75	₩3,268	₩-	₩3,268
KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	29,159	18.95	5,526	179	5,705
KORAMCO Banpo Project Financing Vehicle Co., Ltd.	27,033	18.95	5,123	167	5,290
KORAMCO Dongjak Project Financing Vehicle Co., Ltd.	8,911	19.47	1,735	65	1,800
KORAMCO Amsa Project Financing Vehicle Co., Ltd.	6,055	17.84	1,080	41	1,121
KORAMCO Europe Private REIT 3-2 Fund	32,660	51.35	15,342	-	15,342
Starfield Suwon, Inc.	198,435	50.00	99,218	-	99,218

¹⁾ It is the share of net assets in associates and joint ventures corresponding to the Parent Company's ownership.

② As of December 31, 2019

<i>In millions of Korean won</i>	Net assets	Ownership (%)	Share of net assets ¹⁾	Preferred stock effect	Carrying amount
Lite Pharm Tech, Inc.	₩19,601	16.75	₩3,283	₩-	₩3,283
Yong In Jung Sim Co., Ltd.	3,380	22.22	751	249	1,000
KB Gimpo Logistics CR REIT Co., Ltd.	21,973	12.00	2,637	-	2,637
KORAMCO Private REIT 50 Fund	16,652	84.21	14,023	-	14,023
KORAMCO Europe Private REIT 3-2 Fund	35,534	51.35	16,510	-	16,510
Starfield Suwon, Inc.	23,879	50.00	11,940	-	11,940

¹⁾ It is the share of net assets in associates and joint ventures corresponding to the Parent Company's ownership.

11. Property, Plant and Equipment

(1) Composition of the carrying values of property, plant and equipment as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020			December 31, 2019		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩494,160	₩-	₩494,160	₩566,053	₩-	₩566,053
Buildings	1,129,762	(566,367)	563,395	1,093,077	(532,269)	560,808
Structures	75,225	(48,775)	26,450	76,464	(49,850)	26,614
Machinery	1,581,027	(1,125,145)	455,882	1,499,540	(1,103,169)	396,371
Vehicles	7,561	(5,942)	1,619	9,387	(7,207)	2,180
Tools	72,658	(56,263)	16,395	68,771	(54,745)	14,026
Equipment	205,286	(149,483)	55,803	186,916	(138,261)	48,655
Others	5,915	(1,131)	4,784	4,914	(503)	4,411
Construction in progress	100,587	(663)	99,924	134,621	-	134,621
Total	₩3,672,181	₩ (1,953,769)	₩1,718,412	₩3,639,743	₩ (1,886,004)	₩1,753,739

(2) Changes in property, plant and equipment for the years ended December 31, 2020 and 2019, are as follows:

① For the year ended December 31, 2020

<i>In millions of Korean won</i>	Beginning balance	Acquisition	Disposal	Depreciation	Impairment	Reclassification, etc. ¹⁾	Ending balance
Land	₩566,053	₩779	₩ (266)	₩-	₩-	₩ (72,406)	₩494,160
Buildings	560,808	25,606	(5,092)	(39,555)	-	21,628	563,395
Structures	26,614	1,435	(332)	(3,243)	-	1,976	26,450
Machinery	396,371	47,820	(1,744)	(75,131)	(1,071)	89,637	455,882
Vehicles	2,180	486	(43)	(638)	-	(366)	1,619
Tools	14,026	9,053	(158)	(6,834)	-	308	16,395
Equipment	48,655	20,913	(594)	(27,024)	(3)	13,856	55,803
Others	4,411	610	-	(630)	-	393	4,784
Construction in progress	134,621	106,175	(1)	-	(664)	(140,207)	99,924
Total	₩1,753,739	₩212,877	₩ (8,230)	₩ (153,055)	₩ (1,738)	₩ (85,181)	₩1,718,412

¹⁾ Consists of ₩79,968 million which was reclassified to investment property, ₩4,465 million which was reclassified to inventory, ₩2,432 million which was reclassified to assets held for sale, and ₩32 million which was reclassified to intangible assets (see Notes 12, 13, 14).

② For the year ended December 31, 2019

<i>In millions of Korean won</i>	Beginning balance	Acquisition	Disposal	Depreciation	Impairment	Reclassification, etc. ¹⁾	Ending balance
Land	₩660,482	₩603	₩ (622)	₩-	₩-	₩ (94,410)	₩566,053
Buildings	589,360	7,223	(1,048)	(38,296)	-	3,569	560,808
Structures	28,568	1,028	(230)	(3,240)	-	488	26,614
Machinery	326,503	13,165	(247)	(67,046)	(2,327)	126,323	396,371
Vehicles	2,336	302	(91)	(651)	-	284	2,180
Tools	10,657	8,496	(1)	(5,620)	(17)	511	14,026
Equipment	67,057	21,235	(3,168)	(27,598)	(541)	(8,330)	48,655
Others	3,984	858	(6)	(451)	-	26	4,411
Construction in progress	130,222	181,577	(446)	-	-	(176,732)	134,621
Total	₩1,819,169	₩234,487	₩ (5,859)	₩ (142,902)	₩ (2,885)	₩ (148,271)	₩1,753,739

¹⁾ Consists of ₩154,728 million which was reclassified to investment property, and ₩10,138 million which was reclassified to intangible assets (see Notes 12, 13).

12. Intangible Assets

(1) Details of carrying value of intangible assets as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020			December 31, 2019		
	Acquisition cost	Accumulated amortization and impairment	Carrying amount	Acquisition cost	Accumulated amortization and impairment	Carrying amount
Goodwill	₩107,544	₩ (91,189)	₩16,355	₩110,164	₩ (91,189)	₩18,975
Industrial property rights	51,343	(38,183)	13,160	46,998	(37,945)	9,053
Facility usage rights	38,432	(691)	37,741	36,237	(1,966)	34,271
Intangible assets under development	24,565	(2,058)	22,507	27,132	(2,058)	25,074
Other intangible assets	158,674	(114,353)	44,321	149,565	(107,314)	42,251
Total	₩380,558	₩ (246,474)	₩134,084	₩370,096	₩ (240,472)	₩129,624

(2) Changes in intangible assets for the years ended December 31, 2020 and 2019, are as follows:

① For the year ended December 31, 2020

<i>In millions of Korean won</i>	Beginning balance	Acquisition	Disposal	Amortization	Impairment	Reclassification, etc. ¹⁾	Ending balance
Goodwill	₩18,975	₩-	₩-	₩-	₩-	₩ (2,620)	₩16,355
Industrial property rights	9,053	1,661	-	(221)	(73)	2,740	13,160
Facility usage rights	34,271	4,909	(2,714)	-	1,275	-	37,741
Intangible assets under development	25,074	24,899	-	-	(276)	(27,190)	22,507
Other intangible assets	42,251	4,889	(98)	(8,320)	(105)	5,704	44,321
Total	₩129,624	₩36,358	₩ (2,812)	₩ (8,541)	₩821	₩ (21,366)	₩134,084

¹⁾ Consists of ₩14,041 million which was reclassified to property, plant and equipment (see Note 11).

② For the year ended December 31, 2019

<i>In millions of Korean won</i>	Beginning balance	Acquisition	Disposal	Amortization	Impairment	Reclassification, etc. ¹⁾	Ending balance
Goodwill	₩18,975	₩-	₩-	₩-	₩-	₩-	₩18,975
Industrial property rights	9,523	529	(149)	(222)	(2,293)	1,665	9,053
Facility usage rights	36,075	672	(1,096)	-	(1,380)	-	34,271
Intangible assets under development	3,143	28,190	-	-	(98)	(6,161)	25,074
Other intangible assets	46,596	5,557	-	(7,181)	-	(2,721)	42,251
Total	₩114,312	₩34,948	₩ (1,245)	₩ (7,403)	₩ (3,771)	₩ (7,217)	₩129,624

¹⁾ Consists of ₩10,145 million which was reclassified to property, plant and equipment (see Note 11).

(3) Research and development expenditures recognized as expenses for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Cost of sales	₩1,517	₩1,222
Selling, general and administrative expenses	52,725	49,673
Total	₩54,242	₩50,895

13. Investment Properties

(1) Details of investment properties as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020			December 31, 2019		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩607,546	₩ (2,775)	₩604,771	₩536,003	₩-	₩536,003
Buildings	531,411	(127,353)	404,058	361,819	(94,334)	267,485
Right of use assets	1,616	(783)	833	-	-	-
Construction in progress	20,517	-	20,517	81,837	-	81,837
Total	₩1,161,090	₩ (130,911)	₩1,030,179	₩979,659	₩ (94,334)	₩885,325

(2) Changes in investment properties for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020					2019			
	Land	Buildings	Right of use assets	Construction in progress	Total	Land	Buildings	Construction in progress	Total
Beginning balance	₩536,003	₩267,485	₩-	₩81,837	₩885,325	₩245,842	₩226,561	₩22,646	₩495,049
Acquisition	4	65,736	-	20,418	86,158	-	5,228	251,057	256,285
Disposal	(3,638)	(729)	-	-	(4,367)	-	-	-	-
Depreciation	-	(18,684)	(430)	-	(19,114)	-	(12,797)	-	(12,797)
Impairment	(2,775)	-	-	-	(2,775)	-	-	-	-
Reclassification, etc. ¹⁾	75,177	90,250	1,263	(81,738)	84,952	290,161	48,493	(191,866)	146,788
Ending balance	₩604,771	₩404,058	₩833	₩20,517	₩1,030,179	₩536,003	₩267,485	₩81,837	₩885,325

¹⁾ Consists of ₩79,968 million (₩154,728 million for the year ended December 31, 2019) reclassified from property, plant and equipment, ₩3,740 million reclassified from inventories, and ₩1,219 million reclassified from right of use assets etc. (see Notes 11, 15).

(3) Details of profit or loss recognized related to the investment properties for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Rental income	₩60,563	₩56,056
Operating expenses	(19,604)	(13,830)
Total	₩40,959	₩42,226

(4) The fair value and carrying amount of investment properties as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020		December 31, 2019	
	Fair value	Carrying amount	Fair value	Carrying amount
Land	₩1,399,212	₩548,615	₩1,088,865	₩437,095
Buildings	548,369	404,058	357,676	267,485
Right of use asset	833	833	-	-
Total	₩1,948,414	₩953,506	₩1,446,541	₩704,580

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.

Details of investment properties where book values are deemed to be fair values since their fair values cannot be measured reliably are as follows:

In millions of Korean won	Type	Carrying amount		Reason why fair value cannot be measured reliably
		2020	2019	
Sejong 1-5, P2	Land	₩-	₩33,528	Construction in progress
	Construction in progress	-	70,764	
Ssangmun-dong new development site	Land	1,495	1,495	
	Construction in progress	11,391	2,640	
Sangbong-dong new development site	Land	51,068	50,747	
	Construction in progress	8,978	1,668	
Youth Start-up Support Center	Land	-	13,138	
	Construction in progress	-	6,765	
Gwacheon Knowledge Industry Center	Land	3,593	-	
	Construction in progress	148	-	
Total		₩76,673	₩180,745	

(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, 2020, variable lease payment that is based on an index or a rate was ₩ 690 million. Even though the Group 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 future minimum lease payments that the Group expects to receive from operating lease contracts for the investment properties described above as of December 31, 2020, are as follows:

In millions of Korean won	Within 1 year	More than 1 year ~ Within 5 years	More than 5 years	Total
Minimum lease payment	₩37,826	₩23,759	₩1,065	₩62,650

14. Assets and Liabilities Held for Sale

Changes in assets held for sale for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Beginning balance	₩4,247	₩4,247
Acquisition	3,283	-
Impairment	(424)	-
Reclassification, etc.	3,105	-
Disposal	(7,530)	-
Ending balance	₩2,681	₩4,247

For the year ended December 31, 2020, the Group has reclassified ₩2,424 million of land and buildings in Gapyung Culture and Arts School as assets held for sale and recognized ₩424 million as impairment loss from assets held for sale.

In accordance with its contract with the joint venture, Starfield Suwon, Inc., the Group has acquired an additional ₩3,283 of land and then disposed of ₩7,530 million of land. The Group has recognized gains from disposal of assets held for sale of ₩153,188 million.

The Group's subsidiary, Korean Red Ginseng Corp., Inc. has decided to dispose of its Canadian branch office. A preferred bidder has been designated and the process of disposal is currently in progress. Therefore the Group has classified all assets and liabilities related to the Canadian branch office of Korean Red Ginseng Corp., Inc. as group of assets (liabilities) held for sale.

(1) Key details of assets and liabilities classified as held for sale as of December 31, 2020, are as follows.

<i>In millions of Korean won</i>	December 31, 2020
Group of assets held for sale	
Inventories	₩442
Trade and other receivables	205
Property, plant and equipment	8
Right-of-use assets	26
Total assets	₩681
Group of liabilities held for sale	
Trade and other payables	₩27
Lease liabilities	24
Total liabilities	₩51

The Group has recognized the difference between the book value and net fair value of its group of assets held for sale of ₩3 million as an impairment loss, thereby reducing the book value of property, plant and equipment within the group of assets held for sale.

(2) Accumulated other comprehensive income recognized directly through other comprehensive income related to group of assets for disposal classified as assets held for sale as of December 31, 2020, are as follows.

<i>In millions of Korean won</i>	December 31, 2020
Gain or loss on translation of overseas operations	300

15. Right-of-Use Assets

(1) Details of carrying value of right-of-use asset as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020			2019		
	Acquisition cost	Accumulated depreciation and impairment	Carrying value	Acquisition cost	Accumulated depreciation and impairment	Carrying value
Land	₩6,166	₩ (1,168)	₩4,998	₩6,121	₩ (1,037)	₩5,084
Buildings	48,799	(19,611)	29,188	40,110	(13,813)	26,297
Machinery	41	(11)	30	-	-	-
Vehicles	25,551	(10,679)	14,872	20,215	(6,112)	14,103
Total	₩80,557	₩ (31,469)	₩49,088	₩66,446	₩ (20,962)	₩45,484

(2) Changes in right-of-use assets for years ended December 31, 2020 and 2019, are as follows:

① For the year ended December 31, 2020

<i>In millions of Korean won</i>	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification	Others	Ending balance
Land	₩5,084	₩-	₩-	₩ (126)		₩40	₩4,998
Buildings	26,297	20,019	(224)	(14,997)	(1,219)	(688)	29,188
Machinery	-	41	-	(11)		-	30
Vehicles	14,103	9,333	(758)	(7,476)		(330)	14,872
Total	₩45,484	₩29,393	₩ (982)	₩ (22,610)	₩ (1,219)	₩ (978)	₩49,088

② For the year ended December 31, 2019

<i>In millions of Korean won</i>	Beginning balance	Change in accounting policy	Acquisition	Disposal	Depreciation	Impairments	Others	Ending balance
Land	₩-	₩6,011	₩-	₩-	₩ (146)	₩ (908)	₩127	₩5,084
Buildings	-	33,980	11,996	(3,933)	(15,862)	-	116	26,297
Vehicles	-	12,676	7,423	(42)	(6,112)	-	158	14,103
Total	₩-	₩52,667	₩19,419	₩ (3,975)	₩ (22,120)	₩ (908)	₩401	₩45,484

(3) The amount recognized on the consolidated statements of comprehensive income related to lease during the year ended December 31, 2020 and 2019, is as follows:

<i>In millions of Korean won</i>	2020	2019
Depreciation expense	₩22,610	₩22,120
Interest expense	1,602	1,573
Short-term lease expense	2,719	2,515
Lease payment for low-value assets	1,730	1,089
Variable lease expense	74,564	81,085
Impairment loss on right-of-use assets	-	908
Loss (Gain) on lease contract adjustments	(360)	(24)
Total	₩102,865	₩109,266

For the year ended December 31, 2020, total cash outflows related to lease is ₩101,778 million (₩104,866 million for the year ended December 31, 2019).

(4) For the year ended December 31, 2020, the Group has recognized, because of sublease, ₩64 million of lease income and ₩39 million (₩9 million for the year ended December 31, 2019) of interest revenue.

16. Borrowings

(1) Short-term borrowings as of December 31, 2020, and December 31, 2019, are summarized as follows:

<i>In millions of Korean won</i>		Lender	Annual interest rate (%)	December 31, 2020	December 31, 2019
Borrowings			FTP+1.104	₩500	₩7,200
		KEB Hana Bank	Bank Debenture(6 months) +1.970~2.308	10,000	10,000
		KEB Hana Bank Bahrain branch	3M LIBOR+1.1	5,991	6,359
		Korea Development Bank	Industrial Financial Debenture (1 year)+0.9	-	2,500
		Subtotal		16,491	26,059
Consumer credit agreements ¹⁾		NH Nonghyup Bank	-	633	763
		KEB Hana Card	-	184	244
		Subtotal		817	1,007
		Total		₩17,308	₩27,066

¹⁾ The Group provides payment guarantees to financial institutions in accordance with the consumer credit agreement in connection with retail sales receivables, and receives the related receivables from financial institutions through payment by proxy and recognizes them as short-term borrowings. No interest expenses are incurred related to these payment guarantees.

(2) Current portion of long-term borrowings and long-term borrowings as of December 31, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Lender	Maturity	Annual interest rate (%)	December 31, 2020	December 31, 2019
Other financial loan for working capital	NH Nonghyup Bank	2021.03.30~ 2025.06.22	-	₩49,700	₩47,015
Borrowings	KB Kookmin Bank	2023.09.11	MOR(6 months) +1.03	5,958	8,125
	Korea Development Bank	2020.02.10~ 2022.11.10		-	5,759
Redeemable convertible preferred shares ^{1) 2)}				35,340	35,340
Total				90,998	96,239
Consolidated statements of financial position:					
Current ²⁾				37,506	5,285
Non-current				53,492	90,954
Total				₩90,998	₩96,239

¹⁾ Redeemable convertible preferred shares as of December 31, 2020 and 2019, are as follows:

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

²⁾ As of December 31, 2020, these have been reclassified as current portion of long-term borrowings since the period in which the holder of the convertible preferred shares can request for a stake purchase is due within a year.

(3) As discussed in Note 33 to the consolidated financial statements, the Group is providing collateral for the above borrowings.

17. Trade and Other Payables

Details of trade and other payables as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Leasehold deposits received	₩25,163	₩16,044	₩21,944	₩17,960
Trade payables	57,897	-	62,140	-
Withholdings	10,539	-	15,401	-
Value-added deposit	170,169	-	169,102	-
Accrued expenses	213,625	30,182	229,781	28,113
Other payables	491,809	3,254	158,215	13,565
Total	₩969,202	₩49,480	₩656,583	₩59,638

18. Employee Benefits

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

	2020	2019
Defined benefit plans:		
Current service cost	₩52,045	₩48,674
Net interest on net defined benefit liabilities(assets)	2,305	2,954
Past service cost and gain/loss on settlement	(814)	(202)
Subtotal	53,536	51,426
Defined contribution plan:		
Contributions recognized as expense	6,960	7,177
Other long-term employee benefits:		
Current service cost, etc.	5,075	4,725
Termination benefits:		
Voluntary retirements, etc.	4,088	4,251
Total	₩69,659	₩67,579

(2) Changes in net defined benefit liabilities(assets) for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Beginning balance	₩91,083	₩96,215
Current service cost	52,045	48,674
Net interest on net defined benefit liabilities(assets)	2,305	2,954
Past service cost and any gain(loss) on settlement	(814)	(202)
Re-measurement element of net defined benefit liabilities(assets) (before tax)	22,369	13,481
Payment amount	(4,101)	(4,043)
Payment of plan assets	(49,280)	(66,519)
Net exchange differences	(693)	523
Ending balance	₩112,914	₩91,083
Consolidated statements of financial position:		
Present value of defined benefit obligations	₩600,984	₩542,699
Fair value of plan assets	(488,070)	(451,616)
Total	₩112,914	₩91,083

(3) Changes in the present value of the defined benefit obligation for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Beginning balance	₩542,699	₩491,466
Current service cost	52,045	48,674
Interest expenses	10,876	11,207
Past service cost and any gain(loss) on settlement	(814)	(202)
Re-measurement element (before tax)	22,930	13,148
Payment amount	(26,059)	(22,117)
Net exchange differences	(693)	523
Ending balance	₩600,984	₩542,699

(4) Changes in the fair value of plan assets for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Beginning balance	₩451,616	₩395,251
Interest income	8,571	8,253
Re-measurement element (before tax)	561	(333)
Payment amount	(21,958)	(18,074)
Payment of plan assets	49,280	66,519
Ending balance	₩488,070	₩451,616

The actual interest income from plan assets for the years ended December 31, 2020 and 2019, are ₩9,132 million, and ₩7,920 million, respectively.

(5) Changes in the present value of other long-term employee benefits for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Beginning balance	₩28,113	₩25,056
Current service cost	3,925	3,030
Interest cost	508	545
Past service cost	-	1,430
Re-measurement element (before tax)	641	(280)
Payment amount	(1,503)	(1,669)
Net exchange differences	3	1
Ending balance	₩31,687	₩28,113

(6) Re-measurements recognized in other comprehensive income for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Actuarial gains and losses on defined benefit obligations:		
Changes in demographic assumptions	₩ (604)	₩3,358
Changes in financial assumptions	(16,102)	3,030
Experience adjustments	(6,224)	(19,536)
Subtotal	(22,930)	(13,148)
Revenue from plan assets, excluding amounts included in net interest	561	(333)
Re-measurement element of net defined benefit liabilities(assets) (before tax)	(22,369)	(13,481)
Tax effect	6,157	3,056
Re-measurement element of net defined benefit liabilities(assets) (after tax)	₩ (16,212)	₩ (10,425)

(7) The fair value of each of the major types included in the fair value of plan assets as of December 31, 2020 and 2019, is as follows:

<i>In millions of Korean won</i>	December 31, 2020	December 31, 2019
Regular deposits and cash equivalents	₩127,756	₩88,607
Principal and interest guarantee financial assets, etc.	360,314	363,009
Total	₩488,070	₩451,616

(8) The major assumptions used for actuarial evaluation as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020	December 31, 2019
Discount rate (%)	1.70~13.00	1.66 ~ 8.00
Expected wage increase rate (%)	3.00~10.00	3.00 ~ 10.00

To calculate the present value of the defined benefit obligation, the Group 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 December 31, 2020.

(9) The sensitivity analysis results for the defined benefit obligations in relation to the major actuarial assumptions as of December 31, 2020, are as follows:

<i>In millions of Korean won</i>	Increase by 1%	Decrease by 1%
Changes in discount rate	₩ (53,388)	₩62,225
Changes in expected wage increase rate	61,452	(53,778)

The increase (decrease) in defined benefit obligations was calculated based on the present value of the defined benefit obligations as of December 31, 2020.

(10) Effect of defined benefit plan on future cash flow

The Group maintains its policy of reviewing the level of contribution in the pension fund at the end of each fiscal year and making up any losses that may occur in the fund.

A reasonable estimate of the expected contribution related to the defined benefit plan during the year 2021 is ₩96,200 million.

The weighted average maturities of the defined benefit obligation as of December 31, 2020 and 2019, are 10.08 years and 9.98 years, respectively.

19. Refund Liabilities and Provisions

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

<i>In millions of Korean won</i>	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩4,464	₩-	₩3,694	₩-
Refund liabilities	9,796	1,447	11,790	1,584
Provision for site restoration	12,354	1,122	9,680	1,013
Provision for financial guarantee	-	622	-	492
Provision for greenhouse gases	178	-	-	-
Provision for others	717	1	1,503	1
Total	₩27,509	₩3,192	₩26,667	₩3,090

(2) Changes in refund liabilities and provisions for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020				2019			
	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩3,694	₩5,781	₩ (5,011)	₩4,464	₩3,497	₩13,850	₩ (13,653)	₩3,694
Refund liabilities	13,374	5,452	(7,583)	11,243	9,948	12,827	(9,401)	13,374
Provision for site restoration	10,693	9,312	(6,529)	13,476	4,387	6,798	(492)	10,693
Provision for financial guarantee	492	130	-	622	700	-	(208)	492
Provision for greenhouse gases	-	276	(98)	178	-	-	-	-
Provision for others	1,504	-	(786)	718	414	1,467	(377)	1,504
Total	₩29,757	₩20,951	₩ (20,007)	₩30,701	₩18,946	₩34,942	₩ (24,131)	₩29,757

(3) For returnable sales, the Group 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. The refund assets as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020	December 31, 2019
Refund assets	₩1,052	₩643

(4) The Group sets up provision for product warranties by estimating the expected warranty amount at the time of sales 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, 2020, is ₩4 million (₩2,384 million as of December 31, 2019).

(5) The Group's provision for site restoration is established by estimating the expected future recovery cost of the leased assets and land. The Group includes the recovery cost of leased assets to the acquisition cost of right-of-use assets, and such expenditure is expected to occur at the end of the contract term for the leased asset. The Group also recognizes the expected recovery cost related to land pollution as costs of goods sold. Such expenditure is expected to occur at a point in time when the purification of pollution is complete.

(6) The Group's provision for financial guarantee is recognized by estimating the amount of joint guarantees for mid-payment loan provided to the buyer related to the off-plan sales construction of Suwon hwaseo.

(7) In relation to greenhouse gas emissions, the Group recognizes provision for greenhouse gases by estimating the book value of the greenhouse gas emission rights that are exercised during the year as well as future expenses expected to be burdened by the Group as a result of emissions exceeding the greenhouse gas emission rights for that year.

(8) The Group has signed an agreement with the Iran Tobacco Company to manufacture more than a certain quantity of cigarettes each year. The Group has recognized penalty payments of ₩718 million expected to be paid in the future as (current) other provisions, related to actual production quantities being less than the quantity agreed upon by the agreement.

20. Share Capital and Other Capital Surplus

(1) There have been no changes to share capital and other capital surplus during the years ended December 31, 2020 and 2019. Details of share capital and other capital surplus as of December 31, 2020 and 2019, are as follows:

Classification	Details of paid-in capital	
	December 31, 2020	December 31, 2019
Number of Authorized shares	800,000,000 shares	800,000,000 shares
Amount per share	₩5,000	₩5,000
Issued	137,292,497 shares	137,292,497 shares
Share capital	₩954,959 million	₩954,959 million
Other capital surplus	₩4,498 million	₩4,498 million

As 53,699,400 shares of the Parent 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.

21. 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, 2020 and 2019, are as follows:

Classification	December 31, 2020	December 31, 2019
Number of treasury shares	13,212,574 shares	10,712,574 shares
Treasury shares	₩(531,618) million	₩(318,789) million
Gain on disposal of treasury shares	₩528,894 million	₩528,894 million

(2) Changes in the number of treasury shares for the years ended December 31, 2020 and 2019, are as follows:

Classification	2020	2019
Beginning balance	10,712,574 shares	11,027,370 shares
Acquisition of treasury shares	2,500,000 shares	- shares
Donation of treasury shares	- shares	(314,796) shares
Ending balance	13,212,574 shares	10,712,574 shares

The Group has acquired 2,500,000 treasury shares through a transaction on exchange during the year ended December 31, 2020.

During the year ended December 31, 2019, the Group 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 Group recognized ₩15,118 million as gain on disposal of treasury shares (after tax).

22. Reserves

(1) Details of reserves as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020	December 31, 2019
Profit reserve	₩602,937	₩602,937
Reserve for business rationalization	12,851	12,851
Reserve for business expansion	698,881	698,881
Other reserve	4,798,745	4,467,445
Gain and loss on valuation of financial assets at fair value through other comprehensive income	(60,221)	(49,672)
Exchange differences on translating foreign operations	(75,591)	(52,349)
Capital changes in equity method	41	(84)
Total	₩5,977,643	₩5,680,009

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, 2020 and 2019, the profit reserve set aside in excess of 50% of the Parent Company's share capital is ₩125,458 million.

② Reserve for business rationalization

Until 2002, the Parent 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 Parent 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, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020	December 31, 2019
Gain or loss on valuation of financial assets at fair value through other comprehensive income or loss before tax	₩ (83,981)	₩ (69,069)
Tax effect	23,760	19,397
Gain or loss on valuation of financial assets at fair value through other comprehensive income or loss after tax	(60,221)	(49,672)

23. Retained Earnings

Changes in retained earnings for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Beginning balance	₩1,834,646	₩1,605,334
Change in accounting policy	-	(4,670)
Dividends	(556,952)	(505,061)
Transfer to other reserve	(331,300)	(285,966)
Profit for the year	1,171,643	1,037,199
- Less: Non-controlling interests	92	(2,195)
Re-measurements of net defined benefit liabilities(after tax)	(16,212)	(10,425)
- Less: Non-controlling interests(after tax)	558	430
Ending balance	₩2,102,475	₩1,834,646

24. Real Estate Sales Contract

(1) Ongoing real estate sales contracts for the year ended December 31, 2020 and 2019 are as follows:

① For the year ended December 31, 2020

In millions of Korean won

Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period) ¹⁾	Cost (cumulative) ²⁾
Suwon hwaseo park prugio (Apartment)	June 2018	August 2021	76.86	₩1,188,449	₩1,186,585	₩911,985	₩477,684	₩379,683
Suwon hwaseo park prugio (Efficiency apartment)	October 2018	August 2021	76.10	112,056	106,493	80,109	41,425	48,728
Suwon hwaseo prugio briel	June 2020	September 2023	8.29	791,447	751,030	62,225	62,225	27,854
Total				₩2,091,952	₩2,044,108	₩1,054,319	₩581,334	₩456,265

¹⁾ Excludes sales revenue for Dae-gu central Xi of ₩902 million for the year ended December 31, 2020 (construction has been completed as of December 31, 2020, but resale is underway due to cancellation of the sales contract).

²⁾ Excludes cumulative costs of ₩30,999 million for common infrastructure.

② For the year ended December 31, 2019

In millions of Korean won

Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period) ¹⁾	Cost (cumulative)
Suwon hwaseo park prugio (Apartment)	June 2018	August 2021	36.59	₩1,188,870	₩1,187,006	₩434,301	₩321,712	₩177,933
Suwon hwaseo park prugio (Efficiency apartment)	October 2018	August 2021	36.23	112,060	106,762	38,684	28,757	23,288
Total				₩1,300,930	₩1,293,768	₩472,985	₩350,469	₩201,221

¹⁾ Excludes sales revenue for Dae-gu central Xi of ₩1,063 million for the year ended December 31, 2019 (construction has been completed as of December 31, 2019, but resale is underway due to cancellation of the sales contract).

(2) Receivables and payables for on-going sales contracts as of December 31, 2020, and December 31, 2019, are as follows:

① As of December 31, 2020

In millions of Korean won

Construction project	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo park prugio (Apartment)	₩911,985	₩721,871	₩190,114	₩-
Suwon hwaseo park prugio (Efficiency apartment)	80,109	43,926	36,183	-
Suwon hwaseo prugio briciel	62,225	151,136	-	88,911
Total	₩1,054,319	₩916,933	₩226,297	₩88,911

② As of December 31, 2019

In millions of Korean won

Construction project	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo park prugio (Apartment)	₩434,301	₩480,394	₩-	₩46,093
Suwon hwaseo park prugio (Efficiency apartment)	38,684	33,542	5,142	-
Total	₩472,985	₩513,936	₩5,142	₩46,093

(3) No material changes in estimated total contract revenues and total contract costs have occurred during the year ended December 31, 2020. Estimated total contract revenue and total contract cost of the ongoing sales contracts are based on the circumstances that have occurred till December 31, 2020, and can be subject to change in the future.

25. Operating Expenses

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

<i>In millions of Korean won</i>	2020	2019
Changes in inventories	₩ (87,789)	₩14,076
Raw materials etc. used and merchandise purchased	1,393,115	1,343,131
Salaries	642,376	605,606
Retirement and termination benefits	64,584	62,659
Depreciation	194,780	177,819
Amortization	8,541	7,403
Employee welfare	90,013	89,089
Advertising	275,049	275,922
Commissions	657,930	637,175
Other expenses	581,968	370,732
Total	₩3,820,567	₩3,583,612

(2) Selling, general and administrative expenses for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Salaries	₩428,976	₩402,826
Retirement and termination benefits	43,704	40,880
Employee welfare	60,335	59,656
Travel expenses	8,500	19,506
Communication cost	5,953	5,712
Utilities	10,561	10,197
Taxes and dues	27,803	29,071
Supplies	6,468	4,861
Rent	15,453	15,746
Depreciation	62,189	60,607
Amortization	8,344	7,214
Repairs and maintenance	7,327	6,145
Vehicles	6,565	6,899
Insurance	4,479	2,853
Commissions	419,582	389,901
Freight and custody	62,528	53,758
Conferences	3,188	4,886
Advertising	274,971	275,798
Education and training	4,916	8,046
Prizes and rewards	2,735	2,680
Cooperation	1,133	1,118
Research and development	52,725	49,673
Impairment loss (reversal of impairment loss) on trade receivables	(29,384)	37,003
Total	₩1,489,051	₩1,495,036

26. Other Income and Expense

(1) Other income for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Gain on foreign currency transaction	₩74,001	₩27,448
Gain on foreign currency translation	10,023	40,653
Gain on valuation of derivatives	33,358	6,705
Reversal of impairment loss on other receivables	3	-
Gain on disposal of property, plant and equipment	1,402	2,383
Gain on disposal of intangible assets	-	3
Reversal of impairment loss on intangible assets	1,288	-
Gain on disposal of investment property	534	-
Gain on lease contract adjustments	390	54
Gain on disposal of investments in associates and joint ventures	-	134
Gain on disposal of assets held for sale	153,188	-
Miscellaneous income	15,577	28,491
Total	₩289,764	₩105,871

(2) Other expense for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Loss on foreign currency transaction	₩40,944	₩10,075
Loss on foreign currency translation	172,214	8,677
Loss on valuation of derivatives	17,421	19,591
Loss on impairment of other receivables	935	369
Loss on disposal of property, plant and equipment	7,053	4,484
Loss on impairment of property, plant and equipment	1,738	2,885
Loss on disposal of intangible assets	75	147
Loss on impairment of intangible assets	466	3,771
Loss on disposal of right-of-use assets	-	3,016
Impairment loss on right-of-use assets	-	908
Loss on disposal of investment properties	493	-
Impairment loss on investment properties	2,775	-
Impairment loss on assets held for sale	424	-
Donations	7,891	39,851
Loss on lease contract adjustments	30	30
Miscellaneous loss	14,719	15,864
Total	₩267,178	₩109,668

27. Finance Income and Cost

Finance income and cost for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Finance income:		
Interest income ¹⁾	₩19,687	₩24,270
Dividend income	24,885	22,502
Gain on adjustment of debt	15	68
Gain on valuation of financial assets at fair value through profit or loss	43,881	49,865
Gain on disposal of long-term deposits in MSA Escrow Fund	29,303	-
Total finance income	117,771	96,705
Finance cost:		
Interest expense	6,004	6,851
Loss on valuation of financial assets at fair value through profit or loss	7,405	6,945
Total finance cost	13,409	13,796
Net finance income	₩104,362	₩82,909

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

(2) Details of interest income included in finance income for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Deposits	₩10,880	₩13,456
Trade and other receivables	2,679	1,511
Long-term deposits in MSA Escrow Fund	6,112	9,095
Reversal of financial guarantee provisions	-	208
Others	16	-
Total	₩19,687	₩24,270

(3) Details of interest expense included in finance cost for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Borrowings	₩1,455	₩1,424
Trade and other payables	897	1,173
Lease liabilities	1,602	1,573
Amortization of prepaid expense	-	208
Others	2,050	2,473
Total	₩6,004	₩6,851

28. Income Tax Expense and Deferred Tax

(1) Details of income tax expenses elements for the years ended December 31, 2020 and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Current tax on profits for the year	₩442,293	₩419,150
Adjustments with respect to past income taxes, etc.	(5,877)	1,318
Effects of change in accounting policy ¹⁾	-	1,959
Increase/decrease from temporary differences	2,691	(105)
Effects of income tax on non-recirculation income	1,384	723
Income tax	₩440,491	₩423,045

¹⁾ For the year ended December 31, 2019, income tax expense has increased by ₩1,959 million and the beginning balance of retained earnings has decreased by ₩4,670 million due to the effects of changes in accounting policy from the enactment of interpretation for K-IFRS 2123 Uncertainty over Income Tax Treatments.

(2) Details of the relationship between income tax expenses and accounting profit for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Profit before income tax expense	₩1,612,134	₩1,460,243
Tax rate (%)	26.47	26.56
Tax expense at domestic tax rates applicable to profits in the respective countries	₩426,738	₩387,788
Adjustments:		
Non-taxable income	(3,380)	(1,210)
Expenses not deductible for tax purposes	6,368	8,404
Changes in unrecognized amount of deferred tax due to temporary differences, etc.	18,249	26,344
Tax credit	(2,739)	(2,296)
Adjustments with respect to past income taxes	(5,877)	1,318
Effects of change in accounting policy	-	1,959
Others	1,132	738
Income tax expense	₩440,491	₩423,045
Average effective tax rate (%)	27.32	28.99

(3) Details of current and deferred income tax related to items recognized outside profit or loss for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Current tax:		
Gain on disposal of treasury shares	₩-	₩ (5,734)
Capital changes in equity method	(47)	32
Subtotal	(47)	(5,702)
Deferred tax:		
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	4,363	(2,642)
Re-measurement element of net defined benefit liabilities	6,157	3,056
Subtotal	10,520	414
Total	₩10,473	₩ (5,288)

(4) Changes in deferred income tax assets (liabilities) for the years ended December 31, 2020 and 2019, are as follows:

① For the year ended December 31, 2020

<i>In millions of Korean won</i>	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Accumulated depreciation	₩21,245	₩ (2,729)	₩-	₩18,516
Loss allowance	48,216	(8,383)	-	39,833
Financial assets measured at fair value through other comprehensive income or loss (profit or loss)	11,503	(34)	4,363	15,832
Accrued expenses	45,954	2,638	-	48,592
Defined benefit liabilities	39,359	(5)	6,157	45,511
Treasury shares	(9,411)	-	-	(9,411)
Investments in subsidiaries	(232,371)	(16,300)	-	(248,671)
Advanced depreciation provision	(10,004)	-	-	(10,004)
Others	(1,945)	22,122	-	20,177
Total	₩ (87,454)	₩ (2,691)	₩10,520	₩ (79,625)

② For the year ended December 31, 2019

<i>In millions of Korean won</i>	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Accumulated depreciation	₩22,897	₩ (1,652)	₩-	₩21,245
Loss allowance	40,150	8,066	-	48,216
Financial assets measured at fair value through other comprehensive income or loss (profit or loss)	14,254	(109)	(2,642)	11,503
Accrued expenses	44,248	1,706	-	45,954
Defined benefit liabilities	37,137	(834)	3,056	39,359
Treasury shares	(9,687)	276	-	(9,411)
Investments in subsidiaries	(213,207)	(19,164)	-	(232,371)
Advanced depreciation provision	(13,519)	3,515	-	(10,004)
Others	(10,247)	8,302	-	(1,945)
Total	₩ (87,974)	₩106	₩414	₩ (87,454)

(5) Details of deductible temporary differences, unused tax losses and unused tax credit not recognized as deferred tax assets as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020	December 31, 2019
Deductible temporary differences	₩513,891	₩492,224
Unused tax losses	214,850	225,641
Unused tax credit	132	704
Total	₩728,873	₩718,569

(6) The expiry period for net operating losses not recognized as deferred tax assets as of December 31, 2020 and 2019, are as follows.

<i>In millions of Korean won</i>	December 31, 2020	December 31, 2019
Within 1 year	₩27,760	₩21,366
1 ~ 2 years	48,789	29,049
2 ~ 3 years	46,715	49,366
Over 3 years	91,586	125,860
Total	₩214,850	₩225,641

(7) As of December 31, 2020 and 2019, temporary differences to be added in relation to investments in subsidiaries and associates, and equity investments in joint ventures that are not recognized as deferred tax liabilities is ₩893,447 million (₩832,204 million as of December 31, 2019).

29. EPS

(1) The relationship between EPS and accounting profit for the years ended December 31, 2020 and 2019, are as follows:

	2020	2019
Profit for the period attributable to owners of the Parent Company (in millions of Korean won)	1,171,734	1,035,003
Weighted-average number of ordinary shares outstanding (shares)	125,719,943	126,278,926
Basic and diluted EPS (in Korean won)	9,320	8,196

(2) The basis for calculating the weighted average number of ordinary shares for the years ended December 31, 2020 and 2019, is as follows:

A. For the year ended December 31, 2020

	Date	Number of shares (shares)	Days	Weighted Shares
Beginning balance for outstanding shares	Jan 1 ~ December 31	137,292,497	366	50,249,053,902
Beginning balance for treasury shares	Jan 1 ~ December 31	(10,712,574)	366	(3,920,802,084)
Acquisition of treasury shares	August 7 etc. ~ December 31	(2,500,000)	108~147	(314,752,806)
Total				46,013,499,012
Days in circulation (days)				366
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding for the accumulated number of days / days in circulation)				125,719,943 shares

B. For the year ended December 31, 2019

	Date	Number of shares (shares)	Days	Weighted Shares
Beginning balance for outstanding shares	Jan 1 ~ December 31	137,292,497	365	50,111,761,405
Beginning balance for treasury shares	Jan 1 ~ December 31	(11,027,370)	365	(4,024,990,050)
Disposal of treasury shares	December 16 ~ December 31	314,796	16	5,036,736
Total				46,091,808,091
Days in circulation (days)				365
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding for the accumulated number of days / days in circulation)				126,278,926 shares

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.

30. Related Parties

(1) Details of the Group's related parties as of December 31, 2020, and December 31, 2019, are as follows:

	December 31, 2020	December 31, 2019
Associates	LitePharmTech Co., Ltd. ¹⁾	LitePharmTech Co., Ltd. ¹⁾
	- ²⁾	Yong In Jung Sim Co., Ltd.
	KORAMCO Ocheon Project Financing Vehicle Co., Ltd. ³⁾	-
	KORAMCO Banpo Project Financing Vehicle Co., Ltd. ³⁾	-
	KORAMCO Dongjak Project Financing Vehicle Co., Ltd. ³⁾	-
	KORAMCO Amsa Project Financing Vehicle Co., Ltd. ³⁾	-
	Others	Others
Joint ventures	- ⁴⁾	KB Gimpo Logistics CR REIT Co., Ltd. ⁴⁾
	- ⁵⁾	KORAMCO Private REIT 50 Fund ⁵⁾
	KORAMCO Europe Private REIT 3-2 Fund ⁶⁾	KORAMCO Europe Private REIT 3-2 Fund ⁶⁾
	Starfield Suwon, Inc.	Starfield Suwon, Inc.

¹⁾ The Group has classified its holdings as an investment in associates even though its holdings in the invested company is less than 20%. Since it has the right to participate in the board of directors meeting of the invested company according to the shareholder's agreement, the Group has judged that it has significant influence over the invested company.

²⁾ Due to Yong In Jung Sim Co., Ltd.'s capital increase with consideration through dilutive secondary offerings during the year ended December 31, 2020, the Group has lost its significant influence in the invested company. Since the Group has disposed of its entire holdings in this company as of December 31, 2020, it has been excluded from the scope of the Group's related parties.

³⁾ These are classified as investments in associates even though the Group's holdings in the invested companies are less than 20%, respectively. The Group has judged that it has significant influence over these invested companies since the Group has the right to nominate a member of the board of directors of each invested company. These investments have been newly acquired during the year ended December 31, 2020.

⁴⁾ It was classified as a joint venture since decisions about the significant financial and operating policies of the investee could not be made without unanimous consent of the Group and the Korea Tobacco and Ginseng Benefit Association, holding 12% shares each, as the voting power of 76% shares held by the collective investment business entity was not entitled to have an impact on a resolution of the investee according to the Financial Investment Services and Capital Markets Act. Since the Group has disposed of its entire holdings in this company as of December 31, 2020, it has been excluded from the scope of the Group's related parties.

⁵⁾ It was classified as a joint venture since decisions about the significant financial and operating policies of the investee could not be made without the unanimous consent of the parties that control the arrangement collectively. Since the Group has disposed of its entire holdings in this company as of December 31, 2020, it has been excluded from the scope of the Group's related parties.

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 parties that control the arrangement collectively.

(2) The Group carries out transactions with related parties such as sales of goods and provision of services, etc. Details of transactions with related parties for the years ended December 31, 2020, and 2019, are as follows:

<i>In millions of Korean won</i>		2020		2019
		Sales and other revenue	Purchase and other expenses	Sales and other revenue
Associates	JR REIT 5 Co., Ltd. ¹⁾	₩-	₩-	₩130
	JR REIT 8 Co., Ltd. ¹⁾	-	-	108
	JR REIT 10 Co., Ltd. ¹⁾	-	-	559
	Others	-	2,149	1
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund	1,227	-	1,191
Total		₩1,227	₩2,149	₩1,989

¹⁾ According to the liquidation procedure for these equity investments, the Group was allocated a portion of the remaining assets during the December 31, 2019.

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

<i>In millions of Korean won</i>		December 31, 2020	December 31, 2019	
		Receivables	Receivables	Payables
Associates	Others	₩32	₩-	₩-
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd.	-	99	-
	KORAMCO Private REIT 50 Fund	-	523	-
	Starfield Suwon, Inc.	-	-	16,020
	Total	₩32	₩622	₩16,020

(4) Purchase and sale of intangible assets (including assets held for sale) from and to related parties for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>		2020		2019	
		Purchase of intangible assets	Sale of assets held for sale	Purchase of intangible assets	Sale of assets held for sale
Associates	Others	₩160	₩-	₩-	₩-
Joint ventures	Starfield Suwon, Inc.	-	160,718	-	-
Total		₩160	₩160,718	₩-	₩-

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

<i>In millions of Korean won</i>		2020	2019	
		Investment (disposal)	Investment (disposal)	Loans (repayment)
Associates	JR REIT 5 Co., Ltd. ¹⁾	₩-	₩ (11,125)	₩-
	JR REIT 8 Co., Ltd. ¹⁾	-	(13,526)	-
	JR REIT 10 Co., Ltd. ¹⁾	-	(9,500)	-
	KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	5,685	-	-
	KORAMCO Banpo Project Financing Vehicle Co., Ltd.	5,306	-	-
	KORAMCO Dongjak Project Financing Vehicle Co., Ltd.	1,850	-	-
	KORAMCO Amsa Project Financing Vehicle Co., Ltd.	1,159	-	-
	Others	-	-	(150)
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd. ¹⁾	(3,356)	-	-
	KORAMCO Private REIT 50 Fund ¹⁾	(17,852)	-	-
	Starfield Suwon, Inc.	87,500	-	-
Total		₩80,292	₩ (34,151)	₩ (150)

¹⁾ According to the liquidation procedure for these equity investments, the Group was allocated a portion of the remaining assets during the years ended December 31, 2020 and 2019.

(6) There are no payment guarantees provided between or among the Group and its related parties.

(7) Compensation for key management personnel for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Benefits	₩23,107	₩17,703
Retirement benefits	2,354	1,902
Total	₩25,461	₩19,605

31. Risk Management and Fair Value of Financial Instruments

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

(1) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and prices of equity securities – will affect the fair value or future cash flow of the Group's financial instruments. The Group manages and controls market risk exposures within the acceptable limits, while optimizing the revenue.

① Currency risk

The Group is exposed to the risk of changes in foreign exchange rates in relation to the export of manufactured tobacco and the import of tobacco leaves, etc. The Group's management is internally measuring the currency risk of fluctuations to the Korean won on a regular basis.

The carrying amount of monetary assets and liabilities denominated in a foreign currency other than the functional currency as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020		December 31, 2019	
	Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
USD	₩1,492,433	₩40,513	₩1,073,603	₩33,047
EUR	58	11,895	1,249	9,029
JPY, etc.	9,204	55	3,723	2
Total	₩1,501,695	₩52,463	₩1,078,575	₩42,078

The effects of a 10% change in the Korean won-foreign currency exchange rate on profit before tax as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	December 31, 2020		December 31, 2019	
	10% increase	10% decrease	10% increase	10% decrease
Increase(decrease) in profit before tax	₩144,923	₩(144,923)	₩103,650	₩(103,650)

② Price risk

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

The effects of a 5% fluctuation in the price index of stocks on comprehensive income or loss before tax (gain or loss on valuation of financial assets at fair value through other comprehensive income or loss) for the years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020		2019	
	5% increase	5% decrease	5% increase	5% decrease
Increase(decrease) in comprehensive income or loss before tax	₩4,685	₩(4,685)	₩5,732	₩(5,732)

③ Interest rate risk

The Group is exposed to interest rate fluctuation risk in relation to the borrowings, trade payables and other payables and lease liabilities. The management of the Group regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest borrowings. Considering the size of the interest bearing liabilities of the Group as of December 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 Group is exposed to credit risk that will cause financial losses to the other party because one of the parties to the financial instrument fails to perform its obligations. To manage credit risk, the management of the Group deals with customers with certain level of creditworthiness or higher, and prepares and operates policies and procedures for credit enhancement of the financial assets. The Group evaluates the creditworthiness of the client using financial information disclosed at the time of contract with the new client and information provided by the credit rating agency, and determines the credit limit on the basis of this, and is provided with collateral or payment guarantee. In addition, the Group periodically reassesses the credit limit, 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 December 31, 2020, and December 31, 2019 are as follows:

<i>In millions of Korean won</i>	December 31, 2020	December 31, 2019
Cash and cash equivalents (excluding cash on hand) ¹⁾	₩398,913	₩435,576
Other financial assets	417,864	402,429
Fair value through profit or loss ¹⁾	2,021,289	1,946,558
Trade and other receivables	1,312,458	1,100,448
Long-term deposits in MSA Escrow Fund	909,794	751,437
Derivative assets	12,710	2,277
Total	₩5,073,028	₩4,638,725

¹⁾ As of December 31, 2020, money market trust etc. worth ₩853,304 million (as of December 31, 2019: ₩455,400 million) classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

(3) Liquidity risk

The Group is exposed to liquidity risk that will be difficult to meet its obligations related to financial liabilities that are settled by delivering cash etc., or other financial assets. To manage liquidity risk, the management of the Group establishes short and mid-to-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 Group 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 remaining maturity of the financial liabilities as of December 31, 2020 and 2019, is as follows:

① As of December 31, 2020

<i>In millions of Korean won</i>	Carrying value	Contractual cash flow	Remaining maturity of contract			
			Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years
Short term borrowings	₩17,308	₩17,549	₩6,906	₩10,643	₩-	₩-
Current portion of long-term borrowings	37,506	37,619	552	37,067	-	-
Trade and other payables	645,365	655,772	591,316	51,933	7,567	4,956
Derivative liabilities	57	57	57	-	-	-
Lease liabilities	45,709	47,876	5,996	14,328	23,668	3,884
Long-term borrowings	53,492	55,821	21	58	55,742	-
Total	₩799,437	₩814,694	₩604,848	₩114,029	₩86,977	₩8,840

② As of December 31, 2019

<i>In millions of Korean won</i>	Carrying value	Contractual cash flow	Remaining maturity of contract			
			Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years
Short term borrowings	₩27,066	₩30,377	₩12,607	₩17,770	₩-	₩-
Current portion of long-term borrowings	5,285	5,359	1,349	4,010	-	-
Trade and other payables	353,881	357,480	273,469	38,264	45,747	-
Lease liabilities	43,306	46,024	4,912	14,736	23,301	3,075
Long-term borrowings	90,954	95,023	63	192	94,768	-
Total	₩520,492	₩534,263	₩292,400	₩74,972	₩163,816	₩3,075

The cash flows of financial liabilities per maturity remaining, as stated above, are undiscounted nominal values. The above cash flows have been calculated by using the earliest date from the period of time that the Group can be requested to make payment, and includes cash flows for interest.

As of December 31, 2020, the Group provides joint-guarantees for mid-payment loan provided to the buyer related to the real estate sales contract of Suwon hwaseo (guarantee limit: ₩225,600 million, remaining contract maturity: 1 ~ 5years) and has recognized a financial guarantee provision liability of ₩622 million (as of December 31, 2019: 492 million) (see Notes 19, 33).

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

<i>In millions of Korean won</i>	December 31, 2020	December 31, 2019
Financial assets:		
Fair value through profit or loss ¹⁾	₩2,021,289	₩1,946,558
Fair value through other comprehensive income or loss	239,539	257,640
Derivative assets	12,710	2,277
Financial assets measured at amortized cost		
- Cash and cash equivalents ¹⁾	400,308	435,906
- Other financial assets	417,864	402,429
- Trade and other receivables	1,312,458	1,100,448
- Long-term deposits in MSA Escrow Fund	909,794	751,437
Subtotal	3,040,424	2,690,220
Total financial assets	₩5,313,962	₩4,896,695
Financial liabilities:		
Derivative liabilities	₩57	₩-
Financial liabilities measured at amortized cost		
- Short-term borrowings	17,308	27,066
- Current portion of long-term borrowings	37,506	5,285
- Long-term borrowings	53,492	90,954
- Trade and other payables	645,365	353,881
- Lease liabilities	45,709	43,306
- Liabilities for non-controlling interests	1,615	2,836
Subtotal	800,995	523,328
Total financial liabilities	₩801,052	₩523,328

¹⁾ As of December 31, 2020, money market trust etc. worth ₩853,304 million (as of December 31, 2019: ₩455,400 million) classified as cash equivalents are 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 Group uses observable inputs in the market as much as possible. Fair value is classified within the fair value hierarchy based on the inputs used in the valuation technique as follows:

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

The fair value measurements classified by fair value hierarchy as of December 31, 2020, and December 31, 2019, are as follows:

① As of December 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⁾	₩2,021,289	₩-	₩1,785,944	₩235,345
Fair value through other comprehensive income or loss	239,539	192,658	-	46,881
Derivative assets	12,710	-	12,710	-
Total financial assets	₩2,273,538	₩192,658	₩1,798,654	₩282,226
Derivative liabilities	₩57	₩-	₩57	₩-

¹⁾ As of December 31, 2020, money market trust etc. worth ₩853,304 million classified as cash equivalents are 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⁾	₩1,946,558	₩-	₩1,694,663	₩251,895
Fair value through other comprehensive income or loss	257,640	209,108	-	48,532
Derivative assets	2,277	-	2,277	-
Total	₩2,206,475	₩209,108	₩1,696,940	₩300,427

¹⁾ As of December 31, 2019, money market trust etc. worth ₩455,400 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

There was no movement between levels of the fair value hierarchy for the years ended December 31, 2020, and 2019.

As of December 31, 2020, and December 31, 2019, the fair value of investment trust's equity securities classified as financial assets 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 years ended December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Beginning balance	₩300,427	₩262,026
Acquisition	14,423	54,677
Disposal	(36,830)	(15,058)
Reclassification	945	-
Changes in fair value	3,261	(1,218)
Ending balance	₩282,226	₩300,427

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

① For the year ended December 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 year:						
Interest income	₩-	₩-	₩-	₩19,688	₩-	₩19,688
Dividend income	14,260	10,625	-	-	-	24,885
Gain or loss on valuation	36,476	-	15,937	-	375	52,788
Gain on disposal	-	-	-	29,303	-	29,303
Interest expense	-	-	-	-	(6,005)	(6,005)
Reversal of impairment loss	-	-	-	28,452	-	28,452
Total	₩50,736	₩10,625	₩15,937	₩77,443	₩(5,630)	₩149,111
Other comprehensive income (loss) before tax:						
Net change in fair value	₩-	₩(14,912)	₩-	₩-	₩-	₩(14,912)
Total	₩-	₩(14,912)	₩-	₩-	₩-	₩(14,912)

② 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	₩-	₩-	₩-	₩24,270	₩-	₩24,270
Dividend income	15,921	6,581	-	-	-	22,502
Gain or loss on valuation	42,920	-	(12,886)	-	24	30,058
Interest expense	-	-	-	-	(6,851)	(6,851)
Impairment loss	-	-	-	(37,372)	-	(37,372)
Total	₩58,841	₩6,581	₩(12,886)	₩(13,102)	₩(6,827)	₩32,607
Other comprehensive income (loss) before tax:						
Net change in fair value, etc.	₩-	₩9,492	₩-	₩-	₩-	₩9,492
Total	₩-	₩9,492	₩-	₩-	₩-	₩9,492

32. Capital Management

The purpose of capital management of the Group 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 Group 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 previous fiscal year. Details on the Group's capital structure as of December 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020	2019
Total borrowings	₩108,307	₩123,305
Less: Cash and cash equivalents	(1,253,611)	(891,306)
Less: Current other financial assets	(407,735)	(397,949)
Less: Current financial instruments measured at fair value through profit or loss	(914,424)	(1,239,263)
Net liabilities (net assets)	₩ (2,467,463)	₩ (2,405,213)
Total equity	₩9,091,572	₩8,739,585

33. Contingent Liabilities and Commitments

(1) Litigation cases

As of December 31, 2020, the Group has 24 cases of pending litigations under progress where the Group is the defendant and the litigation value is ₩77,938 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of December 31, 2020, on the consolidated financial statements of the Group.

(2) Commitments with financial institutions

Major commitments of the Group with financial institutions as of December 31, 2020, are as follows:

<i>In millions of Korean won or thousands of US dollars</i>			
Type	Financial institutions	Currency	Limit
Opening import letter of credits	KEB Hana Bank and one other	USD	120,300
Derivatives trading ¹⁾	KEB Hana Bank and five others	USD	374,700
Consumer financing arrangement	KEB Hana Bank	KRW	7,000
Discount of notes	Korea Development Bank	KRW	8,000
Others	Korea Development Bank and five others	KRW	238,635
	KEB Hana Bank Bahrain branch	USD	6,600

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

As of December 31, 2020, the Group has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: \$85,290 thousand) related to the overseas export of manufactured cigarettes etc.

(3) Payment guarantees and collateral

Payment guarantees and collateral provided by other parties to the Group as of December 31, 2020, are as follows:
In millions of Korean won or thousands of US dollars or thousands of Turkish Lira

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	1,433,352	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	3,756	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	24,840	Escrow deposit guarantee
Liberty Mutual and two others	USD	402	Payment guarantees on license bond
Garanti Bank	TRY	2,508	Payment guarantee on customs, etc.
KEB Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves, etc.
GS E&C and two others	KRW	78,000	Establishment of a pledge right to stocks

As of December 31, 2020, the Group currently holds inventories from Alokozay International Limited worth ₩12,085 million as collateral in order to improve collection of receivables.

As of December 31, 2020, the Group is being provided with a payment guarantee from the Federal Insurance Company up to a limit of USD 35,000 thousand in relation to import clearance for KT&G USA Corporation. The Parent Company has a recourse responsibility up to a limit of USD 125,000 thousand, which includes the amount of payment guarantee executed, to the Federal Insurance Company and others.

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

In millions of Korean won

Details of guarantee	Guarantee user	Limit amount	Execution amount
Loan guarantee for the intermediate payment of off-plan sales construction	Shinhan Bank	₩156,120	₩63,262
	KEB Hana Bank	60,000	41,069
	Suhyup Bank	9,480	6,723
Payment guarantee for deductibles (Iksan branch and two other branches)	Korea Special Sales Association	2,172	-
Total		₩227,772	₩111,054

The Group provides payment guarantees to financial institutions in accordance with the consumer financial agreement related to retail trade receivables and receives related bonds from financial institutions and recognizes them as short-term borrowings (see Note 16).

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

<i>In millions of Korean won</i>	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
	₩101,844	₩3,488	₩4,186	Wonju City-Hall	Establishment of right to collateral security through a government grant
Property, plant and equipment	58,847	6,459	52,000	KEB Hana Bank, etc.	Short-term, current portion of long-term borrowings and long-term borrowings
	17,168	10,000	24,000	KEB Hana Bank	Short-term borrowings
Property, plant and equipment	23,282				
Investment property	8,759	-	2,400	Korea Development Bank	Collateral for ceiling loan agreement
Investment property	481,596	25,604	28,822	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security and leasehold rights for leasehold deposits
	8,540	-	8,540	Korea Land & Housing Corporation	Establishment of a pledge to guarantee real estate development
Other financial assets	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
Total	₩700,633	₩46,148	₩120,545		

Bills and cheques provided as collateral by the Group in relation to borrowings, etc., as of December 31, 2020, are as follows:

	Type	Quantity	Face amount	Details
Jinheung Savings Bank	Draft bill	1 note	₩1,000 million	Not collected after debt dissipation
	Cheque	1 note	Blank	Not collected after debt dissipation

As of December 31, 2020, other than explained above, 11 notes and two cheques with unknown origin and face amount are lost, and the Group will proceed with the authorization process for this bill.

Financial assets with restricted use as of December 31, 2020 and 2019, are summarized as follows:

<i>In millions of Korean won</i>		December 31, 2020	December 31, 2019
Other financial assets	Establishment of a pledge to guarantee real estate development	₩8,540	₩8,540
	Establishment of a pledge for leasehold deposits	597	597
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
	Security deposits for checking accounts, etc.	1,635	1,727
	Reserves for compensation of damages related to personal information	-	1,000
Total		₩110,772	₩111,864

(4) Others

Each year, the Group deposits a proportion of sales of tobacco products sold in the United States in accordance with the Tobacco Master Settlement Agreement (“MSA”) under the Escrow Statute of the US state government. In accordance with the Escrow Statute, in the event that tobacco consumers suffer adverse damages as a result of illegal activities by the Group, which in turn lead to the medical finances of US state governments being used, the deposit in the MSA Escrow Fund may be incorporated into the state government's medical finances. The unused portion of the fund will be refunded to the Group after 25 years from the date of each deposit. The Group has recognized ₩909,794 million as of December 31, 2020 (₩751,437 million as of December 31, 2019), as long-term deposits in MSA Escrow Fund and they are composed of T-Notes, T-bills and demand deposits.

The Group has maintained a contract with the farmers who grow six-year-old green ginseng for purchasing determined volumes as guarantees and recorded contractual amounts paid to the farmers as long-term advance payments and advance payments in the amount of ₩82,940 million as of December 31, 2020 (₩62,630 million as of December 31, 2019) and ₩18,643 million as of December 31, 2020 (₩23,945 million as of December 31, 2019), respectively.

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

As of December 31, 2020, the Group has entered into a management trust agreement with Marriott International Management Company B.V. and has been provided with international public relations services through Global Hospitality Licensing S.A.R.L. Also, the Group has been provided with technical advice by Marriott International Design & Construction Services, Inc.

The Group is currently operating Starfield Suwon, Inc. Corporation after establishing the joint venture under 50:50 ratio with Shinsegae Property. The disposal of such share is limited for five years from the approval for use of the multi-shopping mall. In the event that the Group 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 December 31, 2020, there is a capital call agreement for overseas real estate funds invested by the Group. However, the Group 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.

In relation to the IGIS global professional investment type private fund real estate investment trust No. 378-2 acquired by the Group during the year ended December 31, 2020, there is an agreement in which the Group has an obligation to acquire additional equities that may be generated at the time of completion of the real estate by the investment trust.

As of December 31, 2020, the Group is being provided with a commitment from Daewoo Engineering & Construction Co., Ltd. to complete the construction of public housing, efficiency apartments, and sales facilities in the Daeyupyeong District Unit Planning Zone located in 111, Jeongja-dong, Jangan-gu, Suwon-si. In addition, Daewoo Engineering & Construction Co., Ltd. is being provided with a guarantee from the Construction Guarantee Cooperative in connection with the above mentioned construction.

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 Group's buyers), have announced that they will stop selling or placing new orders for two of the Group's products (SiiD Tundra and SiiD Toba). The Group has discussed and processed sales returns for the two products (SiiD Tundra and SiiD Toba) as well as three other products in the same category (SiiD Ice, SiiD Ice Up, Lil Vapor) with the CVS companies, etc. As of December 31, 2020, the Group has recognized, in relation to the above event, inventory valuation loss allowance of ₩1,719 million.

In December 2019, the United States Department of Commerce and the United States International Trade Commission began an investigation into export dumping and industrial damages in relation to the cigarettes the Group has manufactured and exported to the United States. In January 2021, the United States Department of Commerce made a final decision that the '4th tier Cigarettes' exported by the Group did not damage United States industry, and all investigations were closed.

On January 29, 2020, Philip Morris Products S.A. ("PMI") has signed a contract with the Group. The contract enables PMI to exclusively sell the Group'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 Group'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 Group's HNB (Heat Not Burn) and E-Vapor (device, exclusive sticks, exclusive liquid cartridges and accessories for Lil Plus, Lil Mini, Lil Hybrid and Lil Vapor) product lines.

On February 26, 2020, the Group signed a distributorship agreement with Alokozay International Limited ("AIL," a regional importer with which the Group had existing business relations), giving AIL the rights to sell the Group'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 Group'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 Group 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 Group every year. In accordance with this contract, AIL's trade receivable balance against the Group 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 Group will gradually be reduced by USD 25 million every year and will be maintained at around USD 67 million by June 30, 2027.

As of December 31, 2020, tax investigations are under way for subsidiaries in Indonesia (PT Trisakti Purwosari Makmur and PT KT&G Indonesia) and a subsidiary in Turkey (KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.).

34. Cash Flows



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

<i>In millions of Korean won</i>	2020	2019
Profit for the year	₩1,171,643	₩1,037,199
Adjustments:		
Employee welfare	5,486	4,325
Retirement benefits	53,537	51,298
Loss on valuation or obsolescence of inventories	13,913	34,091
Depreciation	194,780	177,819
Amortization	8,541	7,403
Donation of treasury shares	-	30,220
Impairment loss(reversal of impairment loss) on trade and other receivables	(28,452)	37,372
Loss on foreign currency translation	172,214	8,677
Loss on valuation of derivatives	17,421	19,591
Loss on disposal of property, plant and equipment	7,053	4,484
Loss on impairment of property, plant and equipment	1,738	2,885
Loss on disposal of intangible assets	75	147
Loss on impairment of intangible assets	466	3,771
Loss on disposal of investment properties	493	-
Impairment loss on investment properties	2,775	-
Impairment loss on right-of-use assets	-	908
Loss on disposal of right-of-use assets	-	3,016
Impairment loss on assets held for sale	424	-
Other expenses, etc.	24,535	14,373
Finance cost	13,409	13,796
Income tax expense	440,491	423,045
Gain on foreign currency translation	(10,023)	(40,653)
Gain on valuation of derivatives	(33,358)	(6,705)
Gain on disposal of property, plant and equipment	(1,402)	(2,383)
Gain on disposal of intangible assets	-	(3)
Reversal of impairment loss on intangible assets	(1,288)	-
Gain on disposal of investment property	(534)	-
Gain on disposal of assets held for sale	(153,188)	-
Gain on disposal of investments in associates and joint ventures	-	(134)
Other income, etc.	(45,310)	(2,416)
Finance income	(117,771)	(96,705)
Increase of investments in associates and joint ventures due to share of net gain/loss	(4,135)	(1,541)
Changes in working capital:		
Increase in trade and other receivables	(250,170)	(85,929)
Decrease(increase) in derivatives	5,561	(14,384)
Decrease(increase) in inventories	(77,317)	426
Decrease(increase) in accrued tobacco excise and other taxes	14,430	(58,165)
Increase in advance payments	(17,467)	(5,325)
Increase in prepaid expenses	(2,216)	(5,121)
Increase(decrease) in trade and other payables	(14,320)	58,755
Increase(decrease) in advance receipts	43,905	(96,872)
Increase(decrease) in tobacco excise and other taxes payable	310,061	17,676
Decrease in provision for site restoration	(6,302)	-
Decrease in net defined benefit liabilities	(54,095)	(70,858)
Cash generated from operations	₩1,685,603	₩1,464,083

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

<i>In millions of Korean won</i>	2020	2019
Reclassification of property, plant and equipment to investment properties	₩79,968	₩154,728
Reclassification of other payables related to the payment of tobacco excise payables by credit card	297,971	-
Reclassification of construction-in-progress assets (property, plant and equipment, intangible assets and investment properties) upon completion	248,844	360,145

(3) Changes in liabilities due to financing activities for the years ended December 31, 2020 and 2019, are as follows:

① For the year ended December 31, 2020

<i>In millions of Korean won</i>	Beginning balance	Cash flow from financing activities	Others	Ending balance
Dividends payable	₩-	₩ (556,952)	₩556,952	₩-
Short-term borrowings (including current portion of long-term borrowings)	32,350	(25,623)	48,088	54,815
Long-term borrowings	90,954	11,073	(48,535)	53,492
Lease liabilities	43,306	(22,789)	25,192	45,709
Total	₩166,610	₩ (594,291)	₩581,697	₩154,016

② For the year ended December 31, 2019

<i>In millions of Korean won</i>	Beginning balance	Cash flow from financing activities	Others	Ending balance
Dividends payable	₩-	₩ (505,061)	₩505,061	₩-
Short-term borrowings (including current portion of long-term borrowings)	134,924	(117,035)	14,461	32,350
Long-term borrowings	93,475	12,135	(14,656)	90,954
Lease liabilities	-	(20,177)	63,483	43,306
Total	₩228,399	₩ (630,138)	₩568,349	₩166,610

(4) The Group has presented the inflows and outflows from current financial instruments that have large total amounts and short maturities due to frequent transactions as a net increase/decrease amount.

35. Non-Controlling Interests

(1) For subsidiaries where the non-controlling interests included in the Group are material, the profit or loss and the accumulated non-controlling interests allocated to the Group for the years ended December 31, 2020 and 2019, are as follows:

① For the year ended December 31, 2020

<i>In millions of Korean won</i>	Share of non-controlling interests (%)	Beginning balance of accumulated non-controlling interests	Net profit or loss distributed to non-controlling interests	Others	Ending balance of accumulated non-controlling interests
Yungjin Pharm. Co., Ltd.	47.55	₩55,039	₩ (63)	₩ (564)	₩54,412
Cosmocos Co., Ltd.	1.44	330	(28)	7	309
Total equity		₩55,369	₩ (91)	₩ (557)	₩54,721

② For the year ended December 31, 2019

<i>In millions of Korean won</i>	Share of non-controlling interests (%)	Beginning balance of accumulated non-controlling interests	Net profit or loss distributed to non-controlling interests	Others	Ending balance of accumulated non-controlling interests
Yungjin Pharm. Co., Ltd.	47.55	₩53,264	₩2,392	₩ (617)	₩55,039
Cosmocos Co., Ltd.	1.44	536	(197)	(9)	330
Total equity		₩53,800	₩2,195	₩ (626)	₩55,369

(2) The condensed cash flows for subsidiaries where the non-controlling interests included in the Group are material for the years ended December 31, 2020 and 2019, are as follows:

① For the year ended December 31, 2020

<i>In millions of Korean won</i>	Yungjin Pharm. Co., Ltd.	Cosmocos Co., Ltd.
Cash flows from operating activities	₩14,498	₩7,442
Cash flows from investing activities	(5,653)	(336)
Cash flows from financing activities	(9,066)	(7,438)
Net increase(decrease) in cash and cash equivalents	(221)	(332)
Cash and cash equivalents at January 1	652	3,851
Effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currency	(3)	-
Cash and cash equivalents at December 31	₩428	₩3,519

② For the year ended December 31, 2019

<i>In millions of Korean won</i>	Yungjin Pharm. Co., Ltd.	Cosmocos Co., Ltd.
Cash flows from operating activities	₩9,283	₩4,560
Cash flows from investing activities	(10,336)	(417)
Cash flows from financing activities	(129)	(3,583)
Net increase(decrease) in cash and cash equivalents	(1,182)	560
Cash and cash equivalents at January 1	1,834	3,293
Effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currency	-	(2)
Cash and cash equivalents at December 31	₩652	₩3,851

(3) The Group has classified the convertible preferred stock issued by its subsidiary, Renzoluc Pte., Ltd. as non-controlling interest liabilities and presented it as borrowings in its consolidated financial statements, separately from equity attributable to owners of the Parent Company.

(4) The Group has presented the non-controlling interest holding of 49% of its subsidiary, Gwacheon Sangsang PFV as non-controlling interest liabilities in its consolidated financial statements, separately from equity attributable to owners of the Parent company.

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