Agenda of
Annual General Meeting of Shareholders
for the 33rd Fiscal Year

Date: Tuesday, March 31st, 2020, 10:00 a.m. (Korea Standard Time)

Place: Vision Hall, KT&G Human Resources Development Institute,
71, Beotkkot-Gil, Daedeok-gu, Daejeon-si, Rep. of Korea

When an emergency occurs due to force majeure, such as COVID 19, the right to change time, location and other executions of Annual General Meeting will be delegated to the President, CEO, and if the matter happens, we will disclose the information.

KT&G Corporation

Matters for Approval

1. Approval of Financial Statements(Consolidated and Separate) and Statement of Appropriation of Retained Earnings for the 33rd Fiscal Year

2. Appointment of Three Members of Board of Directors (Outside Directors)

   2-1. Appointment of Outside Director (Koh, Yun-sung)

   2-2. Appointment of Outside Director (Kim, Myung-chul)

   2-3. Appointment of Outside Director (Hong, Hyun-jong)

3. Appointment of Two Members of the Audit Committee

   3-1. Appointment of Member of the Audit Committee (Koh, Yun-sung)

   3-2. Appointment of Member of the Audit Committee (Kim, Myung-chul)

4. Approval of the Ceiling Amount of Directors' Remuneration

Agenda No. 1

Approval of Financial Statements (Consolidated and Separate) and Statement of Appropriation of Retained Earnings for the 33rd Fiscal Year

Pursuant to Article 449 of the Korean Commercial Act and Article 41 of the Articles of Incorporation of the Company, the Consolidated and Separate Financial Statements and Statement of Appropriation of Retained Earnings for the 33rd Fiscal Year (2019. 1. 1 ~ 2019. 12. 31) are required to be approved.

※ The Financial Statements below have not yet been audited by the external auditor. In case any minor amendments are made to the Financial Statements below during the course of the external audit, the revised Financial Statements may be submitted to the General Meeting of Shareholders by the President. For further details, please refer to the disclosure on "Submission of Audit Report".

※ In case the external audit for the Financial Statements has not been completed, this agenda includes resolution on continuation of the AGM to reflect the external audit results. (The authority to decide the time, date and place of the continued AGM will be delegated to the President, CEO)

KT&G CORPORATION AND SUBSIDIARIES
Consolidated statements of financial position

As of December 31, 2019 and December 31, 2018

in Korean won	*Notes*	2019	2018
Assets:			
Current assets:			
Cash and cash equivalents	*5,31,32*	₩891,306,145,983	₩932,969,110,015
Current other financial assets	*5,31,32,33*	397,949,201,546	584,579,918,180
Current fair value through profit or loss	*6,31,32*	1,239,263,067,528	1,139,704,589,088
Trade and other receivables	*7,30,31*	1,023,385,660,122	975,921,202,909
Derivative assets	*31,33*	2,276,640,206	1,238,664,783
Inventories	*8*	2,447,214,219,082	2,461,289,914,829
Refund asset and others	*19*	3,027,268,752	2,356,432,726
Accrued tobacco excise and other taxes		291,481,567,634	232,237,330,421
Advance payments		83,696,244,207	54,207,755,371
Prepaid expenses		33,345,254,566	24,622,742,813
Assets held for sale	*4,14*	4,246,922,005	4,246,922,005
Total current assets		6,417,192,191,631	6,413,374,583,140
Non-current assets:			
Long-term other financial assets	*5,31,33*	4,480,027,000	8,565,762,000
Long-term deposits in MSA Escrow Fund	*31,33*	751,437,124,245	615,527,896,771
Long-term fair value through profit or loss	*6,31*	251,895,325,773	210,655,373,106
Long-term trade and other receivables	*7,30,31*	77,062,030,242	62,902,608,445
Fair value through other comprehensive income or loss	*9,31*	257,639,840,085	249,575,289,383
Investments in associates and joint ventures	*10,30*	49,393,336,819	83,988,748,090
Property, plant and equipment	*11,33*	1,753,357,780,790	1,818,787,823,851
Intangible assets	*12*	89,693,691,059	71,954,007,994
Investment properties	*13,33*	885,325,430,794	495,048,833,035
Right-of-use assets	*15*	45,483,777,486	-
Refund asset and others	*19*	-	223,771,427
Long-term advance payments		72,519,228,473	71,394,217,095
Long-term prepaid expenses		7,464,781,189	7,872,994,328
Deferred income tax assets	*28*	49,153,499,355	45,229,659,539
Total non-current assets		4,294,905,873,310	3,741,726,985,064
Total assets		₩10,712,098,064,941	₩10,155,101,568,204

KT&G CORPORATION AND SUBSIDIARIES
Consolidated statements of financial position, continued

As of December 31, 2019 and December 31, 2018

in Korean won	*Notes*	2019	2018
Liabilities and equity:			
Liabilities:			
Current liabilities:			
Short-term borrowings	*16,30,31*	₩27,066,108,741	₩129,924,101,195
Current portion of long-term borrowings	*16,31*	5,284,509,248	4,999,760,000
Trade and other payables	*17,31*	656,582,586,262	560,507,008,935
Current lease liabilities	*30,31,35*	18,909,138,677	-
Derivative liabilities	*31,33*	-	460,667,312
Advance receipts		77,028,657,918	171,501,108,963
Current refund liabilities and provisions	*19*	26,666,515,900	15,100,885,431
Current income tax liabilities	*28,35*	212,538,102,130	200,796,906,309
Tobacco excise and other taxes payables		576,018,441,937	557,417,508,777
Total current liabilities		1,600,094,060,813	1,640,707,946,922
Non-current liabilities:			
Long-term borrowings	*16,31*	90,954,077,109	93,475,333,856
Long-term trade and other payable	*17,30,31*	59,638,008,450	53,239,976,056
Long-term lease liabilities	*30,31,35*	24,396,626,259	-
Long-term advance receipts		4,154,633,329	5,580,108,204
Net defined benefit liability	*18*	91,082,736,864	96,214,830,976
Long-term refund liabilities and provisions	*19*	3,090,174,123	3,844,558,820
Deferred income tax liabilities	*28*	129,918,339,005	125,558,940,716
Non-controlling interests liabilities	*36*	2,835,710,820	3,399,647,673
Total non-current liabilities		406,070,305,959	381,313,396,301
Total liabilities		2,006,164,366,772	2,022,021,343,223
Equity:			
Ordinary shares	*20*	954,959,485,000	954,959,485,000
Other capital surplus(deficit)	*20*	(29,556,277,161)	(29,719,795,353)
Treasury shares	*21*	(318,789,449,459)	(328,157,286,128)
Gain on sale of treasury shares	*21*	528,894,053,906	513,775,933,891
Reserve	*22*	5,671,479,866,186	5,355,627,500,098
Retained earnings	*23*	1,843,577,322,126	1,612,794,013,734
Equity attributable to owners of the parent		8,650,565,000,598	8,079,279,851,242
Non-controlling interests	*36*	55,368,697,571	53,800,373,739
Total equity		8,705,933,698,169	8,133,080,224,981
Total liabilities and equity		₩10,712,098,064,941	₩10,155,101,568,204

“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, 2019 and December 31, 2018

in Korean won	*Notes*	2019	2018
Sales	*4,30*	₩4,963,202,297,002	₩4,471,515,592,060
Cost of sales	*25,30*	(2,088,576,007,282)	(1,836,031,136,556)
Gross profit		2,874,626,289,720	2,635,484,455,504
Selling, general and administrative expenses	*25,30*	(1,492,608,253,568)	(1,380,377,762,894)
Operating profit		1,382,018,036,152	1,255,106,692,610
Other income	*26,30*	105,871,084,349	110,050,164,763
Other expenses	*26,30*	(109,668,237,441)	(140,369,846,928)
Finance income	*27,30,31*	96,704,640,503	91,584,864,758
Finance costs	*27,30,31*	(13,795,983,837)	(6,956,841,784)
Share of net profit of associates and joint ventures	*10*	1,541,273,173	9,254,907,175
Profit before income tax		1,462,670,812,899	1,318,669,940,594
Income tax expense	*28,35*	(424,000,387,005)	(420,010,600,187)
Profit for the year		1,038,670,425,894	898,659,340,407
Other comprehensive income (loss) after income tax:			
Items that will not be reclassified to profit or loss			
Remeasurements of net defined benefit liability	*18*	(10,425,083,892)	(24,807,327,456)
Gain or loss on valuation of fair value through other comprehensive income or loss		6,922,877,280	(27,707,366,228)
Capital changes in equity method		(100,070,393)	16,538,462
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		23,065,897,911	7,773,974,169
Other comprehensive income after income tax		19,463,620,906	(44,724,181,053)
Total comprehensive income for the year		1,058,134,046,800	853,935,159,354
Profit attributable to:			
Owners of the parent company		1,036,474,982,130	901,650,436,116
Non-controlling interests		2,195,443,764	(2,991,095,709)
Total		1,038,670,425,894	898,659,340,407
Other comprehensive income for the year attributable to:			
Owners of the parent company		1,056,366,319,774	857,857,695,749
Non-controlling interests		1,767,727,026	(3,922,536,395)
Total		₩1,058,134,046,800	₩853,935,159,354
Earnings per share:			
Basic and diluted	*29*	8,208	7,141

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

KT&G CORPORATION AND SUBSIDIARIES
Consolidated statements of changes in equity

For the year ended December 31, 2018

in Korean won	Ordinary shares	Other capital surplus (deficit)	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2018 (before revision)	₩954,959,485,000	₩ (29,719,795,353)	₩ (328,157,286,128)	₩513,775,933,891	₩4,927,331,928,515	₩1,733,863,414,006	₩7,772,053,679,931	₩57,706,687,886	₩7,829,760,367,817
Effect of change in accounting policy	-	-	-	-	(36,765,729,396)	(8,805,287,042)	(45,571,016,438)	-	(45,571,016,438)
Balance at January 1, 2018 (after revision)	954,959,485,000	(29,719,795,353)	(328,157,286,128)	513,775,933,891	4,890,566,199,119	1,725,058,126,964	7,726,482,663,493	57,706,687,886	7,784,189,351,379
Total comprehensive income (loss) for the year:									
Profit for the year	-	-	-	-	-	901,650,436,116	901,650,436,116	(2,991,095,709)	898,659,340,407
Other comprehensive income (loss) for the year:									
Re-measurements of net defined benefit liability	-	-	-	-	-	(23,878,758,402)	(23,878,758,402)	(928,569,054)	(24,807,327,456)
Gain or loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(27,707,366,228)	-	(27,707,366,228)	-	(27,707,366,228)
Reclassification to Retained Earnings from loss on disposal of Fair value through other comprehensive income	-	-	-	-	147,755,932	(147,755,932)	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	7,776,845,801	-	7,776,845,801	(2,871,632)	7,773,974,169
Capital changes in equity method	-	-	-	-	16,538,462	-	16,538,462	-	16,538,462
Sum of other comprehensive income (loss) for the year	-	-	-	-	(19,766,226,033)	(24,026,514,334)	(43,792,740,367)	(931,440,686)	(44,724,181,053)
Total comprehensive income (loss) for the year	-	-	-	-	(19,766,226,033)	877,623,921,782	857,857,695,749	(3,922,536,395)	853,935,159,354
Transactions with owners:									
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)	-	(505,060,508,000)
Transfer from reserve for research and human resource development	-	-	-	-	(10,000,000,000)	10,000,000,000	-	-	-
Transfer to other reserve	-	-	-	-	495,035,507,256	(495,035,507,256)	-	-	-
Changes in non-controlling interests ,etc	-	-	-	-	(207,980,244)	207,980,244	-	16,222,248	16,222,248
Total transactions with owners	-	-	-	-	484,827,527,012	(989,888,035,012)	(505,060,508,000)	16,222,248	(505,044,285,752)
Balance at December 31, 2018	₩954,959,485,000	₩ (29,719,795,353)	₩ (328,157,286,128)	₩513,775,933,891	₩5,355,627,500,098	₩1,612,794,013,734	₩8,079,279,851,242	₩53,800,373,739	₩8,133,080,224,981

"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, 2019

in Korean won	Ordinary shares	Other capital surplus (deficit)	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2019 (before revision)	₩954,959,485,000	₩ (29,719,795,353)	₩ (328,157,286,128)	₩513,775,933,891	₩5,355,627,500,098	₩1,612,794,013,734	₩8,079,279,851,242	₩53,800,373,739	₩8,133,080,224,981
Effect of change 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	(29,719,795,353)	(328,157,286,128)	513,775,933,891	5,355,627,500,098	1,608,123,876,440	8,074,609,713,948	53,800,373,739	8,128,410,087,687
Total comprehensive income (loss) for the year:									
Profit for the year	-	-	-	-	-	1,036,474,982,130	1,036,474,982,130	2,195,443,764	1,038,670,425,894
Other comprehensive income (loss) for the year:									
Re-measurements of net defined benefit liability	-	-	-	-	-	(9,994,827,322)	(9,994,827,322)	(430,256,570)	(10,425,083,892)
Gain or 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 (loss) for the year	-	-	-	-	29,886,164,966	1,026,480,154,808	1,056,366,319,774	1,767,727,026	1,058,134,046,800
Transactions with owners:									
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	-	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	₩ (29,556,277,161)	₩ (318,789,449,459)	₩528,894,053,906	₩5,671,479,866,186	₩1,843,577,322,126	₩8,650,565,000,598	₩55,368,697,571	₩8,705,933,698,169

"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, 2019 and December 31, 2018

in Korean won	*Notes*	2019	2018
Cash flows from operating activities			
Cash generated from operations	*34*	1,467,559,714,717	1,161,900,597,804
Income tax paid		(421,593,178,564)	(340,246,893,758)
Net cash provided by operating activities		1,045,966,536,153	821,653,704,046
Cash flows from investing activities			
Interest received		19,286,767,920	15,799,778,784
Dividends received		24,693,247,030	21,665,150,035
Decrease in other financial assets		522,503,000,000	-
Decrease in long-term fair value through profit or loss		15,891,652,285	43,058,307,778
Decrease in current fair value through profit or loss		-	813,268,420,117
Decrease in fair value through other comprehensive income or loss		-	1,152,690,000
Proceeds from disposal of property, plant and equipment		3,737,771,098	27,335,395,493
Proceeds from disposal of intangible assets		1,100,235,184	832,595,327
Disposal of investments in associates		34,150,929,551	5,024,535,939
Collection of loans		12,320,759,758	14,740,189,324
Withdrawal of guarantee deposits		1,212,076,715	3,710,343,548
Receipt of government subsidies		-	62,700,000
Collection of finance lease receivable		75,372,723	-
Acquisition of property, plant and equipment		(412,269,239,083)	(353,313,197,888)
Acquisition of intangible assets		(34,947,578,247)	(6,292,425,402)
Acquisition of investment properties		(66,264,160,157)	(40,556,716,047)
Acquisition of investments in associates		-	(30,500,000,000)
Increase in loans		(19,004,079,477)	(5,934,754,849)
Increase in guarantee deposits		(3,132,539,988)	(6,678,756,032)
Increase in long-term deposits in MSA Escrow Fund		(114,411,590,516)	(72,399,032,390)
Increase in current fair value through profit or loss		(57,593,331,877)	-
Increase in long-term current fair value through profit or loss		(54,676,729,731)	(93,500,000,000)
Acquisition of fair value through other comprehensive income or loss		-	(1,350,000,000)
Increase in other financial assets, net		(331,722,644,000)	(382,381,293,042)
Net cash used in investing activities		(459,050,080,812)	(46,256,069,305)
Cash flows from financing activities			
Repayment of lease liabilities		(19,035,663,602)	-
Dividends paid	*23*	(505,060,508,000)	(505,060,508,000)
Increase in borrowings		202,160,215,132	641,712,342,225
Increase of non-controlling interests		-	3,430,000,000
Interest paid		(3,290,173,858)	(2,463,659,866)
Repayment of borrowings		(307,060,602,681)	(686,993,953,759)
Net cash used in financing activities		(632,286,733,009)	(549,375,779,400)
Net increase in cash and cash equivalents		(45,370,277,668)	226,021,855,341
Cash and cash equivalents at January 1		932,969,110,015	715,116,842,650
Effect of exchange rate fluctuation on cash and cash equivalents		3,707,313,636	(8,169,587,976)
Cash and cash equivalents at December 31		891,306,145,983	932,969,110,015

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

For the years ended December 31, 2019 and December 31, 2018

1. Reporting Entity

(1). Overview of the Parent Company

KT&G Corporation (the "Parent Company") is engaged in manufacturing and selling tobaccos. As of December 31, 2019, 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, 2019, are as follows:

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

(2). Consolidated Subsidiaries

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.31.2019	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	Dec.31.2019	Korea
	Tae-a Industry Co., Ltd.	Manufacturing tobacco materials	100.00	Dec.31.2019	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99	Dec.31.2019	Turkey
	Korea Tabacos do Brasil Ltda.	Processing leaf tobaccos	99.99	Dec.31.2019	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99	Dec.31.2019	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	Dec.31.2019	Russia
	KT&G USA Corporation	Selling tobaccos	100.00	Dec.31.2019	USA
	Cosmocos Co., Ltd.	Manufacturing and selling cosmetics	98.56	Dec.31.2019	Korea
	Renzoluc Pte., Ltd. 2)	Holding company	100.00	Dec.31.2019	Singapore
	PT KT&G Indonesia	Selling tobaccos	99.99	Dec.31.2019	Indonesia
	SangSang Stay Inc.	Hotel	100.00	Dec.31.2019	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	Dec.31.2019	Russia
	Gwacheon SangSang PFV	Developing and selling real estate	51.00	Dec.31.2019	Korea
Korea Ginseng Corporation	KGC Life & Gin Co., Ltd.	Manufacturing and selling cosmetics	100.00	Dec.31.2019	Korea
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng	100.00	Dec.31.2019	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng	100.00	Dec.31.2019	USA
	Korea Ginseng (China) Corp.	Selling ginseng	100.00	Dec.31.2019	China
	Korea Ginseng Corporation Japan	Selling ginseng	100.00	Dec.31.2019	Japan
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng	100.00	Dec.31.2019	China
	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00	Dec.31.2019	Korea
Cosmocos Co., Ltd.	K&I HK Co., Ltd.	Selling cosmetics	98.56	Dec.31.2019	HongKong
	K&I China Co., Ltd.	Selling cosmetics	98.56	Dec.31.2019	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99	Dec.31.2019	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indag Makmur	Selling tobaccos	99.99	Dec.31.2019	Indonesia

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

2) The Parent Company's percentage of ownership, shown above, excludes redeemable convertible preferred shares. As of the end of the current term, the Parent Company's percentage of ownership would be 88.60% if preferred shares are included.

During the year ended December 31, 2018, the Parent Company had made an acquisition of 51% (714,000 shares, ₩3,570 million) shares of Gwacheon SangSang PFV.

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.

(3). Summarized Financial Information

Summarized Financial information[1] for consolidated subsidiaries at and for the year ended December 31, 2019, is as follows:

in millions of Korean won	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.	49,854	36,512	71,363	(15,877)	(16,547)
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 Indag Makmur	80	-	-	(42)	(33)
KGC Life & Gin Co., Ltd.	32,708	12,065	37,360	616	435
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.	33,937	23,182	52,099	(150)	49
Korea Ginseng Corporation Japan	7,311	5,960	11,018	17	87
Jilin Hanzheng Ginseng Co., Ltd.	49,774	758	15,837	(1,163)	(263)
KGC Yebon Corporation	53,912	8,366	12,759	(311)	(457)
K&I HK Co., Ltd.	671	1,933	340	(1,709)	(1,690)
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.

Summarized Financial information[1] for consolidated subsidiaries as of and for the year ended December 31, 2018, is as follows:

in millions of Korean won	Total assets	Total liabilities	Revenue	Net profit(loss)	Total comprehensive income(loss)
Korea Ginseng Corporation	₩2,007,076	₩296,256	₩1,328,251	₩142,010	₩138,211
Yungjin Pharm. Co., Ltd.	196,114	84,508	186,409	(6,101)	(8,044)
Tae-a Industry Co., Ltd.	50,246	1,563	13,336	242	174
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	28,240	36,683	7,890	(11,564)	(10,537)
Korea Tabacos do Brasil Ltda.	2,601	117	-	168	(125)
KT&G Pars	4,050	53,175	2,121	(52,079)	(13,322)
KT&G Rus L.L.C.	154,515	84,054	52,018	2,093	(8,829)
KT&G USA Corporation	61,789	41,887	102,983	1,132	1,933
Cosmocos Co., Ltd.	64,898	35,008	75,811	(11,217)	(11,545)
Renzoluc Pte., Ltd.	125,258	28,052	-	(1,040)	(3,846)
PT KT&G Indonesia	54,373	66,626	104,346	3,756	3,982
SangSang Stay, Inc.[2]	63,097	59,414	20,229	(5,881)	(5,895)
KT&G Global Rus L.L.C.	75,366	82,558	34,813	4,740	3,094
Gwacheon SangSang PFV	6,955	17	-	(62)	(62)
PT Trisakti Purwosari Makmur	118,101	5,915	7,336	4,961	2,383
PT Mandiri Maha Mulia	52,379	35,266	48,441	3,572	3,224
PT Sentosa Ababi Purwosari	54,967	54,438	33,993	(754)	(411)
PT Purindo Ilufa	10,327	14,506	9,253	(715)	(536)
PT Nusantara Indag Makmur	113	-	-	(391)	(402)
KGC Life & Gin Co., Ltd.	28,097	7,889	37,707	437	303
Cheong Kwan Jang Taiwan Corporation	19,272	17,237	27,190	(122)	(83)
Korean Red Ginseng Corp., Inc.	19,579	18,791	24,728	(2,999)	(2,646)
Korea Ginseng (China) Corp.	23,121	12,414	41,071	(1,196)	(1,235)
Korea Ginseng Corporation Japan	6,706	5,445	10,121	(99)	(51)
Jilin Hanzheng Ginseng Co., Ltd.	49,722	464	10,070	(7,138)	(7,337)
KGC Yebon Corporation	56,965	10,963	13,428	(1,172)	(1,168)
K&I HK Co., Ltd.	2,600	2,173	2,673	113	128
K&I China Co., Ltd.	₩3,174	₩2,320	₩4,249	₩ (282)	₩ (282)

[1] The above financial information is according to each company's separate financial statements.
[2] This amount has been retrospectively restated in accordance with the transitional provisions for K-IFRS No. 1116.

(4). Changes in Scope for Consolidation

PT Sentosa Ababi Purwosari, PT Purindo Ilufa and PT Mandiri Maha Mulia have been merged into PT Trisakti Purwosari Makmur during the year ended December 31, 2019, and therefore have been excluded from the scope for consolidation as of December 31, 2019.

2. Significant 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 financial statements have been prepared based on historical cost except for the following:
- Certain financial assets and financial liabilities (including derivatives)
- Assets held for sale measured at fair value less cost to sell
- Defined contribution plans and plan assets measured at fair value

The preparation of the consolidated financial statements requires the use of critical accounting estimates. Management also needs 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.

The consolidated financial statements of the Parent Company were authorized by the Board of Directors on the Board of Directors' meeting held on March 16, 2020. It is expected to be finally authorized at the stakeholders' meeting on March 30, 2020.

2.2. Changes in Accounting Policies and Disclosures

(1) New and amended standards adopted by the Group
The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019.

- Enactment to K-IFRS No. 1116 Leases

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

The Group had changed the accounting policies as a result of application of K-IFRS No. 1116. The changed accounting policies were applied retrospectively in accordance with the transition provisions of K-IFRS No. 1116 and the cumulative effect of initial application was reflected on January 1, 2019, the date of initial application. The comparative consolidated interim financial statements are not restated. The impact of introducing the lease standard and the new accounting policy is described in Note 35.

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

The interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. The effects of introducing the interpretation on uncertainty over income tax treatments is described in Note 35.

- Amendments to K-IFRS No. 1109 Financial Instruments

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

- Amendments to K-IFRS No. 1019 Employee Benefits

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

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

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

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

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

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

① K-IFRS No. 1103 Business Combination
The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation.

② K-IFRS No. 1111 Joint Agreements
The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured.

③ K-IFRS No. 1012 Income Tax
K-IFRS No. 1012 paragraph 57A (which stipulates items to be recognized and the period of recognition regarding tax effects of dividends) applies to all income tax effects of dividends and requires an entity to recognize the income tax effects of dividends in either profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

④ K-IFRS No. 1023 Borrowing Costs
The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings.

There are no material effects of the above mentioned amendments made to K-IFRSs on the consolidated financial statements, except for the amendments made to K-IFRS No. 1116 Leases and the enactment of K-IFRS No. 2123

Uncertainty over Income Tax Treatments.

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

- Amendment to K-IFRS No. 1001 'Presentation of Financial Statements' and K-IFRS No. 1008 'Accounting Policies, Changes in Accounting Estimates and Errors' – Definition of materiality

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

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

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

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

2.3. Accounting Policies

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

(1) Business Sectors

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

(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 on which 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 recoded 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.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the 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 is an objective evidence 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.

③ Business Combination of Entities under a Common Control

The Group applies the book amount method to account for business combinations of entities under a common control. Identifiable assets acquired and liabilities assumed in a business combination are measured at their book amounts 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 repairs and maintenance are charged to the consolidated statements of comprehensive income during the financial period in which they are incurred.

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

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

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

(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 not recognized, unless there is a 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.

Government subsidies that are intended to compensate the Group for expenses incurred are recognized as other income in profit or loss over the periods in which the Group recognizes the related costs as expenses.

(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 that they are available for use. The residual value of intangible assets is assumed to be zero. However, as there are no foreseeable limits to the periods over which some of industrial property rights and facility usage rights are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized.

Type	Useful lives(years)
Industrial property rights	5–20 or indefinite
Facility usage rights	Indefinite
Intangible assets under development	Indefinite
Other intangible assets	2–14 or indefinite

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

(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. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

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

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

(9) Assets Held for Sale

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

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

(10) Inventories

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

The cost of inventories is determined as below.

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

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

(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 is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

If it is impossible to measure the recoverable amounts of individual assets, the recoverable amount of an asset is determined as the higher value between: the value-in-use or the fair value less costs to sell for each CGU that the asset belongs to.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized immediately in profit or loss. At the end of each reporting period, the 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. An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount after the last time an impairment loss has been recognized.

(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, this 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, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

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 expensed in profit or loss.
Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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

B. Fair value through other comprehensive income
Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken 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 in 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. Fair value through profit or loss
Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'finance income or cost' in the year in which it arises.

- 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 derecognition of the investment. Gains and losses related to the disposal of such investments are recognized in retained earnings. Dividend income from such investments continue to be recognized in profit or loss as 'finance income' when the right to receive payments is established.

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

③ Impairment

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

④ Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the 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 classified the financial liability as "borrowings" in the statement of financial position

⑤ Offsetting of financial instruments

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

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

(15) Cash and Cash Equivalents

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

(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 re-measurements 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

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense) after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the 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

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

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

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. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(17) Provisions

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

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

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 provision is reversed.

(18) Equity Capital

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

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

(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.

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

② Rendering of services

Revenue from rendering of services is recognized by reference to the stage of completion of the transaction at the end of the reporting period when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow into the 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.

The Group provides logistics services according to the contract signed with customers. The Group controls the logistics service before transferring to the customer so that it belongs to 'oneself' and revenue is recognized as total amount.

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 have deemed the percentage-of-completion method to be an appropriate method for measuring the progress rate until performance obligations are satisfied in accordance with K-IFRS No. 1115.

The 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, etc.

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, respectively.

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

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The 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 statement of profit or loss 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 is 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

As explained in Note 2.2 above, the Group has adopted the accounting policy K-IFRS No. 1116 Leases during the current reporting period. Information on the effects of adopting this new accounting policy is provided in Note 35.

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 expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.
The 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.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. 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.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by OO, a subsidiary of the Group, which does not have recent third-party financing, and

- make adjustments specific to the lease, for example term, country, currency and security.

Lease liability measurements include payments to be made in option periods if the lessee is reasonably certain to exercise an option to extend (or terminate) the lease. For variable lease payment terms that are linked to indexes or rates, the 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

- 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 as an expense in profit or loss.

The accounting policies adopted by the Group as a lessor are not different from the policies of K-IFRS No. 1017. However, in cases where the Group is an intermediary lessor, the classification of subleases are based on the right-of-use assets derived from upper level leases, rather than from the underlying assets of subleases.

(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 are reliably estimable. The Group reviews the financial effects of the transaction every quarter, and has judged that the effects of the transaction is immaterial as at the end of the current reporting period.

(26) Going Concern

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 the consolidated financial statements under the assumption that KT&G Pars will be liquidated.

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

(1) Estimated intangible asset (including goodwill) impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations (Note 12).

(2) Income taxes

The Group's taxable income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 28, 35).

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the Tax System For Recirculation of Corporate Income, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(3) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 31).

(4) Impairment of financial assets

The provision for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (Note 7, 31).

(5) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 18).

(6) Revenue recognition
A refund liability and a right to the returned goods are recognized for the products expected to be returned once they are sold. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method), and the Group's revenue is affected by changes in expected return rate (Note 19).

(7) Total construction revenues and total construction costs

① Uncertainty in gross contract revenue estimates

Total contract revenue is measured on the basis of the contract amount initially agreed upon. However, total contract revenue may increase or decrease during the execution of contracts due to factors such as additional contracts or contract terminations etc. Therefore, the measurement of contract revenue is subject to various uncertainties related to the outcome of future events. The Group recognizes contract revenue when additional contracts or contract terminations are finalized and when the amount can be reliably measured. (Note 24)

② Estimated total construction cost

The amount of construction revenues is affected by progress based on the cumulative incurred contract costs, and the total contract cost is estimated based on future estimates such as material cost, labor cost and construction period. (Note 24).

(8) Provision for product warranty

After the sale of next generation device products, the Group recognizes warranty provisions where it is expected that the Group will need to provide warranty on the products. Of the estimated warranty amount, the Group also recognizes the right to receive reimbursement from the manufacturer where the manufacturer is at fault. At the point of sale, the warranty rate is estimated using the expected value method based on past accumulated experience at a portfolio level (Note 19).

(9) Lease

The Group takes into consideration all related facts and circumstances which can create economic incentives to either exercise the extension option or not exercise termination options when calculating the lease period. Periods related to the extension option (or termination option) is only included in the lease period if it is reasonably certain that the lessee will exercise (or not exercise) the extension option.

KT&G CORPORATION
Separate statements of financial position

As of December 31, 2019 and 2018

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

KT&G CORPORATION
Separate statements of financial position, continued

As of December 31, 2019 and 2018

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

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

KT&G CORPORATION
Separate statements of comprehensive income

For the years ended December 31, 2019 and 2018

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

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

KT&G CORPORATION
Separate statements of changes in equity

For the year ended December 31, 2018

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

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

KT&G CORPORATION
Separate statements of changes in equity, continued

For the year ended December 31, 2019

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

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

KT&G CORPORATION

Separate statements of cash flows

For the years ended December 31, 2019 and 2018

in Korean won	*Notes*	2019	2018
Cash flows from operating activities		₩770,157,457,290	₩658,309,046,702
Cash generated from operations	*35*	1,122,222,466,470	942,379,411,486
Income tax paid		(352,065,009,180)	(284,070,364,784)
Cash flows from investing activities		(349,260,247,140)	5,526,009,206
Interest received		15,632,158,640	10,113,048,113
Dividends received		24,525,647,030	79,497,550,035
Decrease in other financial assets		470,000,000,000	-
Decrease in long-term fair value through profit or loss		15,488,693,440	43,058,307,778
Decrease in current fair value through profit or loss		-	774,268,420,117
Decrease in fair value through other comprehensive income or loss		-	1,152,600,000
Disposal of property, plant and equipment		5,631,098,245	30,355,195,608
Disposal of intangible assets		1,097,979,683	550,864,000
Disposal of assets held for sale		29,977,251,000	-
Disposal of investments in associates		34,150,929,551	5,024,535,939
Collection of loans		12,087,640,260	18,923,650,695
Collection of guarantee deposits		358,500,000	107,786,000
Acquisition of property, plant and equipments		(357,610,608,761)	(303,693,065,623)
Acquisition of intangible assets		(26,269,767,331)	(4,919,267,612)
Acquisition of investment properties		(66,264,160,157)	(40,556,716,047)
Acquisition of investment in joint ventures		-	(30,500,000,000)
Acquisition of investment in subsidiaries		-	(44,569,990,408)
Increase in loans		(10,305,670,696)	(5,790,880,934)
Increase in guarantee deposits		(28,285,920)	(2,000,076,065)
Increase in long-term deposits in MSA Escrow Fund		(114,411,590,516)	(72,399,032,390)
Increase in current fair value through profit or loss		(57,593,331,877)	-
Increase in long-term current fair value through profit or loss		(52,526,729,731)	(62,500,000,000)
Increase in other financial assets		(273,200,000,000)	(390,596,920,000)
Cash flows from financing activities		(511,118,172,419)	(505,060,508,000)
Repayment of lease liabilities		(5,626,270,710)	-
Interest paid		(431,393,709)	-
Payments of dividends	*24*	(505,060,508,000)	(505,060,508,000)
Net increase(decrease) in cash and cash equivalents		(90,220,962,269)	158,774,547,908
Cash and cash equivalents at January 1, 2019		748,123,323,519	589,765,862,776
Effect of exchange rate fluctuation on cash and cash equivalents		(1,126,948,918)	(417,087,165)
Cash and cash equivalents at December 31, 2019		₩656,775,412,332	₩748,123,323,519

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

Statements of Appropriation of Retained Earnings

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

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

For the years ended December 31, 2019 and 2018

1. Overview of the Company

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

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

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

The ownership of the Company's ordinary shares as of December 31, 2019, is held as follow:

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

2. Significant Accounting Policies

2.1. Basis of Preparation

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

The financial statements have been prepared based on historical cost except for the following:
- Certain financial assets and financial liabilities(including derivatives)
- Assets held for sale measured at fair value less cost to sell
- Defined contribution plans and plan assets measured at fair value

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

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

2.2. Changes in Accounting Policies and Disclosures

(1) New or amended standards adopted by the Company

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

- Enactment to K-IFRS No. 1116 Leases

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

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

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

The interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. The effects of introducing the interpretation on uncertainty over income tax treatments is described in Note 36.

- Amendments to K-IFRS No. 1109 Financial Instruments

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

- Amendments to K-IFRS No. 1019 Employee Benefits

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

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

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

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

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

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

① K-IFRS No. 1103 Business Combination
The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation.

② K-IFRS No. 1111 Joint Agreements
The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured.

③ K-IFRS No. 1012 Income Tax
K-IFRS No. 1012 paragraph 57A (which stipulates items to be recognized and the period of recognition regarding tax effects of dividends) applies to all income tax effects of dividends and requires an entity to recognize the income tax effects of dividends in either profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

④ K-IFRS No. 1023 Borrowing Costs
The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings.

There are no material effects of the above mentioned amendments made to K-IFRSs on the Separate financial statements, except for the amendments made to K-IFRS No. 1116 Leases and the enactment of K-IFRS No. 2123 Uncertainty over Income Tax Treatments.

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

- Amendment to K-IFRS No. 1001 'Presentation of Financial Statements' and K-IFRS No. 1008 'Accounting Policies, Changes in Accounting Estimates and Errors' – Definition of materiality

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

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

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

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

2.3. Accounting Policies

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

(1) Business Sectors

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

(2) Investments in subsidiaries, associates and joint ventures

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

(3) Property, Plant and Equipment

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

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

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

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

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

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

(4) Borrowing Costs

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

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

(5) Government Subsidies

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

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

(6) Intangible assets

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

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

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

(7) Investment Property

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

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

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

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

(8) Assets Held for Sale

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

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

(9) Inventories

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

The cost of inventories is determined as below:

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

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

(10) Impairment of Non-Financial Assets

The carrying amounts of the Company'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 is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

If it is impossible to measure the recoverable amounts of individual assets, the recoverable amount of an asset is determined as the higher value between: the value-in-use or the fair value less costs to sell for each CGU that the asset belongs to.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized immediately in profit or loss. At the end of each reporting period, the Company tests for signs which show that any impairment loss recognized in the past either no longer exists or there has been a reduction in the amount. An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount after the last time an impairment loss has been recognized.

(11) Financial Assets (Other than Derivative Instruments)

⑤Classification

From January 1, 2018, the Company classifies its financial assets in the following measurement categories:

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

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

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

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

⑥Measurement

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

- Debt instruments

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

A. Amortized cost:

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

B. Fair value through other comprehensive income:

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken 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 in 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. Fair value through profit or loss:

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

- Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments (held for long-term investment or strategic purpose), in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following derecognition of the investment. Gains and losses related to the disposal of such investments
are recognized in retained earnings. Dividend income from such investments continue to be recognized in profit or loss as 'finance income' when the right to receive payments is established.

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

⑦Impairment

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

⑧Recognition and Derecognition

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

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

⑨Offsetting of financial instruments

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

(1) Financial Liabilities

③Classification and measurement

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

All non-derivative financial liabilities are classified as financial liabilities measured at amortized cost and are presented as 'trade and other payables' or 'borrowings' or 'lease liabilities' on the 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.

④Derecognition

Financial liabilities are derecognized from the balance sheet 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.

(2) Derivative Instruments

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

(3) Cash and Cash Equivalents

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

(4) Employee Benefits

① Short-term employee benefits

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

② Other long-term employee benefits

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

③ Retirement benefits: Defined contribution plans

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

④ Retirement benefits: Defined benefit plans

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

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

⑤ Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits or when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(5) Provisions

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

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

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 provision is reversed.

(6) Equity Capital

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

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

(7) Revenue Recognition

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

③Sales of goods

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

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

④Rendering of services

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

The Company provides logistics services according to the contract signed with customers. The Company controls the logistics service before transferring to the customer so that it belongs to 'oneself' and revenue is recognized as total amount.

⑤Sale of real estate

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

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

⑥Lease of real estate, etc.

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

(19) Finance Income and Finance Cost

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

(20) Income Tax Expense

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

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

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

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

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

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

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

(21) Functional and presentation currency

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

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in other comprehensive income 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 statement of profit or loss 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 is 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.

(22) Earnings per Share

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

(23) Lease

As explained in Note 2.2 above, the Company has adopted the accounting policy K-IFRS No. 1116 Leases during the current reporting period. Information on the effects of adopting this new accounting policy is provided in Note 35.

Lease income from operating leases where the Company is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature. The Company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.
The Company leases various offices, accommodation for employees and vehicles etc. The terms of lease are negotiated individually and include various contractual conditions. There are no restrictions from lease contracts other than that the leased assets cannot be used as collateral for borrowings.

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

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable

- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

- Amounts expected to be payable by the 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

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

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.

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
- restoration costs

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

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

(24) Emission Rights

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

3. Critical Accounting Estimates and Assumptions

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

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

(1) Estimated investment in subsidiary impairment

The Group tests whether investment in subsidiary has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use and fair value calculations (Note 11).

(2) Income taxes

The Company's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of taxation authorities. If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the Tax System For Recirculation of Corporate Income, the Company is liable to pay additional income tax calculated based on the taxs. And if there is an uncertainty whether taxations authorities acknowledges the Company's income tax calculation result, the measurement of current and deferred income tax is affected by the tax effects of it uncertainty. Accordingly, there are many transactions and calculations for which the ultimate tax determination is uncertain (Note 29, 36).

(3) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 32).

(4) Impairment of financial assets

The provision for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (Note 7, 32).

(5) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 19).

(6) Revenue recognition

A refund liability and a right to the returned goods are recognized for the products expected to be returned once they are sold. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method), and the Company's revenue is affected by changes in expected return rate (Note 20).

(7) Total construction revenues and total construction costs

① Uncertainty in gross contract revenue estimates

Total contract revenue is measured on the basis of the contract amount initially agreed upon. However, total contract revenue may increase or decrease during the execution of contracts due to factors such as additional contracts or contract terminations etc. Therefore, the measurement of contract revenue is subject to various uncertainties related to the outcome of future events. The Group recognizes contract revenue when additional contracts or contract terminations are finalized and when the amount can be reliably measured. (Note 25)

② Estimated total construction cost

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

(8) Provision for product warranty

After the sale of next generation device products, the Company recognizes warranty provisions where it is expected that the Company will need to provide warranty on the products. Of the estimated warranty amount, the Company also recognizes the right to receive reimbursement from the manufacturer where the manufacturer is at fault. At the point of sale, the warranty rate is estimated using the expected value method based on past accumulated experience at a portfolio level (Note 20).

(9) Lease

The Company takes into consideration all related facts and circumstances which can create economic incentives to either exercise the extension option or not exercise termination options when calculating the lease period. Periods related to the extension option (or termination option) is only included in the lease period if it is reasonably certain that the lessee will exercise (or not exercise) the extension option. (Note 16, 36).

Agenda No. 2

Appointment of Three Members of Board of Directors (Outside Directors)

Pursuant to Article 382 of the Korean Commercial Act and Article 26, Paragraph (5) of the Articles of Incorporation of the Company, the Company intends to appoint Outside Directors as follows:

2-1. Appointment of Outside Director (Koh, Yun-sung)

A. Name, Date of Birth, Nominator, Relationship with the Largest Shareholder and whether they are a Candidate to become an Outside Director

Name	Date of Birth	Candidate to become an Outside Director	Relationship with the Largest Shareholder	Nominator
Koh, Yun-sung	1973. 9. 7	Outside Director	N/A	Outside Director Recommendation Committee

B. The Candidate's Main Occupation, Profile and Details of Recent Three-year Deals with the Corporation

Name	Main Occupation	Profile		Details of Recent Three-year deals With the Corporation
		Period	Contents	
Koh, Yun-sung	Professor, College of Business Administration, Hankuk University of Foreign Studies	2019~2020	Vice President, College of Business Administration, Hankuk University of Foreign Studies	N/A
		2018	Global Joint Research, LG Yonam Foundation	
		2017~present	Midcareer Researcher Grant, Korea Research Foundation	
		2017	Management Evaluation Committee Member, Ministry of Land, Infrastructure and Transport, Other Public Institutions	
		2016	Editor in Chief, 'Finance and Accounting', Korea Accounting Information Association	
		2014~2015	Team leader and Management Evaluation Committee Member, Public Enterprise and Quasi-Government Organization	
		2013~2015	Selection Committee Member, World Class 300	
		2011~2013	Test Organizer, Korean Institute of Certified Public Accountants(KICPA)	
		2010~present	Executive Director and Director, KICPA	
		2010~present	Finance Director and Director, Korean Academic Society of Taxation	

		2009~present	Director, Korea Accounting Information Association	
		2009~2013	Committee Member, Taxpayer Protection of National Tax Service	
		2008~2010	Assistant Professor, College of Business Administration, Kyonggi University	

C. The Candidate's Taxes in Arrears, Management of Insolvent Companies and Statutory Reasons for Disqualification

Name	Taxes in Arrears	Management of Insolvent Companies	Statutory Reasons for Disqualification
Koh, Yun-sung	N/A	N/A	N/A

2-2. Appointment of Outside Director (Kim, Myung-chul)

A. Name, Date of Birth, Nominator, Relationship with the Largest Shareholder and whether they are a Candidate to become an Outside Director

Name	Date of Birth	Candidate to become an Outside Director	Relationship with the Largest Shareholder	Nominator
Kim, Myung-chul	1956. 2. 11	Outside Director	N/A	Outside Director Recommendation Committee

B. The Candidate's Main Occupation, Profile and Details of Recent Three-year Deals with the Corporation

Name	Main Occupation	Profile		Details of Recent Three-year deals With the Corporation
		Period	Contents	
Kim, Myung-chul	Advisor, SEE(Space Entertainment Enterprise)	2011~2014	Vice President and CFO, Ulifesolutions	N/A
		2008~2011	President, Shinhan Bank America	
		2007~2008	Director and CFO, Shinhan Group	
		2004~2007	General Manager of Finance, Treasury and Sales Department, Shinhan Bank	
		2001~2004	General Manager, Shinhan Bank Hong Kong	
		1999~2001	Head of Private Financing Department, Shinhan Bank	
		1998~1999	Executive Director, Marine National Bank	

C. The Candidate's Taxes in Arrears, Management of Insolvent Companies and Statutory Reasons for Disqualification

Name	Taxes in Arrears	Management of Insolvent Companies	Statutory Reasons for Disqualification
Kim, Myung-chul	N/A	N/A	N/A

2-3. Appointment of Outside Director (Hong, Hyun-jong)

A. Name, Date of Birth, Nominator, Relationship with the Largest Shareholder and whether they are a Candidate to become an Outside Director

Name	Date of Birth	Candidate to become an Outside Director	Relationship with the Largest Shareholder	Nominator
Hong, Hyun-jong	1952.6.12	Outside Director	N/A	Outside Director Recommendation Committee

B. The Candidate's Main Occupation, Profile and Details of Recent Three-year Deals with the Corporation

Name	Main Occupation	Profile		Details of Recent Three-year deals With the Corporation
		Period	Contents	
Hong, Hyun-jong	Secretary General, KBCSD(Korea Business Council for Sustainable Development)	2017~Present	Advisory Panel Member, National Weather Service Climate Change Surveillance	N/A
		2017~2020	19th Director, Korean Federation of Science and Technology Societies	
		2015~ Present	Committee Member(2nd, 3rd Term), Sustainable Development Committee of Seoul	
		2014~ Present	Director, Korea Association for UN Environment	
		2015~ Present	Full Member, Korean Academy of Environment Science	
		2012~ Present	Director, National Assembly Forum on Climate Change	
		2004~2005	Special Advisor, Presidential Commission on Sustainable Development, Energy and Industry	
		1998~ Present	Advisory Member, Council for Corporate Environment Policy	
		2012~2015	Advisor, GS Caltex	
		2008~2012	Vice-President and Sector Leader, GS Caltex Environment/Safety Planning	
		2004~2008	Executive Director and Sector Leader, GS Caltex Environment/Safety Planning	
		1999~2004	Director and Sector Leader, GS Environment/Safety Planning	

C. The Candidate's Taxes in Arrears, Management of Insolvent Companies and Statutory Reasons for Disqualification

Name	Taxes in Arrears	Management of Insolvent Companies	Statutory Reasons for Disqualification
Hong, Hyun-jong	N/A	N/A	N/A

Agenda No. 3

Appointment of Two Members of the Audit Committee

Pursuant to Articles 542-11 and 542-12 of the Korean Commercial Act and Article 34-3 of the Articles of Incorporation of the Company, the Company intends to appoint Members of the Audit Committee as follows:

3-1. Appointment of Member of the Audit Committee (Koh, Yun-sung)

A. Name, Date of Birth, Nominator, Relationship with the Largest Shareholder and whether they are a Candidate to become an Outside Director

Name	Date of Birth	Candidate to become an Outside Director	Relationship with the Largest Shareholder	Nominator
Koh, Yun-sung	1973. 9. 7	Outside Director	N/A	Board of Directors (B.O.D.)

B. The Candidate's Main Occupation, Profile and Details of Recent Three-year Deals with the Corporation

Name	Main Occupation	Profile		Details of Recent Three-year deals With the Corporation
		Period	Contents	
Koh, Yun-sung	Professor of College of business Administration, Hankuk University of Foreign Studies	2019~2020	Vice President, College of Business Administration, Hankuk University of Foreign Studies	N/A
		2018	Global Joint Research, LG Yonam Foundation	
		2017~present	Midcareer Researcher Grant, Korea Research Foundation	
		2017	Management Evaluation Committee Member, Ministry of Land, Infrastructure and Transport, Other Public Institutions	
		2016	Editor in Chief, 'Finance and Accounting', Korea Accounting Information Association	
		2014~2015	Team leader and Management Evaluation Committee Member, Public Enterprise and Quasi-Government Organization	
		2013~2015	Selection Committee Member, World Class 300	
		2011~2013	Test Organizer, Korean Institute of Certified Public Accountants(KICPA)	

		2010~present	Executive Director and Director, KICPA	
		2010~present	Finance Director and Director, Korean Academic Society of Taxation	
		2009~present	Director, Korea Accounting Information Association	
		2009~2013	Committee Member, Taxpayer Protection of National Tax Service	
		2008~2010	Assistant Professor, College of Business Administration, Kyonggi University	

C. The Candidate's Taxes in Arrears, Management of Insolvent Companies and Statutory Reasons for Disqualification

Name	Taxes in Arrears	Management of Insolvent Companies	Statutory Reasons for Disqualification
Koh, Yun-sung	N/A	N/A	N/A

3-2. Appointment of Member of the Audit Committee (Kim, Myung-chul)

A. Name, Date of Birth, Nominator, Relationship with the Largest Shareholder and whether they are a Candidate to become an Outside Director

Name	Date of Birth	Candidate to become an Outside Director	Relationship with the Largest Shareholder	Nominator
Kim, Myung-chul	1956. 2. 11	Outside Director	N/A	Board of Directors (B.O.D.)

B. The Candidate's Main Occupation, Profile and Details of Recent Three-year Deals with the Corporation

Name	Main Occupation	Profile		Details of Recent Three-year deals With the Corporation
		Period	Contents	
Kim, Myung-chul	Advisor, SEE(Space Entertainment Enterprise)	2011~2014	Vice President and CFO, Ulifesolutions	N/A
		2008~2011	President, Shinhan Bank America	
		2007~2008	Director and CFO, Shinhan Group	
		2004~2007	General Manager of Finance, Treasury and Sales Department, Shinhan Bank	
		2001~2004	General Manager, Shinhan Bank Hong Kong	
		1999~2001	Head of Private Financing Department, Shinhan Bank	
		1998~1999	Executive Director, Marine National Bank	

C. The Candidate's Taxes in Arrears, Management of Insolvent Companies and Statutory Reasons for Disqualification

Name	Taxes in Arrears	Management of Insolvent Companies	Statutory Reasons for Disqualification
Kim, Myung-chul	N/A	N/A	N/A

Agenda No. 4

Approval of the Ceiling Amount of Directors' Remuneration

Pursuant to Article 388 of the Korean Commercial Act and Article 30 of the Articles of Incorporation of the Company, we intend to obtain Approval of the Ceiling Amount of Directors' remuneration as follows:

(For the 34th Fiscal Year (2020))

Number of Directors (Number of Outside Directors)	8 (6)
Ceiling Amount of Directors' Remuneration	5,000 million won

(For the 33rd Fiscal Year (2019))

Number of Directors (Number of Outside Directors)	8 (6)
Total Amount Paid	2,403 million won
Ceiling Amount of Directors' Remuneration	5,000 million won