



# **KT&G CORPORATION AND SUBSIDIARIES**

**Review report on Consolidated Interim Financial Statements  
First quarter of the 33rd fiscal year  
from January 1, 2019 to March 31, 2019**

**ATTACHMENT: INDEPENDENT AUDITOR'S REVIEW REPORT**

**KT&G CORPORATION**

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## KT&G CORPORATION AND SUBSIDIARIES

### Independent auditor's review report

English Translation of Independent Auditors' Report Originally Issued in Korean on May 15, 2019

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

#### **Reviewed financial statements**

We have reviewed the accompanying condensed consolidated financial statements of KT&G Corporation (the "Company") and its subsidiaries. The condensed consolidated financial statements consist of the condensed consolidated statement of financial position as of March 31, 2019, the related condensed consolidated statements of income and comprehensive income, changes in equity and cash flows for the three months ended March 31, 2019 and 2018 all expressed in Korean won, and a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

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

#### **Auditors' responsibility**

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

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

#### **Review results**

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

**Other matters**

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

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

*Deloitte Anjin LLC*

May 15, 2019

This report is effective as of May 15, 2019, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying condensed consolidated financial statements and may result in modifications to the auditors' report.

**KT&G CORPORATION AND SUBSIDIARIES**  
**Consolidated interim financial statements**

First quarter of the 33<sup>rd</sup> fiscal year  
from January 1, 2019 to March 31, 2019

First quarter of the 32<sup>nd</sup> fiscal year  
from January 1, 2018 to March 31, 2018

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

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

## KT&G CORPORATION AND SUBSIDIARIES

### Consolidated interim statements of financial position

As of March 31, 2019 and December 31, 2018

<i>in Korean Won</i>	<i>Notes</i>	March 31, 2019	December 31, 2018
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and cash equivalents	21	₩1,350,956,314,668	₩932,969,110,015
Current other financial assets	21	216,944,842,122	584,579,918,180
Current fair value through profit or loss	21	1,654,359,093,300	1,139,704,589,088
Trade and other receivables	5,20,21	1,045,670,485,607	975,921,202,909
Financial derivatives	21	-	1,238,664,783
Inventories	6	2,383,227,225,264	2,461,289,914,829
Refund asset		2,864,468,966	2,356,432,726
Accrued tobacco excise and other taxes		163,417,912,119	232,237,330,421
Advance payments		76,808,194,471	54,207,755,371
Prepaid expenses		29,609,488,504	24,622,742,813
Assets held for sale	4	4,246,922,005	4,246,922,005
<b>Total current assets</b>		<b>₩6,928,104,947,026</b>	<b>₩6,413,374,583,140</b>
<b>Non-current assets:</b>			
Other long-term financial assets	21,24	₩2,254,027,000	₩8,565,762,000
Long-term deposits in MSA Escrow Fund	21,24	650,240,512,556	615,527,896,771
Fair value through profit or loss	21	208,997,968,218	210,655,373,106
Fair value through other comprehensive income or loss	21	261,154,814,899	249,575,289,383
Long-term trade and other receivables	5,21	59,309,242,106	62,902,608,445
Investments in associates and joint ventures	4,7,20	83,562,062,516	83,988,748,090
Property, plant and equipment	8,24	1,827,529,687,843	1,818,787,823,851
Intangible assets	9	66,753,489,736	71,954,007,994
Investment property	10,24	519,567,836,079	495,048,833,035
Right-of-use asset	11,26	47,428,234,478	-
Refund asset		171,061,577	223,771,427
Long-term advance payments		69,827,581,600	71,394,217,095
Long-term prepaid expenses		6,430,708,072	7,872,994,328
Deferred income tax assets	19	45,419,234,577	45,229,659,539
<b>Total non-current assets</b>		<b>3,848,646,461,257</b>	<b>3,741,726,985,064</b>
<b>Total assets</b>		<b>₩10,776,751,408,283</b>	<b>₩10,155,101,568,204</b>

## KT&G CORPORATION AND SUBSIDIARIES

### Consolidated interim statements of financial position, continued

As of March 31, 2019 and December 31, 2018

<i>in Korean Won</i>	<i>Notes</i>	March 31, 2019	December 31, 2018
<b>Liabilities and equity:</b>			
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Short-term borrowings	12,21,24	₩41,997,609,166	₩129,924,101,195
Current portion of long-term borrowings	12,21,24	5,066,500,000	4,999,760,000
Trade and other payables	21	1,076,302,202,758	560,507,008,935
Current lease liabilities	11,21,26	17,863,149,825	-
Derivative liabilities	21	3,851,560,749	460,667,312
Advance receipts		128,351,768,200	171,501,108,963
Current provisions	17	16,261,769,632	15,100,885,431
Income tax payable	19	288,483,214,417	200,796,906,309
Tobacco excise and other taxes payable		831,203,215,945	557,417,508,777
<b>Total current liabilities</b>		<b>₩2,409,380,990,692</b>	<b>₩1,640,707,946,922</b>
<b>Non-current liabilities:</b>			
Long-term borrowings	12,21,24	₩92,522,641,381	₩93,475,333,856
Long-term trade and other receipts	21	49,795,396,689	53,239,976,056
Long-term lease liabilities	11,21,26	21,469,968,034	-
Long-term advance receipts		5,809,763,296	5,580,108,204
Net defined benefit liability	16	109,106,378,182	96,214,830,976
Long-term provisions	17	4,920,626,639	3,844,558,820
Deferred income tax liabilities	19	151,134,504,588	125,558,940,716
Non-controlling interests liabilities		3,384,564,582	3,399,647,673
<b>Total non-current liabilities</b>		<b>₩438,143,843,391</b>	<b>₩381,313,396,301</b>
<b>Total liabilities</b>		<b>₩2,847,524,834,083</b>	<b>₩2,022,021,343,223</b>
<b>Equity:</b>			
Ordinary shares		₩954,959,485,000	₩954,959,485,000
Other capital surplus		(29,719,795,353)	(29,719,795,353)
Treasury shares		(328,157,286,128)	(328,157,286,128)
Gain on sale of treasury shares		513,775,933,891	513,775,933,891
Reserve		5,669,506,439,218	5,355,627,500,098
Retained earnings	22	1,094,252,224,711	1,612,794,013,734
<b>Equity attributable to owners of the parent</b>		<b>7,874,617,001,339</b>	<b>8,079,279,851,242</b>
<b>Non-controlling interests</b>		<b>54,609,572,861</b>	<b>53,800,373,739</b>
<b>Total equity</b>		<b>₩7,929,226,574,200</b>	<b>₩8,133,080,224,981</b>
<b>Total liabilities and equity</b>		<b>₩10,776,751,408,283</b>	<b>₩10,155,101,568,204</b>

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

## KT&G CORPORATION AND SUBSIDIARIES

### Consolidated interim statements of comprehensive income

**For the first quarter ended March 31, 2019 and 2018**

<i>in Korean Won</i>	<i>Notes</i>	1Q/2019	1Q/2018
<b>Sales</b>	<i>4,18</i>	₩1,184,981,696,982	₩1,067,590,374,238
<b>Cost of sales</b>	<i>13,18</i>	(498,370,879,090)	(433,470,398,353)
<b>Gross profit</b>		686,610,817,892	634,119,975,885
Selling, general and administrative expenses	<i>5,13</i>	(338,445,963,125)	(322,751,601,083)
<b>Operating profit</b>	<i>4</i>	348,164,854,767	311,368,374,802
Other income	<i>14</i>	34,833,499,737	35,896,988,385
Other expenses	<i>14</i>	(20,034,801,584)	(20,333,789,621)
Finance income	<i>15,21</i>	33,222,126,055	35,594,836,892
Cost of finance	<i>15,21</i>	(7,972,922,378)	(2,669,999,708)
Share of gain(loss) of associates and joint ventures	<i>7</i>	(469,013,121)	(51,576,456)
<b>Profit before income tax</b>		387,743,743,476	359,804,834,294
Income tax expense	<i>19</i>	(113,908,629,516)	(110,436,052,951)
<b>Profit for the quarter</b>		273,835,113,960	249,368,781,343
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurements of net defined benefit liability		(540,742,697)	(1,066,485,586)
Gain or loss on valuation of fair value through other comprehensive income or loss	<i>21</i>	7,739,890,599	(6,929,090,849)
Capital changes in equity method	<i>7</i>	42,327,547	-
<b>Items that are or may be reclassified subsequently to profit or loss</b>			
Exchange differences on translating foreign operations		20,130,267,810	(9,817,470,948)
<b>Other comprehensive income after income tax</b>		27,371,743,259	(17,813,047,383)
<b>Total comprehensive income for the quarter</b>		301,206,857,219	231,555,733,960
<b>Profit attributable to:</b>			
Owners of the Parent Company		273,027,495,418	248,897,226,618
Non-controlling interests		807,618,542	471,554,725
<b>Total</b>		₩273,835,113,960	₩249,368,781,343
<b>Other comprehensive income for the quarter attributable to:</b>			
Owners of the Parent Company		300,397,658,097	231,085,382,998
Non-controlling interests		809,199,122	470,350,962
<b>Total</b>		₩301,206,857,219	₩231,555,733,960
<b>Earnings per share:</b>			
Basic and diluted	<i>23</i>	2,162	1,971

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





## KT&G CORPORATION AND SUBSIDIARIES

### Consolidated interim statements of changes in equity

#### For the first quarter ended March 31, 2018

<i>in Korean Won</i>	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
<b>Balance at January 1, 2018 (before revision)</b>	₩954,959,485,000	₩(29,719,795,333)	₩(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)	(20,143,292,740)	(56,909,022,136)	-	(56,909,022,136)
<b>Balance at January 1, 2018 (after revision)</b>	954,959,485,000	(29,719,795,333)	(328,157,286,128)	513,775,933,891	4,890,566,199,119	1,713,720,121,266	7,715,144,657,795	57,706,687,886	7,772,851,345,681
<b>Total comprehensive income (loss) for the quarter:</b>	-	-	-	-	-	248,897,226,618	248,897,226,618	471,554,725	249,368,781,343
<b>Other comprehensive income (loss) for the quarter:</b>	-	-	-	-	-	(1,065,281,823)	(1,065,281,823)	(1,203,763)	(1,066,485,586)
Remeasurements of net defined benefit liability	-	-	-	-	-	(1,065,281,823)	(1,065,281,823)	(1,203,763)	(1,066,485,586)
Gain or loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(6,929,090,849)	-	(6,929,090,849)	-	(6,929,090,849)
Exchange differences on translating foreign operations	-	-	-	-	(9,817,470,948)	-	(9,817,470,948)	-	(9,817,470,948)
Sum of other comprehensive income (loss) for the quarter	-	-	-	-	(16,746,561,797)	(1,065,281,823)	(17,811,843,620)	(1,203,763)	(17,813,047,383)
<b>Total comprehensive income (loss) for the quarter</b>	-	-	-	-	(16,746,561,797)	247,831,944,795	231,085,382,998	470,350,962	231,555,733,960
<b>Transactions with owners, recognized directly in equity:</b>	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)	-	(505,060,508,000)
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 unconditional reserve	-	-	-	-	495,035,507,256	(495,035,507,256)	-	-	-
<b>Total transactions with owners of the parent company</b>	-	-	-	-	485,035,507,256	(990,096,015,256)	(505,060,508,000)	-	(505,060,508,000)
<b>Balance at March 31, 2018</b>	₩954,959,485,000	₩(29,719,795,333)	₩(328,157,286,128)	₩513,775,933,891	₩5,358,855,144,578	₩971,456,050,805	₩7,441,169,532,793	₩58,177,038,848	₩7,499,346,571,641



## KT&G CORPORATION AND SUBSIDIARIES

### Consolidated interim statements of changes in equity, continued

#### For the first quarter ended March 31, 2019

<i>in Korean Won</i>	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
<b>Balance at January 1, 2019</b>	₩954,959,485,000	₩(29,719,795,353)	₩(328,157,286,128)	₩513,775,933,891	₩5,355,627,500,098	₩1,612,794,013,734	₩8,079,279,851,242	₩53,800,373,739	₩8,133,080,224,981
<b>Total comprehensive income (loss) for the quarter:</b>	-	-	-	-	-	273,027,495,418	273,027,495,418	807,618,542	273,835,113,960
<b>Other comprehensive income (loss) for the quarter:</b>	-	-	-	-	-	(542,575,319)	(542,575,319)	1,832,622	(540,742,697)
Re-measurements of net defined benefit liability	-	-	-	-	-	-	-	-	-
Gain or loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	7,739,890,599	-	7,739,890,599	-	7,739,890,599
Exchange differences on translating foreign operations	-	-	-	-	20,130,519,852	-	20,130,519,852	(250,042)	20,130,267,810
Changes in equity method capital	-	-	-	-	42,327,547	-	42,327,547	-	42,327,547
Sum of other comprehensive income (loss) for the quarter	-	-	-	-	27,912,737,998	(542,575,319)	27,370,162,679	1,580,580	27,371,743,259
<b>Total comprehensive income (loss) for the quarter</b>	-	-	-	-	27,912,737,998	272,484,920,099	300,397,658,097	809,199,122	301,206,857,219
<b>Transactions with owners, recognized directly in equity:</b>	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)	-	(505,060,508,000)
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)	-	(505,060,508,000)
Transfer to unconditional reserve	-	-	-	-	285,966,201,122	(285,966,201,122)	-	-	-
<b>Total transactions with owners of the parent company</b>	-	-	-	-	285,966,201,122	(791,026,709,122)	(505,060,508,000)	-	(505,060,508,000)
<b>Balance at March 31, 2019</b>	₩954,959,485,000	₩(29,719,795,353)	₩(328,157,286,128)	₩513,775,933,891	₩5,669,506,439,218	₩1,094,252,224,711	₩7,874,617,001,339	₩54,609,572,861	₩7,929,226,574,200

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

## KT&G CORPORATION AND SUBSIDIARIES

### Consolidated interim statements of cash flows

For the first quarter ended March 31, 2019 and 2018

<i>in Korean Won</i>	<i>Notes</i>	1Q/2019	1Q/2018
<b>Net cash provided by operating activities</b>		₩722,456,285,591	₩361,455,636,486
Cash generated from operations	25	725,741,020,712	383,004,783,138
Income tax paid		(3,284,735,121)	(21,549,146,652)
<b>Net cash used in investing activities</b>		(212,998,215,717)	(367,974,376,287)
Interest received		6,346,572,848	2,283,942,913
Dividends received		4,274,267,699	2,513,852,149
Proceeds from sale of property, plant and equipment		24,083,554	878,709,211
Proceeds from sales of intangible assets		94,913,574	484,000
Decrease(increase) in fair value through profit or loss		(502,584,157,200)	6,573,920,518
Increase in fair value through other comprehensive income or loss		(900,000,000)	(449,910,000)
Collection of loans		2,907,890,762	3,577,351,647
Collection of guarantee deposits		794,865,488	9,584,156,263
Acquisition of property, plant and equipment		(38,926,485,213)	(59,351,012,716)
Acquisition of intangible assets		(1,494,687,226)	(1,941,166,624)
Acquisition of investment property		(30,068,909,248)	-
Increase in loans		(3,516,226,317)	(21,330,000)
Increase in guarantee deposits		(463,043,099)	(14,160,128,321)
Increase in long-term deposits in MSA Escrow Fund		(23,465,401,339)	(15,193,216,594)
Decrease(increase) in other financial assets, net		373,978,100,000	(302,270,028,733)
<b>Net cash used in financing activities</b>		(94,470,705,027)	(123,846,326,478)
Increase in borrowings		98,602,579,074	168,168,807,230
Increase in guarantee deposits received		30,000,000	1,926,071,000
Interest paid		(728,021,869)	(833,845,174)
Payment of borrowing		(187,867,130,205)	(288,664,710,211)
Decrease in guarantee deposits received		(143,737,492)	(4,442,649,323)
Payment of lease liabilities		(4,364,394,535)	-
<b>Net increase(decrease) in cash and cash equivalents</b>		414,987,364,847	(130,365,066,279)
<b>Cash and cash equivalents at January 1</b>		932,969,110,015	715,116,842,650
Effect of exchange rate fluctuation on cash held		2,999,839,806	(31,411,244)
<b>Cash and cash equivalents at March 31</b>		₩1,350,956,314,668	₩584,720,365,127

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

## KT&G CORPORATION AND SUBSIDIARIES

### Notes to the consolidated interim financial statements

For the first quarter ended March 31, 2019 and 2018

#### 1. Reporting Entity

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

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of March 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 ownership of the Parent Company’s ordinary shares as of March 31, 2019, is held as follows:

	Number of shares	Percentage of ownership
National Pension Service	13,737,927	10.01%
Industrial Bank of Korea	9,510,485	6.93%
Employee Share Ownership Association	2,916,039	2.12%
Treasury shares	11,027,370	8.03%
Others	100,100,676	72.91%
<b>Total</b>	<b>137,292,497</b>	<b>100.00%</b>

## 1-2. Consolidated Subsidiaries

Controlling company	Subsidiary	Principal operation	Percentage of ownership	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00%	Mar-31-2019	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45%	Mar-31-2019	Korea
	Tae-a Industry Co., Ltd.	Manufacturing tobacco materials	100.00%	Mar-31-2019	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99%	Mar-31-2019	Turkey
	Korea Tabacos do Brasil Ltda.	Processing leaf tobaccos	99.99%	Mar-31-2019	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99%	Mar-31-2019	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00%	Mar-31-2019	Russia
	KT&G USA Corporation	Selling tobaccos	100.00%	Mar-31-2019	USA
	Cosmococ Co., Ltd.	Manufacturing and selling cosmetics	98.56%	Mar-31-2019	Korea
	Renzoluc Pte., Ltd. <sup>1)</sup>	Holding company	100.00%	Mar-31-2019	Singapore
	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00%	Mar-31-2019	Korea
	PT KT&G Indonesia	Selling tobaccos	99.99%	Mar-31-2019	Indonesia
	SangSang Stay Inc.	Hotel	100.00%	Mar-31-2019	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00%	Mar-31-2019	Russia
Gwacheon SangSang PFV	Developing and selling real estate	51.00%	Mar-31-2019	Korea	
Korea Ginseng Corporation	KGC Life & Gin Co., Ltd.	Manufacturing and selling cosmetics	100.00%	Mar-31-2019	Korea
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng	100.00%	Mar-31-2019	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng	100.00%	Mar-31-2019	USA
	Korea Ginseng (China) Corp.	Selling ginseng	100.00%	Mar-31-2019	China
	Korea Ginseng Corporation Japan	Selling ginseng	100.00%	Mar-31-2019	Japan
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng	100.00%	Mar-31-2019	China
Cosmococ Co., Ltd.	K&I HK Co., Ltd.	Selling cosmetics	100.00%	Mar-31-2019	HongKong
	K&I China Co., Ltd.	Selling cosmetics	100.00%	Mar-31-2019	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99%	Mar-31-2019	Indonesia
	PT Mandiri Maha Mulia	Manufacturing and selling tobaccos	99.98%	Mar-31-2019	Indonesia
PT Trisakti Purwosari Makmur	PT Sentosa Ababi Purwosari	Manufacturing and selling tobaccos	100.00%	Mar-31-2019	Indonesia
	PT Purindo Ilufa	Manufacturing and selling tobaccos	100.00%	Mar-31-2019	Indonesia
	PT Nusantara Indag Makmur	Selling tobaccos	100.00%	Mar-31-2019	Indonesia

<sup>1)</sup> 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.

In the previous term, the Parent Company had made an acquisition of 51% shares of Gwacheon SangSang PFV.

### 1-3. Summarized Financial Information

Summarized Financial information<sup>1)</sup> for consolidated subsidiaries at and for the quarter ended March 31, 2019, is as follows:

<i>in millions of Korean Won</i>	Total assets	Total liabilities	Revenue	Net income(loss)	Total comprehensive income(loss)
Korea Ginseng Corporation	₩2,011,191	₩231,138	₩398,741	₩69,348	₩69,234
Yungjin Pharm. Co., Ltd.	201,858	88,504	52,944	1,745	1,749
Tae-a Industry Co., Ltd.	50,364	1,466	3,401	222	215
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	26,149	38,393	-	(4,171)	(3,800)
Korea Tabacos do Brasil Ltda.	2,624	115	-	(5)	225
KT&G Pars	2,668	52,959	-	(9,813)	(1,166)
KT&G Rus L.L.C.	160,836	84,310	3,037	(323)	6,065
KT&G USA Corporation	53,491	35,523	28,387	(2,260)	(1,935)
Cosmococ Co., Ltd.	69,359	39,752	19,082	(283)	(283)
Renzoluc Pte., Ltd.	131,276	30,546	-	(397)	3,524
KGC Yebon Corporation	55,949	9,703	2,494	243	243
PT KT&G Indonesia	87,752	92,608	33,302	7,852	7,397
SangSang Stay, Inc.	48,898	45,402	4,405	(1,594)	(1,594)
KT&G Global Rus L.L.C.	82,320	89,783	3,528	372	(271)
PT Trisakti Purwosari Makmur	123,559	5,866	1,337	1,861	5,508
PT Mandiri Maha Mulia	80,896	61,654	13,589	1,432	2,129
PT Sentosa Ababi Purwosari	62,788	62,017	9,599	220	242
PT Purindo Ilufa	15,203	19,243	2,678	306	139
PT Nusantara Indag Makmur	118	-	-	-	5
KGC Life & Gin Co., Ltd.	26,682	7,058	6,648	(584)	(584)
Cheong Kwan Jang Taiwan Corporation	20,478	18,371	8,679	56	73
Korean Red Ginseng Corp., Inc.	18,291	17,885	5,024	(403)	(382)
Korea Ginseng (China) Corp.	26,632	15,319	14,381	211	607
Korea Ginseng Corporation Japan	6,414	4,982	2,645	151	(71)
Jilin Hanzheng Ginseng Co., Ltd.	52,784	551	3,496	(1,080)	796
K&I HK Co., Ltd.	2,590	2,160	-	(5)	2
K&I China Co., Ltd.	3,662	3,376	303	(592)	(568)
Gwacheon SangSang PFV	6,911	4	-	(31)	(31)

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

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

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

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

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

The subsidiaries included in the scope for consolidation and the percentage of ownership as of March 31, 2019 have no significant difference compared to the end of the previous term.

## 2. Significant Accounting Policies

### 2-1. Basis of Preparation

The consolidated interim financial statements of the Parent Company and subsidiaries(the “Group”) have been prepared in accordance with Korean International Financial Reporting Standard (“K-IFRS”) No. 1034 'Interim Financial Reporting.' These consolidated interim financial statements have been prepared in accordance with K-IFRS that are effective or early adopted as of March 31, 2019 at the end of the reporting period.

The consolidated interim financial statements of the Group were authorized for issue by the Board of Directors’ meeting held on May 9, 2019.

### 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.

##### - 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, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

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

##### - 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 the derecognition, a modification gain or loss shall be recognized in profit or loss. There is no material effect of the amendments made to K-IFRS No. 1109 on consolidated interim financial statements.



- 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. There is no material effect of the amendments made to K-IFRS No. 1019 on consolidated interim financial statements.

- 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 joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. There is no material effect of the amendments made to K-IFRS No. 1028 on consolidated interim financial statements.

- 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. There is no material effect of the amendments made to K-IFRS No. 2123 on consolidated interim financial statements.

- 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 compared to previous revenue Standards. There is no material effect of the amendments made to K-IFRS No. 1115 on the consolidated interim financial statements.

- 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. There is no material effect of the amendments made to K-IFRS No. 1103 on consolidated interim financial statements.

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. There is no material effect of the amendments made to K-IFRS No. 1111 on consolidated interim financial statements.

### ③ K-IFRS No. 1012 Income Tax

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. There is no material effect of the amendments made to K-IFRS No. 1012 on consolidated interim financial statements.

### 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 is no material effect of the amendments made to K-IFRS No. 1023 on consolidated interim financial statements.

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

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

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

## 2.3. Accounting Policies

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

- Income tax

The median period income tax expense is calculated by applying the best weighted average annual income tax rate, or the estimated average annual effective income tax rate, to the pre-tax income of the interim period for the whole fiscal year.

## 2.4 Modification of comparative financial statements

To facilitate comparison with the financial statements of the current quarter, the Group revised its comparative statement of cash flows. This comparative presentation of financial statements does not affect the cash flows of operating, investing or financing activities in the previous quarter.

## 3. Critical Accounting Estimates and Assumptions

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

The critical accounting estimates and assumptions are identical to those applied in presenting the previous term financial statements, except for the method of estimations used to determine income tax and the accounting estimates and assumptions resulting from the adoption of K-IFRS No. 1116 stated in Note 2.2.

#### 4. Operating Segments

4-1. The Group's operating segments are summarized as follows:

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

4-2. Segment information on sales and operating profit for the quarters ended March 31, 2019 and 2018, is as follows:

(1) For the quarter ended March 31, 2019

<i>In millions of Korean Won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩693,605	₩441,577	₩64,399	₩76,789	₩1,276,370	₩(91,388)	₩1,184,982
Intersegment sales	(56,187)	(29,700)	(3,464)	(2,037)	(91,388)	91,388	-
External sales	637,418	411,877	60,935	74,752	1,184,982	-	1,184,982
Operating profit	231,599	89,685	27,873	631	349,788	(1,623)	348,165

(2) For the quarter ended March 31, 2018

<i>In millions of Korean Won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
Total segment sales	₩643,081	₩436,359	₩14,430	₩71,979	₩1,165,849	₩(98,259)	₩1,067,590
Intersegment sales	(61,507)	(33,307)	(2,832)	(613)	(98,259)	98,259	-
External sales	581,574	403,052	11,598	71,366	1,067,590	-	1,067,590
Operating profit	207,207	91,478	5,139	(2,927)	300,897	10,472	311,369

4-3. The Group obtains revenue by transferring goods and services over a period or at a point in the main business subsidiaries. The categories of main business subsidiaries are consistent with the revenue disclosure information per reporting segment in accordance with K-IFRS No. 1108. The details of the Groups's revenue recognized over a period or at a point as of March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>		1Q/2019	1Q/2018
Revenue recognized at a point			
Manufacturing and sales of tobacco	Wholesale, retail, etc.	₩634,403	₩580,932
	Direct sales	3,015	642
Manufacturing and sales of red ginseng, etc.	Wholesale, retail, etc.	261,113	254,540
	Direct sales	150,764	148,512
Others	Wholesale, retail, etc.	67,999	64,518
	Direct sales	6,097	6,658
Subtotal		1,123,391	1,055,802
Revenue recognized over a period			
Sales and rental of real estate	Sales and rental	60,935	11,598
Others	Service	656	190
Subtotal		61,591	11,788
Total		₩1,184,982	₩1,067,590

4-4. Segment information on assets and liabilities as of March 31, 2019 and December 31, 2018, is as follows:

(1) As of March 31, 2019

<i>In millions of Korean Won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Elimination	Consolidated
<b>Assets:</b>							
Segment assets	₩5,055,845	₩2,031,947	₩655,131	₩308,775	₩8,051,698	₩(1,883,583)	₩6,168,115
Investments in associates and joint ventures	-	-	80,480	3,082	83,562	-	83,562
Assets held for sale	33,922	-	-	-	33,922	(29,675)	4,247
Subtotal	5,089,767	2,031,947	735,611	311,857	8,169,182	(1,913,258)	6,255,924
Unallocated assets							4,520,828
<b>Total assets</b>							<b>10,776,752</b>
Acquisition of non-current assets	64,586	4,457	-	1,745	70,788	(298)	70,490
<b>Liabilities:</b>							
Segment liabilities	1,839,805	178,923	4	151,927	2,170,659	(443,846)	1,726,813
Unallocated liabilities							1,120,712
<b>Total liabilities</b>							<b>2,847,525</b>

(2) As of December 31, 2018

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

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

4-5. Geographical information determined by customer's location for the quarters ended March 31, 2019 and 2018, is as follows:

<i>In millions of Korean Won</i>	1Q/2019			1Q/2018		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩1,087,750	₩97,232	₩1,184,982	₩985,701	₩81,889	₩1,067,590
Non-current assets	3,709,770	138,876	3,848,646	3,274,558	149,291	3,423,849

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

4-6. Revenues from major customers, which are more than 10% of the details of the Group's consolidated total revenues do not exist.

## 5. Trade and Other Receivables

5-1. Trade and other receivables as of March 31, 2019 and December 31, 2018, are summarized as follows:

<i>In millions of Korean Won</i>	March 31, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
Trade receivables	₩956,341	₩ -	₩896,219	₩ -
Loans to employees	18,026	28,120	16,824	28,604
Loans	76	242	236	241
Other receivables	20,351	194	13,570	290
Guarantee deposits	45,650	30,753	43,388	33,768
Accrued income	5,226	-	5,684	-
Total	₩1,045,670	₩59,309	₩975,921	₩62,903

5-2. Trade and other receivables and allowance for doubtful accounts as of March 31, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean Won</i>	March 31, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
Total carrying amount	₩1,132,117	₩59,309	₩1,058,004	₩62,903
Allowances:				
Trade receivables	(86,096)	-	(81,731)	-
Other receivables	(351)	-	(352)	-
Total allowances	(86,447)	-	(82,083)	-
Net trade and other receivables	₩1,045,670	₩59,309	₩975,921	₩62,903

5-3. Changes in allowance for trade and other receivables for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Beginning balance	₩82,083	₩27,789
Change in accounting policy	-	69,258
Impairment loss (reversal)	3,381	(418)
Write off	-	(5,317)
Net exchange difference, etc.	983	2,964
Ending balance	₩86,447	₩94,276

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

## 6. Inventories

Details of inventories as of March 31, 2019 and December 31, 2018, are summarized as follows:

<i>In millions of Korean Won</i>	March 31, 2019			December 31, 2018		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩92,210	₩(2,829)	₩89,381	₩89,686	₩(1,524)	₩88,162
Finished goods	765,352	(3,830)	761,522	785,749	(4,048)	781,701
Work in progress	610,997	(2,512)	608,485	677,990	(2,987)	675,003
Raw materials	823,233	(2,040)	821,193	817,422	(2,314)	815,108
Supplies	26,497	-	26,497	26,128	-	26,128
Byproducts	7,732	-	7,732	7,107	-	7,107
Buildings under construction	487	-	487	279	-	279
Completed buildings	3,069	-	3,069	3,069	-	3,069
Sites for construction of real estate	11,367	-	11,367	8,990	-	8,990
Goods in transit	53,494	-	53,494	55,743	-	55,743
Total	₩2,394,438	₩(11,211)	₩2,383,227	₩2,472,163	₩(10,873)	₩2,461,290

The cost of inventories recognized as expenses during the current quarter includes ₩653 million in valuation losses reduced to net realizable value (₩1,214 million in the previous quarter) and ₩1,497 million in reversals of inventory valuation losses due to the increase in net realizable value (₩471 million in the previous quarter).

## 7. Investments in Associates and Joint Ventures

Changes in the carrying amount of investment in associates and joint ventures during the quarter ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Beginning balance	₩83,989	₩51,031
Equity method gains and losses	(469)	(52)
Changes in equity method capital	42	-
Ending balance	₩83,562	₩50,979

## 8. Property, Plant and Equipment:

Changes in property, plant and equipment for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Beginning balance	₩1,818,788	₩1,756,979
Acquisition and capital expenditure	38,903	63,514
Disposal/Impairment loss	(446)	(355)
Depreciation	(33,949)	(34,720)
Reclassification	1,394	(110,884)
Other	2,840	(8,264)
Ending balance	₩1,827,530	₩1,666,270

## 9. Intangible Assets

Changes in intangible assets for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Beginning balance	₩71,954	₩84,748
Acquisition and capital expenditure	1,495	1,754
Disposal/Impairment loss	(92)	(6)
Depreciation	(607)	(1,169)
Reclassification	(6,149)	-
Other	152	237
Ending balance	₩66,753	₩85,564

## 10. Investment property

Changes in investment property for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Beginning balance	₩495,049	₩330,999
Acquisition and capital expenditure	30,069	-
Depreciation	(4,021)	(2,665)
Reclassification	(1,529)	110,884
Ending balance	₩519,568	₩439,218

## 11. Right-of-use asset

11-1. Changes in right-of-use asset for the quarter ended March 31, 2019 are as follows:

<i>In millions of Korean Won</i>	1Q/2019
Beginning balance	₩ -
Changes in accounting policies	51,298
Acquisition and disposal	687
Depreciation	(5,241)
Others	684
Ending balance	₩47,428

11-2. Total cash outflows, interest costs, present value of lease liabilities are as follows:

<i>In millions of Korean Won</i>	Total cash outflows	Interest costs	Present value
Within 1 year	₩18,557	₩694	₩17,863
1 year to 5 years	22,628	1,326	21,302
More than 5 years	205	37	168
Total	₩41,390	₩2,057	₩39,333

The variable lease payments which are not included in the lease liability measurement during the quarter ended March 31, 2019 are ₩23,817 million.



## 12. Borrowings

12-1. Short-term borrowings as of March 31, 2019, and December 31, 2018, are summarized as follows:

<i>In millions of Korean Won</i>	Lender	Annual interest rate	March 31, 2019	December 31, 2018
Borrowings	KEB Hana Bank	3.26%~4.38%	₩23,600	₩14,000
	KEB Hana Bank Bahrain	2.50%	6,249	6,144
	KDB	-	-	75,412
	Korea Agro-Fisheries & Food Trade	-	-	15,000
	Subtotal		29,849	110,556
Customer credit contracts <sup>1)</sup>	Nonghyup Bank, etc.	CD yield(91days) +0.90%~4.50%	12,149	19,368
Total			₩41,998	₩129,924

<sup>1)</sup> As the Group enters into a customer financial agreement with financial institutions such as Nonghyup Bank (share), it receives sales receivables from financial institutions and provides financial institutions with payment guarantees for the payment. On the other hand, the foregoing borrowing corresponds to trade receivables that were transferred as of the end of the current term but did not meet the derecognition requirements.

12-2. Long-term borrowings as of March 31, 2019, and December 31, 2018, are summarized as follows:

<i>In millions of Korean Won</i>	Lender	Maturity	Annual interest rate	March 31, 2019	December 31, 2018
Other financial loan	Nonghyup Bank	2020.06.10~	-	₩44,616	₩44,252
		2023.05.30			
Borrowings	Kookmin Bank	2023.09.11	2.81%~3.36%	9,750	10,292
	KDB	2021.08.19~ 2022.11.10	2.33%~3.44%	7,884	8,591
Redeemable convertible preferred shares <sup>1)</sup>				35,340	35,340
Total				97,590	98,475
Consolidated statements of financial position:					
Current				5,067	5,000
Non-current				92,523	93,475
Total				₩97,590	₩98,475

<sup>1)</sup> Details of convertible bonds and preferred shares as of March 31, 2019 are summarized as follows:

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

12-3. As discussed in Note 24 to the consolidated interim financial statements, the Group provided collateral for the above borrowings.

### 13. Operating Profit

13-1. Details of expenses, classified by nature, incurred for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Changes in inventories	₩78,063	₩59,257
Raw materials and consumables purchased	246,746	237,310
Salaries	144,213	151,473
Retirement and termination benefits	18,592	16,268
Depreciation	43,211	37,385
Amortization	607	1,169
Employee welfare	18,022	17,271
Advertising	55,375	57,047
Commissions	154,988	102,693
Other expenses	77,000	76,349
Total	₩836,817	₩756,222

13-2. Details of selling, general and administrative expenses for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Salaries	₩97,009	₩102,165
Retirement and termination benefits	12,489	10,909
Employee welfare	12,147	12,233
Travel expenses	4,401	4,076
Communication cost	1,351	1,404
Utilities	2,990	3,140
Taxes and utilities	2,308	2,270
Supplies	1,078	1,056
Rent	3,744	7,239
Depreciation	16,018	11,186
Amortization	562	947
Repairs and maintenance	781	1,116
Vehicles	1,521	1,693
Insurance	922	1,170
Commissions	98,415	82,539
Freight and custody	12,003	11,303
Conferences	1,216	1,037
Advertising	55,351	57,020
Education and training	1,453	1,155
Prizes and rewards	449	806
Cooperation	277	198
Research and development	8,580	8,508
Impairment loss (reversal of impairment loss) on trade receivables	3,381	(418)
Total	₩338,446	₩322,752

## 14. Other Income and Expenses

14-1. Details of other income for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Foreign currency transaction gain	₩2,984	₩2,875
Foreign currency translation gain	29,312	3,383
Gain on disposal of property, plant and equipment	22	474
Gain on disposal of intangible assets	3	-
Gain in fair value of derivatives	-	6,006
Gain from derivative transactions	-	824
Miscellaneous profits	2,512	22,335
Total	₩34,833	₩35,897

14-2. Details of other expenses for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Foreign currency transaction loss	₩1,653	₩1,996
Foreign currency translation loss	10,972	12,136
Donations	781	2,030
Loss on disposal of property, plant and equipment	9	347
Impairment loss on property, plant and equipment	436	-
Loss on sale of intangible assets	-	6
Losses on valuation of derivatives	3,975	-
Losses on derivative transactions	1,223	-
Miscellaneous loss	986	3,819
Total	₩20,035	₩20,334

## 15. Net Finance Income

Details of net finance income for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Finance income:		
Interest income <sup>1)</sup>	₩6,651	₩3,857
Dividend income	10,339	8,451
Current term's income-Gain in fair value financial assets	16,232	23,287
Total finance income	₩33,222	₩35,595
Finance cost:		
Interest expense	₩(2,153)	₩(1,363)
Current term's cost-Loss in fair value financial assets	(5,820)	(1,307)
Total finance cost	₩(7,973)	₩(2,670)

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

## 16. Retirement Benefit Plan

16-1. Details of profit or loss recognized related to retirement benefits for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Defined benefit plans:		
Current service cost	₩12,011	₩10,815
Net interest on net defined benefit liability	463	457
Subtotal	12,474	11,272
Defined contribution plan:		
Contributions recognized as expense	2,333	2,486
Other long-term employee benefits:		
Current service cost, etc.	688	538
Voluntary retirements:		
Termination benefits	3,785	2,507
Total	₩19,280	₩16,803

16-2. Net defined benefit liabilities as of March 31, 2019, and December 31, 2018, are summarized as follows:

<i>In millions of Korean Won</i>	March 31, 2019	December 31, 2018
Present value of defined benefit obligation	₩500,976	₩491,466
Fair value of plan assets	(391,870)	(395,251)
Total	₩109,106	₩96,215

## 17. Refund Liabilities and Provisions

17-1. The details of refund liabilities and provisions as of March 31, 2019, and December 31, 2018, are as follows:

<i>In millions of Korean Won</i>	March 31, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
Provision for refund	₩9,716	₩2,589	₩8,378	₩1,570
Provision for site restoration	2,854	1,662	2,812	1,575
Provision for guarantee	3,692	-	3,911	-
Provision for financial guarantee	-	670	-	700
<b>Total</b>	<b>₩16,262</b>	<b>₩4,921</b>	<b>₩15,101</b>	<b>₩3,845</b>

17-2. Changes in refund liabilities and provisions for the quarter ended March 31, 2019, are as follows:

<i>In millions of Korean Won</i>	Beginning balance	Increase	Decrease	Ending balance
Provision for refund	₩9,948	₩2,632	₩(275)	₩12,305
Provision for site restoration	4,387	147	(18)	4,516
Provision for guarantee	3,911	1,897	(2,116)	3,692
Provision for financial guarantee	700	27	(57)	670
<b>Total</b>	<b>₩18,946</b>	<b>₩4,703</b>	<b>₩(2,466)</b>	<b>₩21,183</b>

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

<i>In millions of Korean Won</i>	Beginning balance	Change in accounting policy	Increase	Decrease	Ending balance
Provision for refund	₩8,473	₩1,333	₩971	₩ -	₩10,777
Provision for site restoration	3,363	-	232	-	3,595
Provision for guarantee	4,497	-	21	-	4,518
Provision for financial guarantee	-	-	-	-	-
<b>Total</b>	<b>₩16,333</b>	<b>₩1,333</b>	<b>₩1,224</b>	<b>₩ -</b>	<b>₩18,890</b>

## 18. Real Estate Sales Contract

18-1. Details of real estate sales contracts under construction as of March 31, 2019, are as follows:

<i>In millions of Korean Won</i>	Construction period	Total sales value	Total sales contract value
Suwon hwaseo park prugio(Apartment)	February 2018 ~ August 2020	₩1,188,870	₩1,187,006
Suwon hwaseo park prugio(Efficiency apartment)		112,060	106,762
Dae-gu central xi <sup>1)</sup>	-	3,818	-
Total		₩1,304,748	₩1,293,768

<sup>1)</sup> Construction and sale have been completed as of the end of the current term, but resale is underway due to the cancellation of the contract.

18-2. Changes in balance of contract amount for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Beginning balance	₩1,173,116	₩ -
Contract increase	-	-
Revenue recognition	(47,338)	-
Ending balance	₩1,125,778	₩ -

18-3. The details of cumulative cost of the sales contract under construction as of March 31, 2019, are as follows:

<i>In millions of Korean Won</i>	Progress	Accumulated revenue	Cumulative cost
Suwon hwaseo park prugio(Apartment)	13.15%	₩156,040	₩63,738
Suwon hwaseo park prugio(Efficiency apartment)	12.94%	13,813	8,277

18-4. No changes in estimated gross contract income and total contract cost occurred during the current term. The estimated gross contract income and total contract cost of an ongoing sales contract are based on the circumstances that occurred by the end of the current term and may vary over the future period.

## 19. Income Tax Expense

The income tax expense was calculated by adjusting the adjustment recognized in the current quarter and the previous quarter for current tax, deferred tax expense(income) due to the occurrence and disappearance of temporary differences, and income tax expense(income) related to items that are recognized outside profit or loss. The average effective tax rates for the current quarter and the previous quarter are 29.38% and 30.69%, respectively.

## 20. Related Parties

20-1. Details of parent and subsidiary relationships and related companies as of March 31, 2019, and December 31, 2018, are as follows:

	March 31, 2019	December 31, 2018
Associates	Cosmo Tobacco Co., Ltd.	Cosmo Tobacco Co., Ltd.
	Lite Pharm Tech, Inc.	Lite Pharm Tech, Inc.
	JR REIT V Co., Ltd.	JR REIT V Co., Ltd.
	JR REIT VIII Co., Ltd.	JR REIT VIII Co., Ltd.
	LSK Global Pharma Services Co., Ltd.	LSK Global Pharma Services Co., Ltd.
	JR REIT X Co., Ltd.	JR REIT X Co., Ltd.
	Yong In Jung Sim Co., Ltd.	Yong In Jung Sim Co., Ltd.
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd.	KB Gimpo Logistics CR REIT Co., Ltd.
	KORAMCO Private REIT 50 Fund	KORAMCO Private REIT 50 Fund
	KORAMCO Europe Private REIT 3-2 Fund <sup>1)</sup>	KORAMCO Europe Private REIT 3-2 Fund <sup>1)</sup>
	Starfield Suwon <sup>2)</sup>	Starfield Suwon <sup>2)</sup>

- <sup>1)</sup> During the previous term, the Group had made investment on 51.35% share of KORAMCO Europe Private REIT 3-2 Fund.  
<sup>2)</sup> During the previous term, the Group had made investment on 50.00% share of Starfield Suwon.

20-2. The Group carries out transactions with related parties such as sales of goods and services, the details of transactions with related parties during the quarter ended March 31, 2019 and 2018, are as follows

<i>In millions of Korean Won</i>		1Q/2019		1Q/2018	
		Sales and other income	Purchases and other expenses	Sales and other income	Purchases and other expenses
Associates and Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd.	₩ -	₩ -	₩45	₩ -
	KORAMCO Private REIT 50 Fund	-	-	220	-
Total		₩ -	₩ -	₩265	₩ -

20-3. Details on account balances of receivables and payables with related companies as of March 31, 2019, and December 31, 2018, are summarized as follows:

<i>In millions of Korean Won</i>		March 31, 2019		December 31, 2018	
		Receivables	Payables	Receivables	Payables
Associates and joint ventures	LSK Global Pharma Services Co., Ltd.	₩ -	₩ -	₩150	₩ -
	KB Gimpo Logistics CR REIT Co., Ltd.	696	-	697	-
	KORAMCO Private REIT 50 Fund	135	-	136	-
	Starfield Suwon	-	16,020	-	16,052
Total		₩831	₩16,020	₩983	₩16,052

20-4. Details of capital transactions with related parties for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>		1Q/2019			1Q/2018		
		Investment	Fund contribution	Repayment of funds	Investment	Fund contribution	Repayment of funds
Associates and joint ventures	LSK Global Pharma Services Co., Ltd.	₩ -	₩ -	₩150	₩ -	₩ -	₩300

20-5. There is no payment guarantee provided between or among the related parties.

20-6. During the previous term, the Group had made a land contract with Starfield Suwon and had received the down payment of ₩16,020 million from the total ₩160,200 million. The ownership of this land will be transited upon the payment of the balance, which will be on the date of the commencement of the construction work.(refer to Note 24)

20-7. KB Gimpo Logistics CR REIT Co., Ltd. is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties, holding 12% shares each, as the voting power of 76% shares held by KB Gimpo Logistics CR REIT Co., Ltd. is not entitled to have an impact on a resolution of the investee by the Financial Investment Services and Capital Markets Act.

20-8. KORAMCO Private REIT 50 Fund and KORAMCO Europe Private REIT 3-2 Fund are classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties that control the arrangement collectively

20-9. Details of key management personnel compensation for the quarters ended March 31, 2019 and 2018, are summarized as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Short-term employee benefits	₩3,929	₩5,207
Retirement benefits	478	1,076
Total	₩4,407	₩6,283



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

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

### 21-1. Market risk

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

#### (1) Currency risk

The Group has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates arising from the export and import of tobacco. The Group's management has measured the currency risk internally and regularly and has entered into foreign currency forward contracts to hedge foreign currency risk, if necessary.

#### (2) Equity price risk

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

#### (3) Interest rate risk

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

### 21-2. Credit risk

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

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

<i>In millions of Korean Won</i>	March 31, 2019	December 31, 2018
Cash and cash equivalents (excluding cash on hand) <sup>1)</sup>	₩474,125	₩430,901
Other financial assets	219,199	593,146
Fair value through profit or loss <sup>1)</sup>	2,739,694	1,851,922
Trade and other receivables	1,104,980	1,038,824
Long-term deposits in MSA Escrow Fund	650,241	615,528
Derivative assets	-	1,239
Total	₩5,188,239	₩4,531,560

<sup>1)</sup> Of the cash equivalents as of the end of the current term, the Money Market Trust is included in the financial assets at fair value through profit or loss.

### 21-3. Liquidity risk

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

21-4 The carrying amounts of each category of financial assets and liabilities as of March 31, 2019, and December 31, 2018, are summarized as follows:

<i>In millions of Korean Won</i>	March 31, 2019	December 31, 2018
Financial assets:		
Fair value through profit or loss <sup>1)</sup>	₩2,739,694	₩1,851,921
Fair value through other comprehensive income or loss	261,155	249,575
Derivative assets	-	1,239
Financial assets measured at amortized cost		
- Cash and cash equivalents <sup>1)</sup>	474,619	431,408
- Other financial assets	219,199	593,146
- Trade and other receivables	1,104,980	1,038,824
- Long-term deposits in MSA Escrow Fund	650,241	615,528
Subtotal	2,449,039	2,678,906
Total financial assets	5,449,888	4,781,641
Financial liabilities:		
Derivative liability	3,852	461
Financial liabilities measured at amortized cost		
- Long-term borrowings	92,523	93,475
- Current portion of long-term borrowings	5,067	5,000
- Short-term borrowings	41,998	129,924
- Trade and other payables	935,013	446,609
- Lease liability	39,333	-
Subtotal	1,113,934	675,008
Total financial liabilities	₩1,117,786	₩675,469

<sup>1)</sup> Of the cash equivalents as of the end of the current term, the Money Market Trust is included in the financial assets at fair value through profit or loss.

21-5. When measuring the fair value of an asset or liability, the Group uses observable inputs in the market as much as possible. Fair value is classified within the fair value hierarchy based on the inputs used in the valuation technique as follows:

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

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

<i>In millions of Korean Won</i>	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
<b>March 31, 2019:</b>				
Fair value through profit or loss	₩2,739,694	₩ -	₩2,530,697	₩208,997
Fair value through other comprehensive income or loss	261,155	208,883	-	52,272
Derivative liability	3,852	-	3,852	-
Total	₩3,004,701	₩208,883	₩2,534,549	₩261,269
<b>December 31, 2018:</b>				
Fair value through profit or loss	₩1,851,922	₩ -	₩1,641,267	₩210,655
Fair value through other comprehensive income or loss	249,575	198,204	-	51,371
Derivative assets	1,239	-	1,239	-
Derivative liability	461	-	461	-
Total	₩2,103,197	₩198,204	₩1,642,967	₩262,026

There is no movement between levels of the fair value hierarchy during the current term and the prior term.

As of the end of the current term, the fair value of real estate investment trusts and equity securities classified as at fair value through profit or loss was measured using the Net Asset Value Adjustment Act, Discounted Cash Flow and were classified as Level 3 fair value based on the inputs used in the valuation technique. The changes in Level 3 fair value for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Beginning balance	₩262,026	₩234,046
Acquisition	900	450
Disposal	-	(5,239)
Changes in fair value	(1,656)	(19)
Ending balance	₩261,270	₩229,238

21-6. Details of finance income (costs) by categories for the quarters ended March 31, 2019 and 2018, are as follows:

(1) For the quarter ended March 31, 2019

<i>In millions of Korean Won</i>	Profit or loss- financial assets at fair value	Other comprehensive income (loss)- financial assets at fair value	Derivative assets	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the quarter:						
Interest income	₩ -	₩ -	₩ -	₩6,651	₩ -	₩6,651
Dividend income	3,336	7,002	-	-	-	10,338
Gain or loss on valuation	10,413	-	(3,975)	-	-	6,438
Gain or loss on disposal	-	-	(1,223)	-	-	(1,223)
Interest expense	-	-	-	-	(2,153)	(2,153)
Impairment loss	-	-	-	(3,381)	-	(3,381)
<b>Total</b>	<b>₩13,749</b>	<b>₩7,002</b>	<b>₩(5,198)</b>	<b>₩3,270</b>	<b>₩(2,153)</b>	<b>₩16,670</b>
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩10,680	₩ -	₩ -	₩ -	₩10,680
<b>Total</b>	<b>₩ -</b>	<b>₩10,680</b>	<b>₩ -</b>	<b>₩ -</b>	<b>₩ -</b>	<b>₩10,680</b>

(2) For the quarter ended March 31, 2018

<i>In millions of Korean Won</i>	Profit or loss- financial assets at fair value	Other comprehensive income (loss)- financial assets at fair value	Derivative assets	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the quarter:						
Interest income	₩ -	₩ -	₩ -	₩3,857	₩ -	₩3,857
Dividend income	1,544	6,641	-	-	-	8,185
Gain or loss on valuation	21,979	-	6,006	-	-	27,985
Gain or loss on disposal	-	-	824	-	-	824
Interest expense	-	-	-	-	(1,363)	(1,363)
Reversal of impairment loss	-	-	-	418	-	418
<b>Total</b>	<b>₩23,523</b>	<b>₩6,641</b>	<b>₩6,830</b>	<b>₩4,275</b>	<b>₩(1,363)</b>	<b>₩39,906</b>
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩(9,556)	₩ -	₩ -	₩ -	₩(9,556)
<b>Total</b>	<b>₩ -</b>	<b>₩(9,556)</b>	<b>₩ -</b>	<b>₩ -</b>	<b>₩ -</b>	<b>₩(9,556)</b>

## 22. Retained Earnings

Changes in retained earnings for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Beginning balance	₩1,612,794	₩1,733,863
Change in accounting policy	-	(20,144)
Dividends	(505,061)	(505,061)
Transfer from reserve for research and human resource development	-	10,000
Accumulation of unconditional reserve	(285,966)	(495,036)
Profit for the quarter	273,835	249,369
- Less: Non-controlling interests	(808)	(470)
Remeasurements of net defined benefit liability(net of tax)	(541)	(1,066)
- Less: Non-controlling interests	(1)	1
Ending balance	₩1,094,252	₩971,456

## 23. EPS(Earnings Per Share)

Details of EPS and accounting profit for the quarters ended March 31, 2019 and 2018, are as follows:

	1Q/2019	1Q/2018
Profit for the period attributable to owners of the Parent Company	₩273,027,495,418	₩248,897,226,618
Weighted-average number of ordinary shares outstanding	126,265,127 shares	126,265,127 shares
Basic and diluted EPS	₩2,162	₩1,971

## 24. Contingent Liabilities and Commitments

### 24-1. Litigation cases

As of March 31, 2019, the Group has total 20 cases of pending litigations under progress and the litigation value is ₩55,042 million. It is not possible to reasonably predict the impact of the final outcome of pending litigation as of the end of the current term on the consolidated interim financial statements of the Group.

### 24-2. Major commitments

Details of major commitments of the Group with financial institutions as of March 31, 2019 are as follows:

*In millions of Korean Won, thousands of US dollar*

Type	Financial institutions	Currency	Limit	Execution amount
Opening an import credit	Hana bank and one other	USD	187,600	56,945
Derivatives trading	Hana bank and one other	USD	153,700	14,335
Group loans	Hana bank	KRW	300,000	41,102
Consumer financing arrangement	Samsungcard and one other	KRW	97,330	15,201
Others	KDB Industrial Bank and four others	KRW	179,048	64,998
	KEB Hana bank Bahrain branch	USD	5,500	5,500

### 24-3. Payment guarantee and collateral details

Details of the payment guarantees the Group is provided as of March 31, 2019 are as follows:

*In millions of Korean Won, millions of Indonesian rupee, thousands of US dollar*

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	948,291	housing distribution guarantee
Korea Trade Insurance Corporation	USD	42,890	export guarantee insurance
Seoul Guarantee Insurance	KRW	4,230	license guarantee, etc.
KEB Hana Bank	USD	20,000	foreign currency payment guarantee
Westchester Fire Insurance Company	USD	20,000	Import duty payment guarantee
Travelers Casualty and Surety Company of America	USD	6,760	Escrow deposit guarantee
Jasaraharja Putera	IDR	163,169	Payment guarantee

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

*In millions of Korean Won, thousand US dollar*

Details	Guarantee user	Currency	Limit	Execution amount
Loan guarantee for the payment	Shinhan bank	KRW	79,400	10,015
	KEB Hana bank	KRW	60,000	8,212
	Suhyup bank	KRW	9,494	2,153
Payment guarantee for the loan	Jung Kwan Jang Yuk Nyun Geun(Shanghai) Co., Ltd.	USD	6,600	5,500
	Payment guarantee for deductibles(Gyunggi Gwangju branch and one other)	Korea Special Sales Association	KRW	884
Total		KRW	149,778	20,380
		USD	6,600	5,500

Assets pledged as collateral for short-term borrowings, etc. as of March 31, 2019 are summarized as follows:

<i>In millions of Korean Won</i>	Carrying amount	Type	Debt amount	Collateralized amount	Collateral holder
Investment Property	₩337,393	Leasehold deposits received	₩18,566	₩19,826	Seoul Guarantee Insurance, etc.
Property, Plant and Equipment	22,949	Right to collateral security and lease	3,081	3,493	Korea Workers' Compensation & Welfare Service, etc.
Other financial assets	6,340	Business performance guarantee <sup>1)</sup>	-	6,340	Korea Land & Housing Corporation
	597	Right of pledge for rental deposit	597	597	Samsung Fire
Property, Plant and Equipment	94,945	A government grant	3,488	4,186	Wonju si
Property, Plant and Equipment	57,560	Short-term and long-term borrowings	15,950	65,000	KEB Hana bank, etc.
Investment property	563				
Property, Plant and Equipment	17,752	Short-term borrowings	14,000	24,000	KEB Hana Bank
Property, Plant and Equipment	31,066	Current long-term borrowings	29,000	15,500	Korea Development Bank ("KDB")
		Long-term borrowings	4,983		
<b>Total</b>	<b>₩569,165</b>		<b>₩63,565</b>	<b>₩138,942</b>	

<sup>1)</sup> As of the end of the current quarter, the Group deposited ₩6,340 million won in NH Nonghyup Bank and classified it as other financial assets to guarantee its business performance in connection with the project to create a central commercial area in the administrative city. This amount has been set up as of the end of the current term.

Details of bills provided by the Group in relation to borrowings, etc. as of March 31, 2019, are as follows:

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

As of the end of the current term, 11 notes and two cheques with unknown origin and amount are lost, and the Group will proceed with the authorization process for this bill.

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

<i>In millions of Korean Won</i>		March 31, 2019	December 31, 2018
	Security Deposits for rental	₩597	₩597
Long-term other financial assets	Real estate development performance guarantee	6,340	6,340
	Security deposits for checking accounts	1,538	1,518
<b>Total</b>		<b>₩8,475</b>	<b>₩8,455</b>

#### 24-4. Others

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

Each year, the Group deposits a proportion of sales of tobacco products in the United States in accordance with the Tobacco Master Settlement Agreement (MSA) under the Escrow Statute of the U.S. government. The MSA Escrow Fund is maintained to pay the medical expenses of tobacco purchasers who have suffered health effects as a result of smoking. The unused portion of this fund will be refunded to the Group 25 years from the date of each annual funding. The Group recorded ₩650,241 million as long-term deposits the amounts paid into the MSA Escrow Funds of state governments in the United States against potential litigation and damages related to the export of tobacco to the United States.

The Group has maintained a contract with the farmers who grow six-year-old green ginseng for purchase volume guarantees and recorded contractual amounts paid to the farmers as long-term advance payments and advance payments in the amount of ₩59,339 million (₩59,369 million for the end of prior term) and ₩45,0961 million (₩25,841 million for the end of prior term), respectively.

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

As a result of merger of Youngjin Pharmaceutical Co., Ltd. and KT&G Life Sciences Corporation, the Parent Company, KT&G, has entered into a shareholders’ agreement with Gwak, Tae-Hwan (“Individual Shareholder”) who is a former owner of KT&G Life Sciences Corporation. Details of the agreement are as follows:

Details	
Restrictions on the disposal of shares by individual shareholders	Individual shareholders are not permitted to dispose of their shares for one year from the date they are listed or have the same effect on the shares held as of the date of the signing of the contract.
Preferred purchase of KT&G	If an individual shareholder transfers all or part of the shares held to a third party, KT&G holds the right to buy the shares first.
Tag-along right held by the Individual Shareholder	If the Parent Company proposes to enter into a transaction or a series of related transactions with a third-party purchaser to dispose of its shares, then the Individual Shareholder shall elect to participate in such disposition upon the terms and conditions no less favorable than those applicable to the Parent Company.

As of March 31, 2019, the Group has entered into a management trust agreement with Marriott International Management Company B.V. and has been provided international public relations services through Global Hospitality Licensing S.A.R.L. Also, the Group has been provided technical advice by Marriott International Design & Construction Services., Inc.

The Group had established Starfield Suwon under 50:50 ratio with Shinsaegae Property (“Joint Investment Party”). The disposal of such share is limited for five years from the approval for use of the multi-shopping mall.

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

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

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



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

## 25. Cash flows

25-1. Details of cash generated from operations for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Profit for the quarter	₩273,835	₩249,369
Adjustments:		
Income tax expense	₩113,909	₩110,436
Finance cost	7,973	2,670
Finance income	(33,222)	(35,595)
Depreciation	43,211	37,385
Amortization	607	1,169
Retirement and termination benefits	18,592	16,268
Foreign currency translation loss	10,972	12,136
Impairment loss (reversal) on trade and other receivables	3,381	(418)
Loss on valuation of inventories	(844)	743
Loss on disposal of property, plant and equipment	9	347
Impairment loss on property, plant and equipment	436	-
Loss on disposal of intangible assets	-	6
Income of loss derivatives	5,199	(6,006)
Other expenses, etc.	8,004	6,209
Share of loss/gain of associates	469	52
Foreign currency translation gain	(29,312)	(3,383)
Gain on sale of property, plant and equipment	(22)	(474)
Gain on sale of intangible assets	(3)	-
<b>Total</b>	<b>₩423,194</b>	<b>₩390,914</b>
Changes in working capital:		
Changes in trade and other receivables	₩(36,647)	₩(8,974)
Changes in derivatives	(569)	-
Changes in advance payments	(23,031)	(6,501)
Changes in prepaid expenses	(2,273)	(10,822)
Changes in accrued tobacco excise and other taxes	70,609	13,056
Changes in inventories	78,537	62,773
Changes in trade and other payables	(14,323)	(19,654)
Changes in tobacco excise and other taxes payable	273,388	(33,249)
Payment of retirement and termination	(1,938)	(3,282)
Changes in other assets/liabilities	(41,485)	(1,254)
Changes in guarantees	279	-
<b>Cash generated from operation</b>	<b>₩725,741</b>	<b>₩383,007</b>

25-2. Details of material transactions without cash inflow and outflow for the quarters ended March 31, 2019 and 2018, are as follows:

<i>In millions of Korean Won</i>	1Q/2019	1Q/2018
Increase (decrease) in other payables related to acquisition of property, plant and equipment	₩(2,543)	₩4,197
Payment of prepayments related to acquisition of property, plant and equipment	2,566	-
Decrease in other receivables related to disposal of property, plant and equipment	-	539
Accumulation of project expansion reserve funds	144,142	-

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

## 26. Changes in Accounting Policies

As discussed in Note. 2, the Group had applied K-IFRS No. 1116 from the beginning of this term. Under the transitional provisions, the cumulative effect of applying K-IFRS No. 16 is adjusted on the balance of retained earnings at the date of initial application, and the comparative presentation of the consolidated interim financial statements of the prior term has not been restated.

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

The total sum of the minimum lease payments before discounting the present value of the assets used by the Group as of the end of the current quarter is ₩41,390 million, and ₩39,333 million when discounted at the intrinsic interest rate and the incremental borrowing rate of the lessee.

As of January 1, 2019, license assets, liquidity lease liabilities and long-term lease liabilities increased by ₩51,298 million, ₩22,285 million and ₩20,789 million, respectively. As of March 31, 2019, operating lease payments decreased by ₩5,230 million, and depreciation expense for licensed assets and interest expense for lease liabilities increased by ₩5,241 million and ₩452 million respectively.

## 27. Subsequent events

Through the resolution of the board of directors held on March 14, 2019, the Group had made a capital contribution in kind to KGC Yebon Corporation of 100% of the shares (amount of investment ₩41,138 million) which is held by the parent company, as a subsidiary of Korea Ginseng Corporation, as of April 25, 2019.